The Papers of Charles Hamlin (mss24661)

362_09_001-	Hamlin, Charles S., Scrap Book – Volume 198, FRBoard Members

205.001 - Hamlin Charles S
Scrap Book - Volume 198
FRBoard Members

TRANSFER

Box 362 Folder 9

CONFIDENTIAL (F.R.)

TRANSFER

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

CONFIDENTIAL (F.R.)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date July 31, 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 198 of Mr. Hamlin's scrap book and placed in the Board's files:

Volume 198

Page 23
Memo to Mr. Hamlin from Mr. Smead re "Free Gold" and excess reserves.

Page 27
Memo to Mr. Hamlin from Mr. Smead re Operations of the Charlotte Branch.

Page 31
Memo to Board from Mr. Smead re Condition of member banks on October 4, 1929.

Page 73
Memo - Foreign Branch of the Equitable Trust Company by C.S. Hamlin.

Page 83
Memo to Mr. Hamlin from Mr. Parry re Resources of Banks.

Page 89
Excerpt from the minutes of the meeting of the Federal Reserve Board, held on October 24, 1929.

Page 95
Letter (copy) to Gov. Harding from Carter Glass regretting inability to speak before New England Bankers Association.

Page 105
Data re The Pacific Southwest Trust and Savings Bank of Los Angeles, California.

Page 110
Memo to Gov. Young from Mr. Smead re Brokers Loans.

Page 151
Copy of letter to Gov. Harding from Gov. Harrison re copy of report of Open Market Investment Committee.

Correspondence FEDERAL RESERVE BOARD

Date November 13, 1929

. Hamlin

Subject: "Free Gold" and excess reserves

From Mr. Smead

In accordance with your request, there is set forth herewith our method of compiling "free gold" and excess reserves.

The term "free gold" is used to designate the amount of gold which a given reserve bank or the System could pay out, assuming that the amount of its eligible paper and its deposit and note liabilities are not thereby altered, without causing a shortage either in reserves or in collateral against F. R. notes outstanding.

The following calculation based on figures for the System as of November 6 illustrates the method of calculating "free gold", in case the amount of gold required as collateral security against F. R. notes outstanding plus the gold redemption fund equals or exceeds 40 per cent of the amount of notes in circulation.

	(In thousands of dollars)
Federal Reserve notes outstanding	2,407,687
Eligible paper (deduct)	1,321,254
Gold necessary as collateral for F. R. notes	1,086,433
Gold required in bank's gold redemption fund (5% of F. R. notes not secured by gold)	66,063
Total gold required against F. R. notes	1,152,496
Reserves required against deposits	917,945
Total gold and lawful money required as reserves and as collateral against F. R. notes	2,070,441
Total cash reserves of F. R. Banks	3,170,631
"Free gold" for System	1,100,190

"Free gold" figures for each bank as of Nov. 6

(In thousands of dollars)

Boston	55,814	Chicago	164,448
New York	485,990	St. Louis	32,125
Philadelphia	61,452	Minneapolis	22,326
Cleveland	54,013	Kansas City	36,699
Richmond	36,562	Dallas	23,671
Atlanta	7,060	San Francisco	61,245
		TOTAL	1,041,405

You will note a difference between total obtained by adding "free gold" for the twelve banks and the system total as shown above. The reason for this is that in some banks (Philadelphia, Cleveland, Kansas City and Dallas for above date) the gold collateral required plus the gold redemption fund is less than the 40% required note reserve. In this case the amount of "free gold" is identical with the amount of excess reserves. The method of calculating excess reserves is illustrated on page two.

VOLUME 198
PAGE 23

Form No. 131

Office

To Mr.

C23

Excess reserves for System as of November 6

	(In thousands of dollars)
F. R. notes in circulation	1,918,327
Note reserve (40% of F. R. notes in circulation)	767,331
Total deposits	2,622,700
Deposit reserve (35% of total deposits)	917,945
Total required reserves	1,685,276
Total cash reserves	3,170,631
Excess reserves	1,485,355

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date November 16, 1929

Scr Br

To Mr. Hamlin

Subject: Operations of the Charlotte Branch

From Mr. Smead

2-8495

B27

In accordance with your request of November 7, we are giving you herewith certain information regarding the operations of the Charlotte Branch of the Federal Reserve Bank of Richmond.

During the first half of 1929 the average number of employees at the Charlotte Branch was 57, of which, disregarding fractions in the averages, 10 were in the Currency and Coin department, 17 in the Check Collection department, 3 in the Non-cash Collection department, 9 in the Accounting department, and 14 in General Service, including the building, telephone and telegraph, mail, files and protection units.

The most important operating units from the standpoint of the number of employees are the Check Collection department and the Currency department. The Check Collection department handled a total of 3,234,000 checks drawn on city and country banks during the first half of the year at an average cost of $2.61 per thousand, as compared with an average cost of $3.09 per thousand at the head office, and an average cost of $2.99 per thousand at the head office prior to the establishment of the Charlotte Branch. The Currency department handled 7,271,000 bills during the first six months of 1929 at a cost of 54 cents a thousand as compared w with an average cost of 59 cents a thousand at the head office, during the same period, and 53 cents a thousand before the establishment of the Charlotte Branch.

For the 10 months ending October 31 total expenses of the Charlotte Branch amounted to $128,470 and approximately the same amount was expended during the corresponding period of 1928. Expenses at the head office during the first 10 months of 1929 were about $45,000 less than during the corresponding period of 1927, before the establishment of the Charlotte Branch. This reduction in expenses at the head office is no doubt due wholly to the decrease in the volume of work handled at Richmond in consequence of the establishment of the Charlotte Branch. Expenses at the Baltimore Branch during the first 10 months of 1929 were something over $56,000 in excess of expenses during the corresponding period of 1927. Taxes and other expenses in connection with the occupancy of the new building at Baltimore chiefly account for this increase.

VOLUME 198
PAGE 27

P27

At the present time there are 7 member banks located in Charlotte with total deposits of a little over $37,000,000. These banks in consequence of the designation of Charlotte as a reserve city at the time the branch was opened carry reserves on the basis of June 29, 1929 figures of about $540,000 in excess of the reserves they would be required to carry as country banks. This additional reserve requirement results, of course, in an increase in the gross earnings of the Federal Reserve Bank of Richmond, offsetting to some extent the increased expenses due to the operation of the branch.

On page 158 of the Board's 1928 Annual Report is a table showing the volume of operations of each Federal reserve bank branch during 1928. From this table it may be noted that of the 25 branches in operation in 1928, 12 handled a smaller volume of currency than the Charlotte Branch, 6 a smaller volume of coin, 11 a smaller volume of checks, and 17 executed a smaller number of transfers of funds. On the whole I should say that the Charlotte Branch has probably more fully justified its existence through increased convenience to member banks in its territory than have some of the other branches.

Mr. Hamlin

Form No. 131.

Office Correspondence

FEDERAL RESERVE BOARD

Date November 18, 1929

To Federal Reserve Board

Subject: Condition of Member Banks on October 4, 1929.

From Mr. Smead

2—8495

Attached hereto are three statements showing principal resources and liabilities, including a classification of loans, of all member banks as of October 4, 1929, compared with June 29, 1929 and October 3, 1928, as follows:

1. All member banks
2. Member banks in New York City and Chicago
3. Member banks in reserve cities and country banks

All the figures shown in the attached statement will appear in the forthcoming Call Report except those relating to loans to brokers and dealers in New York City and elsewhere, which in the past have not been made public by the Board.

VOLUME 198
PAGE 31

CONFIDENTIAL

PRINCIPAL RESOURCES AND LIABILITIES OF ALL MEMBER BANKS ON OCTOBER 4, 1929, COMPARED WITH JUNE 29, 1929 AND OCTOBER 3, 1928

(In millions of dollars) St.6393

	Oct. 4, 1929	Increase or decrease since June 29, 1929	Increase or decrease since Oct. 3, 1928
Loans and investments - total	35,914	+ 203	+ 985
Loans - total	26,165	+ 506	+1,840
Acceptances payable in United States	93	- 15	+ 13
Bills, acceptances, etc., payable in foreign countries	70	- 20	- 32
Commercial paper bought in open market	228	- 21	- 229
Loans to banks	640	- 30	+ 93
Loans on securities (exclusive of loans to banks):			
To brokers and dealers in New York	1,885	- 140	- 14
To brokers and dealers elsewhere	939	+ 18	+ 90
To others	7,170	+ 357	+1,374
Real estate loans:			
On farm land	392	- 22	- 29
On other real estate	2,760	+ 10	+ 93
All other loans	11,988	+ 370	+ 481
Loans eligible for rediscount with F. R. bank	4,598	+ 208 *	+ 230 *
Investments - total	9,749	- 304	- 855
U. S. Government securities	4,022	- 133	- 364
Other securities - total	5,727	- 170	- 491
Domestic	5,115	- 148	- 408
Foreign	612	- 23	- 83
Due from banks in United States	2,005	+ 120	- 21
Due from banks in foreign countries	247	- 26	- 40
Net demand deposits	18,952	- 26	- 43
Time deposits - total	13,318	- 7	- 92
Evidenced by savings pass books	9,604	- 231	+ 99
Of banks in United States	111	+ 31)	
Of banks in foreign countries	112	+ 35)	+ 89
All other	3,490	+ 157	- 82
U. S. deposits	315	- 32	+ 157
Due to banks in U. S. (except F. R. banks)	3,153	+ 61	- 309
Due to banks in foreign countries	482	+ 17	- 27
Bills payable and rediscounts	1,150	- 48	- 4
Capital and surplus	5,551	+ 254	+ 715
Acceptance liability	1,025	+ 183	+ 266

*Figures prior to Oct. 4, 1929, revised.

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
NOVEMBER 15, 1929.

CONFIDENTIAL

PRINCIPAL RESOURCES AND LIABILITIES OF MEMBER BANKS IN CENTRAL RESERVE CITIES ON OCTOBER 4, 1929, COMPARED WITH JUNE 29, 1929 AND OCTOBER 3, 1928

(In millions of dollars) St. 6393a

	New York City			Chicago		
	Oct. 4 1929	Increase or decrease since June 29 1929	Increase or decrease since Oct. 3 1928	Oct. 4 1929	Increase or decrease since June 29 1929	Increase or decrease since Oct. 3 1928
Loans and investments - total	8,150	- 9	+ 954	1,823	+ 55	- 87
Loans - total	6,344	+ 3	+1,089	1,510	+ 77	+ 5
Acceptances payable in United States	59	+ 1	+ 9	1	+ 1	+ .1
Bills, acceptances, etc., payable in foreign countries	33	- 25	- 22	4	-	+ 1
Commercial paper bought in open market	8	- 12	- 55	4	- 2	- 17
Loans to banks	302	- 12	+ 15	68	+ 2	+ 33
Loans on securities (exclusive of loans to banks):						
To brokers and dealers in New York	1,096	-263	+216	59	+ 11	- 60
To brokers and dealers elsewhere	46	- 17	+ 1	257	+ 15	+ 5
To others	1,898	+ 84	+407	504	+ 20	- 39
Real estate loans:						
On farm land	1	- 1	+ 1	2	-	- 1
On other real estate	175	+ 2	+ 45	19	- 3	- 22
All other loans	2,726	+246	+472	592	+ 34	+105
Loans eligible for rediscount with Federal reserve bank	1,168	+161	+250	251	+ 15	+ 40
Investments - total	1,807	- 12	-136	312	- 22	- 92
U. S. Government securities	989	- 17	-140	153	- 6	- 38
Other securities - total	817	+ 5	+ 5	160	- 16	- 54
Domestic	746	+ 8	+ 19	149	- 20	- 47
Foreign	72	- 3	- 15	11	+ 4	- 7
Due from banks in United States	196	+ 39	+114	134	- 2	+ 13
Due from banks in foreign countries	167	- 19	- 39	29	- 5	+ 14
Net demand deposits	5,587	-248	+331	1,217	+ 60	- 5
Time deposits - total	1,374	+161	+173	464	+ 21	-103
Evidenced by savings pass books	633	- 6	+ 73	184	- 15	- 90
Of banks in United States	47	+ 29)	+ 74	22	- 1)	+ 8
Of banks in foreign countries	93	+ 32)		10	+ 4)	
All other	600	+106	+ 26	248	+ 32	- 22
U. S. deposits	71	- 8	+ 43	16	- 4	+ 9
Due to banks in United States (except F. R. banks)	940	- 79	- 10	312	- 2	- 37
Due to banks in foreign countries	415	+ 9	- 34	20	+ 11	+ 13
Bills payable and rediscounts	165	-195	-120	48	- 5	+ 4
Capital and surplus	1,728	+199	+494	270	+ 2	+ 37
Acceptance liability	710	+ 96	+167	69	+ 29	+ 39

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS, NOVEMBER 15, 1929.

CONFIDENTIAL

P31

PRINCIPAL RESOURCES AND LIABILITIES OF MEMBER BANKS IN RESERVE CITIES AND OF COUNTRY BANKS ON OCTOBER 4, 1929, COMPARED WITH JUNE 29, 1929 AND OCTOBER 3, 1928

(In millions of dollars)

St. 6393b

	Reserve city banks			Country banks		
	Oct. 4 1929	Increase or decrease since June 29 1929	Increase or decrease since Oct. 3 1928	Oct. 4 1929	Increase or decrease since June 30 1929	Increase or decrease since Oct. 3 1928
Loans and investments - total	12,161	+ 96	- 50	13,780	+ 61	+168
Loans - total	9,085	+297	+404	9,226	+130	+341
Acceptances payable in United States	6	- 10	+ 1	27	- 7	+ 3
Bills, acceptances, etc., payable in foreign countries	27	+ 6	-	6	- 1	- 11
Commercial paper bought in open market	71	- 11	-107	144	+ 5	- 50
Loans to banks	225	- 16	+ 46	45	- 4	- 1
Loans on securities (exclusive of loans to banks):						
To brokers and dealers in New York	354	+ 52	-167	376	+ 60	- 2
To brokers and dealers elsewhere	510	- 1	+ 75	125	+ 21	+ 9
To others	2,598	+117	+446	2,170	+136	+559
Real estate loans:						
On farm land	110	- 9	- 13	279	- 12	- 15
On other real estate	1,360	-	- 8	1,206	+ 11	+ 78
All other loans	3,823	+169	+131	4,847	- 78	-227
Loans eligible for rediscount with Federal reserve bank	1,450	+ 76*	+ 28*	1,733	- 40	- 84
Investments - total	3,075	-201	-454	4,554	- 69	-173
U. S. Government securities	1,519	- 88	-184	1,361	- 23	- 1
Other securities - total	1,557	-113	-270	3,193	- 46	-171
Domestic	1,426	- 99	-231	2,794	- 37	-149
Foreign	131	- 14	- 40	399	- 9	- 22
Due from banks in United States	829	+ 28	- 6	847	+ 55	- 142
Due from banks in foreign countries	47	- 2	- 16	5	+ 1	+ 1
Net demand deposits	6,151	- 12	-243	5,997	+175	-126
Time deposits - total	4,712	-140	-131	6,768	- 49	- 30
Evidenced by savings pass books	3,653	-130	- 46	5,133	- 80	- 36
Of banks in United States	35	+ 3)	+ 14	7	-)	- 7
Of banks in foreign countries	10	+ 1)		-	- 1)	
All other	1,014	- 14	-100	1,628	+32	+ 13
U. S. deposits	166	- 19	+ 79	63	- 2	+ 26
Due to banks in United States (except F. R. banks)	1,511	+101	-222	391	+41	- 41
Due to banks in foreign countries	44	- 2	- 6	2	- 2	-
Bills payable and rediscounts	566	+206	+ 76	371	-55	+ 37
Capital and surplus	1,694	+ 26	+102	1,858	+28	+ 81
Acceptance liability	233	+ 56	+ 56	12	+ 2	+ 3

*Figures prior to Oct. 4, 1929, revised.

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS,
NOVEMBER 15, 1929.

June 1929.

P73

Memorandum.

Foreign Branch of the Equitable Trust Co.
By C. S. H.

Limitation of branches of national banks to the parent city, is found in an amendment to Section 5155 of the Revised Statutes contained in the Act of February 25, 1927. It states, (d) - "No branch shall be established after the date of the approval of this Act within the limits of any city, town, or village, etc." The Act of February 25th also amends Section 9 of the Federal Reserve Act by providing that a state member bank can become or remain a member of the Federal Reserve System "only upon relinquishment of any branch or branches established after the date of the approval of this Act beyond the limits of the city, town, etc." The language of these two prohibitions is practically identical.

Congress, in amending the Revised Statutes, 5155, as to national banks having branches, in paragraph (g), provided that nothing in the Section should be construed to amend or repeal Section 25 of the Federal Reserve Act as to a national bank's right to establish foreign branches.

This practically is a statement by Congress that the language "beyond the limits of the city, town, etc." refers only to domestic branches, and not to foreign branches.

There was a reason for this construction growing out of the fact that Congress had authorized national banks under Section 25 of the Federal Reserve Act to establish foreign branches.

There was no reason for inserting a similar provision in Section 9 of the Act, because the state banks obtain authority to establish foreign branches from their own states and not from Congress.

I know of no evidence disclosed by the debates in Congress showing, or tending to show, that Congress had in mind only domestic branches when acting as to national banks, but had in mind domestic and foreign branches when acting under Section 9 as to state member banks.

Under Section 25, national banks are authorized to establish foreign branches or to take stock in state corporations engaged in foreign banking, whether directly or indirectly, and this clearly would include branches of such foreign banks.

In Section 25 (a) Congress authorized corporations chartered by the Federal Reserve Board to engage in international or foreign banking, and specifically to establish branches abroad.

Can it be that Congress giving these liberal powers to national banks, 973

intended at the same time to cut down the powers of state banks already having power to establish foreign branches? Nothing but the clearest evidence would show this, and I can find none such.

The branch bank question which Congress tried to straighten out, was a difficulty relating to domestic branches of state banks, and not to foreign branches, and I submit that Section 9 had nothing to do with foreign branches whatsoever.

It should further be remembered that under Section 9, state banks becoming members of the Federal Reserve System are to retain their full charter and statutory rights as state banks or trust companies, and may continue to exercise all corporate powers granted them by the state in which they were created, and shall be entitled to all privileges of member banks, - subject to the provisions of this Act and the regulations of the Board. To my mind it would require a very strained construction of Section 9 to warrant the conclusion that Congress intended to cut down the power of state banks to establish any other than state branches, and I am convinced that foreign branches were not in contemplation of Congress when it amended Section 9.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Ser Bo

Date September 5, 1929

To Mr. Hamlin

Subject: Resources of Banks

P 83

From Mr. Parry

EEP

2—8495

In compliance with your recent request by telephone the following figures have been prepared:

Resources of Banks

(In millions of dollars)

	June 29, 1929	As affected by assumed withdrawal
Federal Reserve Bank of New York	1,597	1,597
Other Federal reserve banks	3,597	3,597
Total, all F. R. banks	5,194	5,194
Member banks in New York City*	11,792	...
Member banks outside New York City	34,116	34,116
Total, all member banks	45,908	34,116

* Metropolitan banks, i.e., central reserve city banks.

The assumed withdrawal would reduce the aggregate resources of member banks by about one-fourth. Member banks remaining in the system would have three times the resources of the group of New York banks that had withdrawn.

The resources of the Federal reserve banks would remain the same. The reason for this surprising outcome is that the group of metropolitan banks by withdrawing from the system, assuming the status of State banks, and becoming subject to New York law--would be obliged to hold reserves of approximately the same amount that they now hold and to hold these either in the form of deposits at the reserve bank or in the form of cash in vault, e.g., Federal reserve notes. In the process of obtaining either of these, by any method whatsoever, an equivalent volume of assets would have to pass to the Federal reserve banks, either from the group in question or from some other part of the money market.

The reserve requirements of New York law are 12 per cent (in vault cash or on deposit at the reserve bank) against gross demand deposits--and 6 per cent

VOLUME 198
PAGE X 83

additional that may be held in the form of correspondent balances. The foregoing ignores this 6 per cent, because it might well be negotiated without affecting the Federal reserve.

The gross demand deposits of the metropolitan banks were approximately $7,115,000,000 on June 29, 1929. Twelve per cent of this amount figures at about $860,000,000, comparing with claims against the Federal reserve in the form of deposits and capital stock of about the same amount; the correspondence is not exact, but the difference--about $30,000,000--may perhaps be ignored for the purpose in hand.

Sec Bk

Excerpt from the minutes of the meeting of the Federal Reserve Board, held on October 24, 1929.

P 89

Dr. Goldenweiser, Director of the Division of Research and Statistics, appeared before the Board in accordance with an arrangement made at the meeting on October 16th, and presented to the Board verbally a statement of the problem confronting the Federal Reserve System as he sees it. Dr. Goldenweiser did not discuss the prospects for the immediate future but stated among other things that the System should be more definitely guided by long time trends than by seasonal or other brief developments predicating its actions upon its primary function as he sees it of providing a flow of bank credit adequate to meet legitimate demands, ordinarily at reasonable rates. He referred to the fact that international, as well as domestic developments, must be taken into consideration and that, in view of the world wide shortage of capital, the influence of foreign markets on the United States may be expected for some years to come to be in the direction of firm money. He expressed the opinion that in order to insure control of the growth of credit, revision of the reserve requirements of member banks is necessary and also some action for insuring equivalent reserve requirements for nonmember banks. He stressed the importance to the System of seeing to it that member banks should not be in debt at the Federal Reserve banks in the amounts which have prevailed during the past year or more. He pointed out that the credit structure of the country has been built up on the basis of enormous additions to the gold supply, and that the System should consider the desirability of purchases of bills or securities at opportune times to offset gold losses, in preference to having such losses covered by

VOLUME 198
PAGE 89

G 8 9

member bank discounting. A large volume of indebtedness for a long period works against the valuable tradition against continuous borrowing by banks and exerts a permanent pressure on credit conditions.

Sen. Na

895

November 7, 1929.

My dear Governor Harding:

After writing you yesterday that I would attempt the trip to Boston, circumstances arose in the Senate situation here which, added to my physical disability, seem to make it impossible for me to get away. All appeals to defer two certain schedules of the tariff bill in which my State is imperatively interested were unavailing. These will be voted on today and tomorrow; they are of such importance to Virginia as to make it exceedingly desirable that I shall be in my place.

Aside from this, I am just out of a nerve-racking political campaign, with my voice badly broken and my already somewhat depleted physical condition in great tension. In this situation I would feel much disquieted in appearing before a company of precise New England bankers.

With respect to the informal talk which I had genuinely hoped to make before the member banks of the Boston Federal Reserve District, I merely wanted to indicate to them my own view, and to seek their concurrence, of the desirability of so modifying the Federal Reserve Act and the National Bank Act as to make the Federal Reserve system more attractive to the stockholding banks. It is my purpose to press upon the attention of Congress the bill which I introduced at the last session giving to member banks of the Federal Reserve system a larger participation in the net earnings of the system. The government has not one dollar of proprietary interest in the Federal Reserve banks. The only substantive governmental privilege is the note issue right; and for this the government is more than compensated over and over again by the routine and incidental service rendered by the banks as government agencies. Apart from this invaluable routine service, the agencies of the federal reserve banks have been, time and time again, employed in floating government securities both of a permanent and current nature. In addition to this, the Federal Reserve system has already paid into the federal Treasury earnings vastly in excess of all the franchise tax received from all the national banks in the United States for the entire period from the establishment of the national bank system to the adoption of the Federal Reserve system. One year alone these earnings aggregated sixty-two millions of dollars.

For the reasons briefly stated I shall very earnestly press my proposition, * ~~notwithstanding the surprising opposition of the Secretary of the Treasury~~ to a larger per centage for the member banks; for unless this should be done and other incentives be applied we are certain to continue

* stricken out by C. S. H at request of Sen. Glass

VOLUME 198
PAGE 95

P95

to lose member banks. In fact, should the present rate of defection persist, it will soon be a question as to whether the Federal Reserve system will predominate in the American banking community or yield to the dangerous and irresponsible holding companies, now already reaching out over the country.

There are other matters which need grave attention, such as modification of the National Bank Act and the Federal Reserve Act so as to make it more mandatory, if possible, upon the administrators of the banking laws to prevent by penalization such disasters in stock gambling operations as have recently disgraced the country. If there are men in the financial world, as I think undoubtedly there are, who imagine themselves superior to the existing governmental banking system and who are totally indifferent to the real commercial and industrial interests of the nation, the sooner such men are restrained and severely disciplined by adequate punishment, the better will it be for the country. In my view it is the imperative obligation of the administrators of the Federal Reserve banking system to assert to the limit the powers which the laws confer and, in this way, to assert the dignity of a federal banking system which was intended to be supreme within its sphere.

Permit me again to tell you of my distress over my inability to be the guest on Friday of your Association, so that I might personally elaborate and stress what I have in mind and also, by word of mouth, express my very great appreciation of the honor implied by your invitation.

Always with cordial regards and best wishes,

Carter Glass.

Sincerely yours,

Hon. W. P. G. Harding,
Federal Reserve Bank,
Boston, Mass.

See Ap

P105

THE PACIFIC SOUTHWEST TRUST AND SAVINGS BANK
OF LOS ANGELES, CAL.

April 4, 1923:

Board to all Federal Reserve Agents:

Calls attention to fact that in some cases Federal Reserve banks have failed to report promptly violations of the criminal provisions of Section 22 of the Federal Reserve Act, and Sections 5208 and 5209 of the Revised Statutes.

Board states that neither it nor the Federal Reserve banks should decide whether such offenders should be prosecuted, but that every violation should be reported to the Department of Justice for such action as it may deem advisable.

Agents are directed to report the facts in all cases to the U.S. District Attorney, sending a full report to the Federal Reserve Board. The letter adds that in making such reports it would not be improper to recommend clemency for the offenders in those cases where you feel that the circumstances justify such a recommendation.

June 19, 1927:

Mr. Eddy to Governor Crissinger:

At meeting of Board on June 7th, you spoke of a conversation with Mr. Gilbert and his statement that the Federal Reserve Agent at San Francisco had not reported to the local U.S. District Attorney apparent criminal violations of the law, disclosed by the report of the last examination of the Pacific Company received by the Board a few days ago.

June 20, 1927:

Newton to Crissinger:

I am directed under letter of April 4, 1923, to report such criminal violations to the U.S. District Attorney and forward copy of my report in duplicate, that the Board may transmit a copy to the Department of Justice.

Have thoroughly discussed your letter with the officers of this bank and with Counsel to this bank. All agree that action so drastic should not be begun without most careful consideration of the practical and legal effect thereof. Mr. Agnew, our Counsel, in common with Messrs. Calkins and Day and myself, have certain views which should be placed before the Board by a personal discussion.

Asks interview between Mr. Agnew, himself, and Board.

Apparent Violations of Criminal Provisions of Federal Reserve Act, and U. S. Revised Statutes:

1. Funds aggregating over one million dollars belonging to various private trusts, were advanced in connection with the attempted merger of the Julian Petroleum Corporation and the Marine Corporation, and consolidation of both companies with the California Eastern Oil Corporation. This was a violation of the California law as an overdraft to the Marine Corporation. Apparently this is a misapplication of funds prohibited by Section 9 of the Federal Reserve Act and U.S. Revised Statutes 5209. The guilty parties are not nominated in the report.

2. Participation by officers of the bank in pools formed to support the market of stocks of the Julian Petroleum Corporation and the Marine Corporation, in which large individual profits were realized. This may violate Section 22 (c) of the Federal Reserve Act prohibiting any officer, etc. from receiving any fee, commission, gift or thing of value from any person, corporation, etc. for procuring, or endeavoring to procure, a loan for any person, corporation, etc. These officers presumably were permitted to participate in the benefits and profits of the pool by reason of their inside knowledge, and because of the fact that their bank had and was at the time extending large lines of credit to the corporations concerned and to the parties managing the pools. The list of officers concerned is as follows:

Flint	Executive Vice President
Bell	Vice President
McKay	Attorney
Hervey	Vice President and Trust Officer
Hollingsworth	Director
McMullen	Vice President and Cashier.

3. Failure of the bank to indicate in the call report of December 31, 1926, to the Federal Reserve Bank its direct liability of about $1,900,000 occasioned by its issuance of deferred payment certificates to holders of stock of the Marine Corporation, one of the oil companies involved in the merger which the bank was undertaking to finance under an agreement, apparently constitutes a violation of that provision of Section 5209 Revised

Statutes relating to false reports. The guilty officers or those responsible for this violation are not named in the report.

June 27, 1927:

Newton to Board:

Newspapers report indictments filed against Stern, Bell, Flint, Hervey, Mackay, Hollingsworth and Barber. Impossible to predict effect this may have.

June 28, 1927:

Telegram, - Newton to Board:

Suggests no action at present. Can be taken at later date without unnecessary trouble for bank at present time or waiving any rights. Believe irregularities should be eventually reported but would only aggrevate present serious condition at this time. Reorganization proceedings in process, and any action now might interfere and would in all probability make completion impossible.

July 5, 1927:

Resolution of Board:

States that in view of the fact that the complete reorganization of the affairs of the Pacific Company is under way with every prospect of prompt completion, and that other information developed and presented to the Board by the Federal Reserve Agent creates the belief that precipitate action might be very undesirable at this time, it is resolved that, with the distinct understanding that the apparent irregularities and criminal violations shall be reported to the U.S. District Attorney and the Department of Justice, the time at which such reports are made be left to the discretion of the Federal Reserve Agent and his associates at the Federal Reserve Bank of San Francisco.

October 14, 1927:

Governor Young to Newton:

Board will make no change as to reporting the apparent violations of the Pacific Company. The status of the matter, therefore, is as recited in the resolution adopted by the Board on July 5th. The Board reiterates its position that the time at which you are to report the facts to the District Attorney is left to your discretion and that of your associates. You will, of course, ascertain whether the time for reporting is subject to any statutory limitation, and if so, see to it that the reporting is not delayed to a date which would prohibit any action which might be necessary by the Department of Justice.

November 23, 1927:

Newton to Board:

Newton reports that Agnew states that action should be taken before or during the year 1929, otherwise the Statute of Limitations will run. That on account of the necessity of presenting the matter to the Grand Jury which meets only twice a year, action should be taken before July 1, 1929.

Mr. Agnew, in his opinion, states that the apparent violations of the Federal Statutes alleged to have been committed by officers of the Pacific Company, occurred during the latter part of 1926, and therefore any action taken thereon must be taken during the year 1929, and I believe should be taken before July 1, 1929, in order to be safely within the Statutes.

October 10, 1928:

Board sends letter of Newton to District Attorney to the Attorney General.

Letter of Newton to District Attorney, September 20, 1928, says the Pacific Southwest Trust and Savings Bank, now merged with the Los Angeles First National Trust and Savings Bank, was examined February 5, 1927; that the examination disclosed transactions between the Pacific Company, S. C. Lewis, and the Julian Petroleum Corporation, as a result of which certain liabilities were apparently assumed by the Pacific Southwest Company, but which were not disclosed on the sworn statement of condition made to the California State Banking Department and to the Federal Reserve Board showing

P 105

condition as of the close of business December 31, 1926; that while it may be true that these transactions involved a technical violation of Section 5209 of the Revised Statutes, we deem it only fair to state that as far as we are advised, the liabilities represented by the said transaction have been liquidated, and neither the Pacific Company nor the depositors, nor any stockholder thereof has suffered directly by reason thereof; that the Federal Reserve report of examination of the Pacific Company further discloses that on the date of examination, February 5, 1927, there apparently existed an overdraft in the private trusts of said bank in a considerable amount; that this overdraft was created to meet a portion of the liabilities arising through said transation between the Pacific Company, and S. C. Lewis, and the Julian Petroleum Corporation; that it seems only fair to state that it appears that immediately after the overdraft was created, funds were deposited to cover it, and that as a result of the transaction neither the Pacific Southwest Trust and Savings Bank nor its depositors, nor any stockholder thereof has suffered directly in any degree.

Sec Bd

B, 110

C O P Y

November 23, 1929.

Subject: Brokers' loans

To Governor Young

From Mr. Smead

If not already brought to your attention you may be interested in the following comparisons of brokers' loans made by New York City weekly reporting member banks since the Board began publishing brokers' loans figures:

Total brokers loans. The amount on November 20, $3,587,000,000, is a reduction of 47 per cent from the peak figure, $6,804,000,000, reported on October 2, and is the lowest total reported since December 14, 1927. It is about $450,000,000 above the first total published by the Board -- $3,141,000,000 on January 6, 1926.

Brokers' loans for account of banks. Of the total brokers' loans reported on November 20, $1,557,000,000 was for the account of banks -- own account and out-of-town banks. This is lower than any amount heretofore reported for the account of banks.

For own account. The present total of $853,000,000 is only $79,000,000 above the minimum heretofore reported -- $773,000,000 on May 29, 1929.

The $853,000,000 is a reduction of 59 per cent in three weeks from the peak figure, $2,069,000,000, reported on October 30. The latter figure represented an increase of $992,000,000 between October 23 and October 30.

For out-of-town banks. The total of $704,000,000 reported last Wednesday, as well as the $811,000,000 reported the Wednesday before, are both lower than the minimum heretofore reported. The previous low was $884,000,000 on June 30, 1926, which is $180,000,000 above the present low.

For account of "others." The amount reported on November 20, $2,031,000,000, is the lowest reported since October 10 of last year.

Debh

SENT TO ALL GOVERNORS. (COPY)

November 27, 1929.

3151

CONFIDENTIAL

Dear Governor Harding:

On November 19 we forwarded to you and to the governor of each of the other Federal Reserve banks a copy of the report of the Open Market Investment Committee adopted at its meeting in Washington on November 12, and a copy of the Federal Reserve Board's letter dated November 13.

We have just received a further communication from the Federal Reserve Board, dated November 25, in which Governor Young states that the Board has reconsidered the action taken on November 13 and has voted to approve the general principles as to future policy laid down in the report of the Open Market Investment Committee and the resolution adopted by the Board of Directors of the Federal Reserve Bank of New York at its meeting on November 7. For your information, and the information of your directors, I am enclosing a copy of Governor Young's letter of November 25th together with a copy of the resolution of our directors to which it refers.

While it is difficult at this time, in the scope of a letter, to give any very satisfactory review of the developments in this market during the past five or six weeks, nevertheless I hope you will let me comment more or less informally and in a general way regarding the situation as it related to this bank and the credit policies which we felt it necessary to adopt.

Some of the Federal Reserve banks have already written to met making certain inquiries, especially in relation to our purchases of government securities. It has occurred to me, therefore, that you, too, may be interested in a brief picture as we now see it.

The very sudden and drastic liquidation in the stock market, accompanied by the calling of loans for out-of-town banks and others, naturally resulted in a tremendous shift in loans to our own member banks just at a time when the stock market itself was weakest and the mechanical apparatus of the exchange was taxed to its utmost. Our particular problem was to endeavor to maintain an easy money position throughout the whole period lest any evidence of a shortage of funds or an increase in money rates might lead to some sort of a money panic. If we should have added to the panicky state of mind relating to security values any fear of a money shortage, we might indeed

VOLUME 198
PAGE 151

have faced the most serious calamity. With this in mind, we kept our discount window wide open and let it be known that member banks might borrow freely to establish the reserves required against the large increase in deposits resulting from the taking over of loans called by others. In addition to this we went into the market, as you know, and bought large blocks of government securities, partly for psychological reasons but largely because we felt it so important that there should be no tightening of money during the period of such large transfers of loans to our own member banks. As we look back now, it is not at all unlikely that had we not bought governments so freely, thus supplementing the reserves built up by large additional discounts, the stock exchange might have had to yield to the tremendous pressure brought to bear upon it to close on some one of those very bad days the last part of October.

For the moment, the stock market seems to have quieted down. There has been a vast liquidation of security loans, and funds transferred to New York from all over the country, to replenish margins or to pay for investments, have made for great ease in this market. While this surplus of funds is now lessening, we have not yet any money shortage. It is possible, however, that with the outflow of money now in progress and the increase in currency demand now beginning, money rates may very quickly tighten.

For a year or two the Federal Reserve System has directed most of its policies towards pressure upon the credit situation in order that it might minimize the amount of funds being employed for unnecessary or speculative purposes. We sold well over $400,000,000 of government securities and liquidated an equally large bill portfolio. Both of these operations tended to force member banks into our debt, so that we had a total volume of discounts in the System averaging over a billion dollars. Even now, after the liquidation of the stock market and consequent reduction in call loans, the total volume of discounts in the System approximates $900,000,000. And we do not have to go very far back in our history to realize that when the total volume of discounts is anything like the present level, we do not have the basis for easy money rates. Indeed, commercial paper rates and over-the-counter rates to customers fluctuate almost precisely asthe total volume of discounts fluctuates, and it is questionable whether we can anticipate generally easier rates or easier money conditions until the volume of discounts as a whole is substantially reduced.

With the stock market out of the way at the moment and with little or no reason to fear that funds which we might put out will be employed for speculative purposes, the question immediately presents itself as to how we can most safely and quickly effect a reduction in the volume of discouts as a whole. Certainly we do not want to liquidate the total volume of reserve credit by forcing a deflation of two or three hundred million dollars in discounts at a time when business is obviously hesitating, commodity prices are declining, and when there are more evidences of a recession than of an over-expansion in any line. That being so, it seems to us that if we hope to accomplish a reduction in discounts to a point which will make money readily available, we must do so by a substantial increase in the System's open market portfolio. This will enable member banks to use the funds which we put out to pay off discounts and thus pave the way for a greater availability of funds for business at reasonable rates, open the bond and mortgage market, and establish for the first time in two or three years a more normal money position.

As we look ahead, it is not likely that the total volume of Federal Reserve credit will average much less than, say, eleven or twelve hundred million dollars, perhaps thirteen or fourteen hundred million dollars. The growth of the country during the past year or so would seem clearly to justify this level of Federal Reserve credit except as it might be altered by substantial gold movements. If that is true, it seems to us that we might expect the need of having, say, half of our total earning assets in open market portfolio, bills or governments.

The tremendous investment demand for bills has made it impossible and unwise for us to seek to acquire that form of investment any faster than we have. To do so would only dislodge what is now appearing to be a fairly satisfactory open market distribution of bills. That leaves us governments as the only effectively substantial means of operating in the open market at this time; and now that the Federal Reserve Board has approved of a program that will permit of such an operation, I hope that you will let us know, after you have had an opportunity to discuss it with your directors, whether you care to participate in any purchases that may be made in execution of the policy recommended by the committee and approved by the Federal Reserve Board.

It may well be that future developments will make it unnecessary or unwise to pursue any very substantial program of purchases. If so, we could of course proceed accordingly, but at the moment, with gold going out and facing a period of increased demand for currency, perhaps amounting to 250 or 300 millions, it seems that we have every reason to buy governments rather than to remain quiescent and force banks to increase their discounts to obtain necessary reserves. If we do that, instead of having nine or ten hundred millions of discounts, we may have twelve or thirteen hundred millions and postpone more or less indefinitely a return to a volume of discounts which will make easier money rates throughout the country possible.

At the moment New York City banks are borrowing practically nothing from the Federal Reserve bank. They are not only out of debt to us but

B151

have had large sums of money over, so that Federal reserve funds in New York have been selling at a substantial discount. On the other hand, member banks in other districts are heavily in debt, some reserve banks showing discounts as of November 20 in excess of one hundred million dollars. With this picture in mind, it would seem logical and desirable that any open market purchases made in System account in execution of the policy above referred to might better be made in those districts where discounts are heaviest. To the extent that this can be done it seems to us that it would be wise. It is probable, however, that most of the purchases in the execution of the program would have to be made in New York owing to the unavailability of securities in other markets. That would keep our member banks out of debt, leave them with funds over and lead them to reduce rates. That in turn would tend to force funds back into the interior as has been the case in the past two or three days, when very substantial transfers of funds have been made from New York to the interior. If and when that proceeds far enough, rates will again tighten up in New York. Our banks may be forced back into debt and then by the purchase of additional governments, they would be let out of debt, would find themselves with funds over and would repeat the process. Thus, by a gradual see-saw operation, we would be able to provide funds to the rest of the country with which discounts in other districts might be reduced. It is important, however, that we should not proceed so fast as to make funds in this or any market unnecessarily sloppy, but equally important that we proceed fast enough to avoid any tightening of rates that would unnecessarily check the seepage of funds to other districts.

I hope you will forgive the length and informality of this letter. There are so many variable factors in the situation that it is difficult definitely to prognosticate. At the moment, however, it seems to us that this is about the way a program of purchases would operate. In any event I should be very glad to have your views and reactions.

Very truly yours,

George L. Harrison,
Governor.

Hon. W. P. G. Harding,
Governor, Federal Reserve Bank,
Boston, Mass.

Enclosures (2).