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JOINT CONFERENCE OF THE FEDERAL RESERVE BOARD

WITH THE

GOVERNORS AND FEDERAL RESERVE AGENTS AND CHAIRMEN OF THE FEDERAL RESERVE BANKS

Washington, D. C.,

November 4, 1927.

Walter S. Cox,
Washington, D.C.

Cox

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Treasury Building,
Hearing Room Federal Reserve Board,
Friday, November 4, 1927.

A Joint Conference of the Federal Reserve Board with the Governors and Federal Reserve Agents and Chairmen of the Federal Reserve Banks convened at 10.35 o'clock a. m. in the Hearing Room of the Federal Reserve Board, Treasury Building, Washington, D. C., on Friday, November 4, 1927.

PRESENT:

Hon. R. A. Young, Governor of the Federal Reserve Board;

Hon. Edmund Platt, Vice-Governor of the Federal Reserve Board;

Mr. A. C. Miller, Member of the Federal Reserve Board;

Mr. C. S. Hamlin, Member of the Federal Reserve Board;

Mr. G. R. James, Member of the Federal Reserve Board;

Mr. E. H. Cunningham, Member of the Federal Reserve Board;

PRESENT ALSO:

The Governors of the Federal Reserve Bank as follows:

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

Mr. Benjamin Strong, Governor of the Federal Reserve Bank of New York;

Mr. Geo. W.Norris, Governor of the Federal Reserve Bank of Philadelphia;

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

Mr. Geo. J. Seay, Governor of the Federal Reserve Bank of Richmond;

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

Mr. James B. McDougal, Governor of the Federal Reserve Bank of Chicago;

Mr. David C. Biggs, Governor of the Federal Reserve Bank of St.Louis;

Mr. W. B. Geery, Governor of the Federal Reserve Bank of Minneapolis;

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

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

Mr. Wm. A. Day, Senior Deputy Governor of the Federal Reserve Bank of San Francisco;

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

PRESENT ALSO:

The Federal Reserve Agents and Chairmen of the Federal Reserve Bank as follows:

Mr. Frederic H. Curtiss, Chairman and Federal Reserve Agent of the Federal Reserve Bank of Boston;

Mr. G. W. McGarrah, Chairman and Federal Reserve Agent of the Federal Reserve Bank of New York;

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

Mr. George DeCamp, Chairman and Federal Reserve Agent of the Federal Reserve Bank of Cleveland;

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

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

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

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

Mr. John B. Mitchell, Chairman and Federal Reserve Agent of the Federal Reserve Bank of Minneapolis;

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

Mr. C. C. Walsh, Chairman and Federal Reserve Agent of the Federal Reserve Bank of Dallas;

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

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

Governor Young. Gentlemen, we are ready to proceed. We have heard from the Agents on practically all of their program, except that part of their program which is also on the Governors' program.

Governor Strong, as Chairman of the Governors' Conference, the Board would like to have you report those things which you think the Board is interested in on your program.

Governor Strong. Have you the program of the Governors' Conference before you, sir?

Governor Young. I have.

Governor Strong. Did you not mark one or two items on that?

Governor Young. I marked your program.

Governor Strong. Mr. Chairman and gentlemen, the Committee on Open Market Investments had expected to have a meeting about two weeks before the Conference, but one thing and another delayed calling the meeting until the day immediately before the Governors' Conference. As you know, we were unable to meet with the Board until Wednesday, the first day of our meeting. After an all-day meeting on Tuesday, and a meeting with the Reserve Board on Wednesday morning, this report was adopted, which I will ask Mr. Harrison to read, if he will.

Mr. Harrison (reading):

"The committee has considered the confidential preliminary memoranda submitted by the Chairman, and upon the basis of the memoranda proposes that the open market policy of the System until March 1st next, unless developments not now anticipated require a further review, shall be: to maintain stable rates for money at about present levels and prevent further imports of gold.

"In order to carry out the above policy, the committee would adopt the following program and procedure:-

"(1) The plan of offsetting gold movements by purchases and sales of securities would be continued as heretofore.

"(2) Any considerable advance in rates for money towards the end of the year would be dealt with only if necessary by temporary purchases of securities.

"(3) During the return flow of currency which usually occurs in January, sales of securities would be made in amounts sufficient to insure retirement of the seasonal issue and prevent its being added to member bank reserves.

"(4) In event of the renewal of a gold movement to the United States, gold may be purchased abroad in London, and possibly in Holland and Switzerland, if necessary, at approximately their gold export points, or exchange on those countries may be purchased, so as to arrest, if possible, a further importation of gold. The limit upon such purchases to be $100,000,000. Such purchases would also be offsetthe same as the gold movement. Gold or exchange purchased may be invested in bills or employed at interest, as in the case of the Bank of England account.

"(5) The considerations which will guide the committee as to when and for what amounts such transactions shall be made, are:

"(a) The amount of borrowings by member banks from the Reserve banks;

"(b) The general level of interest rates;

"(c) The movement of foreign exchange rates as an indication of possible gold imports.

"The committee would expect to be charged with the execution of the program for account of those Reserve banks which approve and participate."

Governor Strong. This report, Mr. Chairman, contains very little detail and no argumentative material, all of which is in the memorandum referred to in the first paragraph, which is too long to be read here, and all of which will be distributed to each of the reserve banks in the usual course. In fact, the Governors now have copies of it.

Behind this report is a development which has occurred this year, of much significance to the Federal Reserve System. Contrary to the common belief, we have had no gaining of gold in the United States, that is monetary gold in the United States, in the last three years, for instance, for the reason that we have made large sales of gold which have not been shipped, and which is now earmarked in the bank in New York.

We made a sale of $100,000,000 this summer to one of the continental banks of issue, which has not yet been shipped. We are just now in the midst of concluding delivery of $50,000,000 more to that same bank. That will be finished next week. I think we have delivered about $31,000,000 of that already. We have shipped thirty-one and a half million gold to the Argentine; we have sold five million to Belgium, and we have just received directions to start the shipping of $36,000,000 to Brazil.

We also have concluded arrangements which were required in the reorganization of the Polish monetary situation and have shipped about $15,000,000 of gold to them. We now have another, a seasonal movement to Canada, which may take forty or fifty million. When all these transactions are concluded the net result will be that the stock of the monetary gold in the United States will have been reduced about $150,000,000 below what it was two years ago. The reason that is not better understood generally is because, out of consideration to the banks abroad who are buying this gold, we have not published the detail figures of gold held under earmark.

The committee has decided that it would be wise, subject to the approval of the Federal Reserve Board, to commence that publication probably the first of December, and it will likely show that we will have ear-marked in the neighborhood of $155,000,000 in gold in the Federal Reserve Bank of New York, and possibly more than that by the time the publication takes place.

Now, so much of this gold will have moved out this year, over $250,000,000 altogether, that it becomes increasingly important that the impairment of the bank reserves, which result from this loss of gold, should be in some way compensated for, and the amount of the System holdings of securities now, which was at a very low point, a little over $100,000,000--about three hundred and eighty-odd million now, or $390,000,000, or total holdings over $500,000,000, is due entirely to the purchase of securities which have been made to compensate for this loss of gold. The amount purchased outside of these compensating transactions being only $79,000,000.

I think the rest of the report, Mr. Chairman, is clear enough, and requires no particular information beyond what is contained in the memorandum.

Governor Young. I would just like to say for the Agents, that the preliminary report is a very concrete one and will no doubt answer questions that might arise in your minds in reference to the whole procedure.

I would like to say also, Governor Strong, that there was a little discussion the other day as to how many more United States securities the System could buy. I had Mr. Smead figure that out for the entire System, not for any particular bank, and it figures $781,000,000 more, as of date November 2nd. That is just for information, that is all. I thought it might be a billion or a billion and a half, but it wont be that high.

Governor Strong. The other topics which may be reported to this meeting are these: We find, Mr. Chairman, that there are six or seven items on our program and pending before the System that have to do with legal matters, some of them very technical legal questions, and the meeting passed a resolution expressing the view to the Federal Reserve Board that the time has possibly now arrived when another meeting of the counsel of the Reserve Banks, should be called; that Mr. Baker be asked to be present at that meeting, and that it be held at some convenient time by arrangement.

I would like also to refer to the report, which I believe was made by Mr. Case, on the development of these investment companies buying bank stocks. That was a preliminary report only, Mr. Chairman; it has been considered by the Governors at their meeting, and it is proposed, as the result of their action on that report, to make a inquiry considerably more in detail than has yet been made, send that to each Federal reserve bank, and, based upon the report that we will make in New York, we will ask each of the reserve banks, in turn, to make similar inquiries in their districts, and exchange reports between all of the reserve banks.

We considered the regulations which are now about to be issued by the Federal Reserve Board and made some recommendations on two or three points. One was that for the present there seems to be no pressing need of a regulation by the Board governing non-cash collections, and it seemed to us desirable to consider again, or to have the Standing Committee on Collections consider again, the circulars of the reserve banks and endeavor to get them more nearly uniform, postponing the issuance of the regulations for the present. There was some specific suggestions made as to the treatment of these circulars by the committee, and the committee is supposed to report back to the next meeting of Governors.

With regard to the regulation referring to reserves of member banks, it was unanimously recommended that the proposal of the pending regulation be adopted;that member banks in cities where there are reserve banks or branches of reserve banks, make their reserve calculations twice a week, and that otherwise the period should remain unchanged.

It was also recommended to the Federal Reserve Board that the progressive penalty on deficient reserves be not made mandatory, as was proposed in the regulation; in fact, that would leave the regulation as to penalty exactly as it is now.

The meeting also reviewed the report which was made to the Federal Reserve Board by the System's Committee on Acceptance Transactions. The committee met in New York and had the benefit of one or two meetings with the men in charge of that business in all the principal accepting banks and firms, and the committee has made a recommendation which involves no change in the existing regulation, but some change in the rulings to liberalize them somewhat and put the New York banks in a better competitive position with the foreign banks.

What has happened in that business recently is, from our point of view, unfortunate. One of the large London banks undertook to reduce the acceptance commission to one-eighth per quarter, instead of the customary minimum of one-fourth of one per cent per quarter, which meant that their charge on acceptance credit was one-half of one per cent per annum instead of one per cent per annum. This spread to all the London accepting houses and banks and we had a reaction in New York, where they have reasonable uniformity with regard to the charge per quarter, so that they are all making a commission charge in New York, and unless something is done the difference of half of one per cent, instead of one per cent, which had formerly prevailed, means that the differential between the bank rate in London and New York, as to possibly a billion or a billion and a half dollars of paper, is reduced to that extent, and it makes the effect of relationship between the bank rate by so much less effective.

We also considered with Mr. Mills, who attended our meeting, this puzzling and rather obscure question of the gold points and the practice of our Treasury in buying and selling gold at identical prices both ways. Mr. Harrison has made a special study of that, and if you will permit him I will ask him to report on it, Mr. Chairman.

Governor Young. Mr. Harrison?

Mr. Harrison. Mr. Chairman and gentlemen, while it is true, as Governor Strong says, in the past two years there has been no net importation of gold into the country, nevertheless over the past seven years approximately a billion and a half of gold has been added to our monetary reserve. Within the past three years, while there has been relatively no net change, still there have been shipments both ways, so that we feel that this ever-increasing volume of shipments back and forth between the countries should now, and has now, become the object of very important study on the question of the gold point. That is true, and becoming more and more true, as the various countries in Europe are going back to the gold standard.

The delicacy of the gold point has such an influence on the gold shipments and relative rates in the different countries, that we have felt that we should compare very carefully our practice in this market, in buying and selling gold, with the practices in the various other markets of the world.

Under the minting and coinage laws of this country it is possible for the Secretary of the Treasury, in buying gold at the assay office or any of the mints, to postpone total payment of that gold for a period of forty days. As a matter of fact, however, ever since 1880, the law has authorized him, when the state of the Treasury would permit, to maintain a fund, available at the assay office or the Treasury, with which to make immediate advances on all gold deposited with the Treasury for assaying and purchase.

It is the customary practice at the present time to do that. While it has been different at different times during the past ten years, now it is the custom for the Treasury to make immediate advances of 98 per cent on the gold deposited in the assay office in New York, and the final 2 per cent to be paid when the final returns on the assay are made at the assay office.

This practice of our Treasury Department is different from the practice of any other gold market in the world, and the net effect of it is to make us pay in the United States a higher price for gold than is paid anywhere else in the world. Indeed, the practice of the Treasury, when you take into account the melting and alloy charges, and the slight discount resulting from the 2 per cent deferred payment, results in our paying mint parity less one-seventieth of one per cent.

In the London market, however, the practice there is for the Bank of England to buy gold at the discount of one-eighth of one per cent, in Berlin one-fifth of one per cent, one-third of one per cent in Amsterdam, and two-fifths of one per cent in Switzerland.

Now the effect of this is that, taking a shipment of gold from London to New York, for instance, if sterling should fall off one and a half cents from mint parity, the gold will move towards the United States; whereas it has got to go up three cents above mint parity before the gold will be exported from the United States to London. In the other markets the points are graded according to the discount from mint parity at which they buy the gold and the extra cost of shipping the gold to New York. It is true a part of this discrepancy in the gold points is due to the difference in freight rates eastward and westward-bound, but the greater part of the difference is due to our practice of making immediate advances on the gold up to 98 per cent of the estimated value.

Now, we have felt that, with the immense shipments of gold that have been coming this way during the past seven years, that an increasing importance attaches to our gold practice as compared with the practice in the moneymarkets that are becoming standardized on the gold basis, and we think we should consider the feasibility of our amending our practice in buying gold so as not to compete in the way I think we are now competing with the other markets of the world, and not suck gold towards this country.

Now, there are a number of possible difficulties in the way of the Treasury adopting this practice. When the law first authorized the Secretary of the Treasury to make immediate advances, there was a desire on our part to accumulate gold, and the immediate advances encouraged the deposit of gold with us. At the present time there is not only not any need for us to draw the gold here, but some considerable advantage in allowing it to flow freely the other way, by an adjustment of our price so that we will not pay any more than anybody else. One difficulty in our change of practice is that approximately fifty millions of gold are produced in this country every year, and politically it will probably be very difficult for us to change our buying rate so as to make the discount on gold produced in this country equivalent, for instance, to the Bank of England discount.

Mr. Miller. Does that $50,000,000 go into the monetary stock?

Mr. Harrison. I should think not. Probably a good part of that goes into the arts. But the political question is whether the producers of gold in this country would be willing to discount the price that they get for the gold, whether it goes into monetary stock or into the arts. We have felt that there would be no occasion for the Treasury to change its practice in the purchase of that kind of gold anyway. It involves a different process in the assay office from what they now have to go through in imported monetary gold bars.

We have thought that the difficulties we have in mind would be solved if the Treasury merely should make a ruling that they would abandon the practice of making advances on monetary gold bought, which has been imported into this country.

Mr. Miller. You think the Treasury could do it under its existing authority?

Mr. Harrison. I have not studied it to the point where I can give any opinion on that. It is our view in New York, and of those with whom I have discussed it in the Treasury, that it would be quite competent for the Treasury to make a ruling of that character, and theonly question is whether it would be feasible and wise to do so. You see the laws specifically autoriging the original deferment for forty days was longer than it took to assay the gold. Now that law was subsequently amended and authorized the Secretary, in his discretion, and if the state of the Treasury permitted, to make immediate advances--it does not compel him to do so. The question is a very important one. It is full of political aspects in some ways. It is of great monetary importance, not only to us, but to the rest of the world as well. We have been considering it during two years, quite informally with the Treasury Department, and we feel that it is a matter that ought to be debated and studied very carefully by the System as a whole and at greater length by the Treasury Department, before anything is done about it; and then whatever is done about it should be done, we think, slowly and cautiously and after getting the benefit of all the reactions of the parties that are interested in it in one way or another.

Now, the effect of the ruling by the Treasury that it would discontinue advances would be that in New York, for instance, where a greater part of the monetary gold is imported, a discount of approximately .15 per cent would be made on any gold bought by the Treasury. That is due to the fact that in New York, because of the volume of business, the average time taken to make the final return on the gold deposited is about ten days. The loss of interest, figured at about 4 per cent on that ten days, would result in a discount which, it so happens, would be almost identical with that which is the customary discount of the Bank of England at the present time. In other mints where the volume of work is very much less, the discount would be considerably less, due to the fact that their returns are made quite a bit quicker than in New York. In some mints they are made in as short a time as three days; others go five or six days. We believe that the Treasury could not very well make an arbitrary ruling for deferment of ten days at all mints, because it is the fact that it is the custom in some mints to make returns earlier than ten days. But a universal ruling that they would make no advances, but make full payment at the time of final assay, would fully cover the situation in our view.

Now the only question is how best to study the question further and how best to get the reactions of those that will be most directly interested in it in this country and abroad. We should study the practice a little further to see whether the discount on bars, that would result from this ruling, would make an undue demand for coin, for instance, because if the exporter of gold from this country abroad realizes that when he returns the gold here, that very gold, he will get a discount on bars and not on coin, it will encourage the demand for coin rather than for bars. We have been trying in the last few years to encourage the withdrawal of bars rather than coin, so that this would have a little influence on what we have been trying to accomplish in the past two years.

In that connection, as you all know, the Treasury's removal of the · charge on bars, last August a year ago, has resulted in our being able to encourage some exporters of gold to take bars, when, in the past, it has been out of the question because of the premium on bars. We do not like to take it up with anybody in such a way as to indicate that we are not perfectly willing to give them coin, but in many cases the bars will suit their purposes better than the coin, especially if we pay out circulated coin, on which the abrasion usually averages from two to three dollars on every five thousand dollar bag; so that everything being equal, they will take bars rather than coin when they begin to understand that they can get the bars without a premium.

Whether the new ruling will encourage exporters to go back to coin rather than to bars is a matter which will also have to be studied. It is a big problem; there are lots of aspects to it. If there are any questions to be asked I would like to develop the subject in that way.

Governor Young. What are the recommendations of the Governors' Conference in reference to this subject? There ought to be some method of getting this information to the public, if it seems advisable. The original suggestion was that the Federal Reserve Bulletin could handle it; but I think I can speak for the Board when I say that the Board questions the advisability of bringing this subject up in the Bulletin. Were any conclusions arrived at by the Conference in reference to that?

Mr. Harrison. There was no formal action taken, Governor Young, but I think it was the consensus of view that there would be some disadvantage in trying to reach the public through the Federal Reserve Bulletin. It makes the discussion of it a little more formal than we thought would be advisable at this time, and it is susceptible of the construction, possibly abroad, that it indicates a difference of opinion between the Federal Reserve System and the Treasury Department, which would be unfortunate. That leaves the consideration whether there is another vehicle through which we could reach the public on this and see what would be the reaction of the public if the Treasury should make a change in its present practice.

Governor Young. As it stands now, it is just information on the subject for our study, and there are no specific recommendations from the Governors.

Mr. Harrison. That is right, yes, sir.

Governor Young. Have you anything else on your program, Governor Strong?

Governor Strong. On this same subject, Mr. Chairman, it is clear that the minute the Treasury adopted a practice of deferred payments for gold, the Federal reserve banks would be the cash market for gold, at such price as they fixed. I am not sure that it is understood what very radical change has been made in England in the last three years in their practice. Heretofore, the way the Bank of England maintained its control of the cash market for gold, was by having always at hand at the mint an amount of gold to be coined for account of the Bank of England, so that at any depositor of gold at the mint would have to wait until the Bank of England's order was filled, and the time required to fill the Bank of England order gave the bank control of the cash market for gold. That has been changed by the terms of the gold standard act, so that now the only authorized tender of gold to the mint for coinage is that made by the Bank of England. That is the law in England now. Here we would be adopting a practice somewhat similar to what they had in England prior to the adoption of the gold standard act of May, 1925.

Governor Young. Do any members of the Board care to make any inquiries at all about any particular topic on the program? There were one or two topics, Mr. Martin, that you did not take up yesterday, which deal with the Governors' program. Will you take those up now?

Mr. Martin. There were three topics on our program which we understood were also on the program of the Governors' Conference, and so in making our report to the Board yesterday report on those topics was deferred until this Joint Conference.

Our Conference works in this way: the topics are discussed by the Conference, then referred to a committee, embodied in a report based on that discussion, which report is sent back to the Conference and approved or disapproved.

The first topic that was on the joint program was in regard to this question: "Should deposits in member banks by building and loan associations and mutual savings banks be classed as amounts "due to banks" within the meaning of Section 19 of the Federal Reserve Act, or should they be classed as demand or time deposits, against which amounts "due from banks" cannot be applied in arriving at the basis for ascertaining the required reserve. The Board would like to be advised whether in the opinion of the Conference the same rule should be extended to include deposits in member banks by cooperative banks, credit unions and Morris Plan banks."

That topic was discussed and referred to a committee, and I will ask the chairman of that committee, Mr. DeCamp, to make the report.

The Chairman. Mr. DeCamp?

Mr. DeCamp. "With reference to the topic just announced, your committee begs to submit as its report the following statement made at the Conference by the Federal Reserve Agent of the Second District."

I think it is fair for me to state that the committee adopted practically the memorandum submitted by the Agent from the Second District.

"The present practice of permitting balances due from banks to be deducted from balances due to banks in arriving at net deposits subject to reserve is based on the following paragraph of Section 19 of the Act:

'In estimating the balances required by this Act, the net difference of amounts due to and from other banks shall be taken as the basis for ascertaining the deposits against which required balances with Federal reserve banks shall be determined.'

"The Board has on a number of previous occasions ruled that the following are held not to constitute 'banks' within the meaning of the Federal Reserve Act.

"Mutual savings associations

"Building and loan associations

"Private bankers

"On the basis of existing rulings, therefore, it seems clear that deposits of the character under discussion cannot be considered as balances 'Due to banks.'

"It is presumed that the Board wishes to have the matter considered, however, on its merits and quite regardless of previous rulings and the l aw.

"It is understood that the paragraph quoted above from the Act is the result of an attempt to make legal a practice which had existed with the approval of the Comptroller of the Currency prior to the establishment of the Federal Reserve System under which banks had been permitted to offset balances 'Due to banks' with balances 'Due from banks' in computing reserve requirements. This practice probably was based on the theory that balances due from banks represented in considerable part items in process of collection, that is uncollected funds, and also to the extent that it did not represent uncollected items, that the funds were available for the liquidation of deposits. It may have been argued that such balances 'Due from banks,' while entitled to consideration in the matter of reserve requirements, ought not to be permitted as a deduction from gross deposits, but only from balances due to banks on the theory that in times of stress there would to a considerable extent be an offsetting of bank balances.

"In the light of present-day banking methods the whole procedure is we consider unsound and antiquated. There is no basis in fact warranting the deduction of balances 'Due from banks' from anything. Deductions, if made at all, should represent only items in process of collection on the theory that no reserve should be required on deposits until the deposit represents collected funds, and such deductions, if permitted, should be from gross deposits rather than balances 'Due to banks.' It is recognized, however, that such a procedure would require a change in the Act which cannot be at once accomplished. Therefore, dealing with the question in the light of the Act as it now stands, it is believed that it would be inadvisable to make any more liberal interpretation of the intention of the Act than is necessary and inasmuch as the present ruling of the Board does not permit the classification of deposits of the character under discussion as balances due to banks, it would be better to let matters stand as they are rather than to further liberalize it.

"As to whether such deposits should be classified as demand or time deposits, that obviously would have to depend upon the conditions under which the deposit is taken. If the bank holding such deposits has the legal right to require thirty days' notice of withdrawal or if in other respects the deposits meet the test of time deposits, then they should be so considered, otherwise they should be considered demand deposits."

Governor Young. Governor Strong, that was also on the program of the Governors. Are those the conclusions that the Governors have arrived at?

Governor Strong. We arrived at identically the same conclusions, without adopting a report of that character.

Mr. Martin. There is one report that has always been brought before the Joint Conference, and that is the report of the Committee on Bank and Public Relations. Mr. Heath is the chairman of that committee and I will ask him to make the report.

Mr. Heath, (reading):

"The amendment to the Federal Reserve Act, which provides for indeterminate charters for the Federal Reserve Banks leaves us free to devise a system public relations program which may have for its aim the gradual development of better understanding of the System over a long period of years. The discussion which centered about the passage of this amendment has moreover indicated wide public appreciation of the value of the Federal Reserve System.

"Future Public Relations Program.

"In this generally favorable atmosphere it becomes possible to consider broadly the System's public relations policy for coming years, and it is proposed in this report to sketch some of the principles which may well determine that policy and some of the methods which may well be employed.

"At the outset a few axiomatic principles may be set forth which are basic to Federal Reserve public relations work.

"1. It must in no way savor of propaganda. As a public institution the Federal Reserve System must always be in a dignified position. Propaganda arouses hostility and disrespect.

"2. Public relations work cannot be done by an organized publicity staff, because--

"(a) it would savor of propaganda;

"(b) such a staff would not have the necessary technical knowledge for dealing with Federal Reserve questions;

"(c) public relations is a matter of personal relations in the last analysis and hence must be done by people who are an integral part of each Reserve Bank.

"3. It must not be controversial. Controversy arouses enmity and is dangerous.

"4. There are three general fields of public relations work in the following order of importance--

"(a) The member and nonmember banks. The best advertisement is a satisfied customer.

"(b) Schools and colleges. These are the places where public opinion is basically formed.

"(c) The general public.

"Suggested methods for public relations work in these three fields, together with a summary of what the System is now doing, are contained in the following paragraphs.

"A. Member and Nonmember Banks.

"In every community it is the banker and the college teacher who are the experts on the Federal Reserve System, and the banker's opinion carries the weight of personal knowledge. The banker is the customer of the Federal Reserve System, who must be satisfied.

"There are three ways in which the banker gets his impression of his Federal Reserve Bank,- personal contact, correspondence, and literature. By far the most important of these is, I am sure we would all agree, the personal contact.

"Personal Contact.

"The maintaining of effective personal contacts with the banks in our districts is laborious, but essential to a common understanding. The three usual methods of contact are,--when we go to see the banker, when he comes to see us, and when we meet on common ground at conventions and group meetings.

"Visits to Banks.

"Of these three the most effective is our visit to the member banker. Such a visit at once indicates our regard for him and puts him in the position of a courteous host. Nothing can take the place of these visits. In this connection the following table gives the customary report of the visits made to banks in the different districts. It indicates that during the year, from September 1, 1926, through August 31, 1927, the member banks in the Boston, New York, Cleveland, and St.Louis districts were visited on the average twice a year; that the member banks in the Philadelphia, Chicago,Dallas, and San Francisco districts were visited on the average about once a year, but that the member banks in the Richmond, Atlanta, Minneapolis and Kansas City districts were visited considerably less than once a year on the average. Some of the Reserve Banks have to contend with the isolation of many of their member banks, but some whose districts are most difficult to cover have averaged a visit a year.

"VISITS TO BANKS

	Number of Member Banks Aug.31,1927	Sept. 1925 to Aug. 1926	Sept.1926 to Aug. 1927
"Boston	414	902	866

	Number of Member Banks Aug. 31, 1927	Sept. 1925 to Aug. 1926	Sept. 1926 to Aug. 1927
"New York	929	1,283	1,963
"Philadelphia	774	923	869
"Cleveland	837	1,818	1,661
"Richmond	568	804	154
"Atlanta	469	52	51
"Chicago	1,304	1,945	1,219
"St. Louis	597	1,842	1,085
"Minneapolis	741	135	121
"Kansas City	975	445	448
"Dallas	818	1,134	1,903
"San Francisco	673	827	693
	"9,099	12,110	10,133

"In this connection note should be taken of the fact that the total number of visits to banks this year, numbering 10,000, was approximately 2,000 less than in the preceding year, which in turn was less than the year before. Your committee is of the view that decreases in bank visits are of doubtful wisdom, and believes that there is no single method of public relations work which is so fruitful of better understanding as visits to member banks.

"The quality of the visits is fully as important as the quantity, and in this connection data collected at the suggestion of Governor Norris are of interest.

"Range of Salaries: The salaries paid in the eleven reporting banks are shown by the following figures of number of outside men or officers devoting practically their entire time to Bank Relations work:

"Number of Men	Range of Salaries
1	$2,000 to $2,499
3	2,500 " 2,999
4	3,000 " 3,499
4	3,500 " 3,999
6	4,000 " 4,499
2	4,500 " 4,999
1	6,000 " 6,499
1	7,000 " 7,499
1	10,000 - -

"Thus, of the twenty outside men (other than officers) eight received $4,000 or more, and twelve less than $4,000 per annum. It appears to your committee that it would be wise to work in the direction of using in this important work higher class men than appear to be indicated by some of the salaries paid.

"It is clearly true that the effectiveness of visits depends on the character of the person who makes the visits, and a visit by an important officer of a Reserve Bank will often do more in demonstrating the Reserve Bank's interest in the member bank, and more in clearing up difficulties, than several visits by a bank clerk. A number of the Reserve Banks have followed the practice of sending out Deputy Governors, or even the Governor or Chairman, for rapid trips to visit a number of member banks, and they have always reported most favorable results.

"From a study off the answers received to questionnaire from eleven banks so far reporting, the following comments are suggested:

"The organization of the Bank Relations work varies greatly in the different districts. In three, namely, Atlanta, Minneapolis and San Francisco, there is no special department for the work, it being carried on by officers as their time permits. In some districts it is the chief or sole work of an officer supervising it, and in others it appears to be a secondary consideration. In some, both member and nonmember banks are visited, in others little attention is given to nonmember banks. The frequency of visits to banks varies widely, some aiming to cover all banks regularly twice a year; some once a year, and others even less.

"Bankers' Visits to Reserve Banks.

"Second only to a visit to the member bank itself may be ranked the entertainment of member and nonmember banks at a Reserve Bank. A guest always feel more kindly toward his host. The methods of carrying out this plan which have been followed by the Reserve Banks, are the stockholders' meeting, the small group meeting, and the less formal entertainment of visiting bankers.

"Bankers' Conventions and Group Meetings:

"We believe the general principle to be followed is that the Reserve Bank should be represented at every bankers' convention or group meeting in the district, whenever it is at all possible.

"Correspondence:

"Our most frequent contact with member banks is through correspondence, and from time to time it seems worth while to survey this correspondence to see that it is as human as possible and is conducted by people who deal intelligently with problems which come to them.

"Printed Material.

"There is such a large mass of printed material coming to the desk of every banker, so little of it is read, and the preparation of such material is so time-consuming that the principle of selection needs to be observed in deciding how much energy may be given to any project for the preparation of an article. Fortunately the System has many friends who write, and many sympathetic articles appear from their pens without any solicitation from the Reserve Banks. Perhaps the prime essential in this connection is that each Reserve Bank should have someone on its staff who is qualified to deal with the writing fraternity, to provide material, to discuss problems, and when necessary to take his own pen in hand. Most writers are human beings and can be reached by precisely the same methods of personal contact as have been cited above for member banks.

"Schools and Colleges.

"Some years ago economics was taught in small doses only in colleges; today it is taught in large doses in colleges and in small doses in high schools, preparatory schools, and in the American Institute of Banking, and similar organizations. Thousands of students who graduate from our schools and colleges each year have been innoculated with some kind of idea about the Federal Reserve System. When one considers over a term of years the influence of these people on public opinion, it becomes clear that here is a point at which the System may well spend considerable energy to see that the innoculation is properly done. The following means of influencing the teaching of banking in schools and colleges are suggested.

"1. Textbooks. Officers of the System have already done much in the preparation of textbook material in the publication of the Richmond letters, and books by Harding, Goldenweiser, and Burgess.

"2. Discussions in professional journals. Teachers of economics read and get many of their ideas from these journals. Here the problem is to see that there are always in the System a number of officers qualified to write acceptably and to deal with economics and writers. Every Reserve Bank should have someone who talks the language of the economist, can help in the writing of articles, and perhaps write and speak himself.

"3. Visits to the Reserve Banks. A number of the Reserve Banks have had excellent results from inviting college and school classes to visit the Reserve Bank buildings, to see the Federal Reserve film, and have the operations explained by a guide. In this way thousands of students have been given some definite conception of what the Federal Reserve System is. The Federal Reserve film has proved particularly valuable. It has also proved valuable to have some simple literature about the System to distribute.

"General Public.

"There are two principal ways in which the Reserve Banks can maintain some contact with the general public. The first is through the press, and the problem here is not to create interest for that exists already, but to make available to writers facts and explanations as to the System's operations. The prime necessity at this point is that each Reserve Bank shall have some officer who is qualified to deal with journalists and writers, and who has authority to talk with them freely, though not for quotation.

"The second means of contact with the public is through speaking at such organizations as rotary clubs, churches, etc. When one considers the small proportion of the population that can be reached through speaking, the efforts may seem futile, and yet it remains true, as it always has been and as is recognized in every political campaign, that the public address is one of the best methods of influencing public thought. The people who come to such meetings are likely to be the leaders in any community, and when an important Federal Reserve officer goes to such a meeting half of his object is achieved by his very attendance, because he has shown himself ready to take people into his confidence and has not remained aloof. For these reasons your committee believes that each Reserve Bank should have an organized plan for providing speakers for meetings and that those speakers should be, as far as possible, responsible officers of the Reserve Banks who are able to speak with authority.

"The following figures show the number of speeches reported by each Reserve Bank during the year, September 1926 through August 1927.

"SPEECHES MADE.

	"Sept. 1925 to Aug. 1926	Sept. 1926 to Aug. 1927
"Boston	57	37
"New York	71	62
"Philadelphia	17	10

	"Sept. 1925 to Aug.1926	Sept. 1926 to Aug. 1927
"Cleveland	43	31
"Richmond	16	8
"Atlanta	5	3
"Chicago	25	15
"St.Louis	32	21
"Minneapolis	66	52
"Kansas City	25	25
"Dallas	25	33
"San Francisco	36	31
"Total	418	328

"The Program in Summary.

"In order to summarize the foregoing the committee suggets the adoption by this conference, and by each of the Federal Reserve Banks, of the following minimum program of bank and public relations:

"Banks and Public Relations Minimum Program

"Banks.

"1. At least one visit a year to each member bank.

"2. Representation at bankers' conventions, or group meetings in the district, whenever possible.

"Schools and Colleges.

"1. Someone on the staff of each Reserve Bank who talks the language of the economist and maintains contact with schools, colleges, and professional literature.

"2. A plan for visits by college classes to the Reserve Bank--including the distribution of suitable literature.

"The General Public.

"1. Someone on the staff of each Reserve Bank who is available for contact with journalists and writers.

"2. An organized plan for providing speakers for meetings."

The Chairman. Governor Strong, that was also on the Governors' program. Have you something to report on that?

Governor Strong. Mr. Chairman, we had this topic on our program, in connection with a request that had been made for a circulation of a questionnaire upon the reserve banks, which was prepared and has been circulated, and I believe was also delivered to the Conference of Chairmen, and postponed consideration of this report until the Joint Conference.

Governor Young. Are there any comments from the Governors or Agents on the report in the way of approval or disapproval?

Governor Strong. I think it is an estimable report and should be adopted, Mr. Chairman.

Governor Seay. It is an extremely fine report, in my personal judgment.

Governor Young. This Conference is composed of the Agents and the Governors, I understand.

Governor Talley. I move the adoption of the report, Mr. Chairman.

Governor Young. If the Board is in this I want to express myself a little bit. If it is not I will stay out of it.

Mr. Newton (of Atlanta). I think we would like to hear from you, Governor.

Governor Young. I have watched this matter of bank relations very carefully. I think it is a question that has to be approached very carefully. This strikes me as a very elaborate program. From my own experience in Minneapolis I would say there are many things in it that we could not comply with, or even if we could, I do not know that it would be advisable.

I have had a little experience in public relations work for myself, and I discovered this, that it took a great deal of time; that is, it took me a good deal of time to prepare a talk, and I did not deliver it particularly well, and then after it was delivered is when the real work started. It required usually thirty to sixty days or more to explain what I was trying to say to them.

I question in my own mind whether this bank relations work is the best thing or not, that is such an elaborate program. The men that you usually send out in the country are pretty clever men, good talkers and make a good impression, but what the country banker wants to know is can he get twenty-five or fifty thousand dollars at a certain period of the year, and your man cannot answer that. Many technical questions come up. Our open market operations are beginning to be a very important subject, even away back into the country. It is something new, something they do not know about; it is new to us. It is extremely hard for many people associated with the business to explain it properly. I do not know that you can enter into a great campaign to carry out all those things.

Now the report is that Minneapolis has not visited its member banks. That is true. The distances are great, the difficulties are many. When we did visit the banks it was not for relations purposes at all; it was for other purposes. But regardless of whether we have visited those banks or not, they have visited us, a great majority of them have, and the officers of the bank have been instructed to give their time to those gentlemen when they came in. I think they have done that very well.

I suppose you can arrive at conclusions by results. Do people from the Ninth District understand the Federal Reserve System as well as the people in New England understand it? I am inclined to think that they do, from actual experience.

Now, I have not made up my mind on this, but I have just got a kind of feeling that we are going a little bit too far, maybe, in publicity in this banks relations work.

Governor Harding. May I interrupt you a moment?

Governor Young. Yes, Governor Harding.

Governor Harding. Mr. Chairman and gentlemen, we have a very large country with conflicting interests, differences of opinion, different types of people, different types of bankers. Speaking from my own experience with two districts, those two with which I am most familiar, Atlanta and Boston, I want to say that methods which are effective in the Boston District and beneficial in the Boston District would be ineffective and harmful in the Atlanta District.

(Whereupon discussion followed which the reporter was directed not to place upon the record.)

Governor Wellborn. Mr. Chairman and gentlemen, I had not expected to say anything upon this subject, but since Atlanta has been brought into the picture several times in the remarks made I would like to say that from the first seven or eight years of our work in the bank we decided that there was no necessity for having a public relations committee of this kind. But some of our directors had the idea that it would be a very fine thing and we put it to trial in 1923. We employed four or five men to go around and visit the banks. Every bank in our district was visited. We employed an outside man who took charge of it. The result was that all they did was to go around and spend a lot of money and some of them got jobs that they would not have otherwise had. But the burden of the questions by the member banks was "Why don't we get an exchange on our checks?," and, as Governor Harding said, "Why don't they pay us interest on deposits? They make lots of money, they use our money, and why don't they pay us for it?"

I think the report shows that that was the burden of their talk. We discontinued the work but it is bobbing up again now. One of our directors, at the last meeting, said he wanted us to go into this subject and make a report.

Now, I made a talk on this subject several years ago and one of the members of the Federal Reserve Board criticised me pretty severely for the position I took. That would not deter me, of course, from speaking my ming whenever I thought it was proper. I spoke then on the subject, after Mr. Jay had made a very elaborate report, and I had a perfect right to do it. I spoke my real sentiments, and that was that the public relation work, so far as our district was concerned,--I did not speak for other districts; I was speaking for my own district--was all folderol, just merely a matter of giving people jobs. We did go into this work some three or four years ago, and I might say that it was gotten up expressly to get somebody a job.

Governor Fancher. Mr. Chairman and gentlemen, this proposed plan in the summary on the program here is about the plan that we have had in operation for several years in our bank. I admit that different conditions exist in the different districts now, but I think at the outset that the conditions were very much the same, in one or two respects, in all districts. We all had discontented members, some of whom felt that they had been coerced into membership. Some of them were very sore about it. Some of them were openly sore about it and did a lot of talking and all that sort of thing. It was under those conditions that we gave consideration to the organizing of the Member Banks Relations Department, with the first object in view of selling the Federal Reserve System to the member banks, because there was such great misunderstanding and such great dissatisfaction in the minds of some that did not know about it. They wanted interest on their balances and other things. Therefore it was very interesting to follow the reports which the men who visited the banks made, and when they went around the second or third time, it was interesting to note the change in the attitude of some of the banks. We found at first that there were banks so hostile that our representative from the Bank Relations Department could not get into the bank. They were given very discourteous treatment. That has gradually been broken down, and with a very few exceptions, we have a very friendly attitude on the part of member banks and they are very much more intelligent. Now, with our men who visit the banks, it has been their policy to try to visit the banks twice each year, and in the reports which they make to us, and which are summarized and come on my desk weekly, there is a mass of very valuable information with regard to particular localities in the district. That aids us very materially in granting credit to the banks. It aids us in knowing the condition of our member banks. It informs us if there is a condition that is not wholly satisfactory or as to changed conditions, or as to the tred of business either up or down in deposits or loans a great variety of information of a great deal of value comes to us from our members in our Bank Relations Department. Therefore I would regret very much to see our operations in any way curtailed from the way they are being conducted at the present time. I think they are of great value, and I think for the money that it costs that we are getting splendid results.

Governor Young. Does any member of the Board care to say anything on this subject? Did not someone make a motion to adopt this report or approve it?

Governor Talley. I made a motion to adopt the report. However, in view of the discussion here, I think that motion might be stated that the report be adopted in principle, the action having for its base a desire to promote the education of the public and of the member banks as to real purposes and intent and attitude of the Federal Reserve Banks toward the membership and towards the public.

Governor Young. Do you make that as a motion?

Governor Talley. Yes, sir.

Governor Wellborn. I will second it.

Mr. James. Before you put the question, Governor--

Governor Young. The Board is not voting on this.

Mr. James. That is what I was going to ask, whether or not action here would be considered as approval by the Federal Reserve Board.

Governor Young. No.

Mr. James. Or to authorize the banks to go ahead and carry out the program.

Governor Young. No. The Board cannot vote when others are present. The Board will take the vote of the Conference here and determine it at a later date.

Governor Strong. I do not recall whether any language appears in the report suggesting that the application of the principles set out in the report should be modified where necessary to meet varying conditions in the different districts.

Governor Young. I thought that Governor Talley's resolution covered that.

Governor Strong. If that is so it might cover the objections that otherwise would arise to voting. I have gained the impression, from what has been said here, that there are two points of view. One is that opposition to the System among members still exists, that that opposition will gradually die out as these critics die off. The other point of view is that they can be convinced on these questions, such as has occurred in the Boston District. I had hoped that the remarks made here about this collection charge or exchange charge and the payment of interest, and so on, do not indicate that there is any intention on the part of the System to side-step those questions if there is any opportunity to convince these people. I mean, to let the situation continue to smoulder, with no effort by logical argument and discussion to overcome it, seems to me a mistake in any district, irrespective of conditions.

Governor Young. I can say to you, Governor Strong, that in the Ninth Federal Reserve District there is still this opposition to the Federal Reserve System. Perhaps we are not convincing enough in our talks in the Northwest, but you cannot change their minds. We would be glad to have some other Federal reserve bank, through its public relations men, to change their minds, if they can be changed.

Governor Strong. I do not think there is the slightest question but that the bankers in this country, if the subject is properly presented, can be convinced of the fact that payment of interest on their balances with the reserve banks would be a calamity.

Governor Young. I had reference to par collection of checks and the question of exchange.

Governor Strong. I admit that is more difficult.

Governor Young. Much more.

Mr. James. On this matter of variation of conditions in districts, and our position as to parring checks, isn't it true that in the districts where this question is continuously agitated the customer of the bank is not called upon to bear this burden to any large degree? In other words, the depositing customer of the small country bank, he does not have to pay that exchange when he makes his deposit in the bank, because that deposit is usually the proceeds of some sale of commodities, and if it is not paid for in actual cash it is paid for in a draft or a check drawn on some, we will say, reserve city, and the country banker is very glad to accept that and put it to his credit at par. He does not suffer from that, the customer himself, in these districts, particularly the Atlanta District and the Minneapolis District, as I view it. He is not interested. The jobber and the manufacturer and so on who is selling goods in that district has been in the habit of absorbing these exchange charges, and so we get again an illustration of what Governor Harding brought out of the difference in conditions in the different districts. In other words, they talk a different language altogether in New York, and in many sections of New England, and in the industrial centers of Cleveland, and so on, to what they do in the rural sections of the Ninth, Tenth and Eleventh Districts, to say nothing of the Atlanta District and the Eighth District. That has been my experience.

Governor Young. I wonder if we could have Governor Talley's resolution repeated. I think that does not bind anyone down to any particular program, nor to this program as outlined, and of course the Board is not voting on the question.

Governor Harding. Before putting his resolution I would like to suggest a little modification of it. Not only have we the psychological differences in the different districts, but we have a vast difference in territorial area and in density of population, and all that kind of thing. For instance, in the Boston District a man visits the bank twice a year, and he goes around in an automobile, and he does not have to worry about railroad schedules and pay railroad fare and all that sort of thing as does the man in the Minneapolis District, where physical conditions are so different.

Governor Wellborn. The Atlanta District runs from a part of Tennessee to New Orleans.

Governor Harding. Yes, and take the Texas district. Six or seven years ago I was going to St. Angelo, and I got to Sweetwater and had to change trains. People from El Paso came on there and I talked with some of them all the way to St. Angelo. There were two cattle men sitting opposite me. Apparently they were friends and chums, because they talked very intimately, and one of them explained to me, "John is a neighbor of mine. Our places are only seventy miles apart." So you see thereiis a big difference in physical conditions as well as in psychological conditions.

I suggest that if Governor Talley would amend his motion to the effect that this report is approved in principle, but that in carrying it into effect due consideration should be given to the difference in psychology and physical conditions in the various districts, I think it would cover the question.

Governor Talley. That is what I was intending to convey, Governor Harding, that the basis of it is psychological entirely. It is nothing but psychology. Mr. Chairman, I would like to have five minutes off the record on this matter if I may.

Governor Young. All right; proceed, Governor Talley.

(Whereupon discussion followed, which the reporter was directed not to place of record.)

Mr. Martin. Mr. Chairman and gentlemen, I would just like to say that the proof of the pudding is in the eating. The bank relations work has been satisfactory in the Eighth District. What Mr. Fancher has said, and has so well said, has been proven in our district, and I only want to emphasize this phase of the work, which is a recent development. I think that the reports of the banks relations men are of great help to Governor Biggs and myself and the others who must pass on discounts. It gives us the situation in the territory; it tells us what to do, and helps in the supervision of the bank, so much so, that in the office routine, attached to the reports of examination are attached the reports of the bank relations men. The report of examination can be read more intelligently with the report of the bank relations men in front of us; and when we go into the discount committee, and I know Governor Biggs will bear me out in this particular one question, the bank relations report has often enabled us to come to a conclusion which otherwise we might have been fearful of arriving at.

Governor Seay. May I have just one word, Mr.Chairman?

Governor Young. Yes, Governor Seay.

Governor Seay. I have expressed the opinion that this is an extremely fine report. I wish to repat it. It seems clearly understood, however, that conditions vary in the different districts, and that different methods must be followed.

This report lays a great deal of emphasis upon personal visitation. I would like to illustrate that. In the previous year we made eight hundred odd visits to our member banks. Last year we made one hundred and fifty odd. That variation in the number of visits was brought about by practical conditions. There were numerous failures among the banks in the two Southern States of our district, chiefly among the nonmember banks, and it was found that the visits of our men were, under some circumstances and in some localities, misconstrued, and we had to abandon them.

There is common agreement, I believe, that it is desirable to disseminate proper information throughout our districts with respect to the operations of the Federal Reserve System. In the earlier days of the days there were some studious minds in our bank, and in considering the subject they arrived at the conclusion that more people could be reached by written communication than could be reached by visiting and public speaking. The result of that was the booklet which the Richmond Bank prepared, the preparation of certain letters, primarily for students of economics and banking in the colleges, and those books and papers are now in use in more than one hundred colleges over the country.

I would therefore like to move, as a substitute, that the report be accepted for the record and for study by the Federal reserve banks.

It cannot be followed out in every reserve district.

Mr. Wellborn. I will second the substitute.

Governor Harding. I think we would be interested in hearing from Governor Bailey. He has a big district down there.

Governor Bailey. Mr. Chairman, I want to go off the record.

Governor Young. Very well, Governor. Proceed.

(Whereupon discussion followed which the reporter was directed not to place of record.)

Governor Young. Governor Seay, I think yours was the last motion.

Governor Wellborn. I seconded his motion.

Governor Talley. I will withdraw my motion in favor of Governor Seay's. It is perfectly satisfactory to me.

Governor Young. I had assumed that his was an amendment or substitution for the other.

Governor Talley. Why not withdraw mine entirely and consider his?

Governor Young. Very well.

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

Governor Young. Now, Mr. Martin, you have one more topic, I believe

Mr. Martin. We have one more topic here, which I understand was also on the program of the Governors' Conference, in a somewhat modified form, perhaps. That topic is

> "Whether better safeguards should be put around savings deposits, time deposits and certificates of deposits in order to prevent the conversion of demand deposits into such deposits so as to escape reserve requirements."

I will ask Mr. Curtiss, the chairman of that committee, to read that report.

Mr. Curtiss. "Mr. Chairman and members of the Conference, your committee has given this matter very careful consideration, both from the standpoint of the provisions of the Federal Reserve Act and the Board's regulations. The conclusions that the committee has come to are that the regulations as now drawn appear to go as far in restricting these accounts as it is possible to go under the law and it is doubted if any further restrictions could be made which would be helpful without a change in the law. Possible changes in both the regulations and the law which might be considered are the following:

> "(1) Savings Deposits: That all withdrawals from savings deposits in excess of some specific sum, for instance, $2,500 or $5,000, on any one account during a period of thirty days can be made only on a written notice of the depositor and in no case can such withdrawal be made in less than thirty days. When such savings deposit is subject through such notice to withdrawal in less than thirty days it shall be classed as a demand deposit."

You will notice that almost always before we have been considering the size of the deposit. This gets away from that and simply brings up the question of the size of the withdrawal. In other words, it makes it less liable to withdrawal.

"(2) Certificates of Deposit: Certificates of deposit unless payable at some specific time after thirty days shall be classified as demand deposits, or unless a certificate of deposit bears on its face the requirement that the holder is required to give the issuing bank notice of presentation of not less than thirty days before presentation, and when such certificates are through such notice payable within thirty days they shall be classed as demand deposits."

This deals to a large extent with the classification of time deposits, and if you will notice in the law the reserves are always in connection with time deposits and do not refer to savings deposits or certificates of deposit.

"That there has been conversion of demand deposits into savings deposits there apparently is evidence from every district and in some cases in violation of the regulations of the Federal Reserve Board. It is, therefore, suggested that all examinations of national banks and state member banks should disclose in some detail the character of deposits of this character, the policy on which they are handled and some simple classification as to amounts."

The last two are just suggestions for consideration, and inasmuch as the Governors' Conference has already informed me that they are recommending no change at the present time in the Board's regulations, I assume the Governors are in agreement with the conclusions of the Agents, Governor Strong?

Governor Strong. I think so generally. We feel that a thoroughgoing treatment of the proposition should be had without an amendment to the act.

Mr. Curtiss. That is practically the conclusion at which the Agents arrived.

Governor Strong. It is best to leave the regulation as i t was and try to exercise some closer supervision of unsound practices, where the law permitted.

Mr. Curtiss. That is what our report means.

Governor Young. I would like to open up those two suggestions for discussion, but the time is short. I think it is better that we think them over before we do discuss them. Have you anything else?

Mr. Martin. In our report on the conference to the Federal Reserve Board the other day, some question came up as to the cost of the examination of member state banks being out of line with the cost of examination of similar national banks. We have looked into that and we have found out that really the Board has decided that question, because I have here a copy of a letter dated January 24, 1924, X-3954, in which it is said by the Secretary:

"I am directed to advise you that the Federal Reserve Board concurs in the following resolution adopted at the recent conference of Federal Reserve Agents."

That was prior to this letter. Among the suggestions contained in the resolution of the Federal Reserve Agents was the following, in which the Board concurred, as I understand it:

"'We believe it to be essential that the closest cooperation exist between the executive departments of Federal Reserve Banks and the State

Banking Commissioners. We also believe that as a matter of good faith with our State member banks and in order to be prepared to extend credit intelligently, credit investigations of State member banks should be regularly conducted. We believe, too, that these credit investigations, whenever possible, should be made at the same time that State examiner is examining the bank; first, because of the desirability of cooperation; second, because more information can be obtained at less cost; third, because the bank should not needlessly be subjected to additional visits of examiners. We believe also that where special examinations other than credit investigations are made of member State banks the charge for such examination made by the Federal Reserve Bank should not exceed the fee that would be charged by the Comptroller of the Currency if the institution were a National Bank.'"

In connection with that the Board's letter refers to this letter X-3924 under date of December 22, 1923, in which the Board states, in part:

"The Board recognizes the inequity of the present method of assessing state member banks for the cost of examinations and has ruled that the Federal Reserve Banks need not assess against each State member bank examined the exact costs of the particular examination, but may assess against all of the state member banks examined during a calendar year the expenses of all examinations made during the calendar year in proportion to the assets or resources of the banks examined on the dates of the examinations."

Those letters would seem to close the matter.

There is nothing more we have except this, that the Federal Reserve Agents' Conference moved to adjourn, at the end of the Joint Conference, subject to the pleasure of the Federal Reserve Board.

Governor Young. Is there anything else to come before the meeting? If not, Dr. Goldenwesier is here and has a story that will not take a great length of time and I am sure you will all be interested in it. Dr. Goldenweiser.

Mr. Goldenwesier. Mr. Chairman and gentlemen, I presume the Governor means to have me make a brief statement of the business situation.

Business has been sliding off somewhat in the last few months. That I think is true, as a general statement. There are, however, many parts of the country where that would not be the case. In New England, the revival of the textile industry has had the effect of making business rather better than it had been for some time past. In some of the agricultural sections of the country better prices for the crop, together with an abundance of crop, in most cases has created a better situation.

The industries that have principally declined, are the steel industry and the automobile industry. The automobile industry expects to have an output this year perhaps as much as 25 per cent smaller than last year. Of course the important factor in the situation has been the cessation of production at the Ford plant, but that does not probably account for all of it.

The distribution of commodities has also somewhat slowed down. Carloadings have been much smaller in the last few months than they had been in the preceding year; and that is true also both of the wholesale and of the retail trade.

One of the most interesting changes in the business situation has been that prices have turned up; for about four months consecutively the price index of the Bureau of Labor and Statistics has advanced. First it advanced rather slowly. In the last two months it has advanced more rapidly.

The principle element in the advance has been the rise in the price of agricultural commodities; but non-agricultural commodities, which have been slightly declining, receding, for the matter of two years, have ceased to decline in price and there has been some advance in that group of commodities.

Perhaps that summarizes the business situation.

I intended to say a few words on the question of the gold policy of the Federal Reserve System, or the credit policy as expressed in the gold policy for the past few years. In order, perhaps, to contribute to dispelling the opinion which is very widely held that the Federal Reserve System has managed its gold so as to prevent it from exercising its customary influence on credit and prices, and as a consequence it has had a very serious influence in preventing the recovery of the world from the disorganization of the war.

In the earlier years we were highly complimented on the policy that was pursued in this country, which prevented the flow of gold from creating an inflation. In recent years, in the last two or three years, those compliments have been changed to severe criticisms. We are accused of sterilizing the gold, of having played the traditional part of India in hoarding gold, and, by doing that, preventing the adjustment of conditions and preventing the equilibrium from being established throughout the world.

The accusation is that we have acquired a very large proportion, an undue proportion, of the world's gold supply and that we are holding on to it, by our credit policies, in a way which prevents it from exercising the influence that it ought to exercise, and which would bring in its wake an adjustment that would be beneficial to the world.

Those statements, gentlemen, have been so general that I have felt it was perhaps worth while to speak of them here for a moment.

The accusations have not only come from abroad, but they have been quite general in this country. One of our best known institutions of learning has joined the chorus of accusers. I believe myself that the System does not deserve so much of the credit for its earlier policy nor of the blame for the more recent policy. The gold at no time has been sterilized.

During the time immediately following 1920, when there was a large amount of gold coming in, it was used by the member banks to reduce their indebtedness at the reserve banks, along with the currency which was flowing back from circulation; credit had of course been through a tremendous expansion in 1920, and there was a curtailment of credit all along the line. Currency was flowing in at the same time that the gold was flowing in. This gold did not, to be sure, enter into the reserves of the member banks. The gold, however, reduced the indebtedness of the member banks and thereby eased the credit situation very decidedly. If it had not been for this gold the member banks would in debt a matter of a billion or more dollars in excess of what they are now.

That, however, is now ancient history, and the period I want to speak of a little more in detail, is the period since 1922, when the credit contraction had run its course and when credit and business had turned up.

During the five-year period from June, 1922, to June, 1927, imports of gold to this country were $750,000,000. During that period there was practically no change in the volume of reserve bank credit, that is, taking the period as a whole. There were seasonal and other fluctuations--the low point was reached in 1924, &c.--but comparing the period in the summer of 1922 with the summer of 1927, there was practically no change. The gold went, to the extent of some three hundred million dollars or a little more, into currency.

Of course there was a natural growth in the demand for currency; that is the member banks would keep the gold deposited with the Federal reserve banks and use a part of the credit created that way or a part of the balances created that way to meet the currency demand. About 475 millions of that gold was added to our bank reserve balances, and on the basis of that 475 million of additional reserves the member banks had increased their loans and investments by $8,600,000,000, which is a rate of increase of over 18 to 1. The expansion of member bank credit on the basis of dollar reserve over that period has been 18 to 1, which does not give the impression of any sterilization of the gold. The gold has had full effect, and it had an undoubtedly large effect in the credit expansion because of the fact with which you are all familiar, that most of the liabilities of the banks have been in time deposits, which required only small reserve, and to show that there has been possibility of exceptional large growth of the banks in the country, member and nonmember, the increase during the period was over 12 billion, which was at the rate of 25 to 1. This rate of expansion on the basis of the reserve has been fully as great as was possible under the banking system of the country prior to the Federal Reserve System, and the Federal Reserve System, therefore, has not in any way reduced the effectiveness of the gold on the credit situation, as compared with conditions that prevailed prior to the System.

The general statement that the gold has not been, through the instrumentality of the FederalReserve System, permitted to exercise the influence that it would have under earlier conditions, is absolutely false in view of those facts. The gold has been used in meeting currency demand, which of course reduces the amount of the borrowings at the reserve banks for the same amount. The rest of it formed the basis for the very rapid extension.

Now, the growth of credit of the member banks to eight billion dollars, during the period of five years, deserves some analysis. That growth has been two billion, seven or eight hundred million dollars in commercial loans, about the same extent in security loans, about three billion in investments, so that the growth of credit has been more rapid during the period than the growth of industry.

I am refraining from using charts, as you gentlemen see, because I feel that most of these things can be stated without illustration, just as effectively; but in any case, if any of you wish to see it in more detail on the charts, they will be available here.

The growth has been, therefore, very largely in investments and in loans, directly for the purpose of supporting investments, or supporting stock exchange expansion, which of course also has been on a very large scale.

During this period the prices in this country have not changed very much. They advanced in 1923; they declined somewhat early in 1924; they went up again in 1925; they declined from 1925 to the middle of this year, and now they are approximately where they were five years ago. There has been no rise in the general prive level during the period.

The question then arises, what could the Federal Reserve System have done, other than it has done, that would have helped to adjust things by raising our price level above the present condition? The Federal Reserve System could have done that only by doing something which could not have been done prior to its establishment, namely, by exercising its influence towards creating more and more bank reserves, not in response to any demand on the part of member banks, but in response to a policy of raising prices; in other words, by inflation. The only way in which the Federal Reserve System could have acted differently would have been by going out into the open market and buying large amounts of securities, beyond the point at which these purchases would result in the reduction of discounts, buying to the point where they would naturally increase the assets of the reserve banks and would directly enter into the reserves of member banks and constitute a basis for very large expansion of bank credit.

I think it is well worth while to realize that, and to say that the criticism is based on a misunderstanding of the System and on an exaggerated idea of the power of the System, short of something that would amount in substance to a detail of all its responsibilities, because it would involve a forcing out of credit, which would have been impossible prior to the establishment of the System--forcing it out in view of the fact that we have such large reserves, and there is a possibility of purchasing them, if that was the one object of it.

I believe that is all I want to say, Governor, unless there are questions.

Governor Young. Does anyone care to make any inquiry of Dr. Goldenweiser?

Governor Harding. I would like to ask him if he has taken into consideration, in comparing the five-year period he has referred to, with the two-year period of 1915 and 1916, that the primary purpose of these gold importations in 1915 and 1916--we had large importations in that period--whether almost the sole purpose of that was not to pay for goods and commodities, war munitions and things of that sort, there being an actual demand and forcing prices up? The primary purpose of these more recent importations have not been so much for the purchase of goods and commodities as they have been for the purpose of establishing secondary reserves for those countries that are trying to get back on the gold standard, etc., and setting up money here for citizens of countries that have a fluctuating currency and so forth. There being no persistent demand for the exporting of goods, and having the gold importation, the only effect has been in the price of securities rather than commodities. Isn't there something in that theory?

Mr. Goldenweiser. I think that is exactly right, Governor. At that time there was a tremendous demand for commodities for the belligerents. It was that demand, backed by the gold, which caused prices to advance.

And that reminds me of one thing I wanted to mention which I forgot. That is, that not only has the gold exercised all of its potentialities in this country, in the way of constituting a base of bank reserves, increasing the base, but some of the gold still continues to count as reserves for other countries. There are some balances, created through the importation of the gold, which are now held here as dollar balances and constitute the basis of credit and currency in a number of other countries, so that the expansion, on the basis of the gold, has been rather of unusual proportion.

Governor Young. Are there any other inquiries? Is there anything else before the meeting?

Mr. Hamlin. Mr. Chairman, I move that this meeting do now adjourn.

(Whereupon, upon motion duly seconded, the Joint Conference of the Federal Reserve Board with the Governors, Federal Reserve Agents and Chairmen of the Federal Reserve Banks adjourned *sine die* at 1.05 o'clock p.m. on Friday, November 4, 1927.)