PROCEEDINGS OF A CONFERENCE
WITH THE
FEDERAL RESERVE BOARD OF GOVERNORS
AND CHAIRMEN AND FEDERAL
RESERVE AGENTS
OF THE
FEDERAL RESERVE BANKS

TREASURY BUILDING
WASHINGTON, D. C.

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O.K.

JOINT CONFERENCE OF THE FEDERAL RESERVE BOARD WITH THE GOVERNORS AND CHAIRMEN AND FEDERAL RESERVE AGENTS OF FEDERAL RESERVE BANKS.

Washington, D. C., November 4, 1925.

2.30 o'clock p. m.

The joint conference of the Federal Reserve Board with the Governors and Chairmen and Federal Reserve Agents of Federal Reserve banks convened in the Board Room, Federal Reserve Board, Treasury Building, Washington, D.C., at 2.30 o'clock p. m.

Present:

D. R. Crissinger, Governor, Federal Reserve Board,

Edmund Platt, Vice Governor, Federal Reserve Board,

Charles S. Hamlin, Member Federal Reserve Board,

Edward H. Cunningham, Member Federal Reserve Board,

George R. James, Member Federal Reserve Board.

Present Also:

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

George W. Norris, Governor Federal Reserve Bank of Philadelphia, Benjamin Strong, Governor, Federal Reserve Bank of New York,

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

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

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

J. B. McDougal, Governor Federal Reserve Bank of St. Louis,

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

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

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

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

Present Also:

Frederic H. Curtiss, Chairman and Federal Reserve Agent of Boston,

Pierre Jay, Chairman and Federal Reserve Agent of New York,

R. L. Austin, Chairman and Federal Reserve Agent of
Philadelphia,

J. C. Nevin, Chairman and Federal Reserve Agent of
Cleveland,

Wm. W. Hoxton, Chairman and Federal Reserve Agent of
Richmond,

Oscar Newton, Chairman and Federal Reserve Agent of
Atlanta,

Wm. A. Heath, Chairman and Federal Reserve Agent of
Chicago,

Wm. McCMartin, Chairman and Federal Reserve Agent of
St. Louis,

John R. Mitchell, Chairman and Federal Reserve Agent of
Minneapolis,

M. L. McClure, Chairman and Federal Reserve Agent of
Kansas City,

C. C. Walsh, Chairman and Federal Reserve Agent of
Dallas,

John Perrin, Chairman and Federal Reserve Agent of
San Francisco.

Present Also:

Messrs. Sidney Anderson and Donald Conn Representing
the American Railway Association.

P R O C E E D I N G S

Governor Crissinger: The meeting will kindly come to order. Along about September 17th I received a letter from Mr. Donald D. Conn, representing the American Railway Association in which he said that the American Railway Association and individual carriers throughout the country have been developing a public contact with industry and agriculture through the organization of regional Advisory Boards; that many problems have recently developed which necessitate the active cooperation of the banking interests of the country, and that he has been asked by the railroads to lay this problem before me in order that the Federal Reserve Board might understand this development, and, if possible, secure the active cooperation of the different Federal Reserve banks throughout the country.

I had Mr. Conn come to the office to discuss this matter, and in the discussion it appears that Mr. Anderson, a former Member of Congress, who was on the Joint Agricultural Commission which made an investigation and made a report to Congress, was vitally interested in this proposition.

In view of the fact that Mr. Conn desired time to talk about it to the Board and then to the Federal Reserve

Banks, I thought the best place to take it up would be at this Conference, when all would be present with the Board, and you could hear at first hand the matters which they wanted to present to the various Federal Reserve banks as well as the other banks of the country. I think when you get into this matter you will find it one of immense interest and you will also know that it has done and is doing a great service in the matter of distribution of the commodities of the country. Now, without any further remarks I am going to introduce to you first the Honorable Sidney Anderson, who will give you his view of the situation.

Mr. Anderson. Mr. Chairman and gentlemen, I want first to express my appreciation of the privilege of appearing before you to discuss a matter which may, at first blush, seem somewhat outside of your province and of the interest of the bank which you represent. I can perhaps best express this appreciation by making my remarks as brief as possible.

While this matter may seem at first blush somewhat outside of the interest which you represent, if Mr. Conn and I are as good salesmen as we hope we are, we should be able to convince you that it is not only not outside of your interest, but that it is well within the interest of the Federal Reserve banks, and that what we are going to ask you to do is not in any way unreasonable.

Some of you perhaps may do me the honor to remember that I was Chairman of the Joint Commission on Agricultural Inquiry, which in 1922 made an inquiry into the then existing agricultural crisis, into the credit, transportation and marketing and distribution. The transportation report was perhaps the most comprehensive of any of them. In it we had some 1600 cooperative agencies and some 240 committees. The Commission was very much impressed with the fact that there appeared to be an almost complete lack of confidence and an equivalently lack of understanding between the railroads and the shippers whom they were endeavoring to serve; that there was complete lack of cooperation between the requirements of the shipper for cars and car service and the ability of the railroads to furnish the cars and car service. It appeared that, instead of working together, industry, agriculture and transportation, upon a problem which was vital to all of them, that they were working more or less at cross purposes with the consequent misunderstanding and failure of the transportation performance.

The Joint Commission recommended to the railroads, among other things, the creation of regional boards, composed of representatives of the transportation companies, of industry and of agriculture and of the industrial and commercial interest of the country, to act in an advisory capacity in ironing out the misunderstandings that had theretofore existed, and in bringing about some coordination betweon the requirements set up on the one hand and the ability of the railroads to perform on the other.

The American Railway Association undertook, through its car service division, the organzing of these regional boards. Twelve of them have been organized and they now comprise some thousands of people representing every phase of industry, agriculture and commerce and representing probably over 90 per cent of the tonnage involved. These boards are divided up into commodity committees, representing separate commodities and groups of commodities. The boards meet quarterly at points located conveniently within the district which they represent, and at those quarterly meetings the commodity committees report the condition in the particular industry which they represent and its requirement for transportation service during the ensuing quarter.

Thus there is established a basis upon which the requirements for cars and for service can be anticipated.

In other words, these reports, when brought together and considered in relation to the reports to the railroad, make it possible to anticipate the car requirements of the transportation companies for the ensuing period. This feature, however, is in my opinion of much less importance than the contacts between the shippers themselves and between the shippers and the railroad officials, which grow out of these meetings.

One of the things which has resulted from the meetings of these boards has been an ironing out of the peak movements of agricultural commodities. That is a matter which bears a direct relationship to credit requirements, because as we are able to iron out these peak periods and provide for an even, steady flow of commodities just to that extent we remove the necessity for large volumes of credit to carry these peak loads.

Now gentlemen I think you appreciate, as I do, that there has been a very marked improvement in the public sentiment with respect to the Federal Reserve System, but I think it is not unfair, and certainly it is not unkind to say there is still some room for improvement in that direction.

The thing that I want to point out to you particularly is that here is a ready made instrument at your hand through which you can establish the contact with the farming industry, with agricultural and commercial pursuits which you have heretofore lacked. Here is a contact through which you can obtain quarterly information which you now gather statistically, but get it directly from the representatives of the industries involved as to just what the conditions in those industries are, how that can be measured in transportation and how it can be measured in terms of requirement for credit.

It does not seem to me that we are asking you to do something for us, but that we are asking you to do something for yourselves, when we suggest to you -- and that is what we are here to ask -- that you appoint a representative or representatives from your banks to attend the quarterly meetings of these regional Advisory boards and to act on their banking committees to assist in this work, which is a public work, in the coordination of the various phases of industry, including production, transportation, credit and all the rest of it.

In substance that is all I want to say. Mr. Conn, of course, is naturally much more familiar with what has been done and what it is proposed to do than I am. He can speak out of the book, where I am unable to. Perhaps

I should say that my own interest arises from the fact that I happen to be a director and a member of the Executive Committee of the Atlantic States Regional Advisory Board. I have had opportunity of seeing them work out contacts that were very valuable, and I am quite convinced.that the advantages of membership or representation on the part of the Federal Reserve Board on these boards will be of as great advantage to the banks themselves as it can possibly be to the Boards in the work that they are doing. I thank you.

Governor Crissinger. Mr. Conn is the Manager of this Association here in Washington. I will now introduce him to you and let him tell you about this proposition.

Mr. Conn. Mr. Anderson has covered the general situation with reference to the boards and what I will have to say, perhaps will be more in detail, but more or less from the transportation and railroad standpoint.

It is unnecessary for me to review with you the condition of the railroads of the United States when they were turned back from Federal Control to their owners. The hazards of war time during the world war made their inroads on every form of industry of the country, and the railroads were no exception.

A s soon as the private managements again took control of their individual properties, their desire was to readjust their physical conditions and thoir relations with the public in the best manner possible in order to create the most adoquate basis for transportation service. If you will think back to 1920 we had very heavy business during the first six months, inventories of stocks were built up to a tromendous point, and that situation, plus the aftermath of the war, gainedfor us a perpendicular drop in commodity prices in July of 1921. The business of the railroads suffered equally. The deflation went through not only the last six months of 1920, but continued through the year 1921 and during that year the railroads of this country madethree-tenths of 1 per cent upon their invested capital.

In 192 2 things began to look bright for the first three months and to look as if some readjustment, some definite program could be developed which would start the railroads right upon some sound basis, when we encountered the mine strike on April 1. That was soon followed by the strike of the shopmen on July 1st, and the accumulated effect of both of those disarrangements made it impossible to adopt any definite transportation program during the year 1922.

The Joint Commission on Agricultural Inquiry submitted their recommendation to us and we told them that we would attempt to carry out all of those recommendations so far as the railroads were concerned as quickly and as soon as it was possible for us to see some light on the situation ahead. That came during the first three months of 1923. The so-called railroad program, which you probably all heard about, was adopted by the American Railway Association, which is an organization of all of the railroads of the country, and an overhead operating organization, was adopted in April, 1923 in New York. Under this program the individual railroads practically agreed with the public that they would do certain things to bring their machine up to date and to meet the public requirement during a certain period. Every one of those things was carried out with the expenditure of some billion and a half dollars in capital account, a billion eight hundred million for supplies, maintenance and so on.

Among the things in this program was the acknowledgement of the recommendation of the Joint Commission of Congress with regard to setting up throughout the United States of these regional advisory boards, and we tried out the experiment. I want to talk very informally about this, because you can best understand it that way. We tried out the experiment first in the Northwest, in Mr. Mitchell's territory, North Dakota, South Dakota, Minnesota and Montana.

In October, 1922, we called the different phases of industry together, the farmers, the banks and so forth, and we said here, there ought to be some way that we can anticipate the transportation requirements of this district in advance of the actual needs. Now, gentlemen, we all know there is one thing that will distumb economic conditions quicket than anything else in this country, and that is an acute car shortage when the people cannot get the equipment to move their business, and that condition we have had off and on for about ten years in these northwestern states, and so under this regional board plan we said if we could get a definite picture of what the situation is going to be in the northwest in the next three months we believe we can meet that situation with enough equipment so that there will not be a car shortage, and you will not be subjected to these other disarrangements. There was no bigger outstanding thing in the Northwest which the railroads felt that they could help on than this relationship which existed between the different farm organizations, between the receiver of the grain and the producer -- we felt that the regional boards was the solution of the situation, that if we could bring the people together periodically on the transportation and distribution questions that they would automatically come together upon their other problems. Therefore we tried out the northwest regional board as an experiment for six months before it was adopted as a final policy by the American Railway Association. We asked all of these farm organizations, the industries and bankers if they felt that the improvement was real or imaginary, if they thought it was a good thing and if they wanted it continued on a permanent basis, and they said that they did. Based upon their experience, and entirely upon their experience, the Board of Directors of the American Railway Association, which is composed of twenty-three railroad presidents, directed the Car Service Division to set these organizations up throughout the United States.

In the first place we had to divide the country up into regions where the transportation and economic conditions were in common. In going over this situation with your Governor, it was singular that our regions are almost identical with those adopted by the Federal Reserve System, although we did not have them all established at that time. There are some slight changes, but they are almost the same. We have f ourteen regions, and I believe you have twelve. We have tried to pick regions where the problems of the farmer and the problems of industry and transportation are more or less in common, and where they had the same economic problems to meet. In each district we place a district manager of the American Railway Association, with headquarters at some central point, and we charge him with authority over the service and car supply feature of railroad operation in that territory. It is true that each territory has an authority by itself, they have control over their own operations, over their own car supply, but when they cannot meet the demands or when they cannot harmonize their relationships with their connecting lines or their competitors then the matter comes to the district manager of the American Railway Association and each railroad is bound by his decisions in carrying out any instructions which are issued.

These district managers, of which there are now 13, and will be 14, report to the Car Service Division office in Washington. In that way we decentralizedthe overhead organization we have in Washington by granting authority over the transportation of the different railroads in each of these 14 districts to a centralized officer in each district, and then we followed that up by building around each district manager one of those regional advisory boards. The object was first to bring the public themselves together, to bring the different phases of agriculture and industry together to promote their own economic development in each territory. Secondly, to anticipate the transportation needs of the district as a whole in advance, so that the district manager could tell us in Washington " We will need 10 per cent more equipment here in the next three months than in the last three months, or 5 per cent less, or whatever it might be"; third, to settle quarterly the larger transportation and distribution problems and do everything we could through the railroads to help solve some of the agricultural and distribution problems of the country. Today we have over 12,000 members in these advisory boards and their committees. Each board has certain standing committees, commodity committees. For instance, in the Southeastern territory we have a cotton committee, a brick committee, and a lumber committee. Then each of these committees may have subcommittees. Each of the committees report four times a year at board meetings, which are held every three months; they report not only as to the general economic condition surrounding their industry, but they also point out just about where they are headed for in the next three months, so as to give us some definite idea of the distribution situation in the district. Furthermore, if these committees have any particular problems of distribution affecting transportation and service, they have the right, under their by-laws and under their rules of procedure, to bring them to the original board and ask the railroads' cooperation in working them out.

Now, I am not going to burden you with the detail of the board organization, because that is a thing that will come to you later on. I do want to say something, however, about the accomplishments. There have been eight boards organized for two years. Since last year four additional were organized, twelve in all fully organized. Some of them are not perfected in the way they should be, but it is a process of evolution which is going on and they are getting better every day. They are voluntary. There are no dues attached to membership. The shipper or banker, or who ever he may be pays his own expenses to the meeting, and in order to contribute our proportion of what we believe to be an economic development of the territory as a whole, the railroads give a one way fare for the round trip, to the individual members of the board. It is entirely voluntary, and in that lies its strength. In other words when a man feels that he has a moral obligation to help you do something, than he is more willing to put his time and money into it if he thinks that the organization is worth while. There are no dues; it is simply a question of paying expomses to the meetings, and the committees contributes reports in the interim.

There have been some very definite results obtained. The first is this: Transportation hasbeen speeded up in the last three years until it is 40 per cent faster today than it was in 1922. That is due to three things, first improvement in the physical capacity of the railroads, second loyalty of the employees and the individual initiative of the employees of the railroads, and third cooperation on the part of shippers in estimating their needs in advance. The improvement in the service has meant a great deal to the banks, has meant a great deal to the country. We can figure the imprpvement in a great many ways. I figured the other day that we had saved $80,000,000 in interest in the last two years on goods in transit. Somebody else figured 140 per cent. We all know there has been a great deal of waste saved and there has been a great deal saved in inventory of stocks. I just had a report this morning from the middle Atlantic States Board submitting a resume of the amount of stocks on hand in the retail lumber yards in Atlanta, and it shows that they are operating with 40 per cent of their stock that they had in their yards in 1922, on which year the comparison is made; and that they are doing a 20 per cent greater volume of business. That was because they had dependable, timely and expeditious transportation service. It all means a great deal for the prosperity of the country to keep this thing going and to keep it going right.

Perhaps the biggest accomplishment that has been made has been some definite accomplishment in the agricultural distribution problem of the country. For instance, we have in the southwest a regional advisory board. In 1923, or perhaps it was 1922 -- I think 1922 is correct -- they had conjestion at the ginning points which made it impossible to keep a proper supply of cars at the originating points. In running that situation down, the commodity committee of the board finally determined that the method by which the cotton tickets were financed through the banks in the southwestern territory was primarily responsible for the delay at the ginning point. They got that matter straightened out, and in 1923 and 1924 they hauled more cotton to the ports and to ginning points than they ever had before, and they had about 15,000 less cars in circulation down there.

Another illustration: We found out that the sheep and lambs from the central western district, comprising Idaho, Utah, Colorado, Wyoming and Nebraska, were arriving in the markets of Denver and Kansas City and Chicago at the rate of 300 cars on Monday, and probably fifty cars on Fridays --- but that Monday was the peak load. The central west board, in cooperation with the railroads, zoned that district out there, and through the plan which they created and made operative, because it was possible to get information from the railroads as to the railroad regulations in distributing sheep and lambs -- it was possible last year to regulate these shipments onto the markets so that they got practically the same number of cars on Friday that they did on Monday, and the prices instead of ranging from 10-1/2 to 16-1/2 cents, a s they did in 1923, ranged from 13-3/4 to 14-1/4 last year. We have the testimony of the President of the Idaho Wool Growers Association, a member of the Idaho Division of the Central Western Board, in which he says that that accomplishment alone put $350,000 more back into the hands of the Idaho sheep people.

The same thing is true with the cars of grapes moved out of California to the east, mostly wine grapes. We have 20,000 more cars of grapes this year, refrigerator cars, than we had last year, just wine grapes alone. We will move before the first of next month about 3000 cars of wine grapes eastbound from California. The bootloggers and every body else are getting them. The Pacific Coast Regional Board estimated how those gra pes would move and how many cars would be required. That is an important thing to know, when it costs $100 to haul an empty refrigerator car from Chicago to San Francisco, and there is no use hauling any more than you actually need. It is important that we know accurately what is going to happen. They estimated for the month of September and October -- and they made in August -- and we have not varied 1 per cent from that estimate in the actual shipments out of California. That shows that it is possible to estimate what the actual demands of transportation will be, even at a distance of 3000 miles away.

In 1923 the Atlantic States Board Perisha ble Committee tried to work out a plan whereby those grapes would be delivered to the Jersey City side, with regard to that portion of the grapes that went to New York, and they would have to be lightered across, unloaded and the empty car brought back, and there was a delay from three to eight days in getting the cars over, unloaded and back and started again to California. They went around to see every perishable receiver in the City of New York, and they sent wires and letters to them, suggesting that they accept the grapes on the Jersey City side and they themselves take over the obligation of getting the grapes across. That was done, and that one move alone has done two things. It has given us about ten thousand additional refrigerator cars that we would not otherwise have had in the California grape traffic this year, without putting another dime of capital into cars, and it has done one other things, which is the biggest thing it has done -- the Chairman of our Perishable Committee in New York -- I am not a commission man and do not know whether he is right or wrong, but I have figured that he is just about right -- says that it has stabilized the market so much in New York City that it has meant $500,000 more to the grape producers of California. That same plan, based on the same theory, we are going to try to put in operation in Pittsburgh with the Pennsylvania Advisory Board, when it is organized. In Chicago we already have a similar plan worked out for wheat. In other words we mean to have the same crystalization of public opinion built up through these organizations in the different districts where economic and transportation conditions are common, where we will work with the railroads, the shippers, the receivers, and bankers in order to work out some of these difficult problems. That, gentlemen, is what these regional boards are doing.

Just one more illustration, which is probably the greatest accomplishment of all. In Mr. Mitchell's territory, the northwest, we had a car shortage all the time up to 1922. Since that Board was organized, in 1923, 1924 and 1925 we have moved the greatest grain crops that they have ever had in that territory without a single blocked elevator, without a single bit of congestion, without a single additional industrial facility, and that we did with 17,000 less box cars in that territory. Of course our main desire is to try to get a greater turnover of our equipment just like any other person. We try to make the box car do more work. There are only two ways that you can do it. One is to speed up the movement on the railroads, speed up the loading and unloading on the part of the shippers, and in order to do that you have got to have a crystalization of interest by the shippers. That is what the regional boards got. The other way is to find out the movement of commodities of the country and organize better distribution systems in industry and agriculture and try to arrive as close as you can at a proper balancedcarloading. Every time you get a peak carloading you get a reaction against the service and also a reaction in price to the producer. The biggest accom-plishment in that territory has been the fact that the grain committee of the Northwest Regional Board, because of the power of public opinion and nothing else -- because there is no law in it --was able within the last three weeks to reduce the number of cars of grain loaded at 7800 country elevators from 800 cars a day to 500 cars a day, thereby making it unnecessary for embargoes to be placed against the movement to the primary markets of Duluth and Minneapolis. It was possible, just through the voluntary cooperation of the country elevators to reduce their shipments from 800 to 500 cars a day, until the influx of gra in had been taken care of.

There is just one other thing I want to say. We are working on a plan to apply all over the country for efficient potato distribution, by drawing a line through the southern white potato and the northern white potato territories. The railroads are putting their money into it because they are trying in every way they can to help the people along the railroad and to help both the producers and the receivers. We believe it is better to do it in this way and that the results will be much better through these advisory boards than could be obtained through legislation here in Washington.

We want to ask the cooperation of the Federal Reserve System in this whole movement. We need the bankers to advise with us and with the Committees and to keep us on a steady keel in the different regions, and we want their interest in the business reports which are rendered at the different meetings. We have had pretty fair success with the bankers generally speaking, but there has never been any national impulse behind these movements in each district, and that is what we need more than anything else. The Bank of Minneapolis has participated actively in the work of the northwest regional committee. One of their assistant Federal Reserve Agents is Chairman of the Executive Committee of the Board, and I think Mr. Mitchell will bear me out when I say that it has been a fine thing for the Federal Reserve Bank, and a finer thing, perhaps, for the railroads and the public, because it has brought the Federal Reserve System in that territory into the closest possiblo conperative contact with the farmer, the receiver and the railroads. We want to ask that same cooperation by the other Federal Reserve Banks. In other words, the railroadsy through the American Railway Association needs the Federal Reserve System to help us build up what wo believe is the commencement of the greatest possible contact for public good that has ever been established in this country.

Governor Crissinger. These remarks have been extremely interesting to me, and I know they must have been to you. Is there any one here who desires to ask any questions or who desires to be heard about it we will be glad to hear from any one.

Mr. Mitchell. I can support all the remarks Mr. Conn has made regarding the benefit this organization has been to the northwest and to the movement of grain in the northwest. Ordinarily there has been over a number of years a shortage of cars and a conjestion of cars at the terminals. That seems to have been entirely eliminated last year and this year. It is awonderful thing in the development of transportation and has some bearing on the credit as well.

Governor Seay. I would like to ask Mr. Conn the districts in which at present he has notorganizatio ?

Mr. Conn. The southeastern regional board,with headquarters at Birmingham, was one of our first boards. That was organized quickly, it was very hastily thrown together, and it covers 11 states. It is altogether too big a district, and we intend to divide that into two districts the first of the Year. We will call one the Mississippi Valley Advisory Board, and will take in the territory above the Alabama-Georgia line, and the new Southeastern Board will take in everything east of the Alabama-Georgia line south of Virginia. That is one of the new boards that will have to be organized, and the other board will be the Allegheny Board, with headquarters at Pittsburgh, Those two regions have not been organized, but we will probably go ahead with the Pittsburgh region before the first of the year.

Governor Seay. Is it possible for your to send us a memorandum of your organization, showing the committoes?

Mr. Conn. I will be very glad to d o so.

Governor Seay. That will show us the territories covered by the different boards also?

Mr. Conn. Yes, I will be glad to do that.

Mr. Curtiss. I think we would all like to have that Mr. Chairman.

Governor Crissingor. You will send that information to all the banks, Mr. Conn?

Mr. Conn. I will make up a detailed memorandum of it so that it willgive the information with reference to each of the boards.

G overnor Seay. I think we all know how the demands upon credits was tremendously augmented in 1920 by the railroad congestion and by the tying up of goods, and I think there has seldom been such a demonstration of a community of interest between the railroads, the shippers, the industrials and banking interests of the country as this organization has brought to light.

G overnor Strong. Of course there are a good many details about the program and the effectiveness of participation by the Reserve System that we will have to learn about. I know a little about the work of this organization, and I think I can assure you that anything you want us to do in New York to bring about effective cooperation we will be very glad to do. Just how we should do it will be pointed out to us later, but we probably can be of some help.

Mr. Platt. Porhaps Mr. Mitchell will tell us about the cooperation of the Federal Reserve Bank of Minneapolis with this Northwest Board.

Mr. Mitchell. The Assistant Federal Reserve Agent, Mr. Mosher is Chairman of the Executive Committee of the local organization. He has been devoting quite a little time to that work. It is one way in which the Federal Reserve Banks can assist in the movement.

Mr. Platt. It is a question of cooperating with the organization in the matter of obtaining reports in relation to the needs of the district and so forth?

Mr. Mitchell. Exactly.

Mr. Platt. The points where crops ought to be moved and so forth?

Mr. Mitchell. Yes. Of course the work is done entirely outside of the Federal Reserve bank, but Mr. Mosher devotes quite a little time while he is in the bank to working out some of the details in connection with the operation of this local committee.

Governor Crissinger. Is there anything further? Dr. Stewart, do the operation of these advisory boards come under your observation?

Mr. Stewart. It has come under my range of interest very much. We have received reports from those boards with regard to the transportation of commodity movement, and we are in a position to exchange information with them along that line.

Mr. Anderson. What Mr. Conn has in mind in particular I think, is that he would like to have each Federal Reserve bank appoint one or more representatives to attend these meetings of the regional advisory boards, and to become members and chairmen of the banking committees, and in that way establish a contact between the banks and the regional advisory boards.

Governor Strong. Mr. Anderson, do these advisory boards have come up questions of handling bills of lading on shipments, and things of that kind?

Mr. Anderson. Yes, they come up constantly. Of course the regional advisory boards do not deal at all with rates. They deal primarily with car service and other phases of distribution related to car service, and that covers pretty nearly everything.

Mr. Platt. You must have some connection with the cooperative marketing Associations, in order to balance your committees?

Mr. Martin. Everytime they have a banking committee somehow or other indirectly it devolves upon that committee to raise money, and I would like to ask if these banking committees have any duty of that kind?

Mr. Anderson. None whatever.

Mr. Conn. No. They simply make a report. The Banking committee of each board makes a report at each meeting on the general financial and credit situation in the area, and that gives you, with the other committee reports, a comprehensive picture of business conditions in the whole district. For instance we just organized the Pacific Northwest Advisory Board, including Oregon, Washington and a part of Idaho, and the executive secretary of the board is the president and chairman of the board of directors of the Dexter Bank of Seattle, one of the biggest bankers of the northwest. He came into the thing on his own volition, and he has given 50 per cent of his time since the 29th of August to this work. He said it is the greatest thing that ever happened in his territory. The Chairman of the banking committee of the board, at each meeting, simply presents a picture of the financial situation in the district, which, taken with the reports of the other committees, gives a picture of the whole situation. The railroad executives and employees are represented, and even the railroad brotherhoods are asking to be allowed to attend the meetings in order to acquaint themselves with certain problems of railroad management which come up. Now, each railroad man, each shipper, and each other person who leaves the meeting has a definite picture in his mind of exactly how the transportation situatio n is going in that district, how the business is going and so forth, for the next ninety days.

Now there is just one other thing I want to call your attention to. We made a report in April of this year to our board of directors, setting out the carloading by weeks for the balance of this year. It is based entirely uponthe reports entirely of these commodity committees and down to the 15th of October we have been one-third of 1 per cent off of the estimate made in April. If we can get things down that fine, because of this actual local contact with the farming industry and other industries, it ought to be a valuable thing for the banker as well as for the business executive and the railroad executive.

Mr. Platt. Your contact with the banks would have some value because of the fact that the business in other institutions naturally could anticipate their future business by getting credit in advance?

Mr. Conn. Yes, and another thing about the necessity for the bank contact-- it perhaps may appear to you as theoretical more than actual, but it is very actual to us -- and that is that the individual manufacturer in any section who knows that the Federal Reserve bank and his bank are interested in the movement, is going to do a little bit more than he did before to make it a success.

Mr. Hoxton. It seems to me that cooperation on our part will be exceedingly helpful to the Federal Reserve Agents in the matter of their monthly business reviews. I believe it will give us anew outlet and a chance for information as to conditions in our own districts and will make our monthly reviews more interesting to the general public.

Mr. Newton. I was asked sometime ago to accept membership on this committee in the southeastern district. I was invited to become a member by Mr. Moore of New Orleans. I was very appreciative of the honor that was conferred upon me, and I wrote to Mr. Moore that I would like to have time to consider the matter. I had in mind conferring with some members of the Federal Reserve Board with regard to it. I imagine that it would take up up some time if a man was going to be of any service. I do not know how much time it would take, but I am glad to hear the matter discussed here and I would like very much to serve om the Committee if the Federal Reserve Board felt I, as their representative in the Atlanta district, could be of service, and if they felt that it would not take up too much of my time from the duties assigned to me.

Governor Crissinger. Have you any idea about the amount of time involved, Mr. Conn?

Mr. Conn. Of course every member is supposed to go -- although he does not have to -- to each Board meeting, there are four board meetings a year in the set-up as now suggested. I have already explained that that section of the country will be divided up into two boards. In the southeast as it is now constituted they hold their meetings in December, March, June and September, at some central point, usually at Atlanta. I have attended three of the meetings held at Atlanta. A man is supposed to attend the meetings and then of course is supposed to give a little of his time in contributing towards making up the report of the Committee. I would say that it would take a full day's time once every three months;

not over that, and maybe half a day's time once every three months. I think that is the maximum of time that will be required by any member of the Federal Reserve System, except the day that he attended the meeting. That would be true of course, except if some big distribution problem should happen to arise which would involve the credit situation very much. Then of course the banking committee would come into play and perhaps would have special meetings with regard to it. But that does not happen very often.

Governor Crissinger. Have you any data which would show how much more rapidly the commodities are moving to the consumer by reason of your association?

Mr. Conn. Yes, sir. I will give a general statement. It is about 40 per cent faster now than it was in 1922. In some districts it is better than that. I will give you a little illustration. The average time on lumber from the Pacific Coast to Chicago was about 18 days in 1922. It is a rare exception when we do not get a car to Chicago in nine days from Seattle now. Here is another example: We have been making a drive to increase the westbound movement of refrigerator cars. Yesterday morning was the first day we got on top of the refrigerator car situation. We furnished a 100 per cent car supply yesterday morning. In 1924 we shipped between September 1 and 20th about 10,000 cars of grapes and this year we shipped only about 4000 cars of grapes in the same period, and that means we have 6000 cars less in the east being unloaded toigo back empty and to meet the peak load. Then when the peak load did come from California, instead of being 1100 cars a day, which was the peak loan in one day for 1924, this year it was 1841 for one day. We were able to do that by having the reserve supply of cars there. We were able to move the empty cars faster westbound from Chicago and we cut down the time from Chicago to Fresno, California from 15 days last year to seven and a half days this year. The Union Pacific Railroad, for instance, has made an average empty mileage westbound of 325 miles per car on refrigerator cars -- a thing unheard of before.

Governor Seay. I suppose the railroad representatives worked up the details of these reports.

Mr. Conn. Yes, they work up the details of their own report, which they have to report on, such as outlining the bad order car situation and things of that kind. Then the railroads have special committees to meet with the commodity committees between board meetings for the purpose of discussing problems of distribution for transportation. They discuss those matters with the commodity committees. For example, there is the lumber committee of the Atlantic States Board that makes their own report regarding the lumber business in the territory; there is a brick committee, a cement committee, and so forth. Then each one of the boards have an executive committee. The railroads have a contact committee. That contact committee is composed of operating and traffic executives of the railroads in each district. That committee meets upon the call of the executive committee of the Board whenever any questions in the territory arise which it is necessary for the executive heads of the railroads and the executive committee of the Board to settle.

Mr. Jay. Can you tell us how it is financed? Obviously there is a great deal of machinery.

Mr. Conn. As I said, there are no dues connected with it. Each man pays his own way to and from the meetings. All the mechanical machinery which is necessary is paid for by the American Railway Association. The practical working out of that is this:

For instance we have here in Washington four or five rooms. The District Manager of the American Railway Association is selected and we ask him how many men he needs, after a board is organized and they say they need three to five. We furnish the investigators for the work of investigating the crop situation. For instance we will say that the situation with regard to packing apples in Rochester is bad and a man is sent up from the New York office to see what we can do with regard to getting better packing for the apples. We supply the working force, and even with the fourteen organizations that we have in mind, we will have a much less organization today than we had in 1920. We had 486 people in Washington in 1920, and today we have 84 or 85. That means that the men are out in the field where they belong, and where the problems originate.

Mr. Miller. Do you run up against any criticism? It is very obvious that as this movement succeeds the volume of bank credit is going to be more efficient, it is going to have greater facility of circulation, and very large bank credit is going to be required, and the profits of the bank will be reduced accordingly.

Mr. Conn. I had a talk with the Vice President of the American Bankers Association of the State of Utah not long ago at Salt Lake. He took the same view. We threshed it out, the view being that anything that stabilizes economic conditions is just as good for the bank as it is for the railroad, the shipper and anybody else. In other words an artificial situation is just as bad for the bank as it is for the lumber mill, for the railroad, or for any one else. Now that came from the Chairman of the Banking Committee of Utah, a committee of the central western board, and he is probably the largest banker we have in that territory. I know that the reaction on some of the bankers of the country has been this: If you speed up transportation you do not need money for the same length of time as you needed it before and therefore you are not making quite as much interest on it. But I think that idea has been pretty well dissipated. We have good banking committees and very good men on those committees. For instance the Chairman of the Banking Committee of the Mid-West Board is Mr. Hazolwood. He is Vice President of the Union Trust Company of Chicago, and he has not missed a meeting of that Board and has contributed a great deal more of his time to it than the average man has done to make a success of it. I think you gentlemen can count on one thing, and that is that the banker, when he finds out what we are trying to do is 100 per cent back of it, the individual banker. We have a country banker from Fargo, North Dakota, who has not missed a board meeting in that part of the country. I think the bankers as a whole, when they find out what we are doing, when they find the economic and stabilizing results in business, are just as strong for it as the next fellow.

Governor Seay. How about the manufacturer? The ability to receive quick deliveries and make quick deliveries is supposed to have a bearing on future orders.

Mr. Conn. We have made a study of that and the information has come to us, I do not know how authoritative it is, but I think it is correct, that where they used to operate on five month inventories they now operate on a few days inventory, which is due largely to the fact that they know that if they place an order, that a certain train, which carries a certain number, is going to deliver that stuff at the D. T. & T. Switch at the time specified. That is the way the whole transportation machinery is working. It has had a great effect upon the lumber, cement and other building material, making it possible for the retailer to materially reduce his stock and do more business.

Governor Seay. Do you get the cooperation of the manufacturers?

Mr. Conn. Oh yes. The first reaction of course was against the saw mill, and he had to cut down his operations to fit the day to day demand for orders. The biggest lumbermen in the districts are members of the lumber committees of the boards. I was talking to the Chairman of the lumber committee of the Pacific Northwest Board the last time I was out there. He is the President of a lumber company in Spokane and he told me that they would get an order this morning, that in that order they are now able to give the car number, and that the order would be shipped out by night.

Mr. Miller. How about the lumber yards?

Mr. Conn. The lumber yards of course are benefitted of course because they are able to do more business with less stock.

Mr. Miller. I am very much interested in this because I have just come from the Pacific Coast and they were enthusiastic because they said the lumber yard was on the car. The California people are interested because they are feeling it in their perishable commodities, because it is to their best interest to get those commodities out just as promptly as possible. I asked the question simply because I want to be sure that any cooperation we give is intelligent and that we are not inviting some new troubles for ourselves.

Mr. Conn. Of course we are not going to have the cooperation of the lumber wholesaler or the broker in this thing at all. We are certainly not going to have the cooperation of the broker. This is the worst thing that could happen to him. There used to be a situation whereby lumber moving from the southeast, the southwest and the far west into this northern country, moved on a basis which was called in transit, and about 40 per cent of it was in transit and unsold. A supply of lumber would be brought to East St. Louis from Cincinnati, and it would lay there for days waiting to be sold, tying up railroad equipment and everything else, and they would get a dollar or two dollars a thousand premium for that lumber in that way. We are never going to have the cooperation of the broker in this, but we will always have the cooperation of the producer, the manufacturer, the retailer and consumer.

Governor Harding. This must be of tremendous advantage to the Birmingham District.

Mr. Conn. I think it has been. We are told that it is.

Governor Harding. In the old days, in the coal mining district you couldn't get coal out of the ground unless you had empty cars at the tipple; the miners wouldn't dig it. You had to have the empties right there to load the coal in as it was taken out of the ground. Then in the cotton business sometimes the cotton warehouses would be chock full, the banks would be loaded up carrying that cotton, and they would not have the cars to move it out.

Mr. Conn. We have that situation confronting us this morning in an anticipated car shortage on the L. & N.

Governor Seay. For the benefit of all concerned, can you tell us frankly where the criticisms come from?

Mr. Conn. This was not a criticism, but I was going to tell you about the L. & N. situation. The Coal Committee from the Ohio Valley Board showed up this morning to take up a certain peculiar development on the L. & N.

Railroad. We are going to have a meeting with the executives of the roads in the morning and study the situation. We have a coal committee down there, and we are going to get a chance to fix the situation up in advance which otherwise might have run into a very bad situation and have taken a lot of time to get out of it.

Now you speak of criticism. We haven't had any outstanding criticisms of this thing. We have had criticisms from the little fellow, and now and then the big fellow would take the position that he did not want to lose the advantage which he had in transportation, but all of that is being dissipated also. I do not know of an institution today of importance in the country that hasn't a member on one of these advisory boards somewhere. The only criticism I know of is of the railroads, when somebody says it is railroad propaganda to keep them out of trouble and all that kind of thing. A politician will go out somewhere and talk about some regional board and say that it is railroad propaganda. But we will take our chances on that. If they want to call it railroad propaganda all right, but the rank and file of the people in this country are back of this thing 100 per cent. You know it is pretty difficult to bring the farm organizations together on any one subject. It is difficult to get the Farm Union, the Farm Bureau Federation, and the National Grange together on any question of policy, but they are together so far as this proposition is concerned and are serving on the same committees. This thing has been going on for three years now and what we need is a national impulse back of the movement applied in the proper way. Last week I had a talk with the President of the American Telegraph & Telephone Company. I went into the whole thing with him, and he has delegated an executive of each of the Bell Telephone Companies in each region to serve as a member of the Board at large; just to have them there, to take no part on any particular committee, or anything, but simply to be there and to harmonize the situation so far as they are concerned. The Steel Corporation has just taken similar action. We have not asked them to do it up to this time because there is a certain psychology in having a little fellow come in first, because if you do not someone will certainly say that the big corporation will want to run it.

Resolutions favoring this proposition have been adopted by the following organizations: The National Association of Manufacturers, the American Farm Bureau Federation, the National Grange, and in fact all the way down the line every organization of any importance has gone into it.

There is just one other thing, and then I am through. I just want to show you the value of the contact through these committees. In 1922 we did not have any district manager at Dallas, Texas. Is there any one here from Texas?

Governor Crissinger. Yes, Governor Talley and Mr. Walsh.

Mr. Conn. We did not have a district manager, and we did not have a livestock committee of the southwest board. You will remember the drought down there in 1922. Everybody in the southwest ask the Car Service Division to send stock cars to the southwest. The War Finance Corporation came over to our office and said, "You have got to do it, or we are ruined", and so on. We did it. We took stock cars from Chicago, from Cincinnati, from South St. Paul and from Kansas City and sent them down into the southwest. Before we did that we tried to find out accurately how many stock cars were needed, by communicating with the Oklahoma Railroad Commission, the Texas Railroad Commission and the New Mexico Railroad Commission. We thought they would ask for more cars than they were entitled to, and they did, and what happened was that while most of the cars sent into the territory were loaded we hauled the rest of them out empty. We had a situation this year on the Texas Pacific, and we had a meeting of the livestock committee, and they told us the number of cars that they would need. We made a survey of the Southern Pacific and the Missouri Pacific and gathered enough cars up within 48 hours so that we could get them out to them and have them ready for this movement on account of the dry weather, and there wasn't a single empty back haul of any of the cars we sent out there. In other words the cars we sent out there were needed. The Committee had given accurate information as to exactly what their problem was. That is a good illustration of how easy it is to handle matters out in the territory and the difficulty of doing anything here. We cannot do anything here. We have got to build up a contact between each branch of the industries, and the railroads, and have them solve their own problems in their districts with what general supervision we can give them from here. That is about the size of it.

Mr. Perrin. I would like to ask whether or not you have any computations which go to show with any accuracy the curtailing of inventories in various important lines, that would be very pertinent in our consideration here as to the decrease in the amount of credit required in carrying those inventories.

Mr. Conn. I am sorry I cannot give an accurate answer to that. We have tried awfully hard to get it, but we have been able to get in that form the figures of the individual firms -- we have only got four definite commodity reports regarding the inventory situation and one of them is the one I mentioned, lumber. Each board in the future, that is the executive committee of each board has asked each commodity committee to report regularly how the inventories are running, whether higher or lower. That has been one thing we have lacked. We have not had accurate inventory information, but we believe now that every three months that information will come in from those commodity committees.

Governor Crissinger. If there is nothing further to be said on this subject we will take a recess of ten minutes and then we will hear Mr. Dewey.

(Whereupon the Conference recessed for ten minutes, at the conclusion of which, Hon. C. S. Dewey, Assistant Secretary of the Treasury, entered the Conference room, and the Conference proceeded as follows):

Governor Crissinger. Gentlemen, Mr. Dewey desires to say a few words to you.

Mr. Dewey. Gentlemen, about a year ago I had the pleasure of speaking to you about some of the problems of the Treasury in connection with the currency. At that time I brought up the subject of the standard silver dollar. Somebody has started the proposition that the Treasury has invented a new form of hard money. I believe it is to be a silver nickel with a gold center. I don't know who invented it; we did not, but people from all over the country have been writing in wanting to know when the new coin is coming into circulation. In addition to that someone has written in offering to sell the first thousand for a thousand dollars apiece or something like that. Let me tell you that there is nothing in that. I think the Treasury has come to the conclusion that there is nothing in the hard money any more as any relief in this matter of circulation. It was a test to see what we could do with regard to forcing out hard money into circulation, but after having gotten a certain amount of it into circulation it came back very quickly and we have about given that up as a means of relief.

I have had a few figures made up to show what the circulation has been doing in the past ten years. I will just mention one or two of them. In 1915 we asked for and had authorized an appropriation sufficient to buy 84,000,000 sheets of distinctive paper. To give you some idea of the increase in the amount of printing that we are doing now at the Bureau of Engraving and Printing, in the way of currency, in 1915 there were 189,000,000 one dollar bills in circulation. On September 30th of this year there were 420, nearly 421,000,000 dollar bills in circulation. When we started to make a little concerted effort to bring the circulation into a more readily handled operation, we formed a currency committee. This was done about nine or ten months ago. That committee consists of Mr. Eddy, Secretary of the Federal Reserve Board, Mr. Broughton, Commissioner of the Public Debt, and myself.

We have assistants who compile the facts received by the various Federal reserve banks and branches as to their supplies of currency, weekly, and they compile those figures into a report which is submitted to us monthly. I will leave with you copies of the type of reports that we got, if you care to look at them, and if you will return them to me. They give us the figure on every denomination and kind of currency that they have; we know just what every bank has in the way of news and fits and in every denomination in kind; we know what reserve stocks they have; we know what is in process of manufacture at the Bureau of Engraving and Printing; we know what are in the Treasury vaults, and with that knowledge we have been able to control the currency situation a little bit; we have been able to build up a three months' supply of currency of every kind and the denomination in a partial state of completion, one month's supply in partial state of completion at the Bureau of Engraving and a two months' supply of completed currency in the vaults of the Treasury. We haven't gotten very far in this program owing to the fact that the demands on us have continually increased. We put into circulation in the last twelve months forty million additional one dollar bills; the demand keeps growing, and makes it very difficult for us to put anything by as a reserve. However, since 1923, when the reserve stocks in all conditions of one dollar bills was only 2 ,300,000, we have increased it to 15,600,000, despite the fact that we have had to place this enormous increase in circulation. We also had authorized last year, and are at the present time completing, a reserve of 30,000,000 uncompleted notes. I mean sheets, with four notes to the sheet, of which 15,000,000 will have only the backs printed and 15,000,000 will have the backs and faces printed, This reserve is to be a revolving stock in the Bureau of Printing and Engraving, permitting us to slow up our process of manufacture and lengthening, we believe, the life of the note about twice. Then a reserve of 25,000,000 s heets which will be printed during the fiscal year 1927; and two months of reserve supplies which we hope to keep in the vaults of the Treasury. If we can keep these reserve stocks it will permit the currency to season, the ink to harden and we believe that the currency will wear longer.

Having carried out this part of our program, on August 20th the Secretary of the Treasury authorized a committee to be appointed to consider the subject of currency as a whole. In the past there have been a number of such committees formed for the purpose of considering the design of currency and other angles of it. These reports have been furnished, were satisfactory, but they unfortunately have been filed away because they did not completely meet the entire situation. For instance, they would prepare a new design for certain classes of currency, but when it was brought to the attention of the Bureau a certain defect in the design, that is a mechanical d efect, made it impossible to carry them out. So this time we thought we would make a very comprehensive study of the whole currency situation. The Secretary of the Treasury authorized a committee of Treasury members to serve, as well as such experts or persons having expert knowledge of the currency situation not connected with the Treasury, to be drafted to serve on the committee. An agenda was prepared covering every angle of the research to be made and this agenda was divided into eight separate headings. Some twenty members were asked to serve on the various committees. I will just give you a list of the subcommittees:

Item 1. New Design.

Item 2. Mechanical aspect at the Bureau of Engraving and Printing.

Item 3. Inauguration of new designs.

Item 4. Distinctive paper.

Item 5. Economies resulting from reducing size.

Item 6. Contract clauses, legends and so forth appearing on the various issues.

Item 7. Examination of procedure for destruction of unfit notes.

Item 8. Legal aspects.

These committees have been working since September 15th and progress has been made. The Committee on design, the first one to make a report, has approved the idea of reducing the size of the currency approximately one-third. Their recommendation and their study will be passed on by these various other committees. It is very easy to recommend that the currency be reduced one-third in size, but it is another matter to consider all the mechanical aspects and determine what the actual savings will be, and what legislation, if any, will be necessary. Before we make any report on this situation all of these points will be covered and studied and the matter will then be forwarded to the Secretary of the Treasury for his recommendation. After that it is our intention to submit it to the Agents, to the Governors and to the Board to get their reaction and their criticisms of our plan.

I might say that the history of the proposed reduction in size of notes discloses that this was started first about fifteen years ago by Secretary McVeagh, first, I believe, just prior to the termination of his term of office, when he made a recommendation that the scheme be carried out.

Secretary McAdoo, who followed him, decided that it would be best to study the matter a little further. Such a study was started; the war came on -- first, confirmation by the Federal Reserve Board came, the other studies were taken into effect, and then the war came along, and the Bureau of Printing & Engraving was in entirely too much of an upset condition to consider any changes in the present methods and plans. At the present time the Bureau of Printing & Engraving is operating under the most satisfactory conditions and I believe that we can now make changes down there looking toward the reduction in the size of currency and that the work can be carried out efficiently and well.

Now if there are any questions which you would like to ask me I would be glad to try to answer them.

Governor Seay. I would like to ask if your change in design embraces any changes which would further the convenience of handling by bank tellers?

Mr. Dewey. I might say that we have made one test. We had fit and unfit dollar bills cut down to approximately the size of the proposed reduced size note; they were passed out to the counters in our redemption division here and counted fifteen times; we counted them as whole notes, we counted them cut horizontally, vertically and diagonally, to see what the effect would be in handling and classifying the different notes. It was found that the whole note counts easily and handles very easily, more easily than the present size; that it does not cramp the hand so much; they fit better into the hand; the half notes cut horizontally -- it was thought that they might be too thin and make too narrow a strip to receive the cancellation holes in them, and that they would tear easily. After being counted fifteen times they showed no wear at all from tearing, but the vertically cut cancelled note was not very satisfactory, they were hard to handle; the diagonal cut was hard to handle and hard to stack. It was thought by the money counters that the reduced size note would be more convenient to handle in the whole note and just as convenient in the half note.

Governor Seay. We have seen designs, Mr. Secretary, which were right side up, no matter which way you turned them. Has anything been done in that respect?

Mr. Dewey. The Committee on design has studied the subject of design of note from every angle. Photography has advanced to such an extent that our note is not really proof against counterfitting from photography, and we might have to institute entirely new features in the note. Our committee has studied that at the Bureau of Standards we have a committee of two experts who are working on the distinctive paper; we are making studies of that, and I might say we have devoloped a paper out there that is four or five times the strength of our present paper, both holding strength and bursting strength. The tests show increased strength and these paper experts are going to make studies of water marking the distinctive paper, distinctive fibre and so on.

Governor Harding. May I ask what your experience has been in keeping the two dollar bills in circulation?

Mr. Dewey. We find that the supplies of the banks have been cut down, that there has not been any appreciable demand for them. It goes back, I think, to the public feeling that there is opportunity to mix them up with one dollar bills. I do not know that there is anything can be done about it. We are trying to push not only the use of the two dollar bills but the use of bills of higher denomination to help us out in the one dollar bill situation.

Mr. Platt. You do not think it is wholly a question of superstition and prejudice?

Mr. Dewey. I do not think so. We have been looking around for a real practical reason for failure to use the $2 bill and one suggestion has come from a very practical source, from a man who does a lot of change work and has a lot of tellers. He said the average man carries his bills of larger denomination in a pocketbook or wallet, the fives, tens and twenties, and so on up; that he puts the one dollar bills in his pants pocket as the large change, and that the two dollar bill is neither a large bill nor a small bill, he puts it in with the ones and pays it out by mistake. That is one of the criticisms we have had. We had any number of them on that theory, that they are too easily mixed up with the one dollar bills. That led to all sorts of suggestions about having them of a different color and so on. This has been taken up with the study already suggested. Another suggestion has been that the two dollar bill is not a multiple, of the next higher denomination, and some suggestion has been made that a two dollar and a half bill be put out in its place.

Governor Harding. I think that would be worthy of consideration.

Mr. Dewey. If we continue a bill of that size and it is necessary to continue it unless we got legislation to the contrary, we will have to make it so distinctive that they do not want to enter into it.

Mr. Perrin. Would it not be entirely possible to make notes of large denominations of two classes, not only bearer notes but order notes like the ten dollar gold certificates. That would relieve embarrassment where there is a considerable volume of money although in small volume in bulk.

Mr. Dewey. I think that might be worked out. I think this committee will study that and all of these other points. All of the different points are being brought up, and the study is going to be as comprehensive as we can make it.

Mr. McClure. May I inquire whether any consideration has been given to the question of destruction at the Federal Reserve Banks of cancelled currency?

Mr. Dewey. Yes. That is being given very careful study. As a matter of fact we are going into everything in an effort to work out some plan. Our study does not only pertain to currency as such, but it pertains to currency and the handling of currency. We feel that the facilities for handling the proposition in 1915 of 89,000,000 sheets of distinctive paper may not be adequate for handling 230,000,000 sheets ten years later. If there are any changes necessary which would make toward efficiency and economy we want to know about it and we are going to cover it in our study.

Governor Fancher. The feeling is that in Cleveland there would be quite a saving if the cancelled currency was actually destroyed when it was redeemed.

Mr. Dewey. There is a feeling that there would be a great saving, but of course there are some legal aspects that would have to be covered by legislation possibly.

Governor Seay. I asked a question a moment ago, but I did not apparently make myself clear. I have been a bank teller myself, and a great part of the time of a bank teller in sorting money received over the counter of a bank is in turning it around. I ask if consideration has been given to the fact that a bill could be made which would be right side up no matter which way you turned it, and thereby save that operation of turning the bill around?

Mr. Dewey. Some of those notes have been sent to us as specimens from the Philadelphia bank. We have them with our collection of specimens and they are under consideration. If we make any changes at all we are going to try to make them as comprehensive and as useful as possible after considering the thing from all possible angles.

Mr. Platt. If you have portraits on the note you cannot have both sides alike very well.

Mr. Dewey. Of course they could be arranged so that one portrait could be here and another one here (indicating). Of course we have a great many things to put on the note, such as numbers, symbols and things of that kind, the space is limited and we have to be very careful to keep the protective features properly covered.

Mr. Platt. Mr. Secretary, is there a shortage of fifty cent pieces, or do we simply not get them?

Mr. Dewey. We have a redundancy of fifty cent pieces; we are loaded down with them. The mint in Philadelphia has large quantities of them. We are trying our best to push them out but the banks won't take them. The demand is for quarters.

Mr. Platt. The banks won't put them out?

Mr. Dewey. There is no demand for them.

Mr. Platt. They will always give you bills unless you particularly ask for small change.

Mr. Dewey. We are minting just as hard as we can on dimes and quarters at the present time; the mints are running over time. We had to stop minting gold for awhile to get out more subsidiary silver.

Governor Seay. That is perfectly true. The half dollars accumulate on us and the quarters go out as fast as we can get them.

Mr. Platt. I have always been under the impression that there was a shortage, because you never get them unless you particularly ask for them.

Mr. Dowey. We have large quantities on hand. I am planning to ship out large quantities of them to Cuba.

I have one other matter that I would like to throw out for the Board to consider. On May 2nd, 1925, there was a letter addressed to the Governors of the Federal Reserve Banks relative to the contract for registered mail insurance and a proposed change in the ratio of the rates. The various banks, I think, subscribed to it with the exception of the Bank of San Francisco. I would like to read this letter, which is as follows:

"May 2, 1925.

My dear Governor:

Since the present contract for registered mail insurance has been in effect several eastern Federal Reserve Banks have protested that the arrangement under which all banks pay an equal flat rate of 4-7/8 cents per $1,000 is not equitable, and does not result in an equal distribution of the saving effected under the new contract. In one case it is claimed that a Federal Reserve Bank is actually paying a larger premium under the present contract than was paid under the old contract.

In view of these protests, the matter was taken up with Marsh & McLennan, who have submitted a schedule of rates, which it is stated would bear a reasonable relation to the hazard of the shipments made to each point, and which would at the same time produce the same gross premium as the 4-7/8 cent rate. This schedule of rates is as follows:

It is understood that the revised rates which would be charged to the Federal Reserve Banks might be subject to some change, due to a variation in the proportionate amount of shipments made to the several banks might be subject to some change, due to a variation in the proportionate amount of shipments made to the several banks, but that it is proposed to use from month to month a rate figured to the nearest quarter cent corresponding to the rates shown above, subject to such adjustment as may be necessary in the premiums assessed for the last month in the year. This would result in the use of rates varying from 2-3/4 cents per $1000 for Philadelphia and Richmond to 10-1/4 cents per $1,000 for San Francisco. The rates ~~is~~ to be charged in the first instance would be as follows:

Boston	4¢	Chicago	4
New York	3-1/4	St. Louis	5
Philadelphia	2-3/4	Minneapolis	5-3/4
Cleveland	4	Kansas City	5-3/4
Richmond	2-3/4	Dallas	5-3/4
Atlanta	5-3/4	San Francisco	10-1/4

This does not mean that the insurance contract will be changed, the underwriters still receiving 4-7/8 cents per

$1,000, but would mean a more equitable distribution of the charges between the various Federal Reserve Banks.

Will you please consider the matter and advise me if such a plan is agreeable to your bank.

Very truly yours,

(Sgd) C. S. Dewey,

Assistant Secretary of the Treasury."

That letter was sent to each one of the twelve banks. Eleven of the banks agreed to the change and I believe San Francisco did not wish to come in under a change at the present time. As a result I think the matter has been dropped, but it was brought to the attention of the Governors at their meeting.

Governor Talley. The Dallas District in the last 25 years has never been able to get enough one dollar bills during the fall of the year, and I would like to ask if the Committee has given any consideration to the furnishing of new ones equal to the amount of mutilated ones shipped into a district.

Mr. Dewey. There was a currency conference held here in July and we discussed the whole question relative to the shipment of one dollar bills and it was decided that if they would allocate to each Federal Reserve Bank --

Governor Talley. I am familiar with that.

Mr. Dewey. That is the last word that we have been told about it.

Governor Talley. That is the last method you have been able to work out?

Mr. Dewey. Yes.

Governor Talley. Our experience seems to indicate that the basis of paying 40 per cent now and 60 per cent fit, has resulted in that in the other districts it seems that the redeposit of fit bills is equal to the amount paid out. What we have been under the necessity of doing in Dallas is to absolutely limit the amount of new bills so much per week to each bank and then raise the requirement on fit bills and the result has been a redeposit that is nearer 25 per cent as against an average in the other district of 58 per cent. At the same time we have imported there a large number of fit bills from the other districts, and of course we are paying the expense on that at the present time.

Governor Crissinger. Due to cotton picking?

Governor Talley. Yes. The demand starts about the middle of August, reaches its peak along about the 1st of October and then is in sfmim volume up to Christmas time. Then a large amount of them are returned, a large proportion of those returned being mutilated bills of course. It appeared to us that there could be some plan worked out under which new bills could be shipped out to each Federal Reserve bank equal to the amount of mutilated bills shipped in here. Then there would not be this difference in the volume of bills; in other words the banks and the other districts would not get an excess of bills and we would not get an insufficient amount.

Mr. Dewey. I do not think that any of the banks in any of the districts are getting an excess of new bills according to the reports we are getting.

Governor Talley. I am applying it to the whole proposition of $1 bills, and not particularly new ones.

Mr. Dewey. We are trying to work it out just as well as we possibly can. We have a limited number of ones that we could print. We are tied down by appropriation. It is not like Federal Reserve notes, that are reimbursible -- we cannot turn them out ad libitum as we would like to. We are allowed so many sheets to cover the whole currency structure, and we try to distribute it the best way we can. Of course there are conditions arising in certain districts that make it seems as if they are not getting their fair share, but I believe that gradually we will work it out into a more gratifying situation.

Governor Talley. It so happens that our additional one dollar bills have tocomeprincipally from New York, which takes a longer time in transit.

Mr. Dewey. Well the drift unfortunately seems to be to the centers in one dollar bills. Chicago gets a fair drift, and New York gets a large drift. The fit bills pile up there very rapidly. Of course it is the transient situation in New York that does it.

Governor Wellborn. I would like to ask if you have taken into consideration the great d emand in Florida for new bills? We have a great difficulty in supplying the demand of the banks for the hotels there.

Mr. Dewey. Of course there is a demand from different sections of the country, and each one of those demands seems to be equally important. It is difficult to satisfy them all. The demands of Florida and California come along during the winter; then there is a big demand in the cities for Christmas. In fact there doesn't seem to be any time of the year that we are not having an excess demand for one dollar bills.

Governor Seay. Then there was a large demand to take care of the races in Baltimore.

Mr. Dewey. There is never any let down in that constant demand. We are trying to build up a sufficient reserve and trying to get enough to make them go around.

(Whereupon Mr. Dewey retired from the Conference room.)

Governor Crissinger. I was wondering whether the Conference wanted to take any action on the matter that was presented by Mr. Anderson and Mr. Conn.

Mr. Platt. It seems to me that it is a very good idea and that we ought to cooperate with them all we can. Perhaps if any action is to be taken it should be prepared for tomorrow's session of the Conference.

Mr. Mitchell. Governor Crissinger, I suggest that a committee of three be appointed to make a report on this matter tomorrow.

Mr. Jay. I will second that.

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

Governor Crissinger. I will appoint on that committee

Mr. Mitchell, Governor Seay and Governor Strong.

Mr. Jay. Mr. Chairman, I would like to relate a little incident in line with what Mr. Conn has stated here. A concern with head offices in New York, with about 200 offices spread over the country, was constantly transferring funds between those offices when they found out they had about ten million dollars which was in the mail all the time as unavailable funds. They discovered that there was a wire transfer system in the Federal Reserve System and they decided to make use of it. By transferring their funds between their offices they have reduced that float from ten millions to one million which means that they have nine million dollars more to use all the time. They consider this a very great service and are very appreciative of the facility.

Governor Strong. Governor Crissinger, I must ask to be relieved from service on the committee which you appointed, and I am sure that Mr. Jay will be very glad to take my place on that committee.

Governor Crissinger. Very well then, I will appoint Mr. Jay on the Committee. The Chair will entertain a motion to adjourn, until tomorrow morning.

(Whereupon at 5.25 o'clock p.m., upon motion duly seconded the Joint Conference adjourned until tomorrow, Thursday, November 5, 1925, at ten o'clock a. m.)

S E C O N D D A Y

Thursday, November 5, 1925.

The Joint Conference of the Federal Reserve Board with the Chairmen and Federal Reserve Agents and Governors of the Federal Reserve Banks reconvened pursuant to the adjournment of yesterday at ten o'clock a. m. in the Hearing Room of the Federal Reserve Board, Treasury Building, Washington, D.C.

PRESENT:

D. R. Crissinger, Governor, Federal Reserve Board,

Edmund Platt, Vice Governor, Federal Reserve Board,

Charles S. Hamlin, Member Federal Reserve Board,
A. C. Miller, Member Federal Reserve Board,
Edward H. Cunningham, Member Federal Reserve Board,

George R. James, Member Federal Reserve Board.

PRESENT ALSO:

The Chairmen and Federal Reserve Agents and the Governors of the Federal Reserve Banks as indicated in yesterday's record.

P R O C E E D I N G S

Governor Crissinger. The meeting will kindly come to order. I take pleasure in presenting Professor Sprague, who will say a few words to you this morning.

Professor Sprague. I will begin what I have to say with a certain amount of hesitation, because it relates altogether to the relations between the reserve banks and the particular member banks that become borrowers, and particularly habitual borrowers at the Federal Reserve Banks.

The Federal Reserve Act, as it seems to me, implies the efficacy of certain principles and influences which do not seem to me to be applicable to any except a limited number of member banks. The Act is, in substance, based upon European central banking experience, banks that are operating and many other banks that are organized under the branch bank system, practically all of those banks having a head office in the central money market of the country with branches extending more or less throughout their respective countries. Under such circumstances the whole credit situation is influenced by the discount rate, and it can also be largely influenced by the character of the paper which the banks, directly or indirectly, use as a basis for credit at the central banks. All of those banks have loans to their own customers and also have a variety of other assets of a liquid sort, liquid in the sense that they are satisfactory assets from the point of view of member banks. None of these European banks, in other words, are tied up with the local situation, and they are all influenced by changes in the different rates, which is not conceded to be the situation with the banks in New York City, which have loans to their own local customers and a large amount of assets which are well known and would be acceptable to other banks, not only the reserve banks in New York, but banks in other parts of the country and, in a good many instances, the banks abroad.

Now, we have in addition to such banks a large number of banks doing a strictly local business, some of which are conservatively managed, and some of which are not. Some have all of their funds tied up in the local situation, and others have a wider range of assets. The Federal Reserve Act made a further and wider change of a very fundamental sort with regard to the member banks when it removed the limitation upon the aggregate amount that any bank might borrow. After the passage of the Federal Reserve Act any bank, under the law, might borrow directly more than its own capital stock. Any member bank can now borrow that amount from any source, and an indefinite amount from the Federal Reserve Banks.

The only limitation being its supply of suitable eligible paper and that word "satisfactory" may be in part eliminated where the reserve banks adopt a policy of taking extra collateral, when the eligible paper itself, though technically eligible, is not particularly satisfactory from a credit point of view. The bulk of those member banks are not and never will be influenced in their borrowing to any very definite extent by the discount rates. After they once become borrowers they do not have the ability, or do not have the assets, which will permit them, by the process of shifting to other banks, to relieve themselves from the load. That is where they are tied up with the local situation.

It has apparently been the practice, at least in some instances, to regard more unfavorably the cases of the local banks which borrow when they have outside investments, than the cases of the local banks which borrow when their funds are entirely tied up in the local situation From the point of view of the depositor it is far better that a bank should have outside investment and borrow at the reserve banks than it is that that bank should have all of its funds tied up in the local situation and then borrow more from the reserve bank in order to put those additional funds into the local situation. From the point of view of the depositor it is distinctly unsatisfactory that this bank should borrow if all of its assets are liquid in character -- and of course that is particularly true if the community is a one industry community, whether a single manufacturing industry, or a single crop, corn, wheat, cotton, or whatever it may be.

I found that on the 31st of August of this year there were 888 banks in the Reserve System which had been borrowing steadily larger or smaller amounts for more than 12 months. Doubtless this total of 888 banks would have been somewhat larger but for the unfortunate fact that 259 national member banks have failed since 1920. I think it is not an overestimate to assume that 80 per cent at least of those 259 banks had been habitual borrowers prior to their failure.

A very considerable number of those banks are borrowing as the result of what happened in 1918, 1919, and 1920, but I find that there were 122 banks that were not permanently in the reserve banks prior to January 1, 1924, that have been in the reserve bank for the last 12 months without a break; 144 banks that have been in the reserve bank steadily since the beginning of January, 1923.

I suppose it is doubtless the case that of those 268 banks that have come into the reserve bank as steady borrowers in the last two years, that a good many of them are in because of the developments which took place prior to 1923, which hark back in one way or another to 1920 and before. Still I cannot escape the conclusion that a considerable number of those banks must be in the reserve banks as the result of operations which did not date back as far as that.

The last two years seem to me to be years in which if, at any time you might expect rather a small number of banks to be getting into the situation of becoming habitual borrowers, I should expect that there would be an increasing number in the next two years if we may assume fairly good business on a rising scale within the next two years, in the absence of a concerted effort to prevent the banks from becoming habitual borrowers through a reserve bank policy. If we admit that eligibility and the discount rates are not effective agencies for preventing banks from becoming over extended, the question presents itself as to whether it is possible, by other means, to bring down the number of cases.

From the point of view of the depositor it is clearly the case that in borrowing on the part of his bank, the bank uses the best assets it has and puts him, the depositor, in a less satisfactory position with regard to the additional assets of the bank, because those rediscounts are not as of high a quality as the paper which the bank hypothecates. From the point of view of the depositor it appears to me that it is highly important that a reserve bank, in taking eligible paper of a member bank, should have some knowledge of the kind of business in which the bank is engaged, or is about to engage, as a result of such borrowings.

I conceive that in the case of those member banks doing a distinctly local business that the problem is not very difficult from that which presents itself in the ordinary commercial bank when loaning to the regular business customers of that bank; that it is necessary to analyze the condition of each particular bank in order to determine the general character of its business, the quality of its management, the likelihood of its becoming overextended and the likelihood of its loans, for various reasons, becoming frozen. Such an analysis would cover certain important points. In the first place a good many of these habitual borrowers are banks with a very small amount of deposits as well as low capitalization. You have banks with deposits of less than $100,000 and earning assets of less than $100,000. Now the earning power of a bank of that size is so low that it cannot possibly take care of losses that are likely to occur even if it is fairly well managed. For instance, with a capital and surplus of $20,000 and deposits of $28,000, by borrowing $24,000 from the Federal Reserve bank in order to do more business, even with the $28,000 of deposits, it seems to me to be a most unsatisfactory view from the point of the depositors of that bank. Unless it is reasonably certain that the $24,000 that it is borrowing is simply to meet a peak requirement of the people in that locality, that bank has not earning power enough to take care of the losses, and presumably in hypothecating the $24,000 of its assets -- and I do not know whether additional collateral was taken in the case -- it has transferred to the reserve banks the best of its loans. In the second place it seems to me important to determine the general character of the management of such a bank with extreme care. I have studied the examiners' reports through a period of years, prior to the failure of a number of banks, and I find that in almost every instance, aside from the few cases of stealing, that there was plenty of evidence that the bank was not satisfactorily managed in many cases; that there was evidence in many instances of an unduly liberal policy in loans to officers and directors and to the interests in which they were bound up. I am unable to see any sound reason for believing, from the point of view of the depositor, that it is proper for a reserve bank to lend to a bank when 60 per cent of its assets are in loans to directors and officers, and other interests, regardless of the quality of the particular paper which that bank may present for rediscount at a time when there is not an emergency existing. If an emergency presents itself in a case of that sort I think it is desirable to attempt to salvage the bank; but I do not believe it is possible to salvage the bank under such circumstances by a more liberal loaning policy on eligible paper; it must be coupled with a change in the management of an institution of that sort, and I think the experience with a large number of the 259 national banks that have failed will bear me out with regard to that point.

Now, assuming that the bank is large enough to have a fair earning power, and is safely and well managed, the next question that seems to me to present itself is what is the extent of the borrowing of that particular member bank. Now the borrowings, from one point of view, you might say that all deposits in a bank are borrowings from the public; but from another point of view you might say that the deposits in the bank, which represent the regular balances of people in the community, whether they are time, savings deposits or checking balances, are the real and steady resources of that bank as long as it retains the confidence of the public. When a bank in Minnesota secures, by offer of liberal interest, funds from individuals in Wisconsin, it is a borrowing bank. Where again a bank secures public deposits by offer of interest at an unduly high rate, that bank is borrowing just as much as if it were rediscounting for an equivalent amount at the Federal Reserve Bank, and that is even more evident when the bank has to pledge a portion of its assets as security for that public deposit.

As an illustration, let us take a bank, the report of which I examined, that had $600,000 of local public funds against which surety bonds had been taken to the extent of over $300,000, and at the same time that bank was in the Federal Reservebank before those deposits had been withdrawn, and apparently it put all of those public deposits and all of the proceeds of the rediscount at the reserve bank into the local situation. Naturally it was overextended, and, with any chill in the local situation, it was under the necessity of borrowing more and more from the reserve bank.

Now, while a bank in one of these local communities shows increasing deposits, whether they are public deposits or merely deposits arising from the growth of the community, it appears to me that borrowing at the reserve bank at the same time, unless that borrowing is for very short periods of time, is in itself evidence of over expansion and evidence of lack of conservatism on the part of such banks. I do not know how far it is possible to go in actually declining to rediscount paper which is in itself entirely satisfactory. If it is necessary, in a mechanical, pawn-broking way, to rediscount paper, that in itself is satisfactory; if it is admitted that the rate is ineffective, then I should hold that it would be desirable to limit by statute the amount that any bank might borrow from a reserve bank. I do not, however, believe that it is necessary to loan merely because the paper is good, and I do not understand that that in fact is the practice. It is apparently perfectly possible for a reserve bank to decline to loan to a reserve bank that is not in a satisfactory position, regardless of the quality of the paper which that bank may offer. It is no doubt the case that a great many banks presume that they can secure the accommodation if the paper is in itself satisfactory. I should not suppose that it was desirable to introduce any rigid rules of practice regarding this matter; but on the other hand it does seem to me that it would be advantageous to press more strongly upon the member banks than now seems to be the case, that it is the business of the member banks to meet the peak requirements and not the business of the reserve banks to enable particular banks to satisfy a steadily larger demand for accommodation in their communities that can be met by means of the resources of the local banks.

Now the damage which results from banks going into the reserve banks and becoming habitually and permanently indebted, manifests itself most strikingly. Of course in a case of the large number of banks that have failed, they were in the reserve bank for relatively modern amounts for some years before the failure, and within the year or more before failure their borrowings had largely increased because during that period of time their deposits very commonly were experiencing a sharp decline. The reserve banks have stayed with those banks, granted them additional accommodations, and very properly so, for a good many of those banks thus assisted have pulled themselves out. There are banks that would have failed but for the liberal policy on the part of the reserve banks after the emergency had arisen. On the other hand in the case of those 259 banks that did fail I question, from the point of view of the depositor, generally speaking, whether it was not less satisfactory than it would have been had they been allowed to fail earlier. You have to offset against the banks that you have rescued the banks whose position have become worse from the point of view of the depositor, as the result of this liberal policy.

Now the figures on the liquidation of those 259 banks show that payments to depositors are going to run between forty and forty-five cents and many of them below that figure. That is a very much lower figure for payments to depositors than was the case prior to 1914, when it averaged slightly under 80 cents. The explanation is to a considerable extent due to this: The deferred failure possibly being due to securing the accommodation at the reserve bank in the months just prior to the failure. I haven't the figures for the 259 banks, but I have the figures for all the banks that failed between May, 1924, and May, 1925 -- 120 banks -- and the figures show that the deposits in those banks were reduced in the twelve months prior to failure by 30 per cent, in the case of demand deposits, and 10 per cent in the case of time deposits of those banks, and those banks almost invariably show a large increased borrowing at the reserve banks during that twelve months' period. In other words the reserve banks made it possible for such depositors to get their money in full at the expense of other depositors, in particular at the expense of savings depositors and time depositors. This experience seems to me to suggest two things: One preventive measures designed to keep the banks from getting into this position, which involves supervision and control through loans by the reserve banks in the months before failure, in the case of the examined banks; and in the second place a question of policy relating to a period of perhaps a year prior to the failrure, when deposits are declining and the banks are coming in for larger amounts at the reserve banks, in that the granting of the further accommodation should be coupled up with an insistence upon some change in policy of the threatened banks and some change in the personnel of its management. I hold the same view with regard to frequent requirements of demand for additional money from the depositor to take care of impaired capital. It seems to me pitiful that the scattered shareholders of a bank should have demand made upon them to put in money on account of impaired capital and then have the same old outfit left in the bank to fritter it away in the course of a few months. The same principle I believe applies to rediscounts and accommodations secured at reserve banks by a bank that is obviously in a more or less tottering condition. The situation is further involved by the fact that in a good many places it is now becoming an indication of weakness on the part of a bank that it is a borrower at the reserve bank. Now that attitude in the mind of the public might from one point of view be regarded as a safeguard, but it cannot be applied by the public intelligently and would work against the use of the reserve bank in perfectly proper ways by member banks if the attitude becomes very general. I believe it is now certainly not an uncommon attitude.

Now I know that you have many other matters to consider. I think I have unburdened myself of all that I had on my mind in the shortest space of time that I could. I thank you.

Governor Crissinger. Gentlemen, we will now proceed with the program of the Joint Conference.

The Board will decide whether or not the report of the Advisory Committee should be brought before the Joint Conference instead of being submitted to the Board alone. It has been suggested that it be brought before this Conference and if there is no objection we will hear that report from Governor Seay.

Governor Seay. You are referring to the report of the Advisory Committee, Governor Crissinger?

Governor Crissinger. Yes.

Governor Seay. That Committee can make only an informal verbal report. The Chairman of the Committee will give a resume of what that Committee has done if it is desired The proceedings of the last meeting of the Committee have not yet been received from the stenographer who acted as Secretary to the Committee. Is it desirable that a verbal resume of matters which have been considered by your Committee be presented to this meeting?

Governor Crissinger. You may make such report as you are able to make, Governor Seay.

Governor Seay. It may be, in order to give some explanation, chiefly for the benefit of the reserve agents, of the originaof that committee.

At the Conference of Governors in April the Governor of the Federal Reserve Board, at the opening of the Conference, commented upon proposed legislation. He stated that the Federal Reserve Board had been consulted very little indeed as to this proposed legislation, and that the Federal Reserve Board as a body had taken no part in any action toward such legislation. He said that he himself felt the need of some study of the proposed legislation, and he suggested that a committee beformedy by the Governors for that purpose. This suggestion met with a good deal of favor; It was regarded as anvery important matter, but it was not immediately acted upon by the Conference of Governors; they discussed it for awhile and then postponed it until later in their meetings. Later in their conference the matter came up again, and after some discussion it was agreed that it would be highly essential to form such a committee. The conviction was expressed, however, that this Committee should not be a committee of Governors or the executives of the banks; that is to say it should not be a committee appointed by them and should not originate with them. The opinion was expressed that the executives of the banks ought not to mix in legislation or in politics, and it was believed that if this committee were formed it had better be appointed by the Federal Reserve Board. The Conference of Governors stated, however, that if it was desired to form this committee the Conference would suggest to the Board the names of certain Governors and certain Agents to compose that committee. Later there was a meeting with the Federal Reserve Board and the matter was again discussed. The matter of immediate consideration of pending legislation was discussed and the future activities of this committee were discussed. One member of the Board expressed the opinion that ultimately the matters considered by this committee might assume quite a broad scope, but it was felt that the matters which required immediate consideration by the Committee were those contained in the legislation proposed, chiefly in the two McFadden bills. The Committee was to be composed of two Governors and four Agents, the names were proposed, and the Board appointed the committee.

The Committee had its first meeting on June 8th. That was about the time that the committee of the Federal Reserve Agents had completed their report upon reserves, and the report of the Agents upon reserves and the two McFadden bills were considered as the immediate subjects requiring attention by the Committee.

With respect to the report of the Agents it had not been examined because it had just been completed and sufficient time had not elapsed for examination. The Committee therefore expressed a general appreciation of the work of the Committee, approved what it had done in principle, but the members reserved the privilege of recording their exceptions with respect to the different provisions of this report. Consideration was given first to the second McFadden Bill rather than to the First McFadden Bill. That bill was condemned both in principle and in text.

It was felt that a study of the effect of that bill ought to be undertaken and Professor Sprague and Dr. Stewart were requested to make some a nalysis of the possible effects of that bill. That was done, and it seemed to indicate that the immediate effect upon particular banks, if it was put into effect, would be to very seriously impair their reserves. In one case I recall it would have reduced the reserves of a Federal Reserve Bank down to 21 per cent during 1924, in the then condition of the bank. During the five months which have elapsed in the year 1925 it would have had the effect of reducing the reserves of four of the reserve banks from 20 to 30 points. We made some analysis of the effect of the bill in our bank, which seemed to indicate that if the bill were put into effect in the then condition of the Federal Reserve Banks it would have reduced the amount of additional credit which they might have been able to extend to one-seventh of the credit which they would be able to extend under existing law.

It soon became apparent,after certain criticisms which appeared with respect to this bill, that it did not meet the public favor, and we all know that eventually it was withdrawn by Mr. McFadden, and the conviction seemed to exist in certain quarters that it is permanently withdrawn.

The Committee then took up the first McFadden Bill and considered those proposals in the bill which were of a non-controversial nature. They tried, for the time being at least, to eliminate the branch banking subject, although the Committee first expressed the opinion that that subject was of such far reaching consequence that it ought to be embodied in a separate bill, and the Committee so recorded itself. Those provisions which are intended generally to add to the privileges of national banks in order to make the National Banking System more attractive by giving them equal privileges with state banks, were generally approved by the Committee. It was felt that Section 5200 of the bill required amendment, and that Section 5200 required considerable study. Professor Sprague was requested to make a study of Section 5200, and such amendments to those amendments which had been proposed and other amendments which, in his opinion, after many, many years of familiarity with and study of the National Banking System, seemed to him desirable. He did that and reported back to the meeting of the Committee which did not take place and could not take place until after I came here to attend this Conference, and you will therefore see that the Committee has not had a great deal of time to consider these amendments which Professor Sprague reported. It did have a second meeting, and it did go over those amendments and such additional proposals which were made by Professor Sprague, but it would take more time than I believe I am expected to spend at this Conference to go into the details of those provisions and, as I have stated, the formal report of the Committee in that respect has not yet been drawn up and submitted to the Committee itself.

Governor Crissinger. Haven't you a memorandum that you had over in my office the other night?

Governor Seay. With respect to the first meeting, yes, but not with respect to the second meeting. We have not received the stenographic report from the second meeting. There were certain amendments to the National Bank Law designed to furnish more adequate data regarding the condition of banks through examinations which were proposed, and which were of transcendent importance, which I think I might review:

One of the proposals was that all applications of every nature, both direct and indirect, which a bank entered into, which was not always customary for it to record in its records should be recorded in its records and shown in its report of conditions, and that failure to record such obligations would subject the bank to a fine of $500.

Another proposal was that where an officer or director of a National Banking Association is an officer or director of another Banking Association, and where it was necessary to secure the report of the other banking associations in order to determine the true conditions of the bank under examination, that the bank under examination should be required to furnish a report of that other banking association; that upon failure to do so it was provided that the officer or director who had obtained a loan from the bank should be disqualified for his office.

Another provision was that Section 5446 of the Revised Statutes should be amended somewhat in this way: It shall be unlawful for any National Banking Association to make a loan or loans of more than $500 in the aggregate, unless secured by readily marketable collateral, to any salaried officer of such association or to any corporation in which such officer or any director of such banking association owns or controls a majority of the stock; that violation of this provision shall disqualify such officer to act as such officer or director of the bank.

Another proposal was to shorten the period allowed for the time of assessments in cases of impaired capital. The Comptroller had expressed the opinion that his experience seemed to indicate that this period should be shortened. It is now 90 days, and the proposal was that it be shortened to 60 days, to the extented in the discretion of the Comptroller. This is one of the provisions which is intended to give the Comptroller's Office greater powers of supervision and to add to his authority in that direction.

There were some provisions in the proposed amendments to Section 5200 which were considered. Perhaps the most important was that which decreases the limit which an individual firm or corporation may borrow upon notes secured by shipping document, bills of lading and so forth. The Committee proposed that the limit should be 15 per cent for a period of six months. But that for a period of three months in order to aide in orderly marketing, there might be an additional extension of the limit of 15 per cent, making the total amount which might be extended on obligations of that character 40 per cent, 15 of which should be for a period of three months in any consecutive 12 months, 15 additional might be for six months upon identical commodities for any period of six months in a consequtive 12 months, thus making the limit for any one person, firm or corporation 40 per cent. I might say the Comptroller expressed the opinion that he was disposed to go much further than that. As I understood him he was even disposed to go so far as to permit the lending of 100 per cent of capital and surplus under such condition. I think that while that proposal did not come formally before the Committee, the general feeling was that it would inevitably drive the member banks into the reserve banks as borrowers upon a large scale, it would not be so easy to get them out and that it would have a tendency towards expansion if not towards inflation. The Committee was therefore of the opinion that 40 per cent, under the circumstances which have been enumerated, would be the extent to which it was advisable to go.

There was one provision which had been proposed as an amendment to Section 24 of the Federal Reserve Act, referring to the extent to which banks might invest any of their funds in investment securities and so forth, which it was thought better to place in Section 5200 as an extension of the limitation, and that was done accordingly. It was therefore voted that the limit to which any bank might invest its funds in any one security should be 15 per cent in addition to the existing 10 per cent and it was also voted that this should be done under such restrictions as to the character and volume which any bank might engage in, as imposed by the Comptroller of the Currency.

I think, Mr. Chairman, that that covers the principal points which the Committee considered. It should be understood that these are opinions which will be recorded and transmitted to the Board for such use as the Board may desire to make use of them.if the Board is called upon, as the Committee understands, to take any position toward the legislation which is now proposed. You may interrogate any other members of the committee as to any points of importance which the Chairman has overlooked.

Governor Crissinger. Have you any suggestions, Professor Sprague?

Governor Seay. If you will pardon me just a moment, there was one proposal suggested by Professor Sprague in his study of these questions which I had for the moment overlooked. Professor Sprague proposed the appointment of what might be termed a superboard, consisting of the a Governor of the Federal Reserve Board, the Comptroller of the Currency and the Under-Secrotary of the Treasury, before which might be brought those officers of banks which continued to violate the law. A penalty was provided which would vacate their office upon declaration of the Comptroller that they were in continuous violation of the law. The Committee considered that proposal. The Committee had in mind that the general purpose of the legislation now proposed was to increase the attractiveness of the National Banking System and to put it upon an equality with the state banks, and in the minds of some members of the Committee, at least, the opinion was that this provision, although it might have a counterpart perhaps in the New York Banking Law imposing a penalty, has no counterpart in the laws of various states, and the fear was expressed that it might be regarded as an autocratic provision which might have some terrifying influence upon a bank, and the vote of the Committee was that it was inexpedient to establish such a superboard.

Professor Sprague. You might say a word about the vote on the proposals of the Agents' Committee on Reserves.

Governor Seay. With respect to the Agents' Committee on Reserves, seven of the nine points proposed by the report of the Committee were taken under consideration.

The first and most important recommendation of the Committee was with respect to deductions from deposits. The Committee proposes that exchanges for the clearing houses, checks on other banks in the same city, and 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, should be deducted from demand deposits.

The vote of the committee seemed to center upon the point as to whether there should be permitted a deduction of checks in process of collection, and a vote of the committee was taken upon that point. There were three in favor of allowing deduction and three opposed to allowing deduction. I might say that subsequently the matter came up in the Governors' Conference, and, while not desiring to anticipate the report of that Conference, I might say that the whole matter was considered, and those members who had voted in favor of it on the committee took into consideration the entire scope of the recommendation, which as they all know, permit now the city banks to deduct from due from and due to their checks for the clearing houses and banks in the same place, and they consider that the city banks had that privilege, but that the country banks, due to the conditions which surrounded their operations in carrying accounts of their member banks, did not have that privilege, and certain members of the Committee which had voted in favor of the amendment in the session of the committee voted against the amendment in to to, and it seems to me at this point there is some explanation of the attitude of the members of the Committee which is needed.

Governor Strong. You have not explained the reason why the Conference of Governors took the position it did in regard to the deduction. We have today pending a suit against the Federal Reserve System which, among other claims contains the claim that the member bank can assert the right to count uncollected checks as reserve deposits, and it seems to some of us rather inconsistent that we should say that that provision is an unsound development in banking in the United States that a check in process of collection should form any part of a reserve, and then at the same time be approaching Congress with a recommendation to permit all such checks in process of collection to be deducted from gross deposits on which the reserve calculation is made.

Governor Crissinger. There is a difference between the Pascagoula case and this proposal.

Governor Strong. I beg your pardon?

Governor Crissinger. I say there is a difference between the Pascagoula case and this proposal.

Governor Seay. The same principle is involved I think. They are contending for the immediate credit of all checks. This proposal is related to it in that it proposes to permit deduction of such checks.

Governor Crissinger. Deduction from gross deposits before computing reserves?

Governor Seay. Yes. That is one step toward adopting the contention of the complainant in the Pascagoula case. There were two points, Mr. Chairman, which the Committee felt must be reserved for further study. One was the reserve on time and savings deposits, and the other was s egregation of savings deposits. Professor Sprague, in his travels over the country and in his interrogations of the banks with which he came in contact, came to the conclusion that it would be wholly impracticable, if not impossible, at the present time, to do anything which would tend to permit the segregation of savings deposits and he therefore, having been a strong advocate of that proposal. decided that it was inexpedient to entertain the idea at the present time. The Committee went on record as favoring the segregation of savings depsoits in principle, but the matter was reserved for some further study, and the question of reserve against time and saving deposits being somewhat analagous to it, that was also reserved for future consideration. It might be mentioned that it was felt that the one burning question with regard to the McFadden Bill, the branch banking system, was regarded by the Committee to be in a very unsatisfactory stage, but no further position by the Committee was taken than which I have announced was taken toward that provision of the Act.

Governor Crissinger. I think it would be well if this question of deduction of checks from gross deposits should be taken up now. The Federal Reserve Agents reported in favor of it and Mr. Martin will please present their position.

Mr. Martin. At the time this question came before the Federal Reserve Agents for consideration we knew of no opinion having been rendered in regard to it. We voted that such deductions were desirable. The duty of preparing the recommendation to the Board was assigned to me, and I perhaps might preface my report by this statement: In the old days the due to and due from banks seemed to be an effort to equalize what we might call the paper deposits. Since the establishment of the Federal Reserve banks, through their deferred time schedule, the paper deposits have really developed into actual deposits. With that purpose I beg leave to submit the following report:

It is believed by the Conference of Federal Reserve Agents that it is desirable, and that the Federal Reserve Board can by regulation put in force the first recommendation put in the report of its committee on reserves, namely:

'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.'

"All such items are accepted by banks for collection and credit, and all banks retain the right to charge back any such items not paid. Even though called 'deposits' they are entirely different from a deposit of cash. Such a cash deposit immediately creates the relationship of debtor and creditor, while the receipts of any of the above-mentioned items is in the nature of an agency until the actual collection is made, and if the bank advances funds before the collection is completed and the collection is never completed, then itcharges back the amount, which is another way of saying that the bank makes its customer pay the loan of the money advanced.

"This theory of collection of credit is confirmed by the charge commonly made by clearing house rules in regard to s uch items. Clearing houses do not charge exchange, but where it takes time to collect an item, when a depositor wishes immediately draw against such an item, the bank charges interest on the amount for the time it takes to collect in accordance with the Federal Reserve Schedule, and in the event the item is dishonored, then by charging back, the bank in effect causes its loan to be paid.

"Such being the case by deducting the above mentioned items the effect is to omit them in computing the bank's demand deposits, and there would seem to be every reason why they should be omitted, and no conflict with law in doing so.

Such a ruling by the Board would correct the present inequality existing in favor of the large city banks in computing reserves, and it is believed would have an excellent effect, with but a comparatively small actual decrease in the System's aggregate reserves (approximately $42,000,000).

"Further it is a regulation to which no one will object. It corrects an injustice without creating a hardship for any one.

It is suggested, however, that as such a ruling might have some bearing on the Pascagoula case now pending, it might be well for the Board to consult with counsel in that case, and if in his judgment desirable, defer such ruling, should it decide to make it, until that case is finally disposed of."

Mr. Jay. It is interesting to note that this is the third successive year that the Agents have recommended this unanimously and the Governors have unanimously recommended against it.

Mr. James. Not unanimously.

Governor Strong. It seems to me there is a little inconsistency in the resolution presented; in fact that the resolution seems to be predicated upon the theory that a member bank collecting a check is acting in the capacity of an agent with the relation of debtor and creditor not arising until the collection is completed; that then it recognizes the fact that the proceeds of the check when collected are immediately credited to the depositor's account, and the bank does in fact create the relationship of debtor and creditor which it is claimed in this resolution. Another curious inconsistency arises in the fact that the charge of interest which is imposed against the depositor for the collection of this item which is immediately credited to his account, we know cannot be sustained by the practice of banks, because they object to it and do not permit, except in exceptional cases, a depositor to draw against uncollected funds. The resolution appears to me to be inconsistent from beginning to end. I feel that it is also inconsistent with our position in the Pascagoula case. In the Pascagoula Case -- I do not want to argue the law with Mr. Wyatt, who is more competent to do it than am I -- but in the Pascagoula case we set up exactly the same contention, that if the Federal reserve banks should act as agents in collecting these checks the relation of debtor and creditor does not arise until the process of collection is completed. The Pascagoula Bank contends in effect that they buy the checks, that is if they are entitled to immediate credit or advance upon that, and that puts the check in the position of being cash when it is placed in the possession of the reserve bank -- in other words collected funds. To contend that deduction shall be made from gross deposits of checks in process of collection seems to me is a recognition of the principle that credit is immediate on the books of the reserve bank, which tends to create the relationship of debtor and creditor in considering that these checks are items -- not items due from banks, but a balance due from a bank, and they are not a balance due from a bank until they are paid.

Mr. James. May I ask Governor Strong, on the basis of the explanation he has just made, what relation the time schedule of the reserve bank would have in a case of that kind? It is just a matter of theory that the collection has been made and not a fact, when the credit is really put to the account of the bank for whom the Federal Reserve Bank is acting, is it not?

Governor Strong. Well, I think the facts are that it would be impractical for the Federal Reserve Banks to devise a time schedule which would operate exactly with every paying bank with regard to these checks, when you consider delays in the mails, and so on, and which would insure that every check has actually been converted into a cash balance at the end of the time schedule.

Mr. James. Wouldn't it be necessary for it to have been converted into an actual cash balance in order to fully and technically comply with the legal side of the argument?

Governor Strong. It would, except you have got to recognize that these mathematical propositions are not capable of being perpetuated in such a matter. I believe this would come under the rule of law that the law does not take any account of trifles. It is a trifling inconsistency which does not impair the principle applied to the time schedule.

Mr. James. The Federal Reserve Agents may have given a reasonable amount of consideration to that idea too, Governor Strong.

Governor Strong. Mr. James, the Conference on yesterday considered the question of time schedules very fully. Many inconsistencies in the schedule were pointed out. We recognize that it is not mathematically accurate and a resolution was passed to refer the whole subject of time schedules to the standing committee on collections. They are to make a further, and I hope, scientific study of them, to see if the time allowed for collection of checks cannot be so perfected that float is practically eliminated entirely. The present time schedules are fairly accurate, or the float would be very much greater than it is in proportion to the total. Mr. Rounds pointed out, in connection with this proposal, a very simple fact, which illustrates how the time schedule could be made to work, and that is if every member bank would set up bookkkeeping of its own deposits and collection items, that is cash items, exactly as the reserve banks do, they would thereby carry them on their books as an asset, the amount on their books of uncolledted checks at any one time being those which are determined by the time schedule, and then among their liabilities they would set up, exactly as we do, a contingent liability which will become an actual one to their depositors when those checks are collected. But the banks are not willing to do that because they want to show this item as a deposit.

Mr. Walsh. Governor Strong, do I understand you to say that the member banks should keep an account of that kind of the items which they send in, and not take credit for them until the time limit expired?

Governor Strong. The practice now pretty generally established, I am informed, is for a bank to enter all checks deposited by its depositors as deposit liability, and to put in front of the pass book a notice to the effect that they are acting as agent in collecting those checks. Now when a depositor who hasn't the very best credit, attempts to draw out that balance which has not been collected, they promptly send the check back stamped "uncollected funds", so that bookkeeping is not entirely in accord, according to my notion, with the legal position of the bank that does the collecting nor is it in accord with the common practice of refusing to allow depositors in banks to draw out uncollected funds.

Mr. Walsh. A very large number of the member banks in the 11th District carry those items in a sustained account and do not take credit for them until the time limit expires. I notice that because when I was in a member bank we always had a sustained account in which we carried the items that way.

Mr. Curtiss. I would like to ask Mr. Walsh if he carried that account against each individual account on the books?

Mr. Walsh. No we did not. We carried it in a general sustained account.

Governor Seay. You refer to the account with the Federal Reserve Bank. You do not mean an account with respect to its depositors?

Mr. Walsh. No, we do not do that, but we do keep it with the Federal Reserve Bank and keep tally on it.

Governor Crissinger. What action do you wish, gentlemen?

Mr. Miller. Are we to understand that the report as outlined by Governor Seay is approximately the report which is going to be submitted in writing?

Governor Crissinger. Yes.

Mr. Miller. And that covers, in the judgment of the Committee, all that is necessary to do in order to liberalize the National Banking Law?

Governor Seay. So far as the Committee could encompass those matters in its short time, yes, and so far as the studies of Professor Sprague went in that direction and his proposals.

Mr. Miller. Do I understand that the recommendations of the Committee are predicated entirely upon what the

Professor has recommended?

Governor Seay. Not entirely, but very largely.

Mr. Miller. Can we not hear from Professor Sprague? I would like to ask, just as a matter of information, whether this represents all that, in your judgment, it is necessary to do in order to liberalize the National Banking Law to a point where we can regard the statute as up to date so far as it covers the rights and powers that it gives to National Banks?

Professor Sprague. I should think there are really two problems. One the possibility of immediate legislation, and as to that it would seem to me that we can hardly go very much further than the Committee has gone, although they did throw out perhaps the most significant proposal which both the Comptroller and I had in mind, and that is the one about the Board of supervision. We do not think it is advisable to take up matters that are decidedly novel as a part of the proposed legislation in the next session of Congress. There are a number of other provisions that it seemed might be desirable to have in the law but which, on investigation, we decided were not worth while. For example in the matter of chartering the banks, one of the evils of the ssituation unquestionably is the excessive number of banks which have been chartered in a great many parts of the country. Certain state laws, such as those of New York and Missouri have provisions regarding the establishment of new banks, such as a showing of advantage to the community in having an additional bank and that sort of thing, but there is nothing of that sort in the National Bank Law. I do find in the practice of the Comptroller's office all of these considerations are taken into account, but it was feared that if a proposal, similar to that in the New York Law, was brought before Congress it might not get through, and might upset the practice in the office, and it was thought on the whole that it was better to let sleeping dogs lie, that you wouldn't accomplish very much more if you had all of the existing practice in the statute, certainly nothing more than is accomplished under the present control, and that if you had a different sort of Comptroller, , ready to grant charters whenever they were asked for, that you probably wouldn't find it prevented by anything in the statute.

In studying the provisions that were considered relating to the capital of banks, it was felt that there are too many small banks, and that the mortality among the small banks with small capital is very great. Investigation of that subject convinced me that the proportion of failures of banks with small capital, in states where there had been a large number of failures, was not excessive when account is taken of the number of such banks relative to the total number of banks. It did not, therefore, seem to be worth while to urge an increase in capitalization say to the former minimum of $50,000. I do not think the evidence supports the view that it would be a striking improvement in the situation.

The matter of segregation is I believe one which should be given detailed study and a matter that should be brought forward in connection with the McFadden Bill, and perhaps rather informally at bankers' conventions and so forth, andd that there should be an educational campaign on the subject in the hope that something, whether optional or general, should be definitely brought forward perhaps a year or two hence. That covers about all that it seems to me to be desirable to attempt to propose at the present time. I feel that in these matters one has to go step by step, to see what the result of specific proposals will be upon the whole situation; that there may be desirable steps to be taken after certain initial steps have been taken; that it is not possible to arrive at an ideal banking system all at once, that one has to move in a more or less piece_meal fashion, if you please, and that perhaps is an explanation of the absence of anything very strikingly revolutionary in the proposals which were brought before your advisory committee.

Governor Harding. In attending the meeting of this committee I have been impressed with the sentiments that have been expressed and by the amount of attention that has been paid by the committee tonthe question as to whether or not it would be advisable to get legislation on certain points that seemed desirable. Now we all know that legislation originates in the committees of Congress. The committee to which a matter is referred sometimes has a hearing, the committees wants suggestions, and the Committee itself is certainly in much better position to judge of the practicability of getting legislation then are any outsiders. I cannot escape the conclusion that if any carefully considered recommendations are going to be made to a committee of Congress, that those recommendations be entirely frank and based upon what, in the opinion of any advisory body, is really desirable, without any reference as to the practicability of getting it through Congress. They simply will lay their views before the Committee which will reject some and adopt others. I do not see how any outside body can form any accurate conclusion in advance as to what it is possible to get through Congress. One of the Members of the Board has been Chairman of the Banking & Currency Committee of the House and has had the experience in these matters, I think he will bear me out when I say that what the Committee really desires is a candid expression of opinion, and that when they have gotten all of those opinions that they are in a better position than anybody else to judge as to what can be put through either the House or the Senate.

Mr. Platt. I think that is true except the Banking & Currency Committee generally like to have their bills at least partly written by some one outside.

Mr. Miller. Did I understand from Professor Sprague and Governor Seay that the Comptroller and Mr. Sprague had agreed that it would be advisable to set up what is called a super-advisory board to report certain disciplinary action against certain bank officers?

Professor Sprague. That proposal I think originated with the Comptroller. He was strongly of the opinion that there are a large number of cases where banks are probably going to fail, and where you can see that coming one or two years before the failure -- cases where it is not so much violation of the law as it is the question of unsound practices within the law, which you cannot rule out by statute without naming all banks in general; he felt it desirable that somehow he should be allowed to do something with those banks in addition to putting them on a special list for frequent examination, which is the only way he can do at present, short of forfeiture of charter. As I understand that action has only been taken once in the history of the System. He did not believe that such power should be granted to him as an individual, but felt that it might properly be lodged in a Board. The Committee was unanimously opposed to the proposal. If I may add to what I have already said, I think that because of the absence of any such control in the Comptroller's office it becomes more and more incumbent upon the management of the several Federal Reserve Banks to see to it that they do not loan over freely to banks that are mismanaged and that have excessive loans to their directors and all that kind of thing. That is the only existing mode of controlling the banks at the present time -- the lending power of the reserve banks.

Mr. James. I would like to ask whether the Committee has given any consideration at all to what seems to me to be a growing practice, that of having holding companies owning stock in National Banks?

Professor Sprague. That is covered in a sense by the provision which was agreed to by the Committee regarding chain banks, that is, the provision requiring simultaneous examination of banks where directors hold positions in related institutions. It is a sort of analogy to the Clayton Act. We felt that it was desirable for the reserve bank to have complete information regarding those related institutions, so that a trust company that owns 90 per cent of the stock of a national bank could be examined at the same time the national bank is examined. The proposals of the Committee do not go beyond securing full information regarding the institutions that are so related, if the status or condition of one cannot be determined in the absence of data simultaneously secured relating to other institutions. It may be desirable to introduce additional legislation with regard to that matter, and that would be a matter for the future. That is one of the cases where it seems to me it is necessary to go step by step; to do the obvious thing first, and then see what it might be desirable to do subsequently.

Mr. James. I did not understand Governor Seay to mention in his report anything relative to chain banking, or to the particular subject that we had in mind, namely, the case where a holding company owns the capital stock of a national bank other than the qualifying shares held by the directors, we will say, thus limiting the liability of the stockholders in case of required assessment. I can conceive of a case arising where a bank which found itself in difficulties might be owned by people of large means, that those owners, realizing that their investment is gone, and that, under the law, they might be called upon to put up an amount equal to 100 per cent of their holdings, might organize a holding company and let that holding company buy the stock in the bank, they, in turn, owning the holding company. Then when the bank is apparently in a helpless condition they can simply let nature take its course, let a receiver be appointed, the assets of the holding company would consist of merely its holding of capital stock in the bank, and a wealthy family would be able to get off without paying anything.

Governor Seay. Do you believe it possible to pass a law, or that such a law would be constitutional, that holders of shares in any national banking institution should not hold shares in any other banking institution?

Mr. James. I have not given that any thought from that standpoint. The legal side of it would be a perfect blank to me. What I was interested in knowing was whether the Committee had given this matter any consideration?

Governor Seay. They gave it consideration to the extent to which Professor Sprague has just described, the committee recommending legislation to the effect that where, in the examination of one bank, it was found that those connected with that banking institution were in control in another banking institution, followed by the interchange of investment, bills receivable and so forth, and that the condition of the bank under examination could not be satisfactorily determined without a report on the banking institution with which it was affiliated, that there then should be required a statement of the affiliated banking institution in order that the real condition of the bank under examination might be determined.

Mr. James. Even if you had a simultaneous examination of the holding company and of the banking institution and any other affiliations that they might have, after you get this report of the examination do you stop there? It seems to me that merely developing the information would not be very much protection to either the stockholders or the depositors. It looks to me like you would have to have some supervision of a corrective nature if the examinations developed the desirability of taking corrective steps.

Governor Seay. If it were disclosed that there existed any conditions which violated the existing law, then it is presumed that those having the vested authority to administer the law would take action. That would devolve largely upon the Comptroller's office, or chiefly upon the Comptroller's office, so far as I know, and a condition is set up which is extremely involved and complicated.

Mr. James. It certainly is.

Governor Seay. It can be evaded by various processes which are regarded as legal, and it is doubtful that they could be reached under any condition. There comes in one consideration with reference to the subject of branch banking, which is recognized by chain banks and which may be even more pernicious than branch banking because it cannot be reached --

that is that in the case of the branch banking the parent bank is known and the relations may be followed, and they are all subject to examination, but in the case of chain banking they are entirely within the text of existing law, so far as is known, and I believe it is generally considered that there is nothing to prevent and can be nothingto prevent the holders of stock in one institution holding stock in another institution. It may be that a law could be passed forbidding the holding of a preponderate influence or a majority of the stock of another institution, but that is a matter which will require very careful study from a legal standpoint.

Mr. James. And that is a study that I want made.

Governor Seay. It must be taken into consideration that this Committee is in its inception; it is a very young committee; that as far as the present goes it has had for consideration only those subjects which are being immediately proposed for legislation, and it has chiefly confined its consideration to those topics. I believe that the Committee will function along lines upon which it is desired to function by the Board, and also along lines which it may itself develop in the consideration of the subject.

Mr. Curtiss. I think it is a very important subject. We have had a development in the New England District of investment trust companies. We have one company doing nothing but buying bank stocks and in its advertisement it points out that any one participating in that trust is not subject to double liability. They are simply pointing out to our member banks that they are losing a part of the protection that they ought to have, and I think it is a very important matter.

Mr. James. So do I.

Governor Seay. Do you know of any law in your state which prevents those investment companies from functioning in that way?

Governor Seay. I do not.

Governor Seay. That is the point which is brought up for consideration by Mr. James.

Governor Harding. The point raised is a very important question, because there is going to be more and more chain banking. Corporations will be organized for the purpose of taking stock in national banks. I do not know whether it is at all feasible as a matter of law, counsel can advise on that, but I think this whole thing could be very easily cured by Congress enacting a law that wherever a corporation holds stock in a national bank and it becomes necessary to levy an assessment on the stockholders, and the corporation is not capable of meeting the assessment, that the assessment shall bo traced on down to the stockholders of the corporation.

Mr. James. That meets my idea exactly.

Governor Harding. I do not know whether that is possible, but if it is, it will cure the situation.

Governor Crissinger. Mr. Martin, it seems that we are going to have two reports on this one subject. Would you mind stating whether your report was unanimously adopted by the Federal Reserve Agents?

Mr. Martin. It was my understanding that the report as rendered was unanimously adopted. However the Agents are present, and they can state whether or not that was a fact.

Governor Crissinger. Just for the benefit of the Board, how do the Governors stand on it? It was three to three in the Committee.

Mr. Platt. You are talking about the proposition of the checks in process of collection being deducted from gross deposits?

Governor Crissinger. Yes.

Governor Strong. We were unanimously opposed to it.

Governor Young. No, Mr. Chairman.

Governor Harding. I would like to qualify that statement. There were two votes takes at the Governor's Conference. The first vote was unanimous, that deductions might be made in the case of city banks, exchanges for clearing houses and checks on other banks in the same place, but when it came to the question of allowing that deduction for the country banks I think the vote was ten to two against it.

Governor Strong. That is correct.

Governor Harding. I think the point was raised about allowing a deduction for the city banks and not extending it to the country banks, and then the Conference voted to strike the whole thing from the record. That is my recollection of it.

Governor Crissinger. Then you really had no vote?

Governor Strong. A thing which largely influenced the discussion was the inconsistency of this recommendation and the position taken in the Pascagoula case.

Governor Crissinger. Is there anything further on this? If no action is necessary it will be referred to the Board for such action as the Board sees fit to take.

Is the Committee appointed last evening on this American Railway Association matter ready to report?

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J.C.

Mr. Mitchell I would like to speak to Governor Seay about our report.

Governor Crissinger. With reference to Mr. McFadden's letter to me in reference to permitting banks to borrow for a period beyond the 15-day period, say to 90 days, I would like to know what action the Governor's Conference has taken on that and we would like to hear now what the Governors have to say about it.

Governor Strong. We voted, I think unanimously, Governor Crissinger, that we saw no particular harm in increasing the period to 60 days, but that it should only cover eligible paper and not Government bonds.

Governor Crissinger. What action did the Federal Reserve Agents take?

Mr. Perrin. Our vote on that was six to three in favor of establishing a period of 90 days for paper secured by eligible paper. Three voted against it because of their conviction that such action would result in the rather speedy discontinuance of rediscounting and reliance upon borrowing by pledging a mass of paper, resulting in a gradual diminishing of the vigilance in scrutinizing the paper accepted, on the ground that, having $120,000 of collateral perhaps for a $100,000 note it would not be deemed necessary, with this gradual diminishing of vigilance, to determine whether each piece of paper was of an acceptable character. That opinion is based upon observation of what is actually happening where such paper is pledged as collateral for member bank notes. Governor Crissinger. Is it the recommendation of the Governors that these direct loans shall not be secured by governments at any time?

Governor Strong. No, but at the time just be increased from 15 to 60 days.

Governor Crissinger. Wouldn't it be a good thing if they would just eliminate it entirely?

Mr. Perrin. May I make a slight addition?

Governor Crissinger. Certainly.

Mr. Perrin. Mr. Curtiss reminds me that the 15-day note was to be continued as it is now, subject to being secured by eligible paper or government securities.

Governor Crissinger. Anybody else? That leaves it up in the air. There ought to be an agreement on it in some way in order that we may know what to do with it.

Governor Seay. Was that the unanimous report of the Agents' Conference, Mr. Perrin?

Mr. Perrin. No, the vote was six to three.

Mr. Hoxton. The report of the Agents and the report of the Governors is identical, with the exception that the Governors voted for 60 days and we voted for 90 days. It is just a question of harmonizing those two suggestions.

Governor Crissinger. Do the Governors object to making it 90 days?

Governor Norris. I would object to it personally.

Governor Crissinger. I am asking Governor Strong whether the Governors would object to 90 days? How did the Governors vote with regard to it. Governor Norris is objecting to it.

Governor Strong. I think it is going a little far, myself.

Governor McDougal. I should like to report that Governor Strong was mistaken in stating that the vote was unanimous. I registered my vote as being opposed to any change in the law.

Governor Strong. That is correct. There was a vote against it.

Governor Crissinger. Does the Board want any further information about it?

Governor Seay. With reference to the comment of Mr. Perrin as to laxity of administration in the Federal Reserve banks and lack of scrutiny of paper which is submitted when there is excess collateral, I cannot bring myself to believe that that practice can grow up in the Federal Reserve banks when it is the law that they shall receive only such paper as is eligible and acceptible. I cannot believe that there is any danger of laxity growing up in any of the reserve banks in that respect.

Governor Crissinger. Is that excess collateral eligible?

Governor Seay. I mean when they should offer for a loan of $100,000 $120,000 in paper. I think Mr. Perrin expressed the opinion that his observation is to the effect that the scrutiny of the paper offered is not as great as it would be if the paper was offered by itself. I would like to say that there is at the present time some criticism among the member banks, and I believe among non-member banks, that that provision subjects them to very great inconvenience. One of the considerations which I think governed some of those Governors who voted for it, was that this provision was in accordance with an American practice which had been in existence for many, many years, that it would remove that criticism and that the proposal at the time might be extended to 60 days would violate no consideration of economics and that it was entirely sound; that it would meet what has been advanced as quite a serious objection by the banks in the System, that is inconvenience to those banks and would remove an objection on the part of those banks which havenot entered the System. That objection is advanced by those banks and it was thought advisable to do this.

Mr. Martin. As a matter of practice I take it that there is no man in this room who will not say that a 90-day note instead of a 15-day note would decrease the work on the part of the member bank and decrease the work on the part of the Federal Reserve Bank. As a matter of just mechanical practice it is desirable. But it seems to me that this Conference has a matter of much broader import before it than the convenience either of the Federal Reserve Bank or of the member bank. Where would such a relaxation, if we may call it that, tend to lead us? I thought of this thing quite a good deal after we met at the Conference last night. I know that the practice prior to the establishment of the Federal Reserve Bank was to have a bank make its note, take all the collateral necessary out of the bill case, attach it to the note and send it to its correspondent. That was the regular process of borrowing. The correspondent, in large measure, depended upon what it new about the member bank and not about the collateral that was sent to it. That was the method that was in use, and then the Federal Reserve System came in. It purports to establish a system based upon actual commercial credit, and so the rediscount factor was introduced. Later on, as Governor Harding will remember, the 15-day note was introduced. Now there is an idea on the part of banks throughout the country -- and I rather suspect if you will read Mr. McFadden's letter that the gentleman who prpposes that matter had in mind that banks could borrow on things other than eligible paper or Government bonds, or in other words could borrow on any kind of bonds and stocks. The banks have a curious idea about the law, if that is not his idea. It is a thing that the member banks are taking up every now and then. It comes in from the Bank Relations Department occasionally.

1 If we make any change in this law, as desirable as it may be from a practical standpoint, I am afraid that it will open the door to making all the bank notes secured by first Government, and then eligible, and then the next amendment in the law will be in the line of stocks and bonds.

~~Then, unless I am mistaken, and you gentlemen are all~~ practical men, every one of you, you have all had experience in seeing the correspondent bank deal with its member bank, and unless I am greatly mistaken you are going to find that your member bank is going to send in its note secured by collateral of the borrower rather than to rediscount, and that brings us to the question raised by Professor Sprague. The service of the system, in its ultimate analysis, is bound to depend upon the supervision that we give the management of the banks. In a City like New York they have an absolutely different proposition from those cities out in the country. In New York they must deal with the effect upon the open market, the gold fund, the possibility of relation between their rate and the foreign rate; they have to do that and should do it; but when you get down to our section of the country it is another proposition, and it is the end of the thing that does not appeal to the imagination. I am free to confess tonight that I can have more fun personally looking at a lot of figures about the payments to the gold fund, international exchange, and all that sort of thing, because that is painting the picture with a large brush; but our job down in our end of the country --

Minneapolis, Richmond, Dallas, St. Louis, Kansas City and Chicago, to a large extent, and , San Francisco -- our job is to watch the management of these little $25,000 banks, to watch the type of paper they offer for rediscount and the credit conditions surrounding it, and although the note is only for $10.00 -- and Governor Biggs knows that we have had them for that size -- our job is not the broad, glorious job of world affairs, but it is to take care of the member banks handling that $10.00 note in such a way that that bank may be compelled to deal with its depositors and customers on a sound basis. I submit to you that the judgment with regard to the small note has got to be as sound as the judgment with regard to world affairs. A mistake in world affairs may break the big city man, but the man who owns four acres of ground and a mule can have his heart broken just as quickly as the man who owns a million dollars. The principle of judgment are there, but I think as this System develops we have got to appreciate that down in our section of the country the rediscount rate, the open market rate and the world condition is not effective. Other means are necessary, which means an everlasting, daily, hourly and minute contact with our member banks.

Now, all of that leads to this: That if this System gets to a place where, instead of rediscounting the actual paper with statements attached, the majority of its loans are going to be on 90-day notes of the bank, secured by eligible paper with additional collateral, it is entirely human, in my judgment, to think that for awhile these banks will closely scrutinize the bills receivable with their statements and then gradually -- and this is just a human tendency -- gradually it will reach a point where some day the note is coming in from a little bank -- and I am speaking particularly about the little bank -- for say $10,000, secured by eligible paper to the extent of $20,000, and you will note that some statements are not attached; they have been in too big a hurry to get it to you; you have additional collateral of $10,000, and the reasonable thing for the banker to do is to take that note and what it means is that there is a relaxation in the scrutiny of the individual paper behind the loan. I dislike to take so much time, but it just seems to me that that is a tendency which we should consider.

Governor Wellborn. From a practical standpoint it seems to me it is a good idea for the banks in our section to take these notes. There is no contention or desire to eliminate eligible paper; I would not contend for that at all, but the theory upon which these rediscounts of individual notes was based was that they were self-liquidating paper. I think we have all found out that that is a myth, that we have no self-liquidating paper outside of open market transactions. I find in the practical management of the bank that it is safer for us to take the notes of the member banks because in the case of the failure of the member bank we can file our claim for the whole amount, whereas with the individual paper, each piece of paper has to stand on its own feet. Therefore I think it would be a very good thing to make it 60-day paper.

Mr. Newton. I approach this matter from a little different angle from the way in which Governor Wellborn has approached it. He viewed it with regard to the advantages it would give to the Federal Reserve Bank. I viewed it, in my vote, for this Committee report, with regard to the advantages it would give to the country banker. I have not been very far removed from that situation and I know that there are a good many country bankers who believe in taking security. Mr. Martin spoke of the fact that we might even find ourselves taking notes other than commercial paper. I do not see where there would be any objection to that provided the purpose for which that note was given made it eligible. If a farmer would come into the bank that I operated I would take the best security that he had; if he had some liberty bonds I would find it out and get them; if he had some municipal bonds I would find that out if I could and get those bonds. If he did not have them and I thought he was entitled to the loan I would take a deed of trust on his livestock and his crops and on his land -- not for the purpose of making a real estate loan, but to insure the fact that he would bring me that crop. As one of my old friends said to me that when I made a loan to a man and took security on a crop that the man might die before the crop was made, or something of that kind might happen, but I said if I had a mortgage on his land I would have somebody looking me up in an effort to pay the note off. A member bank that proceeds along that line takes a good deal of agricultural paper maturing in from six to nine months.

Mr. Miller. How about a member bank that does not proceed along that line?

Mr. Newton. Of course I am assuming that the majority of our country banks are properly managed.

Mr. Miller, Do you think that is a fair assumption?

Mr. Newton. I do, because I think the number of failures we have had would indicate that the majority of the banks of this country, and a majority of the country banks of this country, have good managers.

Mr. Miller. Would you say that there is a respectable minority that is not?

Mr. Newton. I am sorry to say past history has shown that there are too many; but I do maintain that the vast majority of country bankers are good managers of their institutions, and I think the records will sustain me in that statement. Now, if the country bank has notes in its portfolio, a large majority of which notes run for six to nine months, we will say, for advances for agricultural purposes, that country banker does not need to send in those notes to the Federal Reserve Bank and have them discounted for six or nine months and have them charged up against his discounts for that time, provided that country banker is sure that he can pay that money say in sixty or ninety days. I believe in a great many cases that the extension of time will be very helpful to the country banker, who represents a large majority in the System, I feel that the amendment would be helpful to a large majority of the member banks, and for that reason I voted for it.

Governor Crissinger. Just before we go further with the discussion of this question I would like to read a paragraph from a letter that was received by me from Mr. McFadden. He refers to this subject and says:

How any group of experienced bankers should limit by law the borrowing power of member banks to fifteen days, I am unable to conceive but this is the law. Of course the rediscount privilege is available if the member bank has commercial paper that in every way conforms to the rules of the Federal Reserve Act, but few, very few country banks have enough of this kind of paper to be of any great service. It is, of course, an open secret that loans have been renewed and carried upon government or other collaterals, in very large amounts for months and I presume for years. Now it seems to me that an amendment giving the member banks the privilege of borrowing from the Federal Reserve for ninety days would be short enough time to meet the average business requirements, but fifteen days is no good at all. Before the organization of the Federal Reserve System, we were accustomed to take a list of paper which we had discounted in good faith without special regard to the maturity or the character of the loans and borrow from our New York correspondent a lump sum of say eighty per cent of the face value of those notes. This seems to be more satisfactory than to rediscount the several pieces of paper and the notes pledged form a semi-liquid collateral."

It is common practice, if this banker is correct, that these 15-day loans are being constantly renewed with collateral or Government.

Governor Seay. And also oligible paper.

Governor Crissinger. And eligible paper, and if so what objection is there to making it sixty days or ninety days? What is the different? If you renew them constantly what is the reason why you should not try to discriminate against this kind of papor if it is made for ninety days. If you are constantly renewing it what is the difference?

Governor Seay. We all know that that is correct. It seems to me that Mr. Martin's comments convey a very serious imputation against the management of the Federal Reserve Banks which is far too serious and which I believe is unjustified. What is to prevent some country bank, to which Mr. Martin refers, from sending a Federal Reserve bank a list of paper, we will say $10,000, and ask the bank to oxamine the paper and take all that it coukd which conformed to its requirements. It can do that just as well as it can send in a note for $10,000 secured by $15,000 worth of paper. It must not be overlooked that the Federal Reserve Banks require, with respect to the paper eligible for securing the note, the same detailed information which they require when they discount a single pieve of paper by itself. They also require statements where they are called for. All of that information has to be furnished to the Reserve Bank. There is one limitation which will be imposed upon the Federal Reserve Bank in taking that class of paper, and that is this: That when it is lending very liberally it cannot use that class of paper in rediscount with other reserve banks; it cannot use notes of its member banks to rediscount with other Federal Reserve banks, and that in its_elf will impose a limitation upon any Federal Reserve Bank in taking that paper.

Mr. Miller. Why not include that?

Governor Seay. Yes, and I think that would come naturally.

Mr. Miller. I think it would too. I think everybod at the Conference knows this, but it is just as well to state it again, that in the Federal Reserve Act as originally passed there is no provision for discounting bills payable of member banks. That was introduced later and the restriction as to time limit was very carefully considered. It was finally fixed at 15 days. I think it would be worth while, especially in view of both the statement and the implication that the period should be lengthened, because the provision is not in force, to hear from Governor Harding and Governor Strong, who are familiar with the circumstances surrounding it, as to just why the 15-day limit was originally imposed. I myself am not particularly attracted to an amendment to the law that is predicated upon the failure of some of the Federal Reserve Banks to successfully and effectually administer the law as it is. If the thing is good in and of itself, well and good; if it is to be done only because of failure to enforce the law and regulation as it is, that does not seem to me to be a very compelling reason. I would like to hear from Governor Harding, who is probably as familiar with that as anybody, just what his recollection is as to why this amendment was originally approved by the Board and why the time limit for these bills payable was fixed at 15 days.

Governor Harding. My recollection is that that recommendation was suggested by Mr. Warburg. Probably he had had some consultation with the New York Bank, but I do not know exactly what his reason was for limiting it to 15 days. Of course it came in before the war and it was very useful when the Government was doing its financing. My recollection is that one of the large banks in New York contended that it never rediscounted except for temporary emergencies, such as covering bank balances in the clearing house, or something of that sort, and that sometimes in order to do any rediscounting they would have to rediscount paper that ran for as long as sixty or ninety days in order to take care of these temporary borrowings; that they should be permitted to make their note and secure it by paper which was in itself eligible. I think the New York bank agreed to it because it would save them a good deal of work. You will remember when we at first discounted items of sixty or ninety day paper that paper would be paid in a few days and then they would come in for a rebate. The whole idea of it was that it was a temporary proposition.

Then when the war came on and the Treasury's operations expanded so greatly, these 15-day notes were used for

Government financing. I remember when we had a revenue bill up with all sorts of taxes, stamp taxes and so forth, that I was up before the Ways & Means Committee of the House and I suggested that in the case of notes which were secured by Government obligations that no revenue stamp be required, and pointed out that that would facilitate and be persuasive in making the distribution of Government securities The Committee agreed to that.

So far as the Boston District is concerned, and Mr. Curtiss will correct me if I am in error, I do not know of any instances where we have any bankers' notes discounted secured by customers' notes. Our transactions are on 15-day paper secured almost exclusively by Government obligations.

Mr. Curtiss. That is correct.

Mr. Jay. Isn't it a fact, in order to avoid putting revenue stamps on notes of banks secured by commercial paper, the Board made a ruling whereby the Federal Reserve Bank could discount a lot of ninety day paper for ten or fifteen days, or whatever it might be?

Governor Harding. I do not think so, because the provision with regard to revenue stamps provided only for notes secured by Government obligations.

Governor Seay. You are thinking of the re-purchase agreement, Mr. Jay.

Governor Strong. Governor Harding's memory of the occasion for the amendment is perfectly accurate. During the period of very heavy financing by the Treasury, the transfers in and out of New York became so heavy that the member banks had to borrow for a day or two large amounts of money, which they were able to pay off after a few days. It was a fact that they did not have available in their portfolios an adequate amount of eligible paper maturing in a few days enabling them to make that turn-around in their reserve account, and they were very urgent that some facility be given them. Their practice was to discount paper bearing maturities up to sixty days and over and then within a few days they would take that out by rebating it. The amount of work involved in that was tremendous and one of our largest borrowers had sheets of application blanks printed with the same paper on it. They would bring it in, and at the end of the week, when the readjustment took place, they would rebate it, take it out, and then come back with the same printed sheets again. If I remember correctly, in one case we had thirty sheets from one bank, thirty printed sheets, giving a list of the eligible paper that they wanted to discount for only a few days. It was found to be necessary then, and it is necessary now, because there are weeks -- quarter days, for instance -- when our advances to member banks are very large, up to a hundred or a hundred and fifty million dollars, just temporarily.

Now as to the merits of this question I would like to say a few words if I may, Governor Crissinger.

I personally cannot see why you should not extent the time for collateral loans for sixty or ninety days, but it seems to me that in the course of the discussion there were some facts in connection with it that had not been brought out. First of all I do not share Mr. Martin's apprehension that it would result in a relaxation of care in the reservo banks. If this is a good thing to do I do not think we should hesitate to do it.because we do not trust ourselves to do it right. Without desiring to recommend a slavish copying of practices in othor countries, I think we have got to recognize that the Federal Reserve Act has got to be made to apply to the conditions in this country, nevertholess seeking to benefit by the experience of foreign banks of issue.

Now, the desire to have a piece of paper discounted up to its normal maturity, rather than to make a collateral loan, I believe, in the minds of most of the men here, rests upon the theory that it is self-liquidating paper which will be paid at maturity, and will relieve the Federal Reserve Banks of a very common request from member banks and from country banks that are borrowing from city banks to secure an extension of the collateral loans. But this is not self-liquidating paper in a historical sense at all. Self-liquidating paper is that which is now on the New York Market very largely, which comes into the possession of the reserve bank through the holder and owner, that is a broker or member bank, whohas absolutely no relation whatever with the payer, the primary obligor, the bank which has accepted it. That is an accepted draft which comes into our hands, which is sold to us, if you please, by a member bank and which has got to be paid by some other bank. There is no relationship existing that justifies the bank which sold that paper to us in coming to us and asking for an extension. When it matures it will be paid, or there will be a default by the obligor. In the technical sense that is self liquidating paper.

When we take the customers' paper of a member bank we take it from a bank which has a customer relationship with the maker of that paper and obviously the member bank is under some influence by its customer to secure an extension if they cannot pay it. We may thereby have the same paper coming back to us over and over again, which would never occur in the case of this self-liquidating paper.

Now it is a fact that the banks of issue of Europe have two types of rates almost universally. One is the discount rate of the bank which applies to self-liquidating paper coming to it from third parties who have no interest in the discount and no customer relationship to it; and that self-liquidating paper is the instrument through which a bank of issue, by its discount rate, exercises some influence upon the money market and the credit situation. But when it comes to the extension of credit generally to commerce and industry they have another rate which operates very largely through their branches, and that is the rate on Lombard loans. If you take a bank like the Reichsbank, for instance, it has 450 branches, and practically the entire portfolio of the Reichsbank, which comes to it through its branches, consists of Lombard loans, collateral loans; I think almost the entire portfolio of the Bank of England, coming through its 12 branches, consists of Lombard loans on which they charge a higher rate. That is true today of the Bank of France, that its effective portfolio, outside of the collection items consists of five times as many Lombard loans as it does of true bills, bills of exchange with acceptance.

My theory about the Federal Reserve System is that it has been developed partly as a stabilizor of credit conditions and operates in that respect particularly in the money centers, and partly to extend needed credit to the country at times. We have got to use the instrument of the bill of exchange in our money market as it gradually develops in mass and volume, as a means of advancing the discount rate, that is the rate at which we buy the bills, in order to have an effect upon money and credit conditions. But when it comes to the interior banks, like St. Louis and Atlanta, their operations with their members are largely those of extending seasonal credit, and it seems to me that operation should be conducted by the instruments and means that are necessary and customary under the way that our banking System has developed. That is the reason why I have rather favored having an extension of this time to sixty days or ninety days -- I do not think the time is very material -- to meet what I believe is a need under-conditions that exist in the country, rather than to endeavor and insist upon the introduction into the System of a fiction that does not exist in banking in this country in the interior Federal Reserve banks.

Governor Crissinger. You say the extension is to be granted on eligible collateral paper?

Governor Strong. Always, yes.

Governor Crissinger. Under the present method, as I understand it, it is renewed, even when it is secured by Government obligations, for sometimes as long as a year or maybe two years, with regard to some of the loans, and what is the difference between making it 90 days and renewing it all the time? What is the difference?

Governor Strong. I listened to the discussion of that matter by Professor Sprague with a good deal of interest. I did not say anything because he has had opportunity to make a statistical study of the circumstances of the banks that have been borrowers for a year or more and I have not had opportunity to make such a study. Any comments that I would make on it would be largely the result of discussions at these meetings. But my belief is that in most of these cases -- what the percentage is I cannot say -- but in most of these cases of persistent borrowing banks, the occasion for the persistence really arose in the loss of deposits and has continued so ever since; that it did not arise principally through an unjustified extension of credit, such as Professor Sprague rather implied but did not definitely state. The reason I say that is this: That during the period when the Federal Reservo System, acting as the agent of the Treasury, was selling short obligations of this Government, we plastered every bank in the country with them right up to the limit, we loaned them the money and created the credit which resulted in the sale; now, when a time of adversity came to many communities in the country, many of them were reduced to poverty -- the swing of the cycle was such that the people in those communities were reduced really to poverty -- it was a debt paying period, and bank deposits shrunk and left those banks hung up with assets which had been created in that period which they could not liquidate and we had to carry them. On the whole I think it was a good thing for the country.

Governor Crissinger. But I think you have not yet answered my question. You make a loan for 15 days on

Government collateral, and it is not paid. They come in and renew it for fifteen days and keep renewing it with the same collateral for a year, and I want to know what harm there is in making the loan for sixty or ninety days with the same collateral? What is the difference?

Governor Strong. There is no difference. It is just a question of the intelligence and care which the Reserve bank is managed.

Mr. Mitchell. Do I understand that Governor Strong favors the extension?

Governor Crissinger. Yes. He says it must be on eligible collateral. Do you mean secured by Government obligation also?

Governor Strong. No. That should be left at 15 days.

Governor Crissinger. But those secured by Government securities have been offered for renewal of the 15-day loans and have run for a year, and I understand in some places two years.

Governor Harding. I think I can explain the objection to extending the 15-day period on payments secured by Government obligations. The necessity of using that credit to carry Government obligations has long since passed. It is in the hands more and more of the investors. There are a few banks, we have about twenty in our district, who seem to want to hang onto their Government obligations and to be permanently borrowing against them. It results in inconvenience to them to renew these notes every 15 days, but I think they would rather have that inwonvenience exist. I have asked them why they did not sell off some of those things, get rid of those securities and keep in a more liquid condition and not be borrowing all the time. If you extend the limit you will encourage them to keep on borrowing, although having to renew the paper every 15 days deters a good many of them from coming in, don't you think, Mr. Curtiss?

Mr. Curtiss. Yes.

Governot.Seay. It gives the reserve banks more control over its reserves. If the paper is short time and of frequent maturity the reserve bank has opportunity to determine whether it will extend the loan, but if it makes it for ninety days to begin with it can say nothing about it until the ninety days has expired.

Governor Harding. You have not the same argument to make in the case of eligible paper.

Governor Strong. I think there is one real objection to this ninety day provision, which made me believe that sixty days would be a trifle better than ninety days, and that is the fact that in some parts of the country there is a big spread between the amount that the member bank can get for its money and what it pays at the reserve bank. If there is a demand for money in some districts where money is worth 10 per cent, the member bank can make a ninety day or six months loan at 10 per cent, and immediately borrow money for that same period from the Federal Reserve bank and make that spread. That will increase the temptation to do that. If on the other hand the bank is only able to borrow on collateral in this way for fifteen days or thirty days, or a less period of time, he will feel that the reserve bank is in position to make him pay at any time before he expects to have his loans repaid to him, and it will operate to some extent as a restraint upon misuse of the Federal Reserve Bank credit.

Mr. Heath. I have a great deal of sympathy with the comment that Mr. Martin made at the opening of this discussion. I confess that it was with great hesitation that I recorded my vote in the affirmative in the Agents' discussion. I have given a great deal of thought to it, and I am wondering whether, after all, the basic principle of the Act is violated in this proposition of a ninety day note against paper.

Governor Crissinger. Isn't it violated repeatedly by these renewals for fifteen days?

Mr. Heath. I am basing my proposition on the 90day paper. My conception of the Act is that the paper in the portfolio should be short time business paper. The question is how far can we go without making the system actually unworkable or practically unworkable for the vast majority of country banks of the country, because I think the discounting of these five, ten, fifty and one hundred dollar notes is in itself one of the great drawbacks to the functioning of this System in the minds of the public.

Mr. Miller. Would you say, in the light of the evidence in 1920 and 1921, that the banks of the country found it a good deal of trouble to get credit from the Federal Reserve System?

Mr. Heath. How is that?

Mr. Miller. I addressed the question to you because you were the last speaker. I say in the light of the evidence in 1920 and 1921 would you say it was difficult for member banks to get credit from the Federal Reserve System? Would you say we need to loosen things up a bit?

Governor Seay. If I may answer that, I would say by no means. I should say that the ease with which they could obtain credit led them to go much further than they should have gone. I do not think, Dr. Miller, it is in the mind of anybody that this proposal is made because of the present practice of the Federal Reserve Banks to renew the 15-day paper from time to time. The basic reason is must deeper than that. It lies in the commercial practice which has existed for a long time and which will still exist and which we cannot undertake to alter and cannot alter if we did undertake to do so.

Mr. Miller. Why have the loan restricted to eligible paper? Why not leave it as it is now and include Government bonds? Why not widenit so as to include other collateral of the kind that will give rise to the type of loan that has been called the Lombard loan? Why restrict it if the security is good?

Governor Seay. I believe that would be a very severe blow to the resources of the Federal Reserve banks.

Mr. Miller. Why so?

Governor Seay. Although it has been stated that in commercial practice in the country banks there is no such thing as really self-liquidating paper, nevertheless I believe we should very jealously guard the standard of paper which the Federal reserve banks take. I think that definitions of and rulings with respect to eligible paper ought to be kept at the very highest standard.

Mr. Miller. Wouldn't you say it was when your member bank's note is accompanied by Government bonds as collateral?

Governor Seay. Perfectly so.

Mr. Miller. Then what is the objection to it?

Governor Seay. The objection to it I think was pretty well stated by Governor Harding, and he expressed just about what is in the minds of the members present. We believe, I think, that any member bank which finds it necessary to continuously borrow against Government bonds, should sell those bonds. What is the reason for holding them? Recently we received a visit at our bank from a country banker from the Eastern Shore who had had a bad year in potatoes. His bank held $125,000 in Government bonds which they had been holding for several years. He had had a bad season and he wanted to borrow $250,000 from us. I naturally asked him why he did not sell his Government bonds. He said, "This is, we think, a temporary matter. We may have occasion to borrow from you this year, but next year we believe our deposits will come back to what they were, and we will then be looking around for investment and we will probably have to go into the market and buy bonds, they might be higher than they are now, and I would like to hold those bonds." We do not think the banks should be encouraged to continuously borrow against Government securities.

Mr. Millor. What would you say about their continuously borrowing against their ninety day notes secured by eligible collateral?

Governor Seay. It is not, I would say, continuous borrowing, except in certain cases as cited by Professor Sprague. We know in country banks, in dealing with their customers for seasonal purposes that they take paper for sixty or ninety days knowing perfectly well that they will have to renew it perhaps thirty to ninety days longer. We might say it is the character of the paper.

Mr. Hamlin. If you were to make a loan and had the option of taking a ninety day note or rediscounting the paper, assuming that the law was changed, which would you prefer?

Governor Seay. I would prefer the note outright.

Mr. Hamlin. Is not that the point, that every reserve bank will insist on the ninety day note rather than the discount operation because that will be a direct claim against the bank, and a better claim, whereas the other is merely a contingent liability? Won't that tend to wipe out the rediscounts and have the notes of member banks put in place thereof?

Governor Seay. We do not think that. I am speaking now from the viewpoint of possible difficulty with the bank and an eventual receivership, that there are some points on which it is advantageous to hold the collateral and the notes of the bank also. That is not the point of view from which we approached it.

Mr. Miller. From what Governor Wellborn said I suspected that he would always want the notes rather than the discount collateral.

Governor Wellborn. We frequently suggest that to the bank when we see the bank in difficulty, and we usually get a note to cover all of their transactions.

Mr. Miller. Would it not be changing the whole spirit of the Federal Reserve System to lend it to banks on their notes rather than to discount their paper?

Governor Seay. Possibly it might invade the theory upon which we started our operations. I am sure our bank would prefer the clean discounted bill. However the facts have been sufficiently described and there is no use of my describing them again. It is a condition and not a theory.

Mr. Miller. You say when you advance the rate the member banks suffer from inability to get credit when they want it from the Federal Reserve Banks?

Governor Seay. Not from inability to get credit, Dr. Miller, in the aggregate, but they do complain of the method by which we grant that credit.

Mr. Miller. But they would probably complain when you made these notes sixty to niety days, secured by eligible collateral, with Government bonds discriminated against.

Governor Seay. I doubt very much indeed if there would be any complaint because of the difference.

Mr. Miller. I think you will have a surprise coming to you then, if the amendment proposed here goes through.

Governor Seay. I feel that there would be no insuperable objection to making it both.

Governor Crissinger. I did not understand that.

Mr. Miller. I am referring to Governor Seay's remarks that he would see no objection to sixty or ninety day notes secured by Government's.

Governor Seay. No insuperable objection.

Mr. Miller. Why should we object, once that stage has been reached, to permitting the rediscount at a Federal Reserve Bank of notes of a bank secured by stocks and bonds of unquestionable value as collateral? I think we are all more or less in a fog -- I will admit I am -- as to just why the Federal Act in its original form, tried to tie down the investments of Federal Reserve Banks to what we call self-liquidating paper. I fancy that Professor Sprague would be in as good a position as any one to give us a really informative answer on that question, that is to say, whether or not in his judgment the restriction in the Act was or was not a wise one. The question has often crossed my mind as to just why the Federal Reserve banks were restricted in the original Act to a very limited class of bank investments?

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Mr. Sprague. I have answered that in the beginning of my remarks this morning, that is to say, that it was a more or less slavish imitation of the business of the European central banks. In the second place it had a certain social reason in that it would relate the business of the Reserve banks to the kind of business that all the banks were presumably doing, whereas if they had opened it up to stocks and bonds much more would have been heard about Wall Street in 1913, when the Act was passed through Congress.

Now as regards the effect of opening up the discount business of the reserve banks to stocks and bonds satisfactorily secured, my answer would be this: That the limitation on eligible paper does have some influence on the aggregate amount of demands that might be made upon the reserve bank for credit; not very much, because there are billions in eligible paper scattered through the banks, and since the Federal Reserve Act was passed we have created billions of Government securities which are now eligible. When it comes to making specific loans, in my judgment the paper that Mr. Martin describes, the ten dollar notes, and so on, represent a positive defect in the System. We do not know whether the banks is putting up too many of those perfectly good ten dollar notes and other notes of that kind. If the bank is putting up a moderate amount in trade exchange, well and good; but if it is putting up all of its good eligible paper, it may become over extended. So I am inclined to think that this proposition is a good one because it would lead to more attention being given to the situation in the borrowing banks, and perhaps a little less attention to the particular paper that is offered. It is the aggregate amount that is loaned by the Federal Reserve Banks as a whole that affects the situation; it is the aggregate amount that you loan in a particular bank that affects that bank with reference to its depositors. Paying exclusive attention to paper to my mind is like a man pawning his overcoat to buy whiskey. You do not get anywhere. I would rather, from the point of view of the soundness of the System, have you take $10,000 from some bank based on almost anything than to take $20,000 from a bank based wholly and absolutely on good eligible paper. If you had stocks and bonds some banks would perhaps borrow more, but on the other hand it might have the effect, in some cases, of leading banks that borrow to have outside investment.

I can conceive that the borrowing banks ought, if possible, to have some outside stuff because if they haven't any outside stuff they are in grave danger of becoming over-extended unless their borrowings are very clearly confined within safe, seasonal limits. Those things I do not think you have in mind when you are paying exclusive attention to the particular pieces of paper that are put up.

Governor Crissinger. Isn't it a fact that there are communities which do not use the facilities of the Federal Reserve Bank for the very reason that they take all of these bonds up to some city bank, do their borrowing through the city bank, they become the basis of the credit, and the Federal Reserve System gets no benefit from the rediscounting of the loan direct. Is not that a fact? I know of a community where I suppose there is not a bank -- and they are all good banks -- that rediscount with the Federal Reserve bank; but they do borrow; they take their bonds, but instead of taking them to the Federal Reserve Bank they take them up to some big bank in one of the cities in which they have their correspondents and leave them as collateral for the loans, and they ultimately get into the Federal Reserve Bank through the medium of the borrowing bank. That is a fact, is it not?

Governor Seay. It is a fact to some extent, and it is also a fact that we accommodate one-third of our member banks every year and the balance of them are not accustomed to borrowing.

Governor Talley. In the interest of progress, if I may be permitted to do so, I will make a motion. I first want to refer to the parliamentary phase of this subject. I think the discussion has been very illuminating, particularly so in view of the fact that it has given the Members of the Board opportunity to hear those who voted against this proposal. It seems to me that we are debating a proposal that has been acted upon before by both the Conference of Governors and the Conference of Agents, and the real question that the Joint Conference is now addressing itself to is whether the extension shall be sixty days or ninety days. I voted in the Governors' Conference to sixty days, although personally, so far as my district is concerned, I would prefer the ninety day extension. Now let me say to those who may be opposed to the extension of the authority for application by a member bank to borrow on a ninety day note, that it is not necessary to cut two holes in the door, one for the big cat and one for the little cat. You can make it ninety days and then any bank that does not wish to make advances to member banks for as long as ninety days can make them for any time within ninety days. In our section of the country, as Governor Strong brought out, it is a question of extending seasonal credit, and it would require as long as ninety days, in my judgment, if this proposition has any merit in it.

Now, Mr. Chairman, I would move, therefore, that it is the sense of the Joint Conference, that the Act be amended to permit Federal Reserve Banks to make advances to their member banks against bills payable of the member banks, when secured by eligible paper equal to the face and maount of the bills payable for a maximum period of ninety days.

Governor Seay. I offer a substitute motion that a vote be taken in this Conference as to whether they prefer sixty days to ninety days. I offerthat as a substitute motion.

Governor Crissinger. We will take up the substitute motion first. I will ask all of those in favor of the sixty day limitation to stand up.

(Four members of the Conference stood up)

Governor Crissingor. All of those in favor of the ninety day limitation will please stand up.

(Fifteen members of the Conference stood up.)

Governor Crissinger. Apparently the ninety days have it by a big majority.

Mr. Mitchell. Do I understand that Government bonds will only be accepted for fifteen days?

Governor Crissinger, Fifteen days, according to this report.

Mr. Mitchell. Does that mean that you are going to discriminate against the very best collateral that there is in the world? If so I certainly am opposed to it. I think it ought to include Government bonds as well as eligible paper.

Mr. Austin. I would second that motion.

Mr. McClure. The reason our Conference decided against Government securities was because there is a certain class of scientists who believe that the issue of currency should be stopped against Government securities, and in view of that criticism we thought it best to leave it as it is.

Governor Crissinger. That is the best reason that has been given yet.

Governor Young. I voted for that recommendation, but

I have my own views in regard to Government bonds. Would it be fair to put before the Conference the question of whether the ninety day limit should be extended to Government bonds also?

Governor Crissinger. As well as eligible paper?

Governor Young. Yes.

Governor Crissinger. We will put that before the Conference, whether the Conference would be willing to go on record in favor of granting the extention to ninety days with reference to Government bonds as well as eligible paper.

Governor Strong. If that is done, I want to say that it will be regarded by the world of enlightened people who understand central banking as the worst blow to the soundness of the Federal Reserve System that it has yet received.

Mr. Hoxton. If what is done?

Governor Strong. To include Government bonds as collateral to be placed behind the currency of this country. It is unthinkable.

Governor Crissinger. I will ask all of those in favor of that motion to stand up.

Governor McDougal. I would like to have it restated.

Governor Crissinger. The motion is all of those in favor of using both eligible paper and Government bonds as collateral for ninety day notes.

(Four members of the Conference stood up.)

Governor Crissinger. The motion is lost.

(Thereupon, the Conference adjourned at 1.10 o'clock p. m., until 2.30 o'clock of the same day.)

A F T E R R E C E S S

Governor Crissinger. As I understand it Mr. Mitchell is ready to make the report of the committee appointed on the American Railway Association matter submitted by Mr. Anderson and Mr. Conn.

Mr. Mitchell. Mr. Chairman and gentlemen, the report of the Committee is as follows:

The Committee appointed to prepare a resolution in connection with the request of Hon. Sidney Anderson, President of the Millers National Federation and Mr. Donald D. Conn, Manager of the American Railway Association Car Service Division, that a closer cooperation between the Federal Reserve banks and member banks and the Regional Advisory Boards acting in connection with the American Railway Association be maintained; your committee begs to suggest the following resolution:

"BE IT RESOLVED THAT: It is the sense of the Conference that it would be of mutual benefit and distinctly in the public interest if the Federal reserve banks cooperate in such manner as may be appropriate in the efforts of the Regional Advisory Boards in bringing together the representatives of shippers, the railroads and other economic and industrial agencies with a view of creating a closer relationship and cooperation, thereby benefitting the transportation facilities of the country and giving agriculture, industry and commerce the benefit of having the quickest possible system of distribution of agricultural products, manufactures, etc., to the consumer.

(Sgd) J. R. Mitchell, Chairman,
Pierre Jay,
Geo. J. Seay. "

I move the adoption of the report.

Governor Young. I will second it.

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

Governor Crissinger. I have sent for Mr. Moran, Chief of the United States Secret Service because I think we had better take up the question of protection at this moment. I think everybody will be interested in it.

Governor Strong. It was put on the program at the suggestion of the Federal Reserve Board, but we were not quite sure just what was indicated by the suggestion, whether there was some special thing in the minds of the Board.

Governor Crissinger. Mr. Moran is here, and I take pleasure in introducing him to you gentlemen.

Governor Strong. We had a discussion of the general theory and practice in each Federal Reserve Bank in the matter of protection, but all the reserve banks apparently were very alert and alive to the need for doing whatever is necessary, and that quite largely they were following about the same plans in their operations. I think the general conclusion to be drawn from the discussion was that the banks were pretty adequately protected by their protection force. Of course we recognize that there are certain inside protections required besides those which were discussed.

Governor Crissinger. I have asked Mr. Moran to talk a few moments about the various possibilities of the question and Mr. Moran will state his proposition to you.

Mr. Moran. Gentlemen, I do not know that there is anything I can say to you that will contribute to better protection. Certainly there isn't anything in a general way that I could say to you that would fit your individual needs. Every man has his own problem, but certainly there is great need for the exercise of every precaution possible today. In all my experience with criminal activities I have never known a situation to exist as does exist today. You have only to pick up the papers every day practically to read of some most daring holdup. Who, for instance, would forecast such a thing as happened in Buffalo the other day--an armored car attacked right out where hundreds of people were, or a case last night about which I read, just outside of Pittsburgh. Of course I blame the bank for that, but it is an instance. Here was a man walking along with a grip, an automobile drives up, two men jump out and grab him, knock him over the head and take the grip. It contained $73,000 or thereabouts of the bank's money which he was taking to Pittsburgh. Those are only a couple of instances of what is occurring every day.

I think those having charge of institution housing large amounts of money, wwhere money is being transferred from those institutions to other places or being brought from other places to them, cannot use too much care in surrounding that money with protective measures. We cannot to save our lives determine what is in the mind of the criminal, but here is a suggestion:

Suppose you for the moment took the place of the man who contemplates doing one of these acts in an institution or on the outside; figure out just what you would do to rob that place or to hold it up; use every argument, every thought you can bring to bear on it and then go about adopting such measures as will prevent the doing of the thing which you have thought out. Let the heads of your various departments do the same thing; let them come to you and tell you how they could rob their own d epartment or bureau, and then adopt measures to prevent the doing of that very thing. There is always one element that, to my mind, enters more strongly as a protective measure than anything else, and that is the unknown to the criminal. That is, if you have occasion to transfer moneys in large or small amounts, it makes no difference, the fewer people who know that that is in contemplation, and the few people that know when it is going to be accomplished, the better protection you surround yourself with. Of course you cannot guard entirely against inside information. You exercise the greatest care, I am sure, in the selection of the people you trust to do certain things in your institutions; but we all know that men go wrong, and there are or have been a number of these holdups that I am sure were the result of inside information, because they could not guess at just what moment you were to make a certain move. Take the Denver Mint robbery, for instance, I am just as well satisfied in my own mind that that was inside information, through the very nature of the holdup, which influenced those men to come there, as I can be of anything. Of course here you have institutions to which are being brought valuable securities every day. Is it not possible to vary the time and the method of handling them rather than to have a routine method of handling, a stated time? That is one way of protecting yourself. These people will take a week, or ten days or a month, if necessary, to advise themselves as to what goes on daily in an institution in regard to the transfer of valuables, in order that they may stage a holdup. If they find that you regularly handle these securities then they know just what to do to hold you up.

If it is done irregularly that necessitates a man sticking around and the chances of being detected in loafing around the neighborhood are greater than if they know the exact time that the transfer is going to be made. I do not know just when it was, but sometime ago we made a survey of the different Federal Reserve Banks and different institutions for the housing of government funds, in order to suggest protective measures and make a report on the matter. These reports were made and there were a number of recommendations submitted by the agents. I know that some of those recommendations have been adopted, but I do not know whether all of them have. I think it might be well to get a copy of those reports to each of you, or if you would care to have us do it, we can make another survey at this time. Our agents are available at all times for you gentlemen for advice, suggestion or assistance; I shall be very glad to direct any one of them to go to your bank and make a survey of it and suggest to you what might occur to him as better protection for your property and your personnel. I do not think for a moment that you should overlook the fact that there is danger at all times of something being attempted in these times.

Governor Crissinger. If there are any questions that you would like to ask Mr. Moran he would be glad to answer any of them. If not we are very much obliged to you, Mr. Moran.

(Mr. Moran thereupon retired from the Conference room)

The Chairman. The Agents' program suggests a discussion of the report of the Committee on reserves. I do not know whether you want to take that up or not. We have talked about reserves a good deal. Is there anything further to be said about it?

Mr. Mitchell. I would like to ask if we have finished the subject that we were discussing before lunch?

Governor Crissinger. Yes, I think we have.

Mr. Mitchell. I thought there was a motion that was not acted on?

Governor Crissinger. That motion was carried.

Mr. Mitchell. That motion was carried extending the time to 90 days?

Governor Crissinger. Yes, secured by eligible paper but leaving it as it is, 15 days on notes secured by government securities.

The next subject is the report of the Committee on Public Relations. That was suggested for the Joint Conference. What have you on that?

Mr. Perrin. Mr. Jay will make the report of that Committee.

Mr. Jay. Mr. Chairman and gentlemen, I have the report of that Committee, which the Agents suggested suggested should be presented before the Joint Conference rather than before our Coforence only because it was thought that the Governors were as much interested, possibly, as we were, in the subject, and also because, with respect to the handling of bank relation work in four or five of the banks it is under the Governors and nnt under the Agents. I have written down what I have to say as Chairman of this Committee rather than making a presentation orally, because the report wontains a good many tables and figures. I would like to ask if copies of these reports may not be distributed to each Member of the Conference so that each one may follow along and look at these tables when I refer to them, because otherwise it is almost impossible to grasp the figures contained in the tables.

In the next place I would like to explain that this report covers two topics which, while they are allied, are, however, quite separate. One is "relations with banks" and the other is "relations with the public".

The first part of the report has to do with relations with banks and bankers visiting reserve banks.

The particular development of 1925 in bank relations work has been growth in the tendency of reserve banks. The Boston bank has just held its third stockholders' meeting, attended by about 202 out of its 419 member banks. Last spring the Richmond bank inaugurated the same plan, and had present 160 members out of a total of 606. At the opening of the St. Louis Bank on June 17 the St. Louis Bankers Club invited the officers of all the district member banks to come to St. Louis and visit the Reserve Bank. About 400 attended the reception. During the winter and spring of 1925 the New York Bank invited small groups of officers of member and non-member banks to the bank for lunch, for inspection of the building and for a discussion of Federal Reserve operations and problems of mutual interest; 973 officers of member and non-member banks attended these meetings. The total number of members in the district is 886. Following the meetings an individual invitation to visit the reserve bank when in New York was sent to each director of the banks which were represented at these meetings, together with a small pamphlet about the system. It is reported that relatively few directors have visited the bank thus far, but that generally speaking the directors have greatly appreciated the invitation.

The Committee understands that those banks which have thus entertained their members feel that seeing the bank in operation is a most valuable contribution towards a better understanding of its functioning and services.

Visiting banks through bank relations men. Since January, 1922, the reserve banks have reported each month to the Cleveland Bank the number of visits made, and these reports have been compiled and sent to the Board and to each Federal Reserve Agent. The total visits made have been;

In 1922,	8865.
In 1923,	10692
In 1924	13892
In 1925,	13804 (three months estimated)

In most districts the traveling men call on non-member banks in places where there is a member. But in other districts visits to non-members are not made. The following table shows the estimated visits made in 1925 by traveling men and branch managers and the relation which such visits bear to the total number of banks in the district.

ESTIMATED NUMBER OF VISITS BY BANK RELATIONS MEN IN 1925.

	No. of Visits	% to total No. of Banks
Boston	875	136%
New York	1450	115%
Cleveland	2072	106%
Philadelphia	852	67%
Chicago	3500	64%
St. Louis	1876	59%
Dallas	1016	56%
San Francisco	703	42%
Richmond	692	34%
Kansas City	748	19%
Atlanta	0	0%
Minneapolis	0	0%

The above table gives the number of visits and it is quite apparent from the percentage column that in the case of the Boston Bank they visited every bank in the district one and one-third times. In New York, member and non-member once, and Cleveland visited every bank once, and so on down the line.

Governor Norris. That means visited the total number of banks in the district, member and non-member?

Mr. Jay. The total number of banks in the district.

Two things are obvious from the figures:

1. That in recent years the work of bank relations departments has been expending.

2. That it is very unequally carried on in the different districts.

Your Committee believes that the value of the work is sufficiently proved to justify its feeling that it should now be undertaken in all of the districts and on a more uniform basis. Two of the reserve banks represented on your Committee have had long experience in bank relations work and believe it to be of the greatest importance in maintaining human and friendly relations with the banks in the district.

The feeling of many bank's toward the system is that it is bureaucratic, full of red tape, and lacking in human relations. No candid reserve bank officer will deny that these tendencies against which his organization constantly has to struggle. But, provided the reserve bank, itself, is earnestly endeavoring to eliminate these shortcomings, no agency has proved so effective in eliminating them from the minds of its members as the visits of the bank relations men. Not only are human contacts maintained through these visits; they bring about an understanding of our services and how to use them, they discover and straighten out all kinds of misunderstandings that arise through our daily transactions with member banks, and they bring to our credit files a kind of information regarding member bank personnel, local conditions, and when desired, local credits, which we can obtain in no other way.

District differences. As the Committee has indicated the organization of bank relations work varies greatly in the different districts. In some, it is directed by the Chairman, in others -- at least four -- it is directed by the Governor. In some it is the primary work of the junior officer supervising it, in others it is merely a secondary consideration. In some, non-member banks are visited, in others non-member banks are not visited. In some, the visits are of a purely friendly and constructive nature, in others they are sometimes of a disciplinary nature. The Committee will comment briefly and express its views with regard to each of these variations.

If the work is well done, it does not make much difference whether it is under the Chairman or the Governor. The Executive Committees' of the Governors' and the Chairmen's Congerences in 1915 however, definitely allocated the topics "Relations with Banks" and "Relations with the Public" to the Chairman. There are also two reasons why bank relations work might well be undertaken by the Chairman;

1. He is not so busy with bank operations as the Governor;

2. One of the primary purposes of the visits is to ascertain if all is going well between the member banks and the reserve bank.

The misunderstandings which arise often come from difficulties with the operating staff of the bank. As an organization matter, therefore, it seems as thought the visits might be likened to a periodical audit of the relations existing between the Reserve Bank and its member banks.

The Committee believes it is most important that the bank relations work should be under the supervision of an officer, preferably one not engaged in bank operations, who can give the work his primary attention. The work of the traveling men, if conscientiously done, is arduous, To maintain their spirit and enthusiasm requires intelligent supervision and constant attention. This cannot be given by an officer engrossed in operating details who regards bank relations work as his secondary interest.

The Committee believes it very important to visit non-member banks whenever practicable. We have daily relations with most of them. We send them checks and they send us drafts or currency in payment. This relationship many of them do not relish. They have opinions about the Reserve System which they express freely. They are considerably more ignorant about it than the members. We should visit them as an expression of our appreciation of their cooperation in collection matters, as an evidence of our desire to maintain friendly relations with them, and as an opportunity to inform them about the System. The Committee suggests that these visits should not be to urge membership or even to discuss it. Nevertheless, an inclination towards membership may often be discovered in visiting non-member banks, just as inclination to withdraw may often be discovered in visiting member banks. In most of the districts the practice is for the traveling man to call on non-member banks at least in places where there are member banks.

The Committee feels that bank relations men should not be used to convey disciplinary messages to member banks. If a bank officer is not sure, when the traveling man enters his bank, whether he is there for friendly or for disciplinary purposes, the Committee believes his usefulness is greatly diminished. There should be no doubt as to the welcome of the travelingman whenever he calls. The Committee believes disciplinary admonition or action should be taken through some other medium.

The Committee also desires to speak of two other aspects of this work:

Visiting by officers. First, in some districts an operating officer occasionally travels for a few days or a week with one of the bank relations men, visiting member and non-member banks. The Committee believes that if every operating officer of a Reserve Bank, as well as some of the heads of departments dealing directly with member banks, could thus spend a few days every year or two visiting out of town banks, great advantages would accrue. Many reserve bank officers have not had previous bank experience, and do not understand country bank conditions and psychology. If they could thus obtain first hand information and appreciation of the point of view and the operating conditions of member banks, the Committee feels sure a more sympathetic relationship and understanding would result. Incidentally, member banks greatly appreciate receiving such visits.

Frequency and costs. The second point which the Committee wishes to discuss is the frequency of visits. It is obvious from the foregoing figures that the frequency of visits varies greatly. The Committee feels that at least one visit a year should be made to every member bank and to as many non-member banks as practicable. It regards one visit as the minimum and two visits as the goal to be aimed at in order to keep satisfactory continuity of contact. It a ssumes that some discretion will be used as to these banks which should be visited more often than others. Obviously, such a program involves increased costs. The Committee, accordingly, presents as a starting point a condensed analysis of the present staff and expense of bank relations work taken from the Board's reports. The figures for the first half of 1925 have been multiplied by two as an estimate for the current year:

COST OF BANK RELATION DEPARTMENTS FOR 1925

(Last 6 months estimated)

	Total Expense of Function	Administration & Office Expense			Road Men & Travel Expense		No. of visits made (Estimated)	Number of	
		Expense	Officers	Employees	Expense	Employees		Member banks	Non-Member Banks
Boston	7,188	168	*-	-	7,020	1	895	421	245
New York	40,104	14852**	.90	1.12	25,252	4	1,450	869	389
Philadelphia	13,680	4344	-	1	9,336	2	852	751	512
Cleveland	32,482	8124	1	1	24,358	4	2,072	864	1,086
Richmond	28,926	13962	1.20	2	14,964	3.67	692	606	1,419
Atlanta	8,854	3090	1*	-	5,764	.50	-	501	1,466
Chicago	50,858	10814	1	2	40,044	3	3,500	1,407	4,104
St. Louis	31,586	7166	1	-	24,420	4	1,376	627	2,527
Minneapolis	6,424	6378	.75	.45	46	-	-	851	2,505
Kansas City	7,190	492	-	.25	6,698	1.67	748	11,040	2,900
Dallas	20,676	6196	.50	2	14,680	3	1,016	854	953
San Francisco	403	-	-	-	403	-	703	749	891
TOTAL	248,576	75586	7.35	9.80	172,990	31.84	13,804	9,540	18,797

* First quarter only.
** New York also expended $12,429.19 for the special series of bank conferences heretofore referred to.

The above table shows the total expense of the Federal Reserve Banks at the present time and its distribution among different banks and also the number of visits estimated for the year and the total number of member and non-member banks in each district.

These figures show how unevenly the cost is now distributed among the banks. The minimum costs now are in the four districts of Atlanta, Minneapolis, Kansas City and San Francisco -- districts of immense area. The Committee is not prepared to submit any accurate estimate of the additional costs of making one visit a year to every member bank and a visit to as many non-members as may be practicable, but it believes this would certainly involve an increase of from $100,000 to $150,000 per annum. The added cost does not in any way make the Committee hesitate in its recommendation, as it believes that the System is missing a valuable element in those districts where the work is not fully organized at present. The Committee feels that in districts which are now fully organized study may well be given to methods of reducing traveling and other expenses, but that no attempt should be made to lower the grade of men doing either the supervising or the traveling. These men represent the bank in an important capacity and should be men of experience, character and personality.

Membership changes. The Committee feels that at this point it may be interesting to present the following analysis of year to year changes in our membership, taken from the Board's figures. The purpose of this analysis is to show:

1. Active increases in membership due to organization of new national banks, conversion of non-member banks to national banks and admission of state banks.

2. Active decreases in membership, due to withdrawal of state banks and absorption of members by non-members.

3. What might be termed passive decreases in membership, due to suspension or liquidation of member banks or the combination of one member bank with another.

CHANGES IN FEDERAL RESERVE MEMBERSHIP

(January 1, 1919, to June 30, 1925)

	1919	1920	1921	1922	1923	1924	1925
Total membership beginning of year	8,692	9,066	9,606	9,779	9,859	9,774	9,587
ACTIVE							
Increases							
National Banks Organized	171	236	111	76	93	90	64
Conversion of nonmember banks	62	103	58	110	56	19	49
Admission of state banks	280	334	204	95	66	42	21
	513	673	373	281	215	151	134
Decreases							
Absorption of member banks by nonmember institutions	62	42	30	28	49	51	37
Withdrawal of state banks	9	12	18	13	29	26	15
Total decreases	71	54	48	41	78	77	52
Total active increases	442	619	325	240	137	74	82
PASSIVE							
Decreases							
Member banks suspended, liquidated or combined with other members	68	79	1552	160	222	261	131
Net final increase or decrease	374	540	173	80	85	187	49

You will notice the above table covers six years. The figures for 1925 are not estimated for the year, but represent only the first six months.

It is suggested by the Committee that it would be well if some such distinction as this could be made in giving figures to the public, because at present it is quite usual, after the figures have been issued, for newspapers to comment on the shrinkage occurring in the System through the withdrawal of state institutions. Whereas it is quite evident that if it were not for the passive decrease we should show a steady growth in membership, even though at a decreasing rate.

Attitude of banks towards the System. Over a period of years there can be no doubt that the attitude of banks has grown more understanding and friendly. Still, it must be said that there is considerable variation, both sectionally and individually. The Committee asked each Chairman last spring to summarize the attitude of bankers in his district. Generally speaking, the reports were favorable. The earlier criticisms growing out of par collections and the 1920 price decline have become less active. The east has recently been the center of criticism rather than the West and South, the complaint being with the low interest rates of the last half of 1924. Questionaires sent out by the A.B.A. to state banks in 1924 and to trust companies in 1925 indicate in general a recognitionof the necessity of the System and a friendly attitude towards it. Yet a substantial number of replies say that country banks do not get the same advantages as city banks, that there is too much red tape in doing business with the Reserve Bank. They complain of arbitrary methods, an autocratic attitude; of lack of personal service due to operating under uniform rules instead of making requirements to fit individual cases. "When we write the Federal Reserve we get a letter back filled in by some clerk or automaton" says one banker.

One frequently hears the remark "The member banks are still far from sold on the Ststem." Mr. Mershon, Secretary of the Trust Company Section of the A. B. A., who has traveled extensively in 1925 covering every district but Atlanta and Dallas, finds the attitude of trust companies not a very happy one individually, however co-operative their collective attitude may be. Mr. E. T. Gregory, a British economist, who spent several months this year visiting banks in the United States, writes, -

"But the predominant impressions with which the student of banking returns from a visit to the U. S. A. are two in number. The first is a feeling of profoundq gratitude for the help and assistance which are extended to him by bankers in every part of that vast country; the second is the feeling that the prestige of the Reserve System is much greater abroad than it is at home. The present writer has heard the Federal Reserve System discussed many times; rarely, if ever, with approbation, often with extreme bitterness. That does not prove anything beyond the fact that the task of educating America to appreciate the benefits of a Central Banking System has hardly commenced.

How can this attitude be improved? We cannot pay interest on deposits, we should continue par collections, and car dividends are not likely to go above 6 per cent. The Committee, however, believes that something can be done in improving our attitude, our rules and our methods. It is the small things like these, rather than the large, which often create human relations. The Committee also believes that when these have been improved, wherever they are now found to be unsatisfactory, the moremembers use the System in their daily transactions, theymore satisfied they are apt to be with their membership.

The Committee, having learned from informal discussions that the use of our service by member banks varies considerably in the different districts, has recently asked each Chairman to furnish figures showing the number of banks in his district which the various services with a reasonable degree of regularity. These figures have been tabulated separately for each service, and in presenting them the Committee wishes to call attention to the possibility of likelihood of some divergencies between the districts due to varying interpretations of the expression "reasonable degree of regularity". The figures, therefore, cannot be exact, but are believed to be fair approximations.

COIN AND CURRENCY

Per cent of

Member Banks using service.

	Members in F. R. City	Members Elsewhere
Boston	97	98
New York	97	98
Philadelphia	100	90
Cleveland	100	92
Richmond	100	70
Atlanta	71	65
Chicago	70	93
St. Louis	94	95
Minneapolis	92	66
Kansas City	90	95
Dallas	100	92
San Francisco	89	69
All districts	91	85

It is obvious from these figures that the Member Banks, both city and country, are fully availing themselves of our coin and currency facilities.

SAFEKEEPING OF SECURITIES

Per cent of
Member Banks using service.

	Members in F. R. City	Members elsewhere
Boston	43	57
New York	0	70
Philadelphia	30	70
Cleveland	49	47
Richmond	100	64
Atlanta	57	33
Chicago	29	48
St. Louis	53	68
Minneapolis	85	57
Kansas City	46	43
Dallas	88	34
San Francisco	9	10
All Districts	33	50

The foregoing figures do not discriminate between securities held regularly for safekeeping and Government securities pledged as collateral but held in safekeeping temporarily, because the banks owning them may not now be borrowing. The Committee is inclined to think that this is particularly the case with banks in the Federal Reserve City, for reserve banks usually do not offer their safekeeping facilities to the large city banks. In New York, Government securities held under conditions referred to above have not been reported as in safekeeping. The country banks seem generally to understand and avail of this service.

WIRE TRANSFERS

Per cent of Member banks using service

	Members IN F. R. City	Members Elsewhere
Boston	96	41
New York	64	16
Philadelphia	98	18
Cleveland	80	27
Richmond	100	31
Atlanta	71	55
Chicago	60	31
St. Louis	57	20
Minneapolis	92	14
Kansas City	95	15
Dallas	100	40
San Francisco	81	24
All Districts	70	26

As might be expected, the banks in the Federal Reserve City use this service very freely in transferring for themselves and their correspondents. Banks in the country districts have less use for it, although in some of the agricultural districts there is obviously a considerable demand for it.

COLLECTION OF NON CASH ITEMS

Per cent of Member banks using the service

	Members in F. R. City	Members Elsewhere
Boston	100	43
New York	84	86
Philadelphia	89	61
Cleveland	22	31
Richmond	90	39
Atlanta	43	25
Chicago	54	12
St. Louis	73	22
Minneapolis	38	12
Kansas City	76	6
Dallas	62	14
San Francisco	83	25
All Districts	70	29

Here again the city banks, some of whom are protesting against the service, are using it quite generally. With the country bank it may be that the use of the service depends upon whether it has been called to their attention. The Committee feels that varying interpretations of the Expression "Reasonable degree of regularity" may have particularly affected the figures reported under this service.

CHECK COLLECTIONS

Percent of Member banks using service but excluding those who only send to Federal Reserve Bank checks on banks in Federal Reserve Bank City.

	Members in F. R. City	Members Elsewhere
Boston	100	46
New York	91	54
Philadelphia	82	24
Cleveland	84	11
Richmond	90	40
Atlanta	71	31
Chicago	72	19
St. Louis	100	9
Minneapolis	100	10
Kansas City	83	9
Dallas	100	21
San Francisco	81	27
All Districts	89	23

As in most of the other services the city banks are using our check collection system freely. With respect to the country banks, the different districts vary greatly. The Committee has excluded from these figures the number of banks which only send to the Reserve Bank checks on the city in which the Reserve Bank is located, because such checks, presented through the clearing house, may hardly be said to pass through our collection system.

Recommendation. The Committee, through its consideration of the subject of relations with member and other banks, covering a period of several years, has reached certain very definite conclusions which it now wishes to present to the Conference for its consideration.

1. That every reserve bank should have a properly organized bank relations department, under supervision of an officer, as his primary interest, and with enough traveling men to visit every member bank and a large proportion of the non-member banks at least once in every year; the Committee's preference, at least for the present, being approximately two visits each year.

2. That every reserve bank should promptly undertake a survey of the policies, rules and regulations under which

it does business with its member banks, of the attitude of the officers and employees at its head office and branches towards member banks, of its correspondence with member banks, and of the complaints it has received from member banks, with a view to making its relations and correspondence with member banks neither bureaucratic nor impersonal, to eliminate as much rigidity and red tape as the circumstances will permit, and to make the relationship as nearly as practicable that of a city bank towards its out-of-town correspondent.

3. That the more the country banks learn to use the facilities of the System, the better is their understanding of the system and the fewer their complaints over membership, and that, therefore, the Conference should discuss ways and means of increasing the use of the System's facilities by country member banks, but only with careful consideration of and due regard for the city banks and their complaints of Federal Reserve Bank competition.

Governor Norris. I think this is one of the most important subjects before this Conference. Of course I have only just seen this report, and I think it is a very valuable one, and I hope there will be very full discussion of it. I want to ask whether discussion would be proper at this point where Mr. Jay has given a recommendation, or whether it had better be postponed until the entire report has been completed?

Governor Crissinger. I think we had better complete the report and then take the matters up.

Mr. Jay. We then come to the second provision of the report, Public relations work.

Work for 1925. At the last Conference the Committee expressed the view that during 1925 conditions would be favorable for the extension of the work of informing the public about the System, particularly the businessmen; and stated that if the Board agreed with this view, the Committee would like to make some suggestions for a program. The Board replied that it would be glad to receive our suggestions, whereupon the Committee met twice, in New York, February 13, and in Washington April 28th. At the latter meeting it proposed a number of methods of facilitating the dissemination of information, to which the Board interposed no objection. The minutes of this meeting were sent to every Federal Reserve Agent.

The Committee subsequently held a meeting in Chicago, June 29 and 30, at which Mr. McClure, of Kansas City, Mr.

Stewart, of St. Louis, and various officers of the Chicago Bank were also present; and a meeting at Atlantic City September 29 and 30, attended by several Chairmen, in addition to Members of the Committee. At these meetings the Committee crystallized upon this general principle, that the most satisfactory medium for informing the American people concerning the Reserve System is not through officials of the System, but through the users of the System, that is the Member banks.

Our most effective public relations work is in first informing the member banks and satisfying them with the System and then making it easy for them to explain the system to their customers and communities. Incidentally, such activity on the part of member banks is excellent advertising for them.

The Committee believes that in all of our contacts with the member ba nks we should do well to bear in mind that the public attitude towards the Reserve System in each community largely reflects the attitude of the local banks.

If the bankers understand the functions of the System and give it their support, the way to a better public understanding and support is greatly facilitated. The Committee believes that more statements by member banks of their attitude towards the System would be helpful. It also points out that we have in our Class B Directors men of wide influence in business circles who may perform valuable service for the System by publicly expressing their views regarding it.

Largely as an aid to member banks and others, the Committee has during the past year considered preparing various types of material with regard to the System which might thus be used. The following are the more important projects considered with the conclusions thus far reached with regard to each:

1. Some informative articles written by persons outside of the System, to be published in magazines of national circulation.

   Assistance has been given in several such cases, but the progress has not been as satisfactory as the Committee hoped for.

2. Brief and timely informative articles on the System for use in our monthly reviews.

   An article was prepared and used by several monthly reviews at the time England returned to gold payments. A second article was prepared but not used.

3. A manual for the use of speakers and writers explaining briefly the different functions and operations of the Reserve System.

The Committee after an earnest effort to prepare a manual believes the project impracticable and that the purpose may best be served by giving to any speaker copies of speeches already made by Board Members, Reserve Bank officers, or friends of the System. The available supply of good material of this sort has been largely increased during the year.

4. Short talks for radio use.

The Committee has collected a number of good radio talks which have been given successfully in different districts. It has also been in touch with a country-wide program for radio talks under auspices of the American Institute of Banking, which will include at least one talk on the Reserve System.

5. Advertising copy, embodying the advantages of membership, which member banks might use.

The Committee has accumulated a considerable amount of advertising copy, but is not yet preparod to make recommendations on the subject.

6. A new motion picture, as it seemed possible from the use of the present film by the Iowa State Agricultural State College that a good film would be widely used.

No progress has been made in the preparation of a new motion picture. The Reserve System is a very difficult subject for a motion picture.

7. A traveling exhibit of informative charts and photographs which could be loaned temporarily to member banks for use in their lobbies.

The Committee has devoted some thought and experimentation to the development of a mechanical d evice to facilitate the use of such an exhibit. A tentative exhibit has been prepared and will be shown to the Conference if desired.

The Committee also discussed a better and more regular contact with financial reporters in Federal Reserve cities; the desirability of cooperating with the public relations committees which state bankers' associations in the middle west are showing a tendency to establish; and the superiority, from the point of view of our contacts, of county bankers groups over the larger groups prevailing in most states.

Attitude of the public: The Committee believes that the attitude of the public towards the System and its operations has become distinctly more favorable. In Sections where heavy declines in farm products have brought many individual and banking disasters the 1925 rise in prices brought much relief, and the effect of this was noticeable in reduced criticism of the system and in the local attitude towards it. A good deal has been said and printed about the System in 1925, and with the exception of certain pamphlets published in the Northwest and the criticisms of certain New York financial publications it has been generally friendly.

The Committee feels it may properly comment upon the freedom the System has enjoyed thus far from the criticism of the individual conduct of its personnel, whether Directors, officers or clerks. In an organization which has grown so fast this freedom from criticism indicates a lively sense of the proprieties on the part of our personnel. Nevertheless, the Board has during the year requested us to make a new survey to see if any of our personnel were engaged in political activities just as last year it asked us to inquiro into our outside business activities. The Committee feels that in discussing this general question of our relations with the public we might well consider whether any other practices prevail among our personnel which might subject an individual reserve bank or the System as a whole to criticism or attack.

Charter renewal. The outstanding event of the year in our relations with the public has been the raising of the re-charter question.

First, the directors of the Chamber of Commerce of the U. S. in February authorized a survey of the Act and of the System's operations by several committees to be appointed by its Finance Section. The purpose was to put the Chamber in a position to express definite views about the System not later than 1927 when it anticipated charter discussion might begin.

Second, Secretary Mellon wrote an article for the May number of the Nation's Business which is the organ of the Chamber of Commerce of the United States, discussing re-charter, and suggesting early consideration.

Third, the National Association of Credit men in June asked Congress to re-charter the System.

Fourth, the American Bankers' Association asked for prompt settlement of the re-charter question, for 99-year or indeterminate charter and for consideration of the charter question entirely apart from amendments.

This successive raising of the re-charter question by the Secretary of the Treasury, and by three important organizations during a period of six or seven months definitely brings the subject before the public where it is likely to remain until it is definitely acted upon. Your Committee feels that it should propose for discussion by this Conference (1) the relation of the Ststem to the re-charter question and (2) the effect which the raising of the question may have upon our work of trying to establish among the banks and the public a better understanding of the System. With regard to the first, the Board has already expressed the view that the System should not be active in seeking charter renewal.

The Committee believes that a very potent element in the abandonment of the Second Bank of the United States was the anxiety of its officials to have it rechartered and the vigorous propaganda they engagedin through newspapers and otherwiso to secure a recharter. We are protected in our structure and operations from many of the pitfalls which caused dissatisfaction with the Second Bank, yet we might easily create an antagonistic public opinion if we were actively to seek recharter.

The question of recharter is so important that the Committee feels that the Conference should discuss the matter in all its aspects with a view to reaching an agreement as to what shall be the position of the System with regard to recharter, and particularly how the Directors and officers of the Reserve Banks should conduct themselves with regard to it.

The second point which the Committee asks the Conference to discuss is whether in view of the raising of the charter question we should continue or should stop the work we are now engaged in of endeavoring to obtain a better understanding of the functions and operations of the System among banks and the public generally. The Committee recommends that we should continue the work, but should see to it in each district that it is free from any involvement with the question of charter removal.

In closing this report the Committee wishes to emphasize the limitations under which the public relations work of the System must be carried on. The Committee has no staff of its own, but must rely upon the staffs of the various reserve banks. Their staffs, both official and non-official, are all busily working on other duties. Public relations work is not the primary interest of any officer or clerk in the Federal Reserve System. The Committee is not disposed to recommend that it should be otherwise. It is opposed to the organization of a publicity department and staff anywhere in the System. It believes that each part of the System should continue to make such contributions as fall within its opportunities and abilities, and that much of our best work is in assisting people outside the System to discuss it intelligently. The Committee does ask for greater interest in solving this problem on the part of the Board and the principal officers of each of the reserve banks. The Committee, in addition to undertaking as best it may, preparation of material of the kind already discussed, will be glad, if requested, to meet, as it has already done, in various districts and discuss the subject with the officers of the local reserve bank.

In the past few months a number of reserve banks have been sending to the Chairman of the Committee clippings and extracts from newspaper and magazine discussions of the System, especially those which follow the action of the American Bankers' Association Convention. These have been gathered together in scrap books which are submitted with this report for the inspection of those who may be interested.

Respectfully submitted,
John Perrin
W. A. Heath
Pierre Jay
Committee.

The Committee has suggested certain topics for discussion, which are as follows:

TOPICS FOR DISCUSSION

Bank Relations

1. Value of bank relations departments.
2. Recommendation of Committee regarding extension of work to all reserve banks.
3. Cost of bank relations work.
4. Recommendation of Committee regarding elimination of friction with member banks.
5. Use of services by member banks.
6. Should the use of services be extended?

Recommendations of Committee.

PUBLIC RELATIONS

1. Attitude of System towards question of charter renewal.

2. In view of raising of charter question should public relations work be continued?

Governor Crissinger. The report of the Committee is before the Conference. As stated by Mr. Jay the Committee has submitted a list of topics for discussion. The first one is "Value of bank relations departments". Is there anything on that subject?

Governor Norris. Mr. Chairman, it appears that two of the reservo banks made no visits at all during the year to member banks and one bank only visited one in five of the banks. I presume that those banks do not regard this work as valuable, but I would be very much interested in hearing their point of view.

Governor Young. I cannot just understand the report. I called personally this year or 20 or 25 banks I know that the manager of our Helena branch did the same thing, or some officer in that branch called on fully 50 per cent of the member banks in the State of Montana. I know that the man that we have out in the closed banks come in constant touch with the member banks and are compelled to do it daily. There isn't any question about the value of bank relations work. It is a question of how it is done. I suppose Mr. Mitchell and the other gentleman, including Mr. Moore know every member bank in the 9th district. One of those men will know the managing officer of every bank. Mr. Moore lives in North Dakota and perhaps calls them all by their first names. Mr. Mitchell lives in Minnesota and operated in South Dakota for a great many years. I have been there for eight years and sometime or other all of these bankers have been into our institution. That is not an indication that we do not believe in the bank relations work, because we do. It is our officers who come in contact with the member banks rather than the man regularly hired to do it. Do you not think that is a fair statement of the situation, Mr. Mitchell?

Mr. Mitchell. Yes, and I would say that the 9th

District has not been properly reported.

Mr. Jay. We ask each district to report every month any visits they make through their officers or traveling men. The Minneapolis district reported none. I am glad to know that that is not the fact.

Governor Young. There is some mistake somewhere.

Governor Wellborn. Governor Norris said he would like to hear from two of the banks. Minneapolis has already spoken. I think it is all in the manner in which the work is done. That is the case with us. We have done a great deal of public relations work and member bank relations work also. We have got four branches and one agency. Those men visit the banks when there is any trouble or anything to straighten out, and our officers visit them; we attend the bankers' conventions in the district and see all the bankers; we even attend the group meetings. I myself went around the entire state last year attending group meetings, and I think the work done in that way is very effective and very inexpensive. It does not show a heavy cost because it is charged in officers' traveling expenses. Year before last we employed a man to go out and do this work at pretty heavy expense. He visited each bank and made out a report. The report simply meant this, that they said they were glad to see him, asked him to have a seat, they would begin talking about the Federal Reserve System and they would want to know why we did not pay interest on deposits, which was one thing they objected to. Some of them wanted exchange on checks. The result was those men didn't know how to talk to the bankers at all, and they would come back to us and they would write to us about it and we began to get into a tangle and we really reached the conclusion that it was doing more harm than good. Mr. Newton can go more into the details, because he is chairman of that committee in our bank, but I think we are conducting those functions of the bank in a manner entirely satisfactory to our Board of directors.

Governor Crissinger. Mr. Newton?

Mr. Newton. I would like to say that in the early part of the year we began to reduce our expense just as much as we could, because we were running very heavily in the rear. We had determined to effect every economy we could in the bank. We decided at that time that we would not send out the two men who had been traveling regularly, but that we would send a representative of the bank to each of these group meetings and meetings of the bankers' associations. It so happens that in our district some of the states have their group meetings in the spring of the year, and in other states the group meetings are in the fall and we have not failed to have a representative of the bank attend them so far as I know, and also the state conventions. We always send a man who is thoroughly conversant with the affairs of the bank. I might say that we sent as our ambassador to one of the state conventions Mr. Wellborn, and I attended one of the others. Mr. Wellborn has attended several of the group meetings. I had intended to attend another convention, but I was ill at the time and could not go. We sent another officer of the bank. We have kept in close touch with our members and I think that there is a good feeling in our district in the main between the member banks and the Federal Reserve Bank of Atlanta. I do not believe there are any cases, or at least very few cases, where there are any complaints presented. However, there were two cases presented recently to which I would like to call attention. In Knoxville a matter came up which looked like it might result in some considerable feeling. We sent one of our men up immediately, a man that we thought was best fitted to treat with the situation. We have received letters from each of those banks in the city to the effect that they were entirely satisfied with the visit and with the results of the visit. That has been our policy in the Atlanta bank.

Governor Crissinger. The second topic recommended by the Committee for discussion is "Recommendation of Committee regarding extension of work to all reserve banks."

That is apparently covered in the other topic.

Mr. Jay. We haven't heard anything from the Reserve Board on the subject.

Mr. Martin. Just as a matter of information, I think it might be of interest to know about the men who were sent out on the road. It is absolutely wrong to send a man out unless he is a highly trained man. In St. Louis we found that it was wise, before sending a man out on the road on work of this kind, that the man worked in practically all departments of the bank, that he not only know the language of transits, and be able to talk to the country banker about arranging his items, but that he know the processes inside the bank and can talk with that banker about all of the operations of his bank and is able to help him with regard to the operations of the bank. A man who can go into his bill case if desired and be able to tell whether his notes are eligible for rediscount or not; who is able to tell him that a certain batch of notes can be made eligible by doing so and so. In other words we find it desirable train him in the bank before he goes on the road. We have also found it desirable not to let him go alone, until he has traveled for about three months with an older man; also he is never set out in an inquisitorial way. He goes there as a friend of the banker and not as an examiner, not in a spirit of criticism. In time he establishes a relationship with that banker or bankers, and they are glad to see him and glad to talk to him about their affairs. Therefore we think it highly desirable and very necessary, in order to get the full effects of the bank relations department, that the men be highly trained.

Governor Young. I think I would like to have a little time on this matter in order to fully take it up with our Board of Directars.

Governor Crissinger. If there is nothing further on this the next is "Cost of bank relations work".

Governor Strong. I notice several curiousities in the report of expenses. For instance San Francisco reports an average cost of 57 cents for disciplining the member banks and Dallas an average cost of $20. Minneapolis shows $400 which does not involve any discipline. I wonder if the question of expense could not be reviewed so that we will know what we are doing?

Governor Crissinger. Will Governor Talley tell us why it costs $20 in his district and only 57 cents somewhere else?

Governor Talley. I was just noticing the same thing. Governor Calkins has a total expense of $408. I presume that might be due to the branches, which are located fairly equi-distant over the district and they can be visited in a day or an overnight visit anyway. There is one item that might bear as close scrutiny as any other item, and that is, for instance, with 24 of our member bank relations men visiting every bank in the district, every member bank, and quite a large number of the non-member banks, they did it at less expense than for 1923. That is due to better districting of their territories. Our expense shows proportionately high compared to some of the other banks, and it looks excessive, but of course our district extends from

Natchez, Mississippi east to Arizona, which is quite an expanse of territory, and it takes a good deal of time to get over those long distances. However, every item of expense connected with the member bank relations work is charged into that. No officers' traveling expenses or anything of that kind absorbs any part of it. While I am speaking I might add that we sometimes call our member bank relations men attorneys for the member banks. We expect them to visit the member banks, get the viewpoint of the member bank and bring it into us. We find it of great value, the filing of copies of their reports with the credit department, because they are expected to make an exonomic survey of the trade in the territory, and in the member banks that they visit, and it gives us quite a good deal of information with respect to the business conditions that exist in the territory, although they are not expected to make any examination of the banks, and are instructed not to do so.

Mr. Hoxton. They could not do that under the law.

Governor Talley. We worked out last year a coordination between the examination department and the member bank relations department that has proved very effective. Those reports come across the same desk from the different groups of men. In one direction we get the Federal Reserve Bank viewpoint and the attitude toward the Member banks and through the other source we get the member banks' viewpoint, and we can come to very intelligent conclusions when we have all that information before us.

Governor Crissinger. Governor Calkins, will you explain how you operate on such a small amount?

Governor Calkins. In view of the amount shown as expended by our bank I was of the idea I would not be called upon for any apology. I understand that Mr. James has intimated that, owing to the smallness of our district, our men must walk when they make their visit. That is not the fact however. The fact is we have five very active branches and an additional head office, and the member bank relations work has been done by officers of our bank and by the managers of the branches in their respective locations. I think the charging of expense to their traveling expenses is proper, because they frequently travel on other business than that of a mere visit to the banks. The figures in this report show that approximately each member bank in the district has been visited once in a year, but that of course does not include the city member banks that are not on that list. I believe myself that the contact of the branch managers with the banks in the district is the best kind of contact that the Federal Reserve bank can have.

Governor Norris. I just want to develop one point that is not covered in the report of the committee. I think that these visits of the traveling representatives of the reserve banks to the member banks and non-member banks are immensely valuable in themselves; but if these traveling men report that they have visited a bank and that the officers of the bank have said that yes, they were members, but they were not using our service, we were not any good to them, they were only members because they had to be, or that they thought there was a great deal of red tape about the system, or that we were bureaucratic, or anything of that sort, and the matter stops there, there isn't a great deal of good done. To get the real benefit of those visits the reports of these men who come into the chairman, the governor or the officer who has charge of that work, should be carefully considered by him and relieved of complaint of that sort such as failure to use the service of the reserve bank, and it ought to then be taken up with the bank that has expressed the criticism. We invariably follow that practice. All these reports come over my desk, and I never fail in any case, where there is criticism or unfavorable comment, to write a letter to the officer who made that report as a result of the visit of one of our men, asking him if possible to come into the bank and go over those matters with me. We find in every case where we can get the officer of a member bank to come in that we convert a critic into a warm friend and often into a booster for the System.

Governor Bailey. That is true in our case. Every senior officer in the bank gets a copy of the report of the traveling men.

Governor Crissinger. The next topic is "Recommendation of committee regarding elimination of friction with member banks."

Mr. Jay. The Agents' Committee, during the Agents' Conference, spent an afternoon discussing this subject amongst themselves, and while naturally no definite conclusion could be reached, rules suggested or anything of that kind, it being an individual matter in each case, I think in general the discussion was very helpful. It is largely an operating matter. It is operating conditions that create friction as a rule.

Governor Crissinger. The next topic is "Use of service by member banks".

Mr. Jay. This is the first time any attempt has been made to make an analysis of the extent to which services are being used in the different districts and I thought possibly the Conference might wish to discuss that.

Governor Crissinger. Is there anything on that? If not the next is "Should the use of services be extended."

Governor Seay. If we had no so-called bank relations department we should nevertheless employ every man who has a place in that organization. I think it is a wonderfully good report and should be recommended to the diligent consideration of every Federal Reserve Bank.

Governor Crissinger. We will have a motion to that effect when we get through.

Governor Seay. If this is the end of the discussion of that part of it I will make it right now.

Governor Crissinger. Is there anything further on bank relations? If not we will take up the next subject which is public relations, "Attitude of System toward question of charter renewal.

Mr. Jay. May we have a statement of the Board's attitude on that subject?

Mr. Hamlin. I agree entirely with what the Committee has said, that we ought to be very careful not to be put in the position of putting out propaganda for renewal of the charters. Whatever work that can be done along that line, if it is the belief that the charter should be renewed, should be done by people other than officials of the system. I think it is a case where grave danger might result if the Board or the active officers of the reserve bank should actively engage in propaganda for that purpose.

Governor Bailey. But suppose a Member of Congress, for instance, in your district, comes into the bank and starts to talk to youabout it, you would not close up entirely? I would certainly give him my opinion about it and support the System all I could.

Mr. Hamlin. Where a person comes directly to you, of course you should give him such information as you can.

Governor Bailey. My idea is that we represent the System and when people come into the bank we should not be in a position of not raising our voice in defence of the System. I want to say that I have a very warm hearted interest in it and would certainly express my opinion under the proper circumstances. What do you think about that, Governor Strong. I follow your flag most of the time.

Governor Strong. I have a very warm hearted interest in it too, just as you have. I think there is quite a difference between a man expressing a purely personal view on a matter of that sort and having a system policy which results following a course that cannot be construed as putting forth propaganda. If the impression were to get abroad that this great organization with its immense power were engaged in seeking to force upon an unwilling public a renewal of their charters, and if they were not renewed they would wreck the country -- of course that is the extreme view -- it would be a dangerous thing for the System. After all it is a question for the political government to take up. If anybody asks my views about it I think I would have no difficulty in expressing them without creating that impression and I am perfectly sure that a natural born orator like you, Governor Bailey, could do it perfectly.

Governor Crissinger. We would like to hear from any one on this subject. Have you anything to say, Mr. James?

Mr. James. I do not think I can contribute anything to what has been said.

Governor Crissinger. Dr. Miller?

Mr. Miller. I think Governor Strong has exhausted the subject. I agree with him.

Governor Strong. While we have all agreed to work to promote this question of bank relations in order that there may be a better understanding by the public, is it not a sort of specialty job delegated to certain men in the reserve banks? I would like to give to those men, so far as our bank is concerned, the freedom that that responsibility justifies.

Mr. Jay. Again I would like to say that these two things, while they are inter-related, the relation with banks, public speaking, information and so on, they are really quite different. The Committee as a Committee does not do anything with regard to the work of relations with banks. It simply collects statistics from reserve banks each month as to how many visits they make and all that sort of thing. It does not attempt to do anything except to present the matter for discussion once a year at these conferences. With regard to the public relations, the committee as a committee has sought to prepare certain projects to assist in various ways and is doing a little something in that direction; but it is not doing anything at all in any district in regard to bank relations, except to discuss the matter once a year at this conference.

Mr. James. Would it be in order to move that we receive this report of the Standing Committee with thanks from the Conference for the efforts that they have made, and then continue the committee in its work? I will make that sort of a motion.

Mr. Perrin. Before that motion is put I believe the representatives of the different banks would be glad to know the attitude of the Board in regard to undertaking organized bank relations work in each of the districts. Some of the banks may not wish to do it; others may wish to do it. I think there is doubt as to whether the Federal Reserve Board would approve of all the banks going into it.

Mr. Miller. These gentlemen are interested in the attitude of the Board, and not in our individual opinions. My recollection is on one or two occasions the Board has officially expressed itself about that. Personally I have the gravest doubts as to the utility of the work and always have had. I am not very friendly to it.

Mr. James. In a broad senso we are in favor of continuing the work. On the other hand I recognizo the difference that exists in the difforent districts. I have folt all the time that tho officers of the reserve banks are perhaps in a better position to judge of the work and to direct the scope of it than the Board would be in trying to direct it as a Systom matter from Washington. I should say that thoy should be given very broad latitude in each of the banks in this matter.

Governor Strong. Before putting that motion I would like to state that I believe that the subject of recharter is actively boing discussed by various organizations. I just learned today that another organization has passed a resolution on the subject at its convention. It seems to me that there is a possibility now of some one officer of a reserve bank, say, making some incautious public utterance which would cause considerable embarrassment to the System. Theso reports of the Public relations men are carefully read in the reserve banks. There is a little matter of administrative detail that I would like to see undertaken by every reserve bank, and that is that a carefully prepared written statement be made of the attitude of the member bank relations department, and that the officers, in making addresses and in discussing the matter should have a copy of this statement, that a copy should be handed to every one of those men so that they are underspecific written instructions that they are not to violate. Someone might go out to a bankers' convention and make an incautious speech which the newspapers might take up. which might get into Congress and cause a great deal of harm on this recharter matter.

Governor Crissinger. There is some danger of that. Are there any further remarks?

Mr. Perrin. This should be considered from two angles. One bank relations which refer to officers and representatives of the banks, and the other is public relations which relates to speeches made and so forth.

Governor Strong. I am covering both of them. I mean private conversation and public utterances.

Mr. Perrin. There is obviously much more danger in the public utterance than in the other.

Governor Strong. Obviously.

Governor McDougal. We have passed on this report now.

but I think we are going to leave it in a very unsatisfactory condition, particularly so unless we get from the Board an expression of its views as to what the attitude should be on the question of the charter renewal.

Governor Crissinger. I do not think the Board has passed upon the question.

Governor McDougal. I would like to know from the Board what their attitude is and what our attitude should be.

Governor Crissinger. I cannot speak for the entire Board.

Mr. Miller. I think it is stated in the report that they advise against any activity.

Governor Crissinger. Yes, we would be against that. I think Mr. Jay knows my personal opinion about it. I am very much of the opinion that the banks and the Board should stay out of the discussion as much as possible until called upon by Congress to express an opinion. That is my notion about it.

Governor Seay. It appears that as the Reserve System itself displays reticence in that regard that one public organization after another is coming forward and showing a little anxiety. Therefore the work that ought to be done in that direction may be done and is being done by public organizations and perhaps will be done with more effect. Perhaps the more reticence we show the more anxiety they will show.

Mr. Jay. There is just one other thing, before a motion is made and the discussion closed. The Committee wishes to have the view of the Board and the Conference on this: Whether in view of the raising of the charter question our work which is purely of an informative nature, should not go on? The opinion of the committee is that the raising of the charter question should have no effect on its work, provided they keep out of anything that savors of propaganda with respect to the charter.

Governor Crissinger. What does the conference say about that suggestion?

Governor Seay. I move it is the sense of the conference that the question of recharter should have no bearing upon the work of this Committee.

Governor Crissinger. We will have to dispose of Mr. James' motion first. If there is nothing further on the motion of Mr. James I will put the question.

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

Governor Crissinger. Now, Governor Seay you may put your motion.

Governor Seay. I think Mr. James' motion covers the whole thing, and my motion is not necessary.

Governor Norris. The Board suggested a topic which I think is closely allied to this, so closely allied that perhaps it would be well to take it up now. The Board submitted to the conference the question of the advisability of discontinuing exhibits, that is Federal Reserve exhibits at such gatherings as that of the American Bankers Association. My impression is that the Governors are prepared to answer the question, and I presume the Agents are. Would it be proper to take that up now?

Governor Crissinger. What was the conclusion of the Governors on that subject?

Governor Strong. I think we approved the continuance of them.

Governor Crissinger. And what did the Agents do?

Mr. Jay. The committee turned in a written report to the Secretary, the substance of which was that inasmuch as these exhibits have now been made for four years, once in New York, twice in Atlantic City and once in Chicago, and that they covered practically every phase of Federal Reserve activity, that it has pretty well exhausted the subject, that we think that it is not worth the time or the money that it cost to prepare them and continue them. But we also suggested that inasmuch as the next convention was to be held in Los Angeles, in a section of the country where there has been no such exhibits , and that therefore many people attending the convention might never have seen one, that the exhibits to be placed at the disposal of the San Francisco Bank, and if the bank wishes to make such an exhibit it could be made with very little labor and expense at the Los Angeles Convention, if it was the desire of the San Francisco Bank to do it.

Governor Crissinger. Is there anything further? We have the report from the Governors' Conference approving the continuance of it while the Agents submit an optional report.

Governor Strong. My memory is that at a second meeting we referred the subject back to the Public Relations Committee.

Mr. Harrison. My understanding of the action was that it was the sense of the Conference who were present at the Atlantic City Convention and saw the exhibits that it made a favorable impression and that it was a good thing for the System to continue it.

Governor Crissinger. Was any action taken by the Board?

Mr. Eddy. Nothing further than to report it and to place it on the program.

Mr. James. I would like to hear from Governor Calkins or Mr. Perrin on this, as the next Convention is to be held in Los Angeles.

Governor Calkins. Inasmuch as I did not attend the convention and did not see the exhibit, I do not feel confident to express any opinion at this time.

Mr. Perrin. I do not think a number of us have seen the exhibit and we have had no discussion together about it.

Governor Crissinger. I would suggest that if the California Bank sees fit to make the exhibit that they make application to the Board and we will pass upon it.

Mr. Austin. I think all of the material is available for the exhibit if they wish to have it.

Governor Crissinger. As I recall the procedure with regard to the exhibit, the matter has been submitted to the Board and the Board has approved it heretofore.

Governor Strong. I move that the matter be re-ferred to the San Francisco Bank, as they are the next Convention City, or rather Los Angeles.

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

Governor Crissinger. The next subject presented by the Agents for discussion was the discount policy. The Agents discussed that topic with the Board and the Board had the Committee of Governors on Open Market Operations before them. Does any one desire to continue the discussion of this matter?

Governor Strong. We had a very full discussion of it at our meeting, Governor, and so far as the Governors of the Reserve Banks are concerned, I think we have exhausted the subject.

Governor Crissinger. Do the Agents desire any further discussion of it?

Mr. Austin. I think we also exhausted it.

Governor Crissinger. Do any members of the Board wish to say anything further about it?

Mr. Hamlin. I think not, Governor.

Governor Crissinger. Then we will pass the subject. The next is Open Market Policy. That was also pretty thoroughly discussed by the Agents and the Committee of Governors. If no one desires any further discussion of that we will pass it likewise.

The next is the policy of paying out gold. This is a new subject. Who will take the subject up for discussion?

Governor Strong. I think that was intended simply as a report to be made, as we always do, on payments of gold. I understood Mr. Dewey had something to say on that subject. I happened to be out when he made his statement.

Governor Crissinger. He made a statement here. Did he also make one at your meeting?

Governor Strong. I did not know whether it was intended to be discussed at this joint meeting or not.

Mr. Harrison. Mr. Dewey made no separate statement at our meeting.

Governor Crissinger. What is the view of the Conference on the matter. Has anybody anything to say?

Governor Strong. We did not put it on the Joint Program.

Mr. Jay. I think some of the Agents felt it would be interesting to discuss the general policy of the System with regard to it. Some banks do it and other banks do not do it. We understood it was on the Governor's program. We thought it might be interesting, if there was any discussion of it, to have that discussion at the Joint Conference rather than at the separate conferences. Whether any Agent present wishes to bring it up for discussion now I do not know.

Governor Crissinger. If not we will pass it. We will take up the Governors' program. We have disposed of Topic 1-B, recommendations contained in the report of the Agents Committee on member bank reserves. I think we have disposed of all topics on page 1. On page 3, is the topic "Should not the Treasury Department absorb the cost of transferring one dollar bills from one Federal Reserve Bank to another?

Governor Bailey. The Treasury has expressed itself as being in favor of that but they have no appropriation; that as soon as they are able to get an appropriation they will do it.

Governor Strong. And they are making an effort to do it.

Governor Crissinger. That disposes of that. Then Topic B. Effectiveness of budget control of the expense of operating the Federal Reserve banks and so forth. 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. It is expected that the discussion of this subject in 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.

Governor Strong. Governor Crissinger, the list of banks which have adopted the budget system is not complete in the topic as submitted by the Board. There are nine banks instead of seven. Only three banks are not operating along that line and those three banks, in the course of our discussion, maintain that the system which they have had in operation was substantially as effective as the Budget System and stated that they had very satisfactory results from their system.

Governor Crissinger. Do the banks care to be heard who have not adopted it?

Governor Talley. I would say with respect to the Dallas Bank that we have simply been under a misapprehension of what was intended by the word "budget". We find that the Board desires to have the control of the expenditures described as a budget system, and since coming to this Conference I have gotten a good deal of light on the subject as to what the Board really intends. In other words I think we have the baby down there all right, but we just never have named it. That is all there is to it.

Mr. James. It seems to me that as Governor Talley has repented and come into the fold that the other two ought to get in line and make it unanimous.

Governor Bailey. I am one of the other two. It is easy enough to name it.

Governor Crissinger. If there is nothing further on the Budget question we will go to page 4, Topic G, "Permanent employment by the Board at a fixed retainer of special counsel of outstanding ability to assist in litigation, such as the so-called Pascagoula and Brookings par clearance cases, and so forth."

This has been before both Conferences, and as I remember the Agents voted against it.

Mr. Perrin. Yes.

Governor Strong. I think we voted unanimously to concur in . vote of the Conference of counsel of the reserve banks, that it was inadvisable.

Governor Talley. Not unanimously Governor Strong. Dallas voted no.

Governor Crissinger. There is another topic at the bottom of the page, M, report of Chairman of Committee on Legislative Matters. We have had that. The report has been made. That cleans up the program. Is there anything further?

Mr. Miller. What disposition was made of the topic with regard to coordinating under the Board's control all of the examining work of the Federal Reserve System?

Governor Crissinger. What did the Agents do about that?

Mr. Perrin. That was on the Agents' program. We had a long discussion of the whole examination question on Thursday morning, and as a result of that a committee was appointed to study into the whole question.

Mr. Jay. The Public Relations Committee has developed a mechanical device for showing some pictures of the Reserve System, which device is used in the small country banks. It is set up in Mr. Platt's room and we would like to have members of the Conference look at it.

Governor Crissinger. The Conference will take note of that.

Mr. Hamlin. Governor Crissinger, I move you that the Conference adjourn.

Mr. Austin. Governor Crissinger, the Federal Reserve Agents have completed their program, and await any further instructions from the Board as to any further business.

Governor Strong. I would like to call a short meeting of the Governors at the conclusion of this Conference as there is one topic on our program that we should dispose of.

Governor Crissinger. Mr. Hamlin has moved that we adjourn.

(The motion being duly seconded, the Conference adjourned at 4.30 o'clock p.m., subject to the call of the Federal Reserve Board.)
