PROCEEDINGS

OF A

JOINT CONFERENCE OF THE FEDERAL RESERVE BOARD WITH THE GOVERNORS OF THE FEDERAL RESERVE BANKS

TREASURY BUILDING
WASHINGTON, D. C.

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JOINT CONFERENCE OF THE FEDERAL RESERVE BOARD WITH THE GOVERNORS OF FEDERAL RESERVE BANKS.

Washington, D. C., May 7, 1924,

11 o'clock a. m.

The joint conference of the Federal Reserve Board with the Governors of Federal reserve banks convened in the hearing room, Federal Reserve Board, Treasury Building, Washington, D. C., May 7, 1924, at 11 o'clock a.m.

Present:

D. R. Crissinger, Governor, Federal Reserve Board

Edmund Platt, Vice Governor, Federal Reserve Board,

Adolph C. Miller, Member Federal Reserve Board

Charles S. Hamlin, Member Federal Reserve Board

Edward H. Cunningham, 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,

Geo. 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,

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

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

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

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

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

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

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

PROCEEDINGS.

Governor McDougal: Governor Crissinger, and members of the Board, the conference has completed discussion of its program, including the several topics submitted by the Federal Reserve Board which, I understood, you wished us to discss and express views upon.

Taking up the Board's topics first, 1, principles by which the establishment of Federal Reserve Branch Banks and their serviceability are to be tested, while there were many opinions expressed, I think the consensus can be summed up by stating that it was the gen ral belief that the outstanding principle of importance would be the question of service, and that where the parent bank was in a position to render that service with respect to currency, credit and transit matters particularly, rendering the service promptly, satisfactorily and adequately, that there were no good reasons for giving favorable consideration to the establishment of branches; but that on the contrary, where prompt and satisfactory service could not be given from the parent bank, then the question of branches became a natural and proper one for consideration, and that where conditions justified the establishment of branches they should be established, but not before giving careful consideration as to whether so-called agencies, such as have been established, would answer the purposes, andm in the event they would, of course the conference was in favor of establishing agencies.

Another topic submitted by the Board was the question of procedure followed by the several reserve banks in the matter of disposing of notary fees. After canvassing the situation it developed that there were seven of the banks who were having their work done on the outside, and there were four having their work done on the inside, that one bank was having its work done on the inside, but was having returned to the bank what they termed excess fees, which was a considerable percentage of the fees involved. I do notthink we need go into particulars. We can state that those banks having the work done on the inside were, I think in every case, doing it upon the advice of counsel, and doing it under conditions which they believed involved no risk.

Mr. Miller: Do I understand that the Board's interest in this matter is merely seeking information, or some recommendation from the Governors as to how this matter should best be handled? Have you any figures showing what the amount of notaries fees is, paid out by the different banks?

Governor McDougal: Figures were not presented or referred to except by two banks. One was the Chicago Bank. Our fees run at the rate of about $29,000 per annum, with respect of which we feel that we are making a saving of the larger part by having the work done inside.

Deputy Governor Case: I think the figures in the matter have already been supplied to the Federal Reserve Board by each reserve bank.

Mr. Miller: Then my understanding is that the conference has no recommendation to make on that subject with a view of improving the existing situation and practice?

Governor McDougal: It has none, sir. If we had brought it to a vote it would have been a divided vote. Those who are having it done outside feel that that is the best way for them to do it; those who are doing it on the inside feel that they are safe. I will go along briefly with these matters. I have no doubt that some of these questions will require further discussion.

Mr. Harrison has called my attention to one matter of importance, and that is that while we hadno figures to indicate the proportion of items that were protested which were in amounts less than $20--- was that it, Mr. Harrison?

Mr. Harrison: Yes.

Governor McDougal: --- that a committee was asked to make an investigation and study of the situation and see what effect it would have if we raised our limit to $20, instead of keeping it at $10.

In regard to the matter of effecting arrangements by which a member bank might be supplied with currency requirements by a Federal Reserve Bank other than its own, it was considered that it would be objectionable to enter into any policy of that sort as a general policy, but that on the other hand in cases of emergency such as have occurred and will occur, and also with respect to certain isolated towns or banks which happen to be geographically located nearer to the Federal reserve bank outside of the district than to its own Federal reserve bank, that arrangements of that sort might properly be effected.

Another question was the consideration of the Federal Reserve Agents' report relating to the so-called Fulmer Bill. That matter was considered very carefully and the views of conclusions of the Agents' Committee were heartily concurred in. Furthermore, it was considered from the standpoint of the proposed amendments, and we felt that those amendments made the bill still more unsatisfactory and probably dangerous.

Governor Crissinger: Will that be reduced to writing, the recommendations and report on that?

Governor McDougal: That will come through in writing. Before going on now with respect to some of the important matters discussed on the other program, we understand very plainly now, through the resolution recently adopted by the Federal Reserve Board, that with respect to operating matters and to matters that were treated by the conference here which did not require, under the law, or did not require under regulations of the Board, attention by the Board, that they will be adopted and put into effect without any action by the Board, but at the same time we understand that the Board will be fully informed and promptly informed with respect to all actions taken. That, we believe, was embodied in the resolution to which I have referred.

In regard to open market operations, the report of the committee was read, was approved, and is available to the Reserve Board. There was discussion based on the assumption that earnings might not be sufficient to meet expenses and dividend requirements, and the matter was submitted to the Conference as to those three points: Whether the Federal reserve banks under those circumstances would be in favor of curtailing services, and incidentally, of course, expenses; whether they would resort to open market operations, or whether they would pay dividends out of accumulated surplus.

The first choice of nine banks was in favor of paying dividends out of surplus. The first choice of three banks was in favor of curtailing services. Two banks were in favor of resorting to the open market, very strongly in favor of it. I might say with regard to that that other banks who voted on the matter reserved the right and said that they might have to resort to open market transactions to protect themselves, but the statements made I think clearly represent the result of the canvass.

There were reports rendered by the committee on non-cash collections, and by the leased wire committee. Both of those reports are available and will be handed to the Board at once. I can comment on them, if you like, but will postpone it for the moment.

The question of discount rates, the policy with regard to discount rates, as discussed in the Federal Reserve Board's recent annual report, was considered and the principles outlined therein were very strongly commended.

In regard to Regulation J, it is the sense of the Conference that the Governors' Standing Committee on Collections be requested to confer with Mr. Wyatt, if agreeable to him and to the Board, with respect to the draft of a new regulation. It was the feeling that that matter should be attended to.

With respect to the matter of counting currency in transit as part of the reserve requirements, seven of the governors were opposed to it, five were in favor of it. The question of legality has been raised on the part of counsel of several of the banks. I do not remember whether it was the thought that it would be well to have an expression from the Board's counsel in regard to that or not.

Mr. Harrison: There was no action taken on that.

Gov. McDougal: Governor Crissinger's letter and blueprint analysing 1923 expenses was received. The Governors made no estimate of their expenses for 1924. They were not prepared to do that, Governor Crissinger, but voted, or rather it was the consensus of opinion, that all the banks are now making every possible effort to promote economy and efficiency, and that the Board's recommendation be handed on to the economy and efficiency committees, or whatever they may be termed, in each of the Federal reserve banks, with instructions to give very careful consideration to the same; and it is also recommended that each Federal reserve bank give careful consideration to the question of establishing a budget system, which is now in force in at least two of the reserve banks and which now is being quite productive of good results.

There were other reports submitted, copies of which the board will receive promptly. There was a report by the Committee on Standardization of Supplies, on the matter of life and automobile insurance, on cost of securing credit information, and so forth.

With regard to the question of what, if anything, should be done to enlarge membership in the system, while most of the banks reported that they are attempting no active steps, or at least they were not conducting vigorous campaigns to secure members, it was felt that it was important to continue, where possible, to enlarge upon the present program of educating the public, as well as the banks, in the operations and purposes of the reserve system.

I am sorry that Mr. Dawes is not here now. He attended one of our sessions, explained the predicament with which he was confronted, and suggested that we give consideration to the matter of increasing the amount paid for bank reports from $4.50 to $10. It was the general view that these reports are most helpful to the Federal reserve banks, and that the Federal reserve banks should, wherever possible, cooperate in every possible way with the Comptroller; but it was thought at the same time that this matter should be first presented to the Federal Reserve Board, and if the Federal Reserve Board felt favorably inclined, that they advise the Federal reserve banks so that those banks could submit the matter to their own boards of directors.

We also had a vist from Under Secretary Winston, who stated that his department was proceeding with a view of practicing economy. He stated that at the beginning of the next fiscal year the war savings organization would be disbanded, and that the reimbursable expense would be confined to the cost of handling new issues of certificates; that the appropriation for meeting those expenses would be reduced from $270,000 to $200,000.

That report co ers, I think, the more important matters which we have considered, some of which I have no doubt will be discussed further. It was expected, Governor Crissinger, that you and your associates on the Board would probably want to go a little deeper into some of these subjects, and in any event we would be glad to have the Board take up with us any matters that they feel like taking up with us at this time.

Mr. Hamlin: What was the ground of those banks that took the position that they preferred to dip into the surplus rather than investing in open market investments to earn overhead and dividends?

Governor McDougal: Of those who spoke on the subject, at least one, and I think perhaps others, felt that a surplus, whether it be the surplus of these corporations or of corporations that are organized for profit, is established for just such contingencies as this; that as business goes along year after year we are liable to have two or three years of harvest and we are liable to have periods of famine, and that rather than resort to unnatural means of stimulating earnings, that the Federal reserve banks might do properly what other corporations have done and what they are doing now, paying temporarily, at least, dividends from surplus. While it was not put in exactly this way, I think it was the view of all the banks, except possibly one, that it would be very much more desirable to pay dividends from surplus tham it would be to pass a dividend.

Mr. Hamlin: But why would open market operations be called unnatural operations? Isn't that a legitimate way in which banks may earn a dividend?

Governor McDougal: I regard it so, for myself; I have always felt that way. With regard to this matter of enormous expenses, we did not go into this expense with our eyes shut. We went into it with the understanding that if it became necessary we had the open market to depend upon. Conditions have changed somewhat, influences have been brought to bear, and the banks feel now that they are not quite at liberty to exercise their own judgment with regard to these things, because they are acting in cooperation with each other and undertaking to handle the things in that way. When we offered these voluntary services--- they were not asked for, they were offered,--- I can remember very well that we looked forward to a time when we would have lean earnings, and whether or not they all felt that way, I felt that they would be taken care of by the very matter that you are referring to now.

Governor Crissinger: Does the Act provide for accumulated dividends?

Governor McDougal: Yes sir.

Governor Crissinger: That would indicate that they did not expect you to make money every year.

Deputy Governor Case: There is one practical phase of the subject which it seems to me would be a direct answer to Governor Hamlin's question, which has not been alluded to yet, and that is this: That while we have acquired a portfolio of $235,000,000 of short governments since last December, the earning assets of the twelve banks have gone off $400,000,000, and personally I have entertained in my own mind a doubt, if we were in favor of going out and undertaking to acquire a sufficient amount of earning assets now to cover all expenses, whether, as a practical matter, we could do it, because there is a little recession and earning assets are naturally sliding off; so that while we have bought $235,000,000 in government securities, which are available and can be resold on the market, it has not only not added anything to our earning assets, but points back to the fact that earning assets have gone off $400,000,000. So as a practical matter I do not believe it would be possible for the system as a whole to acquire four or five hundred millions of additional earning assets without just deliberately pouring money in and going into competition with member banks and raising prices.

Governor McDougal: There isn't a doubt, Mr. Case, that we all agree with you, but on the other hand we have had opportunities--- we have lost them for the time being, but we will have them again, and advantage will be taken of them when they come to lay in a back-log for this very purpose. I think it should be done, but the time certainly is not opportune now.

Vice Governor Platt: You could not increase your earning assets by going into the market without paying off these rediscounts, if you have any. The only discount that does not affect are those that are taking care of certain banks that could not pay anyway. To try to create earning assets by going into the market would do no good.

Governor McDougal: That is at present.

Vice Governor Platt: You can buy two per cent bonds which secure circulation, without having any effect, and that is the only thing you can buy. As a matter of fact you ought to buy those whenever you get a chance to do it, but you don't, so far as I can see. You only take them in small quantities.

Governor McDougal: But the market is almost bare of those. They are selling at a high premium.

Mr. Hamlin: Do you understand that where you pour money into the market it simply means that your discounts fall off?

Governor McDougal: Not necessarily.

Mr. Hamlin: That has been the plea within the last two or three months, and I think money in circulation has increased very largely---

Governor McDougal: You are perhaps better informed with regard to that during the last three months than I am.

Mr. Hamlin: That is what our bulletin for April pointed out.

Governor McDougal: I think during the last two or three months the actual money in circulation has increased, but not very much.

Mr. Hamlin: If, in the past two or three months this money pouring into circulation has increased the amount but has not necessarily been accompanied by a reduction in the rediscounts, then could it not be that the banks were simply investing it and not expanding on it?

Governor McDougal: If the Federal Reserve System were to go out today and undertake to put $100,000,000 more in the market by acquiring a like amount of open market investments it would have the effect of reducing the direct discounts and maturing bankers acceptances---

Governor Calkins: And of lowering the rate.

Mr. Hamlin: But couldn't you try it slowly to see whether that result would follow?

~~Deputy Governor~~ Case: Our experience in the past six months I think demonstrates that pretty clearly. I remember Governor Strong took this up in December. That was at a time when business was pretty active and the earning assets of the system were nearly $1,300,000,000, $1,297,000,000. He stated to the Board that in acquiring these the earning assets of the system would perhaps run up to thirteen or fourteen hundred million. The facts are, as these figures show, that we have $1,297,000,000 in earning assets on December, 26, and $847,000,000 or thereabouts in the latter part of April. In the mean time we have about $235,000,000 in governments. The answer is there has been less demand for credit, the banks have been able to pay off and are now our holdings of bankers acceptances have been very materially rudeced. It seems to me that in a period of ouite business it works automatically, and if we were to go out now we would certainly cheapen the character of credit a great deal and put the price of government securities up a great deal higher.

Mr. Hamlin. Lowering the discount rate would tend to do that, too, wouldn't it?

Governor Case: Surely.

Mr. Hamlin: In other words, if you lower the discount rate, doesn't it go with that that you can go into the open market, and if you raise the discount rate I can see why you might not want to go into the open market.

Deputy Governor Case: I think we have got to be governed by the actual existing conditions at the time that the fate is lowered. As you know, we just lowered our rate in New York. The trend has been distinctly lower, but it has had some slight tendency to further cheapen money. It has been reflected in the price of bankers bills, short governments, commercial paper and time loans. They have all been steadily coming down.

Mr. Hamlin: How have your discounts run?

Deputy Governor Case: Our discounts since that time have not changed materially. They have fluctuated. On Friday they went up a little, 30 or 40 million dollars, and fell off Saturday and Monday.

Mr. Hamlin: They are a little higher than they were before?

Deputy Governor Case: They might be a trifle higher, not much.

Mr. Hamlin: H ow much would you have to buy in the open market, if it could be done successfully, to make your earnings for the year, about 90 million?

Deputy Governor Case: 90 to 100 million; reoughly $100,000,000.

Mr. Hamlin: But you think that that could not be done as a fact?

Governor Case: I would not say it could not be done. I think it might be done. I think it would be very unwise. I think it would be very much better if we had been pursuing the policy of synchronizing with the program suggested and laid down in this tenth annual report of the Board. It seems to me, just as Governor Mc Dougal has said, that we are running through a lean period, and it would be very much better to show the public that our earnings are going to be much less, and it would be wiser to dip into the surplus than it would be to try to acquire $100,000,000 in additional earning assets.

Vice Governor Platt: Dipping into the surplus wouldn't amount to much, would it, with each bank?

Deputy Governor Case: No. There are $200,000,000 surplus and the total dip wouldn't exceed probably eight or nine million out of the $200,000,000.

Vice Governor Platt: What would it amount to in your bank if you took the whole thing out of surplus?

Deputy Governor Case: If we are $100,000,000 short it would amount to about $4,000,000.

Vice Governor Platt: It wouldn't be a big item in the surplus of any one of the banks?

Deputy Governor Case: No, very small.

Governor Calkins: Mr. Chairman, I merely want to call attention to the fact that the discussion that has gone on here would seem to indicate that the discussion in the Governors' Conference was on a different subject from that which we really discussed. We did not begin to discuss the question of paying dividends from accumulated surplus. We began to discuss this matter under the topic suggested by myself in regard to open market transactions, and the suggestion was on the importance of conducting open market operations, without considering the earnings of the reserve banks as a determining factor. That is a very different question from the question here, whether we should dip into the reserves or not. I think it is obvious to all of us that if the reserve banks were in a position to go into the open market for the simple purpose of making earnings, that any effective operation in the market or that any desired influence to be exerted upon the market, would be completely lost. In other words, with open market operations carried on exclusively for the purpose of maintaining earnings, it would necessitate the banks buying when they should not buy and selling when they should not sell, and it would be ineffective. Consequently, open market operations should not be carried on with earnings as a determining factor, but only as one factor. I think we have been talking about another subject, and as this matter is of vital importance, it would be desirable to have it discussed from the point of view of the Board.

Mr. Hamlin: Is one of the reasons for not wanting to go into the open market a fear that you will disarrange the Treasury operations, Governor case?

Deputy Governor Case: Let me answer that in this way: When the committee's operations were started they met and set a tentative amount to be acquired of $100,000,000. When that was acquired they again had a meeting, and they thought it was advisable to raise the amount to $200,000,000, and that was done. More recently it was fixed at $250,000,000. Under that proposal we acquired $235,000,000. At the last meeting of the committee, the under Secretary, who met with the committee, said that the Treasury was interested in knowing the maximum amount that we had in mind, that these operations did have an effect on Government securities, and that the Treasury would like to know just what our program was, and the feeling of the committee was, as expressed to Mr. Winston, that we ought to have as a minimum in the neighborhood of $300,000,000 as an amount which would be of sufficient size and importance to be effective and useful when the time arrived to use it.

Governor McDougal: That was irrespective of earnings?

. That $300,000,000 has nothing to do with earnings at all.

Deputy Governor Case: Yes, irrespective of earnings

Governor McDougal: I would like to answer Mr. Hamlin's question, if you will permit me, by saying that in my opinion consideration ofthe Treasury's policy has been the most important single influence in the matter of determining our open market policy for a long period of time. I think I am right about that.

Deputy Governor Case: Yes.

Governor McDougal: I have some views on that subject. I never agreed with the Treasury when they felt so greatly concerned because we had what they considered an excess amount of government securities. Our expenses are enormous, but they have been taken on with our eyes open; the banks have offered services voluntarily, and they have done it on the basis that they had a way of protecting themselves, and that was in the open market. I agree heartily with Mr. Case that this is not the time to do it, but the time will come, and when that time does come all of the Federal reserve banks ought to lay in, independent of those other funds, but just for a specific purpose, a back log of government securities and other open market securities that are available, longer maturities, if you want, possibly equal to our combined capital and surplus, and lay them away. The amount involved is really inconsiderable. It is not material when you compare it with the tremendous volume outstanding. I think the Federal reserve system could very well, when the opportunity offers, create a back log of that sor t in volume equal to their capital and surplus, without endangering their ability to meet their obligations. I think it was a mistake to let our government securities go. I said so at the time. I think we all believe now that it was a mistake to let the $650,000,000 in securities go when we did. Acceptancos are the most desirable open market securities that are available. I think they are coming to the point now where they should go into wider distribution in the hands of corporations and banks, but we cannot always depend upon acceptances.

Vice Governor Platt: There is a time likely to come when we won't have any short time governments, and you will either have to buy bonds or acceptances.

Governor McDougal: I believe it will not be a serious matter for these banks to lay in a reasonable supply of longer maturity government bonds.

Mr. Miller: I would like to ask whether the Conference has given any consideration to the general question of open market policy for, we will say, the rest of the year 1924, or until, at any rate, the autumn conference has convened. Do I understand that so far as the conference is concerned the present program of buying $250,000,000 of short term government paper is to be the end of it. If so, that program presumably will be completed within the next few weeks.

Governor McDougal: I do not think that is understodd definitely. The understanding now is that we are working harmoniously. There is no indication at present of any bank operating contrary to the operations of the committee. The committee's efforts at present are to be devoted exclusively, as and where conditions make it possible, to increasing this special fund. The fund is not within the control of the banks, but it is agreed upon for a special purpose that we shall get the maximum amount that has been spoken of, $250,000,000. Then as time goes on, certain changes may make it necessary for some banks to avail themselves of their privilege, even though it may not be in harmony with the operations of the committee, of going into the open market for investment.

Deputy Governor Case: It would not take but a moment or two, and I think it would perhaps be well to have this report read.

Mr. Harrison: The report is as follows:

"Since the joint conference of governors and agents last November the Open Market Investment Committee has entered a new phase of its activity by recommending and carrying through a common policy for the Federal Reserve System in the purchase of govern ent securities for a special investment account.

At the joint conference on November 12, 1923, the chairman of the Open Market Investment Committee recommended the resumption of purchases of U. S. government securities by the Federal Reserve Banks in the open market in the event that business conditions proved favorable to acquiring a portfolio. On December 12, 1923, the Open Market Investment Committee met with the Federal Reserve Board and a plan was formulated for the purchase of government securities up to 100 million dollars, as far as it could be done without disturbing the market for such securities, and under the further condition that such securities should be held for the 12 banks in a special investment account and should be subject to sale at the direction of the Federal Reserve Board. The participation of all 12 Federal reserve banks in this plan was secured and purchases were made gradually up to 100 million dollars. At meetings of the committee on January 14 and February 8 readjustments were recommended in the maturities purchased and the authorized buying prices at which purchases were made. Following the recommendation of a meeting on February 25 the amount authorized to be purchased for this special investment account was increased to 200 million dollard, and at a meeting on April 22 it was again increased to 250 million dollars. Total purchases have amounted to 235 million dollars.

In the course of these operations decisions have been reached on a number of points concerning the distribution of securities between the reserve banks. The experience of the committee has led to the discouragement of special purchases for individual banks, apart from the regular allotments of purchases for the special investment account, because of the serious interference with the general program which was found to result from such special purchases. In order to meet the needs of banks desiring larger amounts of holdings for the purpose of maintaining the volume of their earning assets, redistribution was in several instances secured to such banks from the allotments of other banks, which were willing to forego a part of their allotments. An accompanying statement indicates the extent of such redistribution. The same principle has been applied to purchases and allotments of bankers acceptances.

At the meeting of the committee on April 22, 1924, it was recommended that the buying rate on three months' bills be reduced from 4-1/8 to 4 per cent, and the rate on shorter bolls from 2 to 3-7/8 and 3-3/4 per cent, at the option of the banks.

Results of Operation: As a result of the purchasing program a portfolio of 235 million dollars of government securities has been acquired, which may be sold to the market at any time that it seems wise. It is believed that these securities have been acquired without affecting unfavorably the general credit situation. In fact during the period when purchasing was going on, from the latter part of December until the present, the total earning assets of the Federal Reserve System have declined approximately 400,million dollars. Increases in holdings of U. S. securities have been more than offset by a recrease of 200 million dollars in holdings of bankers acceptances, and of almost 400 million dollars in discounts and advances. During the period there has been no stimulation of stock exchange activity or higher commodity prices as a result of the purchases. In fact the observable effects of the purchasing program have been largely confined to the government securities market. During the period of the operations of the committee there has been a brisk demand for short term government securities, due to the fact that the demand for funds to carry on business operations has been limited. A further influence making for generally easier money conditions was the continued inflow of gold from abroad at the rate of more than 1,million dollars a day. It is worthy of note that the downward movement of the yield rates on short term government securities has in the main been parallel with the charges in rates for commercial paper, and the yields on Liberty bonds. This would appear to indicate that the downward movement of yield rates for certificates and notes has been due more largely to general conditions in the money markets than to the activities of this committee.

Future Program: Although purchases to the amount of 250 million dollars have been authorized, the committee has not been able to secure this full amount because of the scarcity of offerings of securities. The prospect for the immediate future appears to be for still easier money conditions. Business has grown less active in the past few weeks, gold imports continue at a rapid rate, and the usual seasonal tendency at this time of year is for lower rather than higher rates. Under these circumstances further purchases of government securities may be difficult for some weeks to come.

It is clear that any further extension of purchases for this account beyond the $250,000,000 now authorized, should be carefully reviewed in the light of current business and credit conditions and the Treasury fiscal program. But with the continued influx of gold from abroad it should be borne in mind continuously that the danger of credit and price inflation and a period of undue speculative activity is always present. One of the best safeguards against any such danger is the possession by the Federal reserve banks of a large portfolio of readily salable securities. Such a portfolio should be obtained, however, without encouraging the very speculation which the portfolio is designed to combat, and without affecting injuriously the market for government securities.

Vice Governor Platt: Is it to be expected with some of the western reserve banks that their fall demands will relieve the situation somewhat?

Governor McDougal: We cannot depend upon the fall demand in the expectation that it will take the place of a reasonable amount of earning assets.

Vice Governor Platt: Would the western reserve banks have a large amount of paper, and if a demand comes that can ship that paper out to the other banks---

Governor McDougal: (Interrupting) Mr. Case, I think I am right in stating that the acceptances now held by the system will be reduced very rapidly, will they not?

Deputy Governor Case: They are running off very rapidly now. This folder shows that while we had 336 million acceptances on December 26, on April 23 it was down to 140 million, and it is very materially below that now, so that 200 million bankers acceptances haverun off in the last four months.

Governor McDougal: And the others are going at the rate of a million a day, approximately, at the present time.

Vice Governor Platt: Has the conference taken into consideration what effect the reduction in taxation may have? The Government has put $300,000,000 into the market during the past year, a considerable portion of it to meet tax payments, and if the reduction goes through that won't be done any longer, and it may be the other way. Wouldn't that make a difference?

Governor Mc Dougal: That has not been considered.

Vice Governor Platt: I think if they fed into the market $300,000,000 in addition to the sinking fund, that it would be quite an item.

Deputy Governor Case: In addition to the sinking fund there are the British payments approximately $200,000 000, and the Treasury has a surplus fund which may amount to 250 or 300 million---

Vice Governor Platt: About 300 million has been paid into the market on September 15, December 15, and March 15 of each year.

Deputy Governor Case: They have that surplus, and together with the British payments they have pretty nearly enough, as I understand it, to pay off the June 15th maturities without recourse to the market.

Vice Governor Platt : If this tax bill goes through, or some kind of tax reduction goes through, those payments won't be made in the future, and it is going to make considerable difference.

Deputy Governor Case: There will be 250 million or thereabouts which is provided for for the sinking fund.

Vice Governor Platt: The sinking fund will continue and also the British payments, but in addition to that there has been $300,000,000 put into the market right along.

Mr. Miller: Suppose you put 50 or 100 million dollars into the open market next month, or, in the next two weeks, and what would happen in respect of the New York banks, Mr. Case?

Deputy Governor Case: The New York banks are practically all out of debt. When I say that I do not mean that the Bank of Commerce or the Bankers' Trust Company or some other large company may not come in in July for $10,000,000 or $20,000,000, but I mean they are practically all out of debt now, and are actively seeking outlets for their money, and as I view it, if we were to do that at this time, it would be clearly in direct competition with them, and our combined efforts to invest funds, our efforts and their efforts to go out and buy--- and we would not be so careful as regards price, and we need not be, perhaps as they should be--- would materially further cheapen open market rates, and I cannot help feeling that it would be an unfortunate thing to do. It would lay up open perhaps to considerable criticism.

Mr. Miller: Why do you think that would be an objectionable thing? I assume that the New York banks would buy essentially the same type of securities that you would buy.

Deputy Governor Case: Yes.

Mr. Miller: Then they would go in for earnings and also for expenses? --

Deputy Governor Case: The only reason I would see, Dr. Miller, is that we have got to live with those fellows in New York.

Mr. Miller: And of course they have got to live with you.

Deputy Governor Case: Yes; that is true. If it were believed to be the correct thing to do, and something that ought to be done, of course we could do it. But experience has shown that while we can control the purchase of government securities, we have no control over the reduction in rediscounts, or, as a matter of fact, over maturing bills, unless there too we take them away from the prospective buyers now. I learned yesterday that the dealers were paying 3-3/4 or thereabouts in buying bankers acceptances and there was a very great demand for them, and they were selling them in the market at around 3-1/2 with an insufficient supply, so that, as I see it, while we would buy fifty millions in governments, it would actually not increase our earning assets. I think it would merely be a shifting.

Mr. Miller: Suppose you went up to 100 million and then to 150 million. Then it would increase the earning assets of the banks. In the first place it would take out of the reserva banks whatever there is there in the way of rediscounts, but after that point you do add to your actual earning assets by purchasing. You haven't made clear to me just what the objection to that procedure is, except that your banks wouldn't like it.

Deputy Governor Case: And except that you are driving money toward a two per cent rate.

Mr. Miller: Of course we drive it toward a two per cent rate. We drove it towards the two per cent rate when the discount rate was lowered from 4-1/2 to 4. 4 is nearer 2 than 4-1/2. You do not mean by that that money would be 2 per cent in New York?

Deputy Governor Case: I think if were to put out $150,000,000 that it would go very low indeed.

Mr. Hamlin: That is, if you did it over night.

Deputy Governor Case: I wasn't think of doing it over night. I was thinking if we were to do it over a period of thirty to sixty days, that with the present trend of the market to lower---

Mr. Miller: Call money might go to two per cent?

Deputy Governor Case: No. I am thinking of open market paper. Here is what I mean; Short term governments and Treasury certificates due June 15 are now quoted on a 2-3/4 basis.

Mr. Miller: Yes.

Deputy Governor Case: And that is short term money.

Mr. Miller: Yes.

Deputy Governor Case: You let us go out and undertake to collect 100 or 150 million more of them and you would find the certificates quoted at two per cent.

Mr. Miller: Surely.

Deputy Governor Case: And with a corresponding reduction all along the line. I have a feeling that with the Treasury operations coming along it might unduly accentuate a rise in price of governments and would create a rather artificial position for them if that were to be done in the next month or six weeks, so they would have an artificial market in which to float the new issue.

Mr. Hamlin: a hundred million would take care of your bank all right, would it not?

Deputy Governor Case: You mean additional earning assets?

Mr. Hamlin: In addition to the 100 million, if you keep the 50 million discounts.

Deputy Governor Case: If we should acquire a hundred million more, yes, but for the system as a whole it requires 300 million more. We are just about a third. 300 million more would be necessary if you want to acquire enough to cover the expenses of all the banks.

Mr. Miller: Suppose we did not have the Treasury to consider, what objection do you see to going right straight ahead and adding earning assets, not at a rate that would demoralize the short term money market, as presumably you would have some effect there in lowering the rate until a new demand for money comes out of trade conditions, but what objection would there be to a procedure of that kind?

Deputy Governor Case: Well, I feel this way about it, that the Federal Reserve Banks hold themselves out more or less as stabilizers of money conditions, and at a time like this, when there is apparently a slight recession in business, and certainly a marked decrease in demand for commercial credit, so that our banks being out of debt are forced to go into the open market, it seems to me that we would be doing violence to that principle, that we are trying to keep things fairly stabilized, and would certainly, as to these short open market instruments, drive them, in yield, down to a very low basis, and I think such a course would be improper.

Mr. Miller: Suppose we have the present influx of gold continuing not only through the rest of this year, but into the year 1925, where is the reserve system going to be?

Deputy Governor Case: It is going to be very easy, there is no doubt about that.

Mr. Miller: Very easy; but what point of contact are you going to have with the market? When is it good policy to try to increase the contact with the market, if you anticipate a constant influx of gold?

Deputy Governor Case: Dr. Miller, of course I can only express my own personal opinion, but let me express it in this way: If this little recession in business is of a temporary character, and this autumn we may see business picking up again, particularly if the political situation has cleared up to some extent, it seems to me if there was a substantial demand for credit in the commercial banks at that time they would naturally begin to part with some of their governments, and it might be an opportune time for us to increase our portfolios and take them over as the banks are turning some of them out; but at a time like this, speaking for New York, where our banks owe us practically nothing, and they are going into the market, it does not seem to me that it would be desirable for the Federal reserve banks to go in. I would rather wait for the reverse situation.

Mr. Miller: Would you rather begin to accumulate at a time when the market is active, when you might possibly be unduly adding to the amount of money in the market used more or less for speculative activities, or would you rather go in and acquire at a time when things are dull and no adverse effects are to be anticipated, and induce your member banks to do practically the same thing by forcing the discounts out of the reserve banks.

Vice Governor Platt: Wouldn't you have a stabilizing effect by doing just that, rather than taking in securities when the market is active--- rather than buying when things are low---

Mr. Miller (Interposing): I think that depends, Governor Platt, on the period of time in which the stabilizing effect is exerted. If you look ahead a period of two or three years instead of dix to nine months, you have a different situation. If we pursue a short-sighted policy we are likely to do it at the expense of the real interests of the country.

Vice Governor Platt: Has the lowering of the interest rate had any effect on the gold imports? Presumably if interest rates were low enough the gold imports would stop.

Deputy Governor Case: Under existing conditions, certainly. Up to the present time we have not observed any slowing down of gold imports as the result of lower interest rates. Governor Norris just made an interesting observation with regard to that suggestion, and I think it might be interesting for him to speak of it.

Governor Norris: I merely asked Mr. Case to call attention to the fact that if we pursue a policy that is going to drive our all of our four or four and a half percent discounts and substitute two and two and a half per cent paper for it, that we have got to have twice as much of that paper to give us the same earnings that we are getting from our present investment.

Mr. Miller: But they do not jump from 4-1/2 to 2 per cent.

Governor Norris: I am not speaking of a jump. I am speaking of the present market.

Mr. Miller: As you put money in there will be a tendency for rates to soften, but there is a good deal of resistence to the softening of rates in the market. You probably would find if you go ahead over a period of six weeks or two months and purchase a hundred and fifty millions of investments to add to your portfolios, that is, for the system as a whole, you would do it without any pronounced softening of rates at any point, and with no very market decline over the whole period of six weeks. You might get down, we will say, from an average of four or a little less than four on certain types of open market paper to three and a half.

Governor Norris: I am not speaking of a general reduction in rates. I am speaking of a substitution of short time government obligations for discounts. Mr. Case called attention a few moments ago to the fact that June certificates were selling now on a 2-3/4 basis.

Mr. Miller: I think what he said has no value for argumentative purposes. Don't take June 15, but let us take 1926 and 1927 maturities.

Governor Norris: The longer maturities are selling on a four per cent basis.

Mr. Miller: If you think that by purchasing 150 million in the course of two months that you will bring those down to even a three and a half basis--- I do not think you would anywhere near do it. Id you got it down to 3-7/8 or 3-3/4 I should think that was pretty extreme as an effect on rates in a market where there are some six or seven billions of short time paper afloating. 150 million won't do it. We ought not to predicate our discussion upon extremes. If you entered upon that policy and found, for instance, that the purchase did weaken the rates very materially, you would have to reconsider it. I am asking this question because I think the Federal Reserve System has taken a very short look into the future, where it ought to be taking a long look.

To my mind, when you take a long look and know that what confronts us is the probability of a continued influx of gold, and the banking situation of the country is outside the reach of the system, it means, I think, that in times of quietness you have got to consider whether the opportunity is a suitable one to lay in something that will enable us at a later time to get in touch with the situation.

For instance, I cannot agree with Mr. McDougal that the system made a mistake in letting the open market portfolio run off five or six hundred million. It turned out to be a piece of rather good furtune that we had something that we could let out to the amount of five or six hundred millions at a time when business was beginning to get speeded up very considerably, and I anticipate that within the next year or year and a half we will have a situation in which 250 million in government securities will have about as much restraining influence upon the bulge of credit as a snowball would have in Hades--- just about as much chance. My mind is working toward this: Whether we should not go ahead and, wherever we can do it without anything approaching demoralization, of market conditions, do it, quite irrespective of whether the member banks like it or not; go in and buy governments, not of June 15, 1924 maturities, but later maturities, 1926 or 1927, adding, adding and adding at a time when you have no worse effect than diminishing the rate at which me mber banks have got to go out in the big centers and look for business, and in the meantime having something that you can sell when you finally get into a situation where you have got to restrain the market.

Governor McDougal: You will remember that whether or not we made a mistake in disposing of our large holdings of government securities, that the most important influence in that was the pressure of the Treasury Department, urging us to let them go. We let them go very reluctantly. The Chicago bank was the last one. When I came to Washington I was told that we were the last. We finally let them go. We are discussing this matter now, Mr. Case, from two angles, whereas it ought to be discussed from the first standpoint, which has to do with the special investment fund. Now, the special investment fund was conceived for the express purpose of exercising an influence over open money market rates. It was distinctly understood that the purchased we were making were made for the purpose of putting ourselves in a position to supply to the market short time government securities when there was demand for them, and also be prepared to buy in the market when they were lagging. That was the motive, I think. Now, then, conditions are not favorable at the present time for increasing our ~~business~~ holdings in that fund, and if we should undertake to do it, we would be working in just the opposite direction.

Mr. Miller: Why do you say conditions are not favorable?

Governor McDougal: Because, as a matter of fact, if we put money out now we are putting money into the marke when we ought to be doing the reverse.

Mr. Miller: Why should you?

Governor McDougal: That is the basis of the assumption---

Mr. Miller: But let us not proceed on assumptions.

Governor McDougal: Let me finish, please. From the standpoint of earnings it is a very different matter. We have not been permitted, in our discussion, to consider this from the double barreled standpoint. We have been under the impression that from the standpoint of the Treasury, and my own impression is from the Standpoint of the Federal Reserve Board, that it would be inadvisable for us to accumulate a portfolio of bills for our own purposes.

Mr. Miller: All right. Now, proceed with what you think is the bad effect of such a policy now?

Governor McDougal: Whether the effect is bad or whether it would be the reverse, I am speaking now on the basis of the assumption that the principle involved in the establishment of the special fund was a sound one.

Mr. Miller: Yes.

Governor McDougal: That is, that we be prepared to take out of the market securities when securities were dragging--- they are not doing that now--- and to supply to the market government securities when there was an overabundance of idle money, which condition prevails at the present moment. If we should be doing anything with the fund, it would not be out of line with our policy to be feeding our securities out.

Deputy Governor Case: I think if we had probably a billion dollars of governments we would be considering doing just that thing, perhaps, letting them go.

Mr. Hamlin: Would you have lowered the rate?

Deputy G overnor Case: If we had had such a portfolio we perhaps would not have considered lowering the rate.

Mr. Miller: I presume we are all referring to genera principles, those laid down in the open market resolution, that operations were to be determined primarily with reference to credit and money conditions. I think what we are concerned with here is to find out what there is in the present situation that indicates the course of application or operation on that principle. The most important thing that we have to, in my mind, take cognizance of in this situation is that, whoever is doing it, or whatever is doing it, we have a very strong competitor for the control of the American money market; that whoever is responsible for the continued shipments of gold here is playing against the hand of the Federal Reserve System, which constitutes to my mind a very difficult, extremely delicate, and perhaps impossible situation for us to get ahead of. But we have got to try to get ahead of it. We have either got to take a chance or slowly drift. You cannot help but sense the situation that, with a million dollars of gold flowing into this country from day to day, with the average ratefor this year considerably in advance of the rate for last year, $350,000,000 in the last twelve months, we have a problem of different dimensions, one calling for different technique, far less certain in its indications than was true a year or a year and a half ago. I have not been able to see anything with any degree of clarity, but I have not been able, on the other hand, to see any course that is open to less objection than the one that means going into the market whenever you can do it without demoralizing, even the market for money, and loading up with something with which you can play later on when we want to exercise a restraining influence. If this present thing keeps up, instead of having earning assets for the system as a whole of between 800 and 900 million, we will be down to 500 million, and our experience, I think, in the year 1923, has pretty thoroughly demonstrated that with but 200 million--- 1923 demonstrated that we needed approximately 500 million--- and with a volume of open market holdings approximating that amount you can, if you judiciously time your sales, exercise enough of a restraining and corrective influence upon the market as to give to it a little more serious tone. If you get up against a situation such as we had in 1923, and I anticipate before 1925 has run its course, we will be up against a very much more serious one, we have something then that we can properly talk of in terms of inflation. We might, by a well paralleled discount and open market policy, be able to do something, whereas, if we move along now, with total holdings of say 250 to 300 millions, we are going to find ourselves in a position where we are absolutely high and dry before the next two or three years are gone by. So that in my application, Governor McDougal, of the principles which have been laid down, I am thinking of a period that runs far beyond the next six months or the year 1924, and for that reason I am eager to get light on what harm or what injury or what objection any of you think can be urged against a bolder policy of acquiring a portfolio in the open market of investments at the present time, that may run up fifty per cent or maybe a hundred per cent more than what you have set as your limit? The only thing that has been brought out so far has been that brought out by Mr. Case, that the member banks would not like it and that it might possibly force down the buying rate on Treasury securities, to their disadvantage.

Deputy Governor Case: I am quite sure the Treaury would not like it at the present time. I think I am correct in that.

Mr. Miller: The Treasury would not like it, probably, but after all a course of action or a policy can not be predicated on the assumption that it is going to be 100 per cent good, that it is utterly free from some kind of objection. We have got to balance these factors.

Governor Crissinger: Are we to understand that this gold that is coming from abroad is coming for the purpose of controlling the money market, or is it coming to pay debts here.

Deputy Governor Case: It is coming because this is the cheapest place to sell it and the securest place to have it.

Vice Governor Platt: But isn't the whole current of gold imports likely to turn against us any minute? The balance of trade does not seem to be in our favor when you consider all the items, all the invisible items.

People buy American securities abroad in order to have something that does not fluctuate, but how long are they going to do that? It is probable that the current of gold imports may turn during the course of the year, or at least possible.

Mr. Miller: There is that possibility, but there is nothing in the future that indicates any change in the mental outlook of Europe that the United States is a good place in which to have the gold, first, because you can get a return on it, and secondly, because you can always get your gold. We ought not to overlook the fact that the figures indicate that Great Britain is steadily going ahead and buying American securities, that is, the private investors are steadily going ahead and buying American securities.

Vice Governor Platt: The gold is coming to this country because of the purchase of American securities and not because of any trade reasons. The trade reasons are all against it; it ought to be going the other way, it seems to me.

Governor McDougal: Do I understand that your views as expressed are influenced somewhat by the need of earnin for the Federal reserve banks?

Mr. Miller: Not at all. I am not thinking in terms of earnings at all.

Governor McDougal: You are not thinking in terms of earnings?

Mr. Miller: No.

Governor McDougal: I should like again to go on record as being in favor of laying in a supply of such securities, government bonds, if they are the only securiti available, when the time is opportune, for earning purposes, and I believe that the system should do it, a plan and policy which has heretofore been discouraged, I think by the Federal Reserve Board, and certainly by the Treasury.

Vice Governor Platt: If the system had operated as it was intended to operate when the bill was passed it would now have 250 million of 3 per cent government securities taken in place of the bonds to secure circulation, and we wouldn't have any question of earning assets before us today. The only reason you have it is because you have not done that. If you had taken $25,000,000 a year in ten years it would have amounted to $250,000,000 and the banks would have had to come to you to get currency.

Deputy Governor Case: In that connection, there are about 120,000,000 or therabouts, as I recall it, of these bonds to secure circulation that the Treasury will redeem next year, or may redeem next year; of course, I cannot say what the Treasury will do about it. I had some talk with Mr. Gilbert about it and I know he was very much in sympathy with retiring those, and that, of course, would accomplish precisely the same thing.

Governor Platt: That would help a lot.

Dep ty Governor Case: It would, yes.

Mr. Miller: Have you ever thought of this as a possible rough guiding principle: That is, gauging your purchases of open market securities by the influx of gold at a time when there is nothing in the offing that indicates that the influx of gold is stimulating speculative activity or price, so that you would at least be matc hing the potential power of that new gold, and you have got something which later on, whenever the gold becomes active, you can in a measure counter actit with. If your gold stops coming in the course of a year, unless you have a changed condition, you might readily say that the invisible enemy, so to speak, is gone, but as long as the gold comes in, the great problem before the Federal reserve system is going to be to devise ways and means by which they can maintain some kind of contact with the future market, and to be in a position to maintain that, you have got to be in the existing market. I cannot see, under existing circumstances, what harm would result from that procedure, except in the weakening of rates and possible overstimulation of buying in the Government securities market. I think those are all things to be considered in the application of a policy from week to week and are of importance as operating matters, but I do not think they touch the essential principles, upon which my mind is set, as to what the open market policy shall be based upon at the present time.

Governor McDougal: Governor Crissinger, we will be very glad to hear from you on this subject, or any other matter.

Governor Crissinger: I am just listening to this.

Mr. Hamlin: I think Dr. Miller has expressed my views.

Mr. Cunningham: I, too, am just listening.

Vice Governor Platt: I am a little doubtful about buying more government securities at the present time .

Deputy Governor Case: I think in our discussion of this yesterday it was pretty generally the feeling of the Governors that it was very much to be regreted that we did not have, as we had a year or so ago, a portfolio of 500 million dollars, instead of what we have at the present time. I know that our banks have been considering pretty actively for the past three or four weeks the question of reducing our discount rate, in order that our rate might more clearly and more nearly reflect the actual money conditions in the financial centers. Bills have been selling around 3-3/4 and 4 per cent and short time governments are offered as low as three and up to four or thereabouts. In discussing it we had the program recommended by the Open Market Investment Committee of increasing our purchased, and I think they felt that we should do that perhaps in advance of the time when we raised our rate, and not proceed to lower the rate and then also jump in and buy. I think our directors had quite that feeling in mind. I do think that Dr. Miller said about the gold is an important matter. I think it is very creditable to the system and the banks and the commercial interests of the country, that thus far what gold has come in has hardly had any effect in the way of putting prices up or encouraging speculation. In other words, there is a great plethora of credit, and there is no stimulation of prices, they have receded somewhat, rather than going up. I think that is a very creditable performance for the country as a whole. There is one thing clear, as a result of 1920, that both the business men and the banks are gun shy, and are going to be very careful not to get into the jam that they got into in 1920.

Governor Seay: Might ask the members of the Board if they have any considered opinion upon the topics which they have proposed to the Governors for discussion, of which they can give the Governors the benefit. For instance, topic No. 1, Principles by which the establishment of Branch Banks may be tested."

Governor McDougal: We would be glad to hear from Governor Crissinger or from any other member of the Board with regard to that subject, or with regard to any of these subjects.

Governor Crissinger: I am of the opinion that there isn't any rule by which you can show that they ought to establish branches. I think there ought to be some rule by which we could disestablish Federal reserve bank branches instead of establishing more of them.

Vice Governor Platt: I do not understand that there are any pending applications for branches that the banks favor very much.

Governor McDougal: Not to my knowledge.

Vice Governor Platt: I do not think the Board is in favor of any that it has heard of.

Governor McDougal: It is a question of principle, which should be the guiding factor, it seems to me, in determining that question.

Mr. Miller: I think when a branch or when the banks within the territory assigned to a branch or a bank, are within overnight mail of the head office, that it is difficult for me to see what advantage the banks other than those in the Federal reserve branch city, get.

Governor McDougal: That is the whole thing in one sentence.

Mr. Miller: Nor does it appear that the banks in th territory assigned to that branch get any advantage in what amounts to a reduced reserve requirement--- so that if I were going through to revise our disposition of branches on that principle, I would be disposed to lopp off all of those that did not yield substantial advantage to other member banks than those that are in the city where the branch is located. The majority of our branches come within the latter class; they constitute sort of little pocket bureaus for the banks in the city where the branch is located, at an expense of probably three million a year, possibly more than that, in operating costs to the system. In other words, in order to give them an advantage possibly in the shape of additional earnings of less than half a million a year, we incur an expense that may run as high as two or three million. I believe this is what is ahead of us, and it is one reason why I, personally should not regard it as a very serious thing, that in connection with a good operating credit policy some banks, especially those in districts where there are a good many branches, could not pay their dividends, the member banks might find out that it makes some difference how many branches a Federal reserve bank has got to take care of in regard to the question of earning dividends for the bank. In other words, it might readily appear that these branches are maintained at the expense of a dividend to the member bank in the district.

Governor Seay: Has it ever been considered, Dr. Miller, whether there are other legal difficulties in the way of disestablishing a branch?

Mr. Miller: Oh, I think so.

Mr. Hamlin: I do not think we have any power. Our counsel can answer that question. Mr. Wyatt can give an opinion on that.

Mr. Wyatt: I rendered an opinion some time ago to the effect that while the law is not clear on the question, and we could not be sure about it, I could find no authority in the Act for closing up a branch. In other words, the Congress appears to have reserved the right to pass upon the question of whether you could close up a branch, when the occasion arose.

Vice Governor Platt: As I remember your opinion it did not go so far as to say that the Federal Reserve Bank could not close a branch, but that the Board could not order a branch closed, isn't that it?

Mr. Wyatt: Yes.

Governor Seay: May I ask, with all proper defference, whether the Board considered, in its recent revision of the regulations by which branches shall be governed, whether they were not adding permanency to the branches by increasing the directorate and in the appointment of a managing director, and so forth, thereby increasing the independence of the branch? Of course I am speaking of this academically- -

Governor Crissinger: You refer to regulating the election of directors?

Governor Seay: I am referring to the regulation which will take effect in 1925, which specifies the number of directors of branches as seven, whereas---

Governor Crissinger: How would that affect it? I don't see how that would affect it.

Governor Seay: Whether it would not have a tendency to give greater force to the question of permanency of branches, in case the Board should ever have the idea of disestablishing a branch, and I am assuming that proposition as bearing upon the question which I have just asked, that is, whether there were any difficulties in the way of disestablishing a branch. It seems if there are any that they will likely be added to by increasing the directorate.

Mr. Hamlin: That was my idea in voting for it. I have been a minority of one. I voted to give a branch bank at Wichita. I took the view that Mr. Warburg recently laid down. He wanted to have a smaller numberof banks, I think he said eight, with 60 or 65 branches. He said he thought it would be the logical development of the Federal reserve system for the Federal reserve bank to take care of its own city, and the rest of the work in the district be done by well organized branches, the Federal reserve bank being, of course, the central bank. I daresay I advocated that view alone. I know how my associates probably feel about it, and I justified my vote for that reason, that of developing branches and making them more automomous and more independent.

Governor Seay: I was just wondering, if there does exist any idea of disestablishing branches, which the Governor of the Board intimated, whether the difficulties were not being increased.

Governor Crissinger: I do not think what you said would increase the difficulties in the way of establi shing or disestablishing a branch.

Governor Seay: By increasing the directorate and giving a greater idea of permanency to the branch.

Governor Crissinger: I do not think that follows. You had to have a directorate before and you had directors before.

Governor Seay: But not as many.

Governor Crissinger. You may not have had as many in some places; you may not have as many now, but that would not affect the legal status of the thing. I think a federal reserve has the right to cut off the functioning of a branch bank as much as it wants to. It can cut it down until the branch don't amount to anything, can't it?

Governor Seay: It is an offshoot of the parent bank and I think that is true. I should say yes, but I am not speaking from the legal standpoint.

Governor Crissinger: It is the offspring ofthe parent bank and the parent bank can bring it in and spank it if it wants to.

Governor McDougal: They are not all offshoots of the parent bank. We have one notable exception. That was not our child.

Vice Governor Platt: I understood you to say in regard to the furnishing of currency by some other bank or branch than the bank in which the mamber bank is located--- if you could work that out in a few isolated cases where there is some demand for it, wouldn't that cut off a certain amount of demand for branches? Take a bank down in Illinois, and if that bank wanted to get currency from Chicago, I do not see why it should have it? It can get it more cheaply.

Governor McDougal: Our idea was that if we undertook to do anything of that sort, that it would lead to complications, and that the districts would perhaps lose their identity. We do not know what complications would be raised.

Vice Governor Platt: It seems to me that the business has got to be done along workable lines, and that the Federal Reserve Bank is doing some of it in an unnatural way. Scranton is in Pennsylvania, and they could get their currency much cheaper from New York than from Philadelphia. So far as getting currency is concerned, one bank could act for another. They could not pay off the notes of another bank, but they could furnish this small change.

Governor McKinney: The trouble is the next thing that would come along would be the cash letters, and things of that kind.

Deputy Governor Case: They are run on a time schedule, so it does not really affect them.

Governor McDougal: I would like to ask the Board a question on my own responsibility, and that is whether or not the Board as a Board, or any members of the Board, look with favor on this proposed Fulmer Bill.

Vice Governor Platt: They do not. In fact it is really a dead issue.

Governor McDougal: I did not think it was a dead issue, because it was on the program.

Vice Governor Platt: I do not think there is any chance of it ever being taken up with the Banking and Currency Committee. They have not even considered it.

Governor McDougal: Governor Crissinger, I would like to ask if we are going to be here this afternoon. Of course, we are available to the Board, but we have prac tically completed our own program and we now of course await the pleasure of the Board.

Mr. Hamlin: I would like to suggest that before the Governors adjourn Regulation J be left in the precise shape in which they want it left.

Governor McDougal: That was left to a committee. What committee was that?

Deputy Governor Case: Mr. Strater's committee, the Standing Committee on Collections. Mr. Strater can stay over with Mr. Wyatt:

Mr. Hamlin: I think we ought to put that out at once.

Vice Governor Platt: Is there any objection to it in the form in which it was recently sent out to the Governors.

Governor McDougal: There were one or two suggestions made. I would like to inquire from Governor Fancher whether it would not be possible for Mr. Strater to stay here and act as a committee of one for the conference with regard to Regulation J.

Governor Fancher: I understand that was referred to a committee. I do not know whether Mr. Strater individually would want to act for that committee or not. I think he has planned to have that committee meet at a very early date, possibly next week.

Governor McDougal: Mr. Hamlin has said that this is a matter that should be cleaned up and not carried over. I think we all agree with him on that. We all agree that it ought to be straightened out and that Regulation J should be forthcoming very soon.

~~The~~ Governor Fancher: I think the Chairman of the Committee fully appreciates that and intends to get them together very promptly.

Mr. Hamlin: I understand the Board has agreed on this and is ready to send it out, subject to some further information coming from the committee.

Governor Seay: There are some changes in phraseology which are believed to be important by some of us, whether all of us, I cannot say; but you will recall the action of the conference was that the members of the Standing Committee on Collections should have as prompt a conference as possible with counsel for the Board, of course with the permission of the Board, for the purpose of agreeing upon the phraseology. That was purely from an operating standpoint. I think it was quite generally felt that Regulation J was in quite satisfactory shape, but there are some phrases in there which need to be right carefully considered, particularly with respect to Section V.

Governor Crissinger: Have you considered them?

Governor Seay: It was considered by the conference of Governors, but it was thought that they were operating matters and that the standing committee on collections, which consists of operating men, could give valuable suggestions to counsel for the Board for the purpose of framing this definitely and finally, and for the purpose of submitting it to the Board right away, without any undue delay.

Governor Crissinger: The Governors want to come back and say that it is wrong again, is that it?

Governor Seay: The Governors will not be disposed to do that. We have referred it to these operating men to agree among themselves and get it in final shape so there will be no further discussion.

Vice Governor Platt: In other words, it is pretty generally in proper form now?

Governor McDougal: Yes.

Governor Seay: Yes sir. There are no principles involved, but there are some operating questions with reference to phraseology used in Section V, which might be agreed upon.

Mr. Hamlin: Are the Governors ready to accept the suggestions of the operating committee?

Governor Seay: It was so understood.

Vice Governor Platt: The committee has power, then?

Governor Seay: Yes.

Mr. Miller: Mr. Strater is in town now, and why couldn't that be done right now?

Governor McDougal: I would like to explain with respect to this and other operating matters, that the men who are entrusted with this responsibility are trained along this line and are better able to determine these fine points than are the Governors themselves. Otherwise we would have determined it here. Dr. Miller has called attention to the fact that this subject has been before the banks for some time. That is true. As Governor Seay has said, from the standpoint of most of the banks at least, the regulation, in the form last submitted is satisfactory, and as Governor Seay has also stated, there are possible objections that we wanted to ascertain definitely whether they were worthy of consideration.

Mr. Miller: But why does it take so long to get action upon technical and operating matters in the reserve banks?

Governor McDougal: I would like to answer that question, Doctor, and I think you are one of those who will understand and appreciate it.

When these conferences first began to meet we met rather frequently, and we were developing an organization which included certain committees. One was a committee of practical experienced operating men, men who had learned through practical experience, or attained knowledge such as put them in excellent position to deal with these matters such as are referred to. We also established a committee which, for want of a better name, we called the Executive Committee of Governors. The first committee referred to handled many of these technical matters. They brought them up to a point for submission to this so-called Executive Committee of Governors. That committe then took them up and approved or modified the recommendations and brought them to the Governors' Conference in finished shape, ready for action. There was no delay and no difficulty at all. We were requested to disband, which we did, and we have never felt at liberty to operate in that way since. I think I am in place in mentioning this. It is a matter that we have discussed, not frequently, but it has been more or less referred to, and I think that is an answer to your question.

Governor Miller: Why couldn't this matter have been referred to your technical committee? It has been out of the hands of the Board for some time. Do you recall how long?

Governor Seay: About thirty days.

Mr. Miller: Thirty days at least. The presumption was at this time you would finally dispose of it and the regulation could be issued. Apparently, you have referred it to a committee. That committee is then to come here to Washington to talk with the Board, so that possibly we will have thirty days elapse before this thing is finished. It is not a difficult thing. The mails are open and we have provided telegraphic service, which we maintain at great expense, and we have had several of the banks connected by telephone. We have practically every facility that can be desired, and yet it seems that we never do anything unless a bundh of men come together, with the probability then that no definite action will be taken. I am inclined to think that if a single man were appointed to do this thing, to sit down with some representative of the Board, that this could be completed before the week was over. Otherwise, it will simply drift along.

Governor Harding: I would like to move that we reconsider the motion passed on yesterday, referring this matter to the committee on collections, and also move that it be referred to the chairman of that committee with power to act.

Governor Seay: Before the motion is put I would like to attempt to answer Dr. Miller. I believe the board realizes that there is no subject connected with Federal reserve banking which has as many ramifications as the collection business, that there are more angles to it than any other business transacted by the Federal reserve banks. It has been felt for a long time that in dealing with that business it was desirable to have a uniform practice among the Federal reserve banks, but the fact is there are different conditions existing in different districts, and it has happened, not once but several times, that in the formation of the collection circular one particularbank would desire to provide for certain conditions existing in its district, which did not exist in other districts. Now, if these exceptions are entertained and provided for there cannot be such a thing as uniformity, and it is only in an effort to bring about uniformity and to shape up a circular which would be acceptable to all the Federal reserve banks that the delay has been caused. It might be proper to say that this circular was believed to be pratically in its final form, that is, this regulation, as far as the opinions of the Governors were concerned, but it so happened that one Governor of a far southern bank, prompted by his counsel, thought that there ought to be a limitation in one of the provisions to provide for conditions which existed in his district, and he asked to be heard by counsel for the Board, I think. Those are the things which retard the putting into execution of this thing, that is to say, a desire to bring about absolute uniformity in the practice of the Federal Reserve banks in dealing with the collection business and in so forming the regulation that its various provisions as to meet the views of all, or at least to reach a stage where it can be acquiesced in, whether we fully agree with it or not.

Mr. Harrison: I think this statement might clarify the situation a little. At the last conference of Governors, which was in November of last year, it was voted to be the sense of the conference that it would be most desirable to issue a new Regulation J, and that recommendation was transmitted to the Reserve Board within a week after the action of the Conference. On March 8th of this year copy of proposed regulation J was forwarded to each Federal reserve bank for comment. So far as I know each reserve bank did send in its comments to the Federal Reserve Board, and the recommendation which is now before us for consideration is a regulation that was drafted from the March 8 one, which embodied many, if not all the suggestions received by the Board from the Federal reserve banks. The last copy, so far as I know, was not received by any of us until the latter part of April, I think about April 22nd, so that as a matter of fact it has not really been before us for a very long time, and it contains a lot of technical suggestions that were made by the various reserve banks as a result of the original or preliminary draft of March 8, that was sent to each reserve bank.

Governor Calkins: I would like to second Governor Harding's motion, and in doing so I would like to say that I see no reason whatever why this regulation could not be put in its final shape, if the resolution is adopted, within one or two days. The final draft of regulation J was received by the Federal Reserve Bank of San Francisco in a letter from the Secretary of this conference dated New York April 23rd, and reached San Francisco only two days before I left. There has been no delay on our part in making progress toward the completion of the regulation, and it is so far completed now that I can see no possible reason why the chairman of the Standing Committee on Collections and the Counsel of the Federal Reserve Board cannot put it in shape tomorrow.

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

Governor McDougal: Governor Crissinger states that there are other matters of importance concerning which the Board would like to confer with the Governors, and in that event of course we will have to have a meeting this afternoon. We are therefore, in position now, if you gentlemen see fit, to adjourn and meet again this afternoon.

(Whereupon, at 1 o'clock p. m., the Joint Conference of the Federal Reserve Board with Governors of the Federal Reserve Banks recessed until two o'clock p. m. of the same day.)
