

Mr. Albery

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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
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FEDERAL RESERVE BANKS.

Treasury Building,
Washington, D. C.,
Monday, November 3, 1925.

A Conference of Governors of the Federal Reserve Banks
convened in the Federal Reserve Board Conference Room, Treasury
Building, Washington, D. C., on Monday, November 3, 1925, at
10 o'clock a. m.

Present:

Benjamin Strong, Governor, Federal Reserve Bank
of New York, New York, N. Y. (Chairman).

W. P. G. Harding, Governor, Federal Reserve Bank
of Boston, Boston, Mass.

Geo. W. Norris, Governor, Federal Reserve Bank
of Philadelphia, Philadelphia, Pa.

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

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

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

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

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

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

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

Lynn P. Talley, Governor, Federal Reserve Bank
of Dallas, Dallas, Texas.

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

P R O C E E D I N G S

The Chairman: The meeting will kindly come to order. The first business possibly is to consider how this meeting may be conducted advantageously with reference to the Joint Conference. With regard to having a meeting of the Open Market Committee, I would like, if possible, before any of the topics are discussed on the program, to get the open Market Committee together to consider the report which has been distributed, so that when the Conference considers it it will have been acted upon by the Open Market Committee. As usual it was prepared before it was possible to have a meeting of the Committee. Would it suit your convenience to proceed with the program this morning, and immediately after lunch have a meeting of the Open Market Committee? Without objection we will pursue that course.

That will defer consideration of Topic 1-A and Topic 1-B, which brings us to 1-C, discussion of credit functions.

- C. Credit functions of the Federal Reserve banks. The Governors' discussion of this topic to be based on the report of the sub-committee of Deputy Governors designated to make a study of the bank examination and credit functions at the Federal Reserve Banks.

The report of that sub-committee has been distributed and each bank has been asked to submit its views to the Federal Reserve Board.

In order to start the discussion I want to say that the attitude of the officers of the Federal Reserve Bank of New York, who are familiar with the report, is generally that the Credit Department of the Federal Reserve Bank is substantially such as is required by large banks in a City like New York to enable us to pass on the credits that come to the bank and to enable us to do the work which is required for the other Reserve banks from whom we buy paper. The result of the examination of our department by this Committee has not been such as to convince us that any material change is desirable at the time. There is one small modification of our procedure suggested as a result of the Committee's report, and that is not worth discussing here.

We dissent from some of the recommendations of the Committee, among others the recommendation of abandoning furnishing of forms of credit statements for the member banks to use with their customers. We believe that the uniformity of forms which is now in use in our district,

and which are very widely used by the member banks, especially the country banks, and which cost us only about \$300 a year to furnish, results in the preparation of statements that really disclose the condition of borrowers better than if they prepared their own statement on their own form. When it comes to analyzing these statements the uniformity with which the figures are presented saves us a great deal of money, more than it costs us to furnish the forms. I think those are all the points brought out by Mr. Rounds.

Governor Young. It is my understanding of the report that the Committee arrived at the conclusion that the conditions are so different in the different districts that something that was applicable in one district was not in another; that certain economies could be affected through the operations of these departments, and I therefore move that the report be approved with the exception of furnishing statements. We feel that we should continue to furnish the statements gratuitously. I offer that as a motion.

The Chairman. That the report be approved with the exception of the recommendation with regard to the furnishing of uniform forms.

Governor.Calkins. It seems to me that this is a topic which might well be ~~discussed~~ at the Joint Conference, if there is to be one, as the Federal Reserve Agents seem to be very much interested in it. I am in full sympathy with the motion that Governor Young has offered. I think there is something to be said for the discontinuance of the forms, but it is a small matter, and I am not entirely convinced that discontinuing them will not cost more than continuing the use of them. There is really, in the answers of the Governors of the various banks who reviewed the report of this Committee, no serious disagreement. There is, however, a matter which seems to me should be cleared up somewhat, and a matter in regard to which the Federal Reserve Banks and the Federal Reserve Board should have an understanding, if not a policy. That question is contained in the comment made by the St. Louis Bank, I believe. It seems to me that in any discussion of this subject of examinations it is fundamental to decide just exactly the responsibility of the Federal Reserve System with regard to the supervision of member banks. It is a question of whether it is the duty of the Federal Reserve Banks to examine member banks

for credit purposes only, or for the purpose of assuring the public as to their solvency and proper management, in other words to establish more effective supervision of banking in the United States. Is it the duty of the Federal Reserve Banks to exercise a more effective supervision of banking in the United States, or is it the duty of the Federal Reserve Banks to conduct examinations for the purpose of their credit department which means, in other words, for their own protection? I think that is a very vital question, and one which should be in some way determined.

The Chairman. I understand that the Federal Reserve Board has submitted to the Federal Reserve Agents as one of the topics for their program, a proposal that the bank examination department of the Reserve Banks should extend the work of examining the banks within their districts beyond what is now being done, conduct more examinations and assume greater responsibility and supervision over the members. That work in almost all the Reserve Banks is done under the direction of the Reserve Agents, I understand. Do you want to add that as a subject for recommendation at this meeting?

Governor Calkins. It seems to me it is a subject

that should be discussed at this meeting preliminary to a discussion at the Joint Conference.

The Chairman. I have a suggestion from the Executive Committee of the Reserve Agents Conference recommending the following topics for the Joint program:

Discussion of the report of the Committee on Reserves.

Report of Bank and Public Relations Committee.

Discount policy.

Open Market Policy.

Policy of paying out gold.

Also the suggestion that the report of the Advisory Committee, of which Governor Seay is the Chairman, also be made a topic for the Joint Conference. If we wish further additions to the program of the Joint Conference we should include them now in a recommendation to Governor Crissinger. My recollection is, but I do not find any confirmation of it, that the Board requested a discussion of this report by the Governors Conference.

Governor Norris. The statement is ^{that} the Board hopes the Governors at their forthcoming conference will be prepared to submit a statement to the Board outlining the views of the Conference with reference to the ~~Report~~ of the

Committee on Credit Functions.

The Chairman. One is credit department work and the other is bank examinations.

Governor Calkins. They are both contained in the same report which we are now considering.

The Chairman. The status of the discussion is that Governor Young has made a motion expressing approval of the report with the exception of that part with regard to furnishing forms which is now under discussion. What is your recommendation, Governor Calkins?

Governor Calkins. I think my recommendation is a query as to whether this Conference finds itself in position to discuss the report before the meeting of the Joint Conference, where I assume it will be discussed. My recollection is the Board suggested it should be discussed by the Governors.

Governor Harding. Before the Committee orders a policy of more extended examinations than have been conducted heretofore, one thing should be considered by the banks wishing to put themselves in the attitude of assuming responsibility for the authority. The legislative history of the Federal Reserve Act shows that there are a good many

changes made in the structure of the Act while it was on its passage. I do not think there is anything in the Act that carries out very fully that clause in the short title to the Act to which Governor Calkins refers. As you know, the National banks are under the supervision directly of the Comptroller of the Currency, who is charged with the direct responsibility. His authority, so far as state banks are concerned, is covered in Section 9, which is very explicit in saying that they shall not be subject to the direction of the Comptroller of the Currency, but shall retain their charter rights and be subject to examination by the state superintendents in the various states. The examinations which have been conducted for credit purposes protect the Federal Reserve Bank, but do not carry with them a direct responsibility to the public. Now, if the Federal Reserve Banks, in view of the authority vested in the Comptroller of the Currency in the matter of intimate supervision of the banks, should undertake to assume that responsibility without authority, I think a very awkward situation is likely to arise.

Governor Calkins. Governor Harding's remarks are of the character which I intended to bring out. I am in

agreement with him. However, I think the one comment in the comment submitted by the Federal Reserve Agents, which calls for discussion, is the comment in regard to the question raised by Mr. Martin. There are various indications in the Act, Governor Harding, that it was the intention to have the Federal Reserve Banks exercise some supervision. The short title is one, and there are other references.

The Chairman. Does not that possibly refer specifically to the control which the Federal Reserve Board exercises over bank examinations, that reference in the short title?

Governor Calkins. My own opinion is that the Federal Reserve Banks should conduct all the examinations which they consider necessary for credit purposes and for their own protection, but that they should not assume responsibility for supervision or supervisory examination.

Governor Harding. The only control the Federal Reserve Board has over National bank examiners is to approve their salaries. Governor Strong will no doubt remember some of the discussions here in February, 1921, when some charges were made that the Federal Reserve Bank of New York had been very negligent in keeping its eyes

closed as to the condition of certain banks in New York City. We took the position that the member bank mentioned was under the supervision of the Comptroller of the Currency, and we relied on the reports of the examiners, and that we had nothing from the examiners to indicate any dangerous situation.

The Chairman. Furthermore that the Comptroller had violated the law in not making an examination of the bank, and a lot of other things. My position is absolutely unchanged on that, Governor Harding. We feel in New York that when we undertake the powers of supervision, as distinguished from credit examinations, we cannot attempt to exercise those powers by examining a few banks, but we will have to examine all of them.

Governor Harding. Yes.

The Chairman. If we undertake to examine all of them we at once voluntarily assume the additional responsibility.

Governor Harding. You assume the responsibility but have not got the final authority.

The Chairman. Our position in my mind is that if the responsibility rests upon the Comptroller and upon

the State Departments, we should not relieve them one iota of that responsibility, but should cooperate with them to the limit.

Governor Calkins. I agree to that.

Governor Young. I will add this to my resolution, that the examinations be confined to credit investigations only.

Governor Calkins. There is a different situation in some districts from that existing in New York. I suppose in the Western States generally that the state examination is not satisfactory. I agree that the responsibility is with the Comptroller and also with the state superintendent, but in some states it is impossible to accept the examination.

Governor Harding. In the Boston District, Rhode Island is not satisfactory. The Federal Reserve Agent makes examination for the Rhode Island Member Banks with their hearty cooperation and they pay the expense of having the examination conducted. For instance one bank paid us \$2500 for an examination and was anxious to have that examination made.

Governor McDougal. It appears to me we are drifting

away from the topic. We are asked to consider the Committee's report, that part of it relating to credit functions.

The Chairman. The topic was suggested by the Agents for the Joint Conference. It is only incidentally on our program as appearing in the topic as a part of the credit functions of the Reserve bank, and not as a recommendation for extending supervision. Why would it not be well to consider Governor Young's motion in two parts. With regard to the other matter Governor Calkins asked that it be taken up in order that we might have a discussion of it and have our position settled before the Joint Conference in case it is discussed there. Is that satisfactory to you, Governor Young?

Governor Young. Yes. I will make the first motion.

Governor Norris. I will second it.

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

The Chairman. Now the second motion is to the effect that the examination of member banks conducted by Federal Reserve Banks shall be confined to those described in the statute as credit examination.

Governor Norris. If that motion is adopted is it intended to cut out the kind of examination that Governor Harding has just spoken of which is made in Rhode Island?

Governor Harding. No.

Governor Norris. It would do so.

The Chairman. You might say except in cases where the state bank examination is not satisfactory.

Governor Young. I will make a motion that the examination be confined to credit investigation except in cases where state examinations are unsatisfactory.

Governor McDougal. I would like to suggest a modification of that motion: That it be confined to credit investigation except where the pending circumstances seem to make it necessary or advisable that a complete and thorough investigation be made.

Governor Harding. That covers certain National banks as well as state banks?

Governor McDougal. Yes.

Governor Young. I will submit the motion in the form suggested by Governor McDougal, and will withdraw the other motion.

Governor Norris. I will second that.

(The motion having been duly seconded was carried.)

Governor Wellborn. Did you pass the matter of the discussion of discount rates?

The Chairman. We passed that until after the meeting of the open Market Committee, Governor Wellborn. The next topic is I-D.

D. The recommendations contained in the report of the Committee on Member Bank Reserves.

Are you ready to discuss this topic? It was suggested by the Federal Reserve Board. You all have copies of the report of the Committee. Governor Seay, this is a matter you have been interested in.

Governor Seay. Mr. Chairman, the Committee, sometimes called the Committee on Legislative Proposals and sometimes the Advisory Committee, was asked to prepare a report for consideration of the Conference of Governors and the Conference of Agents. The report was considered at a meeting of the special committee on yesterday and certain conclusions were arrived at with reference to the major proposals in the report.

If it is desired I can give a resume of those conclusions. The major proposal of the Agents' Committee is to permit deduction from demand deposits of exchanges for

clearing houses, checks on other banks in the same place, and checks in process of collection, whether with Federal Reserve Banks or correspondent banks, according to the Federal Reserve Schedule of time required for the collection of checks.

With respect to that proposal there was a difference of opinion among the members of the Committee. The Committee consisted of six men. Three members of the Committee were opposed to permitting the deduction of checks in process of collection. Three members of the Committee favored the provision. Therefore there was an even division in the Committee with respect to that proposal.

With regard to the second proposal, to retain the provision of the law with regard to balances due to and due from, that provision was not discussed in detail, but there was general concurrence in that provision which prevails at the present time.

The third proposal of the Agents' Committee is to provide that the reserve required to be held against any balances due from banks be 10 per cent. The Committee has not completed its session. It had one session

yesterday morning. The Committee had before it a number of proposals with reference to the first McFadden Bill. They were so numerous that it was impossible to conclude the deliberations of the Committee within one session. It was determined that the Committee would have another meeting which, if it could not take place in the latter part of the day, might take place at night. I might say in that connection that if it is possible for this body to conclude its deliberations today say by 5 o'clock that would leave time for the Committee to get together and conclude its deliberations, which perhaps would not occupy more than an hour.

With respect to the provision about requiring a 10 per cent reserve against bankers' balances except those in New York City and Chicago, there was tentative approval, as I understand it -- isn't that your understanding, Governor Strong? Tentative approval -- it was not voted upon, but there was a firm disposition towards that proposal. The Committee had expressed itself as concurring in the general purposes of the proposals of the Committee of Agents, and I think concurred in the idea that there is a special hazard in carrying balances of bankers and there-

fore a special reserve against bankers' balances is a logical and reasonable provision. The fourth provision was to provide that reserves should be carried against Government deposits at the same rate as against current deposits. The conclusion of the Committee was that it was inexpedient to propose any amendment to the present law with respect to reserves against Government deposits.

The Chairman. I think that applies to the provision of 10 per cent, and as it would require legislation the conclusion of the Committee was generally that such changes as should now be attempted in the reserve provision should be those that were capable of being made by regulation, and that no legislation should be sought. Isn't that your understanding of it, Mr. Harrison?

Mr. Harrison. I was not present at the Committee discussions.

The Chairman. That has been the attitude of the Committee and is also the attitude of the Federal Reserve Agents who made these proposals.

Governor Seay. The formal conclusions of the Committee have not been arrived at or drawn up, but in the deliberations of the Committee the opinion was expressed that

it was perhaps inadvisable to put into effect any provision which might require Congressional action involving an amendment to the Federal Reserve Act. That in a way carried the 10 per cent provision, but I understood that was the feeling towards that provision in and of itself. With respect to the fourth provision it was definitely voted by the Committee that it would be inexpedient at the present time to propose any amendment to the existing law covering the reserves against Government deposits. That is about as far as the Committee went in connection with the report of the Committee of the Federal Reserve Agents. There are other matters which are not germane to the subject immediately under discussion, which the Committee considered, and which will come up at the proper time.

Governor Fancher. Was it the feeling of the Committee that the recommendations enumerated in paragraphs 1 and 2 could be carried out by a ruling of the Federal Reserve Board.

Governor Seay. The opinion of counsel of the Board was that deductions could not be legally made by a ruling of the Board.

Governor Calkins. In other words that the present

reserve requirements cannot be changed without legislation.

Governor Seay. Practically that. On all of these things with the exception of deduction of exchanges for clearing houses and checks on other banks in the same place, which are now made under a ruling by the Comptroller, I believe, the other proposals would require legislative action and the general feeling was that it was inexpedient to ask for legislative action at the present time.

The Chairman. There were reasons for the attitude taken by the Committee on all of these different things. They did, as I understand Governor Seay, take a vote on two other matters. One was in general opposition to taking currency shipments into account in computing reserves, as is now done in some banks, which we voted disapproval of, as I recall. The other was the establishment of currency depots, of which the Committee disapproved.

Governor Seay. That is correct, Governor Strong. There is another memorandum on this program which seems to involve a report of the Committee, and I had reserved that for further comment. The report of the Agents was coupled with several provisos, one of which was to the effect that if these provisions were adopted then the

present practice among some reserve banks of making allowances in calculating penalties upon deficient reserves for shipments of currency, be abandoned. Another was that if the report of the Committee was adopted, and if the establishment of currency depots was recognized, then banks and cities where currency depots were established should be required to keep 10 per cent reserve.

The Chairman. As to this first item my recollection of the development of the scheme of deducting due from banks from the item due to banks arose from the fact that the general scheme of the National Bank Act provided for the redeposit of reserves between National Banks themselves and there were many offsetting accounts. One account was permitted to offset the other in calculating reserves.

Then a ruling was made many years ago by the Comptroller of the Currency which permitted a bank to consider as a part of the deduction cash items in process of collection. As a result of that ruling checks on other banks were considered to be an item due from banks and that operated always to the advantage of the city banks because they had an item due to banks from which this de-

duction was capable of being made. It operates to the disadvantage of the country banks because the country banks have no bank accounts on their books from which the deduction could be made. Consequently they had no means of deducting checks in process from gross deposits in making calculations. Now they come forward and say "Give us this advantage which the city banks enjoy".

Mr. Curtiss, as Chairman of the Committee, has calculated that to give them that privilege of making deductions from gross deposits of items payable in process of collection would effect a reduction of \$42,000,000 in the reserves. I took the position with Governor Seay, and one other member of the Committee, whom I think was Governor Harding, that it was inadvisable at the present time to recommend any change which would affect a reduction in the reserves of the country at a time when they were possibly redundant, and when the possibilities of credit expansion were always in front of us. Furthermore I took the position that the original ruling which permitted the reduction of a check from gross deposits on the theory that it was an item due from banks, was incorrect, that the ruling was not

justified, and to extend that ruling to the country banks was the extension of an unwise and possibly an unjustified interpretation of the law.

Governor Harding. I think it was Governor Talley who took that position.

The Chairman. I am not prepared to take any position as to a legal interpretation of what the item "due from banks" should consist of. But in general I am opposed to anything which affects any considerable reduction in the reserve requirements at the present time.

Another argument advanced by other people at the meeting was that this was not a very large matter, that it would be doing something for the country banks for which they were clamoring, that it appeared to correct an existing inequality in the calculation of reserves which operates to the disadvantage of the country banks. Furthermore that the city banks gained a great advantage when the reserve requirements were reduced because they did not have to carry any till money to speak of; that they have the Federal Reserve Bank around the corner, and that the city banks in fact are carrying not over 1 per cent till money,

whereas the country banks are carrying pretty close to 5 per cent in till money.

Those were the various arguments presented, were they not, Governor Seay?

Governor Seay. Yes. My feeling was they did not like to see the reserve requirements reduced just now, and that particular part of the recommendation failed because it was a tie vote. Is it the desire of the Conference to vote on these recommendations as they appear in the report, because if so when a motion is made we can dispatch this subject.

Governor McDougal. I would move that in view of the fact that the discussion on this subject has not disclosed any sound reasons warranting the reduction in reserves, and in view of there being no urgent demand for the same, that nothing be done at this time to bring about a modification of the reserve requirements through legislation.

The Chairman. But I think there is a demand for it. I omitted to mention one material fact in this connection, which I understand is a fact, Mr. Harrison, and that is that Mr. Wyatt has rendered an opinion to the Board that the Board has no power by regulation, under the law, to

permit this deduction from gross deposits by country banks.

Mr. Harrison. Yes, I think that is correct and Governor Seay reported that.

Governor Seay. We did not have a formal report, but we had the statement that counsel for the Board had given that opinion to the Board.

The Chairman. Then the motion by Governor McDougal is that the discussion has developed no material reasons to justify a reduction in the reserve requirements at the present time, and he moves that this recommendation be disapproved.

Governor Norris. Is that intended to dispose of that one particular recommendation, or the whole subject?

The Chairman. Just that one, the one permitting deduction of checks.

Governor McDougal. My motion was intended to cover the whole situation, Mr. Chairman, that no modification of the present reserve requirements be considered at this time which would require legislation.

The Chairman. That is a little different from what I understood you to say.

Governor Calkins. I understand from Governor

McDougal that he withdraws from his motion the statement that there is no demand.

Governor McDougal. I did not say there had been no demand. I said that this discussion failed to disclose any urgent demand for it.

Governor Seay. Is that resolution, Governor McDougal, as you have elaborated it, the one that you now propose?

Governor McDougal. Yes.

Governor Wellborn. I will second the motion.

Mr. Harrison. As I understand the motion it is that there has been no sound reason disclosed to reduce the present requirements and that no changes in reserve requirement should be made which require an amendment to the law.

Governor Fancher. If that resolution is carried in the form offered it is taking rather a hard crack at the Committee.

The Chairman. Why don't we act on the one thing we are discussing at the moment, the reduction of checks in process of collection. It occurs to me that in view of the fact that it is going to require legislation to put any of the recommendations into effect that we should

dispose of the report in that way and not go into a detailed discussion. If we are in agreement that it is not advisable to attempt any changes in the reserve requirement which require legislation, why cannot the whole matter stand as it is.

Governor Seay. Three or four of the major proposals of the Committee would require legislative action.

Governor Fancher. Is it advisable to make any recommendation that would require legislative procedure?

The Chairman. The only one that would not require it is the second proposition, "Retain the present provision of the law that the net difference of amounts due to and due from other banks" shall be taken as a basis of ascertaining the net amount of balances due to banks.

Governor Harding. Aren't there two questions involved? First, are there any changes desirable by legislation, and then if we find legislation is necessary it should be referred to the Board, and it is up to the Board to determine whether or not they want to try to get the legislation.

Governor McDougal. I will withdraw my motion,
Mr. Chairman.

Governor Harding. I should think that we ought to vote on the proposition on its merits, but I have no resolution to offer.

The Chairman. It seems to me that in view of the fact that there has been a Committee of Federal Reserve Agents which has worked on this matter a long time, that we should consider it carefully. They have made certain specific recommendations after a great deal of correspondence and careful study. Then for us to come here, and, after a few minutes of deliberation turn the proposition down, it seems to me to indicate that we are not giving it much consideration. I do not think we ought to turn it down merely because it will require legislation to put it into effect. We are not the ones to get legislation. If it seems to be a good recommendation we should vote for it and if it is a bad recommendation we should vote against it. The question of legislation is after all up to the Federal Reserve Board.

Governor Wellborn. We have seen this report. So far as we are concerned we do not think there ought to be any change in the reserve requirement and we would not like to see any. Therefore I am prepared to vote against

any change whatever in the reserve requirement. I do not think there is much agitation among the member banks, certainly not in our district, because they have all gotten accustomed to the present methods of keeping reserves.

Governor Norris. If I have understood Governor Seay correctly, the Committee of Governors, of which he is Chairman, has not concluded its consideration of this matter?

Governor Seay. They have concluded their deliberations upon this particular subject.

Governor Norris. That is this particular point in the whole subject?

Governor Seay. This particular point. The matters concerning which they have not concluded their consideration relate to amendment chiefly to the National Bank Act involved in the McFadden Bill and do not involve reserves. The Committee continued its deliberations and came to a conclusion upon the question of reserves, which conclusion I have endeavored to express. The Committee has not yet finished discussing the other matters.

Governor Harding. A conclusion was reached on one point resulting in a tie vote, which was with respect

to deduction of checks in process of collection with Federal Reserve Banks and with their member banks.

Governor Norris. Is what you have just given us this morning a report of the Committee, or is it an informal statement of the conclusions that the Committee has reached up to date?

Governor Seay. A stenographic report of the opinions held by the Committee will be made to the Reserve Board.

The Chairman. Governor Seay's report from the Advisory Committee is on the program to be considered later and will cover other matters than reserves. This particular topic relates to the report of the Agents' Committee on reserves, which the Legislative Committee was also considering. We are asked to consider this by the Federal Reserve Board as separate from the report of the Legislative Committee.

Governor Norris. And then there is the report of the Advisory Committee.

The Chairman. It is the same thing. It is the Legislative Committee, sometimes so-called, and at other times the Advisory Committee. It is all one committee. I might also state that the Committee did not consider

this subject until it arrived in Washington, when it then learned that the matter had been referred to it by the Reserve Board.

I think this discussion can be clarified by what Governor Harding said about the treatment of the report of the Agents' Committee. In the first place the proposal to deduct checks in process of collection has, in a measure, been disposed of by this fact, that the Agents' Committee unanimously voted to recommend no changes in the reserve requirements which involved changes in the law; that the counsel for the Federal Reserve Board has advised that a change in respect to deducting checks in process of collection could not be made without changing the law. Therefore we are considering a report on which we are uniformly advised that the question of amendments to the law have been disposed of by the Agents' Conference, which does not recommend any changes. That takes care of items 1, 3 and 4 of their recommendations because they would require amendments to the law. Item No. 2 is simply a recommendation that the status quo be preserved without any change being made.

Governor Harding. Then why can't we have a resolu-

tion that we agree with the Agents that no changes in reserve requirements be attempted which would involve any change in the law.

Governor McDougal. That is exactly what I have in mind, Governor Harding. The Agents recommended this and then said that they did not want to put it into effect if it requires any change in existing law, and we would be perfectly consistent in following the same course.

Governor Young. If that is offered as a motion I will second it.

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

The Chairman. Now, do you wish to consider certain topics touched upon in the body of the report, which are not recommendations requiring legislation, for instance, "adjusted credit and debts to member banks for currency shipments"; "currency depots"; "classification of outlying districts of reserve or central reserve cities"; "segregation of savings deposits"; "reserve against time and saving deposits"; and so on. Most of these have already been dealt with by previous conferences. We have acted on them and expressed our views, I think almost without exception.

Governor Norris. I suggest if any member of this Conference wishes any of these subjects brought up that he mention the one he wishes to have discussed.

Governor Seay. The Board seems to ask that the recommendations contained in the report of the Agents' Committee be considered by this body, and it would appear that the Board desires an expression of our views upon these recommendations. It is true that upon most of them this body has heretofore expressed its position, but they have never before appeared before us in such concrete form, item by item, as they appear in this report.

As stated, the Agents make four major proposals which have been enumerated, and further on in their report you will find the heading "adjusted credits and debits to member banks for currency shipment". With regard to that the Committee recommends that if and when the proposed deduction from demand deposits of checks in process of collection becomes effective, the process of adjusting credits and debits to member banks for currency shipments be discontinued.

That is a recommendation of the Committee upon which we may vote or not vote, as may seem desirable.

Governor Norris. Their recommendation has a condition precedent that has not come into existence.

Governor Seay. The Committee, however, in the first line which reviews that subject, states: "The Committee does not favor the practice of the Federal Reserve Banks deferring charges in member banks' reserve accounts for shipments of currency to member banks until sufficient time has elapsed for such shipments to arrive, nor of allowing credit for shipments from the bank as of the date on which the shipments were made."

Governor Norris. I think we took a vote on that once and it was six to six.

Governor Seay. Then with respect to currency depots, the Committee says, "The Committee doubts the expediency of establishing currency depots, and recommends that where such depots are or may be established the reserve requirements of the member banks in the currency depot city be increased to the equivalent of the requirements for member banks and Federal Reserve Bank or branch cities (other than New York City and Chicago)."

Governor Norris. That would require legislation.

Governor Harding. No, because the Board could make

them reserve cities if it so desires. It would first have to make them reserve cities.

The Chairman. Now gentlemen, Governor Seay has discussed this, and he is required, under the rules of procedure of this body, to submit a resolution. I think the history of this particular topic is that we defeated it by a six to six vote, that is with regard to the proposal for currency depots, and we now find that there are seven reserve banks that have established currency depots and five that have not.

Mr. Harrison. Seven who have permitted currency in transit to count as reserve.

The Chairman. That is what I mean, that seven are allowing currency in transit as calculating reserves.

Governor Seay. And that being so in the face of ~~dis~~ approval, in principle, by the Chief Executive of one of the banks, the one with which I am connected.

The Chairman. This topic will be passed unless further action is suggested.

Governor Norris. With regard to currency depots, I would like to be informed as to the logic of that recommendation. It looks to me like a mere proposal to arbitrarily

penalize a place for having secured a certain convenience. Why the fact that banks in a certain city can get money quicker than they otherwise could get it are required to keep a larger reserve, is something I do not see.

The Chairman. Possibly that can be explained in this way: That where no currency depot is established the banks there, in order to meet the local demand for currency, have to carry a certain amount of till money and if you have to ship currency that will at once reduce the amount of the till money, and the proposition is to have these currency depots that affect an actual reduction in reserves -- not legal reserves, but practically in the reserve position. That is my understanding of it. What is your resolution, Governor Norris?

Governor Wellborn. I agree with Governor Norris. I do not see any necessity for increasing reserve requirement where they have a money depot. There is no necessity for it because they have their money there on hand to take care of an emergency.

The Chairman. What is your resolution, Governor Wellborn?

Governor Seay. The argument was something along this

line, as I understand it. That the opening of currency depots gives to banks in the place in which one may be located an advantage over other places in which there are no currency depots, and would have the effect of lowering their working reserves, if not their legal reserves; that it might lead to a spread of demand for currency depots which would place the Federal Reserve Banks in a position of not being able to defend themselves against the criticism of discrimination if they opened one in one place and did not open one in another. Furthermore it takes the custody of currency to some extent out of the hands of the reserve banks. It leaves them spread here and there over the country, some part of which currency may be in the form of legal reserve; it would permit the member bank to adjust its reserves through the medium of the depot.

The Chairman. My objection to the currency depot idea is that it is an attempt to cure inequalities caused by distance and time that are incapable of being cured by that method. There would be no limit to the extension of this theory of currency depots throughout the country. If it is proper to put one in Scranton it is just as proper to put one in Syracuse, and so on indefinitely. If that should

be done we would have funds scattered, reserve money and reserve notes, and possibly hundreds of towns and cities in the country incapable of the kind of protection that is really required, and the result would be at once to precipitate with the reserve banks deposit of this unnecessary till money and very greatly increase the reserves of the System, reducing the working cash of the member banks, and at the same time have them rely for their supplies upon the unissued Federal reserve notes in the vaults in their neighborhood. I do not think it is a sound procedure. It does not cure the difficulty. It possibly makes it worse so far as the question of equality is concerned. I have always been opposed to it. We have not done it in our district, although there are those in the bank who think we should do it.

Governor Calkins. If you undertake to establish currency depots there is no place at which the line can be drawn. The only means of determining whether one shall be established or not is the arbitrary ruling of some individual Federal Reserve Bank and, as the Chairman has pointed out, the logical development would be that we would have hundreds of currency stations throughout the

United States.

The Chairman. The situation in Germany is illustrative of this matter. For sometime Germany has been to a great extent a currency using country. Checks are almost out of business in Germany now because of the settlement of accounts are effected through the Giro System, which does not involve the use of checks. Accounts are settled by the use of bank notes and that being the case the Reichsbank has found it necessary to extend its organization into every part of Germany. As a matter of fact they have 450 branches in that small country. The theory on which the Reichsbank extends these facilities to the public is that it must have all the facilities of the Reichsbank, and they should establish offices where they are capable of performing all the functions required by the public in Germany. It is a complete extension of the branch system in Germany even to the smallest town. We could not do that in this country. There are some districts in the Reserve System where the development of that theory would require the establishment of as many branches of that reserve Bank as the Reichsbank has for all of Germany. We might have 10,000 branches in this country. Once this thing begins to creep upon

us we would not know where it was going to stop. My belief is that the present system is absolutely sound, that of establishing branches where we perform all of our functions and reduce the areas of inconvenience as much as it is safe to do it. Gradually, as more branches are established, these areas of inconvenience will again be reduced and the big cities will be serving all the contiguous territory. That is the only way in which the functions of the Reserve Bank should be extended throughout the country. These currency depots are unsound, unwise and represent a development in branch banking for which we are not ready.

Governor Norris. I believe it was in our district that a currency depot was first established. I might say that we did not agree to the establishment of it without realizing that the plan was open to all the objections that you have just stated. We not only realized it ourselves, but we called it to the attention of the Federal Reserve Board and we submitted the proposition to the Federal Reserve Board for their approval or disapproval. The agreement, of course, gives us authority to cancel the arrangement on an hour's notice, or its equivalent, and we have regarded it as experimental, and do still. Since we established

this first one several years ago in Scranton we have only had one application for any other depots, one, which we established at Johnstown in the western part of the State. We have the same limit on that one, in that we require the bank that has custody of the money to assume the whole expense of operating it and to deposit with us collateral in excess of the value of the currency that we deposit with them and have in their custody. Those two things would deter any bank in any small place where there wasn't a real demand for a depot from asking for it. As a matter of fact, as I say, we have never had but one other application, and that we anticipated at the start. It was a logical place for the creation of such a depot, and the application came. We have never had a request for another. It saves us in shipments of all kinds of currency a considerable amount of money each year. It is not a thing that we did simply for the convenience of the member banks or of the community in which the member bank was located. We would not have done it if we had not felt that it carried with it an advantage quite as great for us as the advantage to them. So far we have been getting that ad-

vantage. We have two of them and I cannot see that any harm has been done. I am perfectly free to admit that, as time goes on, harm may develop and there might develop such a cry for them that they might become in some way objectionable so that we will want to stop them and to cancel the agreement we already have. But so far I cannot see that any harm has been done, but on the other hand a very great convenience and saving has been effected.

The Chairman. There are other objections to this which we have never developed extensively in New York because we do not intend to establish these depots ourselves. We do not want to interfere with the other districts in doing what they please about it, but we want you to consider this: In the first place when you deposit currency in a depot and take security for it you relieve the banks of that neighborhood of the necessity of carrying cash which they otherwise would carry in their tills and you are making a potential loan to the banks. When you do that you are reducing the demand for currency in the country, and when you reduce the demand for currency in the country you eliminate one of the greatest checks to inflation that we have. That is to say in the latter stages of inflation the one thing that

checks it up is an increased demand for currency and when you reduce, by that method, the need for currency, you are in effect making loans without interest to your members in order to save them the need of having that currency for which otherwise they would have to borrow 100 per cent of their needs, and if that process was extended by every reserve bank throughout the country they would reduce the currency requirement for the country and increase the potentiality and possibility of expansion by an enormous amount. It has not gone far enough, of course, for any such thing to develop, but nevertheless there is that possibility in it. That is one reason why we were rather uneasy about the development in New York, lest it spread too rapidly.

Governor Calkins. I would like to ask Governor Norris what argument has been, or can be, advanced in support of a demand for a currency depot, that does not apply and would not apply to a demand for a branch bank?

Governor Young. I would like to answer that.

Governor Calkins. I would like to have Governor Norris' answer first, because he is the one who started it.

Governor Norris. I will be glad to yield the floor

to Governor Young.

Governor Young. I do not think there is any occasion for it for any bank that is within 12 or 16 hours of the parent office. The situation in Montana --

Governor Calkins. Pardon me if I interrupt, but that is the reason I wanted to hear from Governor Norris, because your situations are not comparable.

The Chairman. The Chair, by a time-honored resolution has had the right to terminate a discussion in the interest of progress. We have discussed this matter at great length, and the question is what action do we desire to take on this recommendation in this report.

Governor Seay. I will move that it is the sense of this conference that it is in agreement with the opinion expressed by the Federal Reserve Agents in their report, that the establishment of currency depots is at least a doubtful expediency.

Governor Talley. I will second that.

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

The Chairman. The next subject is classification of outlying districts of reserve or central reserve cities.

Governor Norris. That seems to me to be locking the stable door after the horse has been stolen.

~~Governor Seay.~~ The Committee believes that the presumption should be against granting reduction of reserves to outlying sections within municipal limits of central reserve or reserve cities. That is because they appear to be generally of the character of the country bank rather than of the metropolitan bank. There are cases where such reduction is justifiable, and such cases should be determined upon an investigation of the character of the individual bank or banks making application for reduced reserves.

Governor Seay. I move that this Conference concur in the view expressed by the Committee.

Governor Young. I will second that.

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

The Chairman. The next subject is segregation of savings deposits. That is disposed of by the former resolution, as that would require legislation.

The next is reserve against time and savings deposits, and the conclusion of the Committee is that the present requirement is adequate and should not be changed.

Governor Wellborn. In that connection I would like

to call attention to the letter to Mr. Jay from Governor Crissinger.

(The letter referred to is as follows:)

"FEDERAL RESERVE BOARD

Washington

October 15, 1925.

Dear Mr. Jay:

At the meeting of the Board a day or two ago, a discussion arose as to the desirability of having an alternative or optional reserve requirement for deposits in the savings departments of member banks which might like to segregate the assets of the savings departments and invest such assets in securities of certain kinds. The thought was expressed that Congress might be asked to amend the Federal Reserve Act by providing alternative or optional reserve requirements for savings departments: (1) That member banks shall be required to carry with their Federal reserve banks 3 per centum of their time deposits including savings deposits, which is the present requirement, or (2) that all member banks which segregate the deposits of their savings departments and invest such deposits in certain kinds of investments under specifications and regulations to be

promulgated by the Federal Reserve Board, shall be permitted in lieu of the present requirement to carry a reserve of 2 per cent only say, or possibly an even lower percentage. Member banks would not, of course, be compelled to segregate savings deposits and invest them in a certain way, although it might be desirable to have savings deposits segregated in all classes of banks. The matter could be made entirely optional. If a member bank did not elect to segregate savings deposits and invest in certain approved securities, it would have to comply with the present reserve requirements but if the member bank should elect to segregate and make approved investments, then the lower reserve requirement for savings deposits would apply.

The Board would like to have the matter discussed by the separate Agents and Governors Conferences, to be followed by a discussion at the Joint Session. You are requested to place the topic on the Agents' program and also have Mr. Harrison place it on the Governors' program and see that it is given a place on the program for the Joint Conference.

Very truly yours,

(Sgd) D.R. Crissinger,
Governor."

The Chairman. You have heard the Board's letter suggesting an alternative. This would require legislation.

Governor Wellborn. Is there any demand for it that you know of?

The Chairman. I think there is no demand among the banks. I think there might be a demand from depositors in the banks who have not the segregation if they realize the disadvantage under which it places them compared to those that have demand deposits in those banks.

Governor Seay. The final sentence of the recommendation of the report of the Committee on this subject is as follows: "The Committee suggests that this subject be referred to the Committee on Legislative matters for its consideration", and I have already stated that that report is not yet prepared.

The Chairman. Governor Crissinger's letter to Mr. Jay asked that we discuss this proposal separately at the two Conferences and then have it on the Joint program.

Governor Seay. I was just coming to this point, in making this explanatory statement, that Professor Sprague, who has been associated with the Committee in

its consideration of legislative matters, has been traveling over the country, has visited several of the Federal Reserve districts, and one subject which was very dear to his heart apparently was this question of the segregation of savings deposits. He has advised me that as much as he is disposed towards segregation he believes that it will be wholly impracticable to bring it about at the present time owing to the varying laws in the different states, and he does not believe that the proposal to segregate savings deposits or to segregate assets of the banking corporations to secure savings deposits could be made very complete at the present time.

Governor Wellborn. It would be optional with the bank anyway, whether they wanted to do that.

Governor Seay. This is just with reference to the whole subject of the proposal, by legislation or otherwise, and the letter from Governor Crissinger presents the matter in a new light.

The Chairman. Inasmuch as legislation is required to segregate, as proposed in the report of the Committee on reserves, we are not really called upon to act upon that recommendation in the report. We are asked to discuss the

alternative proposal in Governor Crissinger's letter, which nevertheless does involve legislation, and which is that the Act be amended to provide that when a bank voluntarily sets up a segregation of assets to secure savings deposits it may then be permitted to carry only a 2 per cent reserve instead of the 3 per cent reserve against those deposits.

Governor Seay. If the aim be to give greater security to the vast majority of the depositing public, that is depositors in country member banks, I cannot see how this would get us anywhere. The country member banks pay very high interest on a large proportion of their deposits, about half, and therefore it would require an investment in securities, other than standard securities, I believe, to produce an income to offset what they pay. I do not believe that many country banks would avail themselves of that or could avail themselves of it. It would be availed of by our city banks only and would not get us anywhere.

The Chairman. I think the proposal under consideration, Governor Seay, was not to impose restrictions upon the amount of investments necessary made by these savings funds by the bank but rather to require the bank by law to set aside out of their assets those loans which they generally

class as secured loans which would include mortgage loans of course, giving the savings depositor the benefit of a class of loans where they have the real percentage behind them, as distinguished from the ordinary note which the farmer or merchant gives to the country bank on borrowing.

Governor Harding. Under the laws of the New England States, most of them, and in Massachusetts, the State Law requires trust companies that have savings departments to segregate the savings deposits and to invest them only in certain specific ways. Some years ago there was considerable wild-cat banking in Boston, and a number of trust companies sprung up and failed. The history of those concerns has been almost uniformly that the savings depositors were paid in full and that such losses as occurred were taken by the ordinary depositors. We have a number of eligible trust companies which have been considering coming into the System and they are deterred for the reason that they would have to carry 3 per cent reserve against their savings deposits, which they could invest only in certain ways, and we also have one or two considering withdrawing for the reason that the cost is excessive. We had one withdrawal

in New Haven last year for that reason. If that law should be changed so as to provide that any national bank or any state bank which shall desire, under regulations issued by the Federal Reserve Board, to segregate its savings deposits and invest them only in certain ways, could secure the benefit of a 2 per cent reserve -- or going a little further, and providing also that any member bank which was required by law to segregate its savings deposits and invest them only in certain ways could get the benefit of the 2 per cent reserve, the effect on the Federal Reserve Bank in the New England District would be distinctly beneficial. Of course I realize that conditions in New England are not comparable at all to conditions in other sections of the country. / Has any one any action to propose with regard to the letter of October 15th, 1925, suggesting this alternative plan?

Governor Seay. Mr. Chairman, that seems to have the effect of reducing quite materially the reserve deposits.

The Chairman. Yes.

Governor Seay. It would be a step toward further inflation also and would have to be considered from that point of view. Everything that has been proposed, so far

as I can recall, since the Federal Reserve System has been established, in that connection, has been something which tends to reduce reserve requirements -- whittling, whittling, whittling. We know that the country banks classify a large proportion of their deposits as time deposits for the purpose of getting a low reserve. We should consider that point also in considering this proposal.

The Chairman. Is there a resolution? If not we will pass the matter.

Governor Seay. It seems to me perhaps we are sidestepping some of these things which are referred to us for recommendation, and if you will permit me to return to that subject I would move that it is the sense of this conference that such a move is inadvisable at the present time.

Governor McDougal. I will second that motion.

Governor Fancher. Would Governor Seay object to embodying in his motion the statement that we believe in anything looking to the greater protection of saving depositors in commercial banks would be advisable, that is that while we agree that it is desirable to protect the savings depositors of the country we feel that no step which would lower the present required reserve would be desirable.

Governor McDougal. I will second that motion.

(The motion having been duly seconded was carried.)

Governor Harding. I would like to be recorded as not voting.

Governor Calkins. I would like to follow Governor Harding's lead and be recorded as not voting.

The Chairman. Mr. Harrison has a report to make in regard to the action of the Federal Reserve Agents in this matter of reserves.

Mr. Harrison. Inasmuch as the preliminary or first part of the action taken in this conference on the Reserve Committee's report was predicated upon the assumption that the Agents had voted not to ask for any changes in reserve requirements which would require legislation, I have just had a discussion with Mr. Martin who tells me that the status in the Agents' Conference at the present time is this: That they have considered the above report and your approval of all the purposes to be accomplished; that they would like to see the recommendations adopted, but that they do not favor request for legislation at this time, if there is any likelihood of the re-charter question being raised in Congress. But if there is no

likelihood of that question coming up at this time they think that now is as good a time as any to advance the recommendations of the Agents' Committee.

Furthermore they have an entirely independent resolution which, entirely regardless of the question of law, they would like to urge upon the Federal Reserve Board, and that is the advisability of adopting recommendation No. 1, to deduct checks in process of collection, by a ruling of the Board, on the theory that they do not believe it is against the law.

The Chairman. Mr. Harrison brings out the fact that the action of the Agents' Conference was really a conditional action, disapproving an effort to get legislation if the question of rechartering should come up, but approving it if it did not.

Mr. Harrison. On the first question, deduction of checks in process of collection, the Agents are of the opinion that legislation is not necessary and that the Board might properly be asked to adopt that recommendation by a ruling rather than by legislation.

The Chairman. In view of the fact that the rechartering is an open question now, and nobody knows

whether it will come up -- my guess is that it is not going to come up now.

Mr. Harrison. The vote on legislation is in the nature of a concurrence with the vote taken by the Agents' Conference, but I wanted to be sure that the two are not tacked together, because as a matter of fact they have not taken that action definitely.

The Chairman. It simply raises the question here whether we want to discuss these four points on their merits.

Governor Wellborn. How would it do to refer this to a committee. The Agents have made a report. If this report is referred to a similar committee of the Governors we would then be giving the report due consideration?

The Chairman. Refer it to the Legislative Committee?

Governor Wellborn. Or some similar committee.

Governor Seay. It has been referred to the Committee, but it has also been referred definitely to this Conference and to the Agents' Conference, in fact to all three bodies.

The Chairman. Have you a resolution to offer Governor Wellborn?

Governor Wellborn. I do not care to offer a resolu-

tion because I do not want to see the reserve requirement changed at all.

The Chairman. Do you desire to discuss these points on the merits?

Governor Wellborn. I believe they should be discussed on the merits.

The Chairman. Let us take them up after we have finished with the other topics here. On page 12:

ENABLING ACTS IN STATES

Governor Wellborn. Have you overlooked the one at the bottom of page 11, which refers to segregation, but is treated separately?

The Chairman. We passed that because no resolution was offered.

Governor Seay. The statement by the Committee is "The reserve against time deposits should not be lower than 3 per cent."

The Chairman. Following the discussion we took the position that that would require legislation to change it, and the only thing to consider was a letter of the Board dated October 15th, 1925, addressed to Mr. Jay. When we discussed that letter I asked for a resolution, and no

resolution was forthcoming, and we passed it. That is the record as it now stands.

Mr. Harrison. The resolution with regard to Governor Crissinger's letter to Mr. Jay was adopted, with two Governors recorded as not voting.

The Chairman. That is correct. Now with regard to the next subject, Enabling Acts in States, will some one offer a resolution?

Governor Young. I move that the recommendation of the Committee be approved.

Governor Seay. Seconded.

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

The Chairman. The next subject is "Restrictions concerning loans and dividends when reserve is deficient".

I will report that the Legislative Committee disapproved of the recommendations of Professor Sprague that this Section of the National Bank Act be repealed. We were unanimous in that, were we not, Governor Seay?

Governor Seay. Yes, we were unanimous.

The Chairman. It was felt that it was a wholesome provision and would act as a restraint on unauthorized loans and so forth.

Governor Norris. The concluding sentence of the report on that subject is "The Committee believes that the Federal Reserve Act should be amended to make this provision less onerous and suggests that the subject be referred to the Committee on Legislative Matters."

The Chairman. The Committee on Legislative Matters considered that and it was felt by the Committee, and it so recommended that the statute should remain unchanged.

Governor Norris. You refer to our Legislative Committee?

The Chairman. Yes.

Governor Fancher. And that Committee will ^{so} report in their report to the Conference?

The Chairman. Yes.

Governor Norris. I move that we heartily concur in the conclusions of the Legislative Committee on that matter.

Governor Biggs. I will second that motion.

(The motion having been duly seconded was carried.)

The Chairman. We will now go back and take up Nos. 1, 2, 3, and 4 and discuss them on their merits.

No. 1 is permit the deduction from demand deposits of (a) exchanges for clearing houses, (b) checks on other

banks in the same place, and (c) checks in process of collection (whether with Federal Reserve banks or correspondent banks) according to Federal Reserve schedule of time required for collection of checks.

Governor Norris. I move it is the sense of the Conference that this recommendation is inconsistent with the principles for which the system has been contending, that a check is an item for collection and is not a balance due from a bank and that we accordingly recommend that this proposal be not adopted.

Governor Calkins. I will second that.

(The motion having been duly seconded was carried.)

The Chairman. Item 2 is "retain the present provisions of the law that 'the net difference of amounts due to and from other banks' shall be taken as the basis of ascertaining the net amount of balances due to banks."

Governor Fancher. I move that we concur in that recommendation.

Governor Norris. I second that motion.

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

The Chairman. Item 3 is "Provide that the reserve required to be held against net balances due to banks be 10

per cent for all member banks except those in New York City and Chicago. This involves an increase of the present requirements of 7 percent for country banks.

Governor Seay. I move that this Conference agrees with the principle of this proposal, but inasmuch as it will require legislation, it would not be advisable to seek an amendment at the present time.

Governor McDougal. I will second that.

(The motion having been duly seconded was carried.)

The Chairman. The 4th proposal is "Provide that reserve shall be carried against Government deposits at the same rate as against demand deposits."

The question appears to be this: Some hold that notwithstanding that Government deposits are secured deposits they nevertheless are withdrawn twice a week I believe it is now, and that there is no more reason for exempting them from having reserves than any other deposit. The other point of view is that the Treasury has established a practice of selling their securities which results in deposits which have a certain value; that the amount of deposits carried by the Reserve banks and their member banks has now

been reduced to a minimum, with reserve requirements of the country as a whole adjusted, that it would involve some inconvenience and possible loss to the Treasury to make this change and it is not justified at a time when the bank balances of the Treasury run down. Mr. Winston has stated I believe, although not to me, that he believes in the principle of strengthening the reserve positions of the country, including matters which may effect the Government adversely, but that this particular matter he does not think we are justified now in effecting a change, that the importance of the subject has declined to a point where it is not really required.

Governor Harding. This would require legislation anyhow.

The Chairman. It would require legislation.

Governor McDougal. Are Government deposits exempt under the law at present from reserve requirements?

Governor Young. Yes.

Governor Norris. My understanding is that we have taken these questions up now for the purpose of expressing our feeling with regard to them leaving it to the Reserve Board or to some other authority to decide whether any

effort shall be made to get legislation in cases where legislation is required, or whether no efforts shall be made. If I understand it correctly the purpose for which we have taken them up is to express our opinion, and I move that we approve of the recommendation that Government deposits be required to have reserves.

Governor Seay. I will second that.

(The motion having been duly seconded was carried.)

The Chairman. That disposes of the report of the Federal Reserve Agents' Committee on Member Bank Reserves.

The next topic is 1-E.

- E. Advisability of an arrangement whereby the Reserve banks would report chronic cases of reserve deficiency to the Superintendents of banks in the various states and to the Comptroller of the Currency, etc.

Governor McDougal. On that subject I would like to report that in Chicago we have for some time past been working in conjunction with the State Department with a view to securing their assistance in the maintenance of reserves on the part of chronic offenders; that we have recently taken it up again and we have the commitment of each banking department represented in our district, and we find that quite helpful in our efforts to control the situation.

Governor Wellborn. It is our practice to report chronic cases of reserve deficiency to the Comptroller of the Currency and the Superintendent of Banks of the various states. In addition we report such cases to the Chief National Bank Examiner. We have an understanding with the Chief Examiner and Superintendent of Banks that they will warn the directors of such banks of their failure to maintain the required reserves and that they are doing so in violation of the law.

The Chairman. This is suggested by the Reserve Board. Is there any motion favorable or unfavorable to the suggestion of the Board?

Governor Seay. I would suggest that you ask around the table if there is not already in existence such an arrangement. There is at our bank.

Governor Norris. I have no doubt but that there is in every district, more or less. With a view of saving time, I offer this resolution: I move that the Conference believes that an arrangement of the kind suggested by the Federal Reserve Board is highly advantageous and request the Federal Reserve Board to confer with the Comptroller of the Currency with a view to having the various bank examiners

carry out the part of the program its is suggested they should be responsible for.

Governor Seay. I will second that motion.

The Chairman. There is just one point about that, Governor Norris, that might cause me to hesitate to vote for the motion in that form. If we have an automatic arrangement for reporting deficiencies in reserves that arise it will result in an automatic notice of some kind going to the directors of the member banks. As a matter of fact in our district there are many deficiencies, I think the majority of them, which arise through causes that are utterly beyond the control of the member banks. For instance, they send us paper for rediscount, calculating a certain amount of time. Mails are delayed, telegraph poles are down or something of that kind, through no fault of their own, a deficiency arises and then automatically the directors of the bank would get that notification.

Governor Talley. That would not be a chronic case, Mr. Chairman.

Governor Norris. This deals with chronic cases.

The Chairman. Where there are chronic cases my belief is that every reserve bank takes them up with the Chief

Examiner.

Governor Talley. Yes, but we do not get very much action.

Governor Young. I have found in my district, with regard to people who were short in their reserves, that it wouldn't make any difference how many letters you wrote or how much you took it up with the directors. You couldn't do much with them anyway.

Governor Talley. We have made an analysis of it and the fact is that the banks that are deficient in reserve are in a strained condition, just grabbing at straws, and they pay the 10 per cent reserve to ease them over a few days. We do get help from our Chief Examiners, but you have the right idea. If the bank is overstrained, they have got to be left alone until they get in shape to keep them up.

Governor Wellborn. I have observed some banks which are chronic cases that are not borrowing at all from the Federal Reserve Bank. They merely go along that way, and keep from borrowing until they replenish their treasury, and would rather pay the penalty than to borrow. The only remedy I see in regard to this would be for the Comptroller to threaten to take their charter away from them.

Governor Seay. Does not the motion by Governor Norris take the matter in that you refer to?

Governor Norris. Yes. I would like to use the word "persistent" rather than chronic, because the word chronic applies to a condition that is due to causes beyond your control.

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

The Chairman. The next item F, is:

F. Ratio of Bank Capital to Deposits.

Governor Harding. Does that require legislation?

The Chairman. No. This was suggested by Mr. Case because of our experience with the banks in our district, which are different of course from those in Governor Talley's and Governor Young's district, where the loans accumulate and the management of the bank is lax in going after them. One of the first things is to go after them and to increase their capital proportion even though there is no impairment. The capital proportion seems to be low very often in banks that have that condition. It is a fact that the ratio of capital to deposit liabilities in this country has been constantly declining over a considerable period of years,

partly due to the fact that bank deposits were enormously increased during the period of inflation caused by the war, and our belief is that if the Federal Reserve Banks, in dealing with the larger members, where an application comes in, for instance, for the right to exercise fiduciary powers, or some of the special privileges that are granted under the Act, should consider capital requirements as a very important element in considering the application, it would better the situation, and I think the whole policy of the system generally should be to encourage and urge the banks, where their ratio of capital to deposits is low, to increase their capital.

Governor Talley. What rate do you think ought to exist?

The Chairman. 10 per cent.

Governor Talley. We have a state law in our state to that effect.

Governor Harding. In a majority of cases in the New England banks we have a capital ratio of 10 per cent, capital to deposit. One bank with a million dollars deposit only has \$50,000 capital. Owing to adverse conditions in the potato industry they have been the heavy borrowers. I started after them a year ago to get them to increase their capital.

They could not do it very well at that time, but they are going to do it now. They have come around; they have the money. Potatoes are now selling at \$4.25 a bushel and they are cleaning up. They are going to increase their capital to perhaps \$150,000.

The Chairman. Our recommendation is of this character: That it should be the policy of the Reserve banks, in dealing with their members, where opportunity arises to do so, to induce them to increase the amount of their capital where the ratio of capital to surplus and liabilities is lower than 10 per cent.

Governor McDougal. You are dealing with this from the standpoint of capital and surplus?

The Chairman. Their own investment in the bank, capital and surplus.

Governor Seay. With respect to banks at large the case does not seem to be bad, but it is with individual banks.

The Chairman. The tendency to get below the 10 per cent ratio is increasing.

Governor Wellborn. In connection with this question we are confronted with a situation in Florida, where the deposits have increased enormously, all out of proportion to capital. We have been somewhat alarmed about that. I

have had some figures made here that show that they are not lending their deposits; the Florida banks are not lending their deposits, but are putting that money on call in New York or buying commercial paper and Government bonds. It is not as serious as we thought it was at one time. A great many of the banks in Florida are not lending half of their deposits, and it seems to me that puts them in a rather safe position. I would like to hear some expressions from some of you other gentlemen on the subject because we expect when this boom is over in Florida that there will be quite a recession in deposits and it might be hard to collect loans in some instances.

Governor Norris. I will second the resolution presented.

Governor Calkins. This is only intended as a statement of policy, is it not?

The Chairman. That is all, just a general statement of policy in that direction.

(The motion having been duly seconded was carried.)

The Chairman. The next topic is I-G.

- G. In the extension of credit or handling transit items is it the duty of Federal Reserve Banks to assume the responsibility of determining the solvency or insolvency of member banks? Is not this entirely within the province and a duty of the Comptroller of the Currency?

Governor Bailey. I put this question on with regard to our cash letter. A man started a suit against us. The amount is not very serious, but in the suit it is charged that we had knowledge that this was a failing bank and therefore we had no business in sending his check there to collect it. It was not paid. He claims we ought to have sent it to another bank in that town. I took the position that that was the Comptroller's duty and that as long as the bank is going we are justified in sending the letter. Of course we are protected under our regulations. It doesn't amount to anything, but if we had to stop and make a separate investigation every day of these banks in sending letters out we would certainly have a big job on our hands. I do not know whether the matter can be determined here, but I wanted to get an expression as to what the other banks were doing. If a bank has been remitting all the time and the Comptroller's Office allows them to remain open, is not that justification for us in sending cash letters to them?

Governor Wellborn. We have been confronted with the same situation, and we take the position that if we did not send the Federal Reserve Bank those checks and sent them to some other bank, that it would break the bank.

Governor Young. I think the regulations of the Board free you from everything except negligence, and what "negligence" is, will be determined by a jury, and by no one else.

Governor Bailey. That is what I am trying to bring out, whether we are negligent in not taking notice?

Governor Young. That is a risk that Minneapolis has taken for five years and is still taking. You cannot evade it.

Governor Bailey. We don't lose any great amount. We charge it back to the endorsers and it all comes back in the wash, and when we take a check we are safer than when we do not.

Governor Young. We don't get it back. We have quite a considerable amount in Montana which I wish someone else had. There is only one way to protect yourself, and that is to send a man out there and present the check.

Governor Bailey. Instead of going 500 miles, in

some cases, in order to do that we had better take the chance on the banks.

The Chairman. Do you wish action on this topic?

Governor Bailey. No, I just wanted to call it up and get an expression from the Governors as to how they handled it.

The Chairman. Governor Bailey says he does not desire any action on this.

Governor Calkins. It is one of those cases in which we are reasonably protected if we exercise due diligence and are not protected if we are negligent.

Governor Seay. The law is mandatory as to our receiving checks on member banks, but in the last analysis the courts will always have to determine what the responsibility is.

The Chairman. I do not believe anything can be done here to settle the question. We are taking a risk and we have got to take it. With Governor Bailey's permission we will pass Topic G without action and take up Topic H, which is:

H. Would it be advisable for Federal Reserve Banks to make loans to member banks on a promisory note for a longer period than 15 days which is now the law?

That also is suggested by Kansas City.

Governor Bailey. That is another matter with regard to which we have never come to any conclusion. I read the report of the Trust Company Committee, they put out a questionnaire, and I was surprised at the number of objections to not taking them for longer than 15 days. So far as we are concerned, I think 15 days is long enough. I do not know whether you gentlemen read the report of that Committee, but the Chairman stated that there was a large number that objected to the fact that they would not take member bank notes for more than 15 days. This matter has been discussed before, but never concluded. Can any one tell me the reason why they should not take the note of a member bank for 30 days?

Governor McDougal. Because the law does not permit it

Governor Wellborn. We find it good practice to have them take up the discounts and give us a note in place of it because in case of insolvency we can put in our whole claim.

Governor Young. In Minneapolis it would be very much to the advantage of the Federal Reserve Banks and to

the country banks to extend it to 90 days.

Governor Wellborn. That would require new legislation, would it not?

Governor Young. Yes. My experience in the agricultural section has been this, that you can get paper that is good and that is going to be paid, but there isn't anybody in the world can tell on what date, because it depends on the element, transportation and so forth. We have a great deal of agricultural and livestock paper on rediscount which has gone past due because there has been a lot of bad weather out there and they could not move the crops. If you called that you might never get the money, but if you let the banks hold it as past due paper you will get the money. I think there are opportunities in this of avoiding a great number of the criticisms that are leveled against the Federal Reserve System.

Governor Bailey. What called my attention to it was the number of objections to having only 15 day paper in the questionnaire which I referred to.

The Chairman. Is not this probably the explanation for the difficulty, that the Federal Reserve Act was prepared by a group of men who were not bankers, and did not have intimate connection with banking, did not know what the

practices were; we did not have any bank of issue in this country so they attempted to adapt to the banking system of this country certain practices that prevailed in Europe in central banking which were absolutely in applicable. The reason I concluded that that was the cause, or one reason, was that when these banks were organized the first regulation put out by the Federal Reserve Board was regulation No. 13 -- you will remember Governor Harding that it bore a number that was unfortunate from the start -- and that regulation was predicated, as I recall it, upon the theory that Dr. Willis and some others had that we had real self-liquidating paper in this country. You will remember the discussions we had about it. It developed that there was a theory apparently in the minds of the Committee of Congress, that that paper would automatically spring into existence over night. We came over here on regulation 13. Governor Harding took a look at it and convinced some of the theoretical people that there wasn't any such thing as self-liquidating paper such as existed, say, in the London Market, and some provision had to be made to deal with commercial paper especially. Regulation 13 contemplated really two-name paper, that is the paper of a merchant given in settlement of an account.

As a matter of fact banks of issue may have two types of loans that they make, and they have two rates as a usual thing. They have the type of loan which they call their Lombard Loan, in the case of the Bank of England, and the rate on that loan is different from their discount rate. It is the common practice in all banks abroad to lend money upon security up to 90 days and even longer on what they call Lombard loans, and the discount rate applies to those self-liquidating bills which are heavily dealt in in the money market -- an article of commerce almost -- and are the type of credit of the bank of issue which is related directly to the money market rather than to the commerce and industry of the country. I personally do not think it would do any harm; I do not think it would impair the liquidity of the reserve banks if this provision about 15-day collateral loans was extended somewhat. However I do not think we want to go too far. It is a privilege that won't be used by the big city banks at all.

Governor Harding. It would be a convenience to the country banks because some of the bankers up in Maine complain that by the time they send the paper down to my office it is almost time to renew it again.

Governor Seay. As a matter of practice we do discount paper in bulk for a specified time. We invaded that theory when the law was amended to permit discount up to 15 days. That was an invasion of the theory which was held at the beginning. For the life of me I cannot see what harm it would do, considering the practices in this country, to go a step further and invade the theory just a little further with a longer period.

The Chairman. I will tell you where the harm would arise, if it did arise at all. As we all know there is a large number of banks in the country today that still maintain their relations with their city correspondents, because of this very thing, whereby they can get loans on their portfolio, on their commercial paper at higher rates than the reserve discount rates, and they prefer to maintain an account with their city correspondents where they can borrow money on their commercial paper for three months or more. There are three or four big banks in New York City that do a very large business with the members in other districts of just such character. The advantage of having them do so now is that if that business was diverted to us

it would involve a very considerable expansion of credit by the Reserve Banks and some inflation of credit. Now they borrow direct from the members and those members are taking care of that volume of credit without calling upon the Reserve Bank for as much accommodation as they would call for if the whole bulk of that borrowing was turned right over to us.

Governor McDougal. What are the banks charging on an account of that character?

The Chairman. I think that the Southern and Western Banks are charging 5 per cent, and more in many cases.

Governor McDougal. Do you think that the convenience of borrowing that way would offset in many cases, in the minds of the borrower, the additional rate involved?

The Chairman. It does.

Governor Seay. There is one difference and would be one difference between the action of the reserve banks and of the correspondent banks. In the case of the reserve banks those loans would be made only against eligible paper and collateral, and the convenience of the borrowing country bank is that it may lump all this stuff in bulk and send it along to the city correspondent.

Governor Calkinds. Then a much greater consideration is the difference in time.

The Chairman. I personally doubt, if the time were lengthened in the Reserve Act, whether it would result in any considerable attrition to our loans.

Governor McDougal. Do you member banks make a practice of using the 15-day notes secured by eligible paper?

The Chairman. Yes, we have quite a good deal of it.

Governor McDougal. Do you encourage it or discourage it?

The Chairman. We encourage it.

Governor McDougal. We discourage it.

Governor Bailey. I put this topic on the program for discussion in order to find out what the opinion was. Some of our large banks at the end of a settlement period will borrow for a day. They put it in for 15 days, but they take it up the day after tomorrow. I have no objection to that, but I put it on the program because of the large number of objections which came from the country banks that they ought to be allowed to borrow for longer than 15 days. We have adopted the policy, when a bank gets over-extended, of taking a 15-day note rather than have them

discount, because we can get action on that quicker. We lump the whole thing in and make them renew it every 15 days. In a case like that we would rather have the 15-day note than the 30-day note.

Governor Seay. That is availed of as an ostensible reason quite a number of country banks remain out of the System. I believe that is one reason, among others, which they give.

Governor Harding. The law could be amended so that they could be taken for a period no longer than 30 days, and then they could be made for 10 days if you wanted them to.

Governor Seay. I believe if the period were made 60 days that no harm would result.

Governor Young. With regard to the country banks, some of those banks figure the interest and add it to the note and others do not. When it comes to us, of course the interest is added, and that requires an entry for each individual item and it takes an endless amount of work. A man may want \$10,000 worth of credit and sends in \$10,000 of what he considers eligible notes. One of our boys in the office finds that a date has been altered or something of that kind and he sends that note back. That irritates them

and they don't like it. They have to send in another note. It would be better to go back to the old method which has been found successful in the agricultural and livestock sections before, and that is that the bank sends in \$15,000 worth of notes and say that they want \$10,000 worth of credit. Under those conditions it would be easy for us to get \$10,000 worth of eligible paper to cover that note. We do not have to bother the man about it and he makes only one entry of the interest. It is easier to do. I think there is a whole lot of merit to the suggestion, and I do not think it will do any harm at all. I do believe it will get rid of a lot of complaints.

The Chairman. Are there any other expressions of views?

Governor Fancher. At the Conference in April, 1924, our bank recommended that the law be amended so that we might take 90-day notes with Government bonds as security. We have had a good many objections from banks about the trouble of renewing the 15-day note and carrying the Government securities along. I was impressed with the statement of Governor Bailey and with the report of the Committee to which he referred, of the number of banks objecting to the Federal

Reserve Banks not taking a bank's note beyond 15 days. I was very much impressed with the objection and I cannot see, if some limitation was placed as to taking a note not to exceed 60 days, where very much harm would ensue.

Governor Harding. I think it would be beneficial, and it would have a good effect on the country banks.

Governor Fancher. It would do as much to sweeten some of our country banks as anything I can think of. They are annoyed by these inequalities, and by the things that Governor Young has brought out, where they send in paper which, because of some irregularity has got to be sent back, and where more or less irritation is caused by correspondents over some very small technical thing.

Governor Calkins. I would not be opposed to the extension of the time to 90 days when the note is secured by eligible paper, but I do not believe it should be extended on Government secured paper. I also think, in order to be scientific, that we should follow the practice of the older banks in making a different rate between what you call self-liquidating paper, of which you say there isn't any ---

The Chairman. (Interposing) Oh yes there is now. The acceptance has come into existence.

Governor Calkins. We ought to discriminate very closely between the two characters of transaction, and without those amendments I would be opposed to the extension to 90 days.

The Chairman. I want to call your attention to something about the Reserve bank rate structure. Discounting commercial paper as we now do, is equivalent, under the English system and the Continental system, to an advance account. Where no note is signed that is an over-draft. If instead of doing that we loaned to our member banks on securities or anything else eligible for a Lombard loan, then we would get to a position where we have a bank rate, which is really the rate for Lombard loans, and a real discount rate, or the rate for buying bills, as in the case of the Bank of England. Such a condition of course has got to come slowly. The real contact with the money market is going to be through the bill rate, the credit we extend to our customers, the member banks, as distinguished from the street, so to speak: the credit we extend for the benefit of commerce and industry is the credit that we will grant on the so-called Lombard loans, whether it is discounting a commercial note or a collateral note, and that is one thing

that has removed the last objection that I had in my mind to extending the time on collateral loans to our member banks. That condition is gradually approaching, and of in the course of time we will have one or two or three money markets in the country where the influence upon rates and the active contact of the bank with the money market will be through the bill market and the Government secured market, or Government securities. In that way the extension of credit generally throughout the country will be by Lombard loans at a Lombard rate, which will be just above the bill rate in the money centers. It is a wholesome development. I am not opposed to it. I think it is a good thing to do. I would like to see a restriction imposed upon loans secured by Government bonds in order that they may be kept short, down to 15 days.

Governor Bailey. Could not that be done by a matter of policy? If you have your maturity longer than 15 days you are in a position to discuss with your borrowing member banking seeking credit the question of how long you are willing to let him have the money for.

Mr. Chairman, I make the motion that the Conference of Governors looks with favor upon an amendment of the law

extending the time on 15-day paper to 60 days, when such note is secured by paper which will be eligible for rediscount.

Governor Norris. I second that.

(The motion having been duly seconded was carried.)

Governor McDougal. I desire to be recorded as having voted no.

(Whereupon at 1.15 o'clock p. m., the Conference recessed until 3 o'clock p. m. of the same day.)

A F T E R R E C E S S

The Conference reassembled pursuant to recess at 3 o'clock p.m.

The Chairman. The meeting will please come to order. The Open Market Committee has drafted a report, which has been considered in advance and is in your hands. Is it your pleasure to postpone consideration of that report until you have had time to read it? Without objection it will be passed for the time being.

I suggest that as Mr. Strater is to be here this morning, that we postpone Sections 2 and 3 and take up Section 4, operation and administration.

4-A. Cost of securing reports of examination
of National Banks.

That matter was referred to a Committee consisting of Messrs. Harding, Norris and myself. On account of my absence I was unable to conclude the preliminary discussion with the Comptroller of the form of letter to protect us against unwarranted increases in the cost.

Governor Harding. The charge has gone down now, or is to go down to \$5.50.

The Chairman. We have prepared a form of letter which Mr. Harrison drafted, which we hope will meet the Comptroller's view and yours. It has not yet been considered by the Committee, but we can take it up now or postpone it until the Committee has discussed it.

Governor Norris. As a member of the Committee I suggest that we take it up now.

Governor Harding. That is perfectly satisfactory to me.

Mr. Harrison. The letter is as follows:

"Dear Mr. Comptroller:

In our discussion of the question of payments made for reports of examination of national banks, I think you understand that I was speaking as Chairman of a small

Committee consisting of Governors Harding, Norris and myself. It was appointed a year ago by the Governors of the Federal Reserve Banks with instructions to discuss this subject with you.

Our talk certainly made clear the fact that the increase in the charge to \$10 per report was largely to enable you to meet a serious emergency which had arisen in connection with bank examination and bank supervision as an outgrowth of the many bank failures which had developed principally in the middle west, and that it was not your expectation to continue the charge now made (which has not been reduced from \$10 to \$5.50) but that at the earliest opportunity you hope to effect a further reduction to, say, \$5 per report.

I think all of the Governors of the Federal Reserve Banks are agreed as to the value of the reports, and especially as to the value of the cooperation which we have been so fortunate in establishing with you and with the members of your organization. They desire that this should continue and they wish to pay what we may agree upon to be a fair reimbursement to the Bureau for the cost of the preparation of these reports. They are, as I have explained to you, most anxious that the principle be established that the fee

to be paid for the reports shall be reasonable reimbursement for the cost of making the copies, that cost to be strictly construed, so as to exclude any possibility of a charge upon the Federal Reserve Banks for paying any part of the expenses of the examination of national banks, but possibly to take into consideration certain elements of cost imposed upon the Bureau beyond the simple mechanical preparation of the copies.

I am inclined to believe that the establishment of this principle and the fixing of a price of \$5 per report, with the assurance that that will give that increase in the cost will not be hereafter requested, will satisfy the officers of the Federal Reserve Banks, and if you are agreeable to this proposal, I shall take pleasure in submitting it to the members of the Committee with the recommendation that it be reported at the next Conference of Governors as a concluded arrangement subject only to ratification by the Conference.

Hoping that this will entirely meet your views and assuring you of my great appreciation of your attitude in this matter, I beg to remain,

"Very truly yours,

BENJ. STRONG.
Chairman of the Committee."

Governor Seay. I move that that be adopted as the wish of the Conference and that it be approved for discussion with the Comptroller.

Governor Young. I will second that.

Governor Calkins. Do you understand he has voluntarily reduced the cost to \$5,500

Mr. Harrison. Yes, effective December 1.

The Chairman. That letter is intended, without restricting him too much, to prevent unwarranted increases in the cost of these reports in case they run short of money. Would that satisfy you, Governor Bailey?

Governor Bailey. Yes, Mr. Chairman.

Governor McDougal. And it also places this organization on record.

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

The Chairman. The next topic is

4-B. Effectiveness of budget control of the expense of operating a Federal Reserve Bank.

This was suggested by the Federal Reserve Board, and the comment is: At the present time the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond, Chicago, Minneapolis and San Francisco are operating under

Budgets prepared along the lines suggested by the Board's Budget Committee, (Messrs. Runds, Fleming and Smead). It is expected that the discussion of this subject at the Conference will be led by the Governors of those banks for the benefit of the Governors of the other banks which have not yet adopted a budget system.

New York was the first bank to introduce the budget. You have heard me discourse about the budget before. The real test of the value of a budget has come within the last year and a half, after nearly six years of operation under it. I am more convinced than ever that when it is properly operated and is employed not as a method of simple apportioning of expense but of controlling expenditure, that it is very effective. The results speak for themselves. We were of course faced with the problem of absorbing the cost of maintaining a very large building, the largest of any reserve bank, and the most expensive. The business of the New York Bank this year we estimated probably 10 or 12 per cent more in volume than it was two years ago. The expenses of running the bank this year, taking into account taxes -- and the building is assessed at sixteen and a half million dollars cost of operating the building and quarters, and everything having to do with the operation of the building, notwithstand-

ing the increase in business activity, is \$500,000 less this year than it was two years ago, and \$150,000 less than last year. We attribute that to the budget control. It is all in the way you operate it. The rules governing the expense account which apply to this budget arrangement call for a committee of officers twice a week to meet and go over every expenditure of the bank. Those expenditures must be justified and it takes half an hour and sometimes close to an hour of the time of three officers twice a week.

Mr. Harrison. As a matter of fact, Mr. Chairman, they meet every day.

The Chairman. It does not take very long because it has been reduced to a routine. It has meant the education of our departments, which have got to justify what they are doing. Every year, with one exception, the cost of operating the bank has been very considerably lessened, and so far as we are concerned I think the budget system has worked excellently.

Governor Fancher. We have had the budget system in operation since July of 1924, about 18 months, and our experience has been I think a very satisfactory one. We think we have much better control of our expenditures.

We do what the New York Bank does in the matter of reviewing expenses. A committee of officers go over the expense vouchers so that the heads of departments and junior officers know that all expenditures are being very carefully reviewed and checked up. With regard to the operation of our building, we have got our operating cost down very low. We think we have the matter very much in the minds of all of our executives, and we think it is proving very effective.

The Chairman. All but three of the Reserve banks either have a budget system or something that approaches it.

Governor Norris. Seven banks are mentioned here as operating under it.

Governor Biggs. We are one of the banks that has never gone into the budget system. We have what is known as the local procedure committee that always gives careful consideration to expressions of expense. We have not yet been able to see where we would be benefitted by adopting the so-called budget system. The matter has been discussed with officers of other reserve banks where the system has been in effect, and we are reasonably well convinced that our efforts in the interest of economy and efficiency have been so successful that they should not be interfered with or complicated by the adoption of a budget system. It is

quite obvious that it is much easier to operate the system we have in a smaller bank than in a larger bank and I am satisfied that with Cleveland, Boston and some of the other banks that it might be highly desirable. Still we do not think it would help us very much.

Governor Norris. We were rather skeptical when we went into it, and the Board's Budget Committee, after looking over our situation, said that we must not expect any startling results from it. However we decided we would try it. We have found that the heads of departments have taken a great interest in making their budget estimates intelligently; I think they have a stronger feeling of responsibility behind them than they had before, and we believe that the System as a whole has been distinctly helpful to us. Of course we only put it into effect last January, so that we have not had a full year of it yet, but only have results for nine months. For those nine months the budget estimates for the year showed a reduction from the actual expenses of 1924, and while we have had the same experience that New York has had with regard to the increased volume of business, every one of our departments at the end of the nine months period is under its budget estimate for that time.

It applies in every department where the expenses are controllable.

Governor Seay. Like the St. Louis Bank, we were fairly well satisfied with our system of expense control before we adopted the budget, but we became rather convinced that the budget would help us. While we are of the opinion that if we were compelled to adopt one without the other, that our system of expense control would be preferable, nevertheless we were unable to see how the establishment of the budget system would interfere with us. We rather thought that the budget would be an aid to us in carrying out the purpose of scrutinizing our expenses. It is supposed that each bank receives a copy of this report of the Budget Committee, and we have fairly well set down in it our reasons for believing that the budget was helpful. We receive monthly reports from our Comptroller, and those reports are carried around to every department represented; each department sees then whether it has exceeded its budget or come under its budget, so that the matter is kept entirely alive. We believe that it is exercising a very wholesome influence and I cannot see how the budget can fail to be helpful in every bank to some extent.

Governor McDougal. Chicago established the budget plan in 1924, in the early part of the year, at which time the heads of the departments and officers were charged with giving full explanation of the objects of it. They were furnished with a statement in detail, concerning the expenses in their department during the preceding year and were asked to prepare a budget for the forth coming year. The budgets were then submitted to what we call our procedure committee, they were either approved, disapproved, or modified, and the ensuing results have been highly satisfactory. We think the establishment of a budget system has been quite an important factor in our having succeeded in materially reducing our operating force and our general expense account.

Governor Young. We put the budget system in about a year and a half ago. I felt a good deal like the Governor of the St. Louis Bank. I thought we had an ideal system up there, but after this had been in operation for a year and a half I thought it was the best thing that we ever put into our institution in more ways than one. There are certain departments where it is utterly impossible to put the budget in, for instance, the closed bank department,

because no man in the world can tell what that is going to cost; at the same time the man who is in charge of the department is trying to keep it just as low as he can, and if we did not have the budget he would not do it. I think I can say it is the best thing that has gone into our bank in the last four or five years.

Governor Calkins. I am unable to say exactly when we began the operation of the budget system, but I believe it was early in 1924. We have very carefully worked out a cost accounting system which we found has been very useful, but we have concluded that the budget system, in one particular, is more effective than any other system that any one has devised, and that particular is that it brings in the consultation, before the expenses are incurred, those men who are directly responsible for the expenditures, and gives them an opportunity to assume a responsibility which they did not assume before we had the budget. They were presumed to be conducting their departments as economically as they possibly could, but when a man is called in and told to assist in making an estimate of the cost of running his department for a year he is put on his metal first to make a proper estimate or a

proper budget, and second, to live up to it.

Approximately two-thirds of the expenditures are represented by salaries. One item that has lately resulted in a great saving has been that involved in calling for assistance. Formerly the head of a department, having to call for more men, was actually inclined to select the most competent men and the most efficient men that he could get. Now he stops and considers whether the most efficient man is not too high priced for the particular purpose he wants to use him for. The result of that has been a considerable saving. Between October 1, 1924, and October 1, 1925, the staff in our head office and five branches was reduced from 1093 to 906 with an annual salary saving of a little less than \$300,000. That is not all due to the budget, but undoubtedly some of it is. I believe that the budget is fully justified, we expect to continue to operate it and to improve upon it as opportunity offers.

Governor Harding. Boston is not included in the list of banks there as having a budget, but we have the budget system.

For several years the senior officers of this bank have had prepared comparative figures covering income and

expenses by annual departmental totals and details for consideration periodically with organization heads with a view to keeping expenses as low as possible and developing economies.

In January, 1925, following correspondence with the Federal Reserve Board, a budget for the year 1925 was prepared by departmental and detailed heads of the Board's comparative expense report. These totals for the year were divided by 12, and the figures obtained have been used as a monthly budget basis for the consideration of our expenses. Each officer of the bank and department head has a copy of this budget statement, and the figures are discussed after they are compiled and added to the comparative statements each month.

No attempt was made to establish the monthly figures on a seasonal basis, because the fluctuations in amount under "General Overhead - non-controllable" are large enough at times to upset any close forecast. Our idea has been to get a maximum of the benefits of a budget at a minimum of expense in setting up and maintaining the plan.

Our departmental expenses during the first ten months of this year have been reduced somewhat by items under

"General Overhead-Non-controllable", such as cost of currency and shipments of currency have been greater than the figures used in our estimate so that the total expense for the year will be very close to the total amount estimated last January.

Calling it a budget probably does have some little moral effect upon the various department heads. At the same time it is almost impossible in our district to make any intelligent estimate in advance of what expenses for any one function of the bank are going to be. For instance there was a run in March on a bank in Holyoke and we shipped them at our expense a million and a half currency, which was unused. Later on they sent it back to us at our expense again, and although we were fully reimbursed by the discounts received from them on loans we had made, that did not come up in the expense item, and our budget for transportation of currency was all out of line. In addition there is no way of telling in advance what our tax rate is going to be. We have the town system in Massachusetts, each town fixing its own rate, and the tax rate in Boston was increased this year. There was \$12,000 in taxes that we did not know anything about until last month. While

the system we have now is called a budget by the directors and so acknowledged by the Reserve Board, it does not differ materially from the plan that has been in effect for several years past. It probably is given some additional weight by being called a budget.

Governor Wellborn. Our bank is omitted from the list of those that have adopted the budget system. I do not know why it was left out. We have had the budget system in force since the 1st of January, and it seemed to be working very well.

The Chairman. This is just a topic reported to us by the Federal Reserve Board and we do not know about that.

Governor Seay. In the letter from Mr. Rounds of the New York Bank he puts the Atlanta Bank down as having a budget.

The Chairman. When I said there were only three banks that have not the budget I got that from Mr. Rounds' report, and not from the topic submitted by the Board.

Governor Harding. How does he place Boston in his report?

The Chairman. He includes Boston and Atlanta.

Governor Norris. Seven are given here, Boston and

Atlanta would make nine, and that leaves three.

Mr. Harrison. I quoted the Federal Reserve Board's letter precisely in putting the topic on the program.

Governor McDougal. The Board has given us a copy of Atlanta's letter in reply to their inquiry with regard to the budget, and that shows that Atlanta has a budget.

The Chairman. The only three banks which have not the budget apparently are Kansas City, Dallas and St. Louis.

Governor Talley. I have a table here that indicates that the budget does not seem to be much of a factor. St. Louis, which does not operate under the budget plan, shows that the percentage of reduction in expense between 1924 and 1925 is the highest of any reserve bank, and the Dallas Bank is third highest. I think that the difficulty that the banks have had that have not adopted the budget is that they have tried to comply with the technical definition of a budget. Of course a budget is a condition where you have a certain amount of income and a definite amount that you are supposed to apportion over expense of operation. That certainly would not be true in the case of a reserve bank.

The Chairman. We agreed, when this was discussed before, that it was a misnomer, but that it was a good in-

fluence to use the word "budget".

Governor Talley. I think the Dallas Bank, the St. Louis Bank and the Kansas City Bank have been employing the same methods and have been giving the same scrutiny to their expenditures as have the other banks. We thought we had done pretty well at the end of 1924 in the way of reduction, but in 1925 we show a further reduction of expense of just an even \$100,000. When we begin to analyze that we find it in practically every item of expense so it seems to show a right broad scope in attacking the expense problem.

The Chairman. I do not understand that any action is called for by the Board on this topic, so we will pass to the next topic. The next topic is 4-C.

4-C. Elimination or consolidation of current reports by Federal Reserve Banks to the Federal Reserve Board.

It is suggested that each bank prepare an estimate of the cost involved in preparing reports now forwarded by them to the Federal Reserve Board, together with a separate list of any reports which the reserve bank feels that the Reserve Board may properly be requested to eliminate or modify.

This topic has been discussed before. We find in

New York that we make 51 different classes of reports to the Federal Reserve Board at varying intervals. We estimate the total cost of those reports to be \$12,000 a year. The one that costs the most is the one that contains the schedule of member banks' collateral notes and bills discounted by member banks, which cost \$2300 to \$2500 a year. At a recent conference this matter was discussed and a resolution was passed recommending that a joint committee of employees of the Board and of the reserve banks be appointed by the Board to consider whether the number and character of reports could not be changed in order to reduce the work and expense involved. That was taken up by the Federal Reserve Board, as I understand it, and laid on the table. No action was taken on it. A matter came up recently with us because of a request which you also received, for a report continuous of borrowers and certain details in connection with that report. I felt right away that it was for the purpose of informing the Board of matters of that sort that a lot of these reports were made. Our idea was that if we were expected to prepare the material from our books, which otherwise could be prepared in Washington from these reports, that it was an unnecessary duplication. Either the employees of the Board

should get the information from the reports or we should take it out and discontinue any of the reports. It seems some of the information cannot be had from the Board's reports, but I nevertheless feel that the reports which we are submitting to the Board are too voluminous and too expensive.

Governor Calkins. The actual making of the report is a minor item, but the maintain of records necessary to make the report is extremely expensive.

The Chairman. What does it amount to with you, Governor Harding, just roughly speaking?

Governor Harding. About \$10,000.

Governor Young. It is about \$10,000 with us.

The Chairman. Have you estimated the cost for these reports, Governor Seay?

Governor Seay. Yes, but we do not charge these reports with the cost of such reports as we would keep for our own use if we did not furnish them to the Federal Reserve Board. We make allowance therefore for the preparation of such reports as we make for the Board, which we would keep for ourselves if we did not have to send them to the Board, and that cost is about \$3700.

The Chairman. Without making that allowance, what does it amount to?

Governor Seay. I have not that separately because we did not make it up with that idea in view. We feel that we would desire to have certain reports for our own use whether or not they were submitted to the Board, and we do not include in this any of the reports rendered by the Federal Reserve Agent.

The Chairman. You do not?

Governor Seay. No. We understood that was something upon which the Federal Reserve Agents' office would render a report.

Governor Calkins. I have an estimate of cost which I do not like to quote because it is misleading, as most of the others have been. It is the actual preparation of the report, \$5,848. I have also copies of forms of reports with the reasons for their continuance or discontinuance indicated. There are a number of these reports which serve no useful purpose and should be discontinued, whether we are permitted to consolidate the other reports or not. My suggestion is that each Federal Reserve Bank prepare an estimate of the cost involved in preparing the report now forwarded by them to the Federal Reserve Board, together with a separate list of any reports which the Federal

Reserve banks feel that the Federal Reserve Board might properly be requested to eliminate or modify. That will not be as uniform as it should be because of the fact that it is practically impossible to show what the cost of preparing many of these reports is, but I think some such action as that should be taken.

Governor Seay. We have gotten it up on that basis, and we have attached to our letter a copy of every report that we render. We have suggested to the Federal Reserve Board the reports we think might be eliminated unless they are of such service to them as to be needed, so that if each bank would do as Governor Calkins says, forward to the Federal Reserve Board its opinion of certain reports it would be a guide for the Board itself.

Governor McDougal. I think the Conference ought to understand fully, if they do not, what has transpired since our last action. I wrote to Mr. Harrison and called his attention to the fact that the Conference had recommended that a committee be appointed, and that so far as we knew a committee was appointed, because I named one of our men on it. Mr. Harrison then took the matter up with the Board, called their attention to their having failed

to act, and in a letter dated September 12th, Mr. Eddy advised Mr. Harrison that the members of the Board's Staff had reported that the forms of statements and so forth required, with the exception of one or two, were necessary to the conduct of the various departments of the Board's work, and the Board had voted that no action be taken on the recommendation of the Conference. That is where the matter rests now.

The Chairman. Have you estimated the cost of preparing the report?

Governor McDougal. No.

Governor Bailey. It is about \$10,000 with us.

Governor Norris. I have not a complete estimate, but a partial one, which shows about \$8600.

Governor Talley. Our estimate covers only the statistical report. The cost is very small for that, the memorandum here showing about \$1050. I might say in that connection that we run a good many of these reports continuously every day in the departments, where they are kept up.

Governor Fancher. We have made an estimate exclusive of the cost of keeping our own records, and our

total estimated cost for the report is \$4157.

The Chairman. Governor Biggs, have you an estimate?

Governor Biggs. I haven't the figures, but we did have an estimate. It was nominal. It wasn't very much, somewhere around \$127. But I think quite a few of these reports could be eliminated because there is duplication.

Governor Calkins. I would like to call attention to one report which could not have been included in Governor Talley's figures, and that is the report to the Federal Reserve Board of receipts of paper currency. That is an extremely expensive report, and it is doubtful whether it serves any purpose. It was originally called for to assist the Treasury and the Federal Reserve Board in determining their currency policy. It costs us about \$990.

Governor Seay. That is one of the reports that we have suggested to the Board is of no use to us, and so far as we are concerned might be eliminated. It costs us about \$800.

Governor Norris. And it costs \$1050.

Governor Wellborn. We estimate the cost at our bank to be \$1300. Our people are in favor of continuing the report for the present. We need the information ourselves.

The Chairman. It is perfectly obvious that the method of arriving at the costs are altogether different in the different banks. If the same method were pursued the evidence would go to show that the cost runs from somewhere around \$8000 to \$10,000. In our case \$12,000 is the direct cost, apparently.

Governor Young. After going over the various forms now furnished the Federal Reserve Board, we do not feel qualified to recommend elimination because we do not know all the reasons for the Board requiring these reports. We do however, feel that by making consolidations and other changes in methods that this information may be compiled more systematically, with less expense and more reliably than at present.

With this thought in view we make the following suggestions:

1. That instead of various smaller reports now being prepared by each Federal Reserve Bank covering classification of money, currency and coin operations, Federal reserve note issues, etc., that one form could be designed which would cover all these various classifications, volume, etc., thus eliminating all of the single reports

now being forwarded.

2. That the Board's own analysis division be broadened to the extent that much information now furnished by the individual banks in various reports could be compiled at Washington. To bring this about we would recommend that the Federal Reserve Board prepare a proper form designating the various kinds and classifications of statistical information that it desires and furnish each Federal Reserve Bank with such form. The detail of each bank's operations would be compiled in the statistical division of each bank and posted on the form provided by the Board. This information could then be forwarded the Board daily or as frequently as required. From such daily report there could be assembled at any time by the Federal Reserve Board's division, the same information from all of the banks. This plan would eliminate the necessity of many detailed reports, special reports, etc., now requested by the Board.

As regards our own office, we would further suggest that the various tickets and records from which we compile information for the Federal Reserve Board and ourselves, be placed in the hands of a competent analysis clerk daily

and all desired information be furnished under competent supervision. By so doing the chances of inaccuracy would be largely removed and a closer check maintained on the various operations.

I am listing below the forms filled out for the Federal Reserve Board by the Bank Examination Department, together with the estimated cost per year.

1. Advise of member and non-member state bank suspensions or reopenings.
 - a. Telegrams daily or as suspensions or reopenings occur \$54.00
 - b. Confirmation of member and non-member bank suspensions or reopenings - Form X-4401 and X-4402 100.00
 - c. Monthly report by mail of all suspensions and reopenings (Typewritten list) 8.50
2. Analysis of Examination and Credit Investigation Reports (Form X1188) 70.00
3. Application of member banks to exercise fiduciary powers (Form 61a and 61c) 12.00
4. Interlocking directors applications under Clayton Act (Form 94b) 10.00
5. Application for membership in Federal Reserve System (Form X-1212) 15.00

The Chairman. My thought was that we should indicate to the Board that, roughly estimated, the direct total

expense of reporting to the Federal Reserve Board, some part of which would have to be incurred anyway in preparing the data required by the banks themselves, amounts to something in excess of \$100,000 a year, and that we renew our recommendation that the whole subject of the report to the Federal Reserve Board be spent in some way so as to bring about a reduction in this cost and in the amount of work involved

Governor Calkins. I will offer that as a motion, Mr. Chairman.

Governor Norris. Seconded.

(The motion having been duly seconded was carried)

The Chairman. The next topic is 4-D.

4-d. Proper Federal Reserve Bank Protection.

The topic is: The Board feels that each Governor should come to the Conference prepared to discuss the organization and scope of the work of the protective staff in his bank and that the Conference should take steps to formulate some general plan by which each bank can be guided in the matter.

This topic was undoubtedly inspired by the feeling which has developed from the efforts that are being made to

rub the banks and to hold up bank messengers in the country and that it might be a good thing to have a general review of the subject of protection. I understand it has been arranged that at the Joint Conference Mr. Moran, head of the Secret Service, will make a little talk to the meeting descriptive of the point of view of the Treasury and the Secret Service which has charge of the protection of the Treasury.

Governor Harding. I suggest that the Chairman report to the Board that the Conference has considered Topic 4-D, proposed by the Federal Reserve Board; that there was a general exchange of information as to the protective measures employed at each bank; that in the opinion of each Governor the protection now afforded is adequate, although there may at times be occasion to increase the force of guards at some of the banks. That the detailed reports are not filed for the reason that the protective measures to be most efficient should be kept confidential. That the representatives of the United States Secret Service make periodical visits to the Federal Reserve banks and are kept fully informed as to the methods employed. That the responsibility for the management of the Federal Reserve Banks is

vested by law in the respective boards of directors and the reports show that in every instance the directors are fully alive to the duty of affording adequate protection for the funds and securities entrusted to the bank. That in view of the different circumstances attending the different banks it seems impossible to formulate any uniform plan as so much depends upon the arrangement of the bank building and the immediate surroundings of the banks.

That the above statement is the result of the discussion, which was not taken down in detail, in which statement all Governors present concur.

The Chairman. Without objection the matter will be handled in that way.

The next topic is 4-E.

4-E. Eligibility of an officer of an insurance Company for election as Class "B" director of a Federal Reserve Bank.

The comment on that is that the Board desires a critical discussion of its ruling on this subject contained in its letter of July 2, 1925, X-4373.

I would like to call your attention to the fact that this is a question of law and for rulings by the Federal Reserve Board. I would be glad if Mr. Harrison will read

to you the opinion of our counsel on this matter.

Mr. Harrison. The opinion is as follows:

"The letter of the Federal Reserve Board, No. X-4373, of July 2, 1925, rules that persons whose sole occupation is that of officers of life insurance companies are ineligible for election as Class B directors of Federal Reserve Banks. This ruling is based upon an interpretation of Section 4 of the Federal Reserve Act, which section provides, among other things, that directors of Federal Reserve Banks shall be nine in number and shall consist of Classes A, B, and C; that Class B shall consist of three members 'who, at the time of their election, shall be actively engaged in their district in commerce, agriculture or some other industrial pursuit. * * * No director of Class B shall be an officer, director or employee of any bank.'

"I think for the purpose of this discussion we may accept the conclusion of the Federal Reserve Board that for some purposes at least, insurance has been held by the courts not to be 'commerce'; further, that if an officer of an insurance company can qualify as a Class B director it must be because the insurance business comes under the general term 'some other industrial pursuit.'

It is also a fact, as stated by the Board's letter in question, that the terms 'industry' and 'industrial' have a broad meaning including substantially all forms of business enterprise and a more restricted meaning which applies only to manufacture, mining and similar enterprises having for their object the production of material or tangible values. It is agreed, also, as stated by the Board, that the insurance business is included within the term 'other industrial pursuit', in the broadest sense of the term 'industrial'.

"There is a definite authority for the rule of law of statutory construction, referred to by the Board, that where the language of a statute is susceptible of more than one interpretation, the intended meaning must be sought by the aid of all pertinent and admissible considerations.

"The letter in question, after reciting the provisions of Section 4 of the Act, above referred to, says: 'It is clear, therefore, that Congress intended that Class B directors should be business men and should not be bankers or closely identified with the banking business,' substituting this language for the language of the Act that 'no director of Class B shall be an officer, director or employe of any bank.' It is on this premise that the conclusion reached by the Board is rested. The whole argument that

insurance companies are lenders rather than borrowers and that Congress contemplated that directors of Class B should be borrowers rather than lenders, is based on the proposition just referred to, i.e., the substitution of the language of the Board for the wording of the law, and all doubt about the meaning of the law arises from this substitution. Bear in mind that the plain provision of the law is that no Class B director 'shall be an officer, director or employee of any bank.' This is a specific limitation of the disqualification to certain classes of persons who are described with minute particularity. The disqualification sought to be read into the law by the Board is, on the other hand, a general one, thus both the wording and meaning of the law are changed, and an implied Congressional intent set up in place of the express purpose of the legislature.

"As we have seen before, the law provides that Class B directors 'shall be actively engaged in commerce, agriculture, or some other industrial pursuit'. The ruling of the Board seeks to give to the words 'some other industrial pursuit' their more narrow meaning. But we must give to them the broader meaning, because of the specific words

of Congress prescribing precisely to what extent the meaning shall be narrowed down. In other words, the expression by Congress of the specific intent to except from eligibility for Class B directorship only those industrialists who are also directors, officers or employees of any bank, is to exclude all other exceptions. Expressio unius, exclusio alterius. One whose sole occupation is that of officer of a life insurance company, who is not also an officer, director or employee of a bank, is engaged in an industrial pursuit within a definition of the word 'industrial' which is ordinarily accepted, and does not come within the disqualification for directors of Class B which arises solely in the case of one engaged in an industrial pursuit who is also an officer, director or employee of a bank."

Governor Seay. Has the Board a copy of that opinion?

The Chairman. That opinion has been sent informally to Mr. Wyatt, but it has not been sent to the Board.

Governor Harding. Why not endorse the opinion that we have just heard read?

Governor Seay. One of our most useful, experienced and level headed directors is the President of an Insurance company. He has connection with one or more cotton mills

and also conducts a farm. That man has had a lifetime of experience in commercial and insurterial pursuits.

The Chairman. He would not come within the Board's ruling or letter, because they say "his sole occupation is that as an officer of a life insurance company".

Governor Calkins. I have an informal opinion by the counsel for our bank, which is in effect that if the individual in question is engaged solely in the business of life insurance he is ineligible. Of course if he is engaged in farming or in the cotton business or anything of that sort the question does not apply.

Governor Harding. Why not say it is a purely legal question, that the Governors present have all read the views of the Board's counsel, and that we respectfully submit the opinion of the counsel for the New York Bank as an alternative view.

Governor Calkins. I will offer that as a motion.

Governor Fancher. Seconded.

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

The Chairman. The next topic is 4-F:

4-F. Uniformity in the operation of the
cafeterias of the Federal Reserve Banks.

The last three lines in the Board's letter of September 9th indicates what the question is. It is requested that careful consideration be given to this subject in advance in order that if practicable some agreement may be reached as to what expense if any is now being charged against the cafeteria should be absorbed by the Federal Reserve Banks.

Governor Harding. The Board's letter of September 9th, 1925 (X-4418) referred to the wide variation in the handling of cafeteria expense by the various Federal reserve banks and requested that careful consideration be given to the matter in advance in order that, if practicable, some agreement might be reached at the Governor's Conference as to what expense, if any, now being charged to cafeteria in the functional expense report should be absorbed by the Federal reserve banks.

It would appear from the figures given below that the Federal Reserve Bank of Boston is now absorbing a larger amount of cafeteria expense than many of the other banks in the System.

Cafeteria Expenses and Receipts

Year 1924 and First Three Quarters of 1925

Federal Reserve Bank of Boston	1924		1925	
	Monthly average	Total for Year	Monthly Average	Total 1st 3 Quarters
EXPENSE of operations charged against Cafeteria in this bank as reported in the functional expense report	\$2,642.04	\$31,704.46	\$2094.14	\$18,847.22
RECEIPTS	<u>2,536.14</u>	<u>30,433.65</u>	<u>2150.27</u>	<u>19,352.43</u>
NET CHARGE OR CREDIT to Cafeteria	105.90	1,270.81	56.13	505.21

The following items of expense are listed in the Board's Letter of September 9, 1925 (X-4418) as those charged by some of the Federal Reserve Banks against their cafeterias, and we also show below how these expenses are handled in the Federal Reserve Bank of Boston:

Expense items as listed in Board's letter (X-4418)	Federal Reserve Bank of Boston	
	Amount charged against cafeteria	amount absorbed by our bank
	Year 1924	
Cost of food	\$20,345.10	
Salaries		
Cooks, waiters, etc.	7,115.57	
Assigned staff	4,192.87	
All others	50.92	
Service supplies		0
Office and other supplies		556.69
Printing and stationery		181.14
China, glass and furnishings		276.36
Gas-fuel		0
Uniforms		0
Miscellaneous		826.84
Allocated to salaries absorbed by bank		<u>720.00</u>
	<u>\$31,704.46</u>	<u>\$2,563.13</u>

The total expense items absorbed by this bank not including light, heat, or power for the year 1924 was \$2,563.13 - an average monthly total of \$213.59 - and for the first three quarters of 1925 \$1,668.67 - an average monthly total of \$185.41.

The Board in its letter of September 9, referred to above, stated that expenses they enumerated did not include anything for rent, light, heat, and power, refrigeration, repairs and alterations, and furniture and equipment. While for the purpose of comparison we have not included such expenses, it may be of interest to note that during 1924 our bank absorbed for electricity for cooking purposes in its cafeteria \$2,325.20 - a monthly average of \$193.85 - and in the first three quarters of 1925 \$1,895.10 - a monthly average of \$210.47.

Mr. Harrison, Deputy Governor of the Federal Reserve Bank of New York, in a letter of October 6, 1925 to Governor Harding stated that they had been giving consideration to the advisability of providing a luncheon to all employees without cost to them and not permitting them to leave the building at luncheon.

We have gone into this matter to some length and find that none of the Boston banks are furnishing luncheons to their employees without cost. Several years ago the largest local bank tried out this plan and gave it up as being unsatisfactory. It is felt that while there would be a saving of probably \$100 a year to each employee and the bank would have a better control of the employees and the people who have occasion to visit the building on business, these advantages are more than outweighed by the additional cost to the bank, estimated at around \$110,000 a year, the possibility of dissatisfaction with the meals served, and the natural feeling of restraint which would result from not permitting the employees to leave the building at luncheon time. It is thought that the conditions in Boston with reference to obtaining luncheons differ greatly from those in New York. There are many satisfactory places near the bank here where luncheon may be obtained, and many of the employees are accustomed to using these outside establishments and availing themselves of an opportunity for shopping while away from the bank in the middle of the day. These advantages do not exist to such a great extent in New York. In fact, it is quite difficult to get a satisfactory luncheon at a

reasonable price without considerable discomfort in the financial section of New York in the middle of the day. We feel that it would be more satisfactory to continue our present arrangement for the present at least.

The Chairman. I have a proposal to make about this. Half of the banks are absorbing practically no expense except the overhead, I mean the direct expense; it is all covered within a few hundred dollars by receipts. The other half of the banks absorb the following percentages of direct cost, and this is very rough, Chicago 15 per cent, Cleveland, 20 per cent, Richmond and Minneapolis 35 per cent, Dallas and San Francisco 50 per cent.

Governor Fancher. And what is the figure for your bank, Mr. Chairman?

The Chairman. It is only for the one quarter, but we show a credit of \$444 above expense.

My belief is that the approach to this matter should be from this angle: That the services of the clerks in the reserve banks will be improved if means are furnished by which they can have, if they are encouraged to have, a good meal at noon. At some of the reserve banks and branches this may not be especially attractive because of

their ability to get home for lunch, but that is not the case in a City like New York, Chicago, and some of the other cities where they are too far away from the residential sections. The plan in most of the reserve banks is cafeteria service at a very low cost, where they have a choice of food. It is not compulsory in any of the banks that they should eat in the cafeteria as I understand it. That is the case in a number of New York City banks where they are required to eat there, and when they do that they always give them their lunch free. That seems to me to be the only basis upon which compulsory eating should be adopted.

We have been considering this recently because we have been talking about the question of salaries, and if we make any change it will have a bearing on our salary policy. I think the concensus of opinion in the bank is that we should serve a good, standard, hot meal at a very low cost and absorb part of it, so that they are attracted by getting a better lunch in the bank than they can get outside, so that they can have all they want to eat without any restriction, or else we should reduce the price of those things that we are specially desirable for them to have, and instead of running above on the expense of the

cafeteria, that we should actually absorb the expense. What I have in mind is that if it cost us \$300,000 a year gross to serve a standard meal for 2000 people -- it probably won't cost as much as that -- but assuming that it does, we should absorb say \$100,000 of the cost and give them such a good meal that they cannot afford to go outside.

If you serve a standard meal it is a little difficult to have a cafeteria service, because you have to have maids, waitresses, and all that, but if you have a cafeteria service you can let them pick and choose, and it is easier to handle. That is being considered by our directors. I do not think they have made a report yet, or if they have, it was made after I left.

Governor Harding. If we fed all of our people at the Cafeteria we would serve about 680 meals. Our average is about 300. On bad days in winter, and on very hot days in summer we serve more than at any other time. Ordinarily we serve anywhere from 200 to 400, 300 being about the average. In Boston there are a number of places nearby where they can walk and reach them in five minutes and where they can get a meal with a little variety by going from one place to another on different days, and about half

of our people avail themselves of that opportunity.

Governor McDougal. How much time do your employees have?

Governor Harding. They have an hour. The First National Bank of Boston sometime ago put in a plan of serving a free lunch in the middle of the day and requiring them to stay there and eat their lunch. It did not work at all, and they abandoned it. They have no cafeteria at all now, except for officers, and the employees go outside.

Governor Fancher. The location of the bank with regard to the retail shopping section has a great bearing upon the operation of the cafeteria. We are located only two or three blocks from Euclid Avenue, the shopping center, and many of our employees plan their shopping to be done during their luncheon hour, and they will go out and get lunch some place outside, spending the rest of their time in shopping. When the weather is bad the number of patrons in the cafeteria increases, and also in the hot weather. I think the average is something less than 600 daily.

The Chairman. We have about 1100.

Governor Bailey. In Kansas City we give them their lunch. I brought along just a few of the menu cards.

It changes every day. I would like to have you look at some of these (exhibiting menu cards).

When we hire an employee, we will say a \$1200 a year clerk, the clerk understands that we will take \$100 a year out of his salary, and that he is to take that out in food. When he understands that he will do it. We changed our lunch hour from an hour to 45 minutes and 50 per cent of our employees, especially in the currency department, but also in other departments, during the rush hour, do not take over 30 minutes. I do not believe we have put anything in the bank that has brought about more efficiency and greater contentment and greater appreciation. It is a great deal better than turning two or three hundred people out in the middle of the day to get improper food at most any place, and to return with their minds diverted from business. Under this system of ours, they rest in the rest rooms and go back to work in a happy frame of mind. We estimate that we have saved 15 minutes on the average in the currency department.

Governor Norris. I am not sure that I correctly understood Governor Bailey, and I would like to ask him whether or not he makes up the meal for them, or if they select what they want to eat?

Governor Bailey. We make it up for them, and it is as good a meal that is laid on the table in many hotels.

Governor Norris. You take out \$100 a year from their salary for meals, if I understand you?

Governor Bailey. Yes, it is taken off each week.

Governor Norris. A hundred dollars a year?

Governor Bailey. Yes, sir. They are paid twice a month.

Governor Norris. If they do not want to eat that food they have to pay for it just the same?

Governor Bailey. Yes, but they agree to it when they are employed.

Governor McDougall. Do you consider you should give them a meal under those circumstances?

Governor Bailey. Yes. That is the basis and understanding on which they are hired, and they accept it in that way. Mr. Harrison will recall that I wrote him asking whether it would create dissatisfaction and criticism, and after I went there and became Governor of the bank I did find some criticism, and I took it up with them and explained to them the reason we did it, and I am just as sure as I am living that with hundreds of those young people it is

the best meal they got during the day. I just told them that if they were dissatisfied that their resignation would be accepted, and I haven't heard a criticism from that day to this. Of course we could move the Harvey dining room from the Union Station up there and we would have some of them criticise.

Governor Wellborn. In your expense account you do not show any cost of cafeteria at all.

Governor Bailey. Yes, we show \$2000 expense over and above this. We put the meals on at 34 cents apiece.

Governor Wellborn. How about your officers, are they in the same fix?

Governor Bailey. They get the same treatment that the other fellows do.

Governor Wellborn. But with no deduction?

Governor Bailey. Certainly not. We have entertained the Board and Mr. Wyatt came out there, and Mr. Miller.

Governor Calkins. We considered the matter carefully and the Board of directors reached the conclusion that we should serve meals at lunch to our employees at the cost of the food plus the actual cost of the service. The result

is that the meals served in the head office, and I have the figures of the branches also -- the average amount of each meal check is 23 cents, the average cost to the bank is 11 cents, and I venture to say that the bank does not spend 11 cents in any other way with such good results as we get from serving these meals to our employees.

Governor Bailey. The cost of the food in Kansas City is 15 cents, salary cost 15, overhead and miscellaneous, 2, 5, or a total of 34.

Governor Calkins. There is no service nor no privilege that the employees of the bank enjoy which is appreciated more than this.

Governor Bailey. I do not want to disturb that relation out there, because it has built up a feeling of efficiency and contentment more than anything we have done.

Governor Wellborn. We have what we call a combination meal, served the same to employees and officers. We charge employees \$5 a month, and the officers \$6 a month. We have a waiter who waits on the officers. That meal costs 21 cents, and the net loss last year was \$839. We are overcoming that loss this year by having the member banks and their employees come in, and they are doing it, and that is

paying the expense.

Governor Norris. Possibly we have been in this cafeteria business longer than most of the other banks. We have statistics, including 1919. In that year 79 per cent of our employees took their meals in the bank. That percentage ran down to about 64 in 1922. Since then it has been 67 in 1923, 70 in 1924, and 68 for the nine months of 1925. You will notice the last three years it has been rather constant, but the percentage is considerably below what it was in 1921. In the meantime the number of employees has been cut down, from 913 in 1921 to 736 at the present time. The result is that while we broke even in 1919 and in 1921 we are now losing money, and for the nine months of this year we are \$3200 behind. The average receipts for lunch has gone down from 32 cents in 1919 to 24 cents in the last two years, and the cost has only gone down from 33 cents to 29 cents, so that we are now losing about 5 cents on each meal served. My judgment is that it is expedient to serve a complete table d'hote meal; we want our employees to eat food that is wholesome and to eat as much as necessary to sustain them, but we do not want them to make it their principal meal at midday because

all medical and general experience tends to show that a person is never as alert and quick for a few hours after eating a heavy meal. Our feeling is that we want to continue to serve meals in the cafeteria, partly to prevent the employees from going out of the building and partly to supply them with wholesome food; but we want that meal to be one where they will have to pay for each thing that they eat separately so that they will not be tempted to eat more than they require just simply because they have paid for it. We feel that we ought to make it come as near as we can to paying for itself, although under present conditions it is not possible to do that, and we think the best way to handle it is to charge to the cafeteria everything that ought to be charged to it, and then at the end of the year frankly absorb the loss on it as the cost of the improved service that we get from the employees by reason of having run it in that way.

Governor Fancher. The Committee which has studied our situation has come to the conclusion that we should either maintain the cafeteria as at present conducted and charge the loss off, which in our case is about eight or nine thousand dollars, to expense, or discontinue the

cafeteria all together.

The Chairman. What did our Committee recommend, Mr. Harrison?

Mr. Harrison. Our director feels, as Governor Bailey feels, that it is very important to give the employees in the middle of the day what will probably be, in many cases, the best meal they will get during the course of the day. They are rather opposed to the compulsory theory because no matter how good you make it, if you force them to eat it they will object and do not get the best benefit from it. They would prefer some such plan as San Francisco has, that is to give them an excellent meal at a price that is considerably below the market and which will involve the reserve bank in absorbing a good part of the overhead. They figure on absolutely the same basis as San Francisco, that is that we should charge the employees about two-thirds of the cost and absorb a third of it ourselves. At the present time Governor Bailey is furnishing meals at 34 cents, and he charges them \$1.00 a year, so that the employee pays 100 per cent of the cost. The San Francisco meals cost the same price, 34 cents, of which the employee pays 66 per cent,

and the bank 33, so that really in San Francisco they are better off than they are in Kansas City, because the bank is absorbing more of the cost. Our directors would prefer, and wanted me to ask you to recommend, that we do something almost precisely the same basis as San Francisco.

Governor Calkins. The reasons for doing that are obvious. First to see that the employee gets a wholesome meal, that means make it sufficiently attractive and sufficiently cheap to prevent him going outside and getting a comparatively improper meal. I believe absorbing the cost by the bank is merely a matter of economy. It has no charity in it whatever. By assuring them opportunity to get in the bank, under attractive conditions a better meal than they could get for anything like the same price outside, we promote efficiency and contentment among our employees, and that contentment is worth as much as anything we have to pay for it.

Governor Pailey. That is exactly what we think about our system out in Kansas City.

The Chairman. That is the way we feel about it.

Governor Seay. We are agreed among our officers as to the desirability and as to the beneficial effect of serving

a meal, but even at that we have never been able to prevail upon more than 35 per cent of them to take their meals in the bank. We are in close proximity to the shopping section. Many of them bring their lunches in "snacks" as they call it from home; some prefer to go out; some think they cannot even afford it, and they bring sandwiches. Our policy, however, is to absorb all expense except the cost of the food and the cost of serving, which amounts to about 35 per cent of the total expenditure.

I would suggest it is the concensus of opinion that the experience of the banks shows that at least they might well absorb all expense except the cost of the food and the cost of preparing it, and that would generally be found to be about one-third of the total cost of conducting a cafeteria.

Governor Wellborn. What would it cost in your bank on that basis?

Governor Seay. It costs us about \$6000.

Governor Biggs. We have only been in operation three months. The first month we had a small loss, slightly less than \$200. In September there was a profit. We feed about 56 per cent of our employees, and the average meal is 28½ cent.

Governor Bailey. Do you operate a cafeteria?

Governor Biggs. Yes. We just opened it up about three months ago and the employees have taken very kindly to it. We have asked them to compare prices paid elsewhere with the prices paid in the cafeteria, and to compare the food. They claim a saving of 30 per cent in cost and an improvement of 10 per cent in the food as against other places

Governor Harding. The Boston Bank has never sustained a loss of over \$2000 a year for the cafeteria, and at the present time it is earning a profit of \$500.

The Chairman. There seems to be basis for the statement made by Governor Seay that there is ground for recommending to the Board that the general policy should be to serve a good substantial meal, not make it compulsory, keep the cost as low as possible for a good substantial meal, and have the bank absorb all the cost except the cost of the food and possibly the cost of its preparation, which works out in a number of cases as follows: One-third of the cost to be borne by the bank and two-thirds of the cost to be borne by the employees.

Governor Young. We only have a small number of people in the Minneapolis Bank, and we closed the cafeteria up. If I add the cost of labor and the price of food

it brings it up to 36 or 37 cents, and they won't pay it. They will go outside and get a meal for 25 cents.

Governor Harding. Why not couple this up with the suggestion that it is a matter for the Board of Directors of each bank to establish for themselves?

Governor McDougal. I would like to know if each bank is not absorbing at least that amount?

Governor Seay. The banks together absorbed \$97,000 last year, according to the Board's figures.

Governor Young. Our directors did not approve of the cafeteria at first. It started rather innocently, and is growing all the time. We simply provided space at first for those employees who brought their own lunches; then we furnished them coffee and milk, and finally some of the employees wanted to know if we could not give them sandwiches at cost, and the thing developed in that way.

The Chairman. The resolution might have added to it the proviso that circumstances vary somewhat in the different reserve banks, and that while the plan proposed would contemplate normally the paying of one-third of the cost by the bank and two-thirds by the employees, that in discussing it with the directors of the banks it might be necessary to somewhat modify this to meet circumstances such as described

in Kansas City and Minneapolis.

Governor McDougal. The one-third and two-thirds to apply to the cost of the food and the service; two-thirds to be absorbed by the employees and one-third by the bank, no consideration being given to any overhead or anything of that kind?

The Chairman. No. It is just out of pocket expense.

Governor Young. I will second that.

(The motion having been duly seconded was carried.)

The Chairman. We will now take up topic 4-G.

4-G. Permanent employment by the Board at a fixed retainer of special counsel of outstanding ability to assist in litigation. * *

The comment is: This topic has as its basis a suggestion of the Federal Reserve Bank of Dallas, and the question was considered in the Conference of Counsel of the Federal Reserve Banks held in Washington last July. That Conference passed a resolution to the effect that the employment of such special counsel was not essential to the proper administration of the Federal Reserve banks, and recommended that the banks continue, as heretofore, to employ special counsel to assist in litigation of System wide interest, when in the judgment of counsel for any reserve bank concerned, the occasion requires such employment and the other

banks are agreeable.

Governor Seay. I would like to say in that connection that Professor Sprague communicated to the Comptroller the substance of our deliberations on yesterday and the Comptroller expressed a desire to be present at the next meeting of the Committee.

(Whereupon, upon motion duly seconded, the Conference adjourned at 5 o'clock p. m., until Tuesday, November 3rd, 1925, at 11.30 o'clock a. m.)
