The Papers of Charles Hamlin (mss24661)

359_07_001-	Hamlin, Charles S., Scrap Book – Volume 162, FRBoard Members

205.001 - Hamlin Charles S
Scrap Book - Volume 162
FRBoard Members

Box 359 Folder 7

TRANSFER

CONFIDENTIAL (F.R.)

TRANSFER

RETURN TO
FILES SECTION
DO NOT REMOVE ANY
PAPERS FROM THIS FILE

CONFIDENTIAL (F.R.)

Form F. R. 131

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date June 26, 1941

To The Files

Subject:

From Mr. Coe

MPC.

After correspondence with Mrs. Hamlin (See letters of May 25 and June 4, 1941) the items attached hereto and listed below, because of their possible confidential character, were taken from Volume 162 of Mr. Hamlin's scrap book and placed in the Board's files:

VOLUME 162

Page 2 - Letter to Mr. Hamlin from Carter Glass on reappointment to F.R. Board.
Page 3 - Memo to Mr. Hamlin from Mr. Goldenweiser transmitting a table showing for certain central banks capital and surplus and total resources.
Page 6 - Notes on Board action.
Page 7 - Memo to Mr. Hamlin from Mr. Goldenweiser transmitting a table showing for certain central banks capital and surplus and total resources.
Page 8 - Earnings & Expenses of Federal Reserve Banks, June 1926.
Page 9 - Memo to Mr. Hamlin from Mr. Goldenweiser re amount of street loans prior to the establishment of the Federal Reserve System.
Page 10 - Earnings and Expenses of F.R. Banks, June 1926.
Page 27 - Report with Appendices Concerning the Federal Reserve Pension Bill.
Page 64 - Member Banks Borrowing Continuously in Excess of Capital and Surplus During June 1926.
Page 65 - Copy of Memo to Governor Crissinger from Mr. Goldenweiser raising question as to whether Board should supervise publications by Reserve Banks.
Page 66 - Average amount of "Float" carried by the F.R. Banks on Weekly Statement dates during June 1926.
Pages 67 & 71 - Letter to Chairmen of all F.R. Banks re expenses of F.R. Banks.
Page 81 - Memo from Mr. Goldenweiser to the Board re banking developments in the Atlanta District.
Page 82 - Member Banks Borrowing Continuously in Excess of Capital and Surplus During June 1926.
Page 107 - Book prepared by F.R. Bk. of Boston on Federal Reserve System - disapproved by Federal Reserve Board.
Page 116 - Deficiencies in Reserves of Member Banks for Month of June 1926.
Page 118 - Earnings and Expenses of F.R. Banks.
Page 131 - Letter to Mr. Hamlin from E.H.H. Simmons, President of New York Stock Exchange.
Page 141 - Letter to Mr. Hamlin from Benj. Strong from Versailles, France, concerning conditions abroad.
Page 145 - Opinion of Attorney General regarding quorum of the Federal Reserve Board - in re (Memo giving opinion as member of Law Committee).

2

United States Senate

COMMITTEE ON APPROPRIATIONS

Lynchburg, Virginia,

July 14, 1926.

My dear Governor Hamlin:

Responding to yours of July 11th, I may say that few things in my public life have afforded me more genuine satisfaction than to have been in some degree helpful in the matter of your reappointment as a member of the Federal Reserve Board. Aside from the personal aspects of the case, which deeply appealed to me, it seemed so entirely fit and just, in the public interest, that you should be renamed, that I was conscious of performing an important public duty in urging the President and Mr. Mellon to send up your name.

Curiously enough, last night, while going over Federal Reserve data preparatory to an answer to Seymour, I came across a note from Mrs. Hamlin thanking me extravagantly for some ticket I had gotten her, I think to hear the President's message urging currency legislation; and when I reached my office this morning the first letter I picked up was yours from Mattapoisett about your reappointment to the Board.

Please give my love to Mrs. Hamlin and receive my cordial good wishes for a pleasant vacation.

Sincerely yours,

Carter Glass.

Mr. C. S. Hamlin,
Mattapoisett, Mass.

Volume 162
Page 2

Form No. 131.

Office Correspondence

FEDERAL RESERVE BOARD

3
162

See Bk

Date May 10, 1926

To Mr. Hamlin

Subject:

From Mr. Goldenweiser

I transmit herewith a supplementary table showing for certain central banks capital and surplus and total resources. I do not believe that the total resources are a very valuable item for comparison because the practice of carrying items "gross" or "net" differs from bank to bank and changes in these methods of accounting make a great difference in the aggregate resources. I believe that loans and investments or note and deposit liabilities are much more significant for purposes of comparison. When you ask me about thestrength of the different banks, I must say that the reserve position of the New York bank is definitely the strongest of any of the banks included in the table and probably of any other central bank. The volume of credit of the New York bank that is actually in use, of course, is relatively small, which does not indicate that the bank is less important, but merely that at this particular time the demand for reserve bank credit is not as large as the resources of the bank would be able to meet. The liabilities of the bank are also not as large as those of the Bank of England or the Bank of France, although larger than any of the other banks. The capital and surplus of the New York bank is larger than that of any of the other banks and that of Chicago is also larger than any of the banks listed with the exception of the Bank of England and the German Reichsbank. I should say that considering the reserves of the bank and

Form No. 131.

Office Correspondence

FEDERAL RESERVE BOARD

Date

To

Subject:

From

its potential lending power, the New York bank is unquestionably the strongest central bank in the world.

Lu Bk

3

COMPARISON BETWEEN THE NEW YORK FEDERAL RESERVE BANK AND CHICAGO FEDERAL RESERVE BANK WITH SELECTED EUROPEAN CENTRAL BANKS, MARCH 31, 1926.

(In thousands of dollars) 1/

	Capital and surplus	Total resources
New York Federal Reserve Bank	93,886	1,448,905
Bank of England 2/	88,916	1,519,167
Bank of France	14,049	2,047,324
German Reichsbank	85,650	1,120,753
Chicago Federal Reserve Bank	46,904	613,119
National Bank of Belgium	4,055	305,178
Bank of Italy 3/	12,061	2,364,177
Netherlands Bank	15,428	366,367
National Bank of Switzerland	6,248	178,094

1/ Converted at current rate of exchange March 31, 1926
2/ Banking and Issue Department combined
3/ Statement of March 20, 1926.

Volume 162
Page 3

See Bk

1925

Sept 12 — [illegible]

Sept 14 — Sept 21 — Bd. directors case

Aug 7 — When best comes agreement

Nov 6 — Board asks. But rate Cunningham states 4% N.Y. Gov S. to Miller

Nov 11 — Advised chmt. rate

Nov 20 — Miller

Dec 1 — Miller C. agent mee N.Y.

Dec 1 — When best comes under results Save 50 M. Gov S. on wid mee cust. rates certificates Rate mee.

Dec 3 — Bd. rates agent sale of 50 m.

Dec 21 — When best comes arise rates to buy 15 to 20 m. Lge wdrwals to interest 6% case low rate

Dec 23 — P. advises

1924 Jan — Bd. advises N.Y. mee to 4%

Mar 20 — When best comes arise rates to buy not exc 90 m. rate to advise 15. Bus. recov. Bus. tending reduce. Tend. to bread capital. Bd. currently discussed.

Mar 25 — Bd. approves

Volume 162
Page 6

Correspondence FEDERAL RESERVE BOARD 7 See Dk

Date May 7, 1926

To Mr. Hamlin Subject:

From Mr. Goldenweiser

The rise in wholesale prices from the middle of 1924 to the spring of 1925 was from an index number of 145 in June, 1924 to one of 160 in July, 1925. This advance was due almost entirely to the advance in the prices of farm products. The average of all agricultural commodity prices increased from 136 in June, 1924 to 164 in Aug., 1925, while prices of non-agricultural commodities remained almost stationary. The advance in prices for this period was due very largely to the increase in the price of wheat, caused by world shortage, and to an increase in the price of livestock. Since July of 1925 prices have been going down continuously and in March, 1926 they were 152. This decline, as the preceding advance, has been due chiefly to changes in agricultural prices, which went down from 164 in August, 1925 to 148 in March, 1926, while non-agricultural prices declined merely from 157 to 155 for the period. The drop in agricultural prices in the latest period was due to declines in the price ofgrains, cotton, wool, and livestock. These price movements indicate that it would be very unwise to base credit policy on the movement of the average of commodity prices. The advance of wheat prices in 1924, which was chiefly responsible for the rise in the general level, could not have been arrested by any action the Federal reserve system could take. If the system, being guided by the price index, had inaugurated a policy of contraction and if that policy had actually resulted in price stabilization, what this would have meant would have been a further decline in the prices of industrial commodities which

had not been advancing at all. In other words, such a credit policy in so far as it was effective would have intensified the disparity between the price movements for farm products and for industrial materials - it surely would have served no useful purpose. The same reasoning applies to the subsequent period of price declines. The general level of commodity prices was going down in 1925 and if the system had been guided by that indication alone it would have reduced rates or purchased securities in the open market with the consequence that there would have been additional funds made available for credit expansion in the security market, which was proceeding at a rapid rate any way and would in all probability have had no effect on the trend of commodity prices. It is certain that prices were not declining in 1925 as the result of credit shortage and, therefore, could not be corrected by any policy of more liberal supply of credit.

The following table shows the index number of agricultural, non-agricultural, and all commodity prices in June, 1924. when the upward movement started, ~~July~~ Aug., 1925, when prices turned down, and March, 1926, the latest available date:

	All commodities	Agricultural	Non-agricultural
June, 1924	145	136	152
Aug., 1925	160	164	157
March, 1926	152	148	155

EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS

JUNE 1926. Total earnings of the Federal reserve banks in June, which include a profit of over $100,000 on Liberty bonds sold to the Treasury, were $3,762,000 or practically the same as in May but about $500,000 in excess of earnings in June 1925. Earnings from bills and securities declined $190,000,, partly because only 30 days' earnings were accrued in June as compared with 31 in May.

Current expenses aggregated $2,296,000 as compared with $2,304,000 in the month preceding and $2,306,000 in June last year.

6 MONTHS ENDING JUNE. During the first half of the year earnings totaled $22,830,000, or $3,768,000 above the total for the first half of last year, $3,551,000 of the increase being in earnings from discounted bills.

Current expenses (including the cost of Federal reserve currency) amounted to $13,691,000 during the first half of this year, a decrease of $352,000 from the corresponding period last year, the reduction being principally in salaries of clerical staff.

After providing for all current expense and dividend requirements, the net earnings of the Federal reserve banks on June 30 amounted to $5,525,000 - about $4,000,000 more than on June 30 last year. These net earnings, as may be noted from the statement attached, ranged from $124,000 for Minneapolis to $780,000 for New York.

Mr. Hanlin

CONFIDENTIAL
Not for publication

See B4

EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS, JUNE 1926

St. 5015

Federal Reserve Bank	Month of June 1926							Year 1926			
	Earnings									Balance available for depreciation allowances, surplus, franchise tax, etc.	
	From discounted bills	From purchased bills and U. S. securities	From other sources	Total	Current expenses	Current net earnings	Annual rate of current net earnings on average paid-in capital	Current net earnings to June 30	Dividends accrued to June 30	On June 30	On May 31
							Per cent				
Boston	$88,877	$97,006	$24,002	$209,885	$169,844	$40,041	5.6	$694,780	$261,467	$433,313	$439,966
New York	339,553	411,865	76,126	827,544	544,880	282,664	9.7	1,804,530	1,024,093	780,437	674,529
Philadelphia	161,919	107,714	16,355	285,988	171,431	114,557	11.5	720,169	357,480	362,689	308,965
Cleveland	144,475	179,789	26,020	350,284	211,677	138,607	12.5	800,855	401,868	398,987	327,928
Richmond	155,724	56,950	13,896	226,570	110,190	116,380	23.3	511,079	181,097	329,982	243,975
Atlanta	126,195	78,891	12,580	217,666	132,052	85,614	21.1	759,030	146,269	612,761	551,854
Chicago	172,759	265,401	55,128	493,288	312,927	180,361	13.2	1,170,750	485,954	684,796	587,526
St. Louis	93,878	98,045	13,231	205,154	115,416	89,738	20.7	514,913	155,796	359,117	295,731
Minneapolis	17,272	93,851	22,067	133,190	87,415	45,775	17.7	219,154	94,670	124,484	94,408
Kansas City	60,738	148,133	41,687	250,558	130,846	119,712	34.6	550,579	127,130	423,449	324,761
Dallas	39,199	122,823	30,237	192,259	105,607	86,652	24.6	445,812	128,645	317,167	251,956
San Francisco	124,220	216,042	29,636	369,898	203,793	166,105	24.0	947,797	249,624	698,173	574,211
TOTAL:											
June 1926	1,524,809	1,876,510	360,965	3,762,284	2,296,078	1,466,206	14.5	9,139,448	3,614,093	5,525,355	4,675,810
May 1926	1,685,949	1,905,497	172,278	3,763,724	2,304,647	1,459,077	14.0				
June 1925	1,334,006	1,699,141	219,736	3,252,883	2,306,289	946,594	10.0	5,019,329	3,424,045	1,595,284	1,230,227

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
JULY 7, 1926.

C.

Form No. 131.

Office Correspondence

FEDERAL RESERVE BOARD

Date May 14, 1926

To Mr. Hamlin

Subject: 9

From Mr. Goldenweiser

E.D.G.

There are no satisfactory figures of the amount of street loans prior to the establishment of the Federal reserve system, but it has been estimated by Mr. Jay that the amount was in the neighborhood of $1,000,000,000. As you know, this amount had increased by the end of 1925 to about $3,500,000,000; that a certain part of this last total, probably as much as 20 per cent, was if not excessive, at least indicative of an exceptionally high level of stock prices, is shown by the fact that since that time the volume of these loans has decreased by about $700,000,000.

In considering the significance of these figures it should be borne in mind that this total does not by any means consist entirely of loans for speculative purposes. The stock exchange and the dealers in securities perform many functions essential to our economic life that are not directly related to speculation. We have no quantitative data for estimating what proportion of the total of these loans is used for various purposes, but a brief analysis of some of these purposes may throw light on the situation.

1. The loans as reported relate not only to loans to brokers, but also to dealers in securities, who represent in the main the large distributors and underwriters of securities. These investment houses arranged for bond or note issues for industrial enterprises, domestic and foreign, and for foreign governments and for their flotation and sale to the public. During the period of distribution of the securities the dealers frequently require large amounts of credit which they obtain usually at the call loan market. This use of credit would not be generally described as speculative.

Form No. 131.

Office Correspondence

FEDERAL RESERVE BOARD

Date

To

Subject:

From

2. Of the loans to brokers, probably a considerable proportion represents purchases of securities by investors on the deferred payment plan. That is, a person who is saving a certain amount a month, might buy a few shares of a standard security and arrange to pay for it as his savings accumulate. If he does this through a broker the broker will carry his account during the period of payment and will borrow the money on the call loan market. A transaction of this sort would not be speculation - it would be an investment operation.

3. A certain portion, and I am inclined to think a large portion, of the loans to brokers represents the credit necessary for financing marketing of securities. When a large number of shares of stock change hands during a day the brokers through whom the sales and purchases are made require a certain amount of credit to finance the operation from the time that the sale or purchase is made to the time payment is received from the customer. While many of these transactions may be speculative in character, a considerable portion of the credit employed would be necessary even if there were no speculative elements in the transaction, and would represent the use of credit in financing the distribution of ownership in the country's enterprises. This distribution is just as essential a part of our economic structure as the distribution of commodities to the ultimate consumers through the channels of wholesale and retail trade.

It is not my purpose in making these statements to minimize the speculative element in the street loan account, but merely to indicate that in addition to financing speculative activity this account represents a number of other uses of bank credit.

CONFIDENTIAL
Not for publication

10 Sec Bk

EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS, JUNE 1926

St. 5015

Federal Reserve Bank	Month of June 1926							Year 1926			
	Earnings									Balance available for depreciation allowances, surplus, franchise tax, etc.	
	From discounted bills	From purchased bills and U. S. securities	From other sources	Total	Current expenses	Current net earnings	Annual rate of current net earnings on average paid-in capital	Current net earnings to June 30	Dividends accrued to June 30	On June 30	On May 31
							Per cent				
Boston	$88,877	$97,006	$24,002	$209,885	$169,844	$40,041	5.6	$694,780	$261,467	$433,313	$439,966
New York	339,553	411,865	76,126	827,544	544,880	282,664	9.7	1,804,530	1,024,093	780,437	674,529
Philadelphia	161,919	107,714	16,355	285,988	171,431	114,557	11.5	720,169	357,480	362,689	308,965
Cleveland	144,475	179,789	26,020	350,284	211,677	138,607	12.5	800,855	401,868	398,987	327,928
Richmond	155,724	56,950	13,896	226,570	110,190	116,380	23.3	511,079	181,097	329,982	243,975
Atlanta	126,195	78,891	12,580	217,666	132,052	85,614	21.1	759,030	146,269	612,761	551,854
Chicago	172,759	265,401	55,128	493,288	312,927	180,361	13.2	1,170,750	485,954	684,796	587,526
St. Louis	93,878	98,045	13,231	205,154	115,416	89,738	20.7	514,913	155,796	359,117	295,731
Minneapolis	17,272	93,851	22,067	133,190	87,415	45,775	17.7	219,154	94,670	124,484	94,408
Kansas City	60,738	148,133	41,687	250,558	130,846	119,712	34.6	550,579	127,130	423,449	324,761
Dallas	39,199	122,823	30,237	192,259	105,607	86,652	24.6	445,812	128,645	317,167	251,956
San Francisco	124,220	216,042	29,636	369,898	203,793	166,105	24.0	947,797	249,624	698,173	574,211
TOTAL:											
June 1926	1,524,809	1,876,510	360,965	3,762,284	2,296,078	1,466,206	14.5	9,139,448	3,614,093	5,525,355	4,675,810
May 1926	1,635,949	1,905,497	172,278	3,763,724	2,304,647	1,459,077	14.0				
June 1925	1,334,006	1,699,141	219,736	3,252,883	2,306,289	946,594	10.0	5,019,329	3,424,045	1,595,284	1,230,227

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
JULY 7, 1926.

C.

Volume 162
Page 10

27

See BR

162

Report with Appendices

Concerning the

Federal Reserve Pension Bill

VOLUME 162
Page 27

April 1, 1926.

This bill is to permit the Federal Reserve Banks and their staffs to unite in establishing and operating a pension system. The bill confers the authority in the form of creating a separate corporation, thus making it possible to maintain a segregation of the pension finances from the operations of the banks.

The plan which it is proposed to establish under the authority granted by this bill is to be maintained on the actuarial reserve basis so that at all times the pension corporation will be in a self-liquidating condition and in a position to meet all obligations without the necessity of an assessment against either the Federal Reserve Banks or their employees.

The bill and also the plan for the operation of the fund appear to have been prepared with care and are designed to permit of the operation of a pension plan which will be prudent without being meagre and reasonably adequate without being extravagant. The plan is obviously equitable as between the banks and the employees. It provides by its terms that the banks shall not be permitted to contribute to the support of the plan a sum greater than the total contributions of the employees with interest.

The entire plan is obviously designed to provide the benefits which may be reasonably expected from such a plan, both to the employees and to the banks.

The following discussion deals with the matter under three heads:

1. The general principles of the bill and of pension plans,
2. The detailed provisions of the bill,
3. A description of the pension system which it is proposed to set up under the authority of this bill.

1. The General Principles of the Bill and of Pension Plans:

The desirability of providing for the orderly retirement of superannuated employees through a formal pension plan is becoming more and more

recognized in large industrial, commercial and financial organizations. A very considerable number of the larger banks in the United States already have pension systems.

These pension plans are not, generally speaking, established because of philanthropic motives, even though in many cases the entire cost of the pension is borne by the employer, but, on the contrary, they are generally established because it is recognized that unless there is a formal plan providing for the retirement of the superannuated, there inevitably comes into being an informal and at times involuntary system of pensions under which many employees are kept in the service and on the payroll long past the period of their usefulness. This condition exists because there are few instances where a corporation will turn adrift at the age of 65 or 70 an employee who has rendered 20 or 40 or possibly 50 years of faithful service, at a salary which would have made it difficult for him to have saved an amount necessary to provide for old age. Furthermore, in all such cases there is, in addition to the direct loss, a further loss due to the general inefficiency of the organization and the inability to promote younger men to positions of responsibility.

With a formal pension plan, on the contrary, provision is made during the entire period of employment for the accumulation of such a sum as will, at the age of retirement, be sufficient to provide a pension, and such accumulation is generally in part provided by the employee. In the case of the particular plan under discussion, at least half of this cost will in the aggregate be provided by the employees.

The Federal Reserve Banks are in substantial competition for their personnel with the other banks of the communities where they are located. Other banking establishments are able frequently to offer financial rewards above the

salary paid. Officers can be stockholders and share in the bank's prosperity, often they are helped to do so. Employees receive bonuses in favorable years. The officers and employees of the Federal Reserve Banks can receive no financial advantages beyond the salary paid. It is highly desirable that the reserve banks should be enabled to secure and retain the services of competent officers and employees and that they should not merely act as training schools from which all of the more competent would graduate into more attractive service elsewhere. One of the largest problems in business administration is the turnover. Every time a trained officer or employee transfers himself from the service of one corporation to another, the corporation he leaves suffers a loss. It loses the experience he has built up in the course of his years of employment. It must train some other person in the duties he had already learned. Training is costly and the cost of losing large numbers of the right kind of men just when their training has reached the point where they become exceptionally efficient, can easily exceed the cost of a well organized pension system.

The purposes of the Federal Reserve Banks in establishing a pension system may be briefly stated as follows, none of which it will be noted is in any sense philanthropic.

1. To attract the most desirable class of personnel,
2. To create conditions of employment which will reduce to the minimum the turnover of the more desirable employees,
3. To improve the morale of the staff through providing, so far as it be feasible, a feeling of security with respect to the future and of confidence against the great unpreventable hazards of life,
4. To provide a means whereby the banks may fulfill their duty to their employees and to society in general through a pension plan for superannuated employees,
5. To accomplish all of the foregoing with the greatest possible efficiency and the minimum of expense through the establishment of a plan under which the employees themselves will contribute approximately one-half of the amount necessary to support it.

The following is a detailed analysis of the provisions of the bill.

2. The Detailed Provisions of the Bill.

The details of the proposed statute are important and deserve careful consideration. They seem such as are necessary and proper to carry out its general purpose. The following is an analysis of them.

Section 1. The incorporators are the Governor of the Federal Reserve Board and the Governors of the Federal Reserve Banks. The enabling authority is given in the form generally used by the most careful legislative charters to pension funds, such as those to the Carnegie Foundation, the Church Pension Fund and others. The purpose of the fund is stated as being to provide pensions or other forms of support for officers and employees of the Federal Reserve Banks, the Federal Reserve Board and the Federal Reserve Agents and their dependents on such terms and conditions as the corporation may from time to time approve and adopt. It also provides that the pension corporation may provide pensions for its officers and employees and their dependents. It is expressly prohibited from providing a pension or other form of support for any member of the Federal Reserve Board or for any persons other than those described. It also provides that the corporation may, if it seems desirable, extend the provisions of the plan to include member banks and their officers and employees under conditions hereinafter referred to under Section 5.

Section 2. The usual powers of a corporation are conferred.

The trustees are constituted as follows: One by the Federal Reserve Board, one by the board of directors of each Federal Reserve Bank, thirteen in all; one by the employees of the Federal Reserve Board, one by the employees of each Federal Reserve Bank, thirteen in all; the total number of trustees to be thus twenty-six.

Section 3. The corporation shall be without capital stock and shall be conducted without profit.

It shall be exempt from all taxation, except taxes on real estate, and such taxation as may be imposed by Congress.

The plan of pensions, or any substantial modification thereof, must be approved in writing by the Federal Reserve Board before it shall go into operation.

The corporation shall render an annual report to the Federal Reserve Board, as prescribed by it, and may be examined by that Board.

Section 4. The pension system shall be conducted on the contributory principle and it is expressly provided that the total contributions to be made by the Federal Reserve Banks and the Federal Reserve Board shall not in the aggregate exceed the total contributions to be made by the said officers and employees with interest.

Section 5. The corporation may, with the express approval of the Federal Reserve Board, open the pension system to member banks of the Federal Reserve System, upon terms to be laid down by it and approved by the Federal Reserve Board.

Section 6. The power of amendment and repeal is expressly reserved.

Section 7. The act is to become immediately operative.

There seems to be no good reason why Congress should not authorize the Federal Reserve Banks to establish this fund; indeed for the reasons already stated it would seem to be the duty of Congress to do so. It should also be remembered that Congress has itself already approved of the principle of pensions by establishing under the act of May 22, 1920, a retirement system for the employees of the classified civil service, and a pension system for the diplomatic and consular service under the act of May 24, 1924, for reorganizing and improving

the foreign service of the United States.

In an appendix will be found a discussion of the provisions of the plan which it is proposed to establish under the authority conferred by this bill and also a comparison of this plan with the retirement systems referred to above which have already been authorized and established by Congress. This appendix has been prepared by Mr. Monell Sayre, vice president of the Church Pension Fund of the Episcopal Church. He has had wide experience in the pension field and served as pension adviser to the committee representing the Federal Reserve Banks in the preparation of this plan and he is, therefore, thoroughly familiar not only with the theory and practice of pension plans in general, but with the proposed plan in particular.

APPENDIX

3. Description of the Pension Plan Which it is Proposed to Set up under the Authority of this Bill.

This pension system was prepared after a thorough discussion and a most exhaustive examination of pension literature and the organization and working of existing pension funds by the Committee on Pensions of the Governors Conference with the Federal Reserve Board, assisted by expert actuarial and pension advisers and by counsel. It has been approved by the Governors Conference and by the board of directors of each one of the twelve Federal Reserve Banks.

There are three great hazards which beset all human life and which are not within the sphere of preventability. When any of them happen great economic suffering may result unless there has been forethought. These hazards are:

a. - Death
b. - Old age
c. - Permanent disability

The first two are an alternative which is certain to happen. The last does happen in a certain percentage of lives. It may be said to be the function of pensions to cover one or all of these hazards. The core of every pension system is the protection against the second, the hazard of old age. All pension systems have that in some form. There are a great number of pension plans in operation and hardly any two of them are alike in every respect. Some plans attempt to provide a pension for all of the dependents of the employee; others only to a widow or to a widow and minor orphans, and others only to the employee. Very careful consideration was given to all of these points with a view to providing a plan which would be economically sound and which would reasonably provide against the hazards which it was designed to meet, with the result that it was decided that the proposed plan should provide three benefits:

1. - An old age allowance
2. - An allowance for total and permanent disability
3. - A death benefit

There are two general methods by means of pensions of granting protection against the hazards of life.

One method is to promise the stipulated pension and to be satisfied if the money is in hand to pay it as it becomes due. This is known as the cash disbursement method. It may be reasonably satisfactory for a Government with its unlimited resources, although even then it might be better to know accurately to what extent the Government is committed, but with respect to all other organizations than the Government, this method has obvious disadvantages, both to the employer and the employees.

Under such a plan the contributions made by present employees, if the plan be a contributory one, are used for the payment of pensions to those already retired. For a few years all goes well, but the cost of the annual pension bill continues to grow and gradually its figures mount up to startling totals, until it is realized that staggering liabilities have been created and that the money which has been contributed by present employees to provide for their pensions has been used up in paying the pensions of those already retired, and that the employing corporation is faced with the necessity of either dipping deep into its own pocket or repudiating its promises to its employees.

There are several classic examples of this. The Government of New South Wales at the beginning of the Twentieth Century found the pension fund for the Government employees to have arrived at the point where there was literally not a penny in the pension treasury. The Carnegie Foundation, although endowed by Mr. Andrew Carnegie with the large sum of $15,000,000, for the comparatively small class of professors in American colleges of a selected type, found itself at the end of ten years where it required a great additional sum and also was forced to undergo a drastic reorganization. The municipal pension funds of New York City were found, during Mayor Mitchell's administra-

tion by a scientific investigation inaugurated by him, to have a total liability above their assets of approximately $315,000,000.

The other method is to accumulate the pension before it is due. This is known as the actuarial reserve method and is the one generally followed by all sound plans. Under it during the entire period of the employees service there is being paid either by himself or his employer or both, into the fund such contributions as will enable the pensioning authorities to have in hand when the contingency happens on which the pension is to become available, the actuarial equivalent of what is needed to pay it during all of its continuance.

There are numerous obvious advantages to such a plan:

1. It is absolutely reliable, provided, of course, that scientific methods have been used. When the employee becomes old enough to retire there is money in the treasury to pay the pension. The pension fund is solvent at all times and if necessary could be liquidated at any time.

2. It makes use of the power of interest. The relatively small payments made for a considerable period of years, together with the interest thereon, provide the funds necessary for the payment of the pension. In the average case, the pension paid will more largely represent the interest accumulations than the actual contributions.

3. This method provides its own automatic check against extravagant demands for pensions or ill considered promises. The danger of this in the cash disbursement method is great for nothing has the power to deceive like the cost of pensions. A mere technical change in the method of calculating the pensions, a reduction of only a few years in the required length of service, a slight lowering of the age of retirement, these would all seem of slight consequence if the cost were not carefully calculated on the actuarial reserve

basis. If every time employees are tempted to ask these little changes, they are necessarily also informed of the increased yearly cost to themselves, nothing of such a serious nature would be done thoughtlessly. In the actuarial reserve method the slightest variation in the rules is immediately reflected in the rates of contribution.

For these reasons the proposed pension system of the Federal Reserve Banks will operate on the actuarial reserve basis.

The following is a brief outline of the benefits and the method of determination of each.

BENEFITS

1. The Age Allowance

The age allowance can be claimed at age 65. At age 70 it is compulsory. The amount of the age allowance will be 1 1/2% of the average salary during the entire period of service, multiplied by the number of years of service. The advantage of average salary as the basis of calculation is great. It stabilizes all of the calculations and prevents violent changes in salary near the end of service from operating either to the disadvantage of the pension fund or of the employee.

2. Allowance for Total and Permanent Disability

This attaches after one year of service in the case of employees who have been subject to medical examination upon employment, or after five years in the case of the employee who was not subject to medical examination upon employment, and is granted upon the action of a medical department to be created by the pension fund. The amount of this allowance is 1 1/4% of the average salary, multiplied by the number of years of service, but with the minimum in any event of a calculation of 20 years' service, thus providing a minimum

disability allowance of 25% of average salary, except that if the age allowance upon retirement at age 65 would have been less than 25% of average salary, then the disability allowance shall be the same as the age allowance would have been. The purpose of this minimum of 25% is to provide such a sum as will be reasonably effective in the case of disability during the earlier years of service. Experience has shown that the two principal causes of total and permanent disability soon after entrance into the service are tuberculosis and insanity; except in a few such cases the period of disability is comparatively short.

3. The Death Benefit

This is one year's salary at the rate of salary being paid at the time of death and is paid only in the case of employees in active service at the time of death, i. e., not yet retired on a pension. A pension system does not perform its purpose unless there is some provision for the family. In a pension plan which makes no such provision there is always grave dissatisfaction on the part of those who place their family obligations ahead of the necessity of providing for themselves, yet the adjunct for provision for dependents no matter how arranged, will cause equal dissatisfaction. In a body of many thousands of employees there will be innumerable varieties of obligations to dependents; aged parents, a sister housekeeper, nephews or nieces who look to the employee as the sole support, even more remote relations or kinsfolk whose claim may be present in a moral sense. To include all possible cases in a financial system would be an intolerable financial burden, yet wherever the line is drawn there will be circumstances which will constitute a valid claim that it should be drawn elsewhere. It is doubtful if any pension system which has included any other than the pensioner himself has worked satisfactorily. Nevertheless there remains a need for some recognition of the claim of

dependents. A year's salary enables the family somewhat to adjust itself to the altered circumstances caused by the salary earner's death and relieves immediate necessity. It does not add too greatly to the cost. When to this is added the return of contributions made by the employee himself with interest thereon a reasonable compromise seems to be made in a difficult problem. For an employee of long service this return will be a considerable provision in itself.

VESTING OF CONTRIBUTIONS

The opinion is largely reflected in modern pension practice that where individuals themselves contribute to a pension system they or their estates should receive back the full amount of their contributions with interest, otherwise the pension system becomes a tontine arrangement for the benefit of the employees who survive. This is especially marked if the pension system contains no extension of pensions to dependents. Therefore, it is here provided that in the event of death, resignation or dismissal, the officer or employee or his estate shall receive back all that he has contributed with interest. If the officer or employee retires upon a pension and the amount of the pension he had drawn up to the time of his death does not equal the amount of his contributions with interest and the amount of the contributions of the bank on his behalf with interest, his estate or designated beneficiary shall receive the balance. This latter may be regarded as in lieu of the death benefit that would have been paid had the employee died in active service.

MAXIMUM BENEFITS

No contributions and no benefits are to be paid with respect to that part of any salary which is in excess of $18,000 per annum. It is a grave mistake if such a maximum is placed at too low a figure. The retirement of

superannuated officers who have received comparatively large salaries is even more important than the retirement of the average class of employees whose duties may more easily be delegated or shifted, and experience shows that the retirement of higher officials is materially hastened or retarded accordingly as there is a pension provision reasonably apportioned to their salaries. The cost to an employer of contributing toward a few such cases is negligible. The overwhelming portion of pension costs is the average pension.

Under this limitation there would be very few pensions of more than $2,000 per annum and probably none as much as $6,000. Few things are more unwise than the sentimental considerations which, while permitting those in the average position to retire when superannuation impairs their efficiency, throw obstacles in the way of the elimination of those who in positions of authority when their faculties are impaired by age, materially diminish the effectiveness of the entire organization.

CALCULATION OF COST

The calculation of the cost is in terms of percentage of salary according to age of the employee at entrance into the service. This is the scientific method as it takes into consideration precisely the length of time over which the contributions will be made. Of course, this requires that the calculation of the pension also shall be in percentage of salary, so that the contrinution required of each individual shall be exactly in proportion to the benefits he receives. The total normal cost of the plan outside of the accured liabilities will average probably not in excess of 7 1/2 of the payroll.

DIVISION OF COST

As stated in the bill, the banks will be prohibited from contributing more than the aggregate contributions of the employees with interest. The total

contributions to be made, therefore, will be borne by the banks and by the employees approximately equally. On the average the bank share of the normal cost, outside of the accrued liabilities, will approximate 3 1/2% of the payroll.

ACCRUED LIABILITIES

This is one of the great problems which confronts every pension system at its inception. The problem arises from the past service of present employees before the pension fund began to operate. The scope of the problem is the sum of all of the contributions which would have been made by all of the present employees and on their behalf during all of their previous service, with compound interest.

The Federal Reserve Banks are fortunately still comparatively young. When the plan was first projected the accrued liabilities were found to be a little less than $2,000,000 (as of October 1, 1920), but they grow rapidly and as of October 1, 1924, they were estimated to be about $6,000,000. As a general rule the employing corporation bears all of the accrued liabilities. Under the proposed plan the Federal Reserve Banks will be prohibited from paying more than half of these accrued liabilities, the other half must be borne by the existing employees themselves. There are various ways in which this problem may be met but the more practicable one and the one which will probably be adopted, is to amortize the accrued liabilities over all of the remaining years of the existing employees service by making their rates of contribution for those remaining years of service somewhat higher. The banks would have the option of raising their contributions correspondingly or of meeting their portion of the accrued liabilities at the inception of the plan.

CALCULATION OF INTEREST

Interest rates play an important part in any pension plan. To

guarantee any fixed rate might impose, under conditions which conceivably could arise, a severe strain upon the fund finances. Yet to impose a rate arbitrarily might amount to the fund's making a profit upon its individual contributors. A fair and equitable way would seem to be to adopt provisionally those rates which enter into conservative insurance and pensions calculations over extended periods of time with the proviso that once in every five years those rates, so far as the return of contributions are concerned, will be adjusted in accordance with the actual experience of the fund for the preceding quinquenium.

SCOPE OF THE SYSTEM

The proposed pension system will cover every employee entering the service of the Federal Reserve Banks and the Federal Reserve Board after the establishment of the fund. It is obvious that if the banks are to benefit fully from the establishment of the fund, there should be no exceptions with respect to those to be included. Employees already in the service of the banks are to have the option of joining. This option must for obvious reasons be exercised within a reasonable time. It has been fixed at one year. The bill confers the useful power of enabling this pension fund, with the approval of the Federal Reserve Board, to admit member banks on terms which will impose no financial obligation on the Federal Reserve Banks. Very few banks, and all of these are in the great cities, possess sufficient employees to enable them to establish a pension system of their own. It will, therefore, be most useful on equitable terms to give the member banks, especially those in the country and the smaller cities, each with only a handful of employees, the privilege of participating in a pension system. Particularly will this be true in a system which, by its employment of experts, should have a pension plan of

peculiar excellence, but whether this privilege shall be given to the member banks and on what conditions, is left in the discretion of the Federal Reserve Board.

ILLUSTRATIVE TABLE

Following will be found certain tables which may be useful in giving an idea of the plan.

Table I gives the percentage of salary payable as rates of contribution by employees and by the banks, without taking into consideration the accrued liabilities.

Table II shows the relative percentages with the accrued liabilities as they might be amortized over the entire remaining period of employment.

Table III is an illustration of the workings of the plan in an average case, showing the annuity that would be paid after various lengths of service in the case of total disability and also the pension that would be paid upon retirement either at age 65 or 70.

Table 1

Percentage of Salary Payable as Rates of Contribution

by Employees and by Banks, without taking into

Consideration the Accrued Liabilities.

Age at Entrance	Payable by Male Employees	Payable by Female Employees	Payable by Banks for Male Employees	Payable by Banks for Female Employees
21	3.36	3.34	3.02	2.96
22	3.42	3.42	3.09	3.04
23	3.48	3.50	3.18	3.14
24	3.54	3.58	3.27	3.27
25	3.60	3.66	3.36	3.40
26	3.66	3.74	3.45	3.53
27	3.73	3.82	3.54	3.66
28	3.80	3.90	3.65	3.79
29	3.87	3.99	3.77	3.92
30	3.94	4.08	3.89	4.06
31	4.01	4.17	4.01	4.21
32	4.09	4.26	4.13	4.37
33	4.17	4.36	4.26	4.53
34	4.25	4.46	4.39	4.70
35	4.33	4.56	4.53	4.89
36	4.42	4.66	4.69	5.08
37	4.51	4.76	4.86	5.28
38	4.60	4.87	5.04	5.49
39	4.69	4.98	5.23	5.73
40	4.78	5.09	5.43	6.01
41	4.87	5.20	5.65	6.31
42	4.97	5.31	5.88	6.66
43	5.07	5.42	6.12	7.04
44	5.18	5.54	6.38	7.46
45	5.29	5.66	6.64	7.91
46	5.40	5.78	6.94	8.43
47	5.51	5.90	7.26	9.01
48	5.62	6.03	7.60	9.58
49	5.74	6.16	7.93	10.02
50	5.86	6.29	8.28	10.36
51	5.98	6.42	8.54	10.64
52	6.10	6.56	8.79	10.92
53	6.23	6.70	9.04	11.17
54	6.36	6.84	9.28	11.42
55	6.49	6.98	9.52	11.67
56	6.62	7.12	9.82	11.91
57	6.75	7.27	10.13	12.10
58	6.89	7.42	10.50	12.23
59	7.03	7.57	10.90	12.28
60	7.17	7.73	11.33	12.24
61	7.31	7.89	11.82	12.34
62	7.46	8.05	12.47	12.59
63	7.61	8.21	12.48	13.02
64	7.76	8.37	14.86	13.62

Table II.

Percentage of Salary Payable as Rates of Contribution by Employees and by Banks taking into Consideration Service Rendered prior to the Establishment of the Pension System.

Age at Entrance Into Retirement Fund	SERVICE RENDERED PRIOR TO ENTRANCE INTO RETIREMENT SYSTEM					
	0 Years	2 Years	4 Years	6 Years	8 Years	10 Years
			MEN			
	%	%	%	%	%	%
21	4.03					
25	4.28	4.38	4.47			
30	4.64	4.78	4.93	5.08	5.16	
35	5.05	5.27	5.48	5.68	5.85	6.01
40	5.52	5.84	6.15	6.44	6.73	6.98
45	6.05	6.54	7.00	7.44	7.86	8.26
50	6.65	7.40	8.12	8.82	9.50	10.00
55	7.31	8.60	9.84	10.00	10.00	10.00
60	8.03	10.00	10.00	10.00	10.00	10.00
64	8.65	10.00	10.00	10.00	10.00	10.00
			WOMEN			
21	4.01					
25	4.34	4.49	4.64			
30	4.78	4.99	5.19	5.38	5.56	
35	5.29	5.57	5.85	6.13	6.39	6.64
40	5.84	6.23	6.62	7.01	7.38	7.74
45	6.44	7.00	7.55	8.09	8.63	9.15
50	7.10	7.94	8.77	9.58	10.00	10.00
55	7.83	9.25	10.00	10.00	10.00	10.00
60	8.62	10.00	10.00	10.00	10.00	10.00
64	9.29	10.00	10.00	10.00	10.00	10.00

TABLE III.

ILLUSTRATION OF AVERAGE WORKING OF PENSION PLAN

at age 25

The following schedule gives an illustration of the average working of the Pension Plan in the case of a male employee engaged at age 25, when he can immediately avail himself of the advantages of the Pension Plan.

It is believed that the vast majority of employees will be engaged at an age younger than 25.

The employee's contribution rate at age 25 is 3.60%. The Bank's contribution rate is 3.36%, covering service pension, disability pension, and death benefit.

After service for	Average year's salary for age attained	Employee's payments to fund accumulated with 4% interest	Payment to Beneficiary on death in service, viz: 1 year's salary and return of own contributions	Annuity in event of total disability in service	Pension on Retirement
0 yrs.	$1,440	0	$ 1,440	0	
10 "	2,140	$ 784	2,924	$ 442	
20 "	2,660	2,226	4,886	519	
30 "	3,040	4,566	7,606	874	
40 "	3,340	8,184	11,524	1,272	$1,526
45 "	3,460	10,644	14,104	- - -	1,780

When an employee enters on his pension the value of the pension vests and the pension is computed on the basis of guaranteeing the return of all the contributions available at the date the pension is entered upon. The following table shows

SUM PAYABLE AT DEATH OF PENSIONER

After	Pensioner entering at 65	Pensioner entering at 70
0 yrs.	$16,900	$17,200
5 "	9,270	8,300
10 "	1,640	0
15 "	0	0

APPENDIX

Comparison of
The Proposed Federal Reserve Pension Fund
with
The Civil Service Retirement and Disability Fund
and
The Foreign Service Retirement and Disability System.

BASIS OF SYSTEMS

The Civil Service Fund and the Foreign Service Fund are operated upon the cash disbursement method. That is, the pensions are paid out of the moneys in hand, and if those moneys at any time come to be insufficient to pay the pensions falling due in that year, the United States Treasury is drawn upon. The resources outside of appropriations to be made by Congress are manifestly insufficient of themselves to provide the pensions promised; the time will at length arrive when Congress will be asked to make appropriations from the Treasury. Those appropriations will consist of the difference, in each year, of the amount of the pensions and the total amount of the employees' contributions for that year. Each successive year will make this difference a larger amount, until the amount required from the Treasury will be a very great sum.

The Federal Reserve Pension Fund will operate on the actuarial reserve method. Each year there will be paid into its treasury, by the combined action of the employees and the banks, the exact amount which, placed at compound interest, will in the future pay the pensions arising from the proportion of their entire service given by the employees in that year. Thus there will never be, in any given year, the obligation to pay for services rendered in any other year than that one.

In the cash disbursement method, as illustrated by the two existing funds, all of the pensions, accumulating through a long succession of years,

must be paid with no resource but the contributions of employees due in that year and appropriations by Congress. In the actuarial reserve method, as illustrated by the proposed fund, the money to pay a pension, however long this pension may be payable, is accumulated before the pension is granted. The increase of the pension roll, no matter how high a figure it may attain, imposes no strain on the pension system; the strain has been taken care of during the years of the employee's service.

THE ACCRUED LIABILITIES

No specific provision is made in the Civil Service Fund and the Foreign Service Fund for the accrued liabilities which are nevertheless assumed. These must all be paid out of the public treasury. The accrued liabilities are always, in an old service, tremendous. But they never appear during the very early years, because not enough persons retire at once to equal the contributions of the active employees. These are certain, however, to appear within a limited number of years, and then to mount up progressively to gigantic proportions.

The proposed Federal Reserve Pension Fund will have its accrued liabilities all provided beforehand by the arrangement that the employees at the time the plan goes into operation (the class for whom the accrued liabilities attach), will pay such rates of contribution as will, during their period of service, provide their share (one-half) of such liabilities. The banks will do the same thing for their share (the other half) of the accrued liabilities, or may pay them down at once and forever get rid of them.

DIVISION OF COST

The existing Federal Government pension plans provide for the payment of certain specified contributions by the employees affected. The United States Government pays for the rest of the pensions, be they more or less,

except in the Foreign Service Fund, where the contributions of the Government are not to exceed the total of such by the employees.

The enabling bill before Congress for a pension system in the Federal Reserve Banks specifically provides that the total contributions of the banks cannot exceed the total contributions of the employees with interest.

CONTRIBUTIONS BY EMPLOYEES

In the Civil Service Retirement Fund all employees pay two and a half per cent of their salary. In the Foreign Service Retirement Fund each employee pays five per cent of his salary.

In the proposed Federal Reserve Bank Pension Plan the rates of contribution fixed for the employees are graduated according to age of entrance into the service and are sufficient, together with the contribution to be made by the banks, whose total contributions may not exceed the total contributions made by the employees with interest, to provide the total benefits promised by the plan. The average contribution by the banks for the normal operation of the plan, exclusive of providing for accrued liabilities with respect to present employees, would approximate 3 1/2% of the payroll.

THE BENEFITS

The Age Allowance.

This is available in the Civil Service Fund at either ages 62, 65 or 70, depending upon the class of service. In the Foreign Service Fund the retirement age is 65, and compulsory at 70. In both services there is the requirement of fifteen years of service.

The proposed Federal Reserve Plan fixes the age of retirement as optional at age 65, and compulsory at age 70. No service requirement is made, it being regarded as unnecessary when pensions are proportioned to length of service.

The amount of the pensions in the Civil Service Fund varies according to certain classifications. To employees with thirty or more years of service it may be as high as sixty per cent of the average basic salary during the last ten years of service. If employees have only fifteen years of service it may be as low as thirty per cent of the average basic salary of the last ten years of service.

There is a minimum of $180 a year and a maximum of $720 a year.

The pensions in the Foreign Service Fund are figured in the same general way as in the Civil Service. The difference here is that there appears to be no minimum; and the maximum, instead of being $720 a year, is $5,400 a year.

Service in tropical or especially unhealthful countries may have an allowance made by which each year of such service counts as a year and a half.

The Federal Reserve Banks will take as the basic computation always the average salary over the entire period of service and never any form of the terminal salary. The method of calculation for every employee is the same, one and one-half per cent of the average salary during the entire period of service, multiplied by the number of years of service. There is no minimum. A maximum is fixed by considering, both for contributions and for pensions, any salary over $18,000 a year as at that figure. Under this plan there will be very few pensions in excess of $2,000 per annum and probably none in excess of $6,000 per annum.

Disability Allowance.

For the Civil Service Fund a disability allowance is provided for any employee totally incapacitated, with the provision that this is not to be available unless he has had fifteen years of service. The amount of the allowance is calculated in the same way as the age allowance. The Foreign Service

Fund has exactly the same provisions.

The Federal Reserve Bank will give a disability allowance in case of total and permanent disability after one year of service in the case of employees who were subject to medical examination upon employment, and after five years of service in the case of those who were not subject to a medical examination. The amount of this allowance is 1 1/4% of the average salary, multiplied by the number of years of service, with a minimum in any event of a calculation of twenty years' service, thus providing a minimum disability allowance of 25% of average salary; except that if the age allowance upon retirement at age 65 would have been less than 25% of average salary, then the disability allowance shall be the same as the age allowance would have been.

Death Benefit.

Neither the Civil Service nor the Foreign Service Fund has a distinct death benefit, but of course provides for the return of all of the unused contributions made by the employee,, with interest to date of death.

A distinct death benefit is proposed by the Federal Reserve Fund consisting of a year's salary at the rate received at the time of death. Also, all contributions by the employee are returned with interest.

Separation from Service.

The Civil Service Fund returns to an employee resigning or being dismissed all of his contributions with interest at four per cent compounded annually. The Foreign Service Fund, upon the resignation or dismissal of an employee, returns to him seventy-five per cent of the total amount which he has contributed; no interest is allowed.

The proposed Federal Reserve Bank Fund will, to an employee resigning or being dismissed, return all of his contributions with interest.

Vested Interest.

In the event of the death of a pensioner in the Civil Service Fund who has not received in pension the equivalent of his own contributions with interest to date of death, his estate receives the balance. The rule is the same in the Foreign Service Fund.

In the proposed Federal Reserve Bank Fund the total contributions made by the employee and on his behalf will, upon his retirement, vest. If the total subsequent payments made to him as a pension do not equal the amount thus vested, then any excess is to be paid to his estate or a designated beneficiary. No other death benefit is provided in the case of death occurring after retirement on pension.

CONFIDENTIAL
For use of Federal Reserve Board only

MEMBER BANKS BORROWING CONTINUOUSLY IN EXCESS OF CAPITAL AND SURPLUS DURING JUNE, 1926
ALSO BORROWINGS OF ALL MEMBER BANKS AT THE END OF THE MONTH

St. 5036

Federal Reserve District	GROUP I - All banks borrowing continuously in excess of capital and surplus during the month				GROUP II - Banks in Group I whose borrowings at the end of month were at least twice capital & surplus				GROUP III - All member banks in district				
	Number	Capital and surplus	Borrowings on June 30 Amount	Borrowings on June 30 Ratio to capital & surplus	Number	Capital and surplus	Borrowings on June 30 Amount	Borrowings on June 30 Ratio to capital & surplus	Accommodated during month	Total number	Capital and surplus	Borrowings on June 30 Amount	Borrowings on June 30 Ratio to capital & surplus
Boston	2	$ 450,000	$611,000	136%	-	-	-	-	188	416	$291,200,000	$38,987,000	13.4
New York	3	450,000	551,000	122	-	-	-	-	420	895	1,179,500,000	102,489,000	8.7
Philadelphia	3	1,610,000	2,313,000	144	-	-	-	-	410	760	405,967,000	55,424,000	13.7
Cleveland	5	482,000	617,000	128	-	-	-	-	312	860	450,333,000	47,413,000	10.5
Richmond	30	4,067,000	5,676,000	140	3	$380,000	$807,000	212%	319	589	202,400,000	45,570,000	22.5
Atlanta	12	2,290,000	2,912,000	127	-	-	-	-	223	489	165,300,000	39,170,000	23.7
Chicago	36	3,602,000	5,255,000	146	5	189,000	453,000	240	540	1,369	554,100,000	89,587,000	16.2
St. Louis	25	3,642,000	4,916,000	135	1	55,000	110,000	200	222	619	175,367,000	30,657,000	17.5
Minneapolis	16	562,000	813,000	145	1	30,000	61,000	203	129	806	104,467,000	3,758,000	3.6
Kansas City	45	[illegible],039,000	5,227,000	154	5	190,000	452,000	238	239	1,011	139,633,000	15,480,000	11.1
Dallas	2	60,000	73,000	122	-	-	-	-	252	844	142,933,000	12,294,000	8.6
San Francisco	14	3,571,000	5,713,000	160	3	295,000	699,000	237	204	726	281,133,000	34,202,000	12.2
TOTAL													
June 1926	193	24,825,000	35,677,000	144	18	1,139,000	2,582,000	227	3,458	9,384	4,092,333,000	515,031,000	12.6
May 1926	166	23,661,000	34,641,000	146	17	3,046,000	6,805,000	223	3,282	9,400	4,088,867,000	548,066,000	13.4
June 1925	218	21,051,000	34,930,000	166	30	4,232,000	12,373,000	292	3,289	9,546	3,853,367,000	480,468,000	12.5

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
[illegible] 28, 1926.

C.

Volume 162
Page 64

64

65
162

See file

July 22, 1926

Governor Crissinger

Mr. Goldenweiser

Boston bank's pamphlet

A pamphlet entitled "The Federal Reserve System; its Relation to Banks and Business and the Public" has just been issued by the Boston reserve bank. The purpose of the pamphlet is to create a better understanding of the functions of the system, and the bank proposes to distribute it in large numbers among member banks and business concerns.

In this connection the question arises whether it is the policy of the Board to supervise thepublications by the reserve banks. In October, 1924, the Board adopted principles governing research, statistics and publication activities and sent copies of these principles to the reserve banks. Among these principles is the following: "The monthly reviews published by the Federal reserve agents shall be under the general editorial supervision of the Director of Research and Statistics of the Federal Reserve Board, who shall be responsible to the Board for the proper conduct of the research, statistical and publication activities undertaken by the Board and authorized for the several banks." If this Division is in any way responsible for publications like the present pamphlet, it is essential that it have an opportunity of seeing them before they are issued.

Aside from this matter of general policy, it is my opinion that the pamphlet is not a very useful one. It presents a summary of the Act and a purely schematic description of the machinery of the Federal reserve system, without giving a clear idea of the purposes it serves or the functions it performs. The pamphlet issued some years ago entitled "Better Banking Under the Federal Reserve System" is in these respects vastly

superior to the present pamphlet.

The pamphlet also contains a number of minor mistakes, as, for instance, on page 13 the omission of nonmember clearing accounts from the classes of deposits held by the reserve banks; and on page 18 the statement that Federal reserve bank notes were in circulation only for a very short time, while the truth is that they have been in circulation almost during the entire time of the existence of the system.

More important than these minor mistakes, however, are statements that are literally accurate and yet misleading. The whole section on elasticity of currency on pages 16-18 presents the view that the fundamental reason for the elasticity of our currency is to be found in the nature of the collateral eligible as cover for Federal reserve notes. This, to be sure, has been standard doctrine, but the Federal Reserve Board has just published an article in which it makes it clear that elasticity depends on factors entirely independent of the collateral back of the notes. It does not seem desirable to have the bank issue a statement inconsistent with the Board's position.

Another serious defect in the pamphlet is the inadequate treatment of open-market operations, which are included in the chapter on "Services" where they occupy one paragraph on pages 23-24. In this paragraph there is a statement to the effect that one purpose in giving the reserve banks the power of open-market purchases was "that the reserve banks might have a means of exercising some influence on the credit situation." This seems to imply that the

system has no other means of exercising influence, and ignores the power to fix discount rates and to exercise discretion in the granting of loans to member banks. The pamphlet in general almost completely overlooks the discount rate. In fact, I believe that there is no mention of it in the chapter on "Borrowing from the Reserve Banks."

In the section on "Not a Government Institution" on page 25, the impression created is that the reserve banks are no more Government institutions than are national banks. This is not accurate. The Federal reserve Board has much broader powers over reserve banks than the Comptroller has over national banks. In addition, the Government appoints one-third of the reserve banks' directors; receives all their net earnings above 6 per cent, and has an equity in the surplus. Neither is the section on "Not a Central Bank" well handled. While it is proper to emphasize that the Federal reserve system has a regional organization, the fact remains that within each District the Federal reserve bank is a central bank.

The last paragraph entitled "Not Arbiters of Member Bank Loans," though technically correct, gives the impression that the reserve banks have no means of influencing the money market or of bringing about an expansion or contraction of member bank loans. While it is true that a reserve bank cannot order a member bank to make additional loans, or to call loans, it is also true that through open-market operations the reserve banks can bring about a situation where member banks are practically sure to put more funds into the market or to withdraw funds from the market.

In general, the pamphlet consistently and, it would seem, deliberately understates the powers of the system and, within the system, the importance of the Government and the influence of the Federal Reserve Board, and among the functions of the reserve banks the importance of open-market operations. This distribution of emphasis clearly arises from a desire to present a picture that would be acceptable to member banks and would create better feeling for the system. It is doubtful wisdom to attempt to achieve this end by making inaccurate and essentially misleading statements.

C O N F I D E N T I A L
Not for p[illegible]

AVERAGE AMOUNT OF [illegible] CARRIED BY THE FEDERAL RESERVE BANKS
ON WEEKL[illegible] STATEM[illegible] STATES DURING JUNE 1926.
(Amo[illegible]s in thousands of dollars)

St. 5035

Federal Reserve Bank	Total deposits	"Float (excess of uncollected over deferred availability items)		Classification of Uncollected items					Classification of deferred availability items		
		Amount	Per cent of total deposits	Transit items	Clearing House Exchanges	Other cash items	F. R. notes of other F. R. banks	Total	Government transit items	Other transit items	Total
Boston	144,269	2,595	1.8	63,701	1,874	78	254	65,907	1,986	61,326	63,312
New York	889,136	31,607	3.6	138,344	29,454	561	4,740	173,099	4,063	137,429	141,492
Philadelphia	136,047	5,101	3.7	52,206	9,143	2,863	4	64,216	3,784	55,331	59,115
Cleveland	181,686	6,323	3.5	62,645	3,233	35	1,356	67,269	1,753	59,193	60,946
Richmond	66,788	3,903	5.8	54,713	2,369	184	605	57,871	3,723	50,245	53,968
Atlanta	71,538	2,953	4.1	28,421	563	66	1,812	30,862	1,502	26,407	27,909
Chicago	331,020	10,205	3.1	84,018	4,590	631	3,304	92,543	6,027	76,311	82,338
St. Louis	79,573	(a)174	-	31,473	650	157	1,223	33,503	572	33,105	33,677
Minneapolis	50,508	1,433	2.8	12,671	373	442	396	13,882	360	12,089	12,449
Kansas City	88,526	4,064	4.6	39,471	141	541	982	41,135	1,535	35,536	37,071
Dallas	56,753	(a)1,346	-	25,329	17	2	198	25,546	1,000	25,892	26,892
San Francisco	168,440	427	.3	35,232	1,841	1,052	1,394	39,519	1,335	37,757	39,092
TOTAL											
June 1926	2,264,284	67,091	3.0	628,224	54,248	6,612	16,268	705,352	27,640	610,621	638,261
June 1925	2,225,696	85,239	3.8	598,446	58,450	13,583	12,884	683,363	26,835	571,289	598,124
June 1924	2,092,990	67,691	3.2	526,254	46,697	7,775	16,546	597,272	22,627	506,954	529,581

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
JULY 27, 1926.

(a) Excess of deferred availability over uncollected items.

C.

Volume 162
Page 66

66

See Bk

67

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

July 24, 1926
St. 5032.

SUBJECT: Expenses of Federal Reserve Banks.

Dear Sir:

The Board believes that you and the directors and officers of your bank will be interested in the enclosed statement, prepared primarily for its information, which brings out the trend of expenses chargeable to functions essential to the operation of the System, as distinguished from expenses absorbed as a matter of policy or of operations carried on as a matter of policy. The statement, as you will note, is similar in form to that prepared in November 1923, a copy of which was enclosed with the Board's letter St. 4450 of March 11, 1925.

Very truly yours,

D. R. Crissinger,
Governor.

Enclosure.

LETTER TO CHAIRMEN OF ALL F. R. BANKS*

Volume 162
Page 67

July 21, 1926

To Committee on Salaries and Expenditures of Federal Reserve Banks

SUBJECT: Federal Reserve Bank expenses 1923-1925, classified according to functions essential to the operation of the Federal Reserve System, etc.

From Mr. Smead

In November 1923 the Board's Committee on Economy and Efficiency submitted a report which, among other things, included a statement classifying Federal reserve bank expenses under six general heads in order to show the approximate cost of functions essential to the operation of the Federal Reserve System, of activities carried on as a matter of policy, of Fiscal Agency work, etc. The report submitted by the Committee, copies of which were given to the members of the Governors' and Agents' conference then assembled, reviewed the current expenses for previous years but used figures for the first quarter of 1923 in preparing the special group classification. In view of the very substantial reductions made in expenses since 1923 and especially as the Committee then felt that "while there are further substantial economies that can be effected, it is very much doubted if the total expense accounts of the banks will again show a decrease from a preceding year if the banks continue to perform the same functions," it has been thought advisable to prepare a statement in similar form covering the year 1925. In order to show the character of operations in which economies have been effected totals for the years 1924 and 1923 have been given (in the attached statement) in addition to the detailed figures for 1925.

From the summary table attached it will be noted that of the $4,070,000 decrease in expenses from 1923 to 1925, $2,185,000 or 54 per cent was in expenses directly chargeable to the Fiscal Agency function, while the direct cost of conducting functions essential to the operation of the System decreased $815,000 and administrative and general expenses $695,000. Small reductions are also shown for expenses absorbed as a matter of policy, activities carried on as a matter of policy, and the Government depositary function.

By far the largest portion of the savings effected in the operation of the Federal reserve banks other than in the Fiscal Agency Department is due to the fact that the banks are operating with a smaller clerical staff notwithstanding an increase in the volume of work. This has resulted in part from the more satisfactory working conditions provided for the employees in the banks' own buildings than was possible in rented quarters, especially when operations were carried on in two or more different buildings. Relatively small economies only have been or can be effected in other items of expenditures.

The detailed statement (No. 2) submitted herewith shows, both for the System and for each Federal reserve bank, how the expenses of each group of functions is made up for 1925, with comparative totals for 1923 and 1924.

Of the total reduction of $694,000 in the administrative and general expenses from 1923 to 1925, $225,000 was in the Auditing function, of which a careful survey was made in 1924, and $255,000 in the several operating units of the General Service function, especially in the Mails and Files expense units.

St. 4991

The principal reductions in the cost of functions essential to the operation of the System were in the three main operating departments of the banks, i.e. the Check Collection, the Currency and Coin, and the Loans, Rediscounts and Acceptances functions, where reductions of approximately $390,000, $260,000, and $250,000, respectively, were reported. The cost of the Failed Bank function was about $150,000 more in 1925 than in 1923. The reduction in the Check Collection function was effected notwithstanding an increase in the number of checks handled (other than Government checks) from 662,000,000 in 1923 to 751,000,000 in 1925. In the Currency and Coin function the original cost and the cost of redemption of currency decreased $180,000 and the cost of the work in the Currency and Coin function $80,000. This decrease is noteworthy because the number of bills received and counted was 1,947,000,000 in 1925 as compared with 1,723,000,000 in 1923, and the number of coins received and counted 2,329,000,000 in 1925 and 2,076,000,000 in 1923. The number of items handled in the Loans, Rediscounts and Acceptances function was materially less in 1925 than in 1923.

In the group of expenses absorbed as a matter of policy, the principal reductions occurred in the Non-cash Collection function and in the Transfers of Funds expense unit, the reduction in the Non-cash Collection function being $175,000 and in the Transfers of Funds unit $60,000. The decrease in the cost of the Non-cash Collection function was due in part to a moderate reduction in the volume of work, the number of collection items (except Government coupons) handled declining from 5,732,000 in 1923 to 5,467,000 in 1925. The number of transfers of funds increased, however, from 1,413,000 in 1923 to 1,566,000 in 1925, notwithstanding the decline of $60,000 in operating costs.

The principal reduction in the cost of activities carried on as a matter of policy was in the Statistical and Analytical function, where expenses dropped from about $560,000* in 1923 to $470,000 in 1925. A special study of the research and statistical work carried on by the Federal reserve banks and of the cost thereof was made during 1924 and 1925 and a budget system adopted covering all expenses for such work.

The decrease in the cost of the Government depositary function was in keeping with the falling off in the volume of work, the number of Government coupons paid declining from 65,000,000 in 1923 to 44,000,000 in 1925, and the number of Government checks from 36,000,000 to 28,000,000.

Although the trend has been toward lower expenses at all Federal reserve banks and in all groups of functions, a number of expense units have shown a tendency to increase somewhat. The items in which the principal increases occurred between 1923 and 1925 are as follows: Cost of currency and coin shipments to and from member banks and from non-member banks, $170,000; Failed Banks, $150,000; and Provision of Space, $50,000. These items, it will be noted, are in the non-controllable class, except the Provision of Space function, in which expenses increased because more of the banks are now occupying their own buildings.

*Includes a proportion of assistant Federal reserve agents' salaries formerly charged to the "Federal Reserve Agent" function (now the "Federal Reserve Note Issues" function).

St. 4991

The following table shows the proportion of the expenses at each Federal reserve bank during 1925 which is directly chargeable to each of the six groups of functions:

	Administrative and General	Functions essential to operation of F. R. System	Expenses absorbed as a matter of policy	Activities carried on as a matter of policy	Fiscal Agent of the United States	Depository of United States Government
System	41.0%	38.5%	11.2%	5.1%	3.2%	1.0%
Boston	30.0	46.2	15.5	4.6	3.1	.6
New York	40.1	37.9	12.4	4.7	3.7	1.2
Philadelphia	31.1	42.0	16.2	7.0	2.8	.9
Cleveland	46.1	35.4	10.2	4.8	2.5	1.0
Richmond	40.2	40.0	10.6	5.7	2.8	.7
Atlanta	45.0	36.5	11.7	3.5	2.4	.9
Chicago	39.0	40.3	10.9	5.2	3.3	1.3
St. Louis	48.1	31.1	8.5	6.6	4.4	1.3
Minneapolis	43.7	39.0	8.1	5.1	3.4	.7
Kansas City	45.9	35.2	8.2	5.3	4.4	1.
Dallas	47.4	33.8	9.2	6.2	2.8	.6
San Francisco	45.1	39.8	7.7	4.2	2.1	1.1

It will be noted that 41 per cent of the total expenses of the Federal reserve banks in 1925 represented administrative and general expenses such as overhead, the provision of space, the hiring, training and care of employees, telephone and telegraph, mail and files, protection, postage, insurance, accounting and auditing; 38.5 per cent represented the cost of functions essential to the operation of the Federal Reserve System, including the collection of checks, the supplying of currency and coin, and the discount and purchase of paper and securities; 11.2 per cent represented expenses absorbed as a matter of policy, such as shipping charges on currency, coin and security shipments, the cost of collecting non-cash items, of making transfers of funds, and the safekeeping of securities; 5.1 per cent represented activities carried on as a matter of policy, such as bank examinations, bank relations, statistical and analytical work, and employees' group life insurance; and the remainder, 4.2 per cent, represented the cost of the Fiscal Agency and depositary operations carried on for the Government. The ratios vary considerably among the individual reserve banks, because of differences in the amount and relative importance of such expenses as shipping charges absorbed on currency and coin shipments and the cost of maintaining bank buildings, as well as because of the operation of branches and differences with respect to policy matters.

St. 4991

In one of the tables prepared in 1923 the administrative and general expenses were redistributed to the five other groups on a percentage basis, in order to show the proportion of total expenses (overhead and direct) chargeable to each group of operations. This has not been done in either table 1 or 2 attached hereto, for the reason that in attempting to apply these ratios to each of the three years the results proved to be unsatisfactory if not misleading. In order, however, to afford a general idea of the proportion of total expenses chargeable to each group of operations, the administrative and general expenses during 1925 have been distributed to the other five groups on a percentage basis, and on this basis we find that 66 per cent of the total expenses last year went for maintaining functions essential to the operation of the Federal Reserve System, 16 per cent represented expenses absorbed as a matter of policy, 10 per cent activities carried on as a matter of policy, 6 per cent Fiscal Agency operations, and 2 per cent depositary operations.

St. 4991.

TABLE 1 - TOTAL OPERATING EXPENSES OF ALL FEDERAL RESERVE BANKS COMBINED DURING 1925, 1924 AND 1923, CLASSIFIED TO SHOW EXPENSES OF FUNCTIONS ESSENTIAL TO OPERATION OF FEDERAL RESERVE SYSTEM, ACTIVITIES CONDUCTED AS A MATTER OF POLICY, ETC.

St. 4991.

	Amount			Decrease	Per cent of total expenses		
	1923	1924	1925	1923 - 1925	1923	1924	1925
Administrative and General	$11,869,389	$11,516,434	$11,175,104	$694,285	37.9	40.3	41.0
Functions essential to operation of Federal Reserve System	11,299,260	10,723,823	10,486,754	812,506	36.1	37.6	38.5
Expenses absorbed as a matter of policy	3,204,581	3,128,560	3,040,260	164,321	10.2	11.0	11.2
Activities carried as as a matter of policy	1,513,234	1,540,826	1,393,338	119,896	4.8	5.4	5.1
Fiscal Agent of the United States -							
Absorbed by F. R. Banks	1,142,936	867,765	703,485	439,451	3.7	3.0	2.6
Reimbursed by U. S. Treasury	1,912,483	444,067	167,330	1,745,153	6.1	1.5	.6
Depository of United States Government	371,456	334,484	275,983	95,473	1.2	1.2	1.0
Total functional expenses	31,313,339	28,555,959	27,242,254	4,071,085	100	100	100

TABLE 2-OPERATING EXPENSES OF FEDERAL RESERVE BANKS DURING 1925, WITH TOTALS FOR 1924 AND 1923, St.4991-A
CLASSIFIED TO SHOW EXPENSES OF FUNCTIONS ESSENTIAL TO OPERATION OF FEDERAL RESERVE SYSTEM, ACTIVITIES CONDUCTED AS A MATTER TO POLICY, ETC.
igures based on functional expense reports. In a few instances, where the functions did not correspond exactly with the classifications in this statement, the functional expenses were prorated.)

	All F. R. banks	Boston	New York	Philadelphia	Cleveland	Richmond	Atlanta	Chicago	St.Louis	Minneapolis	Kansas City	Dallas	San Francisco
SES OF ALL FUNCTIONS:													
AL: 1925	$27,242,254	2,025,951	6,209,369	2,052,360	2,574,746	1,470,957	1,240,901	3,607,837	1,406,313	1,138,806	1,541,606	1,259,989	2,713,419
1924	28,555,959	1,996,146	6,362,122	2,175,588	2,670,612	1,575,222	1,272,619	3,916,585	1,474,451	1,129,379	1,709,977	1,371,294	2,901,964
1923	31,313,339	2,207,233	7,130,817	2,380,194	2,836,127	1,596,785	1,348,389	4,587,540	1,551,540	1,269,999	1,953,595	1,505,328	2,945,792
NISTRATIVE AND GENERAL:													
neral Overhead	1,725,033	90,712	330,944	90,710	179,444	105,042	140,529	184,050	115,958	66,804	130,260	106,363	184,217
vision of Space (less rent received)	2,935,119	184,632	818,634	129,067	342,407	111,344	114,547	432,249	156,382	165,820	106,796	106,830	266,411
vision of Personnel	535,145	14,674	184,473	23,991	46,497	22,883	4,686	59,672	25,204	19,674	18,083	36,268	79,040
neral Service	2,460,379	116,682	535,831	143,475	272,960	134,925	97,255	316,019	147,059	95,212	178,095	124,445	298,421
stage	933,149	88,837	141,263	70,845	76,442	68,932	54,706	129,251	60,742	35,625	83,302	49,963	73,241
surance (except Employees Group Life)	266,877	16,068	38,042	24,172	28,095	16,576	16,160	23,485	15,753	24,430	18,737	19,734	25,625
counting (except Transfers of Funds)	1,496,302	57,777	265,386	94,038	151,976	91,649	80,497	172,474	105,103	51,563	111,952	87,873	226,014
gal	159,610	7,138	32,498	2,847	11,277	7,791	12,974	11,987	7,312	8,262	7,889	19,228	30,407
diting	663,490	30,036	140,598	59,668	77,111	31,745	37,042	76,710	42,831	29,934	52,244	46,263	39,308
TOTAL: 1925	11,175,104	606,556	2,487,669	638,813	1,186,209	590,887	558,396	1,405,897	676,344	497,324	707,358	596,967	1,222,684
1924	11,516,434	617,442	2,445,146	681,134	1,276,211	615,919	587,943	1,515,117	659,488	416,290	789,127	637,916	1,274,701
1923	11,869,389	696,319	2,388,292	738,439	1,190,409	615,360	587,032	1,801,935	654,399	434,883	872,522	658,626	1,231,173
IONS ESSENTIAL TO OPERATION FEDERAL RESERVE SYSTEM*:													
ck Collection (except vernment Checks)	4,032,060	357,285	870,660	304,954	348,036	248,784	117,051	631,077	194,913	136,904	271,029	185,284	366,083
rency and Coin**	4,168,373	467,375	993,520	425,907	417,275	227,668	232,500	538,928	132,009	83,545	156,718	107,986	384,942
ns, Rediscounts and cceptances	879,567	48,024	198,270	47,094	49,189	56,589	44,373	121,911	59,828	24,759	52,151	65,190	112,189
urities (Except safekeeping)	210,972	8,726	88,781	15,961	18,073	6,394	5,625	29,883	10,291	8,616	8,800	5,516	4,306
led Banks	448,534	-	-	21	-	5,670	21,633	31,535	7,459	164,424	23,340	34,957	159,495
eral Reserve Note Issues	37,748	2,140	7,323	2,190	4,905	5,163	2,444	3,592	1,085	3,029	1,671	1,357	2,849
ssments for Federal Reve Board expenses	709,500	52,640	191,728	66,139	75,589	37,770	28,954	97,956	32,282	23,006	28,484	25,268	49,684
TAL: 1925	10,486,754	936,190	2,350,282	862,266	913,067	588,038	452,580	1,454,882	437,867	444,283	542,193	425,558	1,079,548
1924	10,723,823	877,616	2,383,780	885,973	853,220	613,485	425,237	1,538,094	481,979	475,452	577,856	465,790	1,145,341
1923	11,299,260	927,653	2,670,967	938,715	880,700	596,561	454,610	1,634,729	496,668	469,700	575,378	528,561	1,125,018

*Exclusive of Administrative and General Expenses. **Including original cost and cost of redemption of F.R. Currency.

TABLE 2- OPERATING EXPENSES OF [illegible] FEDERAL RESERVE BANKS DURING 1925, WITH T[illegible] R 192[illegible] AND 1923,
CLASSIFIED TO SHOW EXPENSES OF FUNCTIO[illegible] OPERATION OF FEDERAL RESERVE SYSTEM, ACTIVI[illegible] CONDUCTED AS A MATTER OF POLICY, ETC.

	All F.R. banks	Boston	New York	Philadelphia	Cleveland	Richmond	Atlanta	Chicago	St. Louis	Minneapolis	Kansas City	Dallas	San Francisco
EXPENSES ABSORBED AS [illegible] TTER OF POLICY*:													
Cost of Currenc[illegible] ments to and fr[illegible] and from non-mem[illegible]	$1,513,47[illegible]	20[illegible],081	326,695	207,338	144,669	93,354	91,412	[illegible]80,765	47,925	38,310	46,725	61,929	69,273
Non-cash Collect[illegible] Governmen[illegible] Coupo[illegible]	[illegible]2,07[illegible]	69,763	228,120	51,538	66,[illegible]	33,[illegible]44	17,[illegible]	107,065	32,513	28,891	36,768	21,036	78,006
Transfers of Fun[illegible]	[illegible]0,105	23,647	83,343	20,796	31,2[illegible]	[illegible]	26,568	63,566	25,443	14,628	33,477	26,699	50,433
Shipping charges	[illegible]6,235	8,754	23,745	13,318	4,[illegible]	2,869	5,385	16,583	4,170	3,370	3,166	1,801	8,810
Supplies furnish[illegible]	12,719	-	3,819	2,098	3,242	1,294	4	770	937	128	46	133	248
Gold abrasion	661	168	299	-	4	75	89	-	26	-	-	-	-
Securities - safe[illegible]	225,049	6,116	105,771	36,566	12,491	4,734	4,310	25,222	7,767	7,298	7,098	4,409	3,267
TOTAL: 1925	3,040,260	313,529	771,796	331,654	262,885	156,383	145,312	3[illegible],971	118,781	92,625	127,230	116,007	210,037
1924	3,128,560	304,426	812,698	326,587	266,091	165,165	136,115	405,[illegible]04	136,443	91,043	137,431	124,045	223,112
1923	3,204,581	303,588	814,077	324,[illegible]	305,180	164,253	133,204	422,599	143,031	89,540	148,200	129,369	227,363
ACTIVITIES CARRIED ON AS A MATTER OF POLICY*:													
Bank Examination	521,641	[illegible]409	59,221	57,032	42,870	33,025	26,201	61,729	36,547	29,726	44,544	35,811	62,526
Statistical and Analytical	468,407	[illegible],370	124,308	64,549	39,913	13,838	11,474	57,593	19,979	14,931	20,535	16,793	41,624
Bank Relations	256,832	8,579	50,829	13,444	32,084	30,916	4,794	50,077	31,098	6,289	7,396	20,047	1,279
Foreign Relations	33,108	-	33,108	-	-	-	-	-	-	-	-	-	-
Employees' Group Life Ins.	106,566	9,497	22,679	8,012	7,463	4,951	911	18,435	5,352	6,252	8,764	5,150	9,100
Publications	[illegible],784	455	2,147	-	755	803	667	421	511	117	412	234	262
TOTAL: 1925	1,39[illegible],338	93,810	292,292	143,037	123,085	83,533	44,047	188,255	93,487	57,315	81,651	78,035	114,791
1924	1,540,826	100,036	307,675	176,978	135,754	102,970	55,179	219,284	91,798	62,551	82,577	74,598	131,416
1923	1,513,234	101,330	304,805	170,963	125,709	101,698	47,676	229,817	88,959	58,495	78,244	76,816	128,722
FISCAL AGENT OF UNITED STATES*:													
TOTAL: 1925	870,815	63,396	233,494	57,442	64,423	40,831	29,920	119,428	62,001	39,108	68,012	36,008	56,752
1924	1,311,832	82,930	315,315	83,656	114,245	63,947	54,617	185,653	83,004	74,411	104,517	59,793	89,744
1923	3,055,419	158,031	842,580	181,300	308,153	102,855	112,239	444,176	142,777	207,315	259,038	101,988	194,967
DEPOSITORY OF UNITED STATES*:													
Government checks	142,110	5,946	36,738	5,807	11,741	6,404	6,784	23,559	9,836	4,257	8,049	4,530	18,459
Government coupons	133,873	6,524	37,098	13,341	13,336	4,881	3,862	21,845	7,997	3,894	7,063	2,884	11,148
TOTAL: 1925	275,983	12,470	73,836	19,148	25,077	11,285	10,646	45,404	17,833	8,151	15,112	7,414	29,607
1924	334,484	13,696	97,508	21,260	25,081	13,736	13,528	53,033	21,739	9,632	18,469	9,152	37,650
1923	371,456	20,312	110,096	26,600	25,976	16,058	13,628	54,284	25,706	10,066	20,213	9,968	38,549

*Exclusive of Administrative and General Expenses.

Sec. Bk.

71

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

July 24, 1926
St. 5032.

SUBJECT: Expenses of Federal Reserve Banks.

Dear Sir:

The Board believes that you and the directors and officers of your bank will be interested in the enclosed statement, prepared primarily for its information, which brings out the trend of expenses chargeable to functions essential to the operation of the System, as distinguished from expenses absorbed as a matter of policy or of operations carried on as a matter of policy. The statement, as you will note, is similar in form to that prepared in November 1923, a copy of which was enclosed with the Board's letter St. 4450 of March 11, 1925.

Very truly yours,

D. R. Crissinger,
Governor.

Enclosure.

LETTER TO CHAIRMEN OF ALL F. R. BANKS*

July 21, 1926

To Committee on Salaries and Expenditures of Federal Reserve Banks

SUBJECT: Federal Reserve Bank expenses 1923-1925, classified according to functions essential to the operation of the Federal Reserve System, etc.

From Mr. Smead

In November 1923 the Board's Committee on Economy and Efficiency submitted a report which, among other things, included a statement classifying Federal reserve bank expenses under six general heads in order to show the approximate cost of functions essential to the operation of the Federal Reserve System, of activities carried on as a matter of policy, of Fiscal Agency work, etc. The report submitted by the Committee, copies of which were given to the members of the Governors' and Agents' conference then assembled, reviewed the current expenses for previous years but used figures for the first quarter of 1923 in preparing the special group classification. In view of the very substantial reductions made in expenses since 1923 and especially as the Committee then felt that "while there are further substantial economies that can be effected, it is very much doubted if the total expense accounts of the banks will again show a decrease from a preceding year if the banks continue to perform the same functions," it has been thought advisable to prepare a statement in similar form covering the year 1925. In order to show the character of operations in which economies have been effected totals for the years 1924 and 1923 have been given (in the attached statement) in addition to the detailed figures for 1925.

From the summary table attached it will be noted that of the $4,070,000 decrease in expenses from 1923 to 1925, $2,185,000 or 54 per cent was in expenses directly chargeable to the Fiscal Agency function, while the direct cost of conducting functions essential to the operation of the System decreased $815,000 and administrative and general expenses $695,000. Small reductions are also shown for expenses absorbed as a matter of policy, activities carried on as a matter of policy, and the Government depositary function.

By far the largest portion of the savings effected in the operation of the Federal reserve banks other than in the Fiscal Agency Department is due to the fact that the banks are operating with a smaller clerical staff notwithstanding an increase in the volume of work. This has resulted in part from the more satisfactory working conditions provided for the employees in the banks' own buildings than was possible in rented quarters, especially when operations were carried on in two or more different buildings. Relatively small economies only have been or can be effected in other items of expenditures.

The detailed statement (No. 2) submitted herewith shows, both for the System and for each Federal reserve bank, how the expenses of each group of functions is made up for 1925, with comparative totals for 1923 and 1924.

Of the total reduction of $694,000 in the administrative and general expenses from 1923 to 1925, $225,000 was in the Auditing function, of which a careful survey was made in 1924, and $255,000 in the several operating units of the General Service function, especially in the Mails and Files expense units.

St. 4991

The principal reductions in the cost of functions essential to the operation of the System were in the three main operating departments of the banks, i.e. the Check Collection, the Currency and Coin, and the Loans, Rediscounts and Acceptances functions, where reductions of approximately $390,000, $260,000, and $250,000, respectively, were reported. The cost of the Failed Bank function was about $150,000 more in 1925 than in 1923. The reduction in the Check Collection function was effected notwithstanding an increase in the number of checks handled (other than Government checks) from 662,000,000 in 1923 to 751,000,000 in 1925. In the Currency and Coin function the original cost and the cost of redemption of currency decreased $180,000 and the cost of the work in the Currency and Coin function $80,000. This decrease is noteworthy because the number of bills received and counted was 1,947,000,000 in 1925 as compared with 1,723,000,000 in 1923, and the number of coins received and counted 2,329,000,000 in 1925 and 2,076,000,000 in 1923. The number of items handled in the Loans, Rediscounts and Acceptances function was materially less in 1925 than in 1923.

In the group of expenses absorbed as a matter of policy, the principal reductions occurred in the Non-cash Collection function and in the Transfers of Funds expense unit, the reduction in the Non-cash Collection function being $175,000 and in the Transfers of Funds unit $60,000. The decrease in the cost of the Non-cash Collection function was due in part to a moderate reduction in the volume of work, the number of collection items (except Government coupons) handled declining from 5,732,000 in 1923 to 5,467,000 in 1925. The number of transfers of funds increased, however, from 1,413,000 in 1923 to 1,566,000 in 1925, notwithstanding the decline of $60,000 in operating costs.

The principal reduction in the cost of activities carried on as a matter of policy was in the Statistical and Analytical function, where expenses dropped from about $560,000* in 1923 to $470,000 in 1925. A special study of the research and statistical work carried on by the Federal reserve banks and of the cost thereof was made during 1924 and 1925 and a budget system adopted covering all expenses for such work.

The decrease in the cost of the Government depositary function was in keeping with the falling off in the volume of work, the number of Government coupons paid declining from 65,000,000 in 1923 to 44,000,000 in 1925, and the number of Government checks from 36,000,000 to 28,000,000.

Although the trend has been toward lower expenses at all Federal reserve banks and in all groups of functions, a number of expense units have shown a tendency to increase somewhat. The items in which the principal increases occurred between 1923 and 1925 are as follows: Cost of currency and coin shipments to and from member banks and from non-member banks, $170,000; Failed Banks, $150,000; and Provision of Space, $50,000. These items, it will be noted, are in the non-controllable class, except the Provision of Space function, in which expenses increased because more of the banks are now occupying their own buildings.

*Includes a proportion of assistant Federal reserve agents' salaries formerly charged to the "Federal Reserve Agent" function (now the "Federal Reserve Note Issues" function).

St. 4991

The following table shows the proportion of the expenses at each Federal reserve bank during 1925 which is directly chargeable to each of the six groups of functions:

	Administrative and General	Functions essential to operation of F. R. System	Expenses absorbed as a matter of policy	Activities carried on as a matter of policy	Fiscal Agent of the United States	Depository of United States Government
System	41.0%	38.5%	11.2%	5.1%	3.2%	1.0%
Boston	30.0	46.2	15.5	4.6	3.1	.6
New York	40.1	37.9	12.4	4.7	3.7	1.2
Philadelphia	31.1	42.0	16.2	7.0	2.8	.9
Cleveland	46.1	35.4	10.2	4.8	2.5	1.0
Richmond	40.2	40.0	10.6	5.7	2.8	.7
Atlanta	45.0	36.5	11.7	3.5	2.4	.9
Chicago	39.0	40.3	10.9	5.2	3.3	1.3
St. Louis	48.1	31.1	8.5	6.6	4.4	1.3
Minneapolis	43.7	39.0	8.1	5.1	3.4	.7
Kansas City	45.9	35.2	8.2	5.3	4.4	1.
Dallas	47.4	33.8	9.2	6.2	2.8	.6
San Francisco	45.1	39.8	7.7	4.2	2.1	1.1

It will be noted that 41 per cent of the total expenses of the Federal reserve banks in 1925 represented administrative and general expenses such as overhead, the provision of space, the hiring, training and care of employees, telephone and telegraph, mail and files, protection, postage, insurance, accounting and auditing; 38.5 per cent represented the cost of functions essential to the operation of the Federal Reserve System, including the collection of checks, the supplying of currency and coin, and the discount and purchase of paper and securities; 11.2 per cent represented expenses absorbed as a matter of policy, such as shipping charges on currency, coin and security shipments, the cost of collecting non-cash items, of making transfers of funds, and the safekeeping of securities; 5.1 per cent represented activities carried on as a matter of policy, such as bank examinations, bank relations, statistical and analytical work, and employees' group life insurance; and the remainder, 4.2 per cent, represented the cost of the Fiscal Agency and depositary operations carried/for the Government. The ratios vary considerably among the individual reserve banks, because of differences in the amount and relative importance of such expenses as shipping charges absorbed on currency and coin shipments and the cost of maintaining bank buildings, as well as because of the operation of branches and differences with respect to policy matters.

St. 4991

In one of the tables prepared in 1923 the administrative and general expenses were redistributed to the five other groups on a percentage basis, in order to show the proportion of total expenses (overhead and direct) chargeable to each group of operations. This has not been done in either table 1 or 2 attached hereto, for the reason that in attempting to apply these ratios to each of the three years the results proved to be unsatisfactory if not misleading. In order, however, to afford a general idea of the proportion of total expenses chargeable to each group of operations, the administrative and general expenses during 1925 have been distributed to the other five groups on a percentage basis, and on this basis we find that 66 per cent of the total expenses last year went for maintaining functions essential to the operation of the Federal Reserve System, 16 per cent represented expenses absorbed as a matter of policy, 10 per cent activities carried on as a matter of policy, 6 per cent Fiscal Agency operations, and 2 per cent depositary operations.

St. 4991.

TABLE 1 - TOTAL OPERATING EXPENSES OF ALL FEDERAL RESERVE BANKS COMBINED DURING 1925, 1924 AND 1923, CLASSIFIED TO SHOW EXPENSES OF FUNCTIONS ESSENTIAL TO OPERATION OF FEDERAL RESERVE SYSTEM, ACTIVITIES CONDUCTED AS A MATTER OF POLICY, ETC.

St. 4991.

	Amount			Decrease	Per cent of total expenses		
	1923	1924	1925	1923 - 1925	1923	1924	1925
Administrative and General	$11,869,389	$11,516,434	$11,175,104	$694,285	37.9	40.3	41.0
Functions essential to operation of Federal Reserve System	11,299,260	10,723,823	10,486,754	812,506	36.1	37.6	38.5
Expenses absorbed as a matter of policy	3,204,581	3,128,560	3,040,260	164,321	10.2	11.0	11.2
Activities carried as as a matter of policy	1,513,234	1,540,826	1,393,338	119,896	4.8	5.4	5.1
Fiscal Agent of the United States -							
Absorbed by F. R. Banks	1,142,936	867,765	703,485	439,451	3.7	3.0	2.6
Reimbursed by U. S. Treasury	1,912,483	444,067	167,330	1,745,153	6.1	1.5	.6
Depository of United States Government	371,456	334,484	275,983	95,473	1.2	1.2	1.0
Total functional expenses	31,313,339	28,555,959	27,242,254	4,071,085	100	100	100

TABLE 2-OPERATING EXPENSES OF FEDERAL RESERVE BANKS DURING 1925, WITH TOTALS FOR 1924 AND 1923, CLASSIFIED TO SHOW EXPENSES OF FUNCTIONS ESSENTIAL TO OPERATION OF FEDERAL RESERVE SYSTEM, ACTIVITIES CONDUCTED AS A MATTER TO POLICY, ETC.

(Figures based on functional expense reports. In a few instances, where the functions did not correspond exactly with the classifications in this statement, the functional expenses were prorated.)

	All F. R. banks	Boston	New York	Philadelphia	Cleveland	Richmond	Atlanta	Chicago	St.Louis	Minneapolis	Kansas City	Dallas	San Francisco
EXPENSES OF ALL FUNCTIONS:													
TOTAL: 1925	$27,242,254	2,025,951	6,209,369	2,052,360	2,574,746	1,470,957	1,240,901	3,607,837	1,406,313	1,138,806	1,541,606	1,259,989	2,713,419
1924	28,555,959	1,996,146	6,362,122	2,175,588	2,670,612	1,575,222	1,272,619	3,916,585	1,474,451	1,129,379	1,709,977	1,371,294	2,901,964
1923	31,313,339	2,207,233	7,130,817	2,380,194	2,836,127	1,596,785	1,348,389	4,587,540	1,551,540	1,269,999	1,953,595	1,505,328	2,945,792
ADMINISTRATIVE AND GENERAL:													
General Overhead	1,725,033	90,712	330,944	90,710	179,444	105,042	140,529	184,050	115,958	66,804	130,260	106,363	184,217
Provision of Space (less rent received)	2,935,119	184,632	818,634	129,067	342,407	111,344	114,547	432,249	156,382	165,820	106,796	106,830	266,411
Provision of Personnel	535,145	14,674	184,473	23,991	46,497	22,883	4,686	59,672	25,204	19,674	18,083	36,268	79,040
General Service	2,460,379	116,682	535,831	143,475	272,960	134,925	97,255	316,019	147,059	95,212	178,095	124,445	298,421
Postage	933,149	88,837	141,263	70,845	76,442	68,932	54,706	129,251	60,742	35,625	83,302	49,963	73,241
Insurance (except Employees Group Life)	266,877	16,068	38,042	24,172	28,095	16,576	16,160	23,485	15,753	24,430	18,737	19,734	25,625
Accounting (except Transfers of Funds)	1,496,302	57,777	265,386	94,038	151,976	91,649	80,497	172,474	105,103	51,563	111,952	87,873	226,014
Legal	159,610	7,138	32,498	2,847	11,277	7,791	12,974	11,987	7,312	8,262	7,889	19,228	30,407
Auditing	663,490	30,036	140,598	59,668	77,111	31,745	37,042	76,710	42,831	29,934	52,244	46,263	39,308
TOTAL: 1925	11,175,104	606,556	2,487,669	638,813	1,186,209	590,887	553,396	1,405,897	676,344	497,324	707,358	596,967	1,222,684
1924	11,516,434	617,442	2,445,146	681,134	1,276,211	615,919	587,943	1,515,117	659,488	416,290	789,127	637,916	1,274,701
1923	11,869,389	696,319	2,388,292	738,439	1,190,409	615,360	587,032	1,801,935	654,399	434,883	872,522	658,626	1,231,173
FUNCTIONS ESSENTIAL TO OPERATION OF FEDERAL RESERVE SYSTEM*:													
Check Collection (except Government Checks)	4,032,060	357,285	870,660	304,954	348,036	248,784	117,051	631,077	194,913	136,904	271,029	185,284	366,083
Currency and Coin**	4,168,373	467,375	993,520	425,907	417,275	227,668	232,500	538,928	132,009	83,545	156,718	107,986	384,942
Loans, Rediscounts and Acceptances	879,567	48,024	198,270	47,094	49,189	56,589	44,373	121,911	59,828	24,759	52,151	65,190	112,189
Securities (Except safekeeping)	210,972	8,726	88,781	15,961	18,073	6,394	5,625	29,883	10,291	8,616	8,800	5,516	4,306
Failed Banks	448,534	-	-	21	-	5,670	21,633	31,535	7,459	164,424	23,340	34,957	159,495
Federal Reserve Note Issues	37,748	2,140	7,323	2,190	4,905	5,163	2,444	3,592	1,085	3,029	1,671	1,357	2,849
Assessments for Federal Reserve Board expenses	709,500	52,640	191,728	66,139	75,589	37,770	28,954	97,956	32,282	23,006	28,484	25,268	49,684
TOTAL: 1925	10,486,754	936,190	2,350,282	862,266	913,067	588,038	452,580	1,454,882	437,867	444,283	542,193	425,558	1,079,548
1924	10,723,823	877,616	2,383,780	885,973	853,220	613,485	425,237	1,538,094	481,979	475,452	577,856	465,790	1,145,341
1923	11,299,260	927,653	2,670,967	938,715	880,700	596,561	454,610	1,634,729	496,668	469,700	575,378	528,561	1,125,018

*Exclusive of Administrative and General Expenses. **Including original cost and cost of redemption of F.R. Currency.

St.4991-B

TABLE - OPERATING EXPENSES OF FEDERAL RESERVE BANKS DURING 1925, WITH TOTALS FOR 1924 AND 1923, CLASSIFIED TO SHOW EXPENSES OF FUNCTIONS ESSENTIAL TO OPERATION OF FEDERAL RESERVE SYSTEM, ACTIVITIES CONDUCTED AS A MATTER OF POLICY, ETC.

	All F.R. banks	Boston	New York	Philadelphia	Cleveland	Richmond	Atlanta	Chicago	St. Louis	Minneapolis	Kansas City	Dallas	San Francisco
EXPENSES ABSORBED AS A MATTER OF POLICY*:													
Cost of Currency and Coin shipments to and from member banks and from non-member banks	$1,513,476	205,081	326,695	207,338	144,669	93,354	90,412	180,765	47,925	38,310	46,725	61,929	69,273
Non-cash Collection (except Government Coupons)	172,015	69,763	228,120	51,538	66,921	33,844	17,550	107,065	32,513	28,891	36,768	21,036	78,006
Transfers of securities	420,105	23,647	83,343	20,754	31,298	20,213	26,562	63,566	25,443	14,628	33,477	26,699	50,433
Shipping charges on securities furnished member banks	96,235	8,754	23,749	13,318	4,260	2,869	5,385	16,583	4,170	3,370	3,166	1,801	8,810
Supplies for [illegible]	12,719	-	3,819	2,098	242	1,294	4	770	937	128	46	133	248
Gold [illegible]	661	168	299	-	4	75	89	-	26	-	-	-	-
Securities - safekeeping, etc.	225,049	6,116	105,771	36,566	12,491	4,734	4,310	25,222	7,767	7,298	7,098	4,409	3,267
TOTAL: 1925	3,040,260	313,529	771,796	331,654	262,685	156,383	145,312	393,971	118,781	92,625	127,280	116,007	210,037
1924	3,128,560	304,426	812,698	326,587	266,091	165,165	136,115	405,404	136,443	91,043	137,431	124,045	223,112
1923	3,204,581	303,588	814,077	324,177	305,180	164,253	133,204	422,599	143,031	89,540	148,200	129,369	227,363
ACTIVITIES CARRIED ON AS A MATTER OF POLICY*:													
Bank Examination	521,641	32,409	59,221	57,032	42,870	33,025	26,201	61,729	36,547	29,726	44,544	35,811	62,526
Statistical and Analytical	468,407	42,870	124,308	64,549	39,913	13,8[illegible]8	11,474	57,593	19,979	14,931	20,535	16,793	41,624
Bank Relations	256,832	8,579	50,829	13,444	32,084	30,[illegible]16	4,794	50,077	31,098	6,289	7,396	20,047	1,279
Foreign Relations	33,108	-	33,108	-	-	-	-	-	-	-	-	-	-
Employees' Group Life Ins.	106,566	9,497	22,679	8,012	7,[illegible]53	4,951	911	18,435	5,352	6,252	8,764	5,150	9,100
Publications	6,784	455	2,147	-	755	803	667	421	511	117	412	234	262
TOTAL: 1925	1,393,338	93,810	292,292	143,037	123,085	83,533	44,047	188,255	93,487	57,315	81,651	78,035	114,791
1924	1,540,826	100,036	307,675	176,978	135,734	102,970	55,179	219,284	91,798	62,551	82,577	74,598	131,416
1923	1,513,234	101,330	304,805	170,963	125,709	101,698	47,676	229,817	88,959	58,495	78,244	76,816	128,722
FISCAL AGENT OF UNITED STATES*:													
TOTAL: 1925	870,815	63,396	233,494	57,442	64,423	40,831	29,920	119,428	62,001	39,108	68,012	36,008	56,752
1924	1,311,832	82,930	315,315	83,656	114,245	63,947	54,617	185,653	83,004	74,411	104,517	59,793	89,744
1923	3,055,419	158,031	842,580	181,300	308,153	102,855	112,239	444,176	142,777	207,315	259,038	101,988	194,967
DEPOSITORY OF UNITED STATES*:													
Government checks	142,110	5,946	36,738	5,807	11,741	6,404	6,784	23,559	9,836	4,257	8,049	4,530	18,459
Government coupons	133,873	6,524	37,098	13,341	13,336	4,881	3,862	21,845	7,997	3,894	7,063	2,884	11,148
TOTAL: 1925	275,983	12,470	73,836	19,148	25,077	11,285	10,646	45,404	17,833	8,151	15,112	7,414	29,607
1924	334,484	13,696	97,508	21,260	25,081	13,736	13,528	53,033	21,739	9,632	18,469	9,152	37,650
1923	371,456	20,312	110,096	26,600	25,976	16,058	13,628	54,284	25,706	10,066	20,213	9,968	38,549

*Exclusive of Administrative and General Expenses.

21

81

July 23, 1926

Federal Reserve Board

Mr. Goldenweiser

In view of the recent banking difficulties in the Atlanta district, the Board may be interested in a sketch of the banking developments in that district, particularly in Georgia and Florida, as they are reflected in our statistics.

Deposits (exclusive of bank deposits) of all banks in the district increased continuously since the summer of 1924 until the end of last year. Between that date and April 12, 1926, deposits declined by $98,000,000. This withdrawal of deposits was met by some reduction in loans, by an increase in borrowings to the highest level touched since the summer of 1924, by a reduction of cash in vault, and particularly by the use of balances carried with correspondents in other districts.

ALL BANKS IN THE ATLANTA DISTRICT; II. in FLORIDA; III. in GEORGIA

(In millions of dollars)

	Dec. 31, 1924	Dec. 31, 1925	April 12, 1926	Change since end of 1925
Atlanta District				
Deposits, except bank	1,553	2,107	2,009	- 98
Loans and investments	1,531	2,000	1,994	- 6
Borrowings	51	53	77	+ 24
Florida				
Deposits, including bank	375	876	778	- 98
Loans and investments	297	653	627	- 26
Borrowings	4.5	1.2	5.1	+ 3.9
Cash		26	20	- 6
Due from banks	84	204	154	- 50
Georgia				
Deposits, including bank	368	400	385	- 15
Loans and investments	351	370	378	+ 8
Borrowings	18	17	25	+ 8

This loss of deposits was undoubtedly connected in Georgia with the lower price and quality of the 1925 cotton crop, and in Florida with the decline in real estate values. In Florida alone the decline of deposits, including bank deposits, amounted to $98,000,000 between the end of last year and April 12, 1926. It followed a remarkable increase in deposit liabilities from $292,000,000 in the autumn of 1924, about the time the real estate boom got fairly under way, to $876,000,000 at the end of 1925. Loans and investments increased by about $390,000,000 in the period, and balances with correspondent banks were quadrupled. Consequently the Florida banks were in position to meet a large part of the withdrawal of deposits during 1926 by reducing the item "due from banks." The table shows that they were further assisted in meeting these withdrawals by a reduction of $26,000,000 in loans and investments, by allowing cash in vault to run off more than $6,000,000, and by an increase of practically $4,000,000 in borrowings.

While Florida member banks have employed reserve bank credit more heavily during the current year than at any time since 1924, the relatively large balances still maintained with correspondents does not suggest a greatly enlarged demand for credit at the Atlanta reserve bank in the near future. But inasmuch as some of these balances are with members of the Atlanta bank, some demand for reserve bank credit may result.

The situation in Georgia differs from that in Florida and in the district as a whole. Here, a decline in deposits was accompanied ~~not~~ no by a fall, but by

an increase in loans and investments, particularly in investments, which was matched by an increase in borrowings. The borrowings of all banks in Georgia are larger than at any time since the summer of 1924, and in 1926 member banks have continuously borrowed more heavily at the reserve bank than in corresponding months of 1924 and 1925. In view of recent developments and of general economic conditions in the State, it may be expected that there will be a continued growth in the demand for reserve bank credit during the remaining months of the year.

The Division has on file more detailed statistical tables covering the banking situation in the Atlanta district, and also a list of the banks which have recently closed in Georgia and in Florida, together with a list of the principal correspondents of the closed banks in Georgia.

CONFIDENTIAL
For use of Federal Reserve Board only

MEMBER BANKS BORROWING CONTINUOUSLY IN EXCESS OF CAPITAL AND SURPLUS DURING JUNE, 1926
ALSO BORROWINGS OF ALL MEMBER BANKS AT THE END OF THE MONTH

St. 5036

Federal Reserve District	GROUP I - All banks borrowing continuously in excess of capital and surplus during the month				GROUP II - Banks in Group I whose borrowings at the end of month were at least twice capital & surplus				GROUP III - All member banks in district				
	Number	Capital and surplus	Borrowings on June 30 Amount	Borrowings on June 30 Ratio to capital & surplus	Number	Capital and surplus	Borrowings on June 30 Amount	Borrowings on June 30 Ratio to capital & surplus	Accommodated during month	Total number	Capital and surplus	Borrowings on June 30 Amount	Borrowings on June 30 Ratio to capital & surplus
Boston	2	$ 450,000	$611,000	136%	-	-	-	-	188	416	$291,200,000	$38,987,000	13.4
New York	3	450,000	551,000	122	-	-	-	-	420	895	1,179,500,000	102,489,000	8.7
Philadelphia	3	1,610,000	2,313,000	144	-	-	-	-	410	760	405,967,000	55,424,000	13.7
Cleveland	5	482,000	617,000	128	-	-	-	-	312	860	450,333,000	47,413,000	10.5
Richmond	30	4,067,000	5,676,000	140	3	$380,000	$807,000	212%	319	589	202,400,000	45,570,000	22.5
Atlanta	12	2,290,000	2,912,000	127	-	-	-	-	223	489	165,300,000	39,170,000	23.7
Chicago	36	3,602,000	5,255,000	146	5	189,000	453,000	240	540	1,369	554,100,000	89,587,000	16.2
St. Louis	25	3,642,000	4,916,000	135	1	55,000	110,000	200	222	619	175,367,000	30,657,000	17.5
Minneapolis	16	562,000	813,000	145	1	30,000	61,000	203	129	806	104,467,000	3,758,000	3.6
Kansas City	45	4,039,000	6,227,000	154	5	190,000	452,000	238	239	1,011	139,633,000	15,480,000	11.1
Dallas	2	60,000	73,000	122	-	-	-	-	252	844	142,933,000	12,294,000	8.6
San Francisco	14	3,571,000	5,713,000	160	3	295,000	699,000	237	204	726	281,133,000	34,202,000	12.2
TOTAL													
June 1926	193	24,825,000	35,677,000	144	18	1,139,000	2,582,000	227	3,458	9,384	4,092,333,000	515,031,000	12.6
May 1926	166	23,661,000	34,641,000	146	17	3,046,000	6,805,000	223	3,282	9,400	4,088,867,000	548,066,000	13.4
June 1925	218	21,051,000	34,930,000	166	30	4,232,000	12,373,000	292	3,289	9,546	3,853,367,000	480,468,000	12.5

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
JULY 28, 1926.
C.

Volume 162 - 82

82

See B.

Established by Board

107

THE FEDERAL RESERVE SYSTEM

Its Relation to Banks, Business and the Public

FEDERAL RESERVE BANK
OF BOSTON

Volume 162
Page 107

THE FEDERAL RESERVE SYSTEM

Its Relation to Banks, Business and the Public

Prepared by
Krickel K. Carrick
Secretary, Federal Reserve Bank of Boston

Boston, Massachusetts
June 10, 1926

WHY WAS THE FEDERAL RESERVE SYSTEM FORMED?

ORIGIN OF BANK RESERVES

If to a Yankee one question always suggests another, the query "Why the Federal Reserve System?" may well suggest to one not familiar with banking the question, "What is a bank reserve?" A practical answer is that a reserve in the case of a bank is much the same as in the case of an individual, a fund held "in reserve" to meet some demand recognized as certain or possible of occurrence. No.

Of course, with an individual it is experience and not law which impresses upon him the value or necessity of a reserve for special or general contingencies, and experience might eventually have led all the banks of the country to adopt the practice of holding adequate funds in reserve without being compelled by law to do so, but in an earlier day in the United States the evils resulting from neglect by inexperienced or indifferent bankers to hold sufficient funds in reserve became so distressing that some of the States, beginning with Louisiana in 1842, put into their laws a definite requirement that their banks must carry a specific percentage of their deposits as a reserve with which to meet the demands of customers for the withdrawal of deposits. This requirement in some of the States worked so well that Congress incorporated it in the National Currency Act (now called the National Banking Act) which was passed in 1863, creating our

system of national banks virtually as known today, and every national bank was thus compelled to carry an uninvested fund or a reserve equal to a certain percentage of its deposits. Individual States which had not so legislated followed with a similar requirement, so that today all commercial banking institutions, State as well as national, are required by law to carry a definite reserve.

ORIGIN OF BOND-SECURED CURRENCY

Another requirement in the National Banking Act, which is of importance in considering the Federal Reserve System, was patterned after a rule which some of the States had found helpful in putting substantial value back of bank notes (so-called currency) issued by their banks and circulating as money, namely that no bank could issue its bank note, its promise to pay, which would circulate as money, without depositing with a State officer assets acceptable as security. This principle of an asset-secured currency was the basis of the provision in the National Banking Act that a bank before it could issue its circulating bank note must deposit with a government officer bonds of the United States of certain kind and at least equal in amount.

Because of these and other provisions the National Banking Act brought about a greatly improved condition in banking in the entire country. The application of the reserve principle raised banking standards and because of the security back of national bank notes, the country entered upon the enjoyment of a bank-note currency of uniform par value throughout the land.

too much trained by N.B. System

+ Fact that Bank reserved Steen was of more importance.

DEFECTS OF BANKING SYSTEM 1863-1913

But the improvement still left something to be desired. Even during normal times, considerable difficulty was experienced at certain seasons when extra credit was required to move crops, live stock or manufactured goods to market, and this difficulty was seriously aggravated during abnormal times, such as the stresses of 1873, 1893 and 1907.

Shield of Bank Credit. Not by Notes real

elastic or rather elastic uniformly to need of community

FIXED AND SCATTERED RESERVES

NO RE-DISCOUNT MARKET

The difficulty was due to several causes. First, bank reserves were not usable, as no bank could encroach upon its reserve without breaking the law, and this meant that if a bank's cash was decreasing the only way it could comply with the law and maintain a reserve, threatened or impaired by withdrawals, was by calling loans or at least refusing to make new loans which might impair the reserve. Second, reserves were not centralized but scattered, so that, although many banks might have an idle or unneeded excess of reserves, there was no way by which such excess could be made available to help another bank tide over a demand beyond its own immediate ability to supply. Third, there was no recognized or established market where a bank could replenish its funds or its reserve by rediscounting, that is, selling some of its assets, and the lack of such a market was especially costly during times of nation-wide disturbance when every bank was seeking to husband its own resources, because few banks at such times would buy, except at

heavy discount, even the best paper when offered by another bank. Still another complication was in the circumstance that reserves were generally only partially cash, due to the fact that most banks were permitted to carry a large portion of their reserve on deposit in banks in other cities which were approved as reserve depositories, commonly called correspondents, and the correspondents, in order to pay interest on such funds, were forced to invest the bulk of them, so that a considerable portion of bank reserves was actually tied up. in Wall St call loans

AN ELASTIC CURRENCY NEEDED

A weakness also developed in the arrangement for bank note currency; not as respects value but as to volume, the latter being based upon the total amount of government bonds eligible as security for national bank notes and that amount was fixed by law. In other words, the volume of bank note currency was not related to the demands of business for money, but was based upon unrelated factors, the amount of certain government bonds outstanding, and the accidental circumstance whether it was profitable for a bank to buy bonds and issue notes, so that commerce and industry might actually be needing more currency than available or as sometimes was the case, more currency might be issued than business needed. A need was felt for a currency which would expand or contract as trade increased or decreased.

BETTER EXCHANGE AND CHECK COLLECTION SYSTEM NEEDED

Certain other needs also became apparent. The service of exchange, that is, of transfer of funds between different places, was inefficient and costly, this being especially so in the case of check collection. Due to the effort of banks to collect checks drawn on out-of-town banks without deduction of "exchange,"—a charge levied by many banks for remitting for checks drawn on themselves when presented by banks located elsewhere,—out-of-town checks were frequently forwarded to some bank other than the bank where payable instead of being presented direct to the drawee or paying bank and this course might be repeated several times before the check would reach a bank that could collect it from the drawee bank without "exchange" being deducted. Aside from the loss of time resulting, this roundabout routing of checks often meant a pyramiding of reserves, that is, the counting of the same checks as reserves for several different banks, and sometimes fictitious reserves, it being a common practice to count checks forwarded for collection as reserve for the forwarding bank as soon as mailed, even though at the end of a check's roundabout course payment of it might be refused and the check be started back on an equally delayed and roundabout return trip.

or in night ahead then go ok. Chart

HOARDING OF GOVERNMENT FUNDS

Some detriment was also traced to the way government moneys were handled. Usually, a great portion of such funds was kept in the government sub-treasuries until

paid out for government expenditures and unless such disbursement happened to occur when the general business situation required more money, the result was that funds were frequently hoarded or withheld from general use when needed or paid out when they added to an already existing excess of funds.

PASSAGE OF FEDERAL RESERVE ACT

All of these and other defects in the old arrangements were greatly aggravated during such periods of country-wide disturbance as the panics of 1873, 1893 and 1907, and finally Congress created the "Monetary Commission" and directed that Commission to investigate and suggest remedies. After studying the banking systems of the world, the Commission reported and submitted a bill embodying its ideas. That bill was not passed, but many of its features were incorporated in another measure, adopted by the succeeding Congress and approved December 23, 1913, and known as the Federal Reserve Act, the purpose of which was stated in its preamble as follows:

> "An Act to provide for the establishment of Federal Reserve Banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes."

WHAT IS THE FEDERAL RESERVE SYSTEM?

Listing them in the order in which they will be treated here, it may be said that:—

The Federal Reserve Board,
The Federal Advisory Council,
The Federal Reserve Banks,
The Member Banks

make up the Federal Reserve System, created to achieve the various purposes of the Federal Reserve Act.

THE FEDERAL RESERVE BOARD

The function of the Federal Reserve Board may be best summed up by the statement that the Board is the supervisor or co-ordinator of the system. It is composed of eight members; two members, the Secretary of the Treasury and the Comptroller of the Currency, are members ex-officio and the other six members are appointed by the President for terms of ten years each. The President, in selecting the six appointive members, is required to have due regard to the financial, agricultural, industrial and commercial interests and the geographical divisions of the country, and no two appointive members may be from the same Federal reserve district. Many specific grants of authority are conferred upon the Board, illustrations of such being the power to require the writing off of doubtful or worthless assets of the Federal reserve

Poorly stated

banks, to remove for cause any officer or director of a reserve bank, etc. In addition the Board is empowered "to exercise general supervision" over the Federal reserve banks, a grant of power which, in view of the specific grants of authority conferred, appears to constitute simply a right through general oversight and inspection to see that the Federal reserve banks operate in accordance with the provisions of law rather than authority to manage the banks.

THE FEDERAL ADVISORY COUNCIL

The Federal Advisory Council is composed of twelve members, one from each Federal reserve district, appointed by the board of directors of the Federal reserve bank of the district. The Council is required to meet in Washington at least four times each year and oftener if called by the Federal Reserve Board and it acts, as the name implies, in an advisory capacity, conferring directly with the Board on general business conditions and making recommendations concerning matters within the Board's jurisdiction and the general affairs of the system.

THE FEDERAL RESERVE BANKS

The country is divided geographically into twelve Federal reserve districts and in each district there is a Federal reserve bank, named for the city where located. The first Federal reserve district consists of the New England States, with the exception of Fairfield County in Connecticut which is in the second or New York district, and

the bank, being in Boston, is called the Federal Reserve Bank of Boston. The other reserve banks are located at New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas and San Francisco, each of them with the exception of Philadelphia and Boston having one or more branches.

Each Federal reserve bank is chartered for twenty years from the date of its organization (the Boston bank was organized May 18, 1914) and is a corporation separate and distinct from the other eleven reserve banks. It may make contracts, sue and be sued, appoint its officers and employees, adopt by-laws for the conduct of business, exercise all powers specifically conferred by law, exercise such incidental powers as necessary to banking within the limitations of the Act, and issue its own bank notes. In all such acts, it is conducted under the supervision and control of a board of directors. That board performs the duties usually appertaining to directors and, save only as their powers are curtailed by the Federal Reserve Act or by specific grants of authority conferred upon the Federal Reserve Board by the Act, the directors have the same powers as bank directors ordinarily possess. They appoint the officers, define their duties, fix the salaries of officers and employees subject to approval by the Federal Reserve Board, and from time to time, subject to review and determination of the Federal Reserve Board, establish rates of discount to be charged on each class of paper, etc.

The board of directors is composed of nine members equally divided into three classes, which are designated by the letters A, B and C. The member or stockholding

Nat. R. Bank Notes?

banks are divided by the Federal Reserve Board into three groups, each group being composed as far as possible of banks of similar size and each group choosing one class A director and one class B director. In other words, the member banks elect six of the nine directors. Class A directors must be representative of the stockholding banks and may be and usually are active executive officers of member banks and obviously, since they represent banks, they represent the principal lending element in the community. Class B directors may not be officers, directors or employees of any bank and must be "actively engaged in their district in commerce, agriculture or some other industrial pursuit," so that they may naturally be expected to represent the borrowing element in the community. The three class C directors are appointed by the Federal Reserve Board and since they may not be either officers, directors, employees or stockholders of any bank, are representative of the public with its general economic interest. One of the class C directors has a dual capacity, being designated chairman of the board of directors and "Federal reserve agent," in which latter capacity he is required to maintain an office of the Federal Reserve Board on the premises of the bank. Another of the class C directors is designated deputy chairman and exercises the powers of the chairman when necessary. The terms of office of all directors are three years, so arranged that the term of one director of each class expires each year.

The officers of a Federal reserve bank are much the same as in a commercial bank, the principal difference being that the chief executive officer of a Federal reserve

bank is called governor and his first assistant, deputy governor. The stockholders, the depositors and the services of the reserve banks will be described in turn.

THE MEMBER BANKS OR THE STOCKHOLDERS AND DEPOSITORS OF FEDERAL RESERVE BANKS

All national banks in existence when the Act was passed were given a certain period within which to determine whether they would become member banks by subscribing for stock in their district reserve banks, or discontinue operation under national charters. As a matter of record it should be noted that the national banks then in existence elected, in a spirit of open-mindedness and with conspicuously few exceptions, to subscribe for membership and, though some of them may not at first have been enthusiastic, they have since become staunch supporters of the system, of which they are the backbone. National banks since organized subscribe for stock at the time of organization. The amount of stock for which subscription is made is a sum equal to 6% of the subscribing bank's capital and surplus and a bank which increases its capital and surplus after becoming a member is required to subscribe for additional stock in the same proportion. Under the regulations of the Federal Reserve Board, one half of each subscription must be paid in cash; the other half is subject to call by the Board, but its payment has never been called. In addition to the national banks, there are many State banking institutions which are members. Any State bank or trust company which is of specified size may apply to the Federal Reserve Board for

e.c. of cap required for charter of a Nat'l bank.

admission to the system and, subject to such conditions as the Board may prescribe, may be admitted to membership. Its application must be for the same amount of stock as required of a national bank. The number of member banks of the entire system is approximately only one third of the total number of banking institutions in the country, the latter number including mutual savings banks and similar institutions which are not eligible for membership; but the total member bank resources are about two thirds of the total banking resources of the nation or three quarters of the total commercial banking resources. These national and State bank members are the only stockholders in the Federal reserve banks and their capital stock subscriptions, just as in an ordinary bank, constitute the first source of funds with which the reserve banks operate.

The second source of funds used by a Federal reserve bank is in the reserve deposits of member banks. The country having found by experience that scattered reserves could not be of maximum usefulness, the Federal Reserve Act has brought about a pooling of such funds by requiring every member bank, national or State, to carry all of its legal reserve on deposit with its Federal reserve bank. It may carry such money in its own vault as its officers think best, but the only money which now counts as reserve is that which is left with the reserve bank. However, since a pooled reserve need not be as large as one individually held, the original reserve requirements of the Act were reduced below the reserves required of a national bank before the system was started and later the Act was amended so as to reduce still further

the reserve required, partly because it was concluded that a lower reserve would suffice and partly to compensate member banks for inability to count cash in vault as reserve. To most member banks these two reductions meant that a large amount of funds was freed for them to loan or invest. The reserve which a member bank must now keep with its reserve bank is a sum equal to three per cent of the member bank's time deposits plus seven, ten or thirteen per cent of deposits payable on demand, depending on the location of the member bank. In the first Federal reserve district, the percentage of demand deposits required is ten in the case of Boston banks and seven in the case of banks located elsewhere. These reserve deposits of member banks constitute, with the exception of a relatively small amount of government deposits and a comparatively insignificant amount of foreign bank accounts, the only deposits in a Federal reserve bank, so that member banks are by way of being the only stockholders and practically the only depositors.

HOW DO MEMBER BANKS BORROW FROM THE FEDERAL RESERVE BANK AND WHAT IS THE PLAN FOR AN ELASTIC CURRENCY?

BORROWING FROM THE RESERVE BANK

"REDISCOUNTS"

Having assembled the reserves of the member banks of the country into the twelve "reservoirs,"—the Federal reserve banks,—upon the theory that when so assembled some of the reserve funds might be drawn out to help member banks having a temporary or seasonal demand in excess of their own ability to supply, Congress provided a very simple arrangement for affording such help. Any member bank, large or small, city or country, may ask its Federal reserve bank to discount for it, that is, to buy from the member bank upon the latter's indorsement, certain "paper," that is, notes and drafts, etc., which the member bank owns. The kinds of notes, etc., upon which a member bank may thus replenish its funds, generally referred to as "eligible paper," are specified in the Federal Reserve Act and the Federal Reserve Board is given the power to determine whether particular paper comes within the specifications. Generally speaking, paper to be eligible must be a note or draft, etc., issued or drawn for the purpose of producing, purchasing, carrying or marketing goods, agricultural products or live stock and it must have a definite maturity at the time of rediscount of not more than 90 days, except that if for an agricultural purpose or based upon

live stock, its maturity may be not more than nine months. Negatively stated, it may not (with limited exceptions) be paper covering funds loaned to some other borrower; it may not be paper which represents a permanent or fixed investment, such as land, building, machinery, etc.; and it may not be paper covering merely investments or used to trade in or carry stocks, bonds or investment securities, the only exception to this being paper for trading in or carrying U. S. Government bonds and notes or bonds of the War Finance Corporation. In other words, eligible paper must be based either upon U. S. Government obligations or upon the current transactions of commerce or agriculture which by their very nature when completed will furnish the money or funds for their own liquidation or payment within a certain limited time, thereby assuring the early and regular return to the reserve bank of that portion of the centralized reserve funds which is advanced upon such paper. Other paper which a reserve bank may discount for a member bank consists of certain kinds of bankers' acceptances, the same being drafts which banks have accepted, that is, drafts drawn on banks which by acknowledgment written or printed on the drafts have agreed to pay the drafts at maturity. Such bankers' acceptances must be based upon import or export transactions, upon domestic shipment of goods, or upon storage of readily marketable staples, the maturity being not over 90 days, except in agricultural transactions, when it may be six months.

Not clear

Too broad

MEMBER BANK'S OWN NOTE

Besides borrowing by means of the rediscount of eligible paper, a bank may secure an advance from its Federal reserve bank by giving its own note direct. In such a case the note must mature within fifteen days and it must be secured either by Government securities or by paper which is eligible for discount as previously described, or by certain drafts and bankers' acceptances of kinds which a Federal reserve bank may purchase in the open market.

ELASTICITY OF CURRENCY

Because loans or advances to member banks furnish the reserve banks with assets which may be used as collateral for the issuance of currency under the Federal Reserve Act, they have an important bearing upon the ability of the reserve banks to furnish a volume of currency that may increase or decrease with an expansion or contraction of business. When a member bank obtains money from its reserve bank it may do so either as a part of a loan transaction or as a withdrawal of deposits. In either case the reserve bank has a choice as to the kind of money it may supply. It may pay out any kind of money circulated before the Reserve Act was adopted and which it has received in the usual course of business, and if it pays out any such money the only limit imposed by law is that gold or lawful money equal to at least 35% of its deposits must be retained by it as a reserve against deposits. Or it may pay out a new kind of currency authorized by the Federal Reserve Act—"Federal Reserve Notes." It obtains Federal reserve notes from the Federal reserve

agent (through whom the Federal Reserve Board's regulations concerning note issues are carried out), but before it may do so it must lodge with the Federal reserve agent collateral at least equal in value to the amount of the notes issued by him. That collateral may consist entirely of gold or of gold certificates or of paper upon which member banks have obtained loans or of drafts or bankers' acceptances purchased in the open market or a varying percentage of all classes. In other words, currency may now be issued against commercial and agricultural paper which member banks have discounted and against drafts and bankers' acceptances, also based upon commercial transactions, which the reserve banks have acquired. It follows that when business, industry and agriculture are expanding and asking for more loans from member banks for current operations, giving notes and other negotiable paper in evidence of such loans, they are automatically creating what is acceptable as security for more currency, and upon which, when it has been transferred to a Federal reserve bank, more currency may be issued. So that with an expansion in the volume of business and resultant increased calls upon the reserve banks by member banks, a proportionate increase in the volume of currency is possible. Conversely, when business begins to slacken, resulting in lessened demands for funds, business men begin to deposit unneeded currency with their banks, and in turn member banks having naturally less occasion to pay out money, send it in to their Federal reserve banks, where Federal reserve notes if not needed for further circulation may be retired. Accordingly the volume of bank note currency being based, except in the

case of national bank notes, largely upon commercial transactions, has both qualities implied in the term elastic,—it may be increased or stretched with an expansion in business activities and it may be decreased or contracted, through a reduced pull or demand by commerce and industry.

Unusual values, as well as elasticity, attach to Federal reserve note currency. To begin with, in addition to being secured as stated, Federal reserve notes are both the direct obligations of the United States government and a prior charge against all of the assets of the Federal reserve bank which issues them and, to the extent that they are secured by discounted or purchased paper, they are supported by the resources of all those who are liable on such paper, including bank endorsers. Moreover, each Federal reserve bank must maintain a reserve in gold of at least forty per cent against its Federal reserve notes in circulation, being permitted to count as part of such forty per cent reserve any gold which it has deposited with the Federal reserve agent as collateral. In addition to their ability to issue Federal reserve notes, the reserve banks may issue their own bank notes upon the security of the same U. S. government bonds as acceptable for bank notes issued by national banks and upon the same conditions. However, except for a short time during and immediately after the war, no Federal reserve bank notes, as distinguished from Federal reserve notes, have been issued and only a few such are now in circulation.

Hardly accurate

HOW DOES A FEDERAL RESERVE BANK SERVE ITS MEMBER BANKS?

REDISCOUNTS AND ELASTIC CURRENCY

Probably the most important services furnished by the Federal reserve banks are the primary services, namely the rediscount of commercial paper or loans to member banks and the ability to furnish currency. These have been discussed in the preceding chapter of this pamphlet and are here mentioned again merely for the sake of a complete grouping of services.

EXCHANGE

CHECK COLLECTION

Scarcely less important than the primary services is the collection of checks. The twelve Federal reserve banks are acting virtually as nation-wide clearing houses for their member banks, under regulations made by the Federal Reserve Board, and by far the greater portion of out-of-town checks are today collected through the reserve banks almost as directly as checks on banks in the same place are collected through the familiar general clearing house exchange or direct exchange between banks. Out-of-town checks deposited with a Federal reserve bank are sent direct to the places where payable and as a rule direct to the banks on which drawn, except that if drawn on banks in another Federal reserve district they are sent to the reserve bank of that district, which presents them direct. This direct forwarding and

settlement cut in half the average time which was required to collect out-of-town checks under the old indirect routing, in many instances effecting an even greater saving of time. Obviously, if the proceeds of out-of-town checks can be obtained more quickly, they can be sooner used, and the importance of this saving of time to business and banking is apparent, from the estimate generally accepted that over 95% of the commercial transactions of the country are settled by checks. Furthermore, the Federal reserve banks are able to collect checks drawn on 90% or more of the banks of the country without payment of the old "exchange" charge, another great saving to commerce. Checks deposited by a member bank are credited to its reserve account if the proceeds can be obtained immediately by the reserve bank; otherwise, credit to the reserve account is deferred for the length of time which it takes the reserve bank to obtain the proceeds, as shown by a time schedule governing the matter and applying to checks drawn on banks in different parts of the country.

COLLECTION OF NOTES, DRAFTS, BONDS, COUPONS, ETC.

The Federal reserve banks also collect for their member banks miscellaneous items such as notes, drafts, bonds, coupons, etc., collection being made through direct routing and presentation in much the same manner as in the case of checks.

EXCHANGE AND TRANSFER DRAFTS

A member bank which has occasion to furnish customers with drafts on places where it has no account against

which it can draw, may arrange to draw what is called an Exchange Draft on its own Federal reserve bank for a certain maximum amount, which will be accepted at any other Federal reserve bank or branch for immediate credit, subject to final payment by its own Federal reserve bank. Arrangements may also be made by which similar drafts for the transfer of funds, called Transfer Drafts, may be drawn on any other Federal reserve bank or branch. by one Fr bank

WIRE TRANSFER OF FUNDS

"GOLD SETTLEMENT FUND"

Member banks wishing to create balances or pay funds in another part of the country may do so by means of wire transfers through their reserve banks without loss of time and, if transfers are for multiples of $100, at no cost to member banks except where made for the benefit of a designated customer, when a charge is made for the cost of the telegram. The convenience of this service as compared with an express shipment may be illustrated by the case of a member bank wishing to transfer $10,000 from Boston to San Francisco. By express it would take five days to get the money there, the expressage would be $32.50 and the loss of interest $8.22; while if made by wire through the Federal reserve bank for the account of a member bank, there would be no charge to the member bank and the time taken would normally be a few minutes only. Such transfers are accomplished by means of wire advices from the sending to the receiving Federal reserve bank and through the medium of the "Gold Settlement Fund," which is a fund of gold carried in Washington, D. C., by the

twelve Federal reserve banks. Each Federal reserve bank advises the Federal Reserve Board daily by wire of its credits to each of the other eleven reserve banks, whether those credits arise out of the wire transfers mentioned here or out of other transactions, appropriate entries then being made in the books of the Gold Settlement Fund. This daily settlement between the reserve banks through this fund is one of the chief reasons why the reserve banks are able to save so much time on the collection of checks payable in other Federal reserve districts,—payment for such checks when collected comes back through a wire credit in the Gold Settlement Fund.

CURRENCY AND COIN Large stocks of paper money or currency and coin are held by the reserve banks as a means of supplying their member banks with till money and deliveries or shipments of coin and currency are made to member banks on their orders. Member banks having an excess supply of money may send it in to the reserve bank where it is credited to the depositing bank and sorted according to kind, that is, Government issues, national bank notes and Federal reserve notes, and also sorted as to condition, unfit notes being shipped to the Treasury Department for destruction and fit notes retained if needed for further use, except in the case of fit Federal reserve notes issued by another reserve bank which must be shipped to the bank of issue. Shipping and insurance charges on money sent to member banks are borne by the reserve bank, as well as the same charges on shipments to the reserve banks when made in accord with current arrangements.

CUSTODY OF SECURITIES The reserve banks maintain custody departments where securities are held for member banks in outlying districts which are not conveniently located with reference to the vaults of safe-deposit companies. In the Federal Reserve Bank of Boston this service covers any securities owned by member banks. Maturing coupons on such securities are detached and collected from time to time upon special instructions.

FISCAL AGENCY Though not primarily nor exclusively designed for the service of member banks, the Fiscal Agency Department is a great convenience for member banks or any others having occasion to deal with the government regarding the issue, transfer, exchange, conversion or redemption of U. S. Government obligations, the reserve banks being fiscal agents of the government for all such transactions as well as for attention to "War Loan Deposit Accounts" of the government in member and non-member banks.

OPEN MARKET OPERATIONS The power of the Federal reserve banks to loan to member banks is supplemented by the right which they have under regulations of the Federal Reserve Board to purchase and sell the following in the open market:—securities of the United States Government; obligations of State and local governments under certain conditions; cable transfers, that is, orders by cable for payments of money in other places; drafts arising out of commercial transactions; and bankers' acceptances, that is, certain drafts which a bank

or banker has accepted, agreed to pay at maturity. This power was conferred largely that the development of an open discount market,—a general market for the discount of credit obligations,—might be encouraged and that the reserve banks might have a means of exercising some influence upon the general credit situation. As the words "in the open market" imply, the reserve banks in such transactions may deal with any one. Except for fiscal agency transactions, these open market dealings are the only operations in which the reserve banks are not restricted to dealing with member banks, but, though not confined to member banks, they are of considerable value to the latter because the market for the acceptances of many member banks and for many securities in which member banks deal, is thus beneficially broadened.

FOREIGN AGENCIES The ability of the reserve banks to serve member banks in the accommodation of commerce is extended by their right to carry on their open market operations in foreign countries as well as within the United States, and for the purposes of such foreign business they may open and maintain accounts in foreign countries, appoint correspondents, and establish agencies in such foreign countries, when permitted or ordered by the Federal Reserve Board.

VOLUME OF OPERATIONS An idea of the enormous volume of transactions handled in these various services may be had by reference to the accompanying insert showing the resources and liabilities of the Federal Reserve Bank of Boston and the volume of some of its operations.

WHAT THE FEDERAL RESERVE BANK IS NOT

Since Federal reserve banks deal in the main with banks only, it is not surprising that those who have no contact with them should have inexact and even inaccurate impressions of what they are, and by way of making more definite the picture of what the Federal reserve banks are, through emphasis of a few details on the negative side, and to clear up a few erroneous impressions, sometimes encountered, there is added here a statement of what the Federal reserve banks are not.

NOT A GOVERNMENT INSTITUTION One of the commonest inaccuracies encountered is a reference to a Federal reserve bank as a "government institution." The only basis on which it may be called a government institution is the fact that it derives its charter, its right to operate, from the Federal government, and the fact that it may be (and is) required to act as a fiscal agent of the government, but even with those facts in mind a Federal reserve bank is no more a government institution than a national bank, which gets its charter from the same source and may also be called upon to act as a financial agent of the government. Certainly, so far as ownership goes, a Federal reserve bank is definitely not a government institution. The government does not own a single share of Federal reserve bank stock, every dollar of it being owned by member banks, as previously

Not quite accurate

described in this pamphlet. The Federal reserve banks, though having important public duties to perform, are essentially private corporations and wholesale banks whose stockholders are banks only, and such banks select two-thirds of the governing boards of directors.

primarily

NOT ORGANIZED FOR PROFIT

So much attention has been attracted in the past by the unusually large earnings of the Federal reserve banks during a few years that it is well to point out that the reserve banks were not organized for purposes of profit-making. They were organized for service through their member banks to the commerce and industry of the country, as indicated by several provisions in the Federal Reserve Act itself,—such as the requirement that Federal reserve districts must be arranged with due regard to the customary course of business, that three of the directors (Class B) must be actively engaged in commerce, etc., and that discount rates shall be fixed with a view of accommodating commerce and business. In order that business may be so accommodated, they are required to "extend to each member bank such discounts, advancements and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks." Of course, it is inevitable that when a large volume of accommodation is extended to member banks the profits will be high and that the reverse will be true when loans decrease, but the essential thing is reasonable accommodation to all member banks and if large profits result, they are incidental.

WHAT BECOMES OF PROFITS

The earnings of a Federal reserve bank are used first for the payment of expenses. Then there is paid to member banks a six per cent dividend on their paid-up reserve bank stock, which is the only return member banks get from their contributions to the resources of the reserve banks. Under the law, member banks receive no interest on their reserve deposits. In passing, it may be noted here that the member banks of the First Federal reserve district have recognized that the payment of interest on reserves would be foreign to the character of a reserve bank. When expenses and dividends have been met, the remaining net earnings are credited to surplus until that equals the subscribed capital stock or when such a 100 per cent surplus has been built up, then ten per cent of the remaining net earnings are credited to surplus and the other ninety per cent are paid to the United States government as a franchise tax. The franchise tax payments thus made to the government by the twelve banks, which under the law must be used either as additional reserve against U. S. notes ("greenbacks") or to reduce outstanding bonded indebtedness of the United States, have amounted, up to December 31, 1925, to over $139,000,000.

NOT A CURE-ALL NOR A GUARANTY

Lest too much may be expected of the Federal Reserve System, it is well to bear in mind that its purposes, functions, scope and influence, though broad, have limitations. That it can be a cure-all for all financial ills or for general

economic derangements is beyond the range of possibility. It cannot be a preventive of business depressions, which may always be expected when development and production get too far ahead of economic needs. Nothing in the Federal Reserve Act nor in the history of that measure imposes any duty or responsibility upon it to attempt to influence prices, either in the interest of the producer or for the advantage of the consumer. That it may prevent financial panics, however, is a different matter, and competent students for the most part believe that the danger of another financial panic in this country, such as that of 1907, is so small as to be negligible.

Nor is the reserve bank a sort of paternal organization which furnishes a species of guaranty of deposits in member banks. The solvency of any bank, member or nonmember, is still the care and responsibility of the officers and directors of such bank and in proportion as the official management is capable, careful and conscientious in the same proportion will that bank be solvent and reliable. At the same time, membership in the system, though not a guaranty, is a bulwark of strength for any well managed bank, because in the event of a seasonal demand for funds in excess of the member bank's own ability to meet, for the movement of crops or goods, or in the event of panicky apprehension on the part of customers, the member bank has an institution of unusual strength to which it may turn for extra funds, and being well managed it has in its possession the kinds of assets upon which it can obtain such funds.

NOT A CENTRAL BANK

Public opinion having been for almost eighty years opposed to the idea of a central banking institution, Congress rejected the idea of one Federal reserve bank with branches in different parts of the country and chose instead to create several individual and autonomous reserve institutions. The Federal reserve banks do not, therefore, constitute a central bank, but are regional banks, and being governed and operated by local directors and officers, are responsive to local needs and requirements. This regional character is well illustrated in the Boston bank; the territory served by it is practically co-terminous with the New England States, and the Federal Reserve Bank of Boston, having directors who are residents of New England and actively identified with its financial, commercial, and professional life, is essentially a New England institution. At the same time, while the advantages of local ownership and control are obtained by regional organization, the principal advantage of a central bank, —the ability to transfer the surplus funds of one section for use in another locality,—is not lost, because Federal reserve banks may be permitted or required by the Federal Reserve Board to rediscount paper for each other and through the exchange and collection system built up by the reserve banks there is an efficient and easy flow of credit between the nation's various financial centers.

Carle Hilb in a cent. bk

NOT ARBITERS OF MEMBER BANK LOANS

No power is vested in either the Federal Reserve Board or the Federal reserve banks to indicate to a member

bank the loans which the member bank may or may not make, that being a question entirely within the determination of the bank's officers and directors. It follows that a Federal reserve bank may not take the initiative in bringing about an increase of loans by a member bank. Several things must, in fact, occur before a reserve bank may participate in an extension of credit by a member bank: (1) a customer of that bank applies to it for a loan; (2) the member bank exercises its option in the matter and makes the loan, receiving a note eligible for rediscount; and (3) the member bank exercises a second option and tenders the note to the reserve bank for rediscount, the initiative resting entirely with the member bank and there being no way that the reserve bank can compel it to rediscount. It is only when these three events have occurred that the reserve bank has a right to say whether it will loan upon the paper offered and when it does so loan, it is furnishing funds to replace those which have already been loaned. The initiative in the expansion of member bank loans, therefore, rests with the member banks and so also does the decision whether loans made by them shall be contracted.

See Bk

CONFIDENTIAL
For use of Federal
Reserve Board only

DEFICIENCIES IN RESERVES OF MEMBER BANKS FOR MONTH OF JUNE, 1926*

St. 5051

Federal Reserve District	Number of banks penalized: In F.R. bank and branch cities	In other reserve cities	Country banks	Total	Member banks in district	Number of banks assessed penalties in excess of minimum rate#: In F.R. bank and branch cities	In other reserve cities	Country banks	Total	Maximum rate charged#: Banks in F.R bank and branch cities	Banks in other reserve cities	Country banks	Average daily deficiencies on which penalties were assessed: Banks in F.R. bank and branch cities	Banks in other reserve cities	Country banks	Total
										Per cent			(In thousands of dollars)			
Boston	5	**	24	29	416	-	**	1	1	6½	**	7	13	**	69	82
New York	13	3	105	121	895	-	-	-	-	5½	5½	5½	48	21	385	454
Philadelphia	2	**	50	52	760	-	**	2	2	6	**	6½	84	**	141	225
Cleveland	12	3	73	88	860	-	-	13	13	6	6	9	131	34	430	595
Richmond	6	3	162	171	589	-	-	51	51	6	6	10	56	12	871	939
Atlanta	4	2	89	95	489	-	-	31	31	6	6	8	40	9	376	425
Chicago	8	4	185	197	1,369	-	-	50	50	6	6	10	86	12	666	764
St. Louis	22	**	89	111	619	-	**	-	-	6	**	6	52	**	255	307
Minneapolis	3	-	82	85	806	-	-	-	-	6	-	6	53	-	251	304
Kansas City	7	14	123	144	1,011	1	-	25	26	10	6	10	33	97	220	350
Dallas	5	8	107	120	844	-	-	21	21	6	6	10	26	81	338	445
San Francisco	6	-	100	106	726	-	-	17	17	6	-	10	67	-	371	438
Total - June '26	93	37	1,189	1,319	9,384	1	-	211	212	10	6	10	689	266	4,373	5,328
May '26	88	35	1,116	1,239	9,400	2	1	181	184	10	6½	10	798	257	4,051	5,106
June '25	90	33	1,174	1,297	9,546	-	1	250	251	6	10	10	825	247	3,853	4,925

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
AUGUST 10, 1926

*Figures for country banks are for the calendar month, and for central reserve and reserve city banks for four and five-week periods.
**Federal reserve bank and branch cities are the only reserve cities in the district.
#Progressive penalty rates are not applied by the F. R. Banks of New York, St. Louis and Minneapolis, the Atlanta bank has a maximum penalty rate of 8 per cent, the eight remaining banks a maximum of 10 per cent.

C.

EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS

JULY 1926. Total earnings of the Federal reserve banks in July were on about the same level as in June, and approximately $500,000 in excess of earnings in July of last year. Earnings from discounted bills were $270,000 in excess of the June figures, substantial increases in such earnings being shown by the New York, Boston, Chicago and San Francisco reserve banks. Earnings from purchased bills and securities and from other sources were $196,000 below the preceding month, due partly to the fact that the June earnings included a profit of over $100,000 on Liberty bonds sold to the Treasury by the Federal reserve banks.

Current expenses in July aggregated $2,301,000 - slightly above expenses in June this year and July last year.

7 MONTHS ENDING JULY. During the first seven months of the year earnings totaled $26,666,000 or $4,278,000 above the total for the corresponding period last year. Of this increase, $3,839,000 was in earnings from discounted bills.

Current expenses (including the cost of Federal reserve currency) amounted to $15,992,000 during the seven-month period, a decline of approximately $350,000 from the corresponding period last year.

After providing for all current expense and dividend requirements, the net earnings of the Federal reserve banks on July 31 were $6,447,000, an increase of $4,400,000 over the first seven months of last year.

St.5050.

Mr. Hamlin

See Bp

CONFIDENTIAL
Not for publication

EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS, JULY 1926

St. 5050

Federal Reserve Bank	Month of July 1926							Year 1926			
	Earnings										
	From discounted bills	From purchased bills and U.S. securities	From other sources	Total	Current expenses	Current net earnings	Annual rate of current net earnings on average paid-in capital	Current net earnings to July 31	Dividends accrued to July 31	Balance available for depreciation allowances, surplus, franchise tax, etc. On July 31	On June 30
							Per cent				
Boston	$117,399	$109,960	$11,546	$238,905	$170,260	$68,645	9.2	$763,425	$305,148	$458,277	$433,313
New York	493,512	361,015	33,629	888,156	544,202	343,954	11.5	2,148,484	1,200,762	947,722	780,437
Philadelphia	163,629	110,731	31,214	305,574	199,272	106,302	10.2	826,471	418,432	408,039	362,689
Cleveland	126,460	177,331	17,[illegible]2	321,043	205,286	115,757	10.1	916,612	469,424	447,188	398,987
Richmond	141,921	53,742	8,444	204,107	118,833	85,274	16.5	596,353	211,472	384,881	329,982
Atlanta	142,730	76,084	9,919	228,733	115,096	113,637	27.0	872,667	171,065	701,602	612,761
Chicago	206,737	271,780	37,139	515,656	318,445	197,211	14.0	1,367,961	569,081	798,880	684,796
St. Louis	104,093	97,402	11,449	212,944	113,658	99,286	22.2	614,199	182,084	432,115	359,117
Minneapolis	25,669	87,424	10,880	123,973	84,947	39,026	14.7	258,180	110,290	147,890	124,484
Kansas City	54,915	138,518	27,736	221,169	135,618	85,[illegible]	24.1	636,130	148,061	488,069	423,449
Dallas	54,821	106,082	18,[illegible]	179,002	94,218	84,7[illegible]	23.3	530,596	150,075	380,521	317,167
San Francisco	162,919	208,925	[illegible],361	397,205	201,559	195,6[illegible]	27.4	1,143,442	291,681	851,761	698,173
TOTAL:											
July 1926	[illegible],794,[illegible]05	3,798,994	242,668	3,836,467	2,301,394	1,535,0[illegible]	14.7	10,674,520	4,227,575	6,446,945	5,525,355
June 1926	1,524,809	1,876,510	360,965	3,762,284	2,296,078	1,466,206	14.5				
July 1925	1,506,097	1,644,333	175,4[illegible]4	3,325,[illegible]24	2,298,814	1,027,110	10.5	6,046,437	4,001,812	2,044,625	1,595,284

FEDERAL R[illegible] BOARD
DIVISION OF BAN[illegible] OPERATIONS
AUGUST 10, [illegible]6.
[illegible].C.

See Bk

NEW YORK STOCK EXCHANGE

NEW YORK

131

OFFICE OF THE
PRESIDENT

August 11, 1926

Hon. Charles S. Hamlin
c/o Federal Reserve Board
Washington, D.C.

My dear Mr. Hamlin:

My stay in Europe proved somewhat longer than I had originally anticipated, and I must therefore apologize for so long deferring a reply to your letter of May 15th regarding speculative aspects of the recent securities market.

The New York Stock Exchange has never made any analysis of speculative movements upon it. The difficulty in such an undertaking, as I think you will agree, is to distinguish with any degree of certainty and exactness between speculative and non-speculative transactions. In a general way, of course, everyone recognizes active speculation in securities as a whole, or even in certain security issues, when it arrives. Yet there is no practical criterion by which any definite records or statistics regarding the proportion of "speculative" to "investment" transactions can be formulated. Both types of purchase and sale are of course handled in precisely the same way through our Stock Exchange markets.

However, some of the analyses of other phases of New York Stock Exchange operations recently made by our Statistical Department bear indirectly on the question which you ask, and I am sending you a copy of my last Presidential report in which they are included. I would especially call your attention to the following references:

Pages 3-4 - security price movements as measured by various stock price "averages" and "indices"

Pages 4-5 - increase in listed issues, 1900-1925

Pages 5-8 - comparison of rising prices and increased listings as causal factors in the 1925 increase in listed market values.

Pages 8-10 - Stock Exchange sales statistics

In my own judgment, the Stock Exchange markets are steadily becoming less and less speculative on the whole. Not only are formerly very speculative issues (U.S. Steel

common, railroad stocks, etc.) constantly becoming more stable and more subject to investment absorption, but also the tendency of recent years has been to widen our American investing public and to stimulate investment in shares as well as bonds. The practically unanimous and very striking expansion in the stockholders' lists of our leading American companies is of course a reflection of these same tendencies. Accurate statistics on Exchange sales and listings in the past are unfortunately not available, but I have no doubt that the proportion of the one to the other on the Stock Exchange has for some time been upon a downward trend - a fact which would substantiate your belief (which I also share) that security speculation on the Exchange is steadily becoming less wild and smaller in proportional extent.

It is of course necessary to recognize in this regard, the great significance of the Federal Reserve system as a stabilizing factor. Before 1913 undoubtedly much security speculation can be attributed to the constant shadow of uncertainty regarding the money market situation which constantly overhung the security markets. This situation has been so completely and beneficially rectified by the establishment and able administration of the Reserve system, that other factors apart, the security markets have in consequence been able to develop much greater inherent stability in the past ten years.

I fear that this letter, despite its being so long delayed, fails to answer directly the questions which you ask, even though it does cover practically all the related information which we have here in the Exchange. I am of course most anxious to lend all possible cooperation to yourself and the Reserve system, and will consider it a privilege to obtain for you as far as is possible any information regarding the Exchange or its markets at all times.

With kindest regards, I am

Sincerely yours,

E. H. H. Simmons

President

EHHS:W

BENJ. STRONG

141

Hotel Trianon Palace,
Versailles, July 29, 1926.

My dear Mr. Hamlin:

Many thanks for your nice letter of July 16th, which reached me yesterday and which I have read with a great deal of pleasure.

This you will understand to be a private and personal reply.

You understand of course that I have at times, and more recently than formerly, felt a good deal of anxiety about my relations with some of the members of the Board. It will be very difficult for us to accomplish much in an atmosphere of suspicion or mistrust or hostility. The news of your reappointment gave me a good deal of satisfaction and relieved my mind, because you and I have managed to get along so well over so many years and without a hint of any such development in our relations. So I am relieved and pleased, although you may feel that it is a bit out of place for me to say so.

The situation over here is most complex and at times has been filled with peril possibly beyond what is understood at home. I shall not attempt an account of it all in this letter, but await my return to discuss matters orally ~~verbally~~ to supplement the reports I have made to the Bank.

Mr. Harrison writes me that he has taken opportunity to keep the members of the Board informed of the substance of my reports, which is quite as I wish it, but I was a bit surprised the other day that a resolution had been introduced directing that some sort of inquiry be made of our Directors as to the object and need for my stay over here. Of course I am unaware what may have inspired this, but such inquiries, and especially made in that way, are not calculated to accomplish very much and they appear to overlook the fact that the object of my trip was fully explained to Secretary Mellon and Governor Crissinger and, I am sure, was fully understood and approved.

Unfortunately, it will be a bit longer than I had planned, because of

141

my illness which kept me at Antibes considerably longer than I wished.

In a few days I am leaving for Amsterdam to have a visit with Dr. Vissering. I shall probably see Schacht and then make an effort to visit the Banks at Prague and Budapest. It looks as though I could not complete my trip in time to get home before September.

With best regards and many good wishes, I am

Sincerely yours,

Benj. Strong

Hon. Charles S. Hamlin,
Mattahoisett,
Massachusetts.

Sec. Bd

August 24, 1926.

Bd voted to attach this memo. to letter to atty Gen eb and when sent. aug 25.26

145

In re:

Opinion of Attorney General regarding quorum of the Federal Reserve Board.

As a member of the Law Committee, I am unable to concur in the opinion of our Counsel rendered September 15, 1925, to the effect that a majority of five members of the Federal Reserve Board is necessary to constitute a lawful quorum to transact the business of the Board.

The Board at present consists of eight members, of which two are ex-officio. I do not question but that all of the members of the Board, including the ex-officio members, may and should be consistent in determining the number necessary for a quorum.

It is significant that the Federal Reserve Act is silent on the question of what number shall constitute a quorum. The Act provides, however, in Section 2, that a majority of the Organization Committee shall constitute a quorum, and it provides in Section 12 that a majority of the members of the Federal Advisory Council shall constitute a quorum.

I believe this omission of any reference as to what number shall constitute a quorum of the Federal Reserve Board is significant.

It should be remembered that the Federal Reserve Board has not one, but thirteen distinct offices, - its office in Washington and an office at each Federal Reserve bank, and it is easy to see that it is difficult, and at times it has proved impossible, to secure a majority because of the

necessary absence of members of the Board.

The question in this case is, - has the Board lawful authority to prescribe that a quorum shall consist of four members, including ex-officio members? The Board has lawful authority to pass all necessary regulations, and such a regulation, it would seem to me, is lawful, unless it runs counter to some positive provision of the Federal Reserve Act, and, as I have stated, the Federal Reserve Act is silent on this subject.

This silence is significant when it is considered that the Act provides that the Federal Reserve Board can only require inter-Federal Reserve bank rediscounts on the affirmative vote of at least five members (Section 11); that it shall require the affirmative vote of five members for the Board to permit member banks located in outlying districts of a reserve or central reserve city, to maintain lower reserve balances than those regularly required; that the vote of five members of the Board is required to require a Federal Reserve bank to rediscount for any other Federal Reserve bank notes secured by adjusted compensation certificates (Adjusted Compensation Act, Section 502.)

The Act being silent on the subject of a quorum, I would respectfully submit that a regulation providing that four shall constitute a quorum, would be a valid regulation.

Let us suppose that the Board is reduced to four members by illness or death, - can it be supposed that Congress intended that the Board, for the time, should cease to function? I cannot believe that such was ever intended by Congress.

To my mind, the Federal Reserve Board is more like, for example, the town meetings in New England, where, apart from some contrary regulation of the Town or Statute, if a meeting is duly called the inhabitants will have authority to pass any necessary legislation pertaining to the business of the town, whatever number may attend the meeting.