Mr. Attebery

Volume 2

CONFERENCE OF GOVERNORS OF THE

FEDERAL RESERVE BANKS

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TREASURY BUILDING ∙ WASHINGTON, D. C.

MARCH 22, 23, 24, 1926

WALTER S. COX, SHORTHAND REPORTER

472 Louisiana Avenue, Northwest Washington, D. C.

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

The Conference of Governors reconvened pursuant to recess at 2:30 o'clock p.m.

The Chairman. The meeting will please come to order. Mr. Strater, when Mr. Baker came in this morning we were discussing the report of the standing committee on collections, and were taking up the first part of the report.

Mr. Strater. I think I have covered that first part. I do not know of anything else that needs to be said about that.

The Chairman. We have referred the matter of symbols to your Committee, with power.

Mr. Strater. The second part of the report is another report on progress on the revision of the form of Treasury warrants to facilitate their handling by Federal Reserve Banks. There is nothing to do except that we have taken the matter up with the Treasury and they have shown a disposition to cooperate and have already made some of the changes which we suggested. I think at the next conference we can report definitely what the Treasury has done and will do.

The next division of the report is "Availability of unsorted cash letters." The committee recommends no change from the present procedure.

The next subdivision is "Cost of telegraphic advice of non-payment of checks of $500 and over." The committee has recommended a paragraph for inclusion in the check collection circular. At the last meeting of the Committee the members were somewhat concerned by the action taken at the last conference, as to whether or not the Governors really understood that the committee did not make any recommendation, but had merely pointed out the fact that $55,000 annually might be saved for the system. The committee feels that it might be charged with responsibility for the action of the Governors at their last conference, if it does not point out again that it made no recommendation on the subject and also that the committee did not contemplate that action would be taken discontinuing the present practice unless and until it should become imperative to further reduce the cost of check collections. That concludes the report.

The Chairman. What is your pleasure, gentlemen?

Governor Talley. I wanted to comment upon the last point touched upon, concerning the cost of telegraphic advice regarding the non-payment of checks of $500 and over. It is our thought that the cost of scrutinizing each cash letter for special instructions would be more than the cost of the telegraphic expense, and I want to ask Mr. Strater if we are to get the idea from the report that the committee recommends that the practice of absorbing the expense of telegraphic advice be discontinued.

Governor Calkins. That is just what the committee does not recommend, as I understand it. Is that correct, Mr. Strater?

Mr. Strater. Yes.

Governor Talley. That was the recommendation before. Does the Committee recommend it now?

Mr. Strater. No, the Committee makes no recommendation at all. This is about what the Committee had in mind when we discussed it at our last meeting: The amount of saving, $55,000 annually, is comparatively small normally, but if it was urgent that additional savings be effected the passing of these charges back to the depositing member bank might be something to be seriously considered.

Governor Talley. You will remember some time ago the question came up in reference to the acceptance of items subject to wire instructions as to non-payment.

Mr. Strater. Yes.

Governor Talley. Which was made uniform, that all Federal Reserve banks would accept items subject to wire non-payment of items of $500 or over, so that any attempt to even consider at this time the matter of absorbing the cost of telegraphing advice back to member banks would destroy that uniformity in the matter of instructions in cash letters, that is the uniformity in the handling of the cash letters, would it not?

Mr. Strater. No, I do not think it would. I do not think it would affect it at all. You could still secure that uniformity by incorporating in your check collection circular the paragraph which this committee recommended in its last report.

Governor Talley. Suppose we wire back in reference to the non-payment of an item of $500 or over and he comes back and says he won't pay it because he didn't instruct us in his latter?

Mr. Strater. But the mere fact that the check was sent to the Federal Reserve Bank, with the general instructions contained in the check collection circular, would obligate them to pay.

Governor Talley. That is what I wanted to bring out.

Mr. Strater. They agreed to pay when they got the check, regardless of whether it was put on their letterhead or not.

Governor Talley. My thought was it would create a good deal of confusion in discontinuing the practice to absorb the charges, notwithstanding the fact that the check collection circular might state that the items were sent subject to wire advice of non-payment of items of $500 or over. It puts the shoe on the other foot. It is all right, and we will go ahead and send items and there will be no objection as long as you absorb the cost of the messages. They want to reserve the right to send the items in with their own instructions, when it is a matter of some expense to them.

Governor Seay. We have examined the letters over a period in our bank and we find that the majority of the letters from the largerbanks have those instructions on them.

Mr. Strater. I expect that is more nearly true now than it was when you started it, Governor Seay.

The Chairman. Have you any resolution to offer, Governor Talley?

Governor Talley. There is just one other point. We would like, if it is possible, for the committee on collections to submit standard paragraphs to the Federal Reserve Banks before they incorporate them in the report, for discussion and reaction in the banks. It has happened several times, not only with our bank, but I think with others, that certain standard paragraphs to go into the check collection circular, could not be incorporated in the circulars in certain districts.

The Chairman. This report has been circulated in advance.

Governor Talley. I understand that. I understand that the Conference acts on the report when it is submitted, but we want to recommend to the committee that they submit these standard paragraphs which are to go into the circulars to the banks before they put them in the report.

Governor Young. The paragraph that they have suggested is right in this report.

Governor Talley. Yes, but we did not see it until it was put in the report.

Governor Young. It is not in the circular yet.

Governor Talley. Certainly not.

Governor Young. Now is the time to take it up and see whether or not it shall go in the circular, before the July 1st edition goes out.

Governor Talley. We do not want to be put in the awkward position of having the report approved by the Conference with these certain paragraphs in the report, and then find that we cannot accommodate ourselves to it.

The Chairman. You want a primary election first; is that it?

Governor Talley. Yes, sir.

The Chairman. And then a general election?

Governor Talley. Yes, sir.

Governor Seay. This is not the character of paragraph which anybody could object to.

Governor Talley. I am speaking generally. I am not referring particularly to the paragraph that is in this report.

The Chairman. What do you wish to do with this report, gentlemen? Motions are in order.

Governor Young. To get this before the Conference I move that the following uniform paragraphs be included in the check collection circular of each Federal Reserve Bank.

"All telegraphic costs pertaining to payment or non-payment, or in connection with receiving or transmitting any other information or instructions, will be charged to the account of the depositing bank. All such telegrams to the depositing bank will be sent 'Collect'."

Governor McDougal. I will second the motion.

The Chairman. Is there any discussion?

Governor Talley. Nothing further than to say that I will vote in the negative on that.

Governor Calkins. If the situation is as has been suggested by Governor Talley, and as I believe it to be, that it will cost more to carry out the provisions of that clause than it will to do the other thing, then we ought not to do it. As Mr. Strater has said, if it becomes necessary at any time to make these charges in order to save part of the $55,000 -- you cannot save it all -- to change our policy, we should perhaps change it, but not until that time comes.

Governor Young. You will recall that at the last two conferences I reported that there were many direct sending banks sending items to Minneapolis with letters of instructions, no two of which were alike; sending us ten dollars, fifty dollars and $500, with instructions as to protest and everything else all different. It is utterly impossible to go through all of those. Mr. Strater referred that matter to counsel and reported that our circular would hold even in view of those instructions. It was all threshed out a couple of years ago and I was voted down on it. There is no use in going into that again, that I can see. If it was right then it is right now.

Governor Calkins. As the matter now stands, the various Federal Rsserve banks are at liberty to use their discretion with regard to this matter. The effect of Mr. Young's motion would be to take away that discretion and compel all of us to follow a uniform practice, which would cost more than the practice now followed by some of us.

Governor Seay. As I understand the effect of this proposed paragraph it would obviate the examination of any letters at all, and would not impose any expense upon us whatever. It would say to our member banks "You send us checks for collection subject to the conditions of our general circular, which contains the following paragraph." It therefore imposes no duty upon the Federal Reserve Bank to examine their letters at all, it relieves us of trouble and imposes no expense.

Governor Talley. But you get into arguments with your member banks and they write in with reference to receiving advice of non-payment of items. Of course if they don't want to receive advice of non-payment they certainly don't want to pay for it.

Governor Seay. Then they ought not to send them in. We recite other conditions under which they send us collections, and if they are bound by some it may be said that they are bound by all. This is not an imposition; it is good banking practice; it has grown to be a custom and I think will spread.

Governor Calkins. I insist it is good primary banking practice, but in our present point of view I do not think that any practice that leads to unnecessary expenditure of money is good practice for us; there is no principle involved in this.

The Chairman. There is a motion before the House. That motion is on the adoption of this paragraph in the report to be included in the check collection circular.

Governor Calkins. It will be uniform, as I understand it.

The Chairman. It will be uniform. We have a regular date when we issue these circulars. July 1st is recommended, I believe. Your motion did not include the date when this should take place, Governor Young.

Governor Young. I will add to my motion that it takes place July 1, 1926. That is the date suggested, isn't it, Mr. Strater?

Mr. Strater. That is the date suggested in the report.

Governor Norris. I will second the motion.

(The motion, having been duly seconded, was carried, Governors Talley and Calkins voting no.)

The Chairman. Having acted upon this specific recommendation of the committee, it will be now in order to move that the report be accepted as a whole.

Governor Young. I move that the report be approved and filed.

Governor Wellborn. I will second that.

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

The Chairman. The question has come up about uniformity of circulars and of practices and procedure. We have had that up a good many times in connection with these matters, Mr. Strater. How well are we performing in this matter of uniformity?

Mr. Strater. Well, at best it has been a slow process. However, I think in view of the fact that we have had practically no unformity up to the last few years, that the results are gratifying. We are approaching uniformity. We are doing it slowly but steadily. In this report I think there is some reference to that on page 5.

The Chairman. That and the subject of postage is another one, is it not?

Mr. Strater. Postage is evidently one that has gone astray somewhere, with the aid of the Federal Reserve Board. I think this Conference voted that the practice of absorbing postage should be discontinued, that is postage on directly sent cash letters. As I recall it Boston and Kansas City still absorb postage, to some extent at least.

Governor Young. For both member and non-member banks?

Mr. Strater. No, on direct letters, on letters sent direct by member banks in a Federal Reserve Bank city to other Federal Reserve banks and branches.

The Chairman. What do you estimate the cost of that would be for us, about $75,000 a year, Mr. Harrison?

Mr. Harrison. I do not know the figure, but it is a very large figure.

Mr. Strater. I do not remember the amount exactly, right now, but several hundred thousand dollars for the system.

The Chairman. What is the situation in Richmond?

Governor Seay. We have abandoned it.

The Chairman. Did you have much trouble?

Governor Seay. Not at all.

Mr. Strater. St. Louis pointed out that they are embarrassed somewhat by the fact that Kansas City still continues it.

Governor Bailey. It costs us about $700 a year.

Governor Seay. It was not a matter of any consequence to us, but for the same of uniformity we abided by the decision.

The Chairman. Mr. Strater, that seems to conclude our discussions with you. Your report has been approved. We will be glad to have you sit in with us on our other discussions.

(The report of the standing committee on collection is as follows:)

R E P O R T

of

STANDING COMMITTEE ON COLLECTIONS

to

CONFERENCE OF GOVERNORS

March 22, 1926.

To the Conference of Governors:

At the Conference of Governors held November 2-5, 1925, the following topics were referred to the Standing Committee on Collections and the Committee submits its report herewith:

REVISION OF TIME SCHEDULES WITH A VIEW TO REDUCING FLOAT AND AVOIDING EXISTING INEQUALITIES.

Following the discussion of this topic, which appeared on the program of the Conference, it was voted that the Standing Committee on Collections be requested to make a study of the present time schedules and prepare a scientific revision of them if that should seem to be necessary. It was understood that the Committee should consult or advise with any Federal Reserve Banks whenever it might be helpful for the Committee to do so and that tentative shcedules be submitted to each bank for review before any final schedules are submitted to the Federal Reserve Board as a recommendation.

In its study of the present time schedules the Committee compiled a tabulation showing for each Federal Reserve bank and branch (1) the number of days of deferred availability given on country items payable in each State or part of State in other districts and (2) the number of days actually required to collect such items according to present schedules. The result of this compilation is attached hereto and made a part of this report, therebeing twelve schedules, one for each Federal Reserve District. The time of deferred availability according to the present schedule of each bank is shown in the first column and the actual time required to collect is shown in the next column. The actual time required was obtained by using the inter-district time schedule of the System in conjunction with the intradistrict time schedule of each reserve bank and branch. For example, to collect an item payable in the State of Kansas sent by the Federal Reserve Bank of Boston to the Federal Reserve Bank of Kansas City, would require 5 days which is obtained by adding 3 days required from Boston to Kansas City and 2 days required by Kansas City to collect the item in accordance with its intra-district time schedule after Kansas City receives it. These schedules show that there are numerous differences between the time shown in the present schedules of the various banks and the actual time required for collection and are given to the Governors with this report for their information and consideration.

As is well known and generally recognized, there are numerous intricacies and rather complicated conditions to be considered and overcome in preparing for the various reserve banks time schedules which will reduce float and avoid present inequalities and at the same time produce a schedule, the expediency of the adoption of which cannot be questioned. The Committee feels that it cannot complete its report without making an exhaustive study of the whole subject, which will include the intra-district time schedule of each bank. The Committee is preparing to obtain certain data from each bank which will enable it to continue the study, looking to the completion of a final report.

REVISION OF THE FORM OF TREASURY WARRANTS TO FACILITATE THEIR HANDLING BY FEDERAL RESERVE BANKS.

Early in December the Committee communicated with the Treasury Department, proposed certain changes in the form of government checks and was successful in arousing the interest of a number of Treasury officials. The Committee has been furnished with specimens showing the changes which the Treasury and the Government Printing Office are willing to make and, while these changes are in harmony with some of the Committee's suggestions, it is felt that further progress is possible.

The Committee feels, therefore, that it can only report progress at this time but hopes to be able to make a definite report to the next Conference of Governors.

The Committee believes the Conference understands that even after the Treasury officials have approved and accepted the changes suggested by this Committee, considerable time must elapse before the effect of the changes will become noticeable. In time, however, the government checks printed on the revised forms will result in facilitating their handling by banks generally, as well as by the reserve banks.

AVAILABILITY OF UNSORTED CASH LETTERS

The Conference voted to refer to the Standing Committee on Collections for consideration the question whether Federal reserve banks should request smaller member banks to sort all cash items strictly in accordance with the time schedule, or whether Federal reserve banks might, in their discretion, average the availability of unsorted cash letters or accept them on some other basis.

All of the Federal reserve banks, with the exception of Minneapolis and Dallas, specifically state in their check collection circulars that letters composed of unsorted items will be credited on the available date of the item of the latest availability. Dallas, in its discretion, may do likewise. Minneapolis provides for sorting of checks by time schedule, but makes no provision for letters composed of unsorted items.

The Committee is of the opinion that the matter of determining the availability of cash letters containing unsorted items may safely be left to the discretion of the Federal reserve banks. To credit such letters in accordance with the average availability of the checks enclosed might sometimes result in more favorable availability than would be the case if items were properly sorted in accordance with the published time schedules. The sorting of cash items in accordance with the time schedules is correct in principle, and with a reasonably accurate time schedule this appears to be the most equitable way of determining availability.

The Committee believes that all member banks should continue to be encouraged to sort checks in accordance with the time schedules, although it recognizes the fact that many of the small member banks with limited equipment and personnel may find it difficult or burdensome to do this. In the case of small member banks which send only a small volume of checks to the Federal reserve banks it would seem practicable for the Federal reserve banks to analyze the cash letters, giving credit for the unsorted checks in accordance with their actual availability. This would involve but few more bookkeeping entries than would be the case if availability were averaged, and which would not seem to be more difficult to do than to compute the average availability.

If the reserve banks continue to lay down the general rule requiring member banks to assort items in accordance with their time schedules, it will be possible for them to use their discretion in exceptional cases and at the same time be in a position to control any abuses of the rule.

The Committee recommends, therefore, that no change be made in the present provisions of the majority of the circulars in this particular, and that the matter of determining availability of unsorted items received from the smaller member banks be left to the discretion of the several Federal reserve banks.

COST OF TELEGRAPHIC ADVICE OF NON-PAYMENT OF CHECKS $500 and OVER.

The Conference voted that the Federal Reserve banks should not absorb the cost of these telegraphic advices, and that the standing Committee on Collections be requested to prepare a paragraph of advice to member banks which might be forwarded by each Federal reserve bank to its members.

The Committee in its last report stated that the annual cost to the System in this connection was approximately $55,000. This figure included only the cost of commercial wires. It is, therefore, assumed that the action taken at the last Conference does not contemplate any change in the extent to which the leased wires are used in advising non-payment of checks.

Although the vote of the Conference is recorded as applying to items "over $500", the Committee, of course, assumes that the Governors intended to refer to items of $500 and over" instead of "over $500."

The Committee suggests the following uniform paragraph for inclusion in the check collection circular of each Federal reserve bank:

> "All telegraphic costs pertaining to payment or non-payment, or in connection with receiving or transmitting any other information or instructions, will be charged to the account of the depositing bank. All such telegrams to the depositing bank will be sent 'Collect'.

This paragraph not only takes into consideration telegraphic costs incident to advising non-payment of items $500 andover, but also all telegraphic costs incurred at the request of the depositing bank.

The Committee in its report to the Governors' Conference of October 10, 1922, recommended a uniform paragraph with reference to Telegraphic Costs in connection with the handling of checks and other cash items for inclusion in the check collection circulars of all Federal Reserve banks. This recommendation was adopted by the Governors; a number of the reserve banks, however, failed to include the paragraph for some time and it is only recently that it has been uniformly used. The Committee desires to state that in its opinion it is highly essential for the practice of reserve banks in this matter to be uniform and that all reserve banks insert the same paragraph in identical wording in their check collection circulars. The Committee further recommends that the effective date for the substitution of the above paragraph in place of the former paragraph regarding "Telegraphic Costs" be fixed uniformly as July 1, 1926.

It is considered important that depositing banks be promptly advised of telegraphic costs incurred, and for this reason the Committee feels it is essential that advice of such expense be promptly forwarded by mail to the Federal reserve banks and to the depositing banks whose accounts are affected.

It is recommended that those Federal reserve banks which issue loose leaf sheets as general letters of Instruction, call attention to this paragraph in the letters of transmittal accompanying such sheets, and that Federal reserve banks which issue separate operating circulars call particular attention to the new paragraph.

The Committee feels that it will not have performed its full duty and responsibility to the Governors if it fails to state that in its former report it may have created the impression that the Committee favors the discontinuance of the present practice of absorbing such telegraphic costs. On the contrary, while the Committee made no recommendation, it did not contemplate that action would be taken discontinuing the present practice unless and until it should become imperative to further reduce the cost of check collections.

Respectfully submitted, H. F. Strater, Chairman,

J. S. Walden, Jr. O. M. Attebury
C. H. Coe J. M. Toy

Table Compiled from Present Time Schedules

for the

Federal Reserve Bank of BOSTON

Showing - (1) Number of days of deferred availability given on COUNTRY ITEMS payable outside of the First District according to present time schedule.

(2) Actual number of days required to collect.

PAYABLE IN STATE	SENT TO F. R. BANK	BOSTON	
		(1)	(2)
Alabama	Atlanta	4	6
	New Orleans	4	5
	Birmingham	4	5
Arizona	El Paso	8	7-8
	Los Angeles	8	9
Arkansas	St. Louis	4	6
	Memphis	4	6
	Little Rock	4	6
California	San Francisco	8	7-9
	Los Angeles	8	6-7
Colorado	Denver	8	6-7
Connecticut	New York	2	3
Delaware	Philadelphia	2	3
Dist. Columbia	Richmond	4	4
Florida	Jacksonville	4	6-7
Georgia	Atlanta	4	5
Idaho	Spokane	8	7-9
	Salt Lake City	8	6-8
Illinois	Chicago	4	4
	St. Louis	4	5
	Louisville	4	5
Indiana	Chicago	4	4
	St. Louis	4	6
	Louisville	4	5
Iowa	Chicago	4	4
Kansas	Kansas City	4	5
Kentucky	Cincinnati	4	4
	St. Louis	4	6
	Louisville	4	5
Louisiana	New Orleans	8	5
	Dallas	8	6-7-8
Maryland	Baltimore	4	4
Michigan	Chicago	4	4
	Detroit	4	4
	Minneapolis	4	6
Minnesota	Minneapolis	4	5
Mississippi	New Orleans	4	5
	Memphis	4	6
Missouri	St. Louis	4	5
	Kansas City	4	5
Montana	Helena	8	7-8
Nebraska	Omaha	8	5
Nevada	San Francisco	8	8
	Salt Lake City	8	7
New Jersey	New York	2	3
	Philadelphia	2	3
New Mexico	Denver	8	7
	El Paso	8	6-7-8
New York	New York	2	3
	Buffalo	2	4
North Carolina	Richmond	4	5
North Dakota	Minneapolis	8	5-7
Ohio	Cleveland	4	4
	Cincinnati	4	4
Oklahoma	Oklahoma City	8	5
	Dallas	8	6-7-8
Oregon	San Francisco	8	10
	Portland	8	7-9
Pennsylvania	Philadelphia	2	3
	Pittsburgh	2	4
South Carolina	Richmond	4	5
South Dakota	Minneapolis	8	5-7
Tennessee	Atlanta	4	5
	Nashville	4	6
	St. Louis	4	6
	Memphis	4	6
Texas	Dallas	8	6-7-8
	El Paso	8	6-8
	Houston	8	6-7-8
Utah	Salt Lake City	8	6-8
Virginia	Richmond	4	4
Washington	Spokane	8	7-9
	Portland	8	7-8
	Seattle	8	7
West Virginia	Pittsburgh	4	4
	Richmond	4	5
	Baltimore	4	5
Wisconsin	Chicago	4	4
	Minneapolis	4	5
Wyoming	Omaha	8	6

Table Compiled from Present Time Schedules

for the

Federal Reserve Bank of NEW YORK and Branch

Showing - (1) Number of days of deferred availability given on COUNTRY ITEMS payable outside of the Second District according to present time schedule.

(2) Actual number of days required to collect.

PAYABLE IN STATE	SENT TO F. R. BANK	NEW YORK (1)	NEW YORK (2)	BUFFALO (1)	BUFFALO (2)
Alabama	Atlanta	4	5	4	6
	New Orleans	4	5	4	5
	Birmingham	4	4	4	4
Arizona	El Paso	8	7–8	8	7–8
	Los Angeles	8	9	8	8
Arkansas	St. Louis	4	5	4	5
	Memphis	4	6	4	5
	Little Rock	4	6	4	5
California	San Francisco	8	7–9	8	6–8
	Los Angeles	8	6–7	8	5–6
Colorado	Denver	8	6–7	8	5–6
Connecticut	Boston	2	3	3	4
Delaware	Philadelphia	2	3	3	4
Dist. Columbia	Richmond	2	3	3	4
Florida	Jacksonville	4	5–6	4	6–7
Georgia	Atlanta	4	4	4	5
Idaho	Spokane	8	6–8	8	6–8
	Salt Lake City	8	6–8	8	6–8
Illinois	Chicago	4	4	3	3
	St. Louis	4	4	3	4
	Louisville	4	5	3	5
Indiana	Chicago	4	4	3	3
	St. Louis	4	5	3	5
	Louisville	4	5	3	5
Iowa	Chicago	4	4	3	3
Kansas	Kansas City	4	5	4	4
Kentucky	Cincinnati	4	4	4	4
	St. Louis	4	5	4	5
	Louisville	4	5	4	5
Louisiana	New Orleans	8	5	8	5
	Dallas	8	5–6–7	8	5–6–7
Maine	Boston	2	3	3	4
Maryland	Baltimore	2	3	3	4
Massachusetts	Boston	2	3	3	4
Michigan	Chicago	4	4	3	3
	Detroit	4	4	3	3
	Minneapolis	4	5	3	5
Minnesota	Minneapolis	4	4	4	4
Mississippi	New Orleans	4	5	4	5
	Memphis	4	6	4	5
Missouri	St. Louis	4	4	4	4
	Kansas City	4	5	4	4
Montana	Helena	8	6–7	8	6–7
Nebraska	Omaha	8	5	8	4
Nevada	San Francisco	8	8	8	7
	Salt Lake City	8	7	8	7
New Hampshire	Boston	2	3	3	4
New Jersey	Philadelphia	2	3	2	4
New Mexico	Denver	8	7	8	6
	El Paso	8	6–7–8	8	6–7–8
North Carolina	Richmond	4	4	4	5
North Dakota	Minneapolis	8	4–6	8	4–6
Ohio	Cleveland	4	4	3	3
	Cincinnati	4	4	3	4
Oklahoma	Oklahoma City	8	5	8	5
	Dallas	8	5–6–7	8	5–6–7
Oregon	San Francisco	8	10	8	9
	Portland	8	6–8	8	6–8
Pennsylvania	Philadelphia	2	3	3	4
	Pittsburgh	2	3	3	3
Rhode Island	Boston	2	3	3	4
South Carolina	Richmond	4	4	4	5
South Dakota	Minneapolis	8	4–6	8	4–6
Tennessee	Atlanta	4	4	4	5
	Nashville	4	5	4	5
	St. Louis	4	5	4	5
	Memphis	4	6	4	5
Texas	Dallas	8	5–6–7	8	5–6–7
	El Paso	8	6–8	8	6–8
	Houston	8	6–7–8	8	5–6–7
Utah	Salt Lake City	8	6–8	8	6–8
Vermont	Boston	2	3	3	4
Virginia	Richmond	2	3	3	4
Washington	Spokane	8	6–8	8	6–8
	Portland	8	6–7	8	6–7
	Seattle	8	6	8	6
West Virginia	Pittsburgh	4	3	4	3
	Richmond	4	4	4	5
	Baltimore	4	4	4	5
Wisconsin	Chicago	4	4	4	3
	Minneapolis	4	4	4	4
Wyoming	Omaha	8	6	8	5

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Table Compiled from Present Time Schedules

for the

Federal Reserve Bank of PHILADELPHIA

Showing - (1) Number of days of deferred availability given on COUNTRY ITEMS payable outside of the Third District according to present time schedule.

(2) Actual number of days required to collect.

PAYABLE IN STATE	SENT TO F. R. BANK	PHILADELPHIA (1)	PHILADELPHIA (2)
Alabama	Atlanta	6	5
	New Orleans	6	5
	Birmingham	6	4
Arizona	El Paso	8	7–8
	Los Angeles	8	9
Arkansas	St. Louis	6	5
	Memphis	6	5
	Little Rock	6	6
California	San Francisco	8	7–9
	Los Angeles	8	6–7
Colorado	Denver	6	6–7
Connecticut	Boston	2	3
	New York	2	3
Dist. Columbia	Richmond	2	3
Florida	Jacksonville	6	5–6
Georgia	Atlanta	5	4
Idaho	Spokane	8	6–8
	Salt Lake City	8	6–8
Illinois	Chicago	4	4
	St. Louis	4	4
	Louisville	4	5
Indiana	Chicago	4	4
	St. Louis	4	5
	Louisville	4	5
Iowa	Chicago	4	4
Kansas	Kansas City	6	5
Kentucky	Cincinnati	4	4
	St. Louis	4	5
	Louisville	4	5
Louisiana	New Orleans	6	5
	Dallas	6	5–6–7
Maine	Boston	2	3
Maryland	Baltimore	2	3
Massachusetts	Boston	2	3
Michigan	Chicago	4	4
	Detroit	4	4
	Minneapolis	4	5
Minnesota	Minneapolis	5	4
Mississippi	New Orleans	6	5
	Memphis	6	5
Missouri	St. Louis	5	4
	Kansas City	5	5
Montana	Helena	8	6–7
Nebraska	Omaha	6	5
Nevada	San Francisco	8	8
	Salt Lake City	8	7
New Hampshire	Boston	2	3
New Jersey	New York	2	3
New Mexico	Denver	8	7
	El Paso	8	6–7–8
New York	New York	2	3
	Buffalo	2	4
North Carolina	Richmond	4	4
North Dakota	Minneapolis	6	4–6
Ohio	Cleveland	4	4
	Cincinnati	4	4
Oklahoma	Oklahoma City	8	5
	Dallas	8	5–6–7
Oregon	San Francisco	8	10
	Portland	8	7–9
Pennsylvania	Pittsburgh	2	3
Rhode Island	Boston	2	3
South Carolina	Richmond	4	4
South Dakota	Minneapolis	6	4–6
Tennessee	Atlanta	5	4
	Nashville	5	5
	St. Louis	5	5
	Memphis	5	5
Texas	Dallas	8	5–6–7
	El Paso	8	6–8
	Houston	8	5–6–7
Utah	Salt Lake City	8	6–8
Vermont	Boston	2	3
Virginia	Richmond	2	3
Washington	Spokane	8	6–8
	Portland	8	7–8
	Seattle	8	7
West Virginia	Pittsburgh	4	3
	Richmond	4	4
	Baltimore	4	4
Wisconsin	Chicago	5	4
	Minneapolis	5	4
Wyoming	Omaha	8	6

Table Compiled from Present Time Schedules

for the

Federal Reserve Bank of CLEVELAND and Branches

Showing - (1) Number of days of deferred availability given on COUNTRY ITEMS payable outside of the Fourth District according to present time schedule.

(2) Actual number of days required to collect.

PAYABLE IN STATE	SENT TO F. R. BANK	CLEVELAND (1)	CLEVELAND (2)	CINCINNATI (1)	CINCINNATI (2)	PITTSBURGH (1)	PITTSBURGH (2)
Alabama	Atlanta	5	5	5	5	5	5
	New Orleans	5	5	5	4	5	5
	Birmingham	5	4	5	4	5	4
Arizona	El Paso	8	7–8	8	6–7	8	7–8
	Los Angeles	8	9	8	9	8	9
Arkansas	St. Louis	5	5	5	4	5	5
	Memphis	5	5	5	5	5	5
	Little Rock	5	5	5	5	5	5
California	San Francisco	8	7–9	8	7–9	8	7–9
	Los Angeles	8	6–7	8	6–7	8	6–7
Colorado	Denver	6	5–6	6	5–6	6	5–6
Connecticut	Boston	4	4	4	4	4	4
	New York	4	4	4	4	4	3
Delaware	Philadelphia	4	4	4	4	3	3
Dist. Columbia	Richmond	4	4	4	4	4	4
Florida	Jacksonville	6	6–7	6	5–6	6	6–7
Georgia	Atlanta	4	4	4	4	4	4
Idaho	Spokane	8	6–8	8	6–8	8	6–8
	Salt Lake City	8	6–8	8	6–8	8	6–8
Illinois	Chicago	3	3	3	3	3	4
	St. Louis	3	4	3	3	3	4
	Louisville	3	5	3	4	3	5
Indiana	Chicago	3	3	3	3	3	4
	St. Louis	3	5	3	4	3	5
	Louisville	3	5	3	4	3	5
Iowa	Chicago	4	3	4	3	4	4
Kansas	Kansas City	4	4	4	4	4	4
Kentucky	St. Louis	5	5	4	4	5	5
	Louisville	5	5	4	4	5	5
Louisiana	New Orleans	8	5	6	4	8	5
	Dallas	8	5–6–7	6	5–6–7	8	5–6–7
Maine	Boston	4	4	4	4	4	4
Maryland	Baltimore	4	4	4	4	4	3
Massachusetts	Boston	4	4	4	4	4	4
Michigan	Chicago	3	3	3	3	3	4
	Detroit	3	3	3	4	3	3
	Minneapolis	3	5	3	5	3	5
Minnesota	Minneapolis	4	4	4	4	4	4
Mississippi	New Orleans	5	5	5	4	5	5
	Memphis	5	5	5	5	5	5
Missouri	St. Louis	4	4	4	3	4	4
	Kansas City	4	4	4	4	4	4
Montana	Helena	8	6–7	8	6–7	8	6–7
Nebraska	Omaha	4	4	4	4	4	4
Nevada	San Francisco	8	8	8	8	8	8
	Salt Lake City	8	7	8	7	8	7
New Hampshire	Boston	4	4	4	4	4	4
New Jersey	New York	4	4	4	4	3	3
	Philadelphia	4	4	4	4	3	3
New Mexico	Denver	8	6	8	6	8	6
	El Paso	8	6–7–8	8	5–6–7	8	6–7–8
New York	New York	4	4	4	4	3	3
	Buffalo	4	3	4	4	3	3
North Carolina	Richmond	5	5	5	5	5	5
North Dakota	Minneapolis	6	4–6	6	4–6	6	4–6
Oklahoma	Oklahoma City	6	5	5	5	6	5
	Dallas	6	5–6–7	5	5–6–7	6	5–6–7
Oregon	San Francisco	8	10	8	10	8	10
	Portland	8	7–9	8	6–8	8	7–9
Pennsylvania	Philadelphia	4	4	4	4	3	3
Rhode Island	Boston	4	4	4	4	4	4
South Carolina	Richmond	5	5	5	5	5	5
South Dakota	Minneapolis	6	4–6	6	4–6	6	4–6
Tennessee	Atlanta	5	4	5	4	5	4
	Nashville	5	5	5	4	5	5
	St. Louis	5	5	5	4	5	5
	Memphis	5	5	5	5	5	5
Texas	Dallas	8	5–6–7	8	5–6–7	8	5–6–7
	El Paso	8	6–8	8	5–7	8	6–8
	Houston	8	5–6–7	8	5–6–7	8	5–6–7
Utah	Salt Lake City	8	6–8	8	6–8	8	6–8
Vermont	Boston	4	4	4	4	4	4
Virginia	Richmond	4	4	4	4	4	4
Washington	Spokane	8	6–8	8	6–8	8	6–8
	Portland	8	7–8	8	6–7	8	7–8
	Seattle	8	7	8	7	8	7
West Virginia	Richmond	5	5	5	5	5	5
	Baltimore	5	5	5	5	5	4
Wisconsin	Chicago	4	3	4	3	4	4
	Minneapolis	4	4	4	4	4	4
Wyoming	Omaha	5	5	5	5	5	5

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Table Compiled from Present Time Schedules

for the

Federal Reserve Bank of RICHMOND and Branch

Showing - (1) Number of days of deferred availability given on COUNTRY ITEMS payable outside of the Fifth District according to present time schedule.

(2) Actual number of days required to collect.

PAYABLE IN STATE	SENT TO F. R. BANK	RICHMOND (1)	RICHMOND (2)	BALTIMORE (1)	BALTIMORE (2)
Alabama	Atlanta	5	5	5	5
	New Orleans	5	5	5	5
	Birmingham	5	4	5	4
Arizona	El Paso	8	7–8	8	8–9
	Los Angeles	8	10	8	9
Arkansas	St. Louis	6	5	5	5
	Memphis	6	6	5	6
	Little Rock	6	6	5	6
California	San Francisco	8	8–10	8	7–9
	Los Angeles	8	7–8	8	6–7
Colorado	Denver	8	6–7	8	6–7
Connecticut	Boston	4	4	4	4
	New York	4	3	4	3
Delaware	Philadelphia	3	3	3	3
Florida	Jacksonville	6	5–6	5	5–6
Georgia	Atlanta	5	4	5	4
Idaho	Spokane	8	7–9	8	7–9
	Salt Lake City	8	6–8	8	6–8
Illinois	Chicago	4	4	4	4
	St. Louis	4	4	4	4
	Louisville	4	5	4	5
Indiana	Chicago	4	4	4	4
	St. Louis	4	5	4	5
	Louisville	4	5	4	5
Iowa	Chicago	4	4	4	4
Kansas	Kansas City	6	5	8	5
Kentucky	Cincinnati	5	4	5	4
	St. Louis	5	5	5	5
	Louisville	5	5	5	5
Louisiana	New Orleans	5	5	5	5
	Dallas	5	5–6–7	5	5–6–7
Maine	Boston	4	4	4	4
Massachusetts	Boston	4	4	4	4
Michigan	Chicago	4	4	4	4
	Detroit	4	4	4	4
	Minneapolis	4	6	4	6
Minnesota	Minneapolis	6	5	8	5
Mississippi	New Orleans	6	5	5	5
	Memphis	6	6	5	6
Missouri	St. Louis	5	4	5	4
	Kansas City	5	5	5	5
Montana	Helena	8	7–8	8	6–7
Nebraska	Omaha	6	5	8	5
Nevada	San Francisco	8	9	8	8
	Salt Lake City	8	7	8	7
New Hampshire	Boston	4	4	4	4
New Jersey	New York	3	3	3	3
	Philadelphia	3	3	3	3
New Mexico	Denver	8	7	8	7
	El Paso	8	6–7–8	8	7–8–9
New York	New York	3	3	3	3
	Buffalo	3	4	3	4
North Dakota	Minneapolis	6	5–7	8	5–7
Ohio	Cleveland	4	4	4	4
	Cincinnati	4	4	4	4
Oklahoma	Oklahoma City	6	5	8	5
	Dallas	6	5–6–7	8	5–6–7
Oregon	San Francisco	8	11	8	10
	Portland	8	8–10	8	7–9
Pennsylvania	Philadelphia	3	3	3	3
	Pittsburgh	3	4	3	3
Rhode Island	Boston	4	4	4	4
South Dakota	Minneapolis	6	5–7	8	5–7
Tennessee	Atlanta	5	4	5	4
	Nashville	5	5	5	5
	St. Louis	5	5	5	5
	Memphis	5	6	5	6
Texas	Dallas	6	5–6–7	8	5–6–7
	El Paso	6	6–8	8	7–9
	Houston	6	5–6–7	8	5–6–7
Utah	Salt Lake City	8	6–8	8	6–8
Vermont	Boston	4	4	4	4
Washington	Spokane	8	7–9	8	7–9
	Portland	8	8–9	8	7–8
	Seattle	8	8	8	7
West Virginia	Pittsburgh	3	4	3	3
Wisconsin	Chicago	4	4	4	4
	Minneapolis	4	5	4	5
Wyoming	Omaha	8	6	8	6

Table Compiled from Present Time Schedules

for the

Federal Reserve Bank of ATLANTA and Branches

Showing - (1) Number of days of deferred availability given on COUNTRY ITEMS payable outside of the Sixth District according to present time schedule.

(2) Actual number of days required to collect.

PAYABLE IN STATE	SENT TO F. R. BANK	ATLANTA (1)	ATLANTA (2)	NEWORLEANS (1)	NEWORLEANS (2)	BIRMINGHAM (1)	BIRMINGHAM (2)	JACKSONVILLE (1)	JACKSONVILLE (2)	NASHVILLE (1)	NASHVILLE (2)
Arizona	El Paso	8	7–8	7	6–7	8	7–8	8	7–8	8	6–7
	Los Angeles	8	9	7	8	8	9	8	10	8	9
Arkansas	St. Louis	5	5	5	5	5	5	6	6	5	4
	Memphis	5	5	5	5	5	4	6	5	5	4
	Little Rock	5	5	5	5	5	5	6	6	5	5
California	San Francisco	8	7–9	7	6–8	8	7–9	8	8–10	8	7–9
	Los Angeles	8	6–7	7	5–6	8	6–7	8	7–8	8	6–7
Colorado	Denver	6	5–6	6	5–6	6	5–6	7	6–7	6	5–6
Connecticut	Boston	5	5	5	5	5	5	5	5	5	5
	New York	5	4	5	5	5	4	5	4	5	4
Delaware	Philadelphia	4	4	5	5	4	4	4	4	4	4
Dist. Columbia	Richmond	4	4	4	4	4	4	4	4	4	4
Idaho	Spokane	8	7–9	8	7–9	8	7–9	8	8–10	8	7–9
	Salt Lake City	8	6–8	8	6–8	8	6–8	8	6–8	8	6–8
Illinois	Chicago	4	4	4	4	4	4	5	5	4	4
	St. Louis	4	4	4	4	4	4	5	5	4	3
	Louisville	4	5	4	5	4	5	5	5	4	4
Indiana	Chicago	4	4	4	4	4	4	5	5	4	4
	St. Louis	4	5	4	5	4	5	5	6	4	4
	Louisville	4	5	4	5	4	5	5	5	4	4
Iowa	Chicago	4	4	4	4	4	4	5	5	4	4
Kansas	Kansas City	6	5	6	5	5	4	6	5	5	4
Kentucky	Cincinnati	5	4	5	4	4	4	5	4	4	3
	St. Louis	5	5	5	5	4	5	5	6	4	4
	Louisville	5	5	5	5	4	5	5	5	4	4
Louisiana	Dallas	6	5–6–7	5	4–5–6	5	4–5–6	6	5–6–7	6	5–6–7
Maine	Boston	5	5	5	5	5	5	5	5	5	5
Maryland	Baltimore	4	4	4	5	4	4	4	4	4	4
Massachusetts	Boston	5	5	5	5	5	5	5	5	5	5
Michigan	Chicago	4	4	4	4	4	4	5	5	4	4
	Detroit	4	4	4	4	4	4	5	5	4	4
	Minneapolis	4	6	4	6	4	6	5	6	4	5
Minnesota	Minneapolis	5	5	5	5	5	5	5	5	4	4
Mississippi	Memphis	4	5	4	5	4	4	5	5	4	4
Missouri	St. Louis	5	4	5	4	5	4	6	5	5	3
	Kansas City	5	5	5	5	5	4	6	5	5	4
Montana	Helena	8	7–8	8	7–8	8	7–8	8	7–8	8	6–7
Nebraska	Omaha	6	5	6	5	6	5	6	5	5	4
Nevada	San Francisco	8	8	7	7	8	8	8	9	8	8
	Salt Lake City	8	7	7	7	8	7	8	7	8	7
New Hampshire	Boston	5	5	5	5	5	5	5	5	5	5
New Jersey	New York	4	4	5	5	4	4	4	4	4	4
	Philadelphia	4	4	5	5	4	4	4	4	4	4
New Mexico	Denver	8	6	8	6	8	6	8	7	8	6
	El Paso	8	6–7–8	8	5–6–7	8	6–7–8	8	6–7–8	8	5–6–7
New York	New York	4	4	5	5	4	4	4	4	4	4
	Buffalo	4	5	5	5	4	4	4	5	4	4
North Carolina	Richmond	5	5	5	5	5	5	5	5	5	5
North Dakota	Minneapolis	7	5–7	7	5–7	7	5–7	7	5–7	6	4–6
Ohio	Cleveland	4	4	5	5	4	4	5	5	4	4
	Cincinnati	4	4	5	4	4	4	5	4	4	3
Oklahoma	Oklahoma City	6	5	6	5	5	4	6	5	5	4
	Dallas	6	5–6–7	6	4–5–6	5	4–5–6	6	5–6–7	5	5–6–7
Oregon	San Francisco	8	10	8	9	8	10	8	11	8	10
	Portland	8	7–9	8	7–9	8	7–9	8	8–10	8	7–9
Pennsylvania	Philadelphia	4	4	5	5	4	4	4	4	4	4
	Pittsburgh	4	4	5	5	4	4	4	5	4	4
Rhode Island	Boston	5	5	5	5	5	5	5	5	5	5
South Carolina	Richmond	5	5	5	5	5	5	5	5	5	5
South Dakota	Minneapolis	7	5–7	7	5–7	7	5–7	7	5–7	6	4–6
Tennessee	St. Louis	5	5	5	5	5	5	6	6	4	4
	Memphis	4	5	4	5	4	4	5	5	4	4
Texas	Dallas	7	5–6–7	6	4–5–6	7	4–5–6	7	5–6–7	7	5–6–7
	El Paso	7	6–8	6	5–7	7	6–8	7	6–8	7	5–7
	Houston	7	4–5–6	6	4–5–6	7	4–5–6	7	5–6–7	7	4–5–6
Utah	Salt Lake City	8	6–8	8	6–8	8	6–8	8	6–8	8	6–8
Vermont	Boston	5	5	5	5	5	5	5	5	5	5
Virginia	Richmond	4	4	4	4	4	4	4	4	4	4
Washington	Spokane	8	7–9	8	7–9	8	7–9	8	8–10	8	7–9
	Portland	8	7–8	8	7–8	8	7–8	8	8–9	8	7–8
	Seattle	8	7	8	7	8	7	8	8	8	7
West Virginia	Pittsburgh	5	4	5	5	5	4	5	5	5	4
	Richmond	5	5	5	5	5	5	5	5	5	5
	Baltimore	5	5	5	6	5	5	5	5	5	5
Wisconsin	Chicago	5	4	5	4	5	4	5	5	4	4
	Minneapolis	5	5	5	5	5	5	5	5	4	4
Wyoming	Omaha	8	6	8	6	8	6	8	6	8	5

Table Compiled from Present Time Schedules

for the

Federal Reserve Bank of CHICAGO and Branch

Showing - (1) Number of days of deferred availability given on COUNTRY ITEMS payable outside of the Seventh District according to present time schedule.

(2) Actual number of days required to collect.

PAYABLE IN STATE	SENT TO F. R. BANK	CHICAGO (1)	CHICAGO (2)	DETROIT (1)	DETROIT (2)
Alabama	Atlanta	5	5	5	5
	New Orleans	5	4	5	4
	Birmingham	5	4	5	4
Arizona	El Paso	6	6–7	7	6–7
	Los Angeles	6	8	7	8
Arkansas	St. Louis	5	4	5	5
	Memphis	5	5	5	5
	Little Rock	5	5	5	5
California	San Francisco	6	6–8	7	6–8
	Los Angeles	6	5–6	7	5–6
Colorado	Denver	5	4–5	6	5–6
Connecticut	Boston	4	4	4	4
	New York	4	4	4	4
Delaware	Philadelphia	4	4	4	4
Dist. Columbia	Richmond	4	4	4	4
Florida	Jacksonville	5	6–7	6	6–7
Georgia	Atlanta	5	4	4	4
Idaho	Spokane	6	6–8	6	6–8
	Salt Lake City	6	5–7	6	5–7
Illinois	St. Louis	2	3	3	4
	Louisville	2	4	3	5
Indiana	St. Louis	2	4	3	5
	Louisville	2	4	3	5
Kansas	Kansas City	3	3	4	4
Kentucky	Cincinnati	3	3	4	3
	St. Louis	3	4	4	5
	Louisville	3	4	4	5
Louisiana	New Orleans	5	4	5	4
	Dallas	5	4–5–6	5	5–6–7
Maine	Boston	4	4	4	4
Maryland	Baltimore	4	4	4	4
Massachusetts	Boston	4	4	4	4
Michigan	Minneapolis	2	4	2	5
Minnesota	Minneapolis	3	3	4	4
Mississippi	New Orleans	5	4	5	4
	Memphis	5	5	5	5
Missouri	St. Louis	3	3	4	4
	Kansas City	3	3	4	4
Montana	Helena	6	5–6	7	5–6
Nebraska	Omaha	3	4	4	4
Nevada	San Francisco	6	7	6	7
	Salt Lake City	6	6	6	6
New Hampshire	Boston	4	4	4	4
New Jersey	New York	4	4	4	4
	Philadelphia	4	4	4	4
New Mexico	Denver	6	5	6	6
	El Paso	6	5–6–7	6	5–6–7
New York	New York	4	4	4	4
	Buffalo	4	4	4	3
North Carolina	Richmond	5	5	5	5
North Dakota	Minneapolis	5	3–5	6	4–6
Ohio	Cleveland	3	3	3	3
	Cincinnati	3	3	3	3
Oklahoma	Oklahoma City	5	4	5	5
	Dallas	5	4–5–6	5	5–6–7
Oregon	San Francisco	6	9	7	9
	Portland	6	6–8	7	6–8
Pennsylvania	Philadelphia	4	4	4	4
	Pittsburgh	4	4	4	3
Rhode Island	Boston	4	4	4	4
South Carolina	Richmond	5	5	5	5
South Dakota	Minneapolis	5	3–5	6	4–6
Tennessee	Atlanta	5	4	5	4
	Nashville	5	5	5	5
	St. Louis	5	4	5	5
	Memphis	5	5	5	5
Texas	Dallas	6	4–5–6	7	5–6–7
	El Paso	6	5–7	7	5–7
	Houston	6	5–6–7	7	5–6–7
Utah	Salt Lake City	6	5–7	6	5–7
Vermont	Boston	4	4	4	4
Virginia	Richmond	4	4	4	4
Washington	Spokane	6	6–8	7	6–8
	Portland	6	6–7	7	6–7
	Seattle	6	6	7	6
West Virginia	Pittsburgh	4	4	5	3
	Richmond	4	5	5	5
	Baltimore	4	5	5	5
Wisconsin	Minneapolis	2	3	3	4
Wyoming	Omaha	5	5	5	5

Table Compiled from Present Time Schedules

for the

Federal Reserve Bank of ST. LOUIS and Branches

Showing - (1) Number of days of deferred availability given on COUNTRY ITEMS payable outside of the Eighth District according to present time schedule.

(2) Actual number of days required to collect.

PAYABLE IN STATE	SENT TO F. R. BANK	ST. LOUIS (1)	ST. LOUIS (2)	LOUISVILLE (1)	LOUISVILLE (2)	MEMPHIS (1)	MEMPHIS (2)	LITTLE ROCK (1)	LITTLE ROCK (2)
Alabama	Atlanta	4	5	4	5	4	5	4	5
	New Orleans	4	4	4	4	4	4	4	4
	Birmingham	4	4	4	4	4	3	4	4
Arizona	El Paso	7	6–7	7	7–8	7	6–7	7	6–7
	Los Angeles	7	8	7	9	7	8	7	8
California	San Francisco	7	6–8	8	7–9	7	6–8	8	7–9
	Los Angeles	7	5–6	8	6–7	7	5–6	8	5–6
Colorado	Denver	5	4–5	6	5–6	6	5–6	6	5–6
Connecticut	Boston	4	5	4	4	5	5	5	5
	New York	4	4	4	4	5	5	5	5
Delaware	Philadelphia	4	4	4	4	4	4	5	5
Dist. Columbia	Richmond	4	4	4	4	5	5	5	5
Florida	Jacksonville	5	6–7	5	5–6	5	5–6	6	6–7
Georgia	Atlanta	4	4	4	4	4	4	4	4
Idaho	Spokane	7	6–8	7	6–8	8	7–9	8	7–9
	Salt Lake City	7	5–7	7	5–7	8	6–8	8	6–8
Illinois	Chicago	2	3	3	3	3	4	4	4
Indiana	Chicago	3	3	3	3	3	4	4	4
Iowa	Chicago	3	3	3	3	3	4	4	4
Kansas	Kansas City	3	3	4	4	4	4	4	4
Kentucky	Cincinnati	3	3	3	3	3	4	4	4
Louisiana	New Orleans	6	4	4	4	4	4	4	4
	Dallas	6	4–5–6	4	4–5–6	4	4–5–6	4	4–5–6
Maine	Boston	4	5	4	4	5	5	5	5
Maryland	Baltimore	4	4	4	4	5	5	5	5
Massachusetts	Boston	4	5	4	4	5	5	5	5
Michigan	Chicago	4	3	3	3	4	4	4	4
	Detroit	4	4	3	4	4	4	4	4
	Minneapolis	4	5	3	5	4	5	4	5
Minnesota	Minneapolis	4	4	4	4	4	4	4	4
Mississippi	New Orleans	4	4	4	4	3	4	4	4
Missouri	Kansas City	2	3	3	4	3	4	3	4
Montana	Helena	7	6–7	7	6–7	7	6–7	7	6–7
Nebraska	Omaha	3	3	4	4	4	4	4	4
Nevada	San Francisco	7	7	7	8	7	7	8	8
	Salt Lake City	7	6	7	6	7	7	8	7

PAYABLE IN STATE	SENT TO F. R. BANK	ST. LOUIS (1)	ST. LOUIS (2)	LOUISVILLE (1)	LOUISVILLE (2)	MEMPHIS (1)	MEMPHIS (2)	LITTLE ROCK (1)	LITTLE ROCK (2)
New Hampshire	Boston	4	5	4	4	5	5	5	5
New Jersey	New York	4	4	4	4	4	5	5	5
	Philadelphia	4	4	4	4	4	4	5	5
New Mexico	Denver	6	5	7	6	7	6	6	6
	El Paso	6	5–6–7	7	6–7–8	7	5–6–7	6	5–6–7
New York	New York	4	4	4	4	4	5	5	5
	Buffalo	4	4	4	4	4	4	5	4
North Carolina	Richmond	5	5	5	5	6	6	6	6
North Dakota	Minneapolis	6	4–6	6	4–6	6	4–6	6	4–6
Ohio	Cleveland	4	4	3	4	4	4	4	4
	Cincinnati	4	3	3	3	4	4	4	4
Oklahoma	Oklahoma City	4	4	4	4	4	4	4	4
	Dallas	4	4–5–6	4	4–5–6	4	4–5–6	4	4–5–6
Oregon	San Francisco	7	9	8	10	8	9	8	10
	Portland	7	6–8	8	7–9	8	7–9	8	7–9
Pennsylvania	Philadelphia	4	4	4	4	4	4	5	5
	Pittsburgh	4	4	4	4	4	4	5	4
Rhode Island	Boston	4	5	4	4	5	5	5	5
South Carolina	Richmond	5	5	5	5	6	6	6	6
South Dakota	Minneapolis	6	4–6	6	4–6	6	4–6	6	4–6
Tennessee	Atlanta	3	4	3	4	3	4	4	4
	Nashville	3	4	3	4	3	4	4	5
Texas	Dallas	6	4–5–6	6	4–5–6	6	4–5–6	5	4–5–6
	El Paso	6	5–7	6	6–8	6	5–7	5	5–7
	Houston	6	4–5–6	6	4–5–6	6	4–5–6	5	4–5–6
Utah	Salt Lake City	6	5–7	6	5–7	7	6–8	7	6–8
Vermont	Boston	4	5	4	4	5	5	5	5
Virginia	Richmond	4	4	4	4	5	5	5	5
Washington	Spokane	7	6–8	8	6–8	8	7–9	8	7–9
	Portland	7	6–7	8	7–8	8	7–8	8	7–8
	Seattle	7	6	8	7	8	7	8	7
West Virginia	Pittsburgh	5	4	5	4	6	4	6	4
	Richmond	5	5	5	5	6	6	6	6
	Baltimore	5	5	5	5	6	6	6	6
Wisconsin	Chicago	4	3	3	3	4	4	4	4
	Minneapolis	4	4	3	4	4	4	4	4
Wyoming	Omaha	5	4	6	5	6	5	6	5

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Table Compiled from Present Time Schedules

for the

Federal Reserve Bank of MINNEAPOLIS and Branch

Showing - (1) Number of days of deferred availability given on COUNTRY ITEMS payable outside of the Ninth District according to present time schedule.

(2) Actual number of days required to collect.

PAYABLE IN STATE	SENT TO F. R. BANK	MINNEAPOLIS (1)	MINNEAPOLIS (2)	HELENA (1)	HELENA (2)
Alabama	Atlanta	5	6	7	8
	New Orleans	5	5	7	7
	Birmingham	5	5	7	7
Arizona	El Paso	8	6–7	7	7–8
	Los Angeles	8	8	7	8
Arkansas	St. Louis	5	5	7	7
	Memphis	5	5	7	7
	Little Rock	5	5	7	7
California	San Francisco	8	6–8	7	5–7
	Los Angeles	8	5–6	7	5–6
Colorado	Denver	5	5–6	5	4–5
Connecticut	Boston	5	5	7	7
	New York	5	5	7	6
Delaware	Philadelphia	4	4	7	6
Dist. Columbia	Richmond	5	5	7	7
Florida	Jacksonville	5	6–7	7	8–9
Georgia	Atlanta	5	5	7	7
Idaho	Spokane	8	5–7	5	3–5
	Salt Lake City	8	5–7	5	4–6
Illinois	Chicago	3	3	5	5
	St. Louis	3	4	5	6
	Louisville	3	5	5	7
Indiana	Chicago	3	3	5	5
	St. Louis	3	5	5	7
	Louisville	3	5	5	7
Iowa	Chicago	3	3	5	5
Kansas	Kansas City	4	4	6	5
Kentucky	Cincinnati	4	4	6	6
	St. Louis	4	5	6	7
	Louisville	4	5	6	7
Louisiana	New Orleans	5	5	7	7
	Dallas	5	5–6–7	7	6–7–8
Maine	Boston	5	5	7	7
Maryland	Baltimore	5	5	6	6
Massachusetts	Boston	5	5	7	7
Michigan	Chicago	3	3	6	5
	Detroit	3	4	6	6
Mississippi	New Orleans	5	5	7	7
	Memphis	5	5	7	7
Missouri	St. Louis	5	4	7	6
	Kansas City	5	4	7	5
Nebraska	Omaha	3	4	5	5
Nevada	San Francisco	8	7	5	6
	Salt Lake City	8	6	5	5
New Hampshire	Boston	5	5	7	7
New Jersey	New York	4	5	7	6
	Philadelphia	4	4	7	6
New Mexico	Denver	8	6	7	5
	El Paso	8	5–6–7	7	6–7–8
New York	New York	4	5	6	6
	Buffalo	4	4	6	6
North Carolina	Richmond	5	6	7	8
Ohio	Cleveland	4	4	6	6
	Cincinnati	4	4	6	6
Oklahoma	Oklahoma City	5	4	6	5
	Dallas	5	5–6–7	6	6–7–8
Oregon	San Francisco	8	9	5	8
	Portland	8	6–8	5	4–6
Pennsylvania	Philadelphia	4	4	7	6
	Pittsburgh	4	4	7	6
Rhode Island	Boston	5	5	7	7
South Carolina	Richmond	5	6	7	8
Tennessee	Atlanta	4	5	6	7
	Nashville	4	5	6	7
	St. Louis	4	5	6	7
	Memphis	4	5	6	7
Texas	Dallas	5	5–6–7	7	6–7–8
	El Paso	5	5–7	7	6–8
	Houston	5	5–6–7	7	7–8–9
Utah	Salt Lake City	8	5–7	5	4–6
Vermont	Boston	5	5	7	7
Virginia	Richmond	5	5	7	7
Washington	Spokane	8	5–7	5	3–5
	Portland	8	6–7	5	4–5
	Seattle	8	5	5	4
West Virginia	Pittsburgh	5	4	7	6
	Richmond	5	6	7	8
	Baltimore	5	6	7	7
Wisconsin	Chicago	2	3	5	5
Wyoming	Omaha	5	5	7	6

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Table Compiled from Present Time Schedules

for the

Federal Reserve Bank of KANSAS CITY and Branches

Showing - (1) Number of days of deferred availability given on COUNTRY ITEMS payable outside of the Tenth District according to present time schedule.

(2) Actual number of days required to collect.

PAYABLE IN STATE	SENT TO F. R. BANK	KANSAS CITY (1)	KANSAS CITY (2)	OMAHA (1)	OMAHA (2)	DENVER (1)	DENVER (2)	OKLAHOMA CITY (1)	OKLAHOMA CITY (2)
Alabama	Atlanta	5	6	6	6	6	6	5	6
	New Orleans	5	5	6	5	6	5	5	5
	Birmingham	5	4	6	5	6	5	5	4
Arizona	El Paso	7	5–6	7	6–7	6	5–6	7	5–6
	Los Angeles	7	8	7	8	6	8	7	8
Arkansas	St. Louis	5	4	5	5	6	5	5	5
	Memphis	5	5	5	5	6	6	5	5
	Little Rock	5	5	5	5	6	6	5	5
California	San Francisco	7	6–8	7	6–8	6	6–8	7	6–8
	Los Angeles	7	5–6	7	5–6	6	5–6	7	5–6
Connecticut	Boston	5	5	5	5	6	6	5	5
	New York	5	5	5	5	6	6	5	5
Delaware	Philadelphia	5	5	5	5	6	6	5	5
Dist. Columbia	Richmond	5	-5	5	5	6	6	5	5
Florida	Jacksonville	6	6–7	6	7–8	6	7–8	6	6–7
Georgia	Atlanta	5	5	5	5	6	5	5	5
Idaho	Spokane	7	6–8	6	5–7	5	5–7	7	6–8
	Salt Lake City	7	5–7	6	5–7	5	4–6	7	5–7
Illinois	Chicago	3	3	3	3	4	4	4	4
	St. Louis	3	3	3	4	4	4	4	4
	Louisville	3	5	3	5	4	6	4	5
Indiana	Chicago	3	3	3	3	4	4	4	4
	St. Louis	3	4	3	5	4	5	4	5
	Louisville	3	5	3	5	4	6	4	5
Iowa	Chicago	3	3	3	3	4	4	4	4
Kentucky	Cincinnati	5	4	5	4	6	5	5	5
	St. Louis	5	4	5	5	6	5	5	5
	Louisville	5	5	5	5	6	6	5	5
Louisiana	New Orleans	6	5	6	5	6	5	6	5
	Dallas	6	4–5–6	6	4–5–6	6	5–6–7	6	3–4–5
Maine	Boston	5	5	5	5	6	6	5	5
Maryland	Baltimore	5	5	5	5	6	6	5	5
Massachusetts	Boston	5	5	5	5	6	6	5	5
Michigan	Chicago	4	3	5	3	6	4	5	4
	Detroit	4	4	5	4	6	5	5	5
	Minneapolis	4	5	5	4	6	6	5	5
Minnesota	Minneapolis	5	4	4	3	6	5	5	4
Mississippi	New Orleans	5	5	6	5	6	5	5	5
	Memphis	5	5	6	5	6	6	5	5
Missouri	St. Louis	2	3	4	4	4	4	4	4

PAYABLE IN STATE	SENT TO F. R. BANK	KANSAS CITY (1)	KANSAS CITY (2)	OMAHA (1)	OMAHA (2)	DENVER (1)	DENVER (2)	OKLAHOMA CITY (1)	OKLAHOMA CITY (2)
Montana	Helena	6	5–6	6	5–6	5	5–6	6	5–6
Nevada	San Francisco	7	7	7	7	6	7	7	7
	Salt Lake City	7	6	7	6	6	5	7	6
New Hampshire	Boston	5	5	5	5	6	6	5	5
New Jersey	New York	5	5	5	5	6	6	5	5
	Philadelphia	5	5	5	5	6	6	5	5
New Mexico	El Paso	5	4–5–6	5	5–6–7	3	4–5–6	5	4–5–6
New York	New York	5	5	5	5	6	6	5	5
	Buffalo	5	4	5	4	6	5	5	5
North Carolina	Richmond	6	6	6	6	7	7	6	6
North Dakota	Minneapolis	6	4–6	5	3–5	7	5–7	6	4–6
Ohio	Cleveland	4	4	4	4	5	5	5	5
	Cincinnati	4	4	4	4	5	5	5	5
Oklahoma	Dallas	3	4–5–6	4	4–5–6	4	5–6–7	2	3–4–5
Oregon	San Francisco	7	9	7	9	6	9	7	9
	Portland	7	6–8	7	6–8	6	6–8	7	6–8
Pennsylvania	Philadelphia	5	5	5	5	6	6	5	5
	Pittsburgh	5	4	5	4	6	5	5	5
Rhode Island	Boston	5	5	5	5	6	6	5	5
South Carolina	Richmond	6	6	6	6	7	7	6	6
South Dakota	Minneapolis	6	4–6	5	3–5	7	5–7	6	4–6
Tennessee	Atlanta	5	5	5	5	6	5	5	5
	Nashville	5	5	5	5	6	6	5	5
	St. Louis	5	4	5	5	6	5	5	5
	Memphis	5	5	5	5	6	6	5	5
Texas	Dallas	6	4–5–6	6	4–5–6	7	5–6–7	5	3–4–5
	El Paso	6	4–6	6	5–7	7	4–6	5	4–6
	Houston	6	4–5–6	6	5–6–7	7	5–6–7	5	4–5–6
Utah	Salt Lake City	6	5–7	6	5–7	5	4–6	6	5–7
Vermont	Boston	5	5	5	5	6	6	5	5
Virginia	Richmond	5	5	5	5	6	6	5	5
Washington	Spokane	7	6–8	7	5–7	6	5–7	7	6–8
	Portland	7	6–7	7	6–7	6	6–7	7	6–7
	Seattle	7	6	7	6	6	6	7	6
West Virginia	Pittsburgh	6	4	6	4	7	5	6	5
	Richmond	6	6	6	6	7	7	6	6
	Baltimore	6	6	6	6	7	7	6	6
Wisconsin	Chicago	4	3	4	3	6	4	5	4
	Minneapolis	4	4	4	3	6	5	5	4

Table Compiled from Present Time Schedules

for the

Federal Reserve Bank of DALLAS and Branches

Showing - (1) Number of days of deferred availability given on COUNTRY ITEMS payable outside of the Eleventh District according to present time schedule.

(2) Actual number of days required to collect.

PAYABLE IN STATE	SENT TO F. R. BANK	DALLAS		EL PASO		HOUSTON	
		(1)	(2)	(1)	(2)	(1)	(2)
Alabama	Atlanta	6	6	8	7	6	5
	New Orleans	6	4	8	5	6	3
	Birmingham	6	4	8	6	6	4
Arizona	Los Angeles	8	8	6	6	7	7
Arkansas	St. Louis	5	5	6	6	5	5
	Memphis	5	5	6	6	5	5
	Little Rock	5	5	6	6	5	5
California	San Francisco	7	6–8	6	5–7	7	6–8
	Los Angeles	7	5–6	6	3–4	7	4–5
Colorado	Denver	6	5–6	5	4–5	6	5–6
Connecticut	Boston	6	6	6	6	6	6
	New York	6	5	6	6	6	6
Delaware	Philadelphia	5	5	6	6	5	5
Dist. Columbia	Richmond	5	5	6	6	5	5
Florida	Jacksonville	6	6–7	7	7–8	6	6–7
Georgia	Atlanta	5	5	6	6	4	4
Idaho	Spokane	7	7–9	7	7–9	8	7–9
	Salt Lake City	7	6–8	7	6–8	8	6–8
Illinois	Chicago	4	4	5	5	5	5
	St. Louis	4	4	5	5	5	4
	Louisville	4	5	5	7	5	5
Indiana	Chicago	4	4	6	5	5	5
	St. Louis	4	5	6	6	5	5
	Louisville	4	5	6	7	5	5
Iowa	Chicago	4	4	5	5	5	5
Kansas	Kansas City	4	4	4	4	4	4
Kentucky	Cincinnati	6	5	7	5	5	5
	St. Louis	6	5	7	6	5	5
	Louisville	6	5	7	7	5	5
Louisiana	New Orleans	4	4	5	5	3	3
Maine	Boston	6	6	6	6	6	6
Maryland	Baltimore	5	5	7	7	5	5
Massachusetts	Boston	6	6	6	6	6	6
Michigan	Chicago	4	4	5	5	5	5
	Detroit	4	5	5	5	5	5
	Minneapolis	4	6	5	6	5	6
Minnesota	Minneapolis	6	5	6	5	6	5
Mississippi	New Orleans	6	4	7	5	5	3
	Memphis	6	5	7	6	5	5

PAYABLE IN STATE	SENT TO F. R. BANK	DALLAS		EL PASO		HOUSTON	
		(1)	(2)	(1)	(2)	(1)	(2)
Missouri	St. Louis	4	4	5	5	4	4
	Kansas City	4	4	5	4	4	4
Montana	Helena	7	6–7	7	6–7	8	7–8
Nebraska	Omaha	5	4	6	5	6	5
Nevada	San Francisco	7	7	7	6	7	7
	Salt Lake City	7	7	7	7	7	7
New Hampshire	Boston	6	6	6	6	6	6
New Jersey	New York	5	5	6	6	6	6
	Philadelphia	5	5	6	6	6	5
New Mexico	Denver	7	6	6	5	7	6
New York	New York	5	5	6	6	6	6
	Buffalo	5	5	6	6	6	5
North Carolina	Richmond	6	6	7	7	6	6
North Dakota	Minneapolis	7	5–7	7	5–7	7	5–7
Ohio	Cleveland	5	5	6	6	5	5
	Cincinnati	5	5	6	5	5	5
Oklahoma	Oklahoma City	3	3	4	4	4	4
Oregon	San Francisco	8	9	8	8	9	9
	Portland	8	7–9	8	7–9	9	8–10
Pennsylvania	Philadelphia	5	5	6	6	5	5
	Pittsburgh	5	5	6	6	5	5
Rhode Island	Boston	6	6	6	6	6	6
South Carolina	Richmond	6	6	7	7	6	6
South Dakota	Minneapolis	7	5–7	7	5–7	7	5–7
Tennessee	Atlanta	6	5	6	6	5	4
	Nashville	6	6	6	6	5	5
	St. Louis	6	5	6	6	5	5
	Memphis	6	5	6	6	5	5
Utah	Salt Lake City	7	6–8	7	6–8	7	6–8
Vermont	Boston	6	6	6	6	6	6
Virginia	Richmond	5	5	6	6	5	5
Washington	Spokane	8	7–9	8	7–9	9	7–9
	Portland	8	7–8	8	7–8	9	8–9
	Seattle	8	7	8	7	9	8
West Virginia	Pittsburgh	6	5	7	6	6	5
	Richmond	6	6	7	7	6	6
	Baltimore	6	6	7	8	6	6
Wisconsin	Chicago	5	4	5	5	5	5
	Minneapolis	5	5	5	5	5	5
Wyoming	Omaha	7	5	7	6	8	6

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Table Compiled from Present Time Schedules

for the

Federal Reserve Bank of SAN FRANCISCO and Branches

Showing - (1) Number of days of deferred availability given on COUNTRY ITEMS payable outside of the Twelfth District according to present time schedule.

(2) Actual number of days required to collect.

PAYABLE IN STATE	SENT TO F. R. BANK	SAN FRANCISCO (1)	SAN FRANCISCO (2)	SPOKANE (1)	SPOKANE (2)	PORTLAND (1)	PORTLAND (2)	SEATTLE (1)	SEATTLE (2)	SALT LAKE CITY (1)	SALT LAKE CITY (2)	LOS ANGELES (1)	LOS ANGELES (2)
Alabama	Atlanta	8	9	8	8	9	9	9	9	7	7	8	8
	New Orleans	8	7	8	7	9	8	9	8	7	6	8	6
	Birmingham	8	7	8	7	9	8	9	8	7	6	8	7
Arizona	El Paso	7	6–7	8	8–9	8	8–9	8	8–9	7	7–8	7	6–7
Arkansas	St. Louis	7	7	8	7	8	7	8	8	7	6	7	7
	Memphis	7	7	8	8	8	8	8	8	7	7	7	7
	Little Rock	7	7	8	8	8	8	8	9	7	7	7	8
Colorado	Denver	7	6–7	6	5–6	7	6–7	7	6–7	5	4–5	7	6–7
Connecticut	Boston	8	8	7	7	7	7	7	7	6	6	8	8
	New York	8	7	7	7	7	7	7	7	6	6	8	7
Delaware	Philadelphia	7	7	7	7	7	7	7	7	6	6	7	7
Dist. Columbia	Richmond	7	8	7	7	7	8	7	8	6	6	7	8
Florida	Jacksonville	9	9–10	9	9–10	9	10–11	9	9–10	9	8–9	9	9–10
Georgia	Atlanta	9	8	8	7	9	8	9	8	7	6	8	7
Illinois	Chicago	6	6	6	6	6	6	6	6	5	5	6	6
	St. Louis	6	6	6	6	6	6	6	7	5	5	6	6
	Louisville	6	8	6	7	6	8	6	8	5	6	6	8
Indiana	Chicago	6	6	6	6	6	6	6	6	5	5	6	6
	St. Louis	6	7	6	7	6	7	6	8	5	6	6	7
	Louisville	6	8	6	7	6	8	6	8	5	6	6	8
Iowa	Chicago	6	6	6	6	6	6	6	6	5	5	6	6
Kansas	Kansas City	7	6	7	6	7	6	7	6	6	5	7	6
Kentucky	Cincinnati	7	7	6	6	7	6	7	7	5	5	7	7
	St. Louis	7	7	6	7	7	7	7	8	5	6	7	7
	Louisville	7	8	6	7	7	8	7	8	5	6	7	8
Louisiana	New Orleans	8	7	8	7	9	8	9	8	7	6	7	6
	Dallas	8	6–7–8	8	7–8–9	9	7–8–9	9	7–8–9	7	6–7–8	7	6–7–8
Maine	Boston	8	8	7	7	7	7	7	7	6	6	8	8
Maryland	Baltimore	7	7	7	7	7	7	7	7	6	6	8	8
Massachusetts	Boston	8	8	7	7	7	7	7	7	6	6	8	8
Michigan	Chicago	6	6	6	6	6	6	6	6	5	5	6	6
	Detroit	6	7	6	6	6	7	6	7	5	5	6	7
	Minneapolis	6	7	6	6	6	7	6	6	5	6	6	7
Minnesota	Minneapolis	7	6	6	5	7	6	7	5	6	5	7	6
Mississippi	New Orleans	8	7	8	7	9	8	9	8	7	6	7	6
	Memphis	8	7	8	8	9	8	9	8	7	7	7	7
Missouri	St. Louis	7	6	7	6	7	6	8	7	6	5	7	6
	Kansas City	7	6	7	6	7	6	8	6	6	5	7	6
Montana	Helena	6	5–6	4	3–4	5	4–5	5	4–5	5	4–5	7	6–7
Nebraska	Omaha	7	6	6	5	7	6	7	6	5	4	7	6
New Hampshire	Boston	8	8	7	7	7	7	7	7	6	6	8	8
New Jersey	New York	7	7	7	7	7	7	7	7	6	6	7	7
	Philadelphia	7	7	7	7	7	7	7	7	6	6	7	7
New Mexico	Denver	7	7	8	6	8	7	8	7	7	5	7	7
	El Paso	7	5–6–7	8	7–8–9	8	7–8–9	8	7–8–9	7	6–7–8	7	5–6–7
New York	New York	7	7	7	7	7	7	7	7	6	6	7	7
	Buffalo	7	6	7	6	7	7	7	7	6	5	7	7
North Carolina	Richmond	9	9	8	8	9	9	9	9	7	7	9	9
North Dakota	Minneapolis	8	6–8	7	5–7	8	6–8	8	5–7	7	5–7	8	6–8
Ohio	Cleveland	7	7	6	6	7	7	7	7	5	5	7	7
	Cincinnati	7	7	6	6	7	6	7	7	5	5	7	7
Oklahoma	Oklahoma City	7	6	7	6	8	7	8	7	6	5	7	6
	Dallas	7	6–7–8	7	7–8–9	8	7–8–9	8	7–8–9	6	6–7–8	7	6–7–8
Pennsylvania	Philadelphia	7	7	7	7	7	7	7	7	6	6	7	7
	Pittsburgh	7	7	7	6	7	7	7	7	6	5	7	7
Rhode Island	Boston	8	8	7	7	7	7	7	7	6	6	8	8
South Carolina	Richmond	9	9	8	8	9	9	9	9	7	7	9	9
South Dakota	Minneapolis	8	6–8	7	5–7	8	6–8	8	5–7	7	5–7	8	6–8
Tennessee	Atlanta	8	8	8	7	8	8	8	8	7	6	8	7
	Nashville	8	8	8	8	8	8	8	8	7	7	8	8
	St. Louis	8	7	8	7	8	7	8	8	7	6	8	7
	Memphis	8	7	8	8	8	8	8	8	7	7	8	7
Texas	Dallas	7	6–7–8	8	7–8–9	8	7–8–9	8	7–8–9	7	6–7–8	7	6–7–8
	El Paso	7	5–7	8	7–9	8	7–9	8	7–9	7	6–8	7	5–7
	Houston	7	6–7–8	8	7–8–9	8	8–9–10	8	8–9–10	7	6–7–8	7	6–7–8
Vermont	Boston	8	8	7	7	7	7	7	7	6	6	8	8
Virginia	Richmond	8	8	7	7	8	8	8	8	6	6	8	8
West Virginia	Pittsburgh	9	7	8	6	9	7	9	7	7	5	9	7
	Richmond	9	9	8	8	9	9	9	9	7	7	9	9
	Baltimore	9	8	8	8	9	8	9	8	7	7	9	9
Wisconsin	Chicago	6	6	6	6	6	6	6	6	5	5	6	6
	Minneapolis	6	6	6	5	6	6	6	5	5	5	6	6
Wyoming	Omaha	8	7	7	6	8	7	8	7	7	5	8	7

The Chairman. Now, with regard to the discussion with Mr. Baker this morning, I think what Mr. Baker would like would be for each reserve bank to formulate a report, in such form that they will be fairly uniform in presenting the matter; that is, put out a questionnaire of some kind and submit them to Mr. Wyatt. When Mr. Wyatt has gotten them in shape for consideration Mr. Baker will take them up with him some time when he is over here and they will prepare an opinion as to what safeguards are desirable with which to surround our lending operations.

Governor Calkins. I was about to ask whether, in view of the interest we all have in this discussion with Mr. Baker, whether or not we could not have prepared for us, separate from the minutes of the meeting, a sufficient number of additional copies of that discussion for the purpose of taking it up with the counsel of the various banks. In other words, two or three copies for each one of us.

The Chairman. Why would it not be possible to just have one copy struck off separately in order that that copy might be carefully edited and put in shape?

Governor Calkins. I will amend my suggestion by adding to it that the Reporter be requested to make one copy of the record of that discussion this morning to be sent to Mr. Harrison to use his discretion upon it and then have further copies prepared to be sent to each Governor.

Governor Fancher. I will second Governor Calkins' amended motion.

(The motion, having been duly seconded, wascarried.)

Governor Young. Mr. Chairman, did you finish with 1-G?

The Chairman. That is one of the things that we thought would be submitted to Mr. Baker.

Governor Young. I should think that is something that action has to be taken on right away.

The Chairman. We are proposing to eliminate it from our application blank entirely, pending some other plan.

Governor Calkins. We have already eliminated it.

The Chairman. Now with regard to amendment to section IV (b) of Regulation A, are you willing to recommend that that change be made, that is, elimiration of indication of whether it is depositors' paper or not, until we have considered the matter further with Mr. Baker?

Governor Young. The suggestion is that we eliminate it from everything except paper required from non-member banks. I think you can eliminate that too, because the evidence is right there; just leave it out altogether.

The Chairman. Leave everything of that kind off indicating the source of the paper?

Governor Young. I will make a motion to that effect, Mr. Chairman.

Governor McDougal. What is the motion?

The Chairman. To leave everything off indicating the source of the paper. Perhaps the resolution should be something like this, that pending further review of the whole subject by Mr. Baker the Conference recommends eliminating from the applications all designations of the origin of the paper including that relating to non-member banks.

Governor Young. I will so amend my motion to get it before the Conference.

Governor Talley. I will second it.

The Chairman. I suppose it is understood that the designation as to whether it is depositors' paper or not is going to be eliminated from these applications?

Governor Talley. It already has been.

Governor Young. It has not in our bank. We are simply writing the bank.

Governor Seay. I do not see after all there is any particular necessity for that, but I am willing to go along. The important thing you have in the application is that the bank owns the paper and has discounted it.

Governor McDougal. I think that statement would cover the entire matter, without taking any action in regard to changing our blanks.

The Chairman. Are you prepared to act on that as a recommendation until you get Mr. Baker's advice about it? My proposal is that until Mr. Baker does advise us what the application did contain in respect to it we should eliminate this particular thing. Then Mr. Baker may want to put a certificate of agreement on the application, and what is the use of doing it all over again, and then maybe a third time?

Governor Seay. It would necessitate, if we comply with that, the destruction of all of our application forms which, from the beginning, have always required the member banks to specify whether or not it owned the paper and that it was discounted paper. In view of the decision, and in view of the discussion that took place, that appears to be the one important thing to know. Nothing else is important. The important thing to know is that the bank owns the paper.

The Chairman. There is no proposal to eliminate that. The only proposal is to eliminate the D or P, showing that it is depositors' paper or purchased paper. That is all we are proposing to do.

Governor Seay. I would have no objection to that.

Governor McDougal. You could not eliminate that without destroying the blanks and having them reprinted.

Governor Seay. Our bank merely requires some statement as for whom it is discounted, which commits the bank to the fact that it is discounted paper, and that is the important thing to know.

Governor Norris. The only question to my mind about the advisability of adopting it is that it will compel us to get out new blanks now and in a few months we will be obliged to get out still another set of blanks. Is the risk that we have been running for ten or twelve years so great that we ought not to run it for some little further time in order to save changing the blanks?

The Chairman. What does it cost to get out a new set of forms?

Governor Norris. It isn't a question of cost, but it disturbs the member banks, because they always have a lot of old forms on hand.

Governor Seay. As I understood Mr. Baker the first of his comments was that we should eliminate that designation that would seem to indicate that it was depositors' paper.

The Chairman. That is the motion now.

Governor Seay. We never had it in ours, that it was depositors' paper.

The Chairman. Then you are in a fortunate position. You do not have to do anything.

Governor Seay. If that is the case, you do not intend to eliminate the provision which requires them to state for whom discounted?

The Chairman. There is no reference to that. The motion is to eliminate the indication of whether or not it is depositors' paper.

Governor Seay. Then I misunderstood it.

Governor Calkins. My understanding of the motion is that anything that refers to origin should be eliminated.

Governor Seay. That is what I thought. I do not agree with that.

The Chairman. The motion was changed, pending further consideration of the matter by Mr. Baker, after these reports are sent in as we have proposed, that there be eliminated from the application blanks the letters which indicate whether or not the paper is depositors' paper or purchased paper. That lets Governor Seay out on his statement that it is discounted paper. Is that your understanding of it, Governor Young?

Governor Young. Yes.

Mr. Harrison. And there was also added that we recommend to the Federal Reserve Board that they eliminate the requirement about the non-member bank.

The Chairman. Yes.

Governor McDougal. That would eliminate the reference of the origin of the paper, except the statement that it might be member bank paper.

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

Governor McDougal. I would like to be recorded as voting no on that motion.

The Chairman. The next topic is IV-F.

IV. <u>OPERATION AND ADMINISTRATION.</u>

F. Discussion of capitalization and other requirements imposed by State law on State banks and trust companies exercising fiduciary powers, and advisability of Board adopting for all national banks a minimum capital requirement and imposing other requirements in connection with its granting authority to such banks to exercise trust powers.

That topic was suggested by the Board and I will make a motion that we defer consideration of that matter until we meet with the Board and the Board makes clear exactly what they had in mind in this topic.

Governor Fancher. I second the motion.

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

The Chairman. Governor McDougal has some business to discuss with Mr. Dewey, and during his absence we will consider supplementary topics, and when he comes back with Mr. Dewey Mr. Dewey will report on his topic 3-C, "Treasury currency committee. Report of progress made."

The first supplementary topic is V-A.

V. SUPPLEMENTARY TOPICS.

A. Permanent employment by the Board at a fixed retainer of special counsel of outstanding ability to assist in litigation, and to act as a clearing house for the legal departments of all Federal reserve banks. (See Board's letter of March 9, 1926, X-4550; also paragraph 26, Minutes of November 1925 Governors' Conference.)

I call the attention of the meeting to this curious fact, that the first, second, third and fourth questions submitted are questions of law or interpretation of the statute, apparently now before the Federal Reserve Board. I am wondering what advantage will be gained by discussing these questions of law which we have not had opportunity to take up with the counsel of our own banks.

Governor Calkins. That would hardly apply to the first one.

The Chairman. It is a question of legal advice to the Board. I am willing to go ahead and discuss it but I am wondering if we can make any progress without the Board being here.

Governor Calkins. As a matter of fact, the first topic was one proposed by Governor Talley.

The Chairman. It was proposed by him a year ago.

Governor Calkins. And reintroduced now.

The Chairman. Isn't it a fact that there are two types of legal matters which affect all the reserve banks and in which we are all interested? As to one of those questions we have had difficulty by want of having System counsel in the first instance. One is advice on close questions of law that involve any litigation, important legal questions that involve the policy of the System, and the other is the litigation of litigated cases where the advice of System counsel is not sought before the case is tried by local counsel, where some big important principle is involved and where possibly local counsel has not thought of the question in terms of System responsibility. Frankly I do not agree with the idea of having System counsel for those matters, because I feel a tendency would develop wherever any difference of opinion arose, I mean any question involving the law, to refer those questions to counsel of last resort, so to speak, which would involve a good deal of delay, and they would very much weaken the finality of the opinions renderednby the Board's own counsel. On the other hand personally I would like to see a rule adopted by the System that every single piece of litigation should be reported, the minute it arises, in order that consideration may be given to the question and determination made of whether it is of sufficient importance to be considered a System matter. You will recall the case that Governor Wellborn had, the warehouse case. The case was lost. It cost the Atlanta Bank some money and it was proposedtò take an appeal to the Supreme Court. In fact the Federal Reserve Board directed that an appeal be taken.

Governor Wellborn. We did not want to take an appeal.

The Chairman. You did not want to. It came up here at a meeting of the Governors and we urged that the matter be referred to Mr. Baker, it was referred to him, and he rendered an opinion that by all means not to take the appeal. Therefore I think that all litigation, even though it appears to be of small importance at the moment, ought to be taken up right away and considered in that aspect of it.

Governor Talley. Mr. Chairman, I would like to say a word in my own defense in reference to this topic appearing on the present program. You may have a copy of the letter before you, but a letter was sent to all the Federal Reserve Banks who participated in the expense of emplying Mr. Baker in the Grimm Alfalfa case, and in the last paragraph of my letter to Governor Crissinger, copy of which was sent out with the first letter, states that after having obtained some later views by some of the Governors, if you so desire, and you think it worth while, place the topic on the program of the Governors' spring conference, and I would be willing to lead the discussion and defend the merits of my proposal.

The Chairman. What did they reply to that?

Governor Talley. It is to be assumed that some later views of some of the other Governors were obtained, and that was a sort of condition precedent to its appearing on the program, and the Board thought it was worth while to put it on this program for reconsideration. In another part of my letter to Governor Crissinger I said, "At the risk of appearing to discuss a subject that may be considered as having been definitely passed, I am outlining a little more in detail than I have heretofore the reasons underlying our reference to the subject", and so forth. Now then, it seems to me that as this Conference employed Mr. Baker as consulting counsel--

The Chairman. In a certain matter.

Governor Talley. Temporarily, yes, but it seems to us that is a very good illustration of the questions that come up. Isn't our idea in making this proposal that, as one statement would seem to imply, that he should be consulting counsel for the Federal Reserve Board, but that he be consulting counsel for the Federal Reserve banks and be a clearing house for legal information for the Federal Reserve banks, among their own counsel?

The Chairman. Don't you think that when the Board has counsel here that the clearing house ought to be here in Washington with the Board's counsel?

Governor Talley. It seems to me that Mr. Wyatt and his assistants are fully occupied with the Board's business.

Governor Calkins. I am one of those who, being deficient in reasoning power, concurred in the finding of the conference of counsel. I am one of the eleven who voted against the employment of joint counsel by the Federal Reserve banks, but Mr. Talley's argument, together with some discussions that I have had, has led me to change my mind, and I believe it is highly desirable that there should be some sort of clearing house for information in regard to litigation. I think everyone will agree with me on that. Certainly I believe that inasmuch as a considerable amount of time would be necessary, if counsel is employed for each case, in order to give counsel opportunity to familiarize himself with the Federal Reserve System and its operations, that it would be advantageous to have counsel retained generally.

Governor Fancher. We hold that view in our bank. I believe it is advisable. Just as Governor Calkins has said, Mr. Baker was called into the Grimm Alfalfa case without having any time to review the matter, and that situation should not arise. We are going to have litigation in various forms coming up.

The Chairman. You seem to assume that retention of special counsel under a fixed retainer would be limited specifically to the supervision of litigated cases, is that right?

Governor Talley. That is only partly right, in my view of it. My letter to the Board is perfectly clear as to what we wish by the proposal, and that is that consulting counsel should be employed by the Federal Reserve Bank to act for them.

The Chairman. I do not believe you would find Mr. Baker very happy in having twelve clients all shooting material to him without first having it go through the counsel of the Federal Reserve Board.

Governor Talley. That is a method of procedure that would be decided upon after the principle is adopted or rejected. My thought was that ~~was~~ whatever would go to the consulting counsel would go through the counsel of the respective Federal Reserve banks.

The Chairman. Through the counsel of the respective

Federal Reserve banks?

Governor Talley. Yes.

The Chairman. I do not believe that you would find that Mr. Baker would take very kindly to that.

Governor Talley. I did not especially nominate Mr. Baker for the position.

The Chairman. Or any counsel. Here is a system which has its own counsel to do these very things.

Governor Talley. You are referring to the Board's counsel?

The Chairman. Yes.

Governor Talley. Is not he counsel retained to advise the Board?

The Chairman. Yes, but we have counsel retained to advise us in the banks.

Governor Talley. Let me say one more thing, before it gets out of my mind. In this employment of special counsel in special cases, it seems to me that you immediately raise the flag of distress, particularly in jury cases. If we have a man regularly employed, then we are not admitting right at the start that we are out on a limb and have got to employ counsel with an outstanding reputation to come and dig us out of the mire.

The Chairman. Do you insist that this retainer shall be by the twelve Reserve Banks?

Governor Talley. By the twelve Reserve Banks, yes.

The Chairman. We would have to pay the cost ratably just the same, if the Board retained him, and would it not be a more regular proceeding to have him employed by the Board and have the cost of the retainer assessed upon the Federal Reserve Banks in the regular way?

Governor Talley. Again I think that is a question of procedure and not a question of principle.

The Chairman. It is very important, I think, to have System counsel to whom the banks may go directly, but I think it would set up an unusual difficulty, an unusually difficult situation to deal with because the Board's counsel would be sidetracked.

Governor Talley. I do not think so at all. The Board's counsel would continue to perform his function of advising the Federal Reserve Board. In Texas, as an illustration, the railroads all have their legal departments and have their regular attorneys, but then they retain counsel who act for all the roads in just the manner I am proposing here, and it is a very effective proposition.

The Chairman. Mr. Dewey is coming in to make his report. We can discuss this afterwards, unless a resolution can be framed which will dispose of it now.

Governor Talley. I suggest that we defer discussion of it, Mr. Chairman.

(Whereupon Mr. Charles S. Dewey, Assistant Secretary of the Treasury, and Mr. Hand, of his Department, entered the Conference room.)

The Chairman. Gentlemen, Mr. Dewey is here and the topic for consideration is 3-D.

III. COIN, CURRENCY AND CIRCULATION.

d. Treasury Currency Committee. Report of progress made.

Mr. Dewey. The problems entering into the currency situation are exceedingly complicated, and any solution under existing law is by way of compromise and not wholly satisfactory. Gold is the standard unit of value, yet silver dollars are standard money, while a third kind — United States notes — introduces a debt element in the currency system. These three kinds of money form the lawful money base of the currency system of the United States. Gold and silver dollars circulate in the form of paper receipts; gold certificates have legal tender qualities, silver certificates have not. National bank notes must be reckoned with; they are redeemable in lawful money; they are not available as reserve money, but they must be kept in circulation. The Secretary of the Treasury must maintain the circulation of these kinds of money. Moreover, Federal reserve notes which supply the elastic element to the currency system must be included in any consideration given the subject. Eleven denominations of paper currency are provided, many of them overlapping as regards the different kinds. The two dollar note is out of line with other denominations, and the public refuses to use it, yet its issue is required by law. The use of one dollar notes has assumed enormous proportions, and the handling of this denomination by the Federal Reserve Banks and the Treasury has become a very great burden.

During the calendar year 1925, transactions in one dollar notes at Federal Reserve Banks and Branches were as follows:

Received -

		No. Notes
From circulation		
Fit		465,716,000
Unfit		482,567,000
		948,233,000
From Treasury New		488,845,000
Total Receipts		1,437,128,000
Paid Out -		
To circulation		
New	491,227,000	
Fit	464,873,000	
	956,100,000	
Unfit to Treasury	482,567,000	
Total payments		1,438,667,000
Total Receipts and Payments		2,875,795,000

or more than 9,500,000 each business day.

I do not know that anything can be done about it, but I think the situation should further be looked into, particularly to see if anything can be done to eliminate a part of this turnover.

The major problems of paper currency supply involve determination of requirements, and the proper standard of fitness; provision for manufacture, distribution of currency in such manner as will insure the maximum use of United States notes, silver certificates, and National bank notes up to the amount available, and will insure the circulation of gold certificates to the amount deemed available; distribution in such manner as will insure an even distribution of new notes throughout the United States to the end that the condition of notes in circulation shall be as nearly uniform as possible and of an acceptable standard; and further the determination of a type of paper currency notes which shall give the maximum security, which may be produced at the lowest possible cost, and which serve the greatest general convenience.

More than a year ago we formally established a Currency Board, consisting of the Fiscal Assistant Secretary, the Commissioner of the Public Debt, and the Secretary of the Federal Resdrve Board. This board determines matters of policy involved in paper currency supply and distribution. A Currency Control Unit has been established which now collates reports, determines requirements, originates printing orders and, in assoratic in which new and fit notes have been returned to circulation. The matter requires further study, and it later may be thought desirable to call another conference, when representatives of the Federal Reserve Banks and the Treasury may take counsel together.

Involved in the matter of currency supply are (1) the shipment of unfit notes by Federal Reserve Banks as transfers of funds, and their redemption on receipt by the Treasurer of the United States, and (2) the shipment of new notes by the Treasurer of the United States to Federal Reserve Banks as transfers of funds. The transit account covering these shipments averages $10,000,000. It is highly desirable, and it seems entirely feasible, to eliminate by far the larger part of this transit account. Accordingly, the Department has under consideration at the present time the designation of Federal Reserve Banks as Redemption agents, and instructing them as unfit United States notes, silver certificates, and gold certificates, are canceled and the lower halves shipped to the Division of Loans and Currency, on the day of shipment to charge the Treasurer's account with the redemption of such notes and certificates; on the same day reporting the transaction by wire. This procedure may be placed in effect with respect to all Federal Reserve Banks and Branches. It will permit the Treasurer of the United States, upon receipt of wire reports, immediately to transfer from reserve stock to cash like amounts of the same kinds of notes and certificates and make shipment thereof as transfers of funds. This procedure, when in effect, will cut down the transit account more than 50 per cent.

The next move is to place with Federal Reserve Banks reserve stocks of new notes to be paid into the bank's cash only under authority from the Treasury. Releases may be given by wire. It is very possible for some kinds and denominations a general authority may be given under which the release of a like amount, kind, and denomination, may be made when corresponding amounts, kinds and denominations are cancelled and the lower halves forwarded to the Treasury. Details have not been worked out but it is believed the reserve stock of new notes is now ample to inaugurate the procedure. In all probability, however, it will not be found possible, and it may not be found desirable, to place reserve stocks of new notes with the branches except in instances where the currency transaxtions at a branch are of such volume as to compare with the transactions at the parent.

The matter of reforming the designs of the paper currency issues of the United States has been before the Department since the MacVeagh administration. The subject is so complicated that up to the present time it has not been found possible entirely to apply corrective measures. Some months ago we were confronted by a very serious condition. The existing facilities of the Department were taxed to the utmost to supply the paper currency required; the annual cost, exclusive of Federal reserve notes, was about $8,000,000 a year, an excessive amount; the paper currency in circulation was in bad condition, and the life of the notes was far below the prewar span; supplies were not sufficient to meet demands and no one was satisfied. On August 20, 1925, the Secretary appointed a new committee with the Fiscal Assistant Secretary, Chairman. This committee is representative and includes not only treasury experts but experts from other branches of the Government. A new study of all the problems involved was directed. Considerable progress has been made and within a few months it is expected a comprehensive plan will be presented to the Secretary proposing a complete revision of the currency designs.

Incidentally, the distinctive paper has received attention. In this matter the Bureau of Efficiency, the Bureau of Standards, the Bureau of Engraving and Printing, and the present contractor have been actively associated, with the result that paper showing by test a very much higher bursting and folding strength has been evolved, of which great hopes are expected. One dollar silver certificates are being printed on four specimen runs of this paper. 2,000,000 notes are now being paid into circulation in the Chicago district and 500,000 in Washington. Shortly after April 1, 2,000,000 will be paid out by New York. The experiment may be extended elsewhere. We are exceedingly hopeful that these notes will show greatly increased wearing qualities. Incidentally, one of the subcommittees which has given particular attention to the distinctive paper, has recommended the elimination of the rows of silk fiber and in substitution therefor, as a distinctive feature, segments of silk scattered uniformly throughout the paper. The reasons for the committee's recommendation have been communicated to you with a request that at this meeting you will advise me as to your opinion of this proposal.

I shall be very glad to hear from you.

The Chairman. This ~~pak~~ plan of appointing the Reserve Banks as redemption agents with regard to these transfers of funds, you say will cut down the transfers by half?

Mr. Dewey. I am going to let Mr. Hand give you the detail of that operation. He has handled it for a good many years and can do it far better than I can, and more clearly. Mr. Hand, will you explain the economy to be made by this wire transfer?

Mr. Hand. The credit charged to the government's account by the Reserve Banks is, as you know, a live asset until its redemption has been completed so that it can be replaced with new issues. Take, for instance, this illustration: The New York Federal Reserve Bank will charge the Government's account today with a million and a half unfit notes and ship the lower halves. The charge is made on the date the lower halves are shipped. The currency is cancelled first, as you know, by cutting it into two parts longitudinally; its effectiveness is destroyed and yet it has to be carried as live capital in the Government's account while it is in transit until it reaches the Treasury and has been verified from the manifest or invoice, and the succeeding day it goes out as a redemption and can be replaced with new issues. Now if we can cut out that transit period; in other words, if we can take the redemption point as the date the lower halves of the notes leave the Federal Reserve Banks, then we save the two days' redemption proposition and we can balance the incoming cancelled not es with the outgoing new issue. With the Federal Reserve Banks and branches we have estimated that transit capital as ten million dollars, and probably it will exceed that with the greater volume of gold certificates being paid into and out of circulation.

The Chairman. You mean that permits a lowering of the general fund by that amount?

Mr. Hand. This would decrease the Government borrowings by at least $10,000,000 and mean the conversion of this book-keeping procedure into a real live asset proposition.

Governor Seay. What are the difficulties in the way of that procedure?

Mr. Hand. There seem to be none except we were in doubt as to whether we could consider the notes redeemed when they left the Federal Reserve Bank. The proposition was placed before the Solicitor of the Treasury as to whether, under the state of the law the notes had been formally and officially redeemed by the Treasury Department, whether his opinion was to the effect that redemption could be made and considered as made as of the date the lower halves leave the Federal Reserve Banks. Until that time the question was never raised until this question was presented here by the Secretary. The procedure that had been observed theretofore was considered sufficient, because in the pre-war period we were not borrowing money and it did not amount to so much.

The Chairman. Do you consider that the general fund is charged with the notes outstanding for so many days longer than is necessary?

Mr. Hand. Yes, sir.

The Chairman. Is that a real saving?

Mr. Harrison. Oh yes. It is charged, and they haven't got the right to reissue until they get them here. It enables the reissue to be made two days before it would be otherwise possible. If it makes the Reserve banks depositories of unissued notes it will save two days going in this way, or the other fifty per cent.

Governor Talley. Would it have any bearing on the supply of new notes?

Mr. Dewey. We cannot see that it would, because the supplies will be under our control until we release them.

The Chairman. You would put them in the hands of the Federal Reserve agents?

Mr. Dewey. Something would be worked out. We have not worked out the details. It is rather new. We wanted to submit it to you at this time as a matter for consideration, and when we get a little closer to it we will communicate with each one of the Governors.

Mr. Harrison. Would it be your plan to make us de-

depositories of unissued gold certificates?

Mr. Dewey. I do not know as to whether we would do that. The chances are we would when we get sufficient stocks. We have got to build them up. We haven't got sufficient stocks in all denominations and kinds yet.

Mr. Harrison. Mr. Dewey, I was asked by the Conference yesterday what had been your program of gold coinage this spring, and I wasn't sure.

Mr. Dewey. At the present moment we are trying to make up the remainder of the Pittman silver. There is about $10,000,000, I think that was the amount, of unminted Pittman silver in the mint, which we were losing interest on. We decided that we had a sufficient amount of gold coin on hand for our present needs and we would get this silver out; that it would take until about May 1 to get this $10,000,000 minted up and out of the way, and then we expect to go back to gold coinage again.

The Chairman. Is the minting of that silver mandatory?

Mr. Dewey. Yes, and then it is advisable, because it is lying over there as a dead asset.

Governor Harding. You can issue certificates against it, can you not?

Mr. Dewey. We could, but now we cannot.

Mr. Harrison. That would give you only a two months coinage program in gold before you would have to begin minting subsidiary silver and coin.

Mr. Dewey. I do not think it will take us past May 1 and we could not get into the subsidiary silver much before the 1st of October.

Governor Harding. Has Congress actually made you buy the rest of that Pittman silver?

Mr. Dewey. We hope not.

Governor Norris. Have you minted no gold this year?

Mr. Dewey. Oh, yes. We have been on gold right up within the past two weeks, when we went into the Pittman silver coin. We decided to get that out of our mints.

Governor Seay. What part of the memorandum which you have read do you think calls for special action by us?

Mr. Dewey. I just want to mention this one point, to get an impression to pass on to this subcommittee and the currency design committee. I might say in that connection that there are about 30 members of that committee. We are covering every angle of it rather carefully and want to leave no stone unturned so when we make our final report it will be as nearly comprehensive as possible. Now this subcommittee consists of Mr. Herbert Brown, of the Bureau of Efficiency, the Chief of the Secret Service, the Director of the Bureau of Engraving and Printing, and Dr. Godchalk of the Bureau of Standards. The committee has called before it a number of experts on printing, water marks, photography; we have had experts from the Eastman Kodak people, asking their advice as to means of protecting the currency and of getting distinctive marks. They came forward with a report the other day that it was the unanimous opinion of this Committee, even including the Chief of the Secret Service, and that their recommendation would be, that we do away with the distinctive rows of silk fiber.

The Chairman. Why was that?

Mr. Dewey. I was just going into that. Before making such a report I told them that I thought it was such a revolutionary thing to do that we would like to have their report sent to the Governors of the Federal Reserve Banks with the idea that they take it up with their people in their banks, discuss the question and get their views, that it was such a revolutionary step that if the views of the Federal Reserve System were against it I thought it ought not to go into the report at all, except as having been covered, but without any recommendation. I thought it would be somewhat embarrassing.

The Chairman. You wanted to hear from us on that?

Mr. Dewey. Yes. I would like to get just a brief expression from this body to take back to this Committee. The Chief of the Secret Service suggests first that the public has become so imbued with the idea that the only distinctive feature in our currency is the silk fiber, that they will take anything that appears to have the silk fiber in it; that the counterfeiters take two sheets of paper and glue them together, put silk threads in between, or they will take a red pen and a blue pen and make little zigzag marks on a spurious bill, which has the real appearance of silk fiber. Of course with the real silk fiber you can take a needle and pick it out. That is the test, but the public doesn't know that. The Chief of the Secret Service maintains that the true protection of our currency and the proof that it is genuine as against the spurious currency, is the portrait. Our portraits are done by the intaglio printing process, which is a very hard process to counterfeit. The paper has to be wet and they have to have a steel plate made. It has to be completed by hand and put through a process in the Bureau of Engraving. If you take any counterfeit note and compare it with a genuine, the weak point is always the portrait. The portrait is very poorly done. It is usually an indistinct lot of lines and the Chief of the Secret Service believes that propaganda should be put out so that anybody who wishes to find out whether they have a real note or not, they be told to study the portrait a little bit. They are going to eliminate a number of portraits. The recommendation is that there will be fewer and the same portrait will always appear on the same bill. They will take people who are well known and whose features are well known, and he says that that will be the best way to maintain the integrity of the currency.

Now from a practical standpoint, the paper is manufactured in this way: It is run out in skeins of pulp and turned into a long narrow sheet. It is rolled up, and as it passes along a machine drops these little cuttings of silk fiber -- silk thread, I think it is --

along the sheet, so that the fiber is run lengthway of the sheet. Now the grain of the sheet of paper is always lengthwise of the sheet, but we have to print the bills cross-wise on the sheet in this way (indicating). Consider a long ribbon of paper extending the length of the roll, and we have to print across that way (indicating). Therefore the bills are much easier torn than they would be if printed lengthwise. If we could turn it around and print the bill with the grain of the sheet they would be much harder to destroy because you would be tearing against the grain of the paper. I mean it would be harder to tear the paper this way (demonstrating). They are being destroyed by being split across the middle, and it would make them much more durable than they are now if they could be printed the other way, as I have demonstrated to you. Those are the two main features, besides certain saving in the manufacture. The whole committee was unanimous in the thought that if we sprinkled this silk fiber all over the sheet instead of putting it in rows, that it would have some distinctive quality.

The Chairman. But would they show up as distinctly?

Mr. Dewey. No, because there would be fewer of them.

There would only be about 15 or 20 per cent as many as are used now.

Governor Bailey. Would not the small fibers become obliterated?

Mr. Dewey. They would not be anywheres near as obvious, there would only be about 20 per cent of what is there now, but they would be scattered through the entire bill.

Governor Bailey. That was the objection in our bank, that it was thought the little pieces would become obliterated.

Mr. Dewey. Of course the Chief of the Secret Service claims that they have no part in protecting the currency, that people look for the silk fiber and if they see the silk fiber in the bill they say it is a good bill. He says that is not what they should look for. They could see it all over the bill. They should look for the portrait. The English bill, for instance, has very little printing on it. No one ever looks for the water-mark on the British bill. They looked at the well known St. George and the dragon, It is so well drawn and so very familiar that everybody can tell it easily.

Governor Bailey. Are you going to have the one dollar bills with the portrait of Washington on them?

Mr. Dewey. That would be the idea.

Governor Bailey. And the five dollar bills --

Mr. Dewey. With any other well known character, such as Roosevelt or someone like that. Gold or silver, U.S. bank notes, Federal Reserve notes or National Bank notes.

Governor Bailey. I think that would be a great thing, Mr. Dewey.

Governor McDougal. I understand from your committee report that this new distinctive paper would furnish additional protection, reduce the cost of manufacture and not impair the quality of the note; is not that true?

Mr. Dewey. I think the paper itself would furnish less protection than our present paper; but as the Chief of the Secret Service has said, the paper should not furnish the protection. It is the printing that goes on it, the familiarity with the printing and design and other points on the note.

Governor Harding. The people in our currency department thought very well of your suggestion. A good money counter does not rely on the silk, but they can tell from the portrait and that sort of thing.

The Chairman. Isn't it a question of who you are aiming to protect? If it is to make counterfeiting difficult that is a question the public is not so much interested in directly, that is in the specific workmanship of the note.

Mr. Dewey. We would have to add a new photographic process, we think.

The Chairman. If you are going to do something now to enable the public to permit the detection of counterfeiting -- they are awfully stupid about it now.

Mr. Dewey. I think that is true.

The Chairman. I have the feeling, and I think it is shared in the bank, that to the extent that it is useful at all, the silk threads are the best protection that the public has, because they do not seem to pay any attention to the very poor imitations of the vignette which are made. We get ten to twenty a day in the bank in New York. Of course if it is simply a question of enabling the banks to detect counterfeits, the cignette does that. All the detection that takes place in the Reserve Bank is through the workmanship on the bill, especially in the vigenette. I believe to eliminate the silk threads is going to put more of a burden on the public than rests there now.

Governor McDougal. To what extent is counterfeiting done on genuine paper with silk threads in it? Has that been done to some extent?

Mr. Dewey. Not a very big percentage. The greater percentage is where they go right out and make their own paper or get good bond paper and print on that and put in ink marks. Recently a very good counterfeit of a $100 gold certificate came up from Mexico. It was extremely well done, all but the paper itself.

Governor Harding. In this new currency that you propose do you leave some silk threads in it so that anybody who depends on silk threads, if they look at the bill can still find some that they can pick out with a pin?

Mr. Dewey. They may do that, but they will be few and far between, only about 15 to 20 per cent of what they have now.

Governor Harding. Why don't you put more in?

Mr. Dewey. Because then it would interfere with the vignette.

The Chairman. The silk threads apparently afford little protection in preventing counterfeits which can be negotiated with the public.

Mr. Dewey. Yes.

The Chairman. They are certainly not going to use it in detecting the note, because that is done by the vignette, and if they are not going to be used by the public for the purpose of detecting counterfeits, why put the silk in at all?

Mr. Dewey, Really, the only reason for putting the silk in at all is to make the paper itself distinctive. This will be helpful to the Bureau of Engraving, because in handling such large quantities of paper, they will be able to distinguish our distinctive paper and our non-distinctive paper and there will always be that little degree of extra care used in checking up than would be used if they used just any old kind of paper that is lying around.

The Chairman. How do you feel about that, Mr. Harrison?

Mr. Harrison. I think you have expressed the opinion of the men at the bank. So far as our own money department is concerned, they pay no attention to the silk threads at all. The vignette is the important thing. They have been very much interested in the discussion of the feature of making one photograph for each particular denomination regardless of the kind of currency that it is. I do not think that would afford much protection to the public, except in the case of a raised note, because of the fact that so few people know the portrait on the particular denomination of notes in any event. I do not believe there is a man in the room who knows the face that belongs on each denomination of Federal reserve notes.

Governor Bailey. I think that is true, but the notes are so mixed up. If you just had eleven different kinds of notes with eleven signatures, I think the people would soon learn that Washington would be on the one dollar bills, but wouldn't be on anything else, so that if you found Washington on a one dollar bill raised to a ten dollar bill, you would know it was a counterfeit.

Mr. Dewey. This also should be taken into consideration. If we just take them out now and leave our same old notes I do not think the public would take to it so well and it would not be of any particular help. But it is also contemplated, if this bill program should go through, that the size of the currency be reduced, with probably a difference in design on it. That would be an interesting feature to the public at large. If the scheme should be carried out to reduce the size of the currency, change the silk in the paper and make the other changes in the general design of the notes, if that should be approved, long before those notes go out we would begin writing propaganda stories on the thing in order to familiarize the people with the notes.

Governor Harding. Are you going to print any two dollar bills?

Mr. Dewey. The chances are we will. We have to under the law now. It depends on how much legislation we could get.

Governor Harding. To what do you attribute their unpopularity?

Mr. Dewey. I haven't the faintest idea. I think somebody made a test. I saw in some newspaper recently the statement that most people carry their bills in two ways. One dollar bills they put in their pockets as small change; five dollar bills and above they carry in a wallet separately in a different pocket. The two dollar bill is unusual. It is not big enough to be put in a separate pocket, and if put in the pocket with change and paid out as a one dollar bill, and when a man gets home he finds that his two dollar bill is gone and he has 90 cents in change in his pocket from street car fare or something like that.

Governor Harding. In France they have bills of different sizes, and the same way in England.

Governor Seay. Don't you really regard the prejudice against them as formidable?

Mr. Dewey. Something does it.

Governor Harding. Some people think it is superstiition more than anything else.

Mr. Dewey. Yes.

Governor Norris. I have often heard people say "Get rid of that two dollar bill; it is unlucky."

Governor Harding. I think if you would print the bill with a four-leaf clover on it that the public would take it.

The Chairman. With regard to the propaganda regarding the bills, have you noticed that when the question came up before there was a good deal of nervousness about the country and quite a number of reports came in that we should be careful about reducing the size of the paper money because it would have the effect of reducing its buying power?

Mr. Dewey. That was so, but I think the country at the present time is so happy financially that I do not think that would amount to anything.

Governor Fancher. Is it contemplated reducing the size but making the bills all the same size?

Mr. Dewey. All bills would be the same size.

Governor Fancher. In this report which you send with your communication mention is made of a method of detecting. How closely is that to be guarded as a Treasury secret?

Mr. Dewey. That is rather an optimistic viewpoint, because you could not keep it as a Treasury secret. I do not think that amounts to very much, Governor.

The Chairman. Another thing: Has the Committee considered, if the size of the notes should be reduced, just what method of distribution should be put in operation so as to cause the least inconvenience to the public?

Mr. Dewey. We really have not gotten to that point. We haven't discussed that in our investigations yet. What we wanted to do was to be very sure before we got that far, as to whether there would be any saving made and what the saving would be, whether we would have to make a great many expensive changes in handling, and so on and so forth, and after we had discovered that there would be a saving that was worth while we thought we would take it up with the various banks in due course and find out what their recommendations are as to putting it into effect, after the program was decided upon.

The Chairman. If all denominations of smaller size are put into circulation at the same time, before the others are well retired, it would be a very great inconvenience, but perhaps it would work if you would clear up your ones first.

Mr. Dewey. We had thought of cleaning up the larger denominations first for the reason that, as I said, most of the denominations of larger size are kept in a wallet or in a special pocket. The ones are carried as large change, and we might get rid of the large denominations and leave the old size ones out for a while, and then put the new ones in.

The Chairman. But the ones wear out so fast that you could complete the shift in them sooner.

Mr. Dewey. That might be true, too.

The Chairman. And let the larger denominations stay out because they have so much longer life.

Governor Seay. It would probably increase the outstanding circulation for a while, as people would want to retain them until they got familiar with them.

Mr. Dewey. There are a good many things to be considered, we are getting a report on each one and we are going along gradually and trying to cover each proposition.

Governor Fancher. The reaction from our currency department was very favorable. I was wondering if you would like to have a reply to that communication from the Bank?

Mr. Dewey. I would like that. I wanted to take this opportunity to get the personal equation, and then ask the Governors, when they return to their banks, to reply to the letter formally so that we will have a definite opinion.

Governor Seay. Don't they fool the public now by imitating the silk fiber with ink lines?

Mr. Dewey. Yes. The majority of the counterfeits only have ink on them instead of the silk fibers.

Governor Seay. I do not think that is a factor which is entitled to very great consideration so far as the public is concerned. I do not think you need hesitate to abolish the fiber, so far as the public is concerned. When they are fooled it is usually by something that imitates the silk fiber, is it not?

Mr. Dewey. Yes, and that is what the Chief of the Secret Service maintains. He says it does not give protection. If you ask any man to tell you how he determines whether or not a note is counterfeit he will tell you the good ones are the ones with the silk fiber in them.

Governor Seay. I have seen some people tear a bill to discover whether or not it was silk fiber or whether it was a line, and not be able to tell until they had done that.

Governor Harding. Some years ago the silk fiber appeared in the bill in the shape of two parallel lines, running the whole length of the bill. Why was that discontinued?

Mr. Dewey. I cannot answer that. I did not know that was so.

Governor Harding. You will remember there were two silk threads, straight threads, one at the top and one at the bottom.

Mr. Dewey. I imagine that might have been done owing to the hand printing of the notes before power presses were installed.

Governor Harding. It was possible to take a pin and pull the whole thread right out.

The Chairman. That was when they first introduced the silk fiber into the paper, I believe?

Mr. Dewey. I do not remember that.

Governor Seay. The reaction in our bank is quite favorable to the proposal, Mr. Dewey.

The Chairman. Mr. Dewey, do you want any action here, beyond the writing of the letters about which you have spoken?

Mr. Dewey. No. If we can get a response from each of the Governors it would help the Committee in making its decision.

The Chairman. All right, we will do that.

(Thereupon Mr. Dewey and Mr. Hand retired from the Conference room, and the Conference of Governors proceeded as follows:)

The Chairman. I would like to have Mr. Harrison read a letter which has just been sent to me by Governor Crissinger.

Mr. Harrison. The letter is as follows:

"C O P Y

FEDERAL RESERVE BOARD

Washington

March 23, 1926.

Dear Governor Strong:

"The Board has under consideration and desires to dispose of the matter of non-cash collections. It is considering the services under three heads, to-wit:

"Those which can be discontinued; those which can be continued without imposing a charge for the service; and, those which can be continued on payment of a charge by the banks for whom the services are rendered.

"The Board desires to have the present Governors' Conference appoint a committee of five members to confer with and to aid the Board in reaching a conclusion on these questions before adjournment of the conference.

"Will you please advise me of the names of the members of the committee which the conference appoints for this purpose?

"Very truly yours,

"(Signed) D. R. Crissinger,

Governor.

Mr. Benj. Strong, Chairman,
Federal Reserve Bank Governors' Conference,
Washington, D.C."

The Chairman. What is your pleasure, gentlemen?

Governor Norris. Have you any suggestion to make, Mr. Chairman?

The Chairman. I think we should appoint the Committee.

Governor Calkins. Has the Board been advised of the action taken by this Conference?

The Chairman. They are acting on the recommendation made a year ago or six months ago.

Governor Wellborn. I move that a committee be appointed, as suggested by the Board.

Governor Biggs. I will second that.

Governor Bailey. I suggest that the Chair appoint the committee.

The Chairman. Very well, I will appoint Governors Fancher, Harding, Bailey, and Mr. Strater and Mr. Harrison.

We can now resume consideration of Topic 5-A.

V. SUPPLEMENTARY TOPICS

A. Permanent employment by the Board at a fixed retainer of special counsel of outstanding ability to assist in litigation, and to act as a clearing house for the legal departments of all Federal reserve banks. (See Board's letter of March 9, 1926, X-4550; also paragraph 26, Minutes of November, 1925, Governors' Conference.)

Governor Talley. Mr. Chairman, I just wanted to say one other thing. The proposal did not intend that he should be retained as special counsel, or have any jurisdiction over the various counsel of the different

Federal Reserve banks. It does not minimize their importance, their authority, or their relationship in the least.

The Chairman. Who is to decide about the terms of the retainer; how the retainer shall be paid, what the conditions of employment shall be, what methods ought to be employed in setting up contacts with the special counsel? How in fact are we to decide what questions shall go before the special counsel, unless that is done here in Washington?

Governor Talley. I do not think that necessarily follows at all, that it be done here in Washington. These matters would not have to be put up counsel in Washington, other than the ordinary approval of the Board in reference to the employment and payment of a retainer ---

The Chairman. (Interposing) But suppose the eleven banks submit all kinds of questions to this counsel and run up fees to the extent of $50,000 and the twelfth bank hasn't any question to submit and no voice in the decision as to whether they should submit matters or not, and what position is that twelfth bank in when it is called upon to pay?

Governor Talley. I can only repeat the remark that you made on yesterday, that these supposititious things have a way of not materializing.

The Chairman. It does not seem to me to be the orderly way to have one counsel for twelve independent organizations with no means of coordinating the work.

Governor Talley. Let me say this: I think there are some members of the Conference who are not very much interested in this question and there is danger or likelihood of giving it hasty consideration. I would like to make a suggestion, that a sort of legal committee be appointed to go into the question a little bit further and draft some suggestions as to the detailed procedure, and that sort of thing.

The Chairman. It would not take me long to get my own view, if I served on the committee. I can tell you in about two words. I think the System should have special counsel to whom the Board's counsel should refer all litigated cases at their inception; that every Federal Reserve Bank should report every piece of litigation to the Federal Reserve Board the minute it arises and send the paper in; that the employment of this counsel under those conditions, with liability upon all the Reserve Banks to share in the cost of the counsel, should be limited to that type of work, and no other. If questions are to be referred to that counsel by the Federal Reserve Board, that is a matter in which we are not interested. We will get assessed for it. That shuts off the Federal Reserve Banks from sending in no end of questions to special counsel without any method of coordination at all.

Governor Talley. I think if the provision were not made that all these questions should proceed through the legal departments of the Federal Reserve Banks, that then that would be a rather questionable procedure.

Governor Calkins. I move the adoption of a resolution that the sense of this Conference is contained in the statement Governor Strong has just made.

Governor Fancher. I will second that motion.

The Chairman. I am not afraid of the question of opinion, but I am afraid of litigation which reaches the point where the record is made on the trial, and a decision rendered by a jury, and we know nothing about it.

Governor Bailey. And where we have not laid the foundation for carrying the case up.

The Chairman. But have laid a foundation against it, and we might have a hard time. Of course legal opinion doesn't bind anybody. It is just an opinion. Now I will tell you what I think it would accomplish. If we reported every litigated matter to the counsel of the Board, and it is submitted to Mr. Baker, say, if he is selected, every Reserve Bank is going to be under a certain degree of supervision. If local counsel exercises proper care he will know the minute he hears from his client whether it is desirable to call Mr. Baker in or not. As it is now some of these cases are tried as distinctly local cases and the counsel do not always realize that the whole System has an interest in them. Mr. Harrison, we have consulted Mr. Mason about this and Mr. Mason would approve the procedure I have suggested, do you not think?

Mr. Harrison. Yes, I am certain he would.

Governor Seay. I am convinced that the decision to which we came at the last meeting is a wise one. I think that even though we had the opinion that special counsel be employed for the Board, it will tend to introduce complicated legal machinery into the system, bring about delays, and in spite of opinions expressed to the contrary, I believe that it will tend to minimize the position of local officers in the Federal Reserve Bank. I believe it will be wholly impracticable to adopt any other plan, if counsel is employed, than to have the Board employ counsel. I think I would be very much in sympathy with the suggestion you made at the beginning, with respect to any litigation in which a Federal Reserve Bank finds itself involved, that it should always be reported to the Board. It seems to me that it is then for the Board to determine and the responsibility ought not to be avoided. It seems to me, Mr. Chairman, that it is very desirable from all points of view that the Board be advised. Whenever a bank finds itself involved in litigation that may be of importance to the entire system, it seems to me that that is a matter for the Board to determine.

The Chairman. I would be tempted to agree with you there. In fact, my own opinion about these matters has changed, because I was at first opposed to the special counsel arrangement. But my whole opinion has changed in that respect since the disclosure of the method of handling the appeal in the Atlanta case, where we felt rather alarmed about the position we would be in if that appeal had been taken. Why couldn't this program be set up; in such a way that when litigation develops in any Reserve Bank it is always considered by the officers of the bank and the bank's counsel, and in sending copies of the papers to Washington and in reporting on the case, the bank itself should recommend to the Board or to the Board's counsel whether or not in its opinion it is a case that justifies submission to the Special counsel. Then he would be the one to determine finally whether there should be System counsel employed.

Governor Seay. It is important that we not introduce some objectionable feature into the ordinary legal procedure of the Federal Reserve Bank. If counsel of the various banks are to be given to understand that they cannot pass opinion upon certain matters, but must wait for reference to special counsel of the Board, examination by special counsel, report back to the Board, and then the Board advise the counsel of the bank, I think very regrettable and injurious delays would be introduced into the System and we should avoid such a situation.

The Chairman. We are not talking about opinions now, but about litigated cases.

Governor Seay. It has not been wholly confined to that, as I understood it.

The Chairman. The discussion of this proposal is wholly confined to that because we are proposing to exclude opinions from consideration in that way.

Governor Harding. I think your suggestion is an improvement over the first suggestion, Mr. Chairman, but I am just wondering how counsel in some of the districts, who are very familiar with the laws of their respective States, are going to feel about having associate counsel put into a case with them in that way.

Governor McDougal. I think local counsel should, and probably would in many cases, choose his own associate counsel. Would it be your idea that all matters of litigation be referred to this proposed counsel?

The Chairman. What is in my mind is this: That every Reserve Bank has its own counsel to advise it about local matters, but certainly when one Reserve Bank has important litigation which involves the other Reserve Banks, when those other banks have as vital an interest in the litigation as his own client has, then it seems to me that if he has the right attitude of mind towards his job he would welcome the cooperation of counsel that could speak for the System, that could speak for the other eleven banks, if you please.

Governor Talley. That is true in the case of our counsel, and he has so stated.

Governor Calkins. From that point of view it might be pertinent to ask whether in cases of litigation involving the Federal Reserve Bank would seem to be of sufficient importance to call for consulting counsel, it would be more agreeable to the attorney or counsel for the individual bank to call upon one recognized authority on the subject, or to have put over him a local practitioner of indefinite capacity, just because he was senior, or perhaps more prominent? I believe, after consideration by counsel for various banks, that it would be acceptable to every one of them.

The Chairman. How do you feel about it in Cleveland, Fancher?

Governor Fancher. Very much inthefavor of it. We recommend it very strongly.

Governor Seay. It seems to me the tendency would likely develop to consider almost all matters as System matters.

The Chairman. Not if it is confined to litigation.

Governor Seay. I mean litigation; that is what I mean; I mean all litigation as System matters.

The Chairman. We would never have enough litigation to make that a serious question. How many suits are pending in the System now?

Governor Seay. I should think we have four or five and all of those are System matters.

Governor Wellborn. Mr. Chairman, I have a letter that I would like to have you read.

Governor Talley. We have a case from our Supreme Court now that has been affirmed by the Court of Appeals. It was decided in our favor in the lower court and the opinion of the lower court was confirmed. The matter involved in that is the same as the matter involved in the Malloy case.

Governor Seay. We have three of those suits pending and I think one of them has been abandoned. I do not think any Federal Reserve Bank would hesitate for a minute to report to the Board any pending or threatened litigation of importance. I think it would unquestionably do it. I think it would then be for the Board to determine whether it is a system matter and if so, whether consulting or assistant counsel should be employed.

The Chairman. What I am seeking to do is to get the important cases before System counsel by some orderly method, when it is decided that they are important, and only cases in litigation. That is the object of my suggestion. What method shall be employed is a matter of detail. I do not care. The reason I feel that way is this: I do not know in New York when some case is tried and appealed in some reserve district that will put liabilities on the bank in New York, and I think I am entitled to know, and I think I am not only entitled to know but to have something to say in the conduct of that case.

Governor Talley. That is exactly the principle that is behind this whole proposal, Mr. Chairman.

Governor Seay. I think there will be a tendency to bring in a great many trivial things.

The Chairman. What do you suggest as an alternative, Governor Seay?

Governor Seay. I think the decision we rendered at the last Conference is a wise one. I believe there is necessity for the employment of special counsel by the Federal Reserve Board on occasion, and when the occasion arises I think it ought to be the judge of it. I think in the San Francisco case if, instead of referring it to the various Federal Reserve Banks as to whether they would participate or not, it had been referred to the Board, I think that would have been the proper course and that it is incumbent upon the Board to determine those matters.

Governor Calkins. It was not necessary to do that because the San Francisco Bank retained Mr. Baker entirely independent of the question of whether the other banks would participate or not. We only asked you after the fact.

Governor Seay. I think with respect to that there might have been some criticism that the San Francisco Bank employed counsel without referring it to the Board.

Governor Calkins. It was our intention to say very plainly that Mr. Baker had been employed by the San Francisco Bank, that we believed the case involved a System matter and to inquire, but only to inquire, whether the other banks were willing to participate.

Governor Fancher. I think there is a good deal in the point that we should have general counsel retained, some man who is familiar with the situation and is continuously familiar with it. Because when a special case comes up that requires outside counsel we might not always be able to get the same man, it might not be possible to have him represent us, and I think it is a great advantage to have the same man, who would become familiar with the System operations and go along with all this litigation.

Governor Talley. And who has some obligation to the System.

Governor Calkins. In our case when Mr. Baker was employed it was only with great difficulty and inconvenience that he was able to give the time necessary to prepare for the case, while if he had been regularly employed he would have been at the call, and that is the largest point in favor of it.

The Chairman. I move that the committee be appointed by the Chair consisting of three members of the Conference to prepare a resolution, to submit to the Conference at its meeting tomorrow, designed to dispose of this topic 5-A.

Governor Calkins. What is the matter with the resolution now before the house? There is a resolution before the House that was moved and seconded.

Governor McDougal. Before the motion is put I would like to make an inquiry. Last summer counsel for the several banks met and considered this question, I presume carefully, and reached the conclusion that it was not advisable to employ such counsel as we are considering. The Conference of Governors met subsequently, I believe, and confirmed that opinion. My inquiry is: What has happened since to change the impression here in this body?

The Chairman. The Grimn-Alfalfa Case.

Governor Seay. It has not changed the law, in the opinion of counsel for the Board, because the procedure that was followed there was the procedure suggested by the meeting of counsel themselves, and I believe that we should leave it as it was left under the decision we made a year ago.

Governor Calkins. I will say that it was not the Grimm-Alfalfa case but to a great extent it was the arguments contained in the letter which Mr. Talley wrote, but which he has not read to us yet.

The Chairman. Gentlemen, what is your pleasure? I suggested a motion.

Governor Calkins. In deference to the Chair I will withdraw my motion with the consent of my second.

The Chairman. What was your motion?

Governor Calkins. That the view expressed by the Chair should be adopted as the sense of the meeting. You may consider that motion withdrawn.

Governor Seay. May I inquire what the motion is now?

The Chairman. That we should have System counsel to consider all litigated matters.

Governor Seay. Employed by whom?

The Chairman. By the System -- by the Board, that would be; and that all litigated cases be referred to counsel for the Federal Reserve Board, and that they should be referred to special counsel when in his opinion the importance of the case justifies it, or when requested to do so by the submitting bank.

Governor Talley. I would like to suggest a slight amendment, that special counsel be nominated by the Governors' Conference and approved by the Federal Reserve Board.

The Chairman. I would suggest that you nominate Mr. Baker.

Governor Talley. I would second that nomination.

Governor Calkins. I do not think there is any question about that in the minds of any of us.

Governor Talley. The Board has its regularly constituted legal department. The several Federal Reserve Banks have their legal departments and regularly retain counsel-- in our case he is on the premises. Now then my thought about this is that this will be consulting counsel for the banks, and with a proviso that if such counsel is retained that all cases of litigation be reported directly to him, and also to the Board, for that matter. Then I think that the special counsel ought to be retained by the Federal Reserve banks subject to the approval of the Board.

The Chairman. Mr. Harrison, will you read the pending motion?

Mr. Harrison. I will read Governor Calkins' motion: That the Federal Reserve System retain special counsel to consider litigated matters only; that all Federal Reserve Banks report to the counsel of the Federal Reserve Board every litigated question, plus papers, and that counsel for the Federal Reserve Board refer any such matters to the special counsel at once if he thinks that they are of sufficient importance to justify it, or if the counsel of the submitting bank requests it.

Governor Fancher. I will second Governor Calkins' motion.

The Chairman. That motion was made and seconded, and then Governor Talley proposed an amendment to the effect that this report should be made both to the Board's counsel and to special counsel.

Governor Talley. Yes.

The Chairman. If you wish to press that it would be well to vote on the amendment first.

Governor Talley. I offered it more in the nature of a suggestion. I have no desire to press it. The only thought that is going through my mind is the point that Governor Seay raised, about the complexity of it.

The Chairman. Well, we have an exchange of views in the event of this procedure being followed between the Board's Counsel and the Bank's Counsel, with automatic reference in case the Bank's counsel thinks it is sufficiently important.

(The motion, having been duly seconded, was put on a year and nay vote. The Chair was unable to determine, and the vote was taken by the raising of the right hand. Seven Governors voted in favor of the motion and five against it, those voting against it being Governors Young, Seay, McDougal, Biggs and Wellborn.)

Governor Seay. I would like to put in the record that my reason for voting no is that nothing has transpired since this Conference gave an adverse report on this proposal which caused me to change my opinion or vote, and because I believe it will introduce complications into the legal machinery of the Federal Reserve

Banks and increase the cost.

The Chairman. It has been suggested to me that it would be perhaps impolitic to appoint on the committee of five two gentlemen present who are not Governors of Reserve Banks, to meet with the Board on this non-cash collection business. I have already appointed Governors Bailey, Fancher and Harding, and I will add to that Governors Talley and Young. Now the Chair will entertain a motion to adjourn.

Governor Young. Mr. Chairman, I move that we adjourn.

(Whereupon, at 5:50 o'clock p.m., on motion duly seconded, the Conference adjourned until Wednesday, March 24, 1926, at 10 o'clock a.m.)

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T H I R D   D A Y .

CONFERENCE OF GOVERNORS OF FEDERAL RESERVE BANKS.

Conference Room, Treasury Building,

Washington, D. C.,

Wednesday, March 24, 1926,

10 o'clock a.m.

APPEARANCES:

(As indicated in the First Day's Record.)

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

The Chairman. The Conference will come to order. We will proceed with our committee reports. You have received copies of the report of foreign accounts. I have also referred verbally to one or two matters in connection with it. What is your pleasure with regard to the report which has been distributed?

Governor Young. I move that the report be approved and filed.

Governor Talley. I second the motion.

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

The Chairman. The next is IV-H.

IV. OPERATION AND ADMINISTRATION.

H. Report of Sub-Committee of General Committee on Bankers' Acceptances.

What is your pleasure with regard to this report?

Governor Norris. I move that it be approved and filed.

Governor Young. I will second the motion.

Governor Calkins. I would suggest that it be referred to the Federal Reserve Board before it is adopted and filed, with the recommendation that the Board adopt the recommendations in the report.

(The motion, having been duly seconded, was carried, and the report of the committee is as follows:)

REPORT FOR THE CONFERENCE OF GOVERNORS, MARCH 22, 1926, BY THE GENERAL COMMITTEE ON BANKERS' ACCEPTANCES.

In accordance with the action of the Governors' Conference in November, 1925, in respect to the report of the Special Committee of the American Acceptance Council, concurred in by the Sub-Committee of the General Acceptance Committee of the Federal reserve banks, which recommended greater latitude in bankers' domestic acceptances, your Committee has carefully considered those recommendations, in which it also concurs, and has endeavored to set forth briefly the pertinent credit principles that would be involved in giving effect to the greater latitude recommended and which would guide Federal reserve banks in determining eligibility of domestic bills and be helpful to them and to member banks and bankers in determining under what circumstances acceptance credits in domestic transactions might be granted.

The well established practice of granting bankers' acceptance credits, available to shippers' drafts in domestic transactions in goods and commodities involving shipment and against documents covering readily marketable staples stored in independent warehouses, operates so satisfactorily, where they are availed of, that no modifications of them in themselves is recommended or intended. Your Committee, however, has drawn up a statement of general principles which are applicable to these established practices as well as the contemplated broadened use in which domestic acceptance credits may be extended with advantage to trade and commerce. This broadened use will permit the purchaser of goods under bankers' credit to draw bills having a maturity consistent with the usual and customary credit time that obtains in the relative trades, instead of requiring the shipper to draw the bill if it has a usance in excess of actual transit time of the goods. In case of bills secured by warehouse receipts covering readily mar etable staples, it would be permissible to convert the staple into another form of readily marketable staple through a converter independent of the drawer, provided the identify of the goods be not lost and the accepting bank remains secured by the independent converter's receipt.

In principle, your Committee considers that the prime purpose of a banker's commercial acceptance credit is to substitute bank credit for merchant credit in buying and carrying goods for market; and that the fundamental credit principles involved are the same as in other forms of credit granted by banks to commercial clients, with the distinction, however, that whereas ordinary borrowing lines of credit are extended for general business use, the bankers acceptance credit is given only for specific transactions in goods which contain elements of self-liquidation and may be secured against general creditors. These fundamental credit principles, as they have been evolved, have been recognized in the development of practices designed to accommodate changing business methods and conditions in trade. As developed, they include consideration of trade customs, sales terms, reasonable expectation of liquidation from the goods turnover, and the capacity of the customer to pay or provide reimbursement at maturity in any event. The circumstances under which the bank's customer, the taker of the credit, would have proper occasion to draw on his bank in respect of shipments of goods for a period in excess of the transit time, are in purchases of goods, the delivery of which involves domestic shipment. The old practice in such cases has been for the banker to grant credit to his customer, available to the draft of the seller and shipper of the goods, against shipping documents. The use of such credits in this country has been very restricted, mainly, your Committee believes, because the custom of selling goods on open account with cash discount is so firmly entrenched in the United States.

Your Committee regards as a principle, that the purpose of credit is equally served whether the seller or the buyer drawns under the bank's credit granted to the buyer. In considering the propriety of such credits the test should be whether the transaction is one in which the banker might properly issue credit available to the seller's draft.

Your Committee regards as a matter of principle in granting acceptance credits to buyers, that the buyer should acquire title to the goods only through the bank, thus preserving to the banker more effectively the benefit of the trust receipt as against general creditors; and that the banker should require that the proceeds of the goods, as received by the customer, be applied in liquidation of the credit.

With regard to the usance of drafts which banks will accept under credits to buyers, your Committee regards as a matter of principle, that the time should not exceed the customary time granted by sellers of the relative goods on credit terms where such goods ordinarily are sold on time, and in cases where goods ordinarily are sold only on cash terms, the banker should limit usance to a moderate and reasonable time ordinarily required in the trade for turnover.

In the case of credits secured by warehouse receipts for readily marketable staples and in respect to the recommendation that processing of the relative staple, or its conversion by processing into another staple during the term of the credit, your Committee regards as a principle, that the security of an independent converter's negotiable receipt is equal to a warehouse receipt issued by an independent warehouseman, provided that the identity of the goods is not lost or can be effectively established — as, for instance, in the tanning of hides or the bleaching of gray goods. The same principle would apply in any case where the condition of the trade customarily involves the mingling of the staples with other staples of similar character, if the receipt of the independent converter effectively entitles the holder to a proportionate amount of the mingled or pooled staples in the same or a changed form.

In the application of these principles, your Committee regards that the practical test as to eligibility in any particular case should be whether drafts are drawn against merchandise and whether the transaction is in fact self-liquidating in character; and further, whether the transaction conforms not only with the letter but with the spirit of the Federal Reserve Act, and that the credit is not sought or granted simply for the purpose of evading the limitation with respect to loans.

In summary, your Committee regards that the intent and purpose of the domestic acceptance privilege, as provided in Section 13 of the Federal Reserve Act, is to furnish a means of financing, through acceptance credits, the purchase and sale of goods the delivery of which involves shipment; and the storage of readily marketable staples pending orderly marketing. As this facility is intended to apply only in the financing of distinct transactions as distinguished from general financing, it is essential that each credit can be identified with a specific transaction in goods, and that the acceptance be drawnin such terms as to indicate clearly proper usance in conformity with trade customs relative to the particular goods involved, and that the self-liquidating character of the transaction be especially considered. Further, no acceptance credit should be established unless the grantor would feel warranted in making a money loan for the same transaction.

If it is decided to broaden credit practice as recommended, your Committee suggests as reasonable, the following rules as to usance in domestic credits.

SHIPPING CREDITS - USANCE:

(a) Where the seller draws under a credit arranged by the buyer, the usual credit terms of the particular business should prevail.

(b) When the buyer of goods draws, the terms should not be longer than the time necessary to finance the shipment, except in cases where the customer will obtain title to the goods through the bank and where it would be proper for the seller to draw an acceptance under a credit issued by the bank for the account of the buyer. In such cases the usual credit terms of the business would constitute a proper usance, the same as if the seller drew.

(c) In cases where there is no usual credit time on sales, the buyer may draw for the time ordinarily required in the trade for turnover.

In cases under (b) and (c) the proceeds of the acceptances must be used to pay for the goods.

STORAGE CREDITS - USANCE:

Acceptance credits based upon the storage of readily marketable staples, pending orderly marketing should be drawn for a period consistent with the time necessary to accomplish orderly marketing, and with particular regard to avoiding furnishing credit for the purpose of hoarding of or conducting speculation in commodities.

Respectfully submitted,

W. W. Paddock

C. A. McIlhenny

C. A. People

F. J. Zurlinden

C. R. McKay

O. M. Attebury

C. A. Worthington

W. B. Geery

R. R. Gilbert

Ira Clerk

E. R. Kenzel, Chairman.

Mr. Campbell of Atlanta was the only member of the Committee absent.

Governor Young. While we are on that subject I would like to make a request of the bankers' acceptance committee and also this Conference. The recommendation of this committee bears down a little bit on what is good credit and proper security. I am not familiar with the transaction at all, except from what I have read about it, but we have an acceptance in our district that I believe is just as good an acceptance as there is anywhere. It is against the domestic storage of grain. It was accepted and purchased by the Federal Reserve Bank for four or five years. Then the question of its eligibility was put up to the Federal Reserve Board and it was turned down. It was turned down because the wheat is stored in an elevator that is owned by the drawer of the draft. The facts are these: The bankers of that District have had a great deal of experience in respect to the storage of grain which is used as security. They have thrown out every safeguard that you can possibly ask, and they have finally developed what they call the regular registered terminal warehouse receipt. That means that even though a man stores his grain in his own elevator, that it is checked in by the State; it is under the surveillance of the chamber of commerce. Negotiable warehouse receipts are issued and it is utterly impossible for that man to get that grain out of the elevator until he returns the receipt. Every safeguard has been thrown out. It is a good credit instrument, and certainly issued in accordance with the intent of the law, at least. The grain absolutely leaves the control of the drawer of the draft. We would like to request that the regulation be amended so that that form of acceptance can be purchased by Federal Reserve Banks.

Governor McDougal. Who is the custodian of this grain?

Governor Young. The State, in reality.

Governor McDougal. It is a question of the receipt. Is this a regular warehouse receipt?

Governor Young. It is not a terminal warehouse receipt but a receipt issued by the elevator company, checked in and checked out by representatives of the State Warehouse Commission.

Governor McDougal. But the State is not in charge of the warehouse.

Governor Young. They have a man there all the time.

Governor McDougal. The point is that the warehouse is owned by the depositor of the grain?

Governor Wellborn. Is the State custodian under bond?

Governor Young . The elevator company is required to put up a bond of 15 cents a bushel, and in addition they have the State representative there. A terminal elevator in Minnesota is under strict supervision and control of our State Railroad and Warehouse Commission. All grain that is stored in the elevator is checked in by a representative of the State Railroad and Warehouse Commission as to grades and weights. All grain is checked in like manner that is removed from the elevator. Therefore if an elevator company issues a negotiable terminal warehouse receipt against grain stored in its own elevator, the grain cannot be removed from the elevator except with the knowledge and permission of a representative of the State Railroad and Warehouse Commission. There is one exception to this statement. It will be possible for the elevator company to move the grain between six o'clock in the evening and seven o'clock the following morning. However, the possibility of an elevator company removing grain from its own elevator during these hours is almost negligible and need not be considered, because the only way it could remove any great amount would be by box cars, and the railroads would not handle the grain between those hours. Even if it is admitted that it is possible to remove a portion of the grain between these hours, the State has thrown out an additional safeguard by requiring the elevator company to furnish a bond of 15 cents a bushel on the elevator's capacity. In addition to this every terminal elevator in the Twin Cities is under the direct surveillance of our local chamber of commerce, that is, a representative of the Chamber of Commerce can check any terminal elevator as to bushels and grades at any time.

Governor McDougal. What is the difference between the character of warehouse that you speak of and what you designate as the regular terminal warehouse?

Governor Young. The laws in Minnesota are very strict, and they are not in some of the other States.

The Chairman. Mr. Harrison tells me that that situation is already covered by a ruling of the Board and does not require any action.

Governor Young. They have turned it down twice here. I have had it up with Mr. Wyatt and he has drawn an amendment to the regulation which will cover this particular situation.

The Chairman. What is your resolution, Governor Young?

Governor Young. I move that the Board be requested to amend subdivision 3 of section 10 of Article B of Regulation A, to read as follows: The storage of readily marketable staples, provided that the bill is secured at the time of acceptance by a warehouse, terminal, or other similar receipt, conveying security title to such staples, issued by a party independent of the customer or issued by a terminal grain elevator company duly bonded and licensed and regularly inspected by State or Federal authorities with whom all receipts for grain and all transfers thereof must be registered and without whose consent no grain can be withdrawn; and provided further, that the acceptor remains secured throughout the life of the acceptance", and so forth.

The Chairman. When did this question arise about this particular type of commodity?

Governor Young. Three years ago.

The Chairman. I asked the question for this reason: There is a proposal which you make to the meeting which relates to the ruling of the Federal Reserve Board in these matters. If we could get that in advance and have a chance to examine the previous ruling we could discuss it much more intelligently. Mr. Harrison is under the impression that this is already covered by a ruling with regard to the tobacco growers warehouses.

Governor Young. No. The Board has definitely written me that this is not eligible. I have taken it up with Mr. Wyatt.

Mr. Harrison. A number of years ago that precise situation came up in connection with some tobacco acceptances, where the tobacco was stored in the warehouse belonging to the tobacco company, and in order to make the acceptance eligible they provided for surveillance by a third party entirely independent of the warehouse owners, and the Board in that case ruled that with the collateral arrangement for an outside check or vise the acceptance would be eligible, even though the warehouse belonged to the tobacco men.

The Chairman. I do not like to vote on a matter about which I have not had an opportunity to get a report.

Governor Young. That is the way to handle it. I do not want you to think that I am trying to push something through at the last minute. The facts are that this was taken up with Mr. Kendel some three years ago. Mr. Kendel arrived at the conclusion that it was a good acceptance, we were satisfied with that and purchased the acceptances and made our own interpretation of the regulations of the Board. Somebody asked the Board whether it was eligible or not and it was turned down.

The Chairman. Who did that?

Governor Young. I do not know just who it was. Since that time I have gone where I thought I should go, and that was to Mr. Kendel, and he sent me to the Board. The Board does not seem to want to change its regulations. Mr. Geary went down to Cleveland here a couple of weeks ago, but there was so much other stuff on the program of the meeting that it closed up before he could bring the matter up. I have to bring it up somewhere.

The Chairman. In view of your very vigorous statement of the matter, I would vote in favor of your recommendation.

Governor Harding. We had a case in a bank at Birmingham, where a cotton buyer, who had business with the bank, controlled, although he did not own, the warehouse. He had his own agent there and when he needed any additional collateral or any money for any purpose he would have his agent write out warehouse receipts for cotton which did not exist. Governor Wellborn may remember something about that. It was not a question of title to real estate on which the warehouse was located, but it was a question of the control of that warehouse. All these regulations that were made during my time on the Board were made to prevent anybody, who was interested in borrowing money on warehouse receipts, from having any control over the goods represented by those receipts, where receipts could be issued where there weren't any goods or where the goods could be withdrawn without delivery of the receipt. That was the whole underlying purpose of the Board in making these regulations.

Governor Young. Mr. Kendel has gone into this. He figures it is a good acceptance.

Governor McDougal. Before the motion is put I would like to inquire of the chairman of the general acceptance committee whether or not the committee has considered that matter.

Mr. Kendel. It has not been brought to the attention of the Committee.

Governor McDouglas. Unless these warehouses are safeguarded of course there is danger, and we have had requests of that kind in Chicago. If Mr. Kendel as chairman of that committee has passed on it I would be in favor of voting for the resolution. Otherwise I think it ought to be referred to the Committee.

The Chairman. The present motion is to approve Governor Young's recommendation. We will have to vote on that first.

Governor McDougal. May I inquire whether or not Mr. Kendel, the Chairman of the Committee, has considered it as an eligible acceptance?

Mr. Kendel. I am frankly in doubt. It is entirely a question of fact. If the goods could not be taken from the warehouse without surrender of the receipt by the borrower to the State authorities who had control of the warehouse, then I think it comes perfectly within the scope and extent of the present regulation. But I am doubtful if the amended regulation, which Governor Young offers, would secure the situation, if the grain could be taken out during the night hours by the borrower without surrender of the receipt to the State authorities.

Governor Harding. It seems to me that Governor Young has covered that pretty well by pointing out that there never could be very much taken out because the railroad would not deliver the cars.

Governor Young. From a practical standpoint it could not be taken out. I have been informed, since I wrote that letter, which was September 17 of 1924, a little over a year ago, that I perhaps overstated the situation, that they really have a night man on the job. I was trying to show the actual condition that existed and that was the one possibility; but from a practical standpoint they could not do it.

Governor McDougal. From a practical standpoint I think those receipts are good collateral, either for acceptance or for money borrowed.

The Chairman. What is your pleasure? The motion before the house is to approve Governor Young's recommendation.

Governor Talley. I just wanted to say that we are very much interested in the question. We have elevator companies in our district, one company that owns a large, very modern and well equipped series of elevators. In addition to that they have taken out a Federal warehouse license on those elevators, and it seemed to me the position was inconsistent. We are perfectly willing to discount that elevator company's note based upon its financial statement, and then on the other hand we decline to purchase acceptances that are secured by its receipts, when the elevator company itself is the drawer of the acceptance.

Governor Wellborn. The different seems to be that this is a State controlled elevator and the one you speak of is not.

Governor Talley. It is a Federal licensed warehouse.

The Chairman. Are you ready to vote on the motion?

Governor Bailey. I will second the motion.

(The motion being duly seconded, was carried.)

The Chairman. The next is Topic IV-I.

IV.- I. Report of leased wire committee.

Governor Talley. I move that the report of the leased wire committee be approved and filed.

Governor Norris. I second the motion.

(The motion having been duly seconded, was carried, and the report of the leased wire committee is as follows:)

February 26, 1926.

REPORT OF LEASED WIRE COMMITTEE.

To the Conference of Governors:

Since the last report rendered by your committee there have been no changes in the circuits comprising the Leased Wire System and but little change in the volume of business handled. The system is apparently operating satisfactorily to all concerned and the facilities in use appear to be commensurate with the volume of business now current.

Volume Handled and Expense Involved for Year 1925 and Comparative Figures for the Two Preceding Years.

	Total Number of Words	Annual Cost	Cost Per Word
1923	20,379,547	$312,979.48	$.015
1924	16,987,120	297,850.17	.017
1925	14,002,339	270,592.19	.019

The reduction in the volume is caused largely by restrictions imposed on the classes of business handled, which became effective July 15, 1924, and while the decrease in cost has not been proportionate to the decrease in volume, this is due largely to the necessity of retaining a sufficient number of wires and operators to maintain the necessary contact between all tenants of the system.

As a matter of interest, there is attached a map of the Leased Wire System showing the arrangement of the various circuits.

Respectfully submitted,

(Signed) J. B. McDougal

Chairman

Leased Wire Committee.

The Chairman. The next is IV-J.

J. Report of Insurance Committee.

What is your pleasure with regard to that report?

Governor Young. I move that the report be approved and filed.

Governor Fancher. I second the motion.

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

(The report of the Insurance Committee is as follows:)

REPORT OF THE INSURANCE COMMITTEE TO THE GOVERNORS'

CONFERENCE MARCH 22, 1926.

The following report is made with respect to matters which have been referred to this committee.

TREASURY REGISTERED MAIL INSURANCE CONTRACT.

The committee submitted at the last conference a plan for distributing the total cost of the insurance on shipments of new Federal Reserve notes from Washington, D.C., to the various Federal Reserve Banks and Branches on a basis which would be equitable as between the banks. This plan provided for rates based on the various factors entering into the risk of these shipments, which rates it was recommended be used in place of the contract flat rate of 4 7/8¢. The conference approved of this recommendation and requested the Treasury to arrange with the underwriters for the adoption of the plan.

Your committee is pleased to report that following the conference, the Treasury took the matter up and effective December 1, 1925, all shipments have been billed at the rates recommended, and this matter is, therefore, now closed.

No new matters have been referred to the committee.

Respectfully submitted,

W. F. TAYLOR

J. H. Dillard

W. R. Kenzel, Chairman

Insurance Committee.

The Chairman. The next topic is IV-K.

IV - K. Report of Pension Committee.

Governor Fancher. Monday evening at the close of the session, when I had reported what had been done, the question was raised as to how the Secretary would viewintroducing the bill at this time in view of the amendment to the McFadden Bill in the Senate. Mr. Platt and I endeavored to see the Secretary yesterday and saw him this morning. He raised no objection and sees no complications. We reported exactly what had been done and he is in full accord with what has been done. The question was also raised as to providing for the liduidation of the plan in the event that the charters of the banks were not renewed. That matter has been considered very fully, and if the Conference desires any light on that I think Mr. Kenzel can very briefly state the consideration that has been given to that particular feature. The advice of our counsel was not to include it in the bill.

The Chairman. It has been taken care of in the plan?

Governor Fancher. Yes, but counsel advised that it should be left out of the enabling act. That point was raised by Mr. Hamlin of the Board. There has been an exchange of letters and he is entirely satisfied. There has been an exchange of letters between Mr. Hamlin, Mr. Kenzel and Mr. Curtis and Mr. Hamlin is satisfied as to that point.

The Chairman. Then the report of the committee is that, in accordance with the action taken at the last Conference that that committee has prepared a bill, that they have consulted the Vice-Governor of the Board and the Secretary of the Treasury, and the bill has been introduced?

Governor Fancher. Yes.

The Chairman. Have steps been taken to follow up the matter of procedure so as to see that it moves along?

Governor Fancher. We have that assurance. The

Senator asked that a statement be prepared setting up the high points of our plan, as compared with the civil service plan and with the plan for the State Department employes. Mr. Kenzel has prepared that and that will be submitted to Senator McLean and to Chairman McFadden today. That will give them the highlights of the plan and the comparisons that they have asked for.

The Chairman. What is your pleasure with regard to the report of the pension committee?

Governor Seay. I move that it be approved, Mr. Chairman.

Governor Young. I will second the motion.

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

Governor Fancher. Mr. Kenzel brings up one matter with regard to the revamping of the plan, based on the figures furnished by the banks as of the 1st of January. The plan that is being considered now provides two options, either to provide for amortizing past accumulations both on the part of the employes and on the part of the bank, or give the banks the option to save the interest on the accumulations and pay a lump sum. That is just a question of general policy by the banks.

Mr. Kensel. That is only important from the viewpoint of the committee.

The Chairman. I do not think we should take time in the discussion of a plan which is not necessarily involved in the legislation, because it has all got to be worked out. The committee is now under instruction, as I understand it, to take steps to secure legislation, and the plan can be discussed later.

Is there any further discussion of the action taken in regard to Topic V-A? There seemed to be a good deal of difference of opinion yesterday.

Governor Seay. There was a vote of seven in favor and five against.

The Chairman. We passed a resolution, but it was sort of jammed through in a hurry. It is a very important matter. Governor Talley did not seem satisfied with it, and that is the reason I raise the point again.

Governor Seay. There is an irreconcilable difference of opinion and I suppose the majority will have to rule.

Governor Talley. Mr. Chairman, on the contrary, I feel very well pleased with the progress made.

The Chairman. The next topics, V-B, C and D, are suggested by the Federal Reserve Board, too late for consideration in connection with the rest of the program. They relate to matters that have not been considered at all by members of the Conference.

V. SUPPLEMENTARY TOPICS

B. Advisability of seeking amendment to the law in order to restore to Federal Courts jurisdiction over suits by and against Federal reserve banks. (See Board's letter of March 11, 1926, X-4558.)

C. Questions arising out of Board's ruling of December 30, 1925 (X-4484) relating to the eligibility of notes of a corporation representing borrowings of funds to be advanced to subsidiaries. (See Board's letter of March 2, 1926, X-4560.)

D. Advisability of issuing regulations relative to the rediscount of notes secured by adjusted service certificates under the provisions of Section 502 of the World War Compensation Act. (See Board's letter of March 13, 1926, X-4561.)

Governor Seay. With reference to Topic B I think that is a matter for the determination of counsel, and

I move that counsel for the Reserve Bank be requested to prepare an opinion for the Governor of the Bank, to be reported to the Governor of the Reserve Board.

Governor Norris. I will second that motion.

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

The Chairman. With regard to Topic C, that is a question which arose in Clev land. The topic came in too late to be given consideration at this meeting and if it is agreeable to the Conference we will just refer it back to the Federal Reserve Board to be placed on the program for the next meeting. We have not had opportunity to study it.

Governor Talley. I will so move, Mr. Chairman.

Governor Norris. I second the motion.

(The motion having been duly seconded, wascarried.)

The Chairman. The same is true of Topic D.

Governor Calkins. I make the same motion, Mr. Chairman.

The Chairman. That it go over to the next program?

Governor Calkins. Yes.

Governor Norris. I will second that.

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

The Chairman. The next is E.

V. - E. Is it not discriminatory and unfair to require member banks to remit for cash letters in funds of immediate availability whereas nonmember par remitting banks are allowed to remit for cash latters in funds not immediately available?

The Chairman' That came in too late to get on the program also.

Governor Wellborn. That simply asks the question. I want to find out what the other banks did with regard to this matter. I understand some of them do not accept checks unless they are immediately available. We have always adhered to that rule with State banks who are non-members, but we take checks on other points. We figure it makes us carry about a million dollars in float. A good many of our member banks think that it is unfair to them to have that discrimination, and think that they ought to be put on the same basis with our member banks, and that is remit in available funds. We have 383 banks, non-member par remitting banks in our district.

The Chairman' Is not that a matter of domestic housekeeping? Is it not a local matter entirely?

Governor Wellborn. I thought it was a system matter.

Governor Young. I think it goes a little further than that. We have a great deal of it in our district, and if Governor Wellborn says it is only a short while until the member banks find out that the other banks are furnishing their exchange.

The Chairman. Isn't it a question of what exchange you are willing to receive in your cash letters?

Governor Young. There is only one solution of the difficulty and that is to take the non-par bank off the par list. It is growing very rapidly in our district. There is a great deal of dissatisfaction on the part of the member banks because now the non-member banks can charge you and the member banks cannot. It is growing; it is going to spread, and I think it is the system policy.

The Chairman. What do you recommend, Governor Wellborn?

Governor Wellborn. I would recommend that we put the non-member par remitting banks on the same basis with the member banks.

The Chairman. To make them remit in available funds.

Governor Young. You cannot do it.

Governor McDougal. This matter has been discussed and has been disposed of at previous conferences, the policy adopted being that non-member banks would have to remit in acceptable funds.

Governor Young. The question is what acceptable funds means.

Governor Seay. That question cannot be reasonably answered except in one way. Isn't it discriminatory and unfair to require the member banks to pay cash letters in immediately available funds? It is positively not discriminatory. The collections which we make on non-member banks are wholly for the benefit of our member banks. Whatever benefit there is, and it is very great, accrues to the member banks. We simply do the best we can with the non-member banks, and we do it in the interest of our member banks.

Governor Calkins. What is more, no general rule that we can adopt here as a System matter will prevent the application of discretion at the place where discretion is called for. Governor Young and everyone else here will do what he thinks best at the moment. Isn't that correct, Governor Young?

Governor Young. I told you three or four years ago what I was going to do. Whether it is doing the System any harm or not, now it is the time to speak about it. I am getting rid of it. I am not anxious to collect checks that you cannot collect.

Governor Wellborn. We have been under the impression there was a uniform policy. Of course if the Conference takes the view that it is a matter for each bank to determine for itself, that will be entirely agreeable to us.

Governor Seay. Not with respect to the member banks. It is not a matter left with the discretion there. We require immediately available funds from them?

Governor Wellborn. I mean with reference to the non-member banks.

The Chairman. Do you wish any action on this?

Governor Wellborn. I simply wanted an expression on it.

The Chairman. Is the situation clear enough?

Mr. Wellborn. It is clear enough if we can go ahead and do like some of the other banks. I did not know that they did that.

Governor Young. I did not know that there was ever any agreement here that we should accept nothing but available exchange.

The Chairman. If no action is desired we will consider the topic despatched. The next proposition on the program is discount rates, Topic 1-B. Shall we have a discussion of the discount rates before meeting with the Board?

Governor Seay. I move that we have a brief, informal discussion.

The Chairman. Is there any sentiment in any reserve District that there should be any change in discount rates at this time?

I. Credit Transactions and Policies

B. Discount rates.

Governor Wellborn. Our Board has considered that. It seems that all of our rates are lower than the market rates in the centers. We realize that there is a change coming in business affairs and I am inclined to think that we ought to raise our rates a little.

The Chairman. Then your market rates will go up. Money market rates are always going up above the discount rates at the Reserve Banks.

Governor Wellborn. It was always supposed that our rate should be equal to or above the market rate.

The Chairman. They never have been except under very unusual circumstances, with a great surplus of money to loan on the Stock Exchange.

Governor Wellborn. I have no authority from my Board. I would like to see our rate up to 4-1/4 and later on to 4-1/2. But I would not want to do it or ask for it unless the other banks were going to do it.

The Chairman. Are there any other banks considering it?

Governor Young. There is no necessity for it in our District.

Governor Harding. Our idea in Boston is that our rate would be related to the market rate in a way. We do not try to keep our rate above current rates for loans, but we do try to keep our rate above the going rate for bankers' acceptances.

Governor Seay. My feeling is that any change in the discount rate at the present time would be harmful.

If we lower the rate in the present state of hesitancy it would seem to me to amount to an admission that there was need for stimulation. If it was raised I think there would be some tednency to accept it as an admonition which is not needed at the present time. I believe, unless there is some urgent need, that any change in rate would be harmful.

The Chairman. Isn't it generally felt at the different Reserve Banks that the developments of the last few months have created a little hesitation in business? I thought when we discussed that the other day that the expression was that it was pretty generally felt. Those are not very conditions under which to raise discount rates. While there isn't any voting to be done on this subject, are there any other views to express?

Governor Biggs. What possible excuse could there be for any bank wanting to raise its rates now, unless there is a demand in the district?

Governor Wellborn. Our discounts have increased from 19 million a year ago to 45 million.

Governor Biggs. But isn't that seasonal?

Governor Wellborn. No, just as compared with last year. March 1, 1925, there were 19 million. When I came up they were up to 45 million but they have gone down five million since I came here.

The Chairman. Is that the Florida real estate speculation doing that?

Governor Wellborn. No, I don't think so. They have changed the custom down there of the fertilizer being sold on credit. Heretofore fertilizer has been sold on credit to the merchants and dealers but now the fertilizer companies sell for cash strictly. The banks have to furnish the money for the customers to pay cash for the fertilizer. That is one way in which our borrowings have increased.

The Chairman. You are loaning money down there to the fertilizer people instead of to the banks. You are loaning it to the A. I. C. and other companies?

Governor Wellborn. We advance money to the banks to enable their customers to pay cash for the fertilizer.

The Chairman. Formerly the fertilizer companies borrowed money in New York.

Governor Seay. The cash differential is so much now that the farmer cannot afford not to take advantage of it.

He borrows from his bank. The Reserve Bank down in our part of the country lends money to the country banks for the purpose of taking care of that.

The Chairman. Under the old method of selling fertilizer it used to run a year to eighteen months before the accounts were cleaned up. Is there anything further? If not I believe we had better notify Governor Crissinger that we are through and at the disposal of the Board. We have two other things, the meeting with the Board and the committee matter on non-cash collections.

(Whereupon the Conference of Governors went into session with the Federal Reserve Board.)

J O I N T C O N F E R E N C E

of the

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

PRESENT: Governor Crissinger (Presiding), Vice-Governor Platt, Mr. Hamlin, Mr. Miller, Mr. James and Mr. Cunningham of the Federal Reserve Board.

PRESENT ALSO: The Governors of the Reserve Banks.

Governor Crissinger. Are the Governors ready to report, Mr. Strong?

Governor Strong. What part of this program did the Board wish to take up?

Governor Crissinger. We thought we would like to call upon each of the Governors, or have somebody state the conclusion of the Governors, as to the condition of things in the country and what ought to be our policy.

Governor Strong. We have had very little discussion of that, Governor Crissinger.

Governor Crissinger. I think that is the most important thing on the program from th standpoint of the Board.

Governor Strong, The report of the open market committee was submitted to the Board by the committee in advance of this meeting. It was considered by the Board and discussed at our meeting, and the discussion was just about of the same character as was held with the Board by the op en market committee. No action was taken beyond approval of the report.

Governor Crissinger. It is one of the things we thought would come up under this heading, whether the Conference had considered the country as a whole as to the business situation. Did you do that?

Governor Strong. Heretofore we have always reserved that discussion for the Joint Meeting of the Board. The only discussion that has taken place was incidental to a brief discussion of the question of discount rates and the discussion of the report of the open market committee. With only one exception, I think, all the Governors reported that there was no sentiment in the different Reserve Banks in favor of changing the discount rate at the Reserve Banks. They did report something of a change of sentiment in the business outlook, some hesitation, a little bit of doubt as to the future of business. That in a few words summarizes the impression from the discussions that I obtained.

Governor Crissinger. Are there any members of the Board who want to talk about that?

Mr. James. With one exception the sentiment was uniform as to no change in rates?

Governor Strong. Yes, no change.

Mr. James. Would you mind telling us who the exception was?

Governor Strong. Governor Wellborn thought — he is here to speak for himself. I do not want to paraphrase what you said, Mr. Wellborn.

Governor Wellborn. I stated that our board had not discussed the matter. We have not discussed it in six or seven months, but I am inclined to think that now would be a very good time to raise the rates a little. Personally I would be in favor of it. Our experience in the past about raising the rates rapidly, running them up pretty quickly in that way, showed that it had a rather bad effect. At a time like this, when we see that a change is coming over business affairs, with possibly borrowings increasing at the banks, that we should consider raising the rates a little. I would personally be in favor of it and I would try to impress that view upon my board. I might say that my board as a rule has always been in favor of low rates and I have differed with them in times past. They are uniformly in favor of maintaining low rates. I thought perhaps we should raise the rate a quarter, to 4-1/4, and then later on raise it to 4-1/2.

Governor Crissinger. Why would you want to raise it down there?

Governor Wellborn. Well, I notice the rediscount offerings are increasing in our bank. A year ago at this time they were 19 million dollars and now they are 45 millions. That is not a seasonal increase.

Mr. James. Is there any evidence that any of your increased borrowing may possibly be traced to the reduction in deposits in Florida?

Governor Wellborn. I have been trying to figure that out, Mr. James but I cannot see much evidence of it. It is true that deposits of the Florida banks are declining, but they have very large balances with New York City banks and they are drawing on them to meet their demands. I think a good deal of our increase is coming from the fertilizer demand. Up to a year ago all fertilizer in our section was sold om credit to the dealers, but now they are selling for cash.

Mr. James. That looks like a pretty good reason.

Governor Wellborn. The banks have to furnish money to their customers, and they come to us and borrow.

Governor Crissinger. Do you think your rate ought to be raised?

Governor Wellborn. Not necessarily on that basis, no, I do not think so; but I notice there is an increase in the borrowings from the New Orleans bank and I do not think that is connected with the fertilizer proposition. They have been borrowing pretty heavily recently.

Governor Seay. I would like to ask Governor Wellborn, when he refers to the change in business affairs, whether he means greater activity or a slowing down?

Governor Wellborn. I think there is a slowing down; I think the tendency is along that line.

Governor Crissinger. Why raise the rate if there is a slowing down?

Governor Wellborn. Well, I think that the deposits are going to decline; I think business operations are going to be curtailed considerably this year and when that time comes that deposits are idle, then the banks will have to borrow pretty heavily.

Governor Crissinger. Has anyone else anything to offer on this subject? Any member of the Board?

Governor Wellborn. I did not mention, Governor, that all of our rates are below the market rates everywhere, New York, Boston, Philadelphia and Chicago. Our discount rates are below the going rates at the present time.

Vice-Governor Platt. I would like to say a word about rates. It seems to me that the rates at the Federal Reserve Banks, outside of the financial centers, are all too low and have been for a good while. I believe they ought to be run with at least some consideration to profit. The western Reserve Banks, outside of the centers, are practically correspondent banks. They are Reserve Banks only in the sense that they carry reserve. There is no reason why their rates should be way below the market rate. It doesn't make much difference to the average borrower whether the rate is four or five per cent. He will pay it just the same. The Federal Reserve Bank itself makes less money and has to put money into New York City to make it up, buying open market paper. I believe the Federal Reserve System should be run not for the purpose of forcing the money into New York, which New York doesn't ask for, or isn't asking for, but for the purpose of supporting itself as much as possible in the districts themselves. I think the rates ought to be established with some reference to that. The Federal Reserve Banks outside of the financial centers have no real connection, or very little connection, with or influence on business. It is the financial center rates that influence speculation and business, generally speaking. Most of the borrowers in the other districts pay anywhere from six to ten to twelve per cent, so narrowing the spread would not make the slightest difference, but it would make a difference in the earnings of the banks and would make a difference in the amount of money that they put into New York to buy open market paper.

Governor Crissinger. Any other remarks on this subject? It is a big subject.

Mr. James. In line with what Mr. Platt has just said, it occurs to me that there is a question there, perhaps. To what extent does the raise of rate in one district have a tendency to throw business into another district where the rate is lower? I recall that when the rate was, I think, a half per cent lower in Cleveland than it was in St. Louis, the bankers from Kentucky protested more or less vigorously because they were on a line east, I will say, of Frankfort, whereas the bankers on the other side were more favorably treated through their relationship with the Cleveland Bank, and that had a tendency to throw business that would ordinarily go to Louisville into Cincinnati. I don't know that there was anything very serious about it, but it was enough to cause comment.

Vice-Governor Platt. It increased the borrowings in Cincinnati.

Mr. James. In other words, the bankers in Kentucky along the line, we will say, between the two districts borrowed from their correspondent banks in Cincinnati, because there was a more favorable Federal Reserve rate in effect in that district than there was in the St. Louis district. As a matter of fact I don't know that it made very much difference. I should think from a practical standpoint that it would be most desirable, particularly at this time, to maintain practically the same rate in all the districts.

Vice-Governor Platt. I do not think that is the consideration that we ought to give the most thought to.

Mr. James. I agree with you that it is desirable to give no thought to the political set up, but circumstances just now make it absolutely impossible to entirely ignore the political sentiment. It has a tremendous bearing on business affairs, there is no question about that. There is a whole lot of psychology back of business activity. If the state of mind of the public becomes fixed on the idea that we are to have a recession in trade, we are pretty apt to have it. On the other hand, if the public generally begins to have a feeling of confidence or maintains a feeling of confidence, then you are liable to have good business. That is all there is to that.

Governor Talley. The volume of borrowings in our experience is more sensitive to the rate than one might think, in a district like ours. I recall when the rate started downward generally, when the rediscount rates were reduced downward generally, that we did not move our rate down to four per cent, I think I am correct in saying, until after New York had reduced its rate to 3-1/2. Then we moved our rate down to 4 and there was a very noticeable tendency for borrowings to leave us at that time. In presenting our matter to the Board I stated that I thought a reduction in our rate from 4-1/2 per cent at that time to 4 per cent would probably be the cause of increasing our rediscount, and that followed.. Our rediscount went up something like ten million dollars within just a few weeks after we lowered our rate to 4 per cent. I have been inclined to agree substantially with what Mr. Platt has said. We have thought down there that a 4-1/2 per cent rate was sufficiently low and that it should be perhaps the minimum rate for the Bank of Dallas. But that situation arose when the differential between the Eastern rate and our rate got as wide as one per cent, and the larger banks in our district just paid us off and borrowed money in other markets. After we changed our rate the rediscounts increased, particularly from that group of banks.

Vice-Governor Platt. I think that is something you have got to take into consideration. You are charging a little more than the traffic will bear when there is a difference of one per cent. A half of one per cent, however, will not do it.

Governor Talley. I think that is probably true. They will be inclined to borrow from us on a slight differential on account of the proximity of the bank.

Governor Crissinger. Ought it to be the policy of the Federal Reserve Banks to charge all that the traffic will bear?

Governor Talley. I do not think that that should be a principle, no.

Mr. Miller. To what extent have the Reserve Banks, particularly outside of the big centers, experienced any effect, if not necessarily in an actual reduction of volume of their rediscounts, a reduction of rediscount demand, when the System is putting money into the open market through the purchases for special investment account? Is that question clear?

Governor Crissinger. It is not to me, Mr. Miller.

Mr. Miller. Suppose we should decide that we would put $250,000,000 into the open market by having the open market committee purchase short governments, would you experience any effect in Minneapolis, Governor Young, or in Kansas City, Governor Bailey, or in Dallas, Governor Talley? Would it reduce, do you think, your rediscounts? We know that it has that effect very conspicuously in New

York, especially in a period when there isn't any active demand for money there. It has visible effects in Boston and Philadelphia, and also in Cleveland, has it not, Governor Fancher?

Governor Fancher. Some, yes.

Mr. Miller. And in Chicago. Does it get out there?

Governor Young. At the present time, so far as Minneapolis is concerned, we only have approximately two or three millions, and I cannot say that we would notice any effect at all. Back in 1920 or 1921 if $250,000,000 had been put into the open market in New York I think we would have felt it.

Mr. Miller. You would feel it when your banks were borrowing -- if a good deal of money was put into the open market do you think it would reduce your discount?

Governor Young. Yes. I think the difficulty with our banks in the Western states in 1920 and '21 was not the money they loaned but it was the amount of deposits that they lost. When you have Government bonds on a 5 per cent basis it is quite an inducement to the depositor to draw his money out of the bank and put it into Government bonds. That causes a reduction in deposits in the bank and forces the bank to borrow. It takes them some time to collect and adjustment themselves. Putting $250,-000,000 in the open market in Govern bonds would raise the price and reduce the yield, since there would not be quite the inducement for the depositor to invest. It is really an indirect reduction. We saw a great deal of that in 1920 and '21.

Mr. Miller. I would like to go a little further with that question. If there was a considerable increase in the open market holdings of the Federal Reserve bank's investment account, do you think it would have an effect upon your rediscount, Governor Harding?

Governor Harding. Yes, I think it would.

Mr. Miller. How about Philadelphia?

Governor Norris. A very slight effect, I would say.

Mr. Miller. I will ask Governor Harding why he thinks it would.

Governor Harding. The New England banks are pretty large holders of Government bonds. If the System should put $250,000,000 into Government bonds it would tend to raise the price of Government bonds and a good many of the banks would be disposed to sell and take their profit.

That would naturally be so. They don't owe us much money now. We have only got about $15,000,000 of rediscounts from the banks in the district and they would clean that up, undoubtedly.

Mr. James. I wonder if that would apply to all the districts?

Governor Harding. I do not know, but the Boston District is essentially a bondholding district. They have all got bonds.

Mr. James. Your district is different from some of the others. I have in mind that perhaps the banks that are borrowing in the Minneapolis district, the Dallas district and the St. Louis district are at the present time banks that would not have very many Government bonds. As a matter of fact a good deal of the money that is loaned is to banks that haven't facilities for borrowing anywhere except at the Federal Reserve Bank, due to one circumstance or another. If you take out of the System's rediscount loans on collateral other than Government, compared with those loans which are loans to banks that are sometimes in an extended condition, you wouldn't have an awful lot of money loaned in the districts, would you; that is to say, those districts that we are referring to now?

Governor Young. Practically nothing in Minneapolis.

Mr. James. And it would be very near the same thing in Dallas, would it not?

Governor Talley. Yes.

Governor Young. Except some temporary borrowing from the Twin City banks.

Mr. James. Oh, that is a different thing.

Governor Fancher. I think there are two reasons that affect districts that are adjacent to the New York district where the open market operations are largely conducted. If you purchase $250,000,000 worth of securities many of those would be owned by banks of the Cleveland district, and as Governor Hardintg has said, that would have the effect of stimulating the price and many more securities would be sold, by reason of the purchase of that amount in the open market, and we would detect the effect of it to some extent.

Mr. Miller. Governor Fancher, suppose a policy of that kind were initiated when the security markets, we will say, were rather unresponsive, when there wasn't very much inclination to take the money for speculative purposes, and what is going to become of the money that we put into the market? It is put in in New York, because that is of course the central money market of the country. What becomes of it when the security market does not want it? Would it have any effect upon your rediscount demands at home by reason of the fact that there is a larger amount of money in the central money market of the country?

Governor Fancher. I would think, Dr. Miller, that if we had some of our member banks that were borrowing, banks which owned their securities, I think there would be an effect that we would be checked.

Mr. Miller. Have you any idea how that effect, so to speak, could be transported into your balliwick?

Governor Fancher. I do not know that we could tell the particular transaction, but I think an easier situation in New York is reflected in a general sort of way back into the adjacent districts. An easy money condition has its effect.

Mr. Miller. Some of that money that is put in would percolate through to your District?

Governor Fancher. Gravitate out to our District, yes.

Mr. Miller. Some of it would find its way into the hands of banks that are in your debt, and their discounts would be paid off?

Mr. Fancher. Yes.

Mr. Miller. Now I would like to ask whether the Governors of the more agricultural districts think that they would feel any of that effect?

Governor Talley. I think this would be true: We can only measure it through our transactions with the larger banks. During the tax paying period some of our larger banks paid us off. I haven't followed it sufficiently far to see whether temporary ease in money had anything to do with the circumstances. On the other hand I could readily see that if a substantial amount of money was put into the open market that greater activity in commercial paper would arise and then the borrowers from our banks for their current needs, would let their paper run off and go to the market for their money, sell their paper in the market. Another thing that might be observed would be the fact that when money is thrown into the open market or, rather, put in the open market, the daily telegrams nearly always state for the next few days that bills are scarce; rates show a tendency to fall and then our larger banks, who have a substantial amount of bankers' acceptances in their portfolios, tend to let those run off to put them in an easier condition. It is true in connection with a large member bank, which is a large dealer in Government securities, which carries some ten or twelve million dollars in Government securities all the time, that that bank is in and out with us borrowing on Government securities for two, three, four or five days at a time, and I would see how it would affect that bank's transactions directly.

Mr. Miller. Governor Norris, you say it would have no effect upon your local rediscount situation?

Governor Norris. It would affect it very slightly.

Mr. Miller. What do you say as to these circumstances that have been presented by Mr. Fancher and Mr. Talley?

Governor Norris. Of course we constantly try to analyze the banks that are borrowing from us. Out of our 755 member banks but 370 are borrowing at the present time, 18 or 20 in the city of Philadelphia, and all the rest in the country. Now why are they borrowing? Take the city banks first. I regret to say that there are one or two chronics among them, but the rest are in and out from day to day just adjusting their reserve balances. There are a few who are borrowing because the bulk of their customers are in some trade which requires an unusual amount of money at this time. Of course at other seasons of the year there are other banks borrowing for trades that are in the same position, so that there are always a certain number of the city banks borrowing from us owing to seasonal conditions. Take the great bulk of the 320 or 330 out-of-town banks that are borrowing from us, and a lot of them are in the tobacco section around Lancaster, where they have been unable to sell their tobacco for a year or two at satisfactory prices, and they have had some other local troubles up there, largely growing out of that situation. Of course as the result of the anthracite strike a great many of the banks in that section are borrowing from us. Last year there was an enormous pack of tomatoes which could not be marketed so that a number of banks in the States of New Jersey and Delaware are borrowing, either the growers of the tomatoes or the canners. But those are all local conditions, they are all relatively unimportant and I only mention them to illustrate the fact that our borrowings are determined by local conditions. Now, if the System did anything that had the effect of making striking or sensational advance in the price of Government securities, a number of the banks would be attracted to them and would sell their bonds. It would bring more money into the District and indirectly we would no doubt feel some results from it. But if a transaction was effected that only had a slight effect on the price, that changed the interest base of the security from 3.70 to 3.60, that would only affect a few of the large banks in Philadelphia who, almost certainly, would not be borrowing from us.

Mr. Miller. Let me ask you about this phase of it: Do the New York banks compete for business in your district?

Governor Norris. They are constantly seeking accounts with Philadelphia banks. They do not, so far as I know, compete to any extent for the individual business.

Mr. Miller. They do not loan money to many manufacturers in your district?

Governor Strong. Oh, yes, they do.

Mr. Miller. I wanted it from Governor Norris.

Governor Norris. Of course I have no way of knowing to what extent.

Mr. Miller. The answer to the question is predicated on the assumption that money that was borrowed in your district was borrowed from Philadelphia banks. I understood your answer to the main question was that the putting in of a considerable volume of money into the market in New York would not affect the situation in your district.

Governor Norris. Affect it very slightly. That is, affect our discounts. That is the way I understood your question.

Mr. Miller. Affect your discounts if you had any considerable discounts.

Governor Norris. Yes.

Mr. Miller. A good many of the banks will obviously, when there isn't an active demand for securities, either go out and seek business through lowering of the rates to their customers on commercial paper, or buying securities. I can see it is clear, in the event they buy securities, that it might have an effect in tempting banks elsewhere to buy securities. But suppose the commercial rate goes down, what does that do to you?

Governor Norris. If the commercial rate goes down the borrowers get lower rates from their banks.

Mr. Miller. I ask this as a question, although I haven't any definite impression upon it, but are there mercantile or manufacturing concerns that will sometimes sell their paper through brokers in the open market, and at other times, when there is not a sufficient differential, borrow as customers from their bank, which is also called line of credit loans. Suppose you have borrowers of that kind in your District? I will just take for a suppositious case the Baldwin Locomotive Works, one of the big enterprises, and suppose they are borrowing heavily from a Philadelphia Bank; suppose, and whether they do this or not I do not know, but I am just assuming, that the commercial paper market is sufficiently attractive, by reason of the fact that money is very easy in New York, that they place some of their borrowings in the commercial paper market, take up their loans at the Philadelphia National Bank, and if the Philadelphia

National Bank is in your debt they will reduce, will they not, in all probability?

Governor Norris. Yes, but they very seldom are.

Mr. Miller. They seldomare in your debt. What will they do with their reserve balance?

Governor Norris. They would probably either buy something or put it out on the street in New York.

Mr. Miller. But assume that the Street is not active?

Governor Norris. If they could not do anything better they would probably buy bankers' bills.

Mr. Miller. They would buy bankers' bills, which would run the rate down on bankers' bills, and they would buy commercial paper, perhaps?

Governor Norris. They might, but the banks that are borrowing from us, most of them, haven't any bought paper, so that their borrowings from us are to take care of their own customers.

Mr. Miller. If they are on your rediscount ledger they will take down their rediscounts, that much is clear.

Governor Norris. If they sell something?

Mr. Miller. Yes.

Governor Norris. Yes, certainly.

Mr. Miller. If they have rediscounts with you, down will go their rediscounts. If not, the competition to get business of some kind will be increased, and affect the commercial rates in your District, if there is a good commercial market, or possibly might go to the length of influencing the rates to so-called competitive customers. Now the reason I ask the question is: I am interested in getting information, by way of experience, and it has rather occurred to me lately from time to time the question of the extent to which the open market operations may become afactor in the actual relationship between the Reserve Bank and the member banks of the District, whether or not the open market operations, either on the purchase side or the selling side, tend to put the member banks out of or into the borrowing column from causes that originate, so to speak, outside the District.

Governor Norris. If I have not already done so, may I make it plain that in my original answer of "very slight" to your question, I understood your question to be, and I believe I am correct, "What effect would it have on the volume of our rediscounts?" I never for an instant meant to say that it would not have any effect in restraint of other operations. I was speaking solely of its effect on our rediscounts.

Mr. Miller. I was trying to concentrate the effect it would have on the rediscounts at the time, assuming that there were rediscounts, and I had partly in mind the interior banks that usually have considerable volume of rediscounts. Would there be, especially on the part of the interior banks in the agricultural sections, any effect? Putting it in this form: At a time when the security markets are ineffective and when therefore you cannot tempt the speculative appetite with money at a low rate, and when, therefore, any money that is put into the open market is going to go either unemployed or takes effect in stimulating competition for business outside of the big centers, if at such time you have considerable rediscounts, will it reduce your rediscounts?

Governor Young. Yes.

Governor Norris. My answer to that would be in the affirmative. It would reduce the rediscount.

Governor Young. I think so.

Vice Governor Platt. From your city banks?

Governor Norris. From the city banks directly, and more indirectly from the country banks.

Mr. Miller. Would that be your answer, Governor Calkins?

Governor Calkins. Speaking more or less directly to the question, it is my opinion that the effect of putting a large amount of money into the market in New York when it is inactive, as you have indicated, will unquestionably have an effect throughout the country. That effect will decrease and become attentuated in proportion to the remoteness in miles; in other words, where conditions are somewhat closely comparable to those in the centers the effect will be greatest and soonest felt and it will diminish from that point on, and eventually that condition prevails affecting rediscounts over all sections of the country outside of New York. I do not know that I have made myself clear.

Mr. Miller. Yes.

Governor Calkins. For instance, we might expect an almost immediate effect in the borrowings, if any, in San Francisco, Los Angeles and Seattle; a lesser effect and a more deferred effect in other places both as to condition and distance. I cannot see any escape from the conclusion that when the market in New York is inactive, and a large amount of money is thrown into the open market, it will have the effect of driving down the market rate for money and that, to a measurable extent, will lead country banks and remote city banks to withdraw from the market because the rate is not attractive.

Mr. Miller; Yes.

Governor Calkins. It will also lead to the sale of Government securities because the price is attractive and represents a large profit. We have in our District some heavy Government investors in the banks. Those banks would naturally be inclined to grasp an opportunity to sell out at an advance. Or, to put it the other way around would be disposed to sell because of the decreased return. Summing up once more, I think the effect of putting a large amount of money into the open market in New York, when market conditions are inactive, will be felt throughout the country, the effect decreasing with the greater remoteness in both distance and conditions, and particularly conditions.

Mr. Miller. I would like to ask this question of Governor Young first, particularly as regards the interior banks. As the operating head of the Reserve Bank, when your District is really borrowing, would you rather have them borrow from you by way of rediscounting or would you want them to borrow from the country as a whole through the open market operations?

Governor Young. I do not understand that, Mr. Miller.

Mr. Miller. Suppose a banking situation in which you have rediscounts to the extent of $20,000,000 from member banks? But in order to make it more striking, let us make it a little more artificial, and say that the most part of it comes from banks in the Twin Cities, the big banks. Now then, by reason of the fact that open market purchases are made in New York, this 20 million in rediscounts would be taken up, and many of the banks, so to speak would be out of your bank, and is that a question that interests you from the point of view of control of things in your District?

Governor Young. Is it fair, Dr. Miller, to ask me to take an independent view of it? Have I not got to take a System view of it?

Mr. Miller. That is what I am trying to find out.

Governor Young. I think I have got to take a System view of it.

Mr. Miller. Let's put it this way: Do you lose control? Do you feel that you lose control locally of your situation? Have you better control of your banks that are extended, say, by reason of the fact that they are borrowing from you through rediscounts?

Governor Young. I think you always have a better control of the situation when the bank is in your debt. When the bank is not in your debt you have no control of the situation at all. I am trying to picture the case that you described developing in the Twin Cities, and I cannot picture it.

Mr. Miller. Let us assume that they have loaned extensively to their correspondent banks in Montana, and so on, and they want to ease the load by borrowing through you? I have assumed the extravagant sum of $20,000,000. Let us assume, by reason of the fact that a considerable amount of money is put into the open market that their rediscounts will be reduced from twenty million to fifteen million, or to whatever amount you want to assume. I have gone to the extreme limit of assuming that so much money percolates to your District that they are out of your bank entirely.

Governor Young. You asked me whether I would have better control of the situation. From a theoretical standpoint I would say no. From a practical standpoint I would say it would not make a bit of difference, because if the Twin City bank had loaned that much money to the banks in Montana and other places they would have plenty to worry about so that they wouldn't go any further. I do not make that statement to be facetious. I am trying to figure out just what would happen in the District itself. When they get in trouble they get awfully careful.

Mr. Miller. Then if we assume that the money could go into the market without changing the situation of these banks, they would be back borrowing five, ten or fifteen million dollars. In other words, we can put them out of your debt and put them back into your debt, and the fact that they are in would indicate no change in the situation with you, but a change in the situation of the general money market of the country.

Governor Young. Yes.

Mr. Miller. From that point of view you say that it makes no difference to you?

Governor Young. No.

Mr. Miller. Would that be a general view? Would that be your view, Mr. Bailey?

Governor Bailey. I think we would be affected. If money is cheap in New York, the big borrowers, to the detriment of our banks, will go elsewhere. They will cut the rate. The local bank does not care to meet it, and it gets away. That is the way it would percolate out to us and that is the only way I think it would percolate out.

Mr. Miller. But if your larger member banks, or many of them, paid up their debts to you by reason of the fact that more money got into your District, from your point of view, as Governor of that bank, it would not bother you one way or the other?

Governor Bailey. No, I do not think it would.

Mr. Miller. It might affect earnings, but otherwise you would not be concerned in it?

Governor Bailey. No, sir. We are not bothered when the banks are not borrowing from us. We are bothered sometimes when they are. But to get your idea, if I have followed this thing correctly, when there is a lot of money in New York, they send their men out there to loan to our bank at a rate below the current rate that our home banks are charging, which denies the local bank the privilege of loaning to its customers in Kansas City and the Kansas City territory, and the result is that the Kansas City banks have got more money than they want and they won't borrow from us.

Mr. James. Isn't a considerable difficulty caused by the fact that the larger concerns in pretty nearly each District have accounts in New York?

Governor Bailey. Yes.

Mr. James. Not only accounts for deposit, but credit arrangements through New York and Chicago and other money center banks. My experience is that they would borrow in the different districts. A very surprising thing, to me, developed on my recent trip, and that was the high rates that the banks in Los Angeles were able to obtain. In discussing it with one of the largest and best rated concerns in Los Angeles, that is the question of what he was paying for money, rates, I asked him about his operations and he stated that he borrowed very largely for his concern in the East, not only through the sale of commercial paper but through bank accounts, carrying balances, and so on, in the Eastern markets. That on occasions he borrowed from the Los Angeles Bank, in which event he paid the current rate, which was a much higher rate for Los Angeles than he would have had to pay in the East, but that he had an interest in the Los Angeles Bank, and that because of that interest he would not be willing to advocate taking a lower rate on his paper on that particular bank than the bank was making generally to its customers. Now in Memphis I found this condition, with regard to the bank with whom I did business or with which my company did business. If I wanted to make a loan with the bank he would say to me "Old man, six per cent is the very best rate; you know that; we will be glad to let you have what you want at six per cent", and if I was selling some corporation paper through the open market at that time, I have seen this sort of thing happen, that the same bank bought my paper from a broker at four and a half per cent, when I couldn't make a loan at the bank directly at less than six per cent.

Governor Bailey. I have done that many times, because if they loaned it to you at a lower rate they would have to loan it to the other fellow at a lower rate.

Mr. James. Of course he wouldn't cut the rate to a local customer. He is simply buying commercial paper, which is a different thin g.

Mr. Miller. Governor Crissinger, I would like to return to my question again, because it is a very important one, I think.

Governor Crissinger. Certainly, Mr. Miller.

Mr. Miller. From the point of view of operating control, does it make any difference to the Reserve Bank -- I will make this more specific now -- does it make any difference to the Reserve Banks that are not represented on the open market committee what the open market policy is with respect to purchases or sales, whether it is an increase or a decrease in either? Do the open market operations of the System in your judgment constitute a factor in your problem that gives rise either to a favorable or unfavorable attitude, one way or the other, under any conditions that we have ordinarily had to deal with? I take it makes no difference to you, Mr. Young, and it makes no difference to you, Mr. Bailey.

Governor Young. Let me reply in this way: At the present time, and since it has been in operation it has made no difference to our bank, but I can the time coming when it might make a difference. So far it has not.

Governor Wellborn. I think in our District it has a material effect when money is made easy in New York, because New York is in competition with our banks down there for the business of the big concerns and it affects our rediscount, I am sure.

Mr. Miller. It is admitted that it does not, from the point of view of maintaining what you would regard as good administrative control and good working relationship between your bank and, we will say, the borrowing interests of your District, affect you?

Governor Young. So far it has not.

Governor Talley. It brings about a necessity for the exercise of administrative control provided such a condition extends over some period of time. Anything that eases up or tends to ease up the city banks facilitates the country banks borrowing from them on bills payable security, and they inevitably do it.

Mr. Miller. Yes.

Governor Talley. They are moreinclined to run their loans up and consider that their line at the Federal Reserve Bank is beyond that. We have to take into consideration, and do take into consideration, the total borrowings of our member banks, regardless of the sources from which they have obtained the funds.

Mr. Miller. Do you?

Governor Talley. Yes.

Mr. Miller. Is that fair?

Governor Talley. Oh, yes. We do that. In some instances it has presented problems in view of the fact that the country member bank has assumed that, after borrowing a considerable amount of money from its correspondents, it can come to us and get more money, and we have to take into consideration the total borrowings.

Governor Bailey. We take into consideration the kind of paper put up. It not only has to be eligible but it has to be mighty good if he is borrowing a lot of money from anybody else.

Governor Talley. We go at it from a broader aspect. We consider how much money he is putting into the local community, whether the total borrowings are out of proportion to the amount of business, what the volume of business properly should be, and the capital investment.

Governor Seay. It seems to me that the injection of any considerable volume of new credit, or the withdrawal of any considerable volume of new credit anywhere must have an effect anywhere, sensibly or insensibly. What we call the open markets, or the great markets, are accessible to all parts of the country, but the different parts of the country have a varying interest in them. It is somewhat like casting a stone in the water. The disturbance is greater where the stone enters the water and the ripples diminish in intensity in proportion to the distance. Theoretically you cannot avoid the conclusion that it has some effect on the general situation, and practically also it has some effect which is felt unequally over the country according to the relations which the interior may have with the credit centers.

Governor Crissinger. Is there anything further on this subject?

Governor Strong. What Governor Wellborn has said about the change in the handling of fertilizer, is the case that illustrates the point pretty well, if I understand the inquiry. Twelve years ago I was connected with a large fertilizer company, and to do a season's business with the South we had to borrow as high as fifteen to eighteen million dollars in New York. Four or five of the big companies had a total borrowing of pretty close to a hundred million dollars in the big centers and that money was not collected back until they were beginning to handle the next year's distribution of fertilizer. In fact you couldn't say that the whole line of credit of these big companies was fully paid up inside of eighteen months from the time the stuff was delivered. Now the fertilizer companies began this year, did they not, Governor Wellborn?

Governor Wellborn. They began last year.

Governor Strong. This year the dealers have to pay cash for the fertilizer and they are offering very great inducements, in the way of price concessions, to the farmers to pay cash. The inducement therefore is for the handlers of fertilizer out in the country to borrow from their local banks in order to finance themselves. That will transfer the burden of borrowing to the local banks who will discount at the Federal Reserve Bank at Atlanta. Four or five of these big fertilizer companies may reduce their regular borrowings in New York 25 to 50 million dollars.

Governor Wellborn. Do you know why they changed their plan?

Governor Strong. I know the disasters they met.

Governor Wellborn. In 1920 and 21 they did not get paid; the notes were not paid.

Governor Strong. They are not paid yet.

Governor Crissinger. Is there anything further, Dr. Miller, with regard to your inquiry? What is the conclusion on it all?

Mr. Miller. Why, Governor, I was anxious to see whether it made any difference really to the interior reserve banks. My own thought would be, if I were a Governor, it would make a great difference to me. On the whole, when my district was borrowing, I would like to have that borrowing from my bank in preference to having it from the open market, so to speak. I think to maintain a good, effective administrative control that that would be desirable when the member banks were really in debt to the Reserve Bank. It has always seemed to me to be one of the really difficult matters in connection with an open market policy. When we operate through the open market we are a centralbank with branch stations. I confess I am immensely relieved, if the answers are to be taken at their face value, to find out that it makes no difference to you. It means that we can go ahead with more confidence in the System in operating the open market policy. But I repeat that I have always felt that the contrary was probably the fact.

Governor Young. I answered for the present, and in answering I assumed that it was none of my particular business as to how the banker ran his bank when it was not in debt to us. I have got to modify that statement a little bit. If that banker is much out of line, doing a lot of things that we know are wrong, we will probably call that man in and caution him, even if he is not in our debt. W hen he gets out on a limb he is not going to get the accommodation that he thinks he is going to get from the Federal Reserve Bank. If on the other hand, because of easy money, because of low commercial rates and low Government bond returns, by many of the bonds that have been issued in the last five years on the policy perhaps, that they wouldn't care to let good commercial paper out of their portfolios, and accumulate bonds, and assuming that they have a secondary reserve, I do not know that I am competent to criticise that banker. That is his affair.

Mr. Miller. But you are leaving out a factor that I put into it. I agree with you in what you have said, but suppose that all the conditions you have described are made still easier by reason of the fact that we decide, looking at the situation in a larger way and from a longer viewpoint, that it is desirable to put a couple of hundred millions into the open market through the purchase of securities. Does it make any difference to you then?

Governor Young. It might then.

Mr. Miller. Of course it makes a difference in the effects that you feel, but does it make any difference to you, from the point of view of the relationship of your bank to bank movements and conditions in the District?

Governor Young. It might.

Governor Calkins. My impression is that Dr. Miller is assuming that he got an answer to his last question contrary to that which, it seems to me, was made. In other words, he got the answer that the operation of the open market did not in any way affect the administrative policy of the Federal Reserve Banks. I do not think that anyone has answered it that way. It seems to me that the answer is that open market operations must inevitably affect the administrative problems of all the Federal Reserve banks in a lesser degree as conditions and distance present greater differences.

Mr. Miller. I got the impression on the whole that it does not make enough difference to have effect on an open market policy.

Governor Calkins. I think Governor Young has said that it does not yet, but that it might.

Governor Strong. The report of the open market committee was dependent somewhat upon developments in New York which had not yet been completed as the result of financing over the quarter day. Those developments have reached a stage today where it appears to me that the picture is nearer than it was a week or ten days ago. The report from New York today is that our discounts are $142,000,000. You will notice that yesterday and today, and for the last day or two, money has been 4-3/4 and 5 per cent. That has occurred notwithstanding the fact that the total Stock Exchange loan account, so far as we can gather from the reports, has been reduced by nearly four hundred million dollars, possibly quite that now. That would indicate to me, with the volume of borrowing in New York that we are still going to have pretty high rates for money. In other words, the total of the New York loan and deposit account requires the support of $142,000,000 of borrowed reserve money per month. As a matter of System policy as to discount rates and open market rates, the question is whether it is best for the country and the country's business to continue the situation in New York, where the banks are paying four per cent for that amount of money an d are trying to pay it off, as they are endeavoring to-- and if that situation is to be changed it will not be materially altered by reducing the discount rates in New York, which will cheapen what the banks have that borrow from us, there won't be as heavy a penalty and they won't be as anxious to pay off. That amount of money has got to be borrowed to keep their reserves good, in bulk, and if the time came when we felt that a general level of five per cent, possibly, or if the bulk of the money borrowed from the banks was too high, the only way you can get it down is to buy securities and put funds into the market so that the banks can pay us off.

Mr. Miller. Is there any evidence of any special reason of why they have run up their discounts?

Governor Strong. You would ordinarily expect them to come down in the face of the liquidation in the Stock Market ——

Mr. Miller. Is it loss of deposits?

Governor Strong. I haven't got the figures on the wire transfers, but I think it reflects the fact partly that there are 35 millions in Government securities that we have not repurchased. The call of Government deposits of course increases the reserve requirements. The payment yesterday of $121,000,000 looks like a great big payment, but it only increases the reserve requirements on the average of 12 millions, or about ten per cent of that, so that would not count as a very large amount in this borrowing. If the Government has accumulated a balance in the Reserve Bank, and I have no figures on that score, that would account for it also.

Vice Governor Platt. The Government balance in your bank is higher than usual.

Governor Strong. That was just in anticipation of yesterday's payments. We have 90 million to pay. There are a variety of things that might account for this. We have had an increase of 25 to 30 million dollars in the ear-marked gold in the bank. That, however, is entirely offset, and more, by gold coming in from Canada. The fact remains that after the treasury's turnover is complete the banks still owe us $142,000,000.

Vice Governor Platt. The Government turnover is not entirely completely as long as the Government balances in the New York bank and in other banks are higher than normal.

Governor Strong. They have been lower than normal. If they are higher than normal that is a very recent accumulation.

Vice Governor Platt. I noticed either the day before yesterday or yesterday that they were considerably higher.

Governor Crissinger. It seems to me that this question is the most important thing before the Conference of Governors, to determine what the policy ought to be if this rat continues to go up or stays up.

Governor Hamlin. Can't we discuss that a little better after we have heard from the Governors as to business conditions?

Governor Crissinger. Somebody said there was a little slowing up all over of business. However, it will not take very long to get that information.

Governor Harding. In the Boston District the agricultural situation, with the exception of the tobacco business, is distinctly better than it has been for some years. The Maine situation is clearing up. The banks are all out of debt. They have increased their deposits by about 50 per cent. Some of them have increased their capital stock and surplus and have cleaned house pretty well. The manufacturing situation is spotty. The mills complain of small profits and slowing demand. There has been a tendency on the part of the New England mills to fortify themselves with southern connections. You will find a great many of the larger mills have acquired rights in or absolutely own, mills in the South. The money-making mills in Massachusetts and New England are running on specialties. The mills that make the Palm Beach cloth are doing well. The Amoskeag Mills in Manchester, New Hampshire, which manufactured ginghams pretty much, have gone on rayon goods. In fact the whole tendency of the textile business seems to be towards specialties and making higher grade goods, goods which are susceptible to changes in fashions, leaving it to their Southern mills to work up the staples. The railroad situation has shown steady improvement all during the past fourteen months. That has been due to the introduction of drastic economies in operation. That situation seems to be hopeful, more so than it has been for a number of years. The Boston & Maine Railroad is about to undergo a reorganization. The New Haven Road has no large maturities to meet for some years and they are hoping to have the Government reduce the rate of interest on Government loans and provide a plan for gradual amortization of the loans. The retail business since Christmas has been disappointing. It improved a little in January, but early in February we had heavy snowstorms, one storm in Boston, followed by another a week later, and each one of those storms closed the schools for two or three days at a time and the city spent half a million dollars in making the streets passable. Southern New England has pretty well dug itself out of the snow now, but New Hampshire, Vermont and Maine, are still covered with three or four feet of snow. The maple sugar business in Vermont is late and some apprehension is felt as to whether it is going to develop at all. They are afraid that the sap may commence to rise before the wood is sufficiently clear of snow to get the buckets in, get the sap and get it transported to the refineries. The bank situation seems to be satisfactory. So far as the banks is concerned, we have no banks on our list which keep us awake at night at all.

Governor Crissinger. Mr. Miller has just been called from the room. He would like to hear these reports and has asked me to adjourn for lunch now and come back a little earlier, if agreeable to the Governors.

(Whereupon, at 12:40 o'clock p.m., the Joint Conference recessed until 2 o'clock p.m. of the same day.)

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AFTER RECESS.

The Joint Conference of the Federal Reserve Board with the Governors of the Federal Reserve Banks reconvened pursuant to recess at 2:30 o'clock p.m.

Governor Crissinger. The meeting will kindly come to order. Governor Norris, will you tell us about the general conditions and what you think about the situation, just briefly?

Governor Norris. I can tell you in a few words. There is no appreciable change in our district beyond a possible change of sentiment, which has not yet manifested itself in fact. We have had a late, cold spring, which has interfered with the retail trade and we will have to wait a few weeks to see whether that trade has simply been postponed, or whether it has gone.

Governor Crissinger. Governor Fancher.

Governor Fancher. The situation in our district is pretty much the same as stated by Governor Morris. There is just a little change sentimentally, just a little hesitancy, a little more caution, perhaps, but with many of our lines of industry the volume seems to be going along. The late spring has had some effect upon different lines. The retail people are complaining some. It has had a bearing upon the automobile industry in that the ultimate user of the car has not yet bought his new car or made his exchange. It has affected the entire industry, but generally speaking we are having a good volume of business and conditions are sound.

Governor Crissinger. Governor Seay, will you please tell us about conditions in your District?

Governor Seay. There has been no appreciable diminution of business in our section, according to such statistics as measure the volume of trade. It is keeping up very well; employment is good; but it is undeniable that there is developing a state of mind, and in connection with the Reserve Bank policy I believe it is incumbent upon us to watch very closely the situation as it develops and meet it according to the necessities of the case. I do not know any cause for worry, just because of that state of hesitancy that seems to be making headway, but you know what the sentiment is; it is uncontrollable. I think it is undeniable that people are getting into a state of mind which looks for some recession in business, without the cause being very apparent on the surface.

Governor Crissinger. Have you anything to say in addition, Governor Wellborn?

Governor Wellborn: No, except to say that the condition has not manifested itself in any material way, that is this slowing down. Factories producing building materials are slowing down a bit, probably. We notice that the Ford dealers are not sellimg their cars and there is a little decline in deposits, I think.

Governor Crissinger. What do you know about the Central West, Governor McDougal?

Governor McDougal. In the Chicago District the credit situation is satisfactory. Money is easy and the general business situation is, I think, satisfactory. I know of no evidence of slowing down in volume. In respect to the automobile business, which of course is a very important industry, it is interesting to note that the reports show that the volume of production on the part of the manufacturers shows a very substantial increase over the same period last year. I am speaking now for the last two or three months. I think the distribution to the wholesaler is keeping pace with the manufacturers' output but that the volume of sales by retailers has been slowing off and has slowed off; that there is some accumulation at that point You hear some authorities stating that that is due to bad roads and that is very often the truth at this time of the year. There is one feature of the situation out there that is causing careful consideration and, I think, some apprehension, and that is the increase in the installment plan buying, or offerings. I was told just before I left that the large Chicago banks felt a little apprehension in regard to the increasing proportion of automobile sales that were being made on these deferred payment terms. I am not sure but what the larger banks have acted in concert on that and have discussed the matter and have taken some steps to undertake to correct the situation. On the whole I think that our business situation at the present time is satisfactory. Building operations seem to indicate that we have just about reached the peak in building activities. The volume of contracts let this year is slightly in excess of those that were issued a year ago and permits, I think, are materially in excess. Yet the general impression is that we have about reached the top of that.

The labor situation is satisfactory, there being very little unemployment.

Governor Crissinger. Governor Biggs, may we hear from you?

Governor Biggs. The manufacturers are busy, running full time. The wholesalers are a little quiet, not much off, perhaps three per cent. The retailers are probably off about ten per cent as against a year ago. There are certain sections that are not in such good condition. Particularly is that true of the cotton districts, where they had a big crop in sight, and they spent some money on that basis, and only got about half of what they thought they would get. The installments proposition in Memphis, Louisville and Little Rock is simply enormous. We have just visited all these branches and made inquiry regarding conditions and find that they are buying everything from household furniture to automobiles on the installment plan. Conditions as a whole are very good. The season might be stated as normal. It is not backward and farm operations are going on through our territory as usual. We see no cause for any unrest or any uneasiness. There is just a little quietness now. Nobody seems to be excited one way or the other, but they hope business will get a little better.

Governor Crissinger. Governor Young?

Governor Young. The Minneapolis District is largely agricultural. While the situation is not perfect, it is much better than it was in '24. 1924 was better than 1923, and so on back to 1920. The cattle industry has been in a deplorable condition since 1920 and has been much better lately. The sheep man has done pretty well for the last two or three years with good prospects for this year. Business is slacking a little bit with the exception of the implement men. Their business seems to be increasing. Our situation is very much better than it has been at any time for the last seven or eight years. Many banks have closed, but those that remain I believe are in pretty good condition, well fortified with cash reserves, Government bonds, other marketable bonds, and prime commercial paper. I think our District could stand quite a large expansion of business without any borrowing from the Federal Reserve Bank to speak of. The banks at the present time owe us practically nothing, outside of the Twin Cities, and I think that is only two million dollars. The State of Montana only owes us $130,000. The bank situation I feel is pretty well cleaned up. We are going to have some more bank failures, but not as many in number or assets. The State of Montana was hit harder than any other State, I think, so far as banks are concerned, but with three banks out of the way that situation will be cleaned up entirely in Montana.

Mr. Hamlin. What about retail sales, Governor Young?

Governor Young. Not quite so good. There has been a little recession. I would like to mention the situation of the small country banker. Many of those institutions are excellent institutions, but confidence has been destroyed all through that country. It is pretty hard for them to make any money. His deposits have gone down to such a point that he cannot make money. The deposits have drifted into the larger centers, points like Fargo, Sioux Falls, Helena, Butte, and so forth. The banks in those places seem to be increasing very rapidly in deposits and the others are going down.

Vice Governor Platt. That is not a bad situation.

Governor Young. You have got to take care of the agricultural and livestock interests in some way or another. If it isn't done by the small bank it has to be done in some other way. Those people are entitled to credit.

Mr. James. Isn't he afforded credit if he carries deposits in the larger cities?

Governor Young. Yes, but I think lack of confidence has more to do with it than anything else.

Governor Talley. There are some spots in our district, notably in the drought area and what we call the south plains country, in the northwestern part of the district. There is an area of forty or fifty counties that suffered severe and continuous drought in the fall of 1924 and on up to the season last year. That has been pretty well analyzed and it is very well understood from the fact that there never was a prospect in that area for a 1925 crop. There is not much carry over of inventories or anything of that kind in that area by the retailers. It is the old settled part of the district and we do not look for anything alarming in the credit situation to come out of it. We have had a good deal of pressure on us to extend advances, but they are depending more and more on their own resources in the plains country. They undertook to discount a very favorable-appearing crop and I think it was cut short by about 60 per cent by an early freeze, on the 17th of October, and inventories in that section of the country have accumulated and are being carried over. They shipped a lot of goods in there with a prospect of this crop, which did not turn out as well as they thought.

Governor Crissinger. What section did you call that?

Governor Talley. That is the plains section in northwest Texas.

Mr. Hamlin. The cotton section?

Governor Talley. Yes, a comparatively new cotton section.

Governor Crissinger. Up around Amarillo and in that section?

Governor Talley. Southwest of Amarillo, south and southwest of Amarillo, quite an area in there. On the other hand the rest of the district has made good crops and things are all right, which largely offsets the other situation. There has been a very poor demand for cotton for the last three months but there is still quite a good deal of cotton in the hands of the exporters. There is quite a good deal of it accumulated, carried by the city banks, but that, however, is an indication that there is some hope of further liquidation, which might be attached to the previous season, which would have a tendency, as that cotton moves out from time to time, to decrease pressure for loans on the Reserve Bank.

Governor Seay. Is not a great portion of that cotton low grade cotton?

Governor Talley. I was just going to touch on that. We estimate there is some 800,000 to a million bales of that cotton that is not only very low grade, but it is very poor quality cotton. We had some fall rains that stopped the maturity of it, and up in the plains country they had that freeze, and the cotton that they got after the freeze was simply what they called snips and pulls. I had the thought in mind that along towards the middle of the summer we will likely wake up to the fact that instead of a ten million bale total crop we are going to find two or three million bales of that cotton that isn't suitable; that that cotton has not been looked at yet, it has just been accounted for in the number of bales, and for that reason there might be some improvement in the demand for good quality cotton. The exporters have done this, they have offered substantial premiums for good staple cotton, and they have sold very little of that, so that I think we will have a more favorable situation later on in the summer.

The loan account of the Federal Reserve Bank of Dallas has been very striking. In the last three or four months I think it has never exceeded, except in one instance, after the first of the year, and that just for a few days, nine million dollars. It has avereaged about seven million dollars but that has been distributed among a very large number of member banks. Day after day our maturities would cover our new loans to banks, so that there is no steady borrowing, in spite of the fact that borrowings in some sections would be earlier, or as early, than we expected this year they would be.

Governor Crissinger. Governor Calkins, what can you say about the Pacific Coast?

Governor Calkins. I think I may say that conditions in the 12th District are normal. In some parts of the district they are so normal as to be somewhat unfavorable, which, being interpreted into plain English, means that we have a slightly deficient rainfall in California, which is unfavorable. Agriculture itself throughout the district as a whole, on an average, I should say possibly is slightly under the average for this season of the year. We have some crops to deal with that are not considered in the other districts. We had quite a severe winter in the eastern section of the country, resulting in an excellent tourist crop in California, which was perhaps unusually profitable. The branch bank crop is very promising. The condition of employment is as usual, with only a slight deficiency in agricultural labor. Some apprehension in the Southern part of the State because of interference with Mexican labor crossing the line. Borrowings in what have been the distressed sections of the District are negligible. The list of borrowers is very small. The only considerable borrowings from the Federal Reserve Bank in the district are in the San Francisco section of the District. That borrowing is occasioned largely I think by seasonal movements, although it seems to be slightly in addition to the usual seasonal movements.

The installment plan buying appears to be a subject that is interesting more people, more economists, and so forth, than anything else. It appears to be one of the principal unsettling questions in the public mind. In other words, there is a very important factor, or whatever you might call it, the dimensions of which are unascertainable, so far as my experience goes. There is nothing that is now attracting such attention as the discussion in the mind of the economist as to what the volume of this installment buying is and what the consequences will be. It seems to me to be a very serious question. The automobile industry, which means sales on the Pacific Coast, seems to be very active, extremely active, probably largely because it has been falling off a little in the eastern section of the country and they have been pushing there harder than usual. Taking it altogether it appears to me that in the District there are no disturbing indications in sight that do not obtain in all the rest of the country. Finally there is a feeling on my part that conditions throughout the country are somewhat doubtful. I do not want to put it any more strongly than that. I think there is that feeling of hesitation. We do not see it in our part of the country yet, but there seems to be a feeling in other parts of the country.

Governor Crissinger. Governor Bailey?

Governor Bailey. The conditions in the Tenth District are about the same. Of course in view of the large crop that we are going to raise out there we think conditions are favorable. There is no reason that I can see why this rumour is going around, but the retail trade has fallen off, in February. We have on our Board one of the largest store owners in Oklahoma City, and he is not concerned about it. He says that is one of the things that comes. We have another man who is a wholesale drygoods man and he reports sales made and collections made. Labor is well employed. As far as we can see building activities are going on just as much over the District as they have been going on in the last two or three years. We haven't any great demand for money. Our discounts run from 15 to 20 million, up and down. The bank deposits are just about normal. They do not vary very much. There is plenty of money in the local banks to meet local demands. I would say that the prospect is good for a good business year in the Tenth District.

Governor Crissinger. How is it reflected in New York, Governor Strong?

Governor Strong. I do not think there is any great change in industrial conditions from what has been the situation for some time. There has been a slight reduction in the rate at which new building is taking place, but not very great. The reports that come in in March are not yet assembled to a point where we have got any statistical basis or any actual report to us in definite statements, but we do hear from individuals the statement definitely made that in the retail trade, the retail sales in February have been disappointing, and that they are falling off. That was partly attributed to bad weather and partly to the vagaries of the stock market and the general feeling of uncertainty. I do not think, however, that

that need be interpreted as meaning that sales are below what they were a year ago at the corresponding date so much as that the expectations of this year's business have not been realized, and that goods have been purchased which are not being sold fast enough to lead to the expectation that they will all be sold.

After all the most important development in New York has to do more with financial conditions, so far as we have actual information, and for what it may be worth, I would like to review a bit the past twelve months so as to get the whole picture in my mind.

A little over a year ago we started to sell the securities that the System owned and sold a total of 290 million in a comparatively short period. That occurred coindident with a loss of gold at that time, the net loss at that time making a total of about $175,000,000. That has since been reduced by importations, which have made the net losses now not much over a hundred million for that item. But those two things together, plus the gold that is now ear-marked in our hands, have had the effect of having the New York banks continually in our debt during this entire time for very considerable sums of money. That fluctuates seasonally and according to very special circumstances. For instance, this morning the banks in our District owe us $142,000,000. We have $55,000,000 in acceptances, a large part of which have been carried for dealers. The balance are very short bills of too short maturity to divide among the other Reserve Banks.

Now, during this time the Federal Reserve Banks of Boston, Chicago, San Francisco and Cleveland, have advanced their rate from three and a half to four per cent. We have advanced our rate from three to three and a half, and on January 8th, to 4 per cent. Those advances have been made at a time when the banks are borrowing heavily in New York. One of the consequences of that is undoubtedly to maintain interest rates at about their present level, and when there is a shortage, to run the rate up rather sharply. It is a day to day rate. At the same time steps have been taken to inform the public as to the amount of the Stock Exchange loan account, information undoubtedly of value. I think the figure finally published startled a great many people because of its size. It was somewhat larger than I expected it to be, that is the Stock Exchange report, especially so when it is considered that the amount handled by the Stock Exchange houses outside of New York, through their branches, and so on, is not included in the figure at all. Then there have been other developments, with which we have the remotest possible concern, such as the decision of the Interstate Commerce Commission not to permit the railroad consolidation to proceed because of financial reasons rather than because of the merits of the merger, and those things have undoubtedly combined to develop some feeling of discouragement, especially on the part of the money speculators, and that reflects back a bit among the business men. It just so happens that you (Governor Crissinger) were at the meeting of our directors when this matter was discussed, and I remember the statement being made then that the time had come to increase the rate in New York if this loan account did not reflect very promptly and if the banks continued heavily in our debt, but interest rates continued as they were, fairly high, and jumped up and down, and it was the opinion of the directors that it was highly desirable to reduce that loan account by buying some securities. Then at a recent meeting of the directors the matter was discussed again. Our directors are convinced that the best interests of the System are served by the method that we have pursued through a committee, in conducting this investment account, and they voted unanimously in favor, under those conditions, of increasing the amount of our holdings. I said to the directors then, as I expected to be here in a few days, that it seemed to me inadvisable to begin to do that until we were out of a period of large swings due to government financing. The figures now from the bank, today, together with the fact that money is loaning at 5-1/2 per cent on the Stock Exchange, that they have a very bad market there and undoubtedly a good deal of uneasiness developing from it, leads me to believe that that, to the extent that credit has any influence on the development of sentiment or uneasiness or distress, we have it in our power, if we want to exercise it, to ease off the situation, and I am rather inclined to think the time has come to do it. I know our directors felt that way when they voted to increase our discount rate to 4 per cent on January 8th. I recommended it, and rather urged it, believing the time had come to do it. But it was done with a distinct feeling that there was some possibility of untoward results from it, and I think it is proper to say that on the first vote of our directors the New Jersey directors were opposed to it. But I explained to them that there undoubtedly was a strong sentiment in the Federal Reserve Board that the increase to four per cent was simply the completion of a program, the preliminaries of which had all been carried out of other rate increases and things that we had been doing throughout the year, and I thought it was some to complete it; that very ardent representations had been made here on the subject by some of the Board, and I did say, with very strong feeling, that if just such conditions as these arose, the open market committee should take steps to remedy them, and if the Committee did not, we should in New York.

Now this has a bearing on the discussion this morning. I did not get the full report of it because I had to leave the room, but I judge from Dr. Miller's remarks that he was seeking to ascertain whether the operations of the committee did not have the effect of taking the control and management, or effectiveness of the operation of the Reserve Bank out of the hands of the local management and put it really in the hands of the committee whenever it went into the market to buy securities, that it would be reflected in the portfolio of the Minneapolis and St. Louis Reserve Banks, for instance. That may be so. In fact I think it is so. It is gradual, but it has its effect. But you have got to have in mind that if the Federal Reserve Bank of New York alone, just as ny other business institution, should undertake to invest in securities when they felt that the situation required it in New York, the effect would be just the same if we did it as it would be by having the committee to do it. We would much prefer to have it a system matter, a system policy worked through the committee, and not have the burden and responsibility of it all rest upon the New York Bank. All of this, Governor, leads simply to this: That the Governors of the Reserve Banks have approved and adopted a report by the committee which recommends the probable necessity for increasing this account under certain conditions, if they arise. We introduce a very simple guide, in the reports of these borrowings that we get of the New York banks, because they are an index in a way. If the borrowings in New York were one-third of what they are today I would say that there would be little, if any, occasion to increase that account; but as a matter of fact the Government yesterday disbursed 22 million dollars of their balance with us, which is felt in today's business. Then there are the thirty-odd million securities that we have to buy back, but notwithstanding these disbursements going into the market the money market is getting stronger right along; it is not getting weaker. The member banks' borrowings from us have increased, as we expected they would.

I believe I am the last one to express any views and I think I am expressing the views of all the Governors of the Reserve Banks, and the question is whether the Board will now express its views about it because we ought not to leave Washington without having a guide to our policy and, if possible, an agreement with the Board as to what we should do.

Governor Crissinger. I brought this telegram in thinking that it really raised an important question before this Conference as to what the policy of the System ought to be.

Governor Calkins. I would like to ask Governor Strong a question. I understood you to say, Governor Strong, that you felt if the open market committee determine not to put any money in the market that the New York Bank should or would? I am asking because I do not think I heard you correctly.

Governor Strong. If we are having a troublesome time in New York our directors would insist upon it, because that is our responsibility, that money market there. I don't care a button what the stocks do and I am sure that is the opinion of our board of directors, but we have to care a great deal about the reaction throughout the country of having 5-1/2 and 6 per cent money right along in New York.

Vice Governor Platt. Isn't it certain, with a declining stock market, that a lot of money will be released and that the callrate will go down within a day or two? It always has.

Governor Strong. We fool ourselves about that a little bit. The Stock Exchange loan account was reported to be three and a half billion dollars. It has declined about four hundred million. Four hundred millions reduction in deposits, which accompanies a reduction in loans, only permits the repayment of forty millions of loans at the Reserve Bank, and it would take a very widespread liquidation to effect anything like liquidation of our loan accounts. You would have to have a reduction of a billion dollars in the Stock Exchange loan account and you would have to have a panic, with failures, and that is wholly unnecessary. There isn't any occasion for that.

Vice Governor Platt. I don't think it follows that you have to have a panic or any such big reduction as that to make a substantial reduction in your loans.

Governor Strong. You cannot reduce the Stock Exchange Loan account a billion dollars without having a rather serious time, I don't believe.

Vice Governor Platt. The 5-1/2 per cent rate is something temporary. You have had a big release already of Stock Exchange loans. The rate should be considerably lower than it was in the course of a few days, because if the Stock Market doesn't take a big jump the rate is bound to go down, go off in a short time after such an occasion. It always has done so.

Governor Strong. The New York banks owe us two hundred million dollars. It may be they don't want to borrow any more from us.

Vice Governor Platt. How do they owe you that much, except on direct loans?

Governor Strong. The banks in our district owe us 142 million and the discounts and loans that we are carrying for houses on very short bills are 55 million, which is nearly 200 million, outside of our investment account.

Vice-Governor Platt. It doesn't look to me like a tremendously impressive amount, since one of your banks can borrow fifty million dollars at one lick, sometimes more.

Governor Strong. I am anxious to get an expression from the Board as to whether they are quite satisfied to let the situation ride along as it is.

Mr. Hanlin. I have followed what Governor Strong has said with great interest and I think with perfect approval. I have been fearing that this unrest will get into business and help to make a recession where we have now what I believe is only a temporary movement.

Mr. James. If you have anything to say on that subject I would like to hear it, Mr. Hamlin.

Mr. Hamlin. No, I do not believe I have. I might ask whether or not the action of the Board on yesterday has been conveyed to the Governors in regard to that report.

Governor Strong. No, we have not been advised of any action.

Governor Crissinger. It has not been conveyed yet.

Governor Strong. May I ask what it is?

Mr. Hamlin. It was approval of your recommendation as to repurchases.

Governor Strong. But we did not recommend repurchases.

Governor Crissinger. Replacements.

Mr. Hamlin. We did not discuss the other question.

Mr. Miller. The question is rather a subtle one. I would not want to express anything more than the mere reaction which I have, which would be unfavorable. My present disposition would be to say that I see nothing, from my point of view, in your operations that would require the reserve banks to assume responsibility of putting money into the market. If the members do not want to rediscount, that money is there for the member banks, if they want it, on a four per cent rediscount or also on acceptances. I would rather leave that responsibility, at the present time, where it is.

Governor Strong. I think you will find, Dr. Miller, that New York banks practically do not own a bill.

Mr. Miller. All right, but at any rate I would say that the situation in which a member bank can get practically all the money it wants at four per cent is not in any sense an urgency such as would justify us, as I see things, at the present time, in taking the leadership out of their hands and into our own, and therefore I would be indisposed at this moment, speaking for myself, to favor a policy of that kind. That does not mean that the situation might not be otherwise in a week or a month, or two or three months, but I think no man can foresee that. In that connection in my opinion there is not very much to warrant the pessimistic forecast that is going around the country for the year 1926. I expect on the whole that the year 1926 will be a good one, barring, of course, always the possibility of a contingency of some sort or a break down in Europe that would seriously interrupt the flow of our goods there and the financing of that operation. That may come at any time.

Governor Strong. It is nearer today than it has been for some time.

Mr. Miller. Yes, but whether it will actually materialize into anything is an uncertain factor about which we cannot tell. But I am inclined to think that the atmosphere will clarify itself and that when we close the books for 1926 we will find on the whole that it stacks up as a pretty good year, or will stack up asna pretty good year. So I say that while these general expectations might persist at this time, they are subject to revision on very short notice. My disposition therefore amounts to an attitude of very watchful waiting. I see nothing in the immediate duture that I think should require a change either in our open market policy or discount policy. If I were to discuss the thing hypothetically I would rather be inclined to say that I would be less in favor of a lower discount rate in New York than I would be of an enlargement in the open market purchases, but with a rated effect for a period of two months, I would say at the present time we had better stay where we are and await something that gives us a little more definite indication as to what might be necessary for the future.

Governor Strong. If you reduce the discount rate in New York you would have the yellow press of the entire country charging us with fixing our rate in New York to suit the stock market. A great many people of substantial character are saying that also.

Mr. Miller. But what would they say if we put a hundred or two hundred millions in money in the market?

Governor Strong. We would simply reduce the loan account. We wouldn't put a dollar into the market.

Mr. Miller. What you would accomplish would be to cheapen credit a little.

Governor Strong. That is probably a thing that is going to be necessary sooner or later.

Mr. James. The cheapening of credit can be accomplished through the reduction of the discount rate.

Mr. Miller. I think just as effectively, probably more so.

Governor Strong. That would not affect the market rates, not a bit.

Mr. Miller. A reduction in the discounts would not affect it?

Governor Strong. It would have to go down to two per cent or something like that.

Mr. Miller. Why would an increase in the open market investment effect a reduction in the rate to borrowers?

Governor Strong. Because the banks would not be borrowing from us. It would be more of a borrower's market than a lender's market.

Mr. Miller. There would be no more money in the market.

Governor Strong. No, but when a bank gets out of debt every time it gets a surplus it puts out that money.

Mr. Miller. But it gets its surplus from you?

Governor Strong. Yes.

Mr. Miller. You put it in the market and it comes around to the bank and takes the money out through rediscounting.

Governor Strong. Experience discloses clearly that when the banks get out of debt it eases money. If there is one thing that we have learned from our open market operations I think it is that.

Mr. Miller. It eases money to the banks but it doesn't ease it to the community, I think. But I think if you put 200 millions into the market and 200 millions is taken down from your rediscount, you simply change the channel through which that money is gotten out of the Reserve Banks and there is no more money in the market as a consequence of that particular operation, I think.

Governor Strong. I think the facts are quite the contrary to that, Dr. Miller.

Mr. Miller. I don't see how there could be any more and there would be more money if you put out gold certificates instead of Federal Reserve notes.

Governor Strong. Wait until I get the chart. It shows the relation. We have had the charts attached to the open market committee reports, and they tell the story. The picture, commencing in about January and February, 1925, shows the changed results from the sales of securities, I think is unmistakable.

Mr. Miller. You mean that the rates went down?

Governor Strong. The rates went up after we sold securities and have been going up ever since. They went down when we bought them, but they started to go down long before the New York bank started.

Mr. Miller. When were you buying?

Governor Strong. We started in November and December of 1923. I am sorry I haven't that chart here. We bought a few securities in 1923, but our purchases really began January, February and March of 1924, and the member banks' borrowings declined and the money rate declined. There was the usual increase of borrowing at the end of 1924. Then we began to sell our securities and our discount rate went up, and the whole level of money rates went up, rising right along, as shown here.

Mr. Miller. You say that the money rates went down in 1924 because we bought securities?

Governor Strong. I say they went down for two reasons, Dr. Miller: One, the fact that we were importing gold, which alone would not have done it, but the importation of gold was supplemented by our purchases of securities at a rate which was fast enough to put the New York banks out of our debt six months or a year before they would have gotten out of debt if we had simply had the gold movement alone.

Mr. Miller. There is no doubt about that.

Governor Strong. And the purchase of securities, which was accelerated on a very large scale, not only had a great influence upon the money rates but more influence upon general business, because it certainly precipitated foreign borrowing.

Mr. Goldenweiser. Here is the production chart (indicating). Right at the turn there was a sharp decline in 1924 and an advance in the latter part of the year; in 1925 there was the same sort of decline, not quite so sharp, and a rise toward the end of the year (indicating on chart).

Mr. Miller. In other words they had the gold imports in 1924 and we were also buying securities; we were doing it in a period of very marked business recession, the demand for money was slack for new trade. One of the best crops we had ever raised was coming on. We had an accelerated or exaggerated movement.

Governor Strong. I do not agree with you as to cause and effect. I think we were going into a serious period of decline of business, production and trade.

Mr; Miller. That is one reason why the rates went down.

Governor Strong. I think the cause of the decline in business was partly the fact that there was a general liquidation going on throughout the country in order to pay off debts, 800 millions of which was due at the Reserve Bank by the member banks, and this purchase of securities and the importation of gold avoided the necessity of the continuance of that liquidation for a much longer period. If we had not purchased securities and had not imported gold we might have had a longer period of liquidation and a very sharp reduction of prices. There is a curious similarity between the condition today and the condition that existed in the fall of 1923 and the spring of 1924. The banks at that time owed us about 800 million dollars, just as they do now. The interest level was a shade higher then than now, not much. We got the same kind of reports at our meeting in New York in 1923. I had just returned from quite an absence and found them feeling uneasy about the outlook. Governor Harding reported quite a recession in the textile business in New England. I remember the factory report and the automobile business report. The fellows out in Ohio were getting uneasy and uncomfortable. We also had reports — I forget the detail of them — from various parts of the country that business was not going as well as it might. The steel operations were having quite a set-back. It was a debt paying period, and with five, five and a half and six per cent money and 800 million dollars owing the Reserve Banks, and we decided that the way to arrest it was to liquidate the loan account at the Reserve Bank by buying securities. I think it was eminently successful and it certainly helped our foreign trade. The similarity in conditions leads me to think that we might be going into a similar period, the cause of it not being the same, by which I mean I think the foreign situation might have an influence and various other matters. But here we are in Washington. These matters have been studied repeatedly and discussed repeatedly, the reports are here and are regularly studied, and I would like to leave, and I am sure the other Governors would, with a definite feeling that the Board is willing to go ahead with the program of enlarging the investment account, or that it definitely disapproves of it. We will not meet again for six months, when we will all be here together.

Mr. Miller. That is why we have committees, so that they can meet oftener.

Govenor Strong. Yes. I feel a little personal interest in it because I am going away myself very shortly.

Governor Harding. The New York banks have very properly, I think, decided that they would not do all this lending on call for the interior correspondents without some compensation. I think they have recently passed a rule that they would charge five per cent of the proceeds for their services. In view of the fact that these total borrowings are published, and the market is declining, it is possible that some of the country banks haven't the same incentive to send the money on call to New York that they formerly had. I know on the part of some of the Boston city banks that there is a little feeling of uneasiness as long as they are in debt to the Reserve Bank, because when they are they have a feeling that they had better not do anything about call loans. I agree with Governor Strong that when the bank is out of debt entirely that it takes a more liberal view of its customers' demands in general and particularly the stock market demand, than when it is borrowing itself, and for that reason I think the putting of money into the market by reason of the purchase of Government obligations is a much more effective means of relieving the money market than the mere reduction in discount rates.

Governor Strong. That does not get them out of debt.

Governor Harding. I know there is a feeling on the part of the Boston Banks, not caused by any action on the part of the Boston Reserve bank itself, but some of them are afraid that if they have big loans on call, that they will find some time that they really need the money and would be met by a ruling of the Board that they could not get that money as long as they had loans on call. That feeling is quite general I think. I do not know whether it is so in New York or not.

Governor Strong. I think it exists in some quarters. I don't like to base a recommendation on a surmise. I did not intend to refer to it, and if you had not mentioned it I would not have referred to it; but what I surmise is happening in New York today is really this: That we are getting the cumulative effect of a series of acts that have penetrated the minds of the bankers throughout the country. That series consists of discount rate increases, reports of the Stock Exchange loan account, the imposition of a charge by the New York lending banks, the clearing house banks, and a decline in the stock market. I have a feeling that there are quite a few bankers in the United States who are a little uneasy lest the position is too extended and they are not as keen to lend money at any rate, abroad, no matter what the rate is.

Governor Crissinger. Mr. Cunningham, have you anything to say?

Mr. Cunningham. I have followed Governor Strong pretty closely in his explanation of the situation as he views it, but I am inclined to follow Mr. Platt's suggestion, that we not be stampeded into this matter.

Governor Strong. I do not want to stampede you.

Mr. Cunningham. Just a moment, if you please. We do not want to get stampeded. Things may right themselves in 24 or 48 hours and look altogether different. If this thing is going to continue probably we will have to have another meeting, but I think there ought to be a period of what someone has referred to here as watchful waiting in order to see what develops. We can always do what is necessary, when the time comes, to support the market, and that will probably be time enough to do it.

Governor Strong. You do not think the time has come yet?

Mr. Cunningham. No, I do not. I am basing that largely upon the report that we got from the open market committee. The open market committee a few days ago did not feel that way. Of course possibly something has happened during the day that makes them a little nervous about the situation, but I don't want to be governed entirely by what happens today. I would be inclined to follow Governor Platt's suggestion that we go a little slow, watch this thing for a while and see what the developments are.

Governor Strong. That report was prepared last Thursday a week ago, Mr. Cunningham. It was just a week between last Thursday and the day when we were going to be able to determine whether the New York banks were going to remain heavily in our debt or whether quarter day operations would result in their getting out of debt, and the change that has taken place in the week has convinced me that they are not going to get out of our debt very largely.

Mr. Cunningham. You understand, of course, that you have permission to go ahead and replace your portfolio of March 15th. That was what you asked for. You have that. You can put that money into the market. It possibly won't have much effect. By putting money into the market it seems to me you are putting it into the Reserve Bank, because it has been stated here that when you put it into the market it merely comes back in the way of reduction of rediscounts.

Governor Strong. Reduction of borrowings.

Mr. Cunningham. You are really putting that money into the Federal Reserve Banks, and we really do not feel it as a real benefit, unless there is a feeling that it will put the bank in a position to have a more liberal policy in the discounting of loans.

Governor Harding. I would like to inquire what has been theminimum call rate since the 1st of February? My recollection is that the minimum has been four and a quarter.

Governor Crissinger. There have been a few days at four per cent.

Governor Strong. But it has been up to six.

Mr. Goldenweiser. It was down to four just for a day, but was generally between 4-1/2 and 5. It has been up as high as six.

Governor Strong. It is 5-1/2 and was 4-3/4 yesterday.

Governor Seay. It is clear that the banks of the country are indebted to the Federal Reserve Banks. Particularly I should say it is true that the large banks are willing to be in debt moderately, but not continuously. They are not willing to let that indebtedness mount up. Now in the absence of new supplies of credit going into the market, there is this alternative: Either the banks remain in debt as they now are or they endeavor to get out. How will they get out? They cannot get out except by some kind of liquidation. Then suppose a new supply of credit is placed in the market, we will say by Federal Reserve purchases, that they are able to pay out. They will, as Governor Harding has said, naturally be more liberally disposed and willing to get back again to the extent that they want to. Suppose they are called on for an additional supply of credit -- I do not know whether they will or will not be so called on and I do not know when they will or will not be so called on, but they probably will not be because they are already heavily in debt ---

Mr. Miller. Would you be willing to go on record as stating that that is the attitude at the moment of the member banks of the System?

Governor Seay. I should say it is the attitude of the member banks partly, that they are willing to be in debt to a certain extent.

Mr. Miller. That they are not willing to borrow from the Reserve Bank at the four per cent rate in order to comply with the needs of their producing communities?

Governor Seay. I said that they are willing to be in debt to a certain extent, and while I believe that is true, they are not willing to have it mount up nor to be in debt continuously.

Mr. Miller. All right, let's stop right there. How do they get in debt? Let's take the existing situation. How have they gotten in debt to the Federal Reserve Banks?

Governor Seay. You mean the causes?

Mr. Miller. Yes.

Governor Seay. I take it for granted they got in debt by reason of calls from those who had the right to ask credit of them.

Mr. Miller. That is too vague.

Governor Strong. No, I think they got in debt primarily a year ago because we lost gold and sold securities and it depreciated their reserves.

Mr. Miller. That accounts for a part of it perhaps, but the expansion is much bigger than that.

Governor Strong. There has been no change in our earning assets to speak of. They run along just about level.

Mr. Miller. I am taking the banks as a whole, and not any particular bank. I am asking this question because there is always great danger, when we are speaking on things that seem to us to be rather technical, shop questions among ourselves, we may be thinking of something that has a very remote but very important bearing, and that is why I think it is worth while to ask if you are going to take the position that the bigger banks, as I stated to Governor Seay, are not or will not borrow from their Reserve banks to supply their commercial needs, then I want to find out why it is that these big banks have been in debt to their Reserve banks.

Governor Seay. I think that deposits, particularly of the New York banks, declined very heavily, did they not?

Governor Strong. Very heavily.

Governor Seay. About six months ago. That was one of the prime causes. Taking the export of gold, they made demands upon the banks for credit for the purpose of exporting the gold.

Mr. Miller. As a matter of fact the deposits in the bank increased, did they not?

Mr. Goldenweiser. For the year, yes. There was a little change.

Mr. Miller. Why would they have the reserve balance in the Reserve Banks increasing if the deposits of the member banks had not increased?

Mr. Goldenweiser. They didn't increase much until 1925.

Mr. Miller. They increased about fifty million.

Mr. Goldenweiser. For a certain part of the time.

Mr. Miller. About 50 millions.

Governor Strong. No, I think not.

Governor Seay. They are not as high as they were.

Mr. Miller. I suggest that you get the annual report on reserves and it is there stated categorically that they increased 50 million dollars. Either the figure is correct or it is incorrect. I am predicating my statement on that.

Governor Strong. Dr. Miller, as I remember, last year the reserve figures are almost identical. There was a drop throughout the year, which has been recovered towards the end of the year.

Mr. Miller; That is the case, of course, always, but I am taking as my predicate what the Board has stated officially in its annual report, and that statement is that they have increased fifty million dollars.

Governor Strong. I do not know what it is.

Mr. Miller. Fifty million increase in our reserve balances means a five hundred million increase in the deposit liabilities of the member banks. How much increase have we had in the deposits of member banks?

Mr. Goldenweiser. Take the end of the year and there is an increase here of some million and a quarter (indicating chart).

Mr. Miller. There has been an increase in deposits in 1925, and what are those deposits based on? The chart shows it pretty clearly right there (indicating) in loans and discounts. Your discounts for commercial purposes have increased how much?

Mr. Goldenwieser. Only about a hundred million for the member banks.

Mr. Miller. We have had an increase of 500 million in credits, member banks' credits, andthat is based upon 50 million increase in our reserve balances, of which one-fifth, or 100 million, represents increase in commercial borrowing. Now what does the other four hundred million represent? The whole increase is five hundred million.

Mr. Goldenweiser. I believe the large growth for the year was on loans on securities.

Mr. Miller. Exactly, that is where we come out. We had better not be overlooking that fact, I am afraid it is going to be brought up pretty soon, from the mutterings that I begin to hear around here, so that when you say that the member bank will not borrow when it sees that it is already considerably indebted to the Federal Reserve Bank; if that is a fact, and I am loath to believe it if it is a fact, it means that they will borrow in order to supply the funds to the call market, but when they reach a certain point of indebtedness to the Reserve Bank they will not borrow in order to meet the commercial demands, and that is why I say it is a very serious condition.

Governor Seay. Of course I cannot speak for any particular bank, I am not in a position to do so, but don't you think that it is the disposition of the larger and more responsible banks not to remain continuously in debt? I did not state that they would not borrow to meet commercial demands. I said there is an indisposition, particularly on the part of the stronger and better managed banks, not to remain continuously in debt.

Mr. Miller. You are more competent to speak of that than I am. I am loath to believe that the member banks of the country, particularly the bigger ones, are willing to take the position that they will borrow for the purpose of making security loans but that they will not, when they have forged their discounts up to a certain amount, go beyond that and borrow for the purpose of meeting commercial demands.

Governor Seay. I did not make that statement.

Mr. Miller. I thought your statement translated into that.

Governor Seay. I think not.

Mr. Miller. How can you avoid it?

Governor Seay. I did not make it.

Mr. Miller. You did not intend to make it, but if those facts are correct it translates into that, does it not?

Governor Seay. I did not make the statement. I deny having made it.

Mr. Miller. You cannot escape it.

Governor Strong. The banks do not like to borrow money.

Governor Seay. That is what I said, they do not like to borrow money and remain continuously in debt.

Governor Strong. If a policy is suitable for the Reserve System which would be effective in preventing that increase of 400 millions in security loans because the banks are not willing to make commercial loans, it means in effect higher rates for 30-day balances or 40-day balances on commercial borrowings in order to penalize three and a half billion of speculative borrowings.

Mr. Miller. I do not think so.

Governor Strong. How are you going to reach it?

Mr. Miller. I do not think so. I think we are in a situation now that cannot be, so to speak, unscrambled; that we are in a situation where a certain part of reserve bank credit has been used in supplying the basis for an addition to an already very considerable volume of security loans. I would say it is debatable just what the conclusion we should draw from that experience is, but it suggests to my mind one very pertinent conclusion, and that is that when a situation of that kind is in prospect, we had better throw upon the member banks the responsibility of determining how much credit they are going to put into the security market, without resorting to the Federal Reserve Bank to get it.

Governor Harding. We have one member bank in Boston that carries an average reserve balance of 25 million dollars. I do not care to be more explicit. I could give the name if necessary. It has been the custom of that bank to borrow from us for a period of only three days, and hardly for more than three days at a time, as much as ten million dollars, less than half of it reserve balance. I have noticed that that bank never goes beyond ten million. Now they pay off that ten million dollars at a time when their weekly clearing house statement doesn't show any increase in deposits, and sometimes a large drop in deposits. The inference is they either liquidate some loans or some securities or something to get out of debt. They are out of debt for probably three or four weeks or a month, and then they will come back again and borrow five million, never more than ten million, and the same process repeats itself. I think they have fixed that amount and do not extend their business when they get in debt to that extent.

Mr. Miller. When they have reached a limit of ten million do you think they would not borrow more to take care of their commercial customers?

Governor Harding. I don't know anything about that. I am stating the fact as shown by our books. If you want further demonstration I will give you the name of the bank.

Mr. Miller. No, I don't care about that.

Mr. Hamlin. Is there any indication that has come to your attention, Dr. Miller, of any member banks not borrowing to take care of their mercantile and commercial business?

Mr. Miller. There has not been since we got through with the so-called deflation period.

Governor Seay. Then there is another thing. You would have to establish that this increase in loans was brought about by those banks which are borrowers. How do we know that? That certainly is an item for consideration. It may be due to lending in excess of the reserves of those banks and they have been compelled to borrow from the Reserve bank. The borrowings of some banks may be due to a decline in deposits and the borrowings of other banks may be due possibly to an increase of their loans.

Mr. Miller. That may be true, but we get a picture of what is going on in the situation at the end of the year. That is about the only thing we can take for a safe basis to either make a diagnosis of what has taken place or what is taking place, or as a basis for policy in the future.

Governor Calkins. I have been very much interested in the discussion and I think it is somewhat instructive. But I think there is atendency for the discussion to become somewhat obscure. I am wondering if I am right in assuming that the point at issue is the question whether it is better at this time to put the money in the market through the open market committee, or let the loans of the Reserve Banks, particularly the New York bank, increase? Is that not the question?

Governor Strong. No, not from my standpoint.

Governor Calkins. What is the question?

Governor Strong. The banks in New York, directly through their acceptance accounts with us, owe us 200 million dollars. We have a constantly rising level of interest rates and some uneasiness about the business outlook. The amount of the borrowing in New York can be reduced, not by putting new money into the market, which won't increase the amount of Federal Reserve Bank funds, but by converting that discount account into an investment account, which takes the pressure off the money market —

Governor Calkins. May I ask Governor Strong another question, for my own information and not for discussion, and that is whether the sequence of events which have led to this situation at present was first with respect to the increase in the discount rates, second the publication of the amount of Street loans, third, the fact that the New York banks were charging their correspondents on these loans, and fourth, unsettlement of the market?

Governor Strong. Yes, and I would add to that the influence of some loss of gold and the sales of securities, which are commonly known.

Governor Calkins. Would you say that most of those events were in inverse order?

Governor Strong. I stated them chronologically; that is all.

Governor Calkins. It appears to me that the influence of the rate is almost negligible, that the publication of the loan account had less effect, not quite negligible; I don't know anything about what effect the charge made on the New York banks has had. It may be considerable, but temporary, I think. It seems to me the situation is almost wholly due to the New York market, which was not very greatly influenced by these other events; in other words, that they are of very minor importance.

Governor Strong. You wouldn't think so if you sat in New York for a few weeks and listened to the discussions.

Governor McDougal. Do I understand you correctly to say that interest rates generally have advanced?

Governor Strong. Yes.

Governor McDougal. We haven't noticed that. The call money rate is up but I do not think we have gone far enough to say that it has any influence on the going rate for commercial paper or counter loans in Chicago.

Governor Strong. A year ago commercial paper sold below 3 per cent.

Governor McDougal. Yes, but I am speaking of the recent rates in Chicago, of 4-1/4 to 4-1/2 on commercial paper. The counter rates have not materially changed. I do not think time loans in New York have shown any material increase.

Governor Strong. Oh yes, they have.

Governor McDougal. In the last month or so?

Governor Strong. I should say the average returns to the Bank in New York City on its investment money today is fully one-quarter of a per cent higher than it was a year ago, and there has been quite an advance in interest rates --

Governor McDougal. Over a year?

Governor Strong. Yes, it has been spread throughout the year.

Governor McDougal. In this report of the Committee I do not think there was any suggestion that the portfolio be increased at the present time. It was suggested and understood that if conditions changed and made it necessary that the committee would want to have a free hand to go ahead. It was assumed that if the contrary developed we could let some securities go. The question of increasing them at this time has not been submitted to the Committee, but I understand from Governor Strong that he thinks changed conditions during the last few days would justify an increase; is that correct?

Governor Strong. I think if you will read the Committee's report you will find that the statement is clearly made there that we expected a very short time, a matter of days or a week or two, to have it disclose itself. I think it has already.

Governor McDougal. But at the time that the report was rendered there was some thirty five million that we expected to replace, was there not?

Governor Strong. Only twelve or fifteen millions of those have been repurchased now.

Governor Wellborn. Doesn't it all mean that the Federal Reserve Bank of New York is asked to go to the relief of the stock market?

(Discussion followed which the Reporter was directed not to take.)

Governor Crissinger. If there is nothing further I am going to ask Dr. Goldenweiser to give us a statement.

Governor Strong. How is the situation left as to the Committee? Has the Board decided as to anything that shall or shall not be done?

Governor Crissinger. I would take it to be about three to three, from what I hear here.

Governor Strong. The open market committee was clearly of the opinion, judging from the discussion, that if money rates continue very high in New York it would be desirable to buy some securities.

Governor Crissinger. All the members of the Board are not present now.

Governor Strong. A great deal of damage can be done in this situation in a few days if we have high money in New York and the banks are reluctant to borrow in order to ease the money situation.

Mr. Miller. We acted upon what was being construed as a recommendation of the Committee the day before yesterday.

Governor Crissinger. We approved that you replace up to the 200 million.

Mr. Miller. Are we to understand that is a recommendation?

Governor Crissinger. There really was a statement in the report of the Committee that it might become necessary very soon to increase the account in addition to filling it out.

Governor Strong. A guide was expressed in the report, and if the report was approved in its present from and that loan account continues to work as it has, and the approval of that would imply that we should go ahead and add some security.

Mr. Miller. I suggest that you have an accurate transcript of the record so that the Governors may know exactly what the Board did.

Mr. Hamlin. We did not reach any conclusion as to the other statement that we should be prepared to go further.

Governor Crissinger. The rest of the report is not a recommendation.

Mr. James. Following our usual procedure it would be advisable for the Board at its own session to resubmit it to the meeting that was held on yesterday, thereby releasing under the usual rule the action of the Board at that meeting and making it available to the Governors as to just what was done yesterday. That would be necessary unless we abrogate the rule of not putting out anything until after the minutes have been read and approved. I think we could do that. It wouldn't take but a very few minutes for the Board to have such a meeting.

Governor Crissinger. Very well; we can have a meeting on that.

Mr. James. You understand I am simply suggesting that because that is our usual procedure.

Governor Crissinger. Yes. We will now ask Dr. Goldenweiser to give us the picture of the country as the research department sees it, briefly.

Mr. Goldenweiser. These conditions have been reviewed in the last hour or so. You are all much closer to the firing line than we are here. We have not an index number of business psychology and we have not an index number of hesitation. The facts that we get are the facts of the month before and they can be of use to you chiefly in placing the recent past in the perspective of the more remote past. The production figures for

February for the basic industries, if allowance is made for seasonal fluctuations, show an increased amount in the general level of production, though perhaps a little lower in February of 1925, yet higher throughout most of 1925. You will note that for several years now there has been a very sharp increase in production at the turn of the year, followed by a sharp recession. The schedules of production in both of these years were extremely heavy (indicating on chart) and we had some difficulty in disposing of the products. That is followed by price decline in basic commodities and a curtailment of production (indicating). So far as we can tell this year there has not been quite the rapid outgoing in production that has characterized the preceding two years, nor is there so far any evidence of the sharp decline that has occurred in 1923 and 1924 (indicating chart).

Mr. Hamlin. There is some decline at the very end of that period.

Mr. Goldenweiser. In production?

Mr. Hamlin. Yes.

Mr. Goldenweiser. Not in any of the figures that we have.

Governor Strong. Is that chart corrected as to the normal increase in population?

Mr. Goldenweiser. No, it is not corrected for secular things, growth of population, or anything of that sort.

Governor Strong. If you take the usual computation of the increase in population, and so on, of about three and a half per cent, that difference of 20 per cent between where you start in 1919, a year of great activity, and the past year of great activity (indicating chart) then we are no more than where we should be at the rate of production, are we?

Mr. Goldenweiser. I think probably that is so. I do not think that this normal increase in industry can be definitely allowed, and the implication of 120 as being 20 per cent above the normal is one that we very definitely fight with when we compare conditions this year with last year and the year before (indicating on chart).

Mr. Miller. I would think that would be about actually what the change is.

Mr. Goldenwieser. Yes. The figures that we have on payrolls and employment are substantially confirmatory of the production figures. There was a considerable decline in payrolls in January because of inventory taking and so forth. That has been accelerated in February (indicating chart). Along in March, and it is the March figures that you gentlemen chiefly have in mind, employment was at a very high level (indicating); it declined some in January, recovered some in February, but it is on a level about as high as any plane during the last year and a half, although lower than during the very best period in 1923 here (indicating).

Mr. Hamlin. Have you the production data for March on that other chart?

Mr. Goldenweiser. No, we haven't the production data available yet, but with regard to one or two things we do know that there is no evidence of decline in March. So far as my recollection goes and so far as we have the figures I think there is no evidence of any recession of production in March.

Governor Strong. The Steel Corporation had quite a reduction in unfilled orders.

Mr. Goldenwieser. Yes. Unfilled orders have been declining for some time. The most satisfactory data we have is on stocks of commodities, and of course the test as to whether there is too much production or not is to determine whether stocks have accumulated, or whether production goes into trade currently and regularly. Well, apparently there isn't any evidence of any great accumulation of stocks, although some evidence is beginning to come in of accumulation of stocks of rubber, petroleum, automobiles, drygoods, and they have very large stocks in department stores. The latest report I got, just a few minutes ago, shows that there is no increase in that as compared with January or that it is any larger than usually expected at this season, but there has been a growth in department store stocks over a period of six months.

Governor Crissinger. Is it true that steel production is now about 97 per cent, while unfilled orders are falling off? Is that true?

Mr. Goldenwiser. 97 per cent I think is about right, Governor.

Governor Crissinger. I saw the statement in the paper that it was 97 per cent and that unfilled orders were falling off.

Mr. Goldenweiser. They are falling off. The production is nearer 85 than 97 I believe.

Governor Seay. That was not the output of steel for the country, but for the Steel Corporation?

Governor Crissinger. The Steel Corporation, yes.

Mr. Goldenweiser. The test is in the price figures. There has been a general decline in the wholesale price level which, with some interruption, has been continuous since the last part of last summer. The figure now is around 154, which is lower than at any time in 1925, and about on a level with the bottom of 1924.

Governor Seay. Has that reduction been fairly uniform on all commodities?

Mr. Goldenweiser. The reduction is due almost entirely to a decline in agricultural prices. The green line, if you can see it on this chart, shows the agricultural prices and the red line the non-agricultural prices. The non-agricultural prices have been fairly steady, with something of an upward tendency since last summer, although the last couple of months they are unchanged, and agricultural prices have been going down since last August sharply and continuously.

Governor Seay. The price of corn, cattle and hogs.

Mr. Goldenweiser. Cattle and hogs have not been going down. Livestock is the only class of agricultural commodity that has moved up. In 1924, the big rise in the price of wheat, which was really quite substantial, from 146 to 161, was due almost entirely to the advance in agricultural prices, to the rise in cotton and wheat prices. In 1925 the decline, especially since the middle of '25, has been due to the decline in agricultural prices, with relatively small change in non-agricultural commodities.

I think that is what I wanted to call attention to in my brief review.

Mr. Miller. Have you got the charts here showing building permits, for instance?

Mr. Goldenweiser. I haven't charts for building permits.

Mr. Miller. Or contracts?

Mr. Goldenweiser. Not for things of that sort.

Mr. Miller. Tell us approximately the figures on contracts, as compared with the year before and last year.

Mr. Goldensweiser. I have the figures on charts in this form (indicating small chart) to which I can refer.

Mr. Miller. I think that will do very well.

Mr. Goldenweiser. Here is the building permit chart. It shows of course an unprecedented high figure and a tremendous rise all through this period since 1921; an unprecedented high figure last December; a decline in January, which is essentially seasonal. The February figure is not yet shown, but I think we have those figures.
We have prepared a statement of business conditions in the United States, prepared in cooperation with the New York, Boston and Philadelphia Banks. That was done some months ago for the use of the Governors. I see that the volume of building contracts declined most in January and February but remained larger than the corresponding months of last year. It is considerably larger than the corresponding month for last year, because it is some ten per cent higher.

Mr. Miller. Then in practically everything, if you compare 1926 with 1925, you are ahead?

Mr. Goldenweiser. That is true.

Mr. Miller. But if you compare January and February of 1926, and possibly that is also true of March, with the highest point of 1925, we would be low. Now as a matter of fact if you will turn back and read the so-called business forecost of a year ago you will find it extremely pessimistic; you will find a distinct note of pessimism in many instances. Fortunately we forget, but there were distinct notes of pessimism expressed as late as September.

Governor McDougal. Does that chart show building contracts or building permits?

Mr. Goldenweiser. This is contracts awarded.

Mr. Miller. Isn't it a fair statement, or I will put it on the basis of an assumption, isn't it fair to assune that the most important single factor in the volume of production in 1925 was building?

Mr. Goldenweiser. Yes, I think so. I think the largest single factor is building, with possibly automobiles next. Automobile production is apparently at a very high level, with some evidence of accumulation of automobile stocks.

Governor Strong. And there is a bit of price cutting.

Mr. James. Price cutting is the best indicator of accumulations.

(Whereupon the Conference recessed for ten minutes, the Federal Reserve Board retiring for the purpose of holding a meeting. At the conclusion of the recess the Federal Reserve Board re-entered the Conference room and the following proceedings were had:)

Governor Crissinger. The Secretary, Mr. Eddy, will read that portion of the minutes of the meeting of the Board referring to the open market report.

Mr. Eddy (reading:) "After full discussion, upon motion it was voted that the committee be advised that the Board has considered the report and approves the approval contained therein to the effect that the System's special investment account should not be changed in amount, except for the March 15th maturities may be replaced as conditions seem to warrant."

Governor Crissinger. That places it before the Conference.

Mr. Hamlin. I think it ought to be understood that the latter part of it was not really considered through a vote, in the sense that a vote was taken on it at all.

Governor Strong. That leaves the latter part of it entirely undecided.

Mr. James. There was really nothing in the way of a definite recommendation for action on the part of the Board.

Governor Strong. I think there was, Mr. James.

Governor Crissinger. We did not understand that part as a recommendation.

Governor Strong. The recommendation is: "As a guide to the timing and extent of any purchases which might appear desirable, one of our best guides will be the amount of borrowing by member banks in principal centers and particularly in New York and Chicago. Our experience has shown that when New York City banks are borrowing in the neighborhood of $100,000 or more, there is then some real pressure for reducing loans, and money rates tend to be markedly higher than the discount rates."

Then it describes the situation and at the end it says: "In general it would appear that we should not increase or diminish the special account immediately beyond gradually replacing the issues which matured on March 15 as market conditions warrant, but that we should prepare ourselves now for the prompt purchase of some further amount of securities if and when there should be further evidence of a recession in business activity, especially if there is no further liquidation in the amount of Federal Reserve credit employed."

That is all predicated upon the statement here, "When member banks are owing us about 50 million dollars or less the situation appears to be comfortable, with no marked pressure for liquidation and with the requisite elasticity", and so forth. My idea is that all the transactions relating to borrowing at the New York City banks have now been completed. That is the tax payment, the sale of 15 millions of future bonds, the repurchase of the maturities of March 15, the sale and repurchase of 35 million in securities temporarily over the tax payment period, the payment of 121 million of/the threee-four and a half per cent bonds purchased by the Treasury -- that has all been completed, including the 15 million of March 15 maturities, so that there is now nothing to do except consider future policy, and the report says that we shall prepare now to repurchase, in case this loan account doesn't go down, that is the recommendation which has not been acted upon. The suggestion has been made while the Board was in meeting that we should ask the Board to consider now at this meeting the desirability of purchases being made up to a total of 90 million to bring the account up to 300 million dollars, if developments from day to day in the loan account indicate that that is desirable.

Mr. James. That would be giving something definite for the Board to act upon.

Governor Strong. Yes. We had no vote on it, but there was no opposition to it; or if there was it was not expressed.

Governor McDougal. My personal opinion was that it is just as well to eliminate reference to the three hundred million but give the right to reduce or increase in accordance with the situation. That is always subject to consideration on the part of the Board and by the committee also.

Governor Strong. This was limited to April 15th, not to extend beyond April 15th. My understanding of the suggestion, if correct, was that the program for increasing the amount to 300 million should be revised if nothing was done, or if it was completed by the 15th.

Governor Crissinger. In other words, take another look into the situation?

Governor Strong. Yes.

Governor Crissinger. Do you wish to put that recommendation in writing and submit it to the Board?

Governor Strong. Yes.

(The suggestion was thereupon submitted to the Board in writing, as follows:)

"If developments in the money market indicate any need for doing so, the amount of security in the System account be increased to $300,000,000, but no purchases shall be made after April 15th, 1926, without further consideration."

Governor Crissinger. At that time the understanding would terminate.

Governor Strong. It would terminate.

Mr. Hamlin. That would give discretion for about three weeks.

Mr. James. I suggest that the Board retire and consider that now.

(Whereupon the Board retired to hold a meeting, at the conclusion of which the Board returned and the following occurred:)

Governor Crissinger. The recommendation to increase the amount by 90 million dollars, up to 300 million, terminating on April 15th, is lost by a vote of three to three. Mr. Mellon is in Philadelphia and won't be back until tomorrow morning so that we cannot definitely pass upon it until we have another Board meeting. Is there anything further to take up? Will you be here tomorrow?

Governor Strong. We have this matter of the committee on non-cash collections. The Conference has concluded its work.

Mr. James. Why couldn't we have a meeting on that matter as soon as we adjourn here.

Governor McDougal. Aren't there a number of topics that have not been discussed?

Governor Crissinger. Yes, but I understand the Conference members are going home. Unless you want to have a meeting this evening?

Governor Strong. I think it is for the Board to decide that.

Governor Crissinger. Decide whether you stay or not?

Governor Strong. Decide whether we have a meeting tomorrow or tonight. All the proceedings of the Conference are reported in writing, and I cannot see that anything will be gained by discussing them beyond the report that we submit to you.

Governor Crissinger. I do not think so either.

Governor Strong. There was one topic here where there was uncertainty as to just what was meant by the language, I refer to Topic 4-F, "Discussion of capitalization and other requirements imposed by State law on State banks and trust companies exercising fiduciary powers, and advisability of Board adopting for all National Banks a minimum capital requirement and imposing other requirements in connection with its granting authority to such banks to exercise trust powers."

Governor Crissinger. I suggest that we let that matter go over until the next meeting. There is nothing very important about it and we could not get legislation regarding it now. You can report to the Board in your written report with regard to the other questions. The only suggestion I have is that some members of the Board would like to have some statement bearing on Topic V-A, permanent employment by the Board at a fixed retainer of special counsel, and so forth. Some members of the Board would like to know what determination, if any, was reached by the Conference.

Governor Strong. The Conference passed a resolution, the substance of which was that the Conference, by a vote of seven to five, recommended the employment of special counsel and that employment be limited to the consideration of litigated matters only; that the procedure should be for the Federal Reserve Banks to submit all litigated matters to the Board's counsel, with recommendation as to whether counsel of the Reserve Bank believed it to be of sufficient importance to go to special counsel, which would automatically result in its reference to special counsel, and as to litigated cases reported which were not so recommendation the determination of whether they should be reported to special counsel rest with the Board's counsel in Washington as to whether it was desirable to do so.

Governor Crissinger. We understand that that will be embodied in your report so that we will have that. Now is there anything further before we take up this other matter?? Does anyone of the Governors wish to make any statement or does any member of the Board desire to make any statement before this full Conference of Governors; if not, this Conference will adjourn and we will have a meeting of this committee on non-cash collections, and decide that matter now.

(Whereupon, at 5:20 o'clock p.m., the Joint Conference of the Governors of the Federal Reserve Banks with the Federal Reserve Board adjourned, subject to the call of the Board.)

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