

Mr. Attebery

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

Treasury Building,

Washington, D. C.

Wednesday, November 10, 1926

Walter S. Cox
Shorthand Reporter
Washington, D.C.

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

Treasury Building,
Washington, D. C.,
Wednesday, November 10, 1926.
2 o'clock P.M.

Present: D. R. Crissinger, Governor of the Board;
Vice Governor Edmund Platt; Mr. Hamlin, Mr. Miller, Mr.
James, Mr. Cunningham, Members of the Board, and Mr. Mc-
Intosh, Comptroller of the Currency and ex-officio member
of the Federal Reserve Board.

Present also: W. W. Paddock, Deputy Governor, Feder-
al Reserve Bank of Boston.

J. H. Chase, Deputy Governor, Federal Reserve Bank
of New York.

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

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

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

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

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

D. O. Biggs, Governor of the Federal Reserve Bank of St. Louis.

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

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

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

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

G. L. Harrison, Deputy Governor of the Federal Reserve Bank of New York, and Secretary to the Conference of Governors.

Frederick H. Ourtiss, Chairman of the Board and Federal Reserve Agent, Federal Reserve Bank of Boston.

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

Pierre Jay, Chairman of the Board and Federal Reserve Agent, Federal Reserve Bank of New York.

George de Camp, Chairman of the Board and Federal Reserve Agent, Federal Reserve Bank of Cleveland.

William W. Hoxton, Chairman of the Board, and Federal Reserve Agent, Federal Reserve Bank of Richmond.

Oscar Newton, Chairman of the Board and Federal Reserve Agent, Federal Reserve Bank of Atlanta.

William A. Heath, Chairman of the Board and Federal Reserve Agent, Federal Reserve Bank of Chicago.

William McC. Martin, Chairman of the Board, and Federal Reserve Agent, Federal Reserve Bank of St. Louis.

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

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

G. C. Walsh, Chairman of the Board, and Federal Reserve Agent, Federal Reserve Bank of Dallas.

Isaac B. Newton, Chairman of the Board, and Federal Reserve Agent, Federal Reserve Bank of San Francisco.

Governor Crissinger. We have with us this afternoon Mr. Yehe, of the Department of Agriculture, who wants to occupy a few minutes, and the Board has thought it was important to have him discuss with the Joint Conference the bonded warehouse problem, which is of great interest to the Agricultural Department and to the farming interests of the country.

Without any further remarks I now ask Mr. Yehe to proceed with his talk.

STATEMENT OF MR. H. S. YEHÉ, U. S. DEPARTMENT
OF AGRICULTURE.

Mr. Yehe. Mr. Governor and gentlemen, from time to time I have had the privilege of meeting some of you men in your respective banks and at various times in the past five years or so various representatives of the Departments, as well as myself, have met with various members of the Board here in Washington to present to you some of the outstanding and salient features of the Warehouse Act and what we are trying to do under that law, and what it means to agriculture.

As most of you know, the law was passed back in 1916, little or nothing was done under that law until about be-

ginning in the summer of 1921. Since that time we have made quite substantial and remarkable progress in connection with some commodities.

When the law was first passed it applied only to four staple products, -- cotton, grain, wool and tobacco. By amendment in 1923 the limitation with respect to the products applicable was removed, leaving it entirely discretionary with the Secretary as to what products might be made eligible. The law is restricted, however, to agricultural products and is limited in its applicability to public warehousemen only. It does not apply to people who are engaged in so called private warehouses.

Since the amendment of 1923, we have added a number of commodities so that at this time we have the original four staples -- cotton, grain, wool and tobacco -- and these additions. We have the late crop of potatoes, peanuts in the shell, broom corn, dried beans, dried fruits, syrups (including cane, maple and extracted honey), canned goods, and the last baby was cotton seed. So we now have about thirteen products that are storable under the Warehouse Act and it reaches pretty well the agricultural industry of the country.

The law functions through a system of licensing.

It is not a mandatory statute, no warehouseman needs to operate under it unless he so elects. It provides for the licensing of warehousemen upon condition that they meet certain requirements. They must show that they have a certain amount of net free assets, and they must furnish a bond for the benefit of anyone that may be injured by virtue of improper acts on the part of the warehouseman. They must demonstrate that they have proper storage facilities and that they have facilities equipped with apparatus for taking care of the products, that they have men in charge of the warehouse who are competent to handle the products and to recognize when a product is in proper condition for storage and when a product may be deteriorating while in storage they must know what action to take to arrest that deterioration.

It also provides for licensing inspectors, samplers and weighers. It is not mandatory that there shall be licensed inspectors, samplers and weighers except under certain conditions. When you have a product that goes into storage without losing its identity, such as a bale of cotton, which never loses its identity, it is never necessary to have the weight and grade determined by licensed men; but when you have a product that loses its

identity, such as bulk grain, such a product must be inspected, sampled and weighed, by men who are licensed by the Department.

In connection with this licensing, I want to say that the tendency of the Department for the past five years, to my certain knowledge -- and that period covers about the period that I have been engaged in this work -- has been to increase the requirements, to make higher standards applicable to these men who are going to qualify for licenses as inspectors, weighers, etc. of warehouses. In other words, we feel that back of the Warehouse Act there is one prime purpose, and that is to get a warehouse receipt that is going to constitute good collateral for current purposes, and to do that we feel that the standards must constantly be elevated. I do not want you to infer that we had loose standards, but you know that when you start out with something entirely new, to which the particular trade is not any too friendly to start with, you must make your requirements such that you can interest people, at least, and make a start.

Our tendency has been all the time to make the requirements higher. Not that we are going to make them arbitrary,

not that we are going to make them so men cannot qualify, but so that we can feel reasonably sure that we are in the vanguard, in the advance, of real warehousing, leading the way to something better in the matter of collateral.

One of the improvements we instituted a little over two years ago in cotton is the form of warehouse receipt that I have just distributed to you. That has back of it the idea that we are aiming to check up any possible fraud. Hitherto warehousemen have been permitted to get their warehouse receipts from any kind of printers and print them on any kind of paper, just so it was not too cheap. There was nothing formerly to prevent a man going to a printer and having a lot of receipts printed about which we knew nothing, and that has happened, not in Federal licensed warehouses but in other warehouses where they thought such a thing was not possible. Now we have required the warehousemen to get their receipts from printers that are under contract and bond with the Department, and those printers must get the paper for printing their receipts from a manufacturer of paper who is, again, under contract and bond with the Department, and both the manufacturer and printer are required strictly to the Department for all the paper

which goes into this. When the receipts are ready to be sent to the warehousemen we have inspectors who go to the printing plants and inspect the receipts to see that the order is properly filled, and then a register is made up, and when the inspectors go around to check the warehouses from time to time the warehouseman must account for every receipt, either in the form of the original receipt, a copy of the original receipt, or finally in the form of the receipt having been duly cancelled.

That gives a pretty wide check on the warehouse receipts.

I ought to say that the real backbone of the Warehouse Act is not in the fact of licensing in the first place, but it is the fact that the Department maintains a strict supervisory service over these warehousemen from time to time, just as under your National Bank Act you have your examiners go out to check up on the banks. In the same way we have inspectors go out in connection with the Warehouse Act to check up on the warehouses from time to time. When we find something not in line we take prompt action to see that it is corrected, and I might say in passing that thus far our record has been that we have not sustained any less under the Warehouse Act.

There are two cardinal principals in connection with the warehouse that we insist shall be observed. They are quite elementary. They are in all the uniform receipt acts, and you will find them in the special statute to the states.

First, that the warehouse receipts shall not be issued until the product is actually in the custody of the warehouseman; and, second, that the product shall not be delivered from the warehouse until the receipt is surrendered to the warehouse.

I want to point out a few principal types of warehousemen. First of all, there is the man who has a warehouse and who is also a dealer in the product which he is storing. That fellow takes in not only his own product but somebody else's product. You have very evidently two forms of warehouse receipts there, one issued on products in which the warehouseman has no interest, and the other a product in which he has all the interest. You have interested and disinterested custodianship, and the value of the receipt in one instance is usually different from its value in the other, for collateral purposes. Then we have a type of warehousing that is called field warehousing. It has grown

up in agricultural areas. It is found in western New York in connection with the canning industry. This year it will be found in Wisconsin in connection with the pea canning industry. You will find it very largely on the Pacific Coast, particularly California.

By field warehousing I mean this. A regularly constituted public warehouseman take over, by virtue of a lease, the building which the particular party who owns the product has to store his product. Now, of course, if he puts the product in there himself and issues a warehouse receipt to himself it would not be worth much for collateral purposes. Field warehousing has many qualities of merit but it all depends on how well the set up is in the first instance; if you are going to permit this warehouseman, who is a public warehouseman and has no interest in the product, to set himself up as the operator of the particular building connected, we will say, with the cannery, for the storing of the cannery's goods, and represent himself to the world as the custodian of those products, when as a matter of fact the real custodian is an employee of the cannery, you have not disinterested custodianship, despite the fact that the warehouseman is handing

out the receipt under his own name. Therefore, I think the big thing is disinterested custodianship.

The position the Department takes is that disinterested custodianship, whether through field warehousemen or straight warehousemen, and the canner storing his product in the public warehouseman's own warehouse, is the best proposition we have in warehousing. Under the Warehouse Act we would license any one of the systems already set up. We have not any discretion there if they can meet our requirements. From the collateral standpoint there is always a question, as we see it.

Now, what we have spread throughout the country is that if you want real collateral you must get disinterested custodianship. You find a lot of organizations traveling under the name of disinterested custodianship that are not really disinterested. We have had various organizations tell us that it is none of our business to tell bankers that there is not disinterested custodianship in certain cases. I feel that working together, the Department of Agriculture and these banks and the intermediate credit banks, can go a long ways towards accomplishing proper custodianship of products. The big trouble in a lot of cases is that there

is an antagonistic interest involved. A warehouseman is frequently a dealer in the product he is storing. Some time I hope that in the case of agricultural products it will be as it is in the case of manufactured products, where the products are going into the hands of men who are warehousemen and nothing else.

I do not want to take up any more of your time, Mr. Governor. Let me say that the Department is always willing to work with the Federal reserve banks, and in my travels from time to time I try to meet as many of you men as I can, or at least representatives in your banks, in the hope we may have something to offer that will make for more solid collateral. I like to think, as one of your bankers said some time ago in connection with a serious situation in the cotton section, that after all these troubles are not so big if we simply use the facilities now at our disposal, and his thought was that the Federal Reserve Act, the new Credit Act and the Warehouse Act, working hand in hand, can go a long way towards giving real relief in almost any agricultural situation where we get into what seems temporary emergencies. I hope we may have close cooperation, and I assure you the Department, as far as the warehousing

proposition is concerned, will be only too glad to work with you. (Applause.)

Governor McDougal. We all recognize the importance of disinterested custodianship; but I am not clear on the point as to whether the custodian in connection with warehousing of this character is a representative of the Department of Agriculture or whether it is otherwise. Do you not appoint the custodian?

Mr. Yohe. Oh no. The custodian would be appointed by the warehouseman himself. For instance, I know one outfit that has or did have a string of about a dozen different warehouses in different towns, that they were operating. Now, they appoint a man in each warehouse themselves. That same outfit held out to the bankers that he was actually their man, that he was representing their interest solely, but investigation showed that the particular men in charge of these warehouses were being paid to the extent of about nine-tenths by the men storing the product in there and the other one-tenth by the warehouseman. I do not regard that as disinterested custodianship. On the other hand, if the warehouseman takes charge of a warehouse connected with a canner by virtue of a lease, and that is what we tell him, put up signs at points of

entrance, that this warehouse is under his control, and does not permit the canner or the cotton merchant, whoever it may be from going into this warehouse, and prohibits him from going in wherever he might want to go, and exercises absolute control over the product, then you have a disinterested custodianship. We have required him even to carry the keys to the warehouse.

Governor Seay. I would like to ask how often you inspect a particular warehouse.

Mr. Yohe. The inspections are four times a year, but they also depend on the conditions. Somebody might get a dozen inspections. There are, however, at least four inspections a year. I have known some of them to get as many as six inside of two or three months.

Governor Austin. Who pays the cost of the inspection?

Mr. Yohe. The warehouseman. Only for the initial inspection. These inspections that are made from time to time, after the warehouseman is once licensed, are paid for out of appropriations made by Congress.

Governor Crissinger. I am sure we all appreciate Mr. Yohe's remarks. They have been quite instructive and ought to be helpful to the Federal reserve banks and the

Federal Reserve Board in passing upon warehouse receipts and particularly warehousing. . I think we had better take up now Dr. Goldenweiser's statement in joint conference before we enter on other phases of our discussion, and that will give us a good background.

STATEMENT OF MR. E. A. GOLDENWEISER, STATISTICIAN
OF THE FEDERAL RESERVE BOARD.

Mr. Goldenweiser. Gentlemen, I spoke to these governors about six months ago, very briefly, on the business situation, and at that time there was very little statistical evidence of any difficulties in the business situation, and yet there was a fairly widespread feeling of misgivings about the immediate future.

Since that time those misgivings were rather rapidly dissipated, and the second quarter of the year, and into the third quarter, there has been very active business and there have been very prosperous times in a general way, with only a few spots that were not as high as the others.

Now, we are again in a condition where there is a definite feeling on the part of many that the turn in the situation either is just about to come or has come and, again, there is as yet little statistical -- there is

perhaps a little more evidence than there was six months ago, and I will refer to it very briefly.

Perhaps the most definite evidence we have of a slackening in the demand for commodities by the consumers has just recently come out in our statistics on department store sales. These sales for the month of October have been somewhat smaller than for September, even after taking into consideration the usual seasonal variation in sales, and are considerably smaller than a year ago. That represents a slackening in the consumers demand for goods. We find that decrease, particularly compared with last year, is, as might be expected, larger in the agricultural districts and in the southern districts, which have recently been affected by the rapid decline in the price of cotton.

The other evidence of a slackening in business are that two principal industries whose unusual volume of activity has supported our prosperity both show certain signs of a decline. I mean the building industry and the automobile industry, both of which have been discussed here frequently.

Building is somewhat smaller than it was a month ago. It has been smaller than a year ago a good deal of the year,

but only slightly smaller, and smaller than the very exceptionally large year of 1925. But building still continues in large volume, and while there is some decrease, particularly in the Eastern States, it is not at all definite that it foretells continuously a radical decline.

The contemplated projects on which we also get reports are considerably smaller than they were a year ago. That may indicate something in the way of a state of mind as to the future demand. But those figures are less dependable and I would not attach too much weight to them.

The automobile industry, which of course you know has been developing phenomenally and has been larger every month, pretty much, than the preceding month, has shown some decline in the last few months. There has been some unemployment in Detroit. There has been considerable price cutting, and there is some evidence of an accumulation of stocks. I do not want in this case either to overstate the case. I think the movement is not very pronounced. The automobile industry happens to be so situated that it has a physical protection against large over production, in the bulk of its products. It was pointed out to me by a very close observer of the industry that they do not build

up excessive stocks, not because of their acumen or foresight, but because the automobiles are so bulky that when they do not move into the channels of trade they very soon exceed the storage capacity. If automobiles were as easily stored as automobile tires the automobile industry would probably go through the same radical change in prosperity and depression as the tire industry has gone through.

The present indications are that there is some decrease in the automobile industry.

I have mentioned now the factors in the situation from the side of industry that are not as favorable as they were a while back. The purchasing power of the community, which is the determining factor evidently in business activity, has, generally speaking, been maintained.

If we analyze the purchasers of products into industrial, agricultural and foreign, the industrial population has had a year of great activity, full employment and full payrolls. There has been no evidence so far of an increased demand from the industrial population.

Taking up next the foreign, you have probably all noticed that the recent announcement by the Department of Commerce indicates that our exports for the third quarter

were larger, I believe, than for any other quarter. At any rate they were extremely large. So the foreign demand continues up to date. To what extent that advance is met by our loans and to what extent that may present a problem I am not here to discuss today, although I think that is the point that we ought to be keeping in mind and that will become increasingly important.

As far as the agricultural purchasing power is concerned, there have been several unfavorable developments, with which you are familiar. There has been in the spring wheat region a partial failure of crops, and certain states, South Dakota for instance, are in a fairly bad condition from the point of view of agricultural purchasing power; and in the corn states the corn crop has been of fair size but it has been injured by floods and bad weather, and the condition is probably not as good as might have been hoped.

The Department of Agriculture, however, in a statement it has just issued, sizes the corn situation up in general as being somewhat better than a year ago. The livestock industry, on the whole, has done well this year; but recently the hog industry has been affected by an extremely severe epidemic of cholera.

The most recent and most seasonal development has been the very large decrease in the price of cotton, and that has been followed upon three or four years of exceptional large production of cotton. The cotton acreage increase of ten million between the low point after 1920 -- I think the low point was 1922 or 1921, I am not sure which, and since that time the acreage of cotton has increased by ten million the price of cotton, which was over 30 cents at the end of 1923, has been declining continuously since, and every additional large crop has resulted in an additional decline. This year, with the eighteen million bale crop, there has been a very decided drop in the price of cotton, as you know.

You also know the measures that have been taken by the President's Committee and by the southern organizations all over, to market mitigate the effect of this exceptionally large crop. The growth in the cotton crop in this country as the result of high prices has been accompanied also by the growth of cotton production in other parts of the world, and the proportion of the cotton of the world that is produced in this country is not as large as it was four or five years ago.

Whether the severe decline in the cotton prices will discourage cotton production abroad remains to be seen.

That is perhaps a rough analysis of the position of the country in regard to the purchasing power of the people, and the fact that the agricultural purchasing power is less satisfactory than the other two is what is beginning to be reflected in our figures, which show the decline in department store sales in the rural districts and in the decline in mail order house sales, which are more particularly the reflection of the decline in the purchasing power of the agricultural population.

The production in general -- with two elements of the demand kept out continuously throughout the year -- has been on an exceptionally large scale, and our latest index of industrial activity has been a record level.

It might be worth while, perhaps, to take a look at this chart for a minute, because it is a new one in that it is based on a much more representative group of commodities than we have had before, and includes automobiles and gives more weight to building materials and somewhat less weight to the iron industry, which was, according to our best information, over-weighted in the original index. This chart was presente

in some detail to the agents' meeting the other day, and I think it would be sufficient for me to just point out that we are here at the highest point in the history of the country (indicating on chart).

These are figures for October. That is higher (indicating on chart) than the previous peak in 1923, although our old index is lower than 1923, and that is because during this period much of the industrial activity has come from the industries which were underweighted in this former chart. You see that that industry which would be affected by a slackening of demand a little later does not show any evidence of a decline but is, on the contrary, higher than ever, and has been advancing in the past couple of months.

We have not the figures for October yet, but the partial reports would foreshadow a somewhat higher figure for October than for September.

The most significant fact to compare with this large volume of reduction, I believe, is the movement of prices, which has been downward, as has been pointed out to you before.

The black line on this chart shows the Board's own weekly price index, and the red line shows the Bureau of

Labor Statistics' monthly prices. It shows that there has been from a little after the middle of 1925 a decrease of about 6 per cent in the prices of commodities. It shows, though, that in the last few weeks there has been an advance, the advance being chiefly due to the rise in the price of coal, resulting from the foreign demand on account of the British coal strike.

If we analyze the prices into the agricultural and non-agricultural commodities, we find that there has been a decrease in both. The decrease in agriculture presented by this green line is much more considerable than the decrease in non-agricultural commodities, and in the last month or so there has been some advance in both. It is probably the most significant single statement about the present business situation that the very large increase in production and trade has taken place during a period of a gradual decline in these prices. It is not, therefore, so far as commodity markets are indicative, in any sense accompanied by speculative activities.

Mr. Cunningham. You show an increase in the last six weeks or so in prices. How is that price index prepared or made up? How would you account for that advance?

Mr. Goldenweiser. This advance does not yet include October, because it was not available. It reflects an advance in livestock prices chiefly.

It has been an interesting year in that it is different from the last two years, because there has been very little general growth in the volume of member banks' credit as reflected in these banks in the leading cities. 1924 and 1925 were years of large increase in credit. 1926 has been a year during which credit has been maintained at a high level without material increase, and in that respect we are more like 1923 than like either of the two following years. And that is true, if the credit is analyzed in its constituent elements -- there has been more growth in 1924 and 1925, they were years of very large increase in credit, and they were years in which the growth occurred in investments and loans on securities in 1924, and in loans on securities in 1925, while commercial loans, loans to finance the current production and distribution of goods remained relatively constant in these two years.

In 1923 and in 1926, whatever growth has occurred has been in the commercial loans, the other, mostly investments and loans on securities, having declined.

I have a chart here that shows commercial loans in a more forcible way, and also the loans on securities. I think it might be of interest to show it to you for a minute. You see 1924, a very large growth in the loans on securities. In 1925, a very large growth in the loans on securities. Here is 1926 (indicating on chart). 1923 is not on the chart because it goes below the beginning of it (indicating), but in 1923 also there was a demand.

In commercial loans, there was in 1923 a very large growth. In 1924, there was a large growth, but only in the end of the year, with a decline in the middle. 1925 was the same way. 1926: there was practically no decline, no seasonal decline in the middle of the year. It started late and was very slight. I was taking the year as a whole. I mean the year after date. Of course there is an increase of 500 million in commercial loans (indicating), and that may correspond to the growth of the business of the country. It is a curve to be watched, because if at this time there should be a continuous growth in this particular kind of credit that would be negative probably of some slackening in the channels of depression, some accumulation of inventory.

The usual seasonal peak in commercial demand comes either late in October, the middle of October, or else at the very end of November. This year you see the largest figure was reached two weeks ago. Then there was some decline. I think the course of this line during the next few weeks is going to be extremely significant (indicating on chart).

I do not know whether it is too late now to make any references to 1920, but I found it rather interesting to consider that when we compare the total volume of loans and investments from the reported number of banks now with the peak in 1920, we are about two and one-half billion dollars above, and of that two and a half billion, two billion and over represent a growth in investment and less than half a billion a growth in loans; and when you take loans alone, loans on securities have increased by nearly a billion and a half, and the commercial loans are still nearly a billion below their high figure of six years ago.

Now, it will be interesting for the next few weeks and months to watch this commercial loan figure, because I think it is in that figure that any unfavorable credit developments will chiefly be reflected.

In general, the years 1924 and 1925 were years when bank funds were seeking investment, when it was a buyers' market for money, and money rates were relatively low and the banks were placing their funds in investments and loans and securities. 1923 and 1926 have been years in which there was a sellers' market for money. There has been a demand for credit on the part of the people rather than an attempt of the banks to find profitable employment for their funds, with the consequence that money rates have been somewhat higher and the situation has been in closer relationship with the actual industrial and trade activities than during those other years, when funds were handled.

I think that is all I wish to say, Governor.

Governor Crissinger. Any questions?

Governor Seay. I would like to ask if there are any evidences that the diminution of the department store and mail order business was not in considerable measure due to unusual weather conditions, particularly in the South and West?

Mr. Goldenweiser. I think that is mentioned as one of the reasons.

Governor Seay. So that it may be possibly postponing --

Mr. Goldenweiser. It may. I do not think there is any very decisive evidence of one kind yet.

Mr. Platt. On the other hand, last year in October we had pretty cold weather, that brought November business into October.

Mr. Goldenweiser. Yes, last October was an exceptionally high month.

Governor McDougal. I notice from your exhibit that in September, 1926, industrial production reached the highest point in its history in this country.

Mr. Goldenweiser. That is correct.

Governor McDougal. And that during the last few months there has been a decline in the price of commodities.

Mr. Goldenweiser. Yes.

Governor McDougal. And I was wondering whether your investigation disclosed any evidences of accumulating inventories.

Mr. Goldenweiser. There is any evidence of that except that there is some in the automobiles, and very slight

evidence of it now in the department stores; but the department stores stocks have been decreasing all the year, and the rise during the last month was not large enough to constitute a real element in the situation.

I believe that what this indicates is that the very large volume of production, partly because of the lower price level, has found its way into the channels of distribution without obstruction.

Governor Seay. You do not think that the increase in commercial loans is any indication of accumulation of stocks?

Mr. Goldenweiser. I think it is not a direct indication. I think an accumulation of stocks would be reflected, though. I want to say that the growth in commercial loans has not been of enormous or exceptional volume. It has simply been one kind of loan that has increased this year. If they should continue to increase and should fail to show the usual seasonal decline from hence on, I think we should have to take that into consideration.

Governor Bailey. What is your opinion as to the price charting there, in regard to the parity or disparity in exchange values of agricultural commodities and non-agricultural commodities?

Mr. Goldenweiser. It indicates, of course, that the purchasing power of the farmer in the terms of his product is much lower than the purchasing power of the product of those engaged in industry, in the terms of their products.

Governor Bailey. How much lower would you say it was than two years ago?

Mr. Goldenweiser. It is a little higher than two years ago. It is lower when you take them up to the base period, but there has been no deterioration in the last few years.

Governor Crissinger. Have you got the barnyard prices or what the farmer gets?

Mr. Goldenwiser. The barnyard price is about 130. It is about 134 compared with the general price of 152. There is a difference of about 18 or 20 points between the prices that the farmer receives for his commodities and the general prices of wholesale commodities.

Governor Norris. I would like to ask a question on that point, which I cannot ask without exposing my ignorance. When you speak of 134 and 152, are those comparisons of present prices without the selection of any ar-

bitrary date as to base?

Mr. Goldenweiser. Oh, yes, there is a base.

Governor Norris. Well, that basis is the price of 1913 or 1914, is it?

Mr. Goldenweiser. Yes, 1913.

Governor Norris. So what you mean by that is that the price of other commodities is 150 odd per cent of the 1913 or 1914 price?

Mr. Goldenweiser. That is right.

Governor Norris. While the price of agricultural commodities is 138 per cent of the 1913 price?

Mr. Goldenweiser. That is right.

Governor Norris. And it is a fact, is it not, that if instead of taking the 1913 or 1914 prices in either case you took the average of, say, 1909 or 1910, the price of agricultural commodities would today be higher than all other prices?

Mr. Goldenweiser. I think if you went back to 1910 that would be so.

Governor Norris. Because 1913 and 1914 were years of unusual high prices of agricultural commodities, were they not?

Mr. Goldenweiser. Yes. I think I may say that the Department of Agriculture for that reason does not like to use 1913. We are now making a considerable headway in getting away from the prewar base and in using for all our indices 1923 and 1924, in order to have a basis of comparison that is recent and that is not affected by the enormous dislocation of prices caused by the war.

Governor Crissinger. But the fact is that farm products are selling for from 18 to 20 per cent lower than other things.

Mr. Goldenweiser. I think that is right if we express it in terms of prewar prices.

Mr. Austin. Eighteen points, not 18 per cent. It would be about 12 per cent.

Governor Crissinger. Now, when the agents were in conference with the Board they gave the Board their views of the industrial situation and the economic situation throughout the various districts. I was wondering whether any of the Governors would like to be heard on that subject. Does the Board desire to have the Governors talk on that subject? Very well. Then we will proceed to the matters we have had under consideration.

Governor McDougal. Governor Crissinger, the Governors completed their conference, finished their program today. They have given, I think, deliberate and very careful consideration to the questions which the Board placed on the program, and in our conference with the Board yesterday we reported on the findings and in relation to all those questions excepting two in respect to the other subjects appearing on the program, and you will be fully informed through the customary channels in due time. There may be some topics included there which the Board will like to discuss with us. If so, we will be very glad to discuss the matters that it is desired to have discussion on.

The two questions which I have referred to and which we are not considering were these. Yesterday at the time of our conference with the Board these two questions were not considered. One related to the notes of parent corporations representing borrowings to be advanced to subsidiaries, and in respect to those, after careful consideration, it was voted that the Conference recommend to the Federal Reserve Board that the Board's ruling of December 30, 1925, X-4484, be rescinded and in lieu thereof the

Board rules substantially as follows:

Where the borrower is a parent corporation having a number of subsidiaries and the parent corporation and its subsidiaries are in practical effect one single organization and may with propriety be considered a single borrower, the paper of such parent corporation the proceeds of which have been used or are to be used by the parent corporation or by the subsidiary corporations for an industrial, commercial or agricultural purpose, within the meaning of the Federal Reserve Act and the Board's regulations, may be considered eligible for rediscount if it complies in all other respects with the provisions of the law and the regulations of the Federal Reserve Board.

Governor Crissinger. I was wondering whether the Agents wanted to discuss this feature, this new recommendation, what the Agents have to say about it. Do you want to be heard on it?

Mr. Hoxton. It was not on our program at all.

Governor Crissinger. I know, but it is here, and I thought maybe you would like to discuss it anyhow. That is what the Conference is for.

Mr. Jay. I have not any views off-hand. I do not know what it arises from.

Governor Crissinger. It arises in the case of the M. W. Hanna paper that came out of Boston. Have you got that ruling?

Governor McDougal. The ruling there declared the paper of the Hanna Company, which otherwise we recognized as very desirable paper, as ineligible, as I recall it, for the reason that the M. W. Hanna Company were making some advances to companies other than the subsidiaries owned and controlled by them. It developed, as I have it in fact, and Governor Fancher will correct me if I am wrong, that these advances were made to companies that were engaged in the production of iron and coal,

and that the coal and iron were under contract, I think, for sale back to the Hanna Company, and they would just advance the money to enable them to produce this product. Is that the situation, Governor Fancher?

Governor Fancher. Yes, substantially.

Governor McDougal. Now, if the Board will find it agreeable to follow the suggestions of the Governors, the banks will be enabled to use their discretion and I think can safeguard the situation to the satisfaction of all concerned.

Governor Crissinger. As I recollect it, that does not state exactly what the Board did, does it?

Mr. Wyatt. When the Board made the ruling it thought it was going to make the paper of the Hanna Company eligible. As the facts were understood by the Board, the Hanna Company made advances only to its own subsidiaries, the subsidiaries borrowing money from the Hanna Company. The Board made a ruling that where the parent corporation owned a number of subsidiaries and owns at least 75 per cent of the stock in each of the subsidiaries and makes some advances to the subsidiaries the paper of the parent corporation, the proceeds of which has been advanced to

the subsidiaries, will be considered eligible and will not be considered financed paper, if three conditions are met. First, that the parent corporation makes no advances except to subsidiaries. Two; that the subsidiaries borrow no money except from the parent corporation. Three, that the subsidiaries use the money for an eligible purpose. It then developed that the facts were not as understood by the Board, that the Hanna Company does make some loans to parties other than its own subsidiaries, and the question came up whether the first condition laid down by the Board could be eliminated. It seemed rather difficult to do that without abrogating the distinction in which the ruling had been made and opening the door to a complete destruction of your ruling against finance paper, and that proposition was considered by the Governors and this is the suggestion that was made to meet it, the difference between this ruling and the other ruling. In the first place, it leaves out any specific reference to finance paper and any specific reference to advances. It eliminates the requirement that the subsidiary corporations must be owned at least three-fourths, 75 per cent of their stock by the parent cor-

poration. It simply leaves it a question of fact as to whether the parent corporations and the subsidiaries constitute in practical effect a single organization and may be with propriety regarded as a single borrower. Instead of saying the paper may be eligible the proceeds of which may be advanced to the subsidiaries, it says the paper of the parent corporation may be eligible if the proceeds have been used by the parent corporation or by the subsidiaries for an eligible purpose. That necessarily involves, of course, the transfer of those funds in some way from the parent corporation to the subsidiary. But nevertheless that preserves the same distinction on which the Board's original ruling was made. It does not eliminate, either expressly or impliedly eliminate, the first condition. We have the first condition laid down in the Board's former ruling. But it omits any emphasis on that condition and relieves, I think, considerable embarrassment.

It appears that there has been a practice for some time for Federal Reserve Banks to consider paper eligible in the case of borrowers whose business is industrial or commercial in spite of the fact that those borrowers might

make some insignificant advances to customers, and it appears that the Board's specifying as a condition that no advances should be made to other parties has raised a doubt as to the validity of that practice. This eliminates any specific mention of that point and I think it will eliminate the embarrassments that have resulted from the specific setting out of that point in the regulation and would enable the Federal Reserve Banks to continue to do for the Hanna Company and similar organizations the same thing that they have done for any other borrower.

Governor Crissinger. Does it cover the case of financing corporations?

Mr. Wyatt. Yes, absolutely, because the finance corporation could not meet the set up that has been described here.

Governor Crissinger. It protects against that?

Mr. Wyatt. Yes. It leaves it open to be handled as it always has been handled in practice. It would be possibly disastrous to push the finance ruling to such an extent as to say that where a borrower uses any of its money to lend someone else all of its paper will be eligible. This protects against the finance company, because it says

that where the borrower is a parent corporation having subsidiaries and that the parent corporation and the subsidiaries may be considered a single corporation, that then the borrowing for the parent company and its subsidiaries produces eligible paper--you cannot fit that into the subsidiaries because they are lending to outside parties and you could not in any way view the finance companies and their customers as a single organization.

Mr. Jay. But these subsidiaries may do a little lending to outside parties, but not enough to amount to anything.

Mr. Wyatt. Governor Fancher can probably give you the borrowings of this particular company and advances made to non-subsidiaries.

Governor Fancher. In proportion to their total borrowings it is an insignificant amount, and in other cases the amounts were very small compared to the borrowings of other corporations which, under this former ruling, makes all the paper ineligible.

Mr. Wyatt. I have heard that the amount loaned to outside interests was only about \$50,000, which is insignificant compared to the total borrowings of the parent corporation.

Governor Calkins. It illustrates the difference between the application of the ruling formerly made by the Board and the proposed modification. In the first place, it is perfectly correct to say that there probably is not a large borrowing corporation in the United States that does not make some advances to subsidiaries of which it does not own 75 per cent. The case to which I refer is that of a purely commercial organization making advances to subsidiaries which amount to about \$6,000,000. Those subsidiaries are nine in number and it owns 100 per cent of eight and 50 per cent only of one. Under the Board's former ruling because it only owned 50 per cent of one of those subsidiaries that paper would not be eligible. It seems to me that is too technical and that that should be considered as one single borrowing corporation.

Governor McDougal. What I had in mind had to do with a certain class of elevator receipt which originate in Minneapolis or St. Paul, one or both. It is the sense of the conference that registered terminal warehouse receipts issued under the practice prevailing in Minneapolis are within the spirit of the Board's regulation requiring that warehouse receipts to be eligible as collateral for acceptances must be issued by a warehouse independent of the customer and that therefore the Board should rule that acceptances secured by them are eligible provided, of course, they comply with all the relevant requirements of the Federal Reserve Act.

Therefore the Board should rule that acceptances are eligible provided of course they comply with all the relevant requirements of the Federal Reserve Act.

Governor Crissinger. If I remember correctly that case the warehouse company was the borrower. How would that meet the requirements laid down by Mr. Yohe?

Governor McDougal. In our judgment those receipts and all the circumstances attending do comply at least with the spirit of the law.

Governor Bailey. There are safeguards enough to make them safe. It is the same way in Kansas City, we have a world of paper that our banks would like to use, but cannot use, although it is the best security that can be given.

Governor Seay. Under the statute of Minnesota such receipts do convey title, which is not the case ordinarily.

Mr. Jay. I understand that this is not a change in the regulations but a proposed ruling by the Board.

Governor Crissinger. Just a ruling.

Governor McDougal. I know from long experience that these receipts have been accepted and have been considered one of the most desirable bases for loans. The warehouse receipts in question carry with them title and if this

warehouse company uses them for the basis of acceptances or for borrowings they cannot be attached. There is not any danger in this at all.

Mr. Jay. I remember last year this was submitted to the Agents' Conference. The proposal was to amend the regulation, and the committee reported a resolution and the Conference approved the recommendation of the committee. If this can be done with a ruling without changing the regulation it seems to me it would be a very desirable thing to do.

Governor Crissinger. What is your next proposition?

Governor McDougal. All of the topics you gave us we have considered with the Board. We did that yesterday.

Governor Crissinger. Does the Board want to bring up any of the topics considered by the Board yesterday? What were those topics?

Governor McDougal. I think I have them all here. One was the advisability of the 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. Well, I think the Board has been

advised on that both by the Agents--does the Board care to hear anything further?

Governor McDougal. The next was the authority of a Federal Reserve Bank to receive deposits of securities for safekeeping from farm loan registrars, Federal Land Banks, and intermediate credit banks.

We have our views on that.

Governor Crissinger. Have the agents anything to say about that; do you want to start that?

Governor McDougal. The next was the question of Federal Reserve Bank representation at bankers' conventions--to what extent should Federal Reserve Banks be represented by officers and employees.

The next was the advisability of seeking an amendment to the law to restore to Federal Courts jurisdiction over suits by and against Federal Reserve Banks. It was voted to be the sense of the Conference that it is advisable to procure an amendment to the law to restore to Federal courts jurisdiction over suits by and against Federal Reserve Banks in the form suggested in Paragraph No. 3 on page 3 of Mr. Wyatt's memorandum X-4551.

It was also voted that it would be desirable to seek the enactment of legislation to exempt Federal Reserve

Banks from the process of attachment or garnishment before final judgment in any case, as National banks are now exempted under the terms of the United States Revised Statutes.

Those were the topics, I think.

Governor Crissinger. Is there anything further to bring before the Joint Conference?

I would like to say that Mr. Martin has advised me that the Agents are through and have adjourned subject to the will of the Board. Is there anything that the Board wants them to do that would keep them here longer? If not, some of them would like to arrange for their transportation to go home. Is there anything that any member of the Board would like further information about?

Governor McDougal. Are we going to have any discussion on the topics and actions taken by the Agents' Conference?

Governor Crissinger. That is what this meeting is for. Mr. Martin, Governor McDougal is inquiring about the action taken by the Agents' Conference. Can you take them up in the order they come?

Mr. Miller. Governor, what disposition is going to be made of questions submitted to the Board?

Governor Crissinger. I have been asking for a dis-

cussion of them. After each conference has made their recommendations I presume we have passed upon them. They are submitted in writing. That is the way we have heretofore done it.

Mr. Miller. Yes. There were one or two pretty important things.

Governor Crissinger. Well, probably they will come up right here.

Mr. Martin. It was our purpose, of course, on all these topics submitted by the Board, to present our conclusions in writing to the Board, and we hope to do that within a day or two.

The first topic was Federal Reserve Bank representation at bankers' conventions, which has come up before you.

The next topic was reduction in reserve requirements. Practicability of reviewing at least once each year the situation with respect to member banks located in outlying sections of Reserve and Federal Reserve cities, which have been granted the reduced reserve privilege, in accordance with the Board's policy outlined in its letter of December 19, 1924.

Governor Crissinger. What is your recommendation?

Mr. Martin. Our recommendation is that it is practical and desirable to make the review at least once each year and have it in the hands of the Board by December 31 each year, together with a recommendation.

Governor Crissinger. Now, do any of the Governors want to talk on that subject? Do any of the members of the Board want to be heard?

Mr. Martin. The next one is one that was also on the Governors' program, the advisability of the 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. What is your recommendation on that?

Mr. Martin. Our general recommendation was to the effect that it is not necessary at the present time. We want more information along certain lines. Our report in regard to this fiduciary matter includes the general subject of fiduciary bankers. It is rather a long document, stating the general situation; but our general conclusion in regard to minimum capitalization requirement is that that is not advisable at the present time.

Governor Crissinger. I think the Governors made the

same finding.

Has anybody any further remarks?

Mr. Martin. The next one submitted by the Board is procedure in elections of Class A and B directors.

Governor Crissinger. You had better explain that to the Governors.

Mr. Martin. It was decided by the Conference that, in view of the fact that the present procedure for conducting elections, which comes under the jurisdiction of the Chairman of the Board, has been subject to criticism -- in all instances practically, we believe, unjustifiable criticism--but criticism which has arisen on account of the procedure in conducting elections of Class A and B Directors. Some of the small banks make the statement, as I understand it, that they dare not nominate a man after that man has been nominated by a large correspondent; the statement has further been made that banks object to voting for men if those men are sponsored by other correspondents. I understand the criticism has also been made that if a man now on a board of directors in a bank is put up for re-election the banks hesitate to vote against him on the theory that should that man be

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re-elected they would be at a disadvantage in submitting rediscounts. Now, of course, we know that in large measure is unjustifiable criticism, but the general idea seems to be that the ballots are not secret. In effect, in practically all of the banks, I am inclined to believe that they are secret now, but the procedure is such that criticism can be brought against them as not being secret.

Our Conference went into the general question of the election of Class A and Class B directors. From an investigation of the law we find that it is necessary that the candidates, together with the names of those by whom the candidates are nominated, must be listed and a copy of that list sent to the interested banks. That means there can be no secrecy as to nominations, but in regard to the ballot the law makes the statement that the ballot is to be a preferential ballot on a form prescribed by the Federal Reserve Board, and the method of procedure in the conduct of the elections can, therefore, be modified, in our judgment.

We are now following the procedure which was inaugurated by the Organization Committee. The forms are those that were sent out by the Organization Committee.

Acting under the suggestion of Governor Crissinger, who brought out the proposition of voting an absentee by mail, taking those suggestions of Governor Crissinger, it has been the idea of our Conference that we will work out the details of a plan and inaugurate it commencing with the next election. It is too late now to do anything this year. It does not change the method of nomination which, under the law, cannot be secret, but so far as the ballot is concerned the idea is to have a preferential ballot, in the form in which we now have it, without having the signature of the man casting the ballot.

An envelope, perhaps of a distinctive color,--we have not worked out the complete details of this--marked "For ballot", will be sent from the office of the Chairman to the man authorized to cast the vote for his bank. To get this before you as clearly as I can, I will indicate what we have in mind: To have the Chairman send out from his office to the man who is designated to cast the vote, an envelope, perhaps of a distinctive color, marked "for ballot"; also a preferential ballot in the form he sends out now, with the exception that it will have no place for signature. He will also send out what may be called a letter of transmittal, to be signed by the man who casts the ballot, so that his signature can be checked against the authorized signature in the office.

There will also be sent out an envelope in which all of these things may be enclosed. Then the man who casts the vote will take the ballot, which contains on it no mark of identification, and he will indicate his preferential ballot. He will fold that, put it in an envelope, of distinctive color, marked "For ballot", and seal it. Then he will take the letter of transmittal to be sent to the Chairman, he will sign that letter of transmittal with his signature, and his signature is on record in the Chairman's office, together with the title of his bank. He will then take the envelope with the ballot in it, and the letter of transmittal, and place those things in the other envelope addressed to the Chairman of the Board. It can easily be worked out so that when these envelopes are received by the Chairman of the Board, instead of opening them as they come in, they will not be touched until a certain date. They will be put into the ballot box. Then the Chairman can notify the nominees that the ballot box will be opened and the ballots counted on a certain day at a given time and that it would be thoroughly proper for himself or his representatives to be present if they wish to come. In this way we hope to work out a scheme which will give us

a secret ballot and which will remove it, so far as is possible under the law, from any possibility of criticism.

Mr. Hoxton. There is one point which you left out, which is the crux of the whole matter. He also recommended that the Federal Reserve Board seek to have the Act amended so that the names of those nominating candidates would not have to be published.

Governor Crissinger. And make the nominations the same as they do the voting?

Mr. Curtiss. There is one other point, and that is that these ballots should be opened in the presence of the authorized representatives of the Chairman.

Mr. Martin. That is a detail. Of course the ballot box will be opened and the ballots counted in the presence of two qualified people, qualified in the judgment of the Chairman to make a certificate of election.

Governor Crissinger. Just another point that I omitted, and that is that when the ballot is sent out, with this letter of transmittal and the envelope, that there also be included a biography of the candidates so that a man 150 miles away may have some idea of the business of the man for whom he is voting, whether he be a Class A director

or a Class B director.

Mr. Jay. Not prepared by the bank.

Governor Crissinger. No, prepared by the nominee.

Mr. Martin. He will work these details out carefully and safeguard them.

Governor Crissinger. I think it will be a very nice scheme when you work it out.

Mr. Miller. I was just suggesting to Mr. Jay, more by way of jocular diversion, that we might have someone in the Federal Reserve System to be known as the official biographer.

Governor Crissinger. That was the next question.

Mr. Martin. The next question submitted by the Board was the question of Assistant Federal Reserve Agents at branches. "The Board desires that Federal Reserve Agents give consideration to the practicability and desirability of establishing some uniform procedure for handling the note functions of Federal Reserve Agents at those branches of Federal Reserve Banks where the full-time services of an Assistant Federal Reserve Agent would not appear to be required."

I will ask Mr. DeCamp to read his report on that.

Mr. DeCamp. There are 23 branches of Federal Reserve Banks. At only 8 of these are unissued Federal Reserve notes kept on hand, namely: Cincinnati, Pittsburgh, Jacksonville, New Orleans, Detroit, Denver, Omaha and Oklahoma City. At the first five mentioned branches there are Asst. Federal Reserve Agents. The Committee assumes that there is some special reason at these branches for keeping on hand a supply of unissued notes and for maintaining Asst. Federal Reserve Agents.

The Committee believes that nothing should be done to reduce the protection which these branch territories now derive from having a supply of unissued Federal Reserve notes maintained at the branches named. On the other hand, the Committee feels that as other branches, some of which are as large as these eight branches, now conduct their business satisfactorily without maintaining a supply of unissued notes, some if not all of these eight branches should now give consideration to evolving some method whereby present protection can be maintained for their member banks without the maintenance of a supply of unissued notes on hand.

It is impossible for the Committee, as a Committee, to know the condition in each of these branches and whether it

would be possible for any or all of these branches to carry their reserve supply of notes in the banking department instead of in the Agent's Department. A shortage of collateral at certain seasons of the year, or other reasons of an emergency nature or in the nature of a gradual change in conditions over a longer period, may make this impracticable. The Committee can only suggest that without changing the present form of organization, each of these branches should, during the next six months, experiment with the possibility of carrying the reserve supply in the banking department instead of in the Agent's department. At the end of this period each of these branches would be in a position to know the extent to which this would be practicable, although it might be necessary in some of the branches to carry on the experiment longer in order to be able to observe all of the conditions which might arise at such branches during the full course of a year.

Governor Crissinger. Is there any discussion of that recommendation?

Mr. Jay. During the discussion in the 'gents' Conference chairmen representing a number of these branches were not present. Mr. Newton of Atlanta, who has branches in Jacksonville and New Orleans, was not present and Mr. Heath, with the branch at Detroit, was not present.

Governor McDougal. I can only say that in my opinion-- I do not know how Mr. Heath would feel about this--if the Board wanted to do away with 'ssistent Federal Reserve 'gents, or the Federal Reserve 'gent at Detroit, which is only a few hours away, that we could safeguard the situation satisfactorily through the maintenance of a reasonable supply of cash and through the medium of shipment. I have not discussed the subject with Mr. Heath, but I feel that that could be done.

Governor Wellborn. We feel that it is necessary to have an 'ssistent 'gent in New Orleans on account of the large banks there and the tremendous amount of business, to take care of emergencies that may arise. We also think we should have one in Jacksonville, Florida. Conditions down there have been rather unusual this year,

and until those conditions are straightened out we think that we should have an Assistant Federal Reserve Agent and have a good supply of notes on hand. At our other branches, Birmingham and Nashville, we could do without them, but not at Jacksonville. We have a man in Jacksonville at a nominal salary, almost nothing. He is a Class B director of the branch bank. He is in the commercial business and just comes in occasionally and acts when it is necessary. It costs us hardly anything at all.

Governor Crissinger. Does anyone else desire to be heard on this subject? Any member of the Board? Is there anything else?

? Mr. Martin. With the exception of the question asked with regard to releasing the consolidated statement of member banks, releasing part separately in advance of releasing the consolidated statement--

Governor Crissinger. The Governors voted that they would interpose no objection to the releasing of this statement ahead of time, Mr. Martin.

Mr. Martin. Then that concludes the topics placed on the program by the Board with request for answers. There is the topic of Examinations.

Governor Crissinger. Have you reached any conclusion on that?

Mr. Martin. Mr. Jay can make a statement in regard to that matter.

Mr. Jay. The Conference having discussed this matter with the Board on last Friday--

Governor Crissinger. You had better state what it is, so that the Governors will know what it is.

Mr. Jay. At the last Joint Conference a committee of Agents was appointed to study and report on the whole question of examination by Federal Reserve authorities. This committee met several times with a committee of the Board, and in August they presented a report to the Board's committee, a copy of which was sent to each Chairman and Governor, so that all have been furnished copies of it. At the Conference between the Agents and the Board last Friday Mr. Platt read the report of his committee of the Board. Then the Conference, having had our own report and having had the report of the Board's committee, discussed the whole question again and had one or two suggestions to make. May I just summarize this, Mr. Platt?

Vice Governor Platt. Certainly.

Mr. Jay. The report of the Board's committee, which I understand has received the approval of the Board in general, proposes to establish a division of the Board, at least temporarily, under the supervision of a competent examiner to make a survey and report as to the efficiency and thoroughness of examinations and credit investigations made by each Federal Reserve Bank and as to the efficiency and thoroughness of examinations made by the State banking departments. "The Board's committee believes that the ideal system for State bank members in many states would be to have one examination by State authorities, and one by Federal Reserve authorities each year. This cannot be done under State laws excepting in a few States at the present time, but an effort should be made to obtain the necessary amendments to State laws so that it may be authorized."

The Conference expressed its great satisfaction at the proposed survey and its hope that the work would develop into a permanent division of the Board, to keep the Board fully advised at all times of the efficiency and thoroughness of the examinations and credit investigations made by the Reserve Banks and as to the efficiency and thoroughness of examinations made by the State bank department.

With regard to the suggestion of the committee that the State laws should be amended, in the case where two examinations are required a year, so that one of those official examinations required by the State should be made by the State authorities and one by the Federal Reserve authorities, the feeling of the Conference was that this would be an assumption by the Federal Reserve authorities of the responsibilities and duties that are imposed by law on the State supervisors and that therefore it would be an undesirable program to develop. We feel that probably this arises from the desire of the Board to have more satisfactory examinations made by Federal Reserve authorities in cases where the State examinations are not satisfactory, and we believe that one of the difficulties in the way of accomplishing this at the present time is the fact that we must charge for making these examinations. Therefore we recommend to the Board that they seek an amendment to the law, as soon as possible, so that the charge to be made for examination should be discretionary with the Federal Reserve System.

The report of the committee is quite a long one. The gist of it is contained in three or four pages, and if I

may read about one page, Governor, it will express the view of the committee with regard to the position of the Federal Reserve Agents in connection with examination. I may say that this was gone over very carefully and discussed very thoroughly and certain changes made. I will read the changed paragraphs, which were agreed to by every Federal Reserve Agent present, Mr. Newton of Atlanta and Mr. Heath of Chicago being absent:

"(1) Federal Reserve Agents. The committee feels that every Federal Reserve Agent must necessarily be both interested and active in having reports of examinations of member banks in his district analyzed, and, where these are inadequate, in taking the necessary steps to secure adequate information concerning the affairs and condition of every member bank in his district. Every Federal Reserve Agent should have a high-grade chief examiner and an adequate staff. Every Federal Reserve Agent should be able, upon reasonable notice, to undertake an independent examination of any bank in his district. In the case of large banks or banks having many branches he should be able to arrange this by drawing on members of his auditing department, or of other departments of his bank, on the examining staffs

of near-by Reserve banks, and on the Board's examining staff, if necessary. Every Federal Reserve Agent should stand ready to keep the Board advised, whenever the Board so desires, regarding the management, affairs, and condition of any member bank in the district. Every Federal Reserve Agent should maintain personal contact with the Comptroller's chief examiner, and with the State supervisors in his district, and either personally or through his chief examiner, should be in constant touch with these supervisors regarding conditions in any member bank which are unsatisfactory."

That contains a statement of what the Agents consider the position of their office requires of them with respect to examinations.

Mr. James. I don't quite understand the statement there when you say when the Agents are desired to perform certain things. By whom are they going to be desired, and when?

Mr. Jay. Well, if the Agent himself finds it necessary or if requested by the Federal Reserve Board.

Mr. James. Somebody has got to call the Agent's attention to a specific bank?

Mr. Jay. He might call it himself. I am not quite sure that I know exactly to what you are referring.

Governor Seay. Or the administrative section of the bank might call attention to it.

Mr. Jay. You mean about making the examination?

Mr. James. I mean the necessity of improving examinations.

Mr. Jay. "The committee feels that every Federal Reserve Agent must necessarily be both interested and active in having reports of examinations of member banks in his district analyzed", and so forth.

Mr. Martin. It puts the initiative on him.

Mr. Jay. Yes, or if you are reminded by the executive department of the bank or the Board that you have some obligation. The committee says "Every Federal Reserve Agent should have a high-grade chief examiner and an adequate staff and should be able, upon reasonable notice, to undertake an independent examination of any bank in his district."

Mr. James. The idea I had in mind was whether the Board be justified in feeling that in the absence of some request for action on the part of the Board, by the member bank, National or State, would the Board be justified in feeling

that that bank was properly managed and was complying with the law and the rules and regulations of the Board and conditions of its membership?

Mr. Jay. I forgot to mention that. That matter was brought up last Friday. The committee has already started to prepare its schedule, which will contain all those requirements of law, regulations and conditions of membership, and the suggestion is that when that is prepared it should be distributed to each of the Agents so that they could pass it on to the necessary authorities and endeavor to get a check-up on each of those points on each examination.

Mr. James. I was wondering whether the Board would be justified in feeling that that was attended to by the Agents, rather than having to set up a staff here to take all the reports of examinations, as filed in the Comptroller's office, or sent to the Board by the Agents, as related to reports of State member banks, and have the staff here go through and search for these violations; or would the Board be justified in feeling that the Agents are attending to it and the responsibility is taken off the Board?

Mr. Jay. The Agents did not discuss exactly where that

responsibility would lie, because the committee had not yet prepared its schedule and had not discussed it. I should assume that unless some such schedule was prepared and furnished the State authorities and the Comptroller, that we would find it difficult to ascertain from the records now submitted whether all conditions have been complied with or not.

Mr. James. I do not have any difficulty, in reading some of the reports I have read, to find a lot of them.

Mr. Jay. No, you can find a good many, but we wish to make up a complete schedule and submit it. Isn't that what you had in mind?

Mr. James. I would like to have had someone call my attention to some of the things that I dug out of the report myself.

Mr. Jay. You could dig out a good many, of course, but your thought, as I understood it, was that we should endeavor to make a complete schedule, questionnaire or whatever you call it, so that the supervisor could advise us on these points so far as he could and we would have opportunity to check up each report.

Governor Crissinger. Why could not the Agent make an

analysis of the report and point out the things, and then it could come to the supervisor and let him go over it. That is what Mr. James has in mind, is it not?

Mr. James. No, I am just asking the question whether the Board would be justified in thinking that the Agents were giving this thorough attention and that the Board's responsibility was taken care of by its representatives in the twelfth district, or whether it should be attended to here in Washington.

Mr. Jay. I think when this schedule is prepared it will be desirable for our committee to sit down with the Board's committee and work out just how that may best be done.

Mr. James. I think that is a good idea.

Mr. Jay. I have in my pocket a lot of requirements of law and conditions of membership and so on. It is going to make a very long list of questions to be discussed in connection with their report, if you want to make a complete statement. I am assuming that the State supervisors and the Comptroller would like to have such a schedule as that in order that they may attempt to indicate those things in their reports. This has been discussed by the Conference, and we believe it would be best worked out between

the Board's committee, our committee and the new supervisor or surveyor, when he comes on the job.

Mr. Cunningham. Was it assumed by the Agents, in the adoption of the statement you have read there, that, following this survey that is going to be made, the Board should decide that some set up of some kind should be provided for the carrying out of the idea, for the doing of certain things where we find that delinquencies occur in these examinations; was it assumed by the Agents that whatever set up is prepared, that the Agents should be required to do thus and so, as enumerated, that the details of whatever arrangement was made should require the Agents to do so and so? You say the Agent should have a feeling of interest in the matter, that he should be required not to do this and to do that.

Mr. Jay. This is irrespective of the survey, Mr. Cunningham.

Mr. Cunningham. I say following the survey, then it is contemplated that there must be a set up of some kind made.

Mr. Jay. We have attempted here to indicate the duties on the part of the Agents, whether you have a survey or not.

Mr. Cunningham. Then the Agents are giving their tentative approval to this survey--

Mr. Jay. Not a tentative approval. A most hearty approval, Mr. Cunningham.

Mr. Cunningham. You make a counter proposition, and I do not think that is a hearty approval, but a tentative approval.

Mr. Jay. Oh, no, a most hearty approval of the survey and we express the hope that it will become a permanent division of the Board, which will maintain contact with the Agents with regard to all these matters of examination and information. I think I speak for all the members of the Conference when I say we feel it a most helpful and desirable thing and we regret very much that there hasn't thus far been such a division. I think it will straighten out the thing very much when we have that division here.

Mr. Cunningham. That recommendation I quite approve of, at least the procedure contemplated meets with my approval; but that conveys the impression that we might have to provide a set up in such a detail way for procedure, which might contemplate our laying down the rules directly to these Federal Reserve Agents as to their procedure.

Mr. Jay. That may be. I assume that is all a matter for the future, as your report says that you haven't any definite recommendation to make at the present time, until you have made that survey. You do, however, say that you approve the general conclusions made in our report as follows: "The Federal Reserve Agents' committee in summarizing its report to the Board's committee makes the following statement: 'The committee believes in maintaining and improving the present examination practice. It does not favor the concentration of Federal Reserve examining responsibilities in the Board because it believes this should be exercised in cooperation with State supervisors and chief National examiners, and more effective cooperation with those authorities, close personal relations are important; but the Board should satisfy itself that at all times the Federal Reserve Agents are satisfactorily discharging their responsibilities in this regard and should require from them such current information as it desires. This is the fundamental feature of the program which the committee recommends.'"

Then your committee says: "The information before the Board's committee at the present time is not sufficient to

enable it to determine to what extent it may ultimately become necessary to centralize, under the Board, certain features of the examination work in order to more effectively coordinate the examination work of the System. In the main, however, the committee finds itself in hearty accord with the recommendations above recited, and believes that for the present the Board should hold the Federal Reserve Agents responsible and should take such measures as may be necessary to satisfy itself that the Federal Reserve Agents are 'satisfactorily discharging their responsibilities in this regard.'

I understand the present set up is that you are going to make a survey to find out how to serve the banks, is that it?

Mr. Cunningham. Yes, possible centralization, no matter what form it takes, but we have committed ourselves to anything of that kind, you understand.

Mr. Martin. I would like to offer a report for the information of the Joint Conference. The Agents' Conference spent an entire afternoon with Mr. Goldenweiser and the statistical division of the Board and their entire staff, going into the details of the construction of a number of these charts. We found it a very profitable

study to know what goes into the charts that are made by the Board.

Governor Crissinger. Is there anything further?

Mr. Hamlin. I move we adjourn.

Governor Crissinger. Before that motion is put, I understand that the Agents have adjourned subject to the pleasure of the Board. There is nothing further that the Board wishes from the Agents.

(Whereupon, upon motion duly seconded, at 4.40 o'clock p.m., the Joint Conference adjourned subject to the call of the Federal Reserve Board.)
