

The Papers of Charles Hamlin (mss24661)

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Hamlin, Charles S., Scrap Book – Volume 233, FRBoard Members

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date August 6, 1941

To The Files

Subject: _____

From Mr. Coe

M.P.C.

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 233, of Mr. Hamlin's scrap book and placed in the Board's files:

VOLUME 233

- Page 21 - Open-market Policy Since 1929.
- Page 23 - Earnings & Expenses of F.R. Banks, September 1932.
- Page 25 - Discounted Bills Held by Each F.R. Bank and Total Bills and Securities Held by the System.
- Page 41 - Memo to the Federal Reserve Board re examination of the trust departments of the Continental Illinois Bank and Trust Company and the Continental National Bank and Trust Company as at the close of business October 6, 1932.
- Page 66 - Open Market Conference.
- Page 67 - Memo to Counsel's Office from Mr. Seitz re Granting of Trust Powers to National Banks.
- Page 69 - Memo to Mr. Hamlin from Mr. Goldenweiser re revenue bill.
- Page 71 - Data re Prices from Mr. Goldenweiser to Mr. Hamlin.
- Page 75 - Memo to Mr. Hamlin from Mr. Goldenweiser re Forecast of Harvard Economic Society Since June 1919.
- Page 76 - Memo to Mr. Hamlin from Mr. Riefler re Gold Movements compared with reserve requirements 1922-1929.
- Page 77 - Rulings on bankers acceptances. (Memo of Mr. Vest to Mr. Miller)
- Page 81 - Memo to Mr. Hamlin from Mr. Smead re Earnings, Expenses and Volume of Operations of F.R. Banks.
- Page 83 - Memo to Mr. Goldenweiser from Mr. Riefler re reductions in reserve requirements in recent years.
- Page 87 - (X-7197) Questions regarding application of provisions of National Economy Act to Federal Reserve Board.
- Page 88 - Proposed amendment to Section 13, F.R. Act.
- Page 89 - Discounts for Individuals and Corporations. (Tentative draft for discussion only)
- Page 91 - (X-7201) Proposed Circular re Discounts for Individuals, Partnerships, and Corporations.
- Page 95 - Memo from Mr. Hamlin to Mr. Morrill re changes in minutes of F.R. Board meeting.
- Page 99 - (X-7212) Federal Reserve Board Memo re Discounts for Individuals, Partnerships, and Corporations.
- Page 101 - Memo to Mr. Hamlin from Mr. Parry re new provision for individual loans.
- Page 109 - Data re Federal Reserve Direct Loans, by Districts.

Page 115 - Classification of paper discounted for individuals, partnerships, and corporations.

Page 119 - Memo of Mr. Burgess re sharing the work.

Page 121 - Memo to Mr. Morrill from Mr. Van Fossen re Direct Loans to Individuals, etc.

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Memo to Mr. Miller from Mr. Goldenweiser re Open Market Policy Since 1929.

Page 154 - Report on statements made about report of Committee on Bank Reserves.

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Administration of Clayton Act. (Wyatt to Board - Confidential)

25th draft of
M. B. ...
written down by Board, Oct 12, 1929

OPEN-MARKET POLICY SINCE 1929

Recent banking developments

During recent weeks reserve bank holdings of United States Government securities purchased in the open market have remained unchanged at the level reached early in August. Between June 15 and the end of September, however, reserve funds of member banks have been continuously increased from additions to the country's stock of monetary gold, amounting to \$275,000,000, through releases from earmarks and through imports. This has carried the total gold stock of the country to \$4,200,000,000 and the excess reserves of the Federal reserve banks to \$1,200,000,000. Since July 20 there has also been a return flow of currency from hoarding estimated at \$250,000,000. This estimate is based on the fact that the amount of money in circulation declined by \$130,000,000 at a time when it usually increases by more than \$100,000,000. Reserve funds have been increased also by the issue of \$100,000,000 of new national bank notes under the provisions of the recent law extending the circulation privilege to certain additional United States Government bonds. The inflow of funds to the member banks from all these sources has enabled them to reduce their indebtedness to the reserve banks by \$200,000,000 to the lowest level since October of last year and at the same time to increase their reserves in excess of legal requirements to approximately \$400,000,000. This growth in member bank reserve balances from the middle of July to the end of September has been accompanied by an upturn in total loans and investments of member banks in leading cities amounting to \$575,000,000, or 3 per cent. The increase has been in holdings of United States Government securities by banks throughout the country, offset in part by a continued decline in loans by banks outside New York City. Increase

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in the total of member bank credit has been reflected in a considerable growth of their demand and time deposits.

Review of three years

Credit developments since the break in the stock market in 1929 may be divided into five periods of unequal length and characterized by different conditions, particularly from the point of view of the reserve system's open-market policy and its effect on the credit situation. During the first two years, up to the middle of September, 1931, the reserve banks purchased \$590,000,000 of securities and in addition there was a growth in monetary stock of gold of \$640,000,000. Additions to the reserve funds of member banks from these two sources were absorbed to the extent of \$680,000,000 in a reduction of member bank indebtedness, and to the extent of \$340,000,000 in increased money in circulation. This increase in circulation was due in part to hoarding, but also to the increased demand for currency in localities where there was no banking services owing to suspensions and to an increased use of cash rather than checks due to the imposition by banks of service charges on small accounts. Member bank reserve balances consequently showed only a relatively slight increase of \$50,000,000 during this period notwithstanding the large purchases of securities and heavy gold imports. Loans and investments of member banks in leading cities declined by \$550,000,000 between the autumn of 1929 and the autumn of 1931.

The second period extends from the middle of September, 1931, when England suspended the gold standard, to the end of February of the present year. During this period there was a loss of \$660,000,000 of gold, and an increase of \$500,000,000 in currency for hoarding. This was a period of rapid decrease in

business activity, numerous bank failures and liquidation of bank credit. During the entire period loans and investments of reporting member banks decreased by \$2,500,000,000 and their deposits by \$3,300,000,000. In the six weeks following the British suspension of gold payments there was an outflow of gold from this country and a domestic currency drain, which caused the Federal reserve banks to advance the rates on discounts and on acceptances. The Reserve banks' portfolio of United States Government securities remained unchanged during this period. The outward movement of gold ceased in November but was resumed in January, (and there was a large volume of foreign balances in this market subject to withdrawal in gold on demand.) During this period the Federal reserve system made no change in its holdings of United States Government securities. Indebtedness of member banks increased between the middle of September and the end of February by \$570,000,000 and their reserve balances declined by \$540,000,000.

Between the end of February and the middle of June, which constitutes the third period, there was a further loss of gold of \$440,000,000. The effect of this loss on the reserve position of member banks was fully offset through purchases by the reserve banks of United States Government securities, which were made eligible as collateral for Federal reserve notes for one year by the Glass-Steagall Act passed on February 27. Such purchases during this period totaled \$950,000,000 and enabled the member banks, not only to meet the demand for gold, but also to reduce their indebtedness to the reserve banks by \$330,000,000 and to increase their reserves by \$220,000,000. This decline in member bank indebtedness and increase in their reserves at a time of liquidation of bank credit were factors in easing the banking situation which was also strengthened by the operations of the Reconstruction Finance Corporation. Liquidation of member bank credit, however, continued during this period, though at a much less rapid rate. Loans and investments of member banks in leading cities showed a decline of \$500,000,000 between the end of February and the middle of June, a large part of this decrease occurring during the month of March.

After the middle of June, when foreign balances in this country had been reduced to a low level through gold withdrawals and ordinary exchange transactions, there was a reversal in the direction of gold movements. Between June 15 and July 20, the fourth period, the country's stock of monetary gold increased by \$40,000,000. There was, however, an increase of hoarding owing largely to banking disturbances in Chicago, with the consequence that member bank reserves were reduced by \$70,000,000 and their indebtedness increased by \$40,000,000. During this period the reserve banks bought an additional \$140,000,000 of Government securities.

This brief review brings out the fact that from the autumn of 1929 to the middle of the present year funds put out into the money market by the reserve banks in the course of open market operations were in part absorbed by liquidation of member bank indebtedness at the reserve banks and in part by increases in the demand for gold from abroad and for currency for hoarding purposes at home. Notwithstanding the large volume of United States Government securities purchased by the reserve banks during the period, therefore, member bank reserve balances were considerably lower in July, 1932 than in September, 1929. During the past ten weeks, however, which may be considered the fifth period, in which the open market portfolio of the reserve banks has been maintained constant at a high level, the reserves of member banks have increased rapidly, reflecting a large inflow of gold and a return of currency from hoards, as well as additional issues of national bank notes. This growth in member bank reserves has been accompanied by an increase in the total volume of member bank credit.

A table summarizing developments for the five periods discussed in the preceding paragraphs is presented below:

BANKING DEVELOPMENTS, 1929-1932

(In millions of dollars)

Changes in--	Sept. 25, 1929 to Sept. 16, 1931	Sept. 16, 1931 to Feb. 24, 1932	Feb. 24, 1932 to June 15, 1932	June 15, 1932 to July 20, 1932	July 20, 1932 to Sept. 28, 1932
Reserve bank holdings of United States Government securities.....	+590	-2	+952	+144	+18
Discounts for member banks.	-681	+572	-339	+41	-198
Gold stock.....	+641	-665	-441	+43	+232
Money in circulation.....	+344	+505	-126	+269	-131
Reserve balances.....	+53	-540	+223	-66	+233
Loans and investments of reporting member banks..	-550	-2,526	-519	-754	+574
Net demand and time depos- its of these banks.....	+128	-3,343	+34	-448	+597

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Increase in gold stock

The increase of \$275,000,000 in the monetary gold stock of the United States between June 15 and the end of September restored to this country about one-fourth of the gold lost during the preceding nine months. This return of gold to the United States following upon large withdrawals has been in accordance with previous experience as is brought out by the chart which shows the monetary gold stock of the United States from 1919 to 1932.

(Insert chart)

There was a loss of gold from the end of 1919 to the spring of 1920, when Oriental and South American countries withdrew funds accumulated in this country during the war-time gold embargo. There was a loss again in 1925 following upon the withdrawal by the Reichsbank of a part of the proceeds of the Dawes loan which was floated for the purpose of strengthening the central bank's reserves. There was a large loss of gold from the autumn of 1927 to the middle of 1928 following upon extremely easy credit conditions in this country and the flotation of a large volume of foreign securities, and once more there was a big loss of gold between the autumn of 1931 and the summer of 1932, representing chiefly the withdrawal of balances by foreign central banks. In each of the earlier cases the withdrawal of gold, which was attributable to a special cause and represented chiefly the actions of central banks, was followed by a continuous increase in the country's gold which carried it to a new high level. This constant tendency for gold to flow to this country reflects the favorable balance of its payments with foreign countries, when both visible and invisible items are considered, and the fact that foreign nationals are inclined to view this country both as a safe place to keep their surplus funds and as a favorable place for making investments either in the form of balances or of long-term securities.

Decrease in hoarding

Another important factor in the situation has been the course of the demand for currency. The chart shows for the period from 1926 to date the amount of money in circulation, as officially defined, that is, money outside the United States Treasury and the reserve banks, with an adjustment for the estimated usual seasonal changes. From 1926 to 1929 demand for currency tended downward, chiefly because of increased use of checks, economy in the use of cash by banks, and a return of American currency from abroad. The increase in the middle of 1929 was due to a temporary growth in the demand for currency at the time the change was made from large-size to small-size bills. In 1930 the decline in currency reflected the reduction in payrolls and retail trade that characterized the depression up to that point. From the autumn of 1930 to the middle of this year, during a period when the demand for currency for payroll purposes and for retail trade continued to decline, there was a growth in money in circulation. This growth represented an increase chiefly in hoarding, though it was also affected to an indeterminable extent by an increase in the demand for cash in communities that were deprived of banking service owing to bank failures, and also by an increase in the use of cash in place of checks due to the imposition of service charges on small checking accounts at some banks and also in recent months to the new tax on checks. The increase in hoarding has not been continuous. There was an improvement in the early part of 1931 and again in the late autumn of that year after the National Credit Corporation was organized and bank failures became less numerous. A large return flow, amounting to about \$250,000,000, began last February when the Reconstruction Finance Corporation got under way. But

last summer the heavy loss of gold and the banking disturbances in Chicago and elsewhere once more led to increased hoarding which reached a maximum in the third week in July. Since July 20 there has been a decrease in money in circulation, when allowance is made for the usual seasonal movement, amounting to approximately \$250,000,000 for the ten week period. This decline in hoarding, marking as it does a reduction in the number of bank failures and a trend toward the restoration of confidence in banks, is the most important single indicator of the recent improvement in banking conditions.

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EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS, SEPTEMBER 1932

Federal Reserve Bank	Month of September 1932					September 1932				Jan. - Sept. 1932			
	Earnings from					Current expenses		Current net earnings		Current net earnings			
	Dis-counted bills	Pur-chased bills	U. S. secur-ities	Other sources	Total	Exclusive of cost of F.R. currency	Total	Total	Ratio to paid-in capital	Total	Ratio to paid-in capital	Less accrued dividends and net charges (current) to profit and loss	
									Per cent		Per cent		
Boston	\$46,842	\$9,078	\$155,386	\$1,056	\$212,362	\$143,857	\$152,912	\$59,450	6.7	\$326,261	9.7	\$308,733	
New York	176,097	39,655	1,108,751	22,742	1,347,245	523,909	529,958	817,287	16.9	7,492,362	16.8	4,961,742	
Philadelphia	164,180	12,461	207,800	14,306	398,747	151,999	165,026	233,721	17.7	2,439,597	20.0	1,741,435	
Cleveland	87,295	12,056	264,635	16,033	380,019	203,362	216,615	163,404	14.0	2,198,739	20.5	1,516,861	
Richmond	69,738	6,187	69,802	6,429	152,156	112,688	116,846	35,310	8.3	437,665	11.1	199,317	
Atlanta	80,396	4,607	69,876	4,939	159,818	97,148	100,125	59,693	15.0	672,752	18.2	449,328	
Chicago	61,305	16,104	317,418	22,658	417,485	271,750	276,580	140,905	10.1	1,925,350	14.8	1,950,106	
St. Louis	30,546	4,264	98,806	8,344	141,960	106,012	112,120	29,840	8.2	223,717	6.6	7,606	
Minneapolis	36,338	2,593	91,888	2,535	133,354	77,716	81,548	51,806	21.7	374,096	17.0	238,878	
Kansas City	54,277	3,462	84,819	23,458	166,016	130,985	134,777	31,239	9.4	368,698	12.0	176,610	
St. Paul	39,250	3,347	58,915	2,743	104,255	94,239	94,433	9,822	3.1	150,560	5.0	-35,050	
San Francisco	215,016	9,187	182,702	10,923	417,828	192,217	203,900	213,928	24.8	2,498,040	30.6	1,981,128	
TOTAL													
Sept. 1932	1,061,280	123,001	2,710,798	136,166	4,031,245	2,105,882	2,184,840	1,846,405	14.7				
Aug. 1932	1,284,044	129,864	2,753,662	199,155	4,366,725	2,133,807	2,340,309	2,026,416	15.6				
Sept. 1931	581,335	590,571	878,656	154,253	2,204,815	2,080,247	2,181,830	22,985	.2				
Jan.-Sept. 1932	15,283,878	2,420,545	19,571,174	2,008,668	39,284,265	18,808,255	19,676,428	19,607,837	16.8	19,607,837	16.8	13,496,694	
1931	4,183,588	2,441,234	9,203,843	1,418,782	17,247,447	19,090,461	20,254,244	-3,006,797	--	-3,006,797	--	-9,227,005	

DIVISION OF BANK OPERATIONS
FEDERAL RESERVE BOARD
OCTOBER 11, 1932.

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C O N F I D E N T I A L

For use of Federal Reserve Board only

Form B-139
(Formerly St. 3438)

DISCOUNTED BILLS HELD BY EACH FEDERAL RESERVE BANK AND TOTAL BILLS AND SECURITIES HELD BY THE SYSTEM
(In millions of dollars)

	Boston	N.Y.	Phila.	Cleve.	Rich.	Atla.	Chicago	St. Louis	Minn.	K.C.	Dallas	S.Fran.	S y s t e m			Total bills and securities#
													Discounted bills	Purchased bills	U. S. securities	
Daily average holdings																
<u>1931</u>																
January	*12	56	27	29	22	*23	*26	*12	4	17	5	*20	253	206	647	1,109
February	11	48	24	23	18	22	21	9	4	14	6	16	216	102	603	921
March	10	41	21	16	16	13	15	8	4	11	7	15	176	123	604	904
April	8	42	16	14	13	11	13	8	3	9	8	9	155	173	600	928
May	*11	*37	*18	*14	*16	11	*14	*7	4	*10	*8	*13	163	144	599	906
June	11	33	19	18	19	13	16	8	4	12	10	25	188	121	610	926
July	9	26	16	16	17	14	12	9	4	10	11	25	169	79	674	930
August	9	48	19	25	18	20	16	11		13	13	25	222	135	712	1,076
September	8	51	32	36	23	25	24	12	4	13	14	38	280	259	736	1,288
October	*17	*153	*89	*78	*35	38	*50	*18	6	*24	*21	*82	613	692	733	2,062
November	26	120	108	99	40	*51	70	26	7	34	23	90	695	560	727	2,014
December	47	168	117	111	39	52	87	27	8	30	18	71	774	340	777	1,922
<u>1932</u>																
January	47	188	119	124	*43	50	85	24	12	33	*15	88	828	221	759	1,842
February	40	*179	121	122	36	49	80	22	14	39	15	131	848	151	743	1,768
March	35	140	97	109	34	38	58	19	10	35	13	124	714	105	809	1,635
April	34	120	74	87	29	37	46	17	10	32	13	108	605	52	1,014	1,676
May	30	102	63	57	24	32	34	14	12	27	12	80	486	41	1,413	1,945
June	30	*104	66	52	25	34	*33	13	11	24	14	89	495	50	1,697	2,248
July	25	103	72	52	29	40	41	14	13	23	16	95	523	60	1,818	2,407
August	19	93	65	36	28	34	33	12	14	21	17	79	451	37	1,850	2,344
September	16	81	57	30	24	27	29	11	12	19	13	68	387	34	1,848	2,274

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*Discount rate charged. #Includes "other securities".

FEDERAL RESERVE BOARD, DIVISION OF BANK OPERATIONS

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MEMORANDUM TO THE
FEDERAL RESERVE BOARD
REGARDING THE EXAMINATION
OF THE TRUST DEPARTMENTS OF THE
CONTINENTAL ILLINOIS BANK AND TRUST COMPANY
AND THE
CONTINENTAL NATIONAL BANK AND TRUST COMPANY
AS AT THE CLOSE OF BUSINESS OCTOBER 6, 1932

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C O P Y

Chicago, Illinois,
October 12, 1932.

Federal Reserve Board,
Washington, D. C.

Gentlemen:

In accordance with instructions your examiner participated in the examination of the Trust Department of the Continental Illinois Bank & Trust Company of Chicago, conducted by the National bank examiners as at the close of business October 6, 1932. The examination included an examination of the Trust Department of the Continental National Bank & Trust Company as well, as the two trust departments are, to all practical purposes, operated as one department, due precaution, however, being taken in the case of trusts held by the latter institution to see that the legal requirements affecting trusts held by National banks are maintained.

The examination was conducted by Mr. H. F. Quinn, National Bank Examiner, with the assistance of two other representatives from the Chief National Bank Examiner's office, and a number of men from the examining force and operating department of the Chicago Clearing House, the number varying from six to fifteen. In addition, a number of men from the Auditing Department of the Continental Illinois Bank & Trust Company participated in the test check of securities held in trust accounts, their work being conducted under the supervision of a representative of the Clearing House and their participation resulted in a count of securities which would otherwise not have been counted. At no time did the number of such auditors exceed the number from the National bank examining force and the staff from the Clearing House engaged in this work.

As stated, the examination was conducted by Mr. Quinn as representative of the Comptroller's office and your examiner did not participate in any proof of accounts, his work being confined to questions of policy and operations in general.

Full cooperation was received from the examiner in charge, the scope of the examination which, due to the shortness of time allowed for the examination of an institution of this size was necessarily limited, was a subject of mutual discussion, and such suggestions as were offered were incorporated in the procedure. As matters developed during the course of the examination they were freely discussed with Mr. Quinn.

At the conclusion of the examination Mr. Quinn stated that, other than matters of investment policy which are discussed later, the examination had developed no matters of material criticism in the accounts other than those set forth in the report and which were corrected during the examination.

During the course of the examination Mr. Paulger, Chief of the Division of Examinations, and Mr. Drinnen, Federal Reserve Examiner, were advised as to the scope of the examination and as to developments.

SIZE OF THE TRUST DEPARTMENT

The Trust Department is reported to be the largest trust department in the City of Chicago. Statement of the number of accounts for both the state bank and the national bank is attached as Exhibit "A". Lists of the ten principal personal trusts and the ten principal corporate trusts are attached as Exhibit "B".

INVESTMENT PROCEDURE

Investment policies are determined by a Directors' Committee on Trust Investments which consists of six directors of the bank who meet weekly with three senior officers and a junior officer of the Trust Department. At the present time Mr. Stanley Field is Chairman of this Committee.

INVESTMENT PROCEDURE (continued)

Investments purchased for the various trusts are selected from a list of approved securities, which list is supervised by the senior officers and approved by the Directors' Committee. The list of approved securities, as constituted at present, is attached as Exhibit "C". A list of securities formerly on the approved list but since removed is attached as Exhibit "D". These issues receive constant scrutiny and review, as many of the securities are still held in various trusts although purchases have been discontinued.

Exhibit "E" consists of some selected issues of lower grade which are considered among the best in their price range and suitable for exchange for other issues selling at about the same price and whose future prospects are considered more dubious. The policy, however, does not permit the purchase of these bonds except from the proceeds of sale of low grade issues, the exchange being made in an effort to improve the account.

The Senior Officers' Committee which supervises the investment list includes officers of the banking department and the security affiliate, the Continental Illinois Company, and is composed of the following:

John E. Blunt, Vice President, Trust Department
Arthur H. Evans, "
Wm. P. Kopf, "
Frank F. Taylor, "
R. S. Drew, Second Vice President, Trust Department
N. B. Freer, "
W. R. Bennett, Head of Security Analysis Division,
Continental Illinois Bank & Trust Company and
Second Vice President, Continental Illinois Company,
E. D. Brooks, Second Vice President of the banking
department in charge of bank investments under
Mr. Abbott, Vice President, Continental Illinois
Bank & Trust Company who also frequently attends
committee meetings
R. L. Junod, Vice President, Continental Illinois Company.

4 The system adopted by the department about two years ago has been improved during the past year by providing for the review of each trust account and its holdings every six months, and more often in the case of probate accounts. The review is made by a sub-committee consisting

INVESTMENT PROCEDURE (continued)

of an administrative officer of the Trust Department and an investment adviser whose recommendation is then passed on to the Central Committee which consists of the sub-committee and, in addition, two senior Vice Presidents and two Second Vice Presidents of the Trust Department. Action of the Central Committee is final.

In cases of special problems the matter is referred either to the Senior Officers' Committee, above referred to, or to the Directors' Committee. A further review of trust accounts comes through the procedure of the Senior Officers' Committee, which considers various issues or investment problems by industries, and the holdings of the various trusts in the issues under consideration.

A reading of the minutes of the Directors' Committee on Trust Investments disclosed that the Committee discusses various issues, the status of various trusts, general questions of policy, as well as approving a record of purchases and sales for the week and reviewing typical trust accounts and the method of handling.

A review of the minutes of the various committees indicates that in many instances in cases where the Trust Department did not have full responsibility for the investment of the assets of the trusts, reports of the Investment Department regarding the issues held were forwarded to the donors, co-executors or co-trustees and, in some cases, to the principal beneficiaries.

A detailed statement of the investment procedure as prepared by an investment officer of the Trust Department is attached as Exhibit "F".

TRUST INVESTMENTS IN SECURITIES SPONSORED OR PUBLICLY
OFFERED BY THE BANK'S BOND DEPARTMENT OR SECURITY AFFILIATE

The report of examination as submitted by the National Bank Examiner includes a schedule of issues coming under this category. The issues were discussed in detail with an officer of the Investment Division of the Trust Department and in general with Mr. Blunt, Vice President in charge of investments. In response to the direct question both officers gave assurance that no issue had had its origin in the work-out of an open

line in the commercial banking department; that in no instance was the issue floated to "bail out" the bank.

INVESTMENTS IN COMPANIES IN WHICH ONE OR MORE
OF THE DIRECTORS OR OFFICERS OF THE BANK IS LARGELY INTERESTED

The report of examination as submitted by the National Bank Examiner includes a schedule of holdings of this class of securities. Based on an investigation of the principal issues in this group, the officers or directors concerned do not appear to have abused their trust.

PURCHASES OF TRUST INVESTMENTS FROM THE BANK
OR SECURITY AFFILIATE

Real estate mortgages have been purchased from the bank for the investment of trust funds. At the present time the total of such mortgages is reported as approximately \$50,500,000. It was definitely stated by responsible officers of the Trust Department and the Auditor that in no instance were securities for the investment of fiduciary funds purchased from the bank or the security affiliate. The limited test of invoices covering security purchases revealed no case where the purchase had been made from those sources.

INSULL ISSUES

A schedule of trust investments in these various issues is made a part of the report of examination as submitted by the National Bank Examiner. The securities of this class purchased by the Trust Department for the various accounts are mortgage bonds on the operating properties and the amounts purchased do not appear to be excessive. At the present time all of the securities in this group have a satisfactory rating and it is believed that the Trust Department is not deserving of criticism for these holdings.

Your examiner, however, concurs with Examiner Quinn in his criticism of the retention of a large number of stocks and junior securities of the Insull enterprises, especially of the holding companies, in trust accounts where the securities had been acquired by the Trust Department with the trust and for which the Department had no responsibility as to acquisition but have the right and discretion to dispose of the securities and invest

INSULL ISSUES (Continued)

the proceeds in a type of investment more fitting for trust accounts. It is recognized that it is easier to criticize these investments following the crash of the Insull interests than to foresee the developments while Insull was a potent force in the Nation as well as in this territory, but it is submitted that conservative trust investment policy would have called for a greater effort to dispose of this type of securities in accounts wherein the Trust Department had the right than was evidenced.

In conference with the senior officers of the Trust Department it was admitted that the attitude toward disposal of these issues was affected to some degree by consideration of the effect that their disposal would have on the market. This holding of Insull securities is the major criticism developed during the course of the examination.

AUDITING CONTROL

The auditing of the Trust Department accounts is under the control of the Central Auditing Department which audits the various departments of the

Continental Illinois Bank and Trust Company
Continental Illinois Company
Continental Illinois Bank Building
Continental Illinois Safe Deposit Company
Continental National Bank and Trust Company
Illinois Trust and Savings Bank
Merchants Loan and Trust Company

Reports are made to the Comptroller of the Continental Illinois Bank and Trust Company who in turn reports to the Board of Directors upon the results of the audit. The Comptroller, Mr. F. L. King, former National Bank Examiner, is, in addition to his other duties, the chief operating officer of the bank. The Audit Department consists of an Auditor, two Assistant Auditors, 63 audit clerks and 11 clerical assistants. Of these, 9 audit clerks are engaged continuously in the audit work of the Trust Department. During special audits they are assisted by other members of the Auditing Division.

AUDITING CONTROL (continued)

The present Auditor, Mr. W. M. Edens, formerly connected with the National bank examining force and the examining force of the Clearing House Association of Chicago, was appointed to his position January 1, 1932, which was subsequent to the Wolf episode when losses of several million dollars were sustained in security transactions of the banking department. At the time of his appointment the Auditing Division consisted of approximately 40 clerks. Since that time there has been a general reorganization and expansion of the Department and its activities as regards the work of the Trust Department have been increased. At the present time a continuous audit is maintained on certain phases of the Trust Department activities, and special examinations of various departments made at other times.

A staff of auditors is continually engaged in the count of securities held in the vault of the Trust Department. The program provides that during the course of a year the securities held in each group of accounts will have been counted and checked to the controls.

The Auditing Department is engaged in a comprehensive survey of trust department auditing procedure and has certain recommendations pending. A statement submitted by the Auditor of his activities is attached as Exhibit "G".

MANAGEMENT

Mr. D. R. Lewis, Vice President and nominal head of the Trust Department is a man approaching 80 years of age and is in semi-retirement, not active in the operations of the Department, and is expected to retire next year.

Mr. W. P. Kopf, Vice President, is a man of 65 years of age, has relinquished many of his duties and serves, in the main, in a general advisory capacity.

MANAGEMENT (continued)

Both Mr. Lewis and Mr. Kopf were associated with the Continental National Bank and Trust Company prior to the merger with the Illinois Merchants Trust Company.

The active head of the Department is Mr. Frank F. Taylor, Vice President, formerly head of the Trust Department of the Illinois Merchants Trust Company.

Mr. J. E. Blunt, Vice President, is head of the Investment Division of the Trust Department. Formerly connected with the Merchants Loan and Trust Company and later with the Illinois Merchants Trust Company; he was Vice President of the banking department of the Continental Illinois Bank and Trust Company until September, 1930, when he moved over to the Trust Department to take charge of the Investment Division.

Mr. Arthur H. Evans, Vice President, formerly a senior officer of the Trust Department of the Continental National Bank and Trust Company, serves in a general executive capacity and handles certain special situations.

Mr. R. M. Kimball, second Vice President and Secretary, is in charge of the operations of the Department under Mr. Taylor and represents Mr. King, the Comptroller of the bank.

CONCLUSION

As stated previously, the major criticism developed during the course of the examination was the failure to dispose of the weaker Insull issues which had been acquired by the Trust Department in the various trust accounts, although the Trust Department was not responsible for the purchase.

Insofar as could be determined the investment policy as regards the purchase of securities for trust accounts was reasonably conservative in the light of the times.

It was evident that during the past year or so there has been a general tightening up in the Department, one evidence of which is the introduction of and improvement in the system of reviewing the investment

CONCLUSION (continued)

holdings permitting a more frequent review of the holdings of the various accounts. In October, 1931, the Directors' Committee on Trust Investments was established in its present form and assumed the duties previously outlined.

While unable to quote any individual officer directly to that effect, your examiner is of the opinion that this tightening up of the Department and the adoption of a more conservative policy is due, to quite an extent, to the waning of the influence of the Continental group in the management of the Trust Department, leaving the policies and the management more completely in the hands of the men formerly associated with the Illinois Merchants Bank and Trust Company.

At the presentation of the report on the morning of October 12, 1932, in the office of Mr. Leyburn, Chief National Bank Examiner, there were present the chief officers of the Trust Department, Mr. Leyburn, Mr. Paulger, Mr. Drinnen, Mr. Quinn, and the undersigned.

Respectfully,

(Signed) R. F. Leonard

Federal Reserve Examiner.

STATEMENT OF ACCOUNTS
AS OF
SEPTEMBER 30, 1932

	<u>Total</u>	<u>State</u>	<u>National</u>
<u>Estate Administration</u>			
Administrator	44	44	0
Conservator	150	148	2
Depository	9	9	0
Executor	213	206	7
Guardian	89	89	0
Under Court Order	<u>37</u>	<u>37</u>	<u>0</u>
	542	533	9
<u>Agency and Custody</u>			
Agency	542	542	00
Custody	761	761	0
Depository	366	366	0
Escrow	180	180	0
Safekeeping	2,478	2,478	0
C-Custodian	<u>270</u>	<u>270</u>	<u>0</u>
	4,597	4,597	0
<u>Personal Trust</u>			
Under Agreement	925	810	115
Under Will	824	716	108
Insurance Trust	<u>627</u>	<u>626</u>	<u>1</u>
	2,376	2,152	224
<u>Corporate</u>			
Corporate Depository	409	409	0
Corporate Trusteeship	<u>926</u>	<u>448</u>	<u>478</u>
	1,335	857	478
<u>Coupon</u>			
Coupon Paying Agent	320	320	0
Municipal Coupon Paying Agent	1,784	1,784	0
Trustee Coupon Paying Agent	675	675	0
Non-Withholding Agent	467	467	0
Withholding Agent	<u>450</u>	<u>450</u>	<u>0</u>
	3,696	3,696	0
<u>Stock Transfer</u>			
Registrar	222	222	0
Issues	(384)	(384)	0
Transfer Agent	152	152	0
Issues	(238)	(238)	0
Dividend Disbursing Agent	<u>11</u>	<u>11</u>	<u>0</u>
	385	385	0
General	<u>227</u>	<u>227</u>	<u>0</u>
TOTALS	<u><u>13,158</u></u>	<u><u>12,447</u></u>	<u><u>711</u></u>

PRIVATE TRUSTS

ESTATE OF MARSHALL FIELD - TRUST UNDER WILL

AMOUNT OF TRUST

Trustee U/Art. 4	Account No. 218	\$ 958,040.08
Trustee U/Art. 7	2382	4,333,487.41
Trustee U/Art. 10	236	1,017,336.16

The Bank is sole Trustee on the above accounts.

Trustee for Accum. Income Fund	Account No. 6708	29,912,900.00
Trustee for Non-Cumulative Fund	Account No. 6710	7,221,600.00
Trustee for Residuary	Account No. 6709	22,573,000.00

There are three Trustees on the above accounts:

The Bank
George Richardson
Marshall Field

ESTATE OF RICHARD T. CRANE, JR. - EXECUTOR NO. 24581

25,239,475.77

Co-Executors

The Bank
Cornelius Crane
John K. Prentice
Walter Evensen

ESTATE OF STANLEY R. McCORMICK - CONSERVATOR 10482

35,390,711.83

Co-Conservators

The Bank
Harold F. McCormick
Katharine D. McCormick

HELEN SHEDD REED - TRUST UNDER AGREEMENT NO. 2277

19,191,259.11

Co-Trustees Under Agreement

The Bank
Helen Shedd Reed
Laura A. Shedd Schweppe

LAURA A. SHEDD SCHWEPPE - TRUST UNDER AGREEMENT NO. 2284

19,191,263.96

Co-Trustees Under Agreement

The Bank
Laura A. Shedd Schweppe
Helen Shedd Reed

ESTATE OF DELLORA R. GATES - TRUST UNDER WILL NO. 4093

11,653,570.54

Co-Trustees Under Will

The Bank
A. L. Humes

JOHN W. AND GUSTAVA ANDERSON - TRUSTEE UNDER AGREEMENT

13,528,929.73

Accounts Nos. 23898
23899
2112
2113

The Bank is sole Trustee on the four above accounts.

EXHIBIT "B"

PRIVATE TRUSTS

Page Two.

	<u>AMOUNT OF TRUST</u>
<u>PHILIP M. CHANCELLOR - TRUST UNDER AGREEMENT NO. 6730</u>	\$ 8,217,448.75
<u>Co-Trustees Under Agreement</u>	
The Bank	
Philip S. Chancellor	
Philip M. Chancellor	
<u>FRANK G. LOGAN - TRUST UNDER AGREEMENT NO. 38</u>	9,665,492.93
<u>Co-Trustees Under Agreement</u>	
The Bank	
Stuart Logan	
Josie H. Logan	
<u>EDWARD M. JOHNSON, SR. TRUST UNDER AGREEMENT NO. 4836</u>	5,424,351.61
<u>Co-Trustees Under Agreement</u>	
Edward M. Johnson, Sr.	
Lambert D. Johnson	
The Bank	

All trusts held by the Continental Illinois Bank & Trust Co.

EXHIBIT "B"

CORPORATE TRUSTEE ACCOUNTS

<u>ISSUE</u>	<u>ACCOUNT NO.</u>	<u>AMOUNT</u>
* Armour & Co. of Delaware	9496	\$ 48,038,400.
S Central Illinois Public SA	Co. 2247	Ser.E \$8,297,000.
		F 29,000,000.
		G 14,500,000.
		H 3,200,000.
		I 1,500,000.
		56,497,000.
S Chicago & Alton Railroad Company	2138	45,350,000.
S Chicago Union Traction Company	2127	Ser.A 30,850,000
		B 13,150,000
		C 16,000,000
		60,000,000.
S Chicago & Western Indiana R.R. Co.		50,000,000
S Commonwealth Edison Company	2157	Ser.A 15,000,000
		B 15,000,000
		C 15,000,000
		D 15,000,000
		E 12,000,000
		F 85,000,000
		G 18,000,000
		175,000,000
N Kansas City Power & Light Co.	2726	Ser.B 8,000,000
N " " " " of 1961	2120	35,250,000
		41,250,000
N Oklahoma Gas & Electric Co.	9686	Ser.A
		34,500,000
N Public Service Co. of Northern Illinois		Ser.C 8,250,000
		D 11,284,000
		E 15,000,000
		F 40,000,000
		G 18,000,000
		H 131,000
		94,534,000
S Texas Corporation	19727	100,000,000

Trusts held by the Continental Illinois Bank & Trust Co. marked "S".

Trusts held by the Continental National Bank & Trust Co. marked "N".

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EXHIBIT "B"

See Na

OPEN MARKET CONFERENCE.

1931, December 2:

Voted to purchase up to 200 millions, the same to be sold after the end of the year. Unanimous.

1932, January 11 and 12:

Voted to purchase not exceeding 200 millions. The Executive Committee to approve purchases.

Three adverse votes: - Gov. Seay, Gov. McDougal, and Deputy Governor Day of San Francisco. Gov. Young was not present.

1932, February 24:

Voted to purchase up to 250 millions at the rate of 25 millions per week. Unanimous.

1932, April 12:

Voted to purchase up to 500 millions in addition to the 100 millions already authorized but not yet invested. Gov. Young alone voted No. Gov. McDougal voted Aye.

1932, May 17:

Voted to purchase up to a further amount of 500 millions, the extent and amount to be determined by the Executive Committee. Gov. Young and Gov. McDougal voted No.

666

Seitz

December 13, 1928.

Files of Counsel's Office.

Granting of Trust Powers to

Mr. Seitz.

National Banks.

ACTION TAKEN BY GOVERNORS' CONFERENCE.

In connection with this question Governor Young submitted a memorandum to the November 1928 Conference of Federal Reserve Bank Governors, which was addressed by him to the Federal Reserve Board under date of November 3, 1928 (X-6172), relative to the procedure and principles applicable to the consideration and approval of applications of national banks for permission to exercise trust powers. He said he would appreciate having the reaction of the Conference with respect to this memorandum before its final preparation. (Paragraph 7, Secretary's Minutes of Governors' Conference)

At the meeting of the Conference held on November 14, 1928, after reading and discussing this memorandum it was, upon motion of Governor Seay, VOTED to be the sense of the conference that Governor Young should be informed that the reaction of the conference to the proposed memorandum was a favorable one. (Paragraph 19, Secretary's Minutes of Governors' Conference)

ACTION TAKEN BY AGENTS' CONFERENCE.

At the November 1928 Conference of Federal Reserve Agents Governor Young's memorandum and attached statement of the Board's Counsel were fully discussed. On motion, duly made and seconded, it was VOTED to concur in the statements therein contained.

As the granting of fiduciary powers by the Board at the time of issuance of the charter by the Comptroller places added responsibility on the Board, emphasis was laid on the importance of the following recommendation of this Conference last year: "The Committee recommends to the Federal Reserve Board that when the time is opportune the Federal Reserve Act should be amended to provide that before any new national bank charters are granted, the applications should be submitted to the Federal Reserve Board for review and determination. This recommendation is made in view of the fact that all national banks, when chartered, automatically become members of the Federal Reserve System."

In considering the memorandum, the examination of trust departments was also discussed. It was the consensus of opinion that the same care should be given to the examination of trust departments as is given to other departments of a bank. (Paragraph 12, Secretary's Minutes of Agents' Conference)

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ACTION TAKEN BY BOARD.

Under date of December 6, 1928, Governor Young addressed a letter (X-6191a) to Mr. Harrison, Secretary of the Governors' Conference,

MS

in which he stated that the Board noted that the Conference was favorably inclined to the suggestions contained in the memorandum above mentioned but is not prepared, however, immediately to take definite action with respect thereto. Governor Young also stated that the Board would advise all Federal reserve banks in due course on whatever action is taken.



SES:WLH

COPY

FEDERAL RESERVE BOARD

X-6172

November 3, 1928

To Federal Reserve Board

From Governor Young

In view of the recent developments in reference to the granting of fiduciary powers, wherein the Board may be in the embarrassing position of having granted fiduciary powers to one institution in one district and almost simultaneously considering the refusal of the application of another national bank in another district surrounded by the same circumstances and conditions, I believe it is time for the Board to review the whole matter and lay down certain definite principles regarding the granting of fiduciary powers.

Briefly, the law states that national banks may exercise trust powers if not in contravention of State law, when so authorized and empowered by the Federal Reserve Board. The law is specific about many legal requirements, and with these the Board and the banks have had no difficulty because we have been able to be specific. The law also states, however, that the Board, in granting permission to exercise trust powers, may take into consideration the amount of capital and surplus of the applying bank, the needs of the community to be served, and any other facts and circumstances that seem to it proper. This is the discretionary part of the law. Just what is meant by it may be debated. The history of the legislation, however, leads me to believe that Congress intended to give to national banks, rights equal to those enjoyed by State banks. When the law specifically mentioned capital it obviously placed discretion with the Board as to whether or not a national bank with a capital of \$100,000, located in a community of two hundred thousand or more inhabitants, should be granted fiduciary powers. Also, it obviously left discretion with the Federal Reserve Board as to whether or not a national bank with a capital of \$25,000 in any community is entitled to fiduciary powers.

Past majority performance of the Federal Reserve Board has demonstrated conclusively to me that capital has been given little if any consideration by the Board and I believe it acted wisely, because if we assume that capital requirements of national banks are sufficient under existing law to meet the needs of the business of the bank and of the community, and recognize the fact demonstrated by information in our possession that in the great majority of cases national banks voluntarily increase their capital as their business expands, we must arrive at the conclusion that the capital requirements as established by the National Bank Act are sufficient for the exercise of fiduciary powers, and if they become insufficient the national banks voluntarily will increase their capital with the growth of their business.

The law is also specific in stating that the Board shall take into consideration the needs of the community to be served. Outside of a few isolated and crossroad communities in the United States, the need, in my opinion, exists in every community; in fact, the right to exercise fiduciary powers is one of the most valuable assets that can be acquired by any banking institution if it expects to continue in business. The national banks of America have not been thoroughly awakened to the possibilities of future profits from this business. Sooner or later they will discover it, and I am going to venture the prediction that within the next ten years fiduciary functions will be a house-to-house canvass with the strongest

competition between all banks that are permitted to exercise trust functions. In other words, not at the moment but in the years to come, trust business is going to be a source of profit for banks which, in periods of depression will contribute very materially toward their successful existence as well as being a safeguard to depositors and a possible factor for the continuation of our independent unit banking system which is rapidly slipping.

The law also states that the Board can take into consideration any other facts and circumstances that seem to it proper. When I was in Minneapolis my interpretation of this part of the law was that if a bank was properly conducted or if it got into difficulties and because of the resourcefulness of its management was able to put itself in good condition, it was entitled to everything Congress intended to give it. That was about all the consideration I did give to the application because I assumed that Congress intended that national banks should be granted fiduciary powers under such conditions.

I have since learned that some people associated with the Federal Reserve System feel that the exercise of trust powers is of far more importance than the exercise of the ordinary banking powers. In one way there is strength in their argument, but from a practical standpoint, experience has taught me that when a bank is performing both banking and trust functions, the combined institution will fail quicker because of its banking mistakes than it will because of mistakes in its trust functions. This is because there are no limits as to how a bank can lend its money except the amount it may lend upon real estate security or the amount it may lend to any one person, firm or corporation, while the investment of trust funds, in the great majority of cases, is safeguarded by wills, deeds of trust, State laws, court orders, etc. If fraud, embezzlement, or other criminal acts are to be taken into consideration, it seems to me that with the surveillance exercised over national banks, the opportunities for culpable acts are greater in the banking department than they are in the trust department.

In the case of new banks applying for fiduciary powers so that they can open their doors under the title of, "_____ Bank and Trust Company", I believe any bank that is entitled to banking powers is also entitled to trust powers. Others feel that in the majority of cases the organizers of new banks should demonstrate their ability to successfully conduct a banking business before fiduciary powers are granted. I take the position that if an organizing bank requests fiduciary powers at the start, if there is anything in the picture that would prompt the Board to refuse such powers, the reasons for the refusal should apply just as strongly to the application for banking powers.

I have therefore arrived at the conclusion that it should be the policy of the Board to grant fiduciary powers in every case where its appointed agent has recommended the granting of banking powers and where the Board is satisfied that the applying institution is entitled to banking powers. With existing banks I believe powers should be granted in all cases upon application where the report of examination discloses a well-managed institution and the information received from other sources leads the Board to believe that there is no question of the applicant's honesty and integrity.

November 5, 1928.

To Governor Young
From Mr. Wyatt- General Counsel

SUBJECT: Granting of trust powers to
new national banks.

You have asked me to give you a memorandum of my views with regard to the Board's general policy of waiting a year after the organization of a new national bank before granting trust powers to it.

In my opinion, this policy is contrary to the policy of Congress in granting trust powers to national banks.

The purpose of Congress in granting trust powers to national banks was to preserve the existence of the National Banking System by enabling national banks to meet the competition of State banks and trust companies which had the advantage of being able to combine the exercise of trust powers with the exercise of ordinary commercial banking powers. Whether this was sound in theory or not is immaterial. Congress was confronted with a situation and adopted this means of meeting it. National banks were converting into State banks in order to engage in the trust business and persons organizing new banks were taking State charters instead of national charters in order to be able to combine the exercise of trust powers with the commercial banking business.

In order to meet this situation, Congress authorized the Federal Reserve Board to grant trust powers to national banks under certain conditions. The conditions prescribed were intended principally to enable national banks to exercise trust powers on a basis of substantial equality with competing corporations exercising such powers.

This purpose is defeated to a certain extent by the Board's policy of requiring newly organized national banks to wait a year after their organization before obtaining trust powers. Under the Board's present policy, persons desiring to organize a new institution to exercise both banking and trust functions can obtain a State charter and immediately embark upon the exercise of both functions; but if they take a national charter they must wait a year before they can exercise their trust functions. The natural result of this policy is to cause such persons to select a State charter instead of a national charter; and this defeats the purpose which Congress had in mind when it granted trust powers to national banks. It encourages the organization of State banks and trust companies in lieu of national banks.

This memorandum was prepared very hastily, because you asked me this morning to let you have it in time for today's Board meeting; but it contains a concise expression of my views on this matter.

Respectfully,

Walter Wyatt,
General Counsel.

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Office Correspondence

FEDERAL RESERVE
BOARD

See Mem

Date May 27, 1932

To Mr. Hamlin

Subject: _____

From Mr. Goldenweiser

GGW

2-8495

I am sending you a memorandum from Mr. Riefler which compares the revenue bill presented by the Senate Finance Committee with one that would come closer to meeting your suggestions. A revenue bill, such as is presented on page two, including a sales tax aggregating \$340,000,000 (manufacturers sales tax, plus tax on telephones and telegraphs and on transportation) will yield a revenue of \$1,048,000,000, and leave a deficit of \$193,000,000, which could, according to your suggestion, be covered by an increase in the public debt. If you wanted to provide for a larger increase in the public debt you could presumably accomplish that by lowering income taxes.

669

Office Correspondence

FEDERAL RESERVE
BOARD

Date May 27, 1932

To Mr. Goldenweiser

Subject:

From Mr. Riefler

... 2-8495

The revenue bill introduced by the Senate Finance Committee proposes to raise additional sums as follows:

Income taxes	
Individual	‡ 155,000,000
Corporate	52,000,000
Administrative changes	80,000,000
Gift tax	5,000,000
Manufacturers' excise taxes	277,500,000
Miscellaneous taxes	
Telephone and telegraph	24,000,000
Other miscellaneous taxes	256,000,000
Increased postage	160,000,000
	<hr/>
	‡1,009,500,000

It should be noted that the total to be raised by special manufacturers' excise taxes amounts to ‡277,500,000. According to Mr. Stark a general manufacturers' sales tax at only one per cent, calculated to eliminate pyramiding but without special exemptions would yield ‡290,000,000 or somewhat more than this amount. If this same rate were extended to apply to the telephone and telegraph industries the yield would be ‡305,000,000 as compared with a total yield of ‡301,500,000 in the present Senate bill from special excise taxes and taxes on telephone and telegraph messages combined. A one per cent general sales tax, therefore, would yield somewhat more than the special sales taxes contained in the Senate bill. If the one per cent rate were extended to transportation, the yield would be increased by ‡35,000,000 more.

The following table indicates the total increased revenue which would be produced by these substitutions:

Income taxes		
Individual	\$	155,000,000
Corporate		52,000,000
Administrative changes ^{1/}		80,000,000
Gift tax		5,000,000
1 per cent manufacturers' sales tax excluding pyramiding but with no exemptions		290,000,000
1 per cent sales tax on telephone and telegraph		15,000,000
1 per cent sales tax on transportation		35,000,000
Miscellaneous taxes as now proposed excluding tax on telephone and telegraph messages		256,000,000
Increased postage		160,000,000
		\$ 1,048,000,000

The amount of increased revenue required to balance the budget according to the Senate Committee's report is \$1,241,000,000, which the Committee proposed to meet by additional revenues to the extent of \$1,009,500,000 and economies of \$231,500,000. Under the alternative plan outlined above, increased revenue would amount to \$1,048,000,000 leaving \$193,000,000 to be covered by economies or by a moderate increase in the public debt.

^{1/} The increased revenue produced by the proposed "administrative changes" in the income tax is produced by limiting the extent to which capital losses can be deducted from current income in computing taxable income. During the last three years, wash sales to register losses for income tax purposes have materially reduced the yield of the income tax.

669

Mr. Hamilton
from
Edg.

See 120

June 8, 1932

PRICES

1. Reason for decline

Not caused by dearth of credit or money.

Real cause over-production of many raw materials and some finished products, falling off in demand, and lack of confidence.

2. If confidence should be resumed and business start up again, would prices necessarily rise?

The general reduction in wages which has taken place over the country will so reduce costs as probably to keep prices down, though not at their present low level.

3. Would not this same burden be imposed on all debtors, not only farmers, but business men, railroads, etc.?

Yes.

4. The system has been criticized for buying foreign acceptances, and for encouraging gold exports in 1927 by lowered discount rates.

Did not this rate policy and these purchases help the purchasing power of Europe, and enable a greater volume of our products to be sold?

Yes.

5. Is it not probable that if we had the power at once to increase general prices to the 1926 level, that the gain of the farmer would be relatively much slower than that, e.g., of manufacturers' products, so that the farmer would be worse off than he is now?

Yes, because raw materials are world commodities and subject to world influences to a larger degree than manufactured goods.

6. If the normal level of average prices turns out to be the 1913 level, will not that, in the long run, necessitate a reorganization of railroads, business, etc.?

It will require a readjustment all along the line, many bankruptcies and changes in ownership.

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7. Are recent gold exports a cause for anxiety?

No, because we have enough gold to withstand anything, except gold hoarding by Americans, or a flight of American capital.

8. How much due to distrust of our currency and how much to other causes?

For the most part due to conditions abroad and the necessity of bolstering up the reserve position of foreign central banks.

9. Changes in the price level are harmful largely because of the lags between the movements of wholesale prices, retail prices, wages, services, and debts. If changes were simultaneous and universal they would be simply a matter of bookkeeping.
10. Because of the lags price changes result in a redistribution of wealth and income, and often in the dissipation of savings and capital.
11. Great movements of prices are always the result of war -- which is invariably accompanied by inflation and by maladjustment of productive plant.
12. Availability of credit in amounts adequate to finance trade and industry is essential to the maintenance of a price level, but the existence of credit alone cannot assure such maintenance. There are too many factors involved that are not responsive to changes in the volume of credit.

Office Correspondence

FEDERAL RESERVE
BOARD

Date June 6, 1932

To _____

Subject: _____

From _____

2-8405

PRICES.

1. Reason for decline.

Not caused by dearth of credit or money.
Real cause falling off in demand, and lack of confidence.

2. If confidence should be resumed and business start up again, would prices necessarily rise?

The general reduction in wages which has taken place over the country will so reduce costs as probably to keep prices down approximately to the present level.

3. With reduced wages, it seems probable that the 1913 level will be the normal level.

Assuming that the burden of the farmer to pay, e.g. a debt contracted years ago, has been heavily increased by the fall of prices, is it not true that the mortgage creditor gets no extra purchasing power by the payment of this pre-existing debt? Or, *for* measured in commodities, it would take a larger number to buy the same amount of other commodities.

4. Would not this same burden be imposed on all debtors, not only farmers, but business men, railroads, etc.?

5. The System has been criticised for buying foreign acceptances, and for encouraging gold exports in 1927 by lowered discount rates.

Did not this rate policy and these purchases help the purchasing power of Europe, and enable a greater volume of our products to be sold?

6. Is it not probable that if we had the power at once to increase general prices to the 1926 level, that the gain of the farmer would be relatively much slower than that, e.g. of manufacturers' products, so that the farmer would be worse off than he is now?

Office Correspondence

7. If the normal level of average prices turns out to be the 1913 level, will not that, in the long run, necessitate a reorganization of railroads, business, etc.?

8. are present gold exports a cause
for anxiety?

9. How much due to distrust of
our currency and how much
to other causes?

Office Correspondence

FEDERAL RESERVE
BOARD

Date June 4, 1932

To Mr. Hamlin

Subject:

From Mr. Goldenweiser *GG*

2-8495

I agree with you that if you consider the period between 1922 and 1928 as a whole it was the inflow of gold rather than expansion of reserve bank credit that furnished the basis for the expansion of member bank reserve balances and the growth of member bank credit based on these balances. It might have been possible for the reserve banks to decrease their credit during this period and thereby to offset in part the effect of gold imports, but the rapidity with which gold moved to this country during the periods when the reserve banks pursued such a policy, and the limited amount of securities available for sale, raise serious doubts as to the possibilities of success.

It is true, however, that member bank credit expanded most rapidly during and immediately following those periods between 1922 and 1928 when the reserve banks through lower discount rates and purchases of United States securities in the open market were pursuing a policy of easing the money market and expanding the volume of reserve bank credit in use.

My own feeling is that, while reserve bank policy was probably an important factor in timing the expansion of member bank credit and that a different policy might have been reflected in a more rapid growth of member bank credit in 1923 and in 1926 instead of in 1922, 1924, 1925, and 1927, but that the total expansion for the period as a whole would probably have been the same regardless of the system's credit policy.

The report of the Committee on Bank Reserves called attention to the progressive decrease in the effective reserve requirements of member banks as one ~~of~~ important factor in this situation, when it stated on page nine:

"While war financing and the huge inflow of gold which followed the war constituted the immediate driving force back of much of this expansion (of member bank deposits) it was facilitated by a progressive reduction in effective member bank requirements for reserves. --- It is clear, consequently, that the large expansion in member bank credit since 1914 has been facilitated by a progressive diminution in reserve requirements (since 1914) as well as by large gold imports. Without this diminution member banks would have needed in order to expand their credit to its present volume additional reserve bank credit to the extent of \$1,500,000,000. By applying to the reserve banks for this additional credit, the member banks would have correspondingly increased the effectiveness of reserve bank credit policy."

This statement applies to the whole period between 1914 and 1931, but is as true of conditions between 1922 and 1928 as it is of those during the war. Between 1922 and 1928, the demand for additional reserve bank credit was diminished, because of a progressive diminution in the proportion of vault cash which member banks held in relation to their deposit liabilities, and also because of the rapid relative increase in their time deposits during this period. If the reserve proposals formulated by the Committee on Bank Reserves had been in effect during this period, gold imports would not have been sufficient to provide the reserves for the expansion in member bank credit which actually occurred, and member banks would not have been able to expand their credit at the rate they did without coming to the reserve banks for a materially increased volume of discounts. This important factor in the situation is entirely overlooked in the report of the Banking and Currency Committee of the Chamber of Commerce.

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Office Correspondence

FEDERAL RESERVE
BOARD

Date June 9, 1932

To Mr. Hamlin

Subject: Forecast of Harvard Economic

From Mr. Goldenweiser

Society Since June, 1919

2-8493

According to a study made by Garfield V. Cox of the University of Chicago called "An Appraisal of American Business Forecasts," the Harvard system of forecasting is based primarily upon a fairly dependable sequence in the major fluctuations of credit, stock prices, and general business activity. Two major difficulties were encountered in the interpretation of the Harvard three curve sequence chart for the pre-war period 1903-1914. The first was that the speculative curve frequently made false starts of from two to four months, which were in some cases reinforced during at least a part of their course by an opposite movement of the money curve. There was no graphic method of distinguishing these from the significant movements until months after they were over, so that the chart actually proved a much less satisfactory forecaster than a superficial glance in retrospect at the broader contours. The other difficulty was that, although the chart never failed to predict a major turn in business, the interval between the warning and the event varied all the way from one month for the revival of 1905 to nine months for the revival of 1911 and the decline of 1907. The post-war chart presented exactly the same difficulties--false indications later reversed and wide irregularity of intervals between valid predictions and the subsequent event. These problems rendered it not only wise but necessary for the Harvard people to use supplemental material as a basis of interpretation.

This supplemental material is designed to assist in distinguishing temporary and inconsequential fluctuations in the speculative and money

curves from movements of forecast significance, to help to approximate more closely the time and extent of an indicated change in business, and to anticipate minor industrial cycles such as are not foreshadowed by the index chart. Much attention has been devoted to the open-market activities and discount policy of the Federal Reserve Board, to the international flow of gold, and to European fiscal and banking policies. The relation between the rate of production of basic commodities and that for consumers' goods, and the strength and weakness of prices of basic materials are factors closely studied.

Comparative forecasts

On the basis of the Cox study the Harvard forecasts certainly cannot be considered as particularly reliable. The Cox study of six forecasting services shows that on the basis of adequacy, which takes into consideration the direction of the movement forecast, its amplitude and the expected time of occurrence, the Harvard forecasts for the period from June, 1919 to October, 1929 rank third as shown from the following table:

Service	Monthly average score for adequacy of forecast
	November, 1918-October, 1929 (1.00 = perfect score)
Standard Statistics Company.....	*0.52
Babson Statistical Organization.....	0.46
Harvard Economic Service.....	*0.31
Brookmire Economic Service.....	0.31
National City Bank.....	0.24
Moody's Investors Service.....	0.23

* Standard Statistics began forecasting in January, 1921 and Harvard in June, 1919.

However, on the basis of forecasting a turn in business, the Harvard Service shows the lowest score of any of the six services as shown from the following table:

Monthly Average Score of Each Service for Each Period
(1.00 = perfect score)

	Brook- mire	Stan- dard	Bab- son's	Moody's	National City Bank	Harvard
1919 upturn.....	0.04		0.17	-0.21	0.17	0.10
1920 downturn.....	0.46		0.44	0.16	0.08	0.25
1921 upturn.....	0.37	0.31	0.22	0.34	0.12	0.35
1923 downturn.....	-0.26	0.00	0.09	0.32	-0.09	-0.35
1924 upturn.....	0.05	0.12	0.06	0.55	0.11	0.11
1927 downturn.....	0.18	0.27	0.12	0.13	0.03	-0.02
1927-1928 upturn.....	0.37	0.32	0.13	-0.04	0.26	0.15
1929 downturn.....	0.30	0.09	0.05	0.06	0.08	-0.02
Monthly average score for eight major turns since 1918	0.19	*0.18	0.16	0.16	0.09	0.07

* Based on six major turns since January, 1921.

In the eight major turns in business since 1918 the Harvard Service called the turn only twice, were slightly helpful three times, neutral twice, and were actually misleading in their forecast for the 1923 downturn in business. The following table which is based upon the two tables given above, shows the success or failure of the six different services in predicting major turning points in business activity:

	Brook- mire	Stan- dard*	Bab- son's	Moody's	National City	Harvard
1919 upturn.....	Neutral		Slightly helpful	Slightly mis- leading	Slightly helpful	Slightly helpful
1920 downturn.....	Helpful		Helpful	Slightly helpful	Slightly helpful	Helpful
1921 upturn.....	Helpful	Helpful	Slightly helpful	Helpful	Slightly helpful	Helpful
1923 downturn.....	Mis- leading	Neutral	Slightly helpful	Helpful	Slightly mis- leading	Mis- leading
1924 upturn.....	Slightly helpful	Slightly helpful	Slightly helpful	Helpful	Slightly helpful	Slightly helpful
1927 downturn.....	Slightly helpful	Helpful	Slightly helpful	Slightly helpful	Neutral	Neutral
1927-1928 upturn...	Helpful	Helpful	Slightly helpful	Neutral	Helpful	Slightly helpful
1929 downturn.....	Helpful	Slightly helpful	Neutral	Slightly helpful	Slightly helpful	Neutral

Summary--8 Turning Points

Helpful.....	4	3	1	3	1	2
Slightly helpful...	2	2	6	3	5	3
Neutral.....	1	1	1	1	1	2
Slightly misleading				1	1	
Misleading.....	1					1

* Based on six major turns since January, 1921.

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Office Correspondence

FEDERAL RESERVE
BOARDDate June 24, 1932 *Smith*To Mr. HamlinSubject: Gold movements compared withFrom Mr. Riefler
*W.M.R.*reserve requirements 1922-1929

* * * 2-8495

In January 1922, the required reserves of the member banks plus their vault cash equaled \$2,200,000,000, and in January 1929, \$2,900,000,000--an increase of \$700,000,000. About \$450,000,000 of this increase was supplied by gold imports during the interval, the remainder coming largely from an increase in reserve bank credit. If the recommendations of the Committee on Bank Reserves had been adopted at some time during the interval, the required reserves of member banks in January 1929 would have been about \$3,400,000,000, or \$500,000,000 more than they actually were under existing requirements. This additional \$500,000,000 could only have been obtained by greatly increased gold imports, or by additional borrowing at the reserve banks. If these gold imports had not been forthcoming, or the reserve banks had made it difficult for member banks to obtain additional reserve bank credit, member banks could not have expanded their own credit during these seven years at anywhere near the same scale that actually occurred.

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See 1211

X-7180

June 11, 1932

Dr. Miller

Board's rulings regarding

Mr. Vest - Assistant Counsel.

Bankers' Acceptances

In accordance with your request, I have prepared the following memorandum showing the more important changes which the Board has made from time to time in the principles incorporated in its regulations and rulings with respect to bankers' acceptances. The memorandum is not intended to cover the lesser important rulings or regulations of the Board on this subject but its purpose is to give the facts with reference to those rulings of primary importance which represent changes in policy with regard to bankers' acceptances, and particularly as to those cases where such changes have involved a liberalization of the requirements.

ORIGINAL FEDERAL RESERVE ACT AND EARLY REGULATIONS AND RULINGS.

Under the provisions of the original Federal Reserve Act, Federal reserve banks were authorized by section 13 to discount acceptances based on the importation or exportation of goods with maturities of not more than three months, when indorsed by a member bank; and member banks were authorized to accept drafts or bills of exchange arising out of import and export transactions having not more than six months' sight to run. Federal reserve banks were also authorized by section 14 to purchase bankers' acceptances, with or without the indorsement of a member bank.

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The Federal Reserve Board in 1915 issued several different regulations regarding bankers' acceptances, gradually expanding and enlarging the provisions with respect to their eligibility for re-discount. As a requisite of eligibility, it was required by the Board's rulings that there be a definite bona fide contract for the shipment of the goods involved in the import or export transaction within a specified and reasonable time after the making of the acceptance, and also that the transaction on account of which the acceptance is drawn must itself involve the importation or exportation of the goods in question.

One of the provisions contained in the Board's early regulations was that an acceptance must have been made "by a member bank, nonmember bank, trust company or by some private banking firm, person, company or corporation engaged in the business of accepting or discounting". This provision recognized as eligible for discount acceptances made, not only by banks and bankers, but also by others engaged in the acceptance business. A similar provision, though in different language, is contained in the present regulations regarding acceptances.

One of the most important of the early rulings on acceptances was one published in the 1915 Bulletin at page 91, in the form of an opinion of the Board's counsel, which held that Federal reserve banks were authorized to discount acceptances, as arising out of the

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importation and exportation of goods, which were based on the shipment of goods between any two or more foreign countries and between the United States and certain of its dependencies and possessions, as well as between the United States and foreign countries. The Board's records do not indicate the circumstances under which this ruling was made. The substance of this ruling was subsequently incorporated in the Board's regulations and has been contained in the regulations since that time. E

AUTHORITY FOR THE PURCHASE OR DISCOUNT OF
ACCEPTANCES ARISING OUT OF DOMESTIC TRANS-
ACTIONS.

In a regulation promulgated in November 1915, the Board authorized Federal reserve banks to purchase bankers' acceptances, when properly secured, covering the domestic shipment of goods or covering the warehouse storage of readily marketable staples. In transmitting this regulation, the Board stated that it had not felt justified, upon admitting State banks and trust companies to the Federal Reserve System, in requiring that they discontinue making acceptances arising out of domestic transactions if kept within reasonable limitations; and that the Board considered such acceptances as of a character to make desirable investments for Federal reserve banks. As uniformly construed by the Board, the authority of Federal reserve banks to purchase bankers' acceptances under section 14 of the Federal Reserve Act is not subject to the limitations applicable in the case of rediscounts of acceptances, and accordingly it was legally possible (

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to authorize Federal reserve banks by regulation to purchase domestic acceptances although no specific mention of domestic acceptances was made in the law. The Board's records do not disclose at whose instance or suggestion this authorization for the purchase of domestic acceptances was given.

Subsequently in the Act of September 7, 1916, the law was amended so as to authorize member banks to accept drafts or bills growing out of transactions involving the domestic shipment of goods provided shipping documents conveying or securing title are attached at the time of acceptance, or which are secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering readily marketable staples; and Federal reserve banks were authorized to discount such acceptances. This amendment was recommended by the Federal Reserve Board in its annual report covering the year 1915, in which it was said, "There can be but little question of the safety of such acceptances, and their use will tend to equalize interest rates the country over and help to broaden the discount market".

Among the principal requirements which the Board has made in its regulations and rulings with respect to acceptances drawn against the storage of readily marketable staples is that the warehouse receipt covering such staples be issued by a party independent of the customer and that such acceptances should not have a maturity in excess of the time ordinarily necessary to effect a reasonably prompt sale, shipment or distribution into the process of manufacture or consumption. In connection with acceptances drawn to finance the domestic shipment of goods, the Board has held that there should be some actual connection between the acceptance of the draft and the transaction involving the shipment of the goods; that is, the draft should be drawn to finance the shipment. The Board has also said that a Federal reserve bank may properly decline to discount any acceptance the maturity of which is in excess of the usual or customary period of credit required to finance the underlying transaction or which is in excess of that period reasonably necessary to finance such transaction.

ACCEPTANCES TO FURNISH DOLLAR EXCHANGE.

The amendment of September 7, 1916, also authorized member banks to make, and Federal reserve banks to acquire, acceptances having not more than three months sight to run, drawn by banks or bankers in foreign countries or dependencies or insular possessions of the United States for the purpose of furnishing dollar exchange as required by the usages of trade.

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The Federal Reserve Board adopted regulations requiring member banks which desire to accept drafts drawn by banks or bankers in certain countries for the purpose of furnishing dollar exchange to obtain the permission of the Board. Such permission is granted when the usages of trade in such countries appear to require such acceptance facilities. There have been no important changes in the regulations or in the law with respect to this subject since 1916.

ACCEPTANCES DRAWN UNDER CREDITS EXTENDING OVER A
PERIOD OF ONE OR TWO YEARS.

Under date of February 7, 1918, the Board addressed a letter to the Governor of the Federal Reserve Bank of New York (published in the 1918 Bulletin at page 257), stating its policy in dealing with acceptances drawn under credits extending over a period of one or two years. The expression of the Board's policy on this subject was contained in a memorandum accompanying the letter. This letter and memorandum were prepared after correspondence with the Federal Reserve Bank of New York and after conferences between Governor Strong and a number of New York bankers. The principles outlined in the memorandum were summarized in the letter as follows:

(1) Acceptance credits opened for periods in excess of ninety days should only, in exceptional cases, extend over a period of more than one year, and in no case for a time exceeding two years.

(2) Banks which are members of groups opening these credits, should not buy their own acceptances, and where an agreement is made with the drawer for purchase of acceptances for future delivery, the rate should not be a fixed one, but

should be based upon the rate ruling at the time of the sale.

(3) Transactions covered by these credits should be of a legitimate commercial nature, and acceptances must be eligible according to the rules and regulations of the Board.

(4) Whenever syndicates are formed for the purpose of granting acceptance credits for more than moderate amounts, Federal reserve banks should be consulted with regard to the transaction. The question of eligibility, both from the standpoint of the character of the bill and of the amount involved, will be passed upon by the Federal reserve bank subject to the approval in each case of the Federal Reserve Board.

The introductory paragraph of the memorandum setting forth the principles above summarized is as follows:

"In dealing with the question of acceptances, it is desirable that the Board should not be obliged to adopt inflexible regulations unless absolutely necessary. It should be borne in mind that we are competing in the acceptance field with other countries which have no legal restrictions in which sound business judgment, guided from time to time by the central banks of these countries, constitutes the unwritten, but none the less rigid law. The banks of the United States would greatly assist the Board in its work of developing a modern and efficient system of American bankers' acceptances - and they would best serve their own purposes - if they would study and assimilate the underlying principles which must guide the Board, and observe these principles voluntarily without requiring inflexible rules. Unless the bankers cooperate with the Board in this manner, many transactions - unobjectionable as long as they are engaged in for legitimate purposes and within reasonable limits - will have to be barred because strict regulations do not admit of discrimination."

After a full discussion of the principles which are summarized above, the Board's memorandum concluded as follows:

"These are the principles which the Federal Reserve System must apply. It would be inexpedient to attempt more than to establish the principles. It would be detrimental to formulate definite regulations dealing in minute detail with the various phases of the problem. It would be far better to give some latitude to the banks in dealing with these matters. But this will depend entirely upon the wisdom and discretion of the member banks. The banks will best serve their own interests if, following the example of European institutions, they will adopt these principles as self-imposed, well tried rules of business

prudence rather than by abusing their freedom of action to force the Board to tie their hands by rigid regulations."

ACCEPTANCES AGAINST READILY MARKETABLE STAPLES STORED IN
A WAREHOUSE IN A FOREIGN COUNTRY.

In 1919, the response to an inquiry from the Federal Reserve Agent at the Federal Reserve Bank of Boston the Board held that a member bank might properly accept a draft drawn in Canada, payable in the United States in dollars and secured by rice stored in a public warehouse in Canada, and that such an acceptance might properly be rediscounted by a Federal reserve bank. The Board's ruling on this question was published in the 1919 Bulletin at page 740.

PURCHASE OF EXPORT ACCEPTANCES WITH SIX
MONTHS MATURITIES.

Under date of May 6, 1921, the Federal Reserve Board amended its Regulation B so as to authorize the purchase by Federal reserve banks of bankers' acceptances growing out of transactions involving the importation or exportation of goods with maturities up to six months. This increase in the maturities of such acceptances eligible for purchase was suggested in a letter to the Board from Deputy Governor Harrison of the Federal Reserve Bank of New York. The suggestion was also made in letters from Mr. Paul M. Warburg, in connection with the financing of so-called "finishing credits", a term used to designate a credit to finance both (1) the shipment from the United States of raw materials to be manufactured into finished products and (2) the subsequent process of manufacture in the foreign country and the exportation therefrom of the finished product. This amendment to Regulation B was recommended by

the Federal Advisory Council and also by the Governors of the Federal Reserve Banks. |

In its letter transmitting the amended regulation, the Board said:

Two considerations have led the Board to take this action: (1) The desire to widen the acceptance market by meeting the wants of savings banks and similar purchasers of bankers' acceptances who are now deterred from investing in acceptances of longer than three months' maturity, because of the lack of authority of Federal Reserve Banks to purchase longer maturities up to six months; (2) to provide more ample facilities for financing import and export trade with countries where either normal conditions or present abnormal conditions indicate the desirability of rendering assistance by making acceptances of maturities not exceeding six months eligible for purchase by Federal Reserve Banks. |

The Board also stated that it looked to the good banking judgment and discretion of the accepting banks and of the Federal Reserve Banks to avoid any untoward results; and that the effect of this widening of the investment powers of the Federal reserve banks would be followed closely with a view to such modification of the regulations as might be necessary. |

Under the Board's present regulation, Federal reserve banks may purchase bankers' acceptances growing out of transactions involving the importation or exportation of goods with maturities not in excess of six months. |

PURCHASE OF ACCEPTANCES DRAWN BY COOPERATIVE
MARKETING ASSOCIATIONS WITH SIX MONTHS' MATURITIES. |

Under date of December 19, 1922, the Federal Reserve Board promulgated an amendment to its Regulation B authorizing Federal reserve banks to purchase bankers' acceptances, with maturities not in excess of

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six months, which are drawn by growers or by cooperative marketing associations composed exclusively of growers of nonperishable, readily marketable, staple agricultural products, to finance the orderly marketing of such products grown by such growers and secured at the time of acceptance by warehouse, terminal or other similar receipts issued by parties independent of the borrowers and conveying security title to such products.

The Board's records do not indicate upon whose suggestion or recommendation this change in its regulation was made; but the Board stated in its letter of transmittal:

"The Board was moved to take this action by a desire to provide more ample facilities for financing the orderly marketing of staple agricultural products, especially by cooperative marketing associations. This is in accordance with the principle heretofore recognized by the Board that the carrying of agricultural products for such periods as are reasonably necessary in order to assist the orderly marketing thereof is a proper step in the process of distribution."

By the Act of March 4, 1923, Federal Reserve Banks were authorized to discount acceptances with maturities up to six months when drawn for an agricultural purpose and secured at the time of acceptance by documents of title covering readily marketable staples.

ELIMINATION OF DOCUMENTARY REQUIREMENTS AS TO
ACCEPTANCES GROWING OUT OF IMPORT AND EXPORT
TRANSACTIONS.

Under date of March 29, 1922, the Board promulgated an amendment to its Regulation A, eliminating the requirements for the attachment or furnishing of documents in connection with acceptances arising out of import and export transactions, and leaving

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eligibility to be determined by the Federal reserve banks as a question of fact.

Simplification of the Board's regulations regarding bankers' acceptances had been recommended in May, 1921 by the Federal Advisory Council in a statement as follows:

* * * * "Moreover, it is impossible for the American bankers' acceptance to establish itself in competition with the British sterling acceptance in world markets if the foreign drawer is bewildered by a mass of regulations which he has to understand fully if he is to be certain that he is issuing an eligible bill which will find a ready market in the United States. The simpler the regulations the better the opportunity for the American bankers' acceptance to become a credit instrument in world markets. If there are competent men whose discretion may be relied upon in charge of the supervision of American acceptors, there is no need for attempting to control by detailed regulations the practice of American accepting banks and bankers. "

It was presumably on the basis of this recommendation that the matter was given consideration by the Board in March, 1922, but the record does not show whether this is a fact. Shortly before the adoption of the amended regulation by the Board, the proposed change eliminating the documentary requirements was discussed at an informal conference in New York by Governor Harding and Mr. Logan with Messrs. Warburg, Kent, Broderick, Kenzel and Harrison. There was apparently another discussion of the matter a few days later by Mr. Kenzel and certain New York bankers with the Federal Reserve Board. Before the change in the regulation was adopted a number of the Federal reserve banks, as well as the President of the Advisory Council,

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were asked for their views with respect to the matter.

The Board's letter of transmittal of this amendment to Regulation A stated that there had been a rapid growth of the acceptance business during the war and it had been necessary accordingly for the Board to make frequent rulings and to amend its regulations regarding bankers' acceptances periodically; the Regulation of 1920 on this subject was the last step in the development of such regulations and it contained the substance of the more important rulings previously issued by the Board regarding acceptances arising out of import and export transactions. In view of the experience which the American banks had obtained, the Board considered that detailed regulations on this subject were no longer necessary and also that the general advancement of foreign trade could be furthered most effectually by the substitution of a simpler regulation. Accordingly, the Board eliminated the following sentences from its regulation with respect to acceptances arising out of import and export transactions:

* * * "While it is not necessary that shipping documents covering goods in the process of shipment be attached to drafts drawn for the purpose of financing the exportation or importation of goods, and while it is not essential, therefore, that each such draft cover specific goods actually in existence at the time of acceptance, nevertheless it is essential as a prerequisite to eligibility either (a) that shipping documents or a documentary export draft be attached at the time the draft is presented for

acceptance, or (b) if the goods covered by the credit have not been actually shipped, that there be in existence a specific and bona fide contract providing for the exportation or importation of such goods at or within a specified and reasonable time and that the customer agree that the accepting bank will be furnished in due course with shipping documents covering such goods or with exchange arising out of the transaction being financed by the credit. A contract between principal and agent will not be considered a bona fide contract of the kind required above, nor is it enough that there be a contract providing merely that the proceeds of the acceptance will be used only to finance the purchase or shipment of goods to be exported or imported.

In making this amendment, the Board stated that it was not reversing or modifying its former rulings, which were regarded as essential to the proper conduct of the acceptance business, but that its action was intended merely to allow greater latitude to Federal reserve banks for the exercise of their discretion and judgment, observing always the limitations of the law. The Board also stated that the responsibility for passing upon the eligibility of bankers' acceptances rests upon the Federal reserve banks themselves and each bank should satisfy itself that the acceptances conform to the requirements.

ACCEPTANCES BY NATIONAL BANKS AGAINST
IMPORT AND EXPORT BILLS.

In rulings published in the 1917 Bulletin at page 28 and in the 1920 Bulletin at page 610, the Board took the position that no bank which has purchased a foreign documentary draft may refinance itself by drawing a draft on a member bank secured by the documentary draft. The theory underlying these rulings was that such a draft is not drawn for the purpose of financing the importation or exportation of goods but for the purpose of financing the business of the bank which purchased the foreign documentary draft.

During the year 1923, the Board had correspondence with Mr. J. H. Fulton, President of the National Park Bank of New York with reference to the right of a national bank to accept drafts against the security of import or export bills, and also had correspondence with the Federal Reserve Bank of New York on this question. The Federal Reserve Bank considered that acceptances of this kind under proper conditions would be lawful, but it was the Board's position at that time that such acceptances were not proper under the rulings above referred to. In 1924, letters were addressed to the Board by the Governors of the Federal Reserve Banks of New York and San Francisco requesting a final ruling of the Board with respect to this question. The Board gave further consideration to the subject, but for some reason no action was taken at that time. In 1926, however, acceptances of this kind were questioned by a national bank examiner in an examination of the First National Bank of Boston and the Comptroller of the Currency asked

the Federal Reserve Board for a ruling in the matter. The Board again gave consideration to the question and reached the conclusion that its former rulings on the subject contained an unnecessarily strict interpretation of the law. Accordingly, the Board ruled that national banks may legally accept drafts drawn upon them by other banks against the security of import or export bills of exchange previously discounted by such other banks; provided that such drafts are drawn before the underlying import or export transactions are completed and comply as to maturity and in all other respects with the provisions of the law and the Board's regulations. (1926 Bulletin 854).

ACCEPTANCES AFTER IMPORT OR EXPORT TRANSACTION COMPLETED.

At a meeting of the Subcommittee of the General Acceptance Committee held in New York in October, 1927, it was decided to recommend to the Federal Reserve Board that the Board revoke its previous rulings to the effect that a bill cannot be eligible for acceptance by a member bank, or for rediscount or purchase by a Federal reserve bank, as a bill growing out of the importation or exportation of goods, if it is accepted after the goods have reached their destination; and to rule in lieu thereof that bankers' acceptances may properly be considered as growing out of transactions involving the importation or exportation of goods when given for the purpose of financing the sale or distribution on usual credit terms of imported or exported goods into the channels of trade, whether or not the bills are accepted after the physical importation or exportation has been completed.

Shortly before the meeting referred to, Mr. Kenzel, Chairman of the Sub-committee, had appeared before the Federal Reserve Board, in response to an invitation from the Board, to discuss possible amendments to the Board's regulations and rulings regarding bankers' acceptances, and had pointed out the desirability of making a ruling of this kind in order that American acceptances might compete with those of other countries in financing foreign trade.

Subsequent to his appearance before the Board in this connection, Mr. Kenzel conferred with a number of prominent New York bankers engaged in the acceptance business; and the following is an excerpt from his statement on this subject submitted in connection with the recommendation of the sub-committee:

"They (the bankers consulted) felt that they would not wish to extend credits in Europe for purely domestic purposes, explaining that by that they meant the purchase of goods of domestic origin, the fabrication of such goods and its sale for domestic consumption within any European country, but that they did feel that they should be permitted to finance through acceptance credits the sale within European countries of goods of origin foreign to those countries, and the fabrication and sale of goods for export. Many of them cited the familiar problem of American cotton which is now sent so largely to European countries on consignment by American shippers and is sold to European spinners out of warehouses in Europe. Spinners require credit of ninety days or more. Under the present rules, American banks can give such credits where the cotton crosses a frontier in Europe, that is, where it is exported from one European country to another, but they cannot give such credits if the cotton is sold to spinners located in the same European country in which it is stored pending sale.

"A similar negative position arises with respect to cotton which is sold and shipped from America on terms that have become quite usual, i.e., that at the buyer's option he may pay cash on arrival or give ninety days bankers credit. It frequently happens that the cotton has arrived and so the physical export completed before the buyer elects how he shall pay. If he elects to give ninety days bankers credit the banker may not accept the bill if the cotton has arrived at the foreign destination named in the shipping documents."

"The American bankers consulted felt that the time has certainly arrived in the development of American acceptance business when American accepting bankers should be permitted the free exercise of their discretion within the law and regulations and that, within those limits, full latitude should be granted them in the accommodation of business as it is done in foreign countries. They stressed particularly the point that they regarded it as preferable to give a three months credit with a renewal for a further period, if it were found that a renewal were required at the expiration of the original period, than to grant the credit originally for a period of six months, and that if the rule against accepting a bill after the goods had arrived were rescinded, the end sought would be practically accomplished without a specific ruling in favor of renewal bills. It was pointed out that from the bankers' point of view it was preferable to be able to review credits at more frequent intervals than is the case when credits up to six months are being insisted upon by the borrower as a precaution against being unable to redraw at the end of a shorter period in case of need even for a small part of the credit".

The recommendation made by the subcommittee was considered by the Federal Advisory Council and, with one suggested change, was

approved. After consideration of the matter, the Board reached the conclusion that its previous rulings on this subject contained an unnecessarily strict interpretation of the law; and, in order to facilitate the financing of foreign trade and the sale of American goods abroad, the Board ruled, on November 28, 1927, (1927 Bulletin, p. 860) that bankers' acceptances may properly be considered as growing out of transactions involving the importation or exportation of goods when drawn for the purpose of financing the sale and distribution on usual credit terms of imported or exported goods into the channels of trade, whether or not the bills are accepted after the physical importation or exportation has been completed. The Board pointed out that due care should be observed to prevent a duplication of financing and that there should not be outstanding at any time more than one acceptance against the same goods. This ruling of the Board reversed all previous conflicting rulings.

ACCEPTANCES DRAWN BY WAREHOUSE OR ELEVATOR COMPANY AGAINST
WAREHOUSE RECEIPTS ISSUED BY ITSELF.

In 1924, Governor Young of the Federal Reserve Bank of Minneapolis suggested to the Federal Reserve Board that it give approval to acceptances drawn by a terminal elevator company against the security of warehouse receipts issued by the company which draws the acceptances. He pointed out that in Minnesota such a company is under the strict supervision and control of a State commission, a representative of which checks all grain that is stored in the elevator and all grain that is removed therefrom; and that it is practically impossible to remove grain from such terminal elevators without the knowledge and permission of the representa-

tive of the State commission.

The matter was considered by the Federal Reserve Board from time to time over a period of several years and was twice referred to the Governors' Conference, which recommended that the Board approve acceptances of this character. After consideration of the matter, the Board in April, 1927, voted to disapprove the recommendation of the Governors' Conference and not to amend its regulations so as to make such acceptances eligible for rediscount or purchase by the Federal reserve banks. The Board considered that the principle laid down in its regulations, that warehouse receipts used as security for acceptances must be issued by a party independent of the customer, was essential to the maintenance of the high standard of bankers' acceptances and that any action setting aside this principle might establish a precedent for future action which would result in the lowering of the standard.

The matter was again considered by the Federal Reserve Board in October 1928, however, at which time Governor Young was Governor of the Federal Reserve Board, and the Board decided to adopt an amendment to its regulations making eligible for rediscount or purchase acceptances against warehouse receipts conveying security title to readily marketable staples when such receipts are "issued by a grain elevator or warehouse company duly bonded and licensed and regularly inspected by State or Federal authorities with whom all receipts for such staples and all transfers thereof are registered and without whose consent no staples may be withdrawn."

LIBERALIZATION OF RULINGS REGARDING DOMESTIC
BANKERS' ACCEPTANCES.

The General Committee on Bankers' Acceptances at its meeting in March, 1926, adopted a report containing a statement of broad general principles regarding correct practices in the granting of domestic bankers' acceptance credits and recommending specifically that the use of domestic acceptances be broadened, particularly in two respects:

(1) To permit the purchaser of goods under bankers' acceptance credits to draw bills having a maturity consistent with the usual and customary credit time that obtains in the relative trade, instead of requiring the shipper to draw the bill if it has a maturity in excess of the actual transit time of the goods, (the Board's rulings had been understood as making a distinction between the period for which acceptances may be drawn by the seller and the period for which they may be drawn by the purchaser);

(2) To permit the use of bankers' acceptances secured by receipts covering readily marketable staples to finance the carrying of certain staples during the time they are being converted into other forms of readily marketable staples through a converter independent of the drawer, provided that the identity of the goods is not lost and the accepting bank remains secured by the independent converter's receipt.

This report of the General Committee on Bankers' Acceptances was considered by the Governors' Conference in March, 1926, which approved the report and requested the Federal Reserve Board to adopt the rulings contained therein. The Federal Reserve Board acted upon the matter in June, 1928, at which time it approved the report in so far as it contained a statement of the broad general principles regarding correct practices in the granting of domestic bankers' acceptance credits, but with the understanding that such approval should not be construed as revoking or qualifying any of the Board's existing rulings. The Board stated that if the broadened use of domestic bankers' acceptances was found to be hampered by the existing rulings of the Board, it would consider the question of revoking or modifying such rulings provided a statement of specific facts arising in actual cases was submitted to the Board.

The Governors' Conference in November 1928, upon consideration of a report of the subcommittee of the General Committee on Bankers' Acceptances, requested the subcommittee to submit to the Board specific examples of transactions exemplifying the need for a modification of the Board's rulings in the respects above mentioned. This was done and the following is an example of the facts submitted with regard to the Committee's first recom-

mendation:

"A firm in New York City purchases certain staples from a seller in a western city who ships the same and draws a sight draft on the purchaser in New York with bill of lading attached. This draft and bill of lading attached are sent in the customary way to a bank in New York, Bank A, designated by the purchaser. The latter then draws a 90 day bill on Bank A, which is accepted by the bank, having at the time in its possession the bill of lading covering the staples in process of shipment. The acceptance is then discounted by the purchaser and the proceeds used to pay the sight draft and to obtain the release of the bill of lading. It does not require 90 days for the completion of the shipment of goods, only a relatively short time being necessary for this purpose."

After consideration, the Board ruled in November 1929 that a draft drawn by the purchaser of goods in accordance with the facts above stated is eligible for acceptance by a member bank when it has a maturity consistent with the usual and customary credit time prevailing in the particular business, provided that all other relevant requirements of the law and of the Board's regulations are complied with. (1929 Bulletin, page 811).

This ruling was in some respects inconsistent with certain previous rulings of the Federal Reserve Board to the effect that an acceptance should not be drawn for the purpose of furnishing working capital to the borrower or to the purchaser during the process of the manufacture of goods; and the Board stated that such previous rulings with regard to working capital might be regarded as superseded by this ruling to the extent of any such inconsistencies.

The subcommittee also submitted an example of a specific case designed to show the desirability of permitting the use of bankers' acceptances, secured by receipts covering readily marketable staples, to finance the carrying of these staples during the time they are being converted into other forms through a converter or processer who is independent of the drawer of the acceptance, provided that the identity of the goods is not lost and the accepting bank remains secured by the independent converter's receipt. After consideration, however, the Board voted in March 1930, to disapprove the recommendation made on this point and stated its opinion that bills drawn under such circumstances are not to be considered as eligible for acceptance by member banks.

BOARD'S POLICY OF RULING ON ACCEPTANCE QUESTIONS ONLY AFTER CONSIDERATION OF FEDERAL RESERVE BANKS.

It has been the policy of the Federal Reserve Board for a number of years not to consider and pass upon questions with regard to

bankers' acceptances until such questions have been first submitted to and considered by the Federal reserve bank of the district in which the question arises. It is not clear when this policy was first adopted but it was definitely in force as early as 1922 and probably, at least in some cases, for some time before that.

Many acceptance questions, of course, have arisen in the New York District and accordingly the Federal Reserve Bank of New York has been frequently called upon to consider such questions; and much of the Board's correspondence regarding acceptance matters has been with this Federal reserve bank. In a number of cases where acceptance questions have arisen in other districts, the Federal Reserve Board in considering such questions has taken them up either formally or informally with Mr. Kenzel, the Chairman of the Committee on Bankers' Acceptances.

SUMMARY

For convenient reference there is given below a brief summary of the changes in the law, regulations and rulings regarding acceptances, which have been discussed above.

Provisions of the Federal Reserve Act.

Under the original Federal Reserve Act, member banks were authorized to accept drafts arising out of import and export transactions having not more than six months' sight to run and Federal reserve banks were authorized to discount such acceptances, indorsed by a member bank, with maturities of not more than three months. Federal reserve banks were also authorized to purchase bankers' acceptances with or without the indorsement of a member bank.

By the Act of September 7, 1916, member banks were authorized to make, and Federal reserve banks to discount, acceptances arising out of the domestic shipment of goods or out of the storage of

readily marketable staples; and by this Act, also, member banks were authorized to make, and Federal reserve banks to acquire, acceptances drawn for the purpose of furnishing dollar exchange.

By the Act of March 4, 1923, Federal reserve banks were authorized to discount acceptances with maturities up to six months when drawn for an agricultural purpose and secured at the time of acceptance by documents of title covering readily marketable staples.

Rulings and Regulations of the Federal Reserve Board.

In its regulation of February 8, 1915, the Board recognized as eligible for rediscount acceptances made, not only by banks and bankers, but also by others engaged in the acceptance business.

In a ruling published in the 1915 Bulletin at page 91, the Board gave approval to acceptances based on the shipment of goods between two or more foreign countries and between the United States and certain of its dependencies and possessions, as well as between the United States and foreign countries.

By regulation dated November 29, 1915, the Board authorized Federal reserve banks to purchase bankers' acceptances, when properly secured, covering the domestic shipment of goods or covering the warehouse storage of readily marketable staples. (This was prior to the amendment to the law permitting the discount of domestic acceptances.)

After the amendment to the law of September 7, 1916, the Board included in its regulations provisions regarding the acceptance by member banks of drafts drawn to furnish dollar exchange.

Under date of February 7, 1918, the Board addressed a letter to the Governor of the Federal Reserve Bank of New York stating its policy in dealing with acceptances drawn under credits extending over a period of one or two years.

In a ruling published in the 1919 Bulletin at page 740, the Board approved acceptances drawn in a foreign country payable in the United States in dollars and secured by staples stored in a foreign warehouse.

Under date of May 6, 1921, the Board amended its regulations so as to authorize the purchase by Federal reserve banks of bankers' acceptances growing out of transactions involving the importation or exportation of goods with maturities up to six months.

Under date of December 19, 1922, the Board amended its regulations so as to authorize Federal Reserve Banks to purchase bankers' acceptances with maturities not in excess of six months which are drawn by agricultural growers or by cooperative marketing associations and are properly secured.

On March 29, 1922, the Board amended its regulations so as to eliminate the requirements for the attachment or furnishing of documents in connection with acceptances arising out of import and export transactions.

By ruling published in the 1926 Bulletin at page 854, the Board held that national banks may legally accept drafts drawn upon them by other banks against the security of import or export bills of exchange previously discounted by such other banks provided that such drafts are drawn before the underlying import or export transactions are completed.

The Board ruled on November 28, 1927, that bankers' acceptances may properly be considered as growing out of import or export transactions when drawn for the purpose of financing the sale and distribution on usual credit terms of imported or exported goods into the channels of trade, whether or not the bills are accepted after the physical importation or exportation has been completed.

On October 9, 1928, the Board amended its regulations so as to make eligible for rediscount or purchase acceptances against warehouse receipts issued by grain elevator or warehouse companies duly bonded and licensed and regularly inspected by State or Federal authorities with whom all receipts for such staples and all transfers thereof are registered and without whose consent no staples may be withdrawn.

By a ruling published in the 1929 Bulletin at page 811, the Board ruled that a draft drawn by the purchaser of staples to finance the shipment of such staples is eligible for acceptance when it has a maturity consistent with the usual and customary credit time prevailing in the particular business.

On March 19, 1930, the Board stated its opinion that bills drawn for the purpose of financing the carrying of staples during the time they are being processed or converted are not eligible for acceptance.

It has been the policy of the Board for a number of years to consider and pass upon acceptance questions only after they have first been considered by a Federal reserve bank.

Respectfully,

George B. Vest,
Assistant Counsel.

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Office Correspondence

FEDERAL RESERVE BOARD

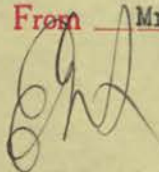
Date June 13, 1932

To Mr. Hamlin

Subject: Earnings, Expenses and volume of operations of Federal Reserve Banks

From Mr. Smead

2-8495

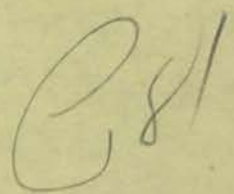


In response to your telephone request, I am handing you herewith a copy of our statement B-811, covering earnings and expenses of the Federal reserve banks for the month of May 1932, which statement also shows current net earnings of each Federal reserve bank for the five-month period ending May 1932.

You will note from the statement that, for the five-month period, the ratio of current net earnings to paid-in capital of the Federal Reserve Bank of Richmond, on an annual basis, was 11.1 per cent, and for the System as a whole 17.2 per cent. The Federal reserve banks of St. Louis and Dallas are the only ones which did not have sufficient current net earnings during the five-month period to cover the accrued 6 per cent dividend.

Most of our volume of work figures are shown in the functional expense reports, which are submitted semi-annually by the Federal reserve banks. These reports for the first six months of 1932 will be available around the end of July. Such data as are now available indicate that the figures for the first half of the year will show some falling off in the volume of work handled in the Transit Department. It is also quite probable that the work of the Currency and Coin Departments has decreased somewhat. Data now being compiled indicate that the amount of work handled per employee in the principal departments of the banks last year was about 5 per cent more than in 1930 and about 37 per cent more than in 1925. The average number of employees in the principal departments of the Federal reserve banks (head offices) declined from 3,184 in 1930 to 2,943 in 1931, or by about 8 per cent, and in all departments from 7,299 to 7,019, or by 3.84 per cent.

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EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS, MAY 1932

Federal Reserve Bank	Month of May 1932								Jan. - May 1932			
	Earnings from					Current expenses		Current net earnings		Current net earnings		
	Dis-counted bills	Pur-chased bills	U. S. secur-ities	Other sources	Total	Exclusive of cost of F.R. currency	Total	Total	Ratio to paid-in capital	Total	Ratio to paid-in capital	Less accrued dividends and net charges (current) to profit and loss
									Per cent		Per cent	
Boston	\$91,374	\$10,927	\$122,313	\$6,427	\$231,041	\$142,248	\$150,319	\$80,722	8.3	\$526,287	10.9	\$232,082
New York	259,841	55,077	1,175,231	47,007	1,537,156	508,628	532,933	1,004,223	20.0	3,977,335	16.0	2,549,294
Philadelphia	187,510	15,210	180,034	13,053	395,807	146,762	157,112	238,695	17.4	1,448,491	21.3	1,089,254
Cleveland	169,830	14,481	209,733	17,133	411,177	197,422	207,440	203,737	16.9	1,396,650	23.3	1,012,202
Richmond	72,411	8,010	56,111	9,599	146,131	112,310	112,822	33,309	7.5	245,547	11.1	116,468
Atlanta	95,515	6,643	37,774	5,748	145,680	96,270	103,413	42,267	10.2	335,367	16.3	210,294
Chicago	101,066	20,961	320,739	38,927	481,693	260,762	262,032	219,661	15.0	1,253,475	17.1	806,511
St. Louis	41,231	5,542	61,729	13,195	121,697	102,037	102,666	19,031	5.0	92,649	4.9	-28,468
Minneapolis	35,693	3,245	67,441	1,826	108,205	72,350	72,630	35,575	14.3	167,930	13.7	93,094
Kansas City	81,775	5,085	55,793	20,340	162,993	130,769	135,707	27,286	7.9	222,601	13.0	118,042
Dallas	35,420	4,879	62,548	3,606	106,453	92,066	93,085	13,368	4.0	94,659	5.7	-12,079
San Francisco	245,515	13,984	106,600	13,421	384,520	178,611	179,429	205,091	22.4	1,426,323	30.9	1,128,079
TOTAL												
May 1932	1,417,181	169,044	2,456,046	190,282	4,232,553	2,040,235	2,109,588	2,122,965	16.2			
Apr. 1932	1,700,390	202,931	2,050,571	162,311	4,116,203	2,045,807	2,112,041	2,004,162	15.7			
May 1931	382,528	164,077	986,394	116,874	1,649,873	2,117,429	2,248,925	-599,052	--			
Jan.-May 1932	10,052,165	1,864,119	8,901,904	1,144,477	21,962,665	10,326,152	10,775,351	11,187,314	17.2	11,187,314	17.2	7,314,773
1931	2,351,734	1,035,004	5,582,588	568,094	9,537,420	10,679,665	11,443,891	-1,006,471	--	-1,906,471	--	-5,180,363

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
JUNE 8, 1932

Mr. Goldenweiser
Office Correspondence

FEDERAL RESERVE BOARD

Date June 20, 1932

To Mr. Goldenweiser

Subject: Reductions in reserve require-

From Mr. Riefler

ments in recent years

2-8405

On June 30, 1931, member banks were required to hold \$2,309,000,000 in reserve balances at the reserve banks. In addition, they held on that date for till money purposes \$519,000,000 in cash in their vaults. Their total requirements for primary reserves plus vault cash, consequently, amounted to \$2,828,000,000.

Cash reserve requirements on 1914 basis

In 1914, prior to the inauguration of the Federal reserve system, national banks were required to hold a certain amount of primary reserves in the form of vault cash and an additional amount of secondary reserves in the form of balances with commercial banks which had been approved as reserve agents. Disregarding these balances, national banks were required to hold primary reserves in the form of vault cash in relation to their net demand plus time deposits equivalent to 25 per cent if they were central reserve city banks, 12½ per cent if they were reserve city banks, and 6 per cent if they were country banks. Had these same ratios applied to member banks, on June 30, 1931, they would have been required to hold vault cash equivalent to \$4,370,000,000, an amount \$1,542,000,000 in excess of their actual required reserves plus vault cash at that time. All of the changes in reserve requirements since 1914 together, consequently, had the effect of reducing primary reserve requirements by about \$1,500,000,000.

Primary reserve requirements on 1917 basis

The original Federal Reserve Act excluded balances with correspondents as reserve (after a certain transition period), established a 5 per cent re-

serve on time deposits, and a reserve on net demand deposits of 18 per cent

at central reserve city banks, 15 per cent at reserve city banks, and 12 per cent at country banks. This reserve was required to be held in part as vault cash and in part on deposit with the reserve banks. It consisted, therefore, wholly of primary reserves. If member banks had been operating under these provisions on June 30, 1931, they would have been required to hold reserves equal to \$3,497,000,000. This would have been \$873,000,000 less than their requirements on the 1914 basis. By 1931, consequently, the changes introduced in 1914 including both the lower reserve on time deposits and the different reserves on demand deposits would have caused a decrease in required primary reserves of \$873,000,000. If time deposits had been in the same proportion to total deposits in 1931 as in June 1917, however, the total required reserve on this basis in 1931 would have been \$4,248,000,000, a decrease of only \$122,000,000 from the 1914 basis. Of the total decline of \$1,542,000,000 since 1914, consequently, \$122,000,000 can be ascribed to the changes introduced in 1914 and the growth of time deposits between 1914 and 1917, while \$751,000,000 represents the loss due to the further proportionately more rapid increase in time deposits between 1917 and 1931. The remaining \$669,000,000 represents the shrinkage in vault cash arising out of the 1917 amendments. On June 30, 1931, member banks actually held \$519,000,000 in vault cash, an amount smaller by \$669,000,000 than they would have held if they had been required to carry cash equal to 5 per cent of their demand deposits and 2 per cent of their time deposits as of that date. This figure, of course, would be materially increased if time deposits had been in the same proportion to demand deposits in 1931 as in 1917. These figures are summarized in the following table:

Requirements of member banks on June 30, 1931, for vault cash under 1914 provisions	\$ 4,370,000,000
Actual required reserves plus vault cash on June 30, 1931	2,828,000,000
	<hr/>
Total decrease due to changes in requirements	1,542,000,000
Decrease attributable to developments between 1914 and 1917	122,000,000
Decrease attributable to rapid growth of time deposits between 1917 and 1931	751,000,000
Decrease attributable to reduction in vault cash since 1917	669,000,000

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CONFIDENTIAL

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X-7197

July 5, 1932.

Federal Reserve Board
Mr. Vest, Assistant Counsel.

Questions regarding appli-
cation of provisions of National Eco-
nomy Act to Federal Reserve Board.

Part II of the Legislative Appropriations Act, which became law on June 30, 1932, and which while pending in Congress was referred to generally as the "National Economy Bill", contains a number of provisions which affect the Federal Reserve Board. A copy of the Act is attached hereto.

In any discussion of the provisions of this Act a brief consideration of the history of the bill through Congress is helpful. The bill originated in the House and when it passed that body the first time it contained provisions for a pay cut for Government employees. As passed in the Senate the first time, it carried provisions for a furlough of employees without pay. In the consideration of the bill in conference all of its provisions were agreed upon by the conferees except those of Title 1, which had to do with the furlough and pay cuts of employees. When the bill was reported back to the House by the conferees, the House agreed to the conference report, and then Mr. McDuffie, one of the House conferees, proposed as Title 1 of the bill certain provisions incorporating another pay cut plan. This was rejected by the House, and thereupon Mr. McDuffie proposed another Title 1 of the bill, incorporating the furlough plan together with reductions in compensation for some but not all of those classes of employees exempted from the furlough. The House agreed to this latter proposal and the bill was then sent to the Senate, where it was approved in the form agreed to by the House. It is important to note that, while the proposals made by Mr. McDuffie on

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the floor of the House had not been agreed to in conference, they obviously had been considered by the conferees, and the details of these provisions and the intention thereof must have been well known and understood by all of the conferees.

The whole purpose and intention of Part II of this Act, that is, the part which contains the economy provisions, is to provide ways and means of reducing the amount of Government expenditures for which it is necessary for Congress to make appropriations, and thus to bring about a corresponding reduction in the amount of the Government's budget. The funds of the Federal Reserve Board, of course, are not derived from Congressional appropriations, but from assessments upon Federal reserve banks; and, accordingly, the Board's expenditures do not affect the amount of the Government's budget. In undertaking to interpret the provisions of this Act from the standpoint of its application to the Federal Reserve Board, it is important to bear these facts in mind.

The provisions of the Act which appear to be applicable or of interest to the Federal Reserve Board, its members or employees are discussed below:

FURLOUGHS AND REDUCTIONS IN COMPENSATION.

The provisions regarding furloughs without pay and reductions in compensation of employees are contained in Title I of Part II of this Act, but for the reasons hereinafter stated, members and employees of the Federal Reserve Board are exempted from these provisions and from all other provisions of Title I which deal with officers and employees of the Government.

Section 101 of Title I provides generally that, during the fiscal year ending June 30, 1933, each officer or employee receiving compensation at a rate of more than \$1000 per annum, shall be furloughed without compensation for one calendar month, with certain exceptions and provisos which it is not necessary to detail. Section 104, however, provides:

"Sec. 104. When used in this title -

"(a) The terms 'officer' and 'employee' mean any person rendering services in or under any branch or service of the United States Government or the government of the District of Columbia, but do not include (1) officers whose compensation may not, under the Constitution, be diminished during their continuance in office; (2) Senators, Representatives in Congress, Delegates, and Resident Commissioners; (3) officers and employees on the rolls of the Senate and House of Representatives; (4) carriers in the rural mail delivery service; (5) officers and members of the police department of the District of Columbia, of the fire department of the District of Columbia, of the United States park police in the District of Columbia, and of the White House Police; (6) teachers in the public schools of the District of Columbia; (7) public officials and employees whose compensation is derived from assessments on banks and/or is not paid from the Federal Treasury; (8) the enlisted personnel of the Army, Navy, Coast Guard, and Marine Corps; (9) postmasters and postal employees of post offices of the first, second, and third classes whose salary or allowances are based on gross postal receipts, and postmasters of the fourth class; (10) any person in respect of any office, position or employment the amount of compensation of which is expressly fixed by international agreement; and (11) any person in respect of any office, position, or employment the compensation of which is paid under the terms of any contract in effect on the date of the enactment of this act, if such compensation may not lawfully be reduced."

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The salaries of the members and employees of the Federal Reserve Board are derived from assessments on the Federal reserve banks pursuant to the provisions of section 10 of the Federal Reserve Act, and are not paid from the Federal Treasury. Members and employees of the Federal Reserve Board thus fall directly within the classification "public officials and employees whose compensation is derived from assessments on banks and/or is not paid from the Federal Treasury." As shown in the above quotation from section 104, such public officials and employees are exempted entirely from the provisions of Title I of the Act relating to officers and employees; and it is clear, therefore, that the requirements of this Act as to furloughs without pay are not applicable to Federal Reserve Board members or employees.

There are a number of other classes of officers and employees who are expressly exempted from the furlough provisions of the Act, and Section 105 of Title I of the Act provides that the compensation of some, but not all, of these exempted classes of employees shall be reduced during the fiscal year ending June 30, 1933. This section provides, among other things, that there shall be a reduction in compensation, upon a graduated scale, for a number of specifically named classes of employees who are exempted from the furlough provisions and also for

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"(7) Officers and employees (as defined in Section 104(a)), not otherwise provided for in this section, to whom the provisions of sub-sections (a) and (b) of Section 101 do not apply."

It will be observed that this provision refers to and incorporates as a part of itself, the definition of the terms "officers" and "employees" in Section 104. Since "public officials and employees whose compensation is derived from assessments on banks and/or is not paid from the Federal Treasury" are expressly excluded from the definition of these terms, it is obvious that the provision as to reduction in compensation does not affect members of the Federal Reserve Board or its employees.

The question was raised on the floor of the Senate whether Section 105 was intended to provide for a reduction in the compensation of public officials whose compensation is derived from assessments upon banks and the definite answer was given by Senator Bratton, one of the conferees, that no such reduction in compensation was intended. Senator Bratton stated that it was the intention of the conferees to exempt from the reduction in compensation, "either by furlough or per cent or otherwise", the enlisted personnel of the Army, Navy, Marine Corps and Coast Guard. In answer to another specific inquiry,

- 6 -

he replied that public officers who are not paid out of the Federal Treasury, as referred to subdivision 7 of section 104, fall in the same class in this respect with the enlisted personnel referred to and are not subject to any reduction in compensation.

For the Board's information in this connection, I quote from the debates on the floor of the Senate on June 24, 1932. (Congressional Record, pages 14288 and 14289)

"Mr. Byrnes. Directing the Senator's attention to the provisions of the furlough system, am I correct in the impression I have received that notwithstanding the provisions of section 105, the compensation reduction system, the compensation reduction does not apply to the enlisted personnel of the Army and Navy or to public officials whose compensation is derived from assessments upon banks?

"Mr. Bratton. Mr. President, I welcome the inquiry from the Senator from South Carolina. It is timely and pertinent. It was the intention of the original bipartisan committee of six Senators who were assigned to the task of considering this bill that the enlisted personnel of the Army, the Navy, the Marine Corps, and the Coast Guard should be exempted from any reduction in compensation. That was also the intention of the conferees between the two branches of the Congress, and although there may be some doubt respecting the phraseology as adopted by the House, and found at page 13914 of the Congressional Record, there can be no doubt concerning the intent of the conferees. They intended throughout for sound reasons to exempt from the reduction in compensation either by furlough or per cent or otherwise the enlisted personnel of the Army, the Navy, the Marine Corps, and the Coast Guard.

"Mr. Byrnes. Then the Senator will agree that that would be true also of subdivision 7, in section 104, applying to all the public officers who are not paid out of the Treasury?

"Mr. Bratton. Yes; they fall in the same class."

In this connection also it is pertinent to consider the legislative history of this question as it affects the Federal Reserve Board.

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The bill as originally passed by the House did not contain an exemption in favor of the Federal Reserve Board members or employees, but on the contrary, contained a provision specifically reducing the salaries of the members of the Federal Reserve Board to \$10,000, beginning July 1, 1933. When it was reported out by the Senate Committee, the provision reducing the salaries of the members of the Federal Reserve Board was stricken out and there was inserted a provision exempting "insolvent bank receivers and bank examiners whose compensation is not paid from the Federal Treasury." On the floor of the Senate this exemption was changed by an amendment offered by Senator Glass so as to read "public officials and employees whose compensation is not paid from the Federal Treasury." The first proposal made to the House by Mr. McDuffie after the House accepted the conference report would have provided pay cuts for employees and would not have included the furlough provisions, but it contained an exemption from such pay cuts in favor of "persons whose compensation is derived from assessments on banks and/or is not paid from the Federal Treasury." Mr. McDuffie's second proposal contained the exempting clause in the form in which it was enacted into law, viz., "public officials and employees whose compensation is derived from assessments on banks and/or is not paid from the Federal Treasury."

The provision in section 105 making certain officers and employees subject to a reduction in compensation is not applicable to the Federal Reserve Board members and employees; because (a) the provision by its own terms incorporates the exemption in favor of those whose compensation is derived from assessments on banks,

(b) the legislative history of the bill shows clearly the intention that such exemption shall apply to reductions in compensation as well as to furloughs, and (c), if there were any doubt about the matter otherwise, it is conclusively settled by the express statement by one of the Senate conferees on the floor of the Senate.

The reasons for these exemptions are obvious. The purpose of this legislation was to balance the Federal budget. The compensation of the members and employees of the Federal Reserve Board, which is derived from assessments on banks and not from the Federal Treasury, does not affect the Federal budget; and accordingly no reduction in the budget would be effected by reducing their salaries or by requiring them to take furloughs without pay.

ANNUAL LEAVE OF EMPLOYEES.

Section 103 of Title I of the Act provides that "all rights now conferred or authorized to be conferred by law upon any officer or employee to receive annual leave of absence with pay are hereby suspended during the fiscal year ending June 30, 1933; "but this provision clearly is not applicable to officers and employees of the Federal Reserve Board; because as explained above, the terms "officer" and "employee" as used in Title I of the Act do not include public officials and employees whose compensation is derived from assessments on banks and/or is not paid from the Federal Treasury.

Section 215 of Title II of the Act provides that, "Hereafter no civilian officer or employee of the Government who receives annual leave with pay shall be granted annual leave of absence with pay in excess of fifteen days in any one year, excluding Sundays and legal holidays." It is also provided that leave unused in one year may be cumulative for any

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succeeding year; that sick leave of absence allowed under existing law is not affected by this provision; and that such sick leave of absence shall be administered under regulations prescribed by the President so as to obtain, so far as practicable, uniformity in the various departments and establishments in the Government.

As this provision is not in Title I of the Act and in view of its broad language, it is my opinion that it is applicable to the members and employees of the Federal Reserve Board and that in order to comply with this law, annual leave for such members and employees must hereafter be restricted to fifteen days in any one year, excluding Sundays and legal holidays. The allowance for sick leave is not affected and there is no statutory provision limiting the amount of sick leave which the Board may grant to its members or employees.

It is not entirely clear from a reading of this provision whether the words "in any one year" should be interpreted as meaning (a) in any one calendar year; or (b) in any one fiscal year; but annual leave has heretofore been allowed by law upon the basis of the calendar year and, as there is nothing in the new provision to indicate a change of intention in this respect, it is believed that annual leave should continue to be computed on the basis of the calendar year.

It will be observed that the statute provides that hereafter no officer or employee shall be granted leave in excess of fifteen days in any one year. The words "hereafter" and "granted" taken together show clearly that it is not the intention of this provision that leave which may previously have been granted to any employee during the present

calendar year should enter into the determination of the amount of leave which may be granted to him during the remainder of the year 1932. The provision is directed solely at leave granted after the passage of the Act.

Under the law, therefore, no member or employee of the Federal Reserve Board may be granted annual leave with pay in excess of fifteen days during the remainder of the current calendar year; but the amount of annual leave which such member or employee may have previously received during 1932 does not affect the question; except that the entire amount of leave received during the calendar year 1932 should, of course, not exceed the thirty days prescribed by the Board's existing regulations on this subject.

It is believed probable, however, that an administrative ruling will be issued with regard to the manner in which Government departments generally should apply these new provisions of law regarding annual leave of employees and the Federal Reserve Board probably will desire to follow the same course which is adopted by other Government establishments in this connection.

PROMOTION OF EMPLOYEES.

Section 201 of Title II of the Act prohibits automatic increases in compensation by reason of length of service or promotion during the fiscal year ending June 30, 1933; and Section 202

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prohibits, during the same period, "administrative promotions in the civil branch of the United States Government or the government of the District of Columbia." The filling of a vacancy, when authorized by the President, by the appointment of an employee of a lower grade is not construed as an administrative promotion.

Federal Reserve Board employees are, of course, not subject to automatic increases in compensation and so Section 201 is clearly inapplicable to them. While the provisions of Section 202 are broad enough to include the Federal Reserve Board, it seems apparent from certain references in the section to grades of employees and the rate of pay applicable to such grades that the section is directed only at administrative promotions in the classified civil service and so would not include the Federal Reserve Board. Furthermore, as pointed out above, the purpose of this Act is to provide economies in the expenditure of Government funds derived from Congressional appropriations; and since Federal Reserve Board employees are paid not from Congressional appropriations, but from assessments upon the Federal reserve banks, the Board would not seem to fall within the scope of the basic purpose of this section. Although the question is a doubtful one, I am inclined to the view that the Board is not prohibited by this provision from granting promotions to its employees during the next fiscal year, if it should see fit to do so. In any event the language of the section does not seem broad enough to prohibit the Board, if it should so desire,

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from making an increase in the compensation of an employee during the next fiscal year in a case where such increase does not involve a change in the position occupied by such employee which could be characterized as a promotion.

FILLING OF VACANCIES.

Section 203 of Title II of the Act provides that "no appropriation available to any executive department or independent establishment" during the fiscal year ending June 30, 1933, shall be used to pay the compensation of an incumbent appointed to any civil position under the United States Government which is vacant on July 1, 1932, or to any such position which may become vacant after such date; with an exception in favor of "absolutely essential positions", the filling of which may be authorized or approved in writing by the President of the United States, and of temporary, emergency, seasonal or cooperative positions. Appropriations unexpended by operation of this section are to be impounded and returned to the Treasury.

In my opinion this provision is not applicable to the filling of vacancies in the staff or personnel of the Federal Reserve Board because the prohibition of this section is upon the use of "appropriations". As the Board's funds are derived from assessments upon the Federal reserve banks, they are not appropriations within the meaning of this provision. Moreover, the Board's funds, although deposited with the Treasury as a special fund, never become

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a part of the general fund of the Treasury and, therefore, the provision requiring a "return" to the Treasury of impounded "appropriations" obviously could not apply to them.

While the Comptroller General in a case arising in 1923 took the position that the Board's funds had the status of appropriated moneys, in other cases arising since that time he has taken a more liberal position as to the power of the Federal Reserve Board over the expenditure of its funds within the limitations of the law. It is believed that the position taken by the Comptroller General in 1923 cannot properly be sustained and that, the Board's funds not being appropriations, this section is not properly applicable to the Board.

COMPULSORY RETIREMENT OF EMPLOYEES FOR AGE.

Section 204 of Title II of the Act provides that on and after July 1, 1932, no person rendering civilian service in any branch or service of the United States Government who shall have reached the retirement age prescribed for automatic separation from the service, applicable to such person, shall be continued in such service; provided that the President may exempt any person from the provisions of this section when the public interest so requires.

Generally speaking, the employees of the Federal Reserve Board are not subject to the provisions of the Civil Service Retirement Act and are therefore not affected by this provision, because there

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is no retirement age for automatic separation from the service applicable to them. There are, however, seven employees on the rolls of the Federal Reserve Board (transferred from positions in the classified service) who contribute from their salaries to the retirement fund and are entitled to the benefits of the Retirement Act. Inasmuch as these employees are subject to the provisions of the Retirement Act, it would appear that Section 204 prohibits their employment by the Federal Reserve Board after they reach the age prescribed for automatic separation from the service applicable to them, which is understood to be seventy years. It appears, however, that it will be several years before any of these seven employees reach the retirement age and so there will be ample time for the determination of this question.

TRAVEL ALLOWANCES.

Section 207 of Title II of the Act has to do with travel allowances for civilian officers and employees of the government departments and establishments, and changes the present law by substituting a per diem allowance of five dollars a day for travel in the continental United States in lieu both of the seven dollar allowance for actual expenses and the alternative six dollar per diem allowance heretofore contained in the law. This section also changes the present law by substituting a per diem allowance of six dollars a day for travel outside of the continental United States in lieu both of the eight dollar allowance for actual expenses and the alternative seven dollar per diem allowance heretofore contained in the law.

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These provisions are applicable to members and employees of the Federal Reserve Board. It is understood that changes in the travel regulations to conform to the new law have been approved by the President.

Section 209 of Title II of the Act provides that no law or regulation authorizing or permitting the transportation at Government expense of the effects of officers, employees, or other persons shall authorize the transportation of an automobile. This section would appear to prevent the transportation of automobiles of officers and employees of the Federal Reserve Board at Government expense, although no case is known in which this has ever occurred.

COMPENSATION FOR OVERTIME AND NIGHT WORK.

Section 211 of Title II of the Act provides that, during the fiscal year ending June 30, 1933, no officer or employee of the Government shall be paid a higher rate of compensation for overtime work (either day or night) or for work on Sundays and holidays; and wherever by or under authority of law compensation for night work (other than overtime) is at a higher rate than for day work, such differential shall be reduced by one half. It is also provided that, in so far as practicable, overtime work shall be performed by others than those who have performed a day's work, and work on Sundays and holidays shall be performed by others than those who have performed a week's work.

The Board does not pay compensation for overtime work. It does have certain night employees in the office of the Gold Settlement Fund, but the compensation allowed them is not fixed by law. Moreover since the Federal Reserve Board has no corresponding class of day

employees, it would be impossible to say whether their compensation is at a higher rate than for day work.

The provisions of this section, therefore, do not seem to be applicable to the Federal Reserve Board.

STATUS OF MARRIED PERSONS IN PERSONNEL REDUCTIONS.

Section 213 of Title II of the Act provides that in any reduction of personnel in any branch or service of the United States Government, married persons (living with husband or wife) employed in the class to be reduced, shall be dismissed before any other persons employed in such class, if such husband or wife is also in the service of the United States or the District of Columbia.

This provision would apply to the Federal Reserve Board in case of a reduction in number of any particular class of its employees. It does not apply, of course, to prevent the Board from dismissing any employee for cause and filling the vacancy thus created.

This section also contains a similar preference in favor of others than married persons in the appointment of employees; but, by its terms, this provision applies only to appointments to the classified civil service and, therefore, is not applicable to the Federal Reserve Board.

FURLOUGH OF EMPLOYEES FOR INDEFINITE PERIODS.

Section 216 of Title II of the Act provides that "in order to keep within the appropriations made for the fiscal year 1933, the heads of the various executive departments and independent establishments" are authorized and directed to furlough without pay employees for such time as is necessary in their judgment to carry out this purpose, the higher salaried to be furloughed first whenever possible

without injury to the service.

It seems clear that the Federal Reserve Board is not affected by this provision because it refers definitely to "appropriations" made for the ensuing fiscal year. The Board, of course, has no such appropriation but derives its funds from semi-annual assessments upon the Federal reserve banks.

LIMITATIONS OF EXPENDITURES FOR PRINTING AND
BINDING AND STATIONERY.

Section 302 of Title III of the Act provides a limitation of eight million dollars upon the amount which may be obligated for printing and binding for the use of the United States and District of Columbia done at the Government Printing Office during the fiscal year ending June 30, 1933; and also places a limitation of four hundred thousand dollars upon the amount which shall be expended for paper furnished by the Government Printing Office for the use of the Government establishments during the same period. Nothing in the section, however, is to be construed to authorize the discontinuance of any report or publication specifically required by law.

These provisions, of course, are not limitations upon the Federal Reserve Board and in view of the peculiar status of the Board's funds, it is not believed that printing done for the Federal Reserve Board is intended to be included within the limitations. However, it is possible that because of these provisions the Board will find difficulty during the ensuing year in having a sufficient amount of printing and binding done at the Government Printing Office. This will depend in a large measure on the attitude of the Government Printing Office on this question.

ANNUAL REPORT TO CONGRESS.

Section 313 of Title III of the Act provides that in the annual report to Congress of each executive department or independent establishment, there shall be included a statement of receipts during the period covered by such report from fees or charges paid to such department or establishment under any act of Congress.

It is doubtful whether any of the fees or charges paid to the Federal Reserve Board from time to time are of such character as to be affected by this requirement; but, in any event, it is the practice of the Board to include in its annual report a statement of all receipts and disbursements and this would seem sufficient to meet the requirements of this section.

EXPENDITURES FOR RENT.

Section 322 of Title III of the Act provides that hereafter no appropriation shall be obligated or expended for the rent of any building or part of a building to be occupied for Government purposes at a rental in excess of a per annum rate of fifteen per centum of the fair market value of the premises at the date of the lease, nor for alterations, improvements and repairs of rented premises in excess of twenty-five per centum of the amount of the rent for the first year of the rental term; with a proviso that this section shall not apply to leases heretofore made.

This section is a restriction on the expenditure of appropriations and in my opinion is not applicable to the Federal Reserve Board. Since the funds of the Board are derived from assessments on the Federal Reserve Banks, they cannot properly be considered appropriations within the meaning of this provision. As indicated above,

however, the Comptroller General in one case took the position that the Board's funds constitute appropriated moneys, and it is possible that he might question the Board's right to make expenditures for rent, under leases hereafter entered into, in excess of the limitations prescribed by this provision. As shown above, the law does not affect leases heretofore made.

REORGANIZATION OF EXECUTIVE DEPARTMENTS.

Title IV of the Act declares it to be the policy of Congress to group, coordinate and consolidate executive and administrative agencies of the Government; to reduce the number thereof by consolidation; to eliminate overlapping and duplication of effort; and to segregate regulatory agencies and functions from those of an administrative and executive character. For the purpose of carrying out this policy the President is authorized, by executive order, to transfer the whole or any part of any commission, board, bureau, division, service, or office in the executive branch of the Government, and/or functions thereof, to the jurisdiction and control of another such Governmental agency or of any executive department; except that the President's power in this respect does not include authority to abolish any such Governmental agency or executive department which is created by statute. The President is also authorized, by executive order, to consolidate or redistribute the functions vested in any executive department or in the executive agencies included in any executive department, and to designate and fix the name and functions of any consolidated activity or executive agency and the title, powers and duties of its executive head. No executive order issued by the President under this title, however, shall (with certain specified exceptions) become effective until it has been transmitted to Congress and

Congress has either approved it or has had an opportunity for sixty days (not interrupted by adjournment) to disapprove it and neither House has done so. Whenever the President concludes that any executive department or agency, which has been created by statute, should be abolished and its functions transferred to another department or agency or eliminated entirely, he is required to report his conclusions to Congress with such recommendations as he may deem proper. The President is also required to report to Congress at the beginning of each regular session any action taken pursuant to the provisions of this title, with the reasons therefor.

Under the provisions of this title of the Act, it appears to be possible for the President, if he should see fit, to transfer by executive order, subject to disapproval by Congress, functions and personnel of the Federal Reserve Board to another agency or department of the Government, or to transfer functions of other agencies or departments to the Federal Reserve Board.

INTERDEPARTMENTAL WORK.

Section 601 of Title VI of the Act authorizes any executive department or independent establishment of the Government, or any bureau or office thereof, if funds are available therefor and if it is deemed by the head of such executive department, bureau or office to be in the interest of the Government to do so, to place orders with any other such department, establishment, bureau or office for materials, supplies, equipment, work or services of any kind that such requisitioned Federal agency may be in a position to supply or equipped to render; and provision is made as to the manner in which payment shall be made for such supplies or services. It is provided, however, that if such work or services can be as conveniently or more cheaply performed by private agencies, such work shall be let by competitive bids to such private agencies.

Under this section, the Federal Reserve Board is authorized to purchase supplies or services from other Government departments or establishments; and possibly the Board might be called upon to render certain services for other departments or establishments.

JURISDICTION OF UNITED STATES COURTS OF
SUITS ARISING UNDER TITLE I OF ACT.

It is provided in Section 111 of Title I of the Act that "No court of the United States shall have jurisdiction of any suit against the United States or (unless brought by the United States) against any officer, agency or instrumentality of the United States, arising out of the application of any provision of this title, unless such suit involves the Constitution of the United States".

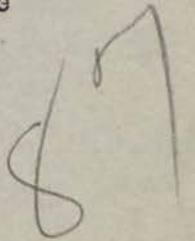
The effect of this provision is to preserve the right to the United States to bring suits, at the instance of the Comptroller General, to enforce any provision of Title I of the Act but to deny the right to any Government department or establishment to bring suit against the United States, the Comptroller General, or any other officer or agency of the United States, arising out of the application of Title I.

Respectfully,

George B. Vest,
Assistant Counsel.

I have given careful consideration to this subject and agree with the conclusions stated by Mr. Vest.

Walter Wyatt,
General Counsel.



[PUBLIC—No. 212—72D CONGRESS]

[H. R. 11267]

AN ACT

Making appropriations for the Legislative Branch of the Government for the fiscal year ending June 30, 1933, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

PART I

SECTION 1. The following sums are appropriated, out of any money in the Treasury not otherwise appropriated, for the Legislative Branch of the Government for the fiscal year ending June 30, 1933, namely:

SENATE

SALARIES AND MILEAGE OF SENATORS

For compensation of Senators, \$960,000.

For mileage of Senators, \$51,000.

For compensation of officers, clerks, messengers, and others:

OFFICE OF THE VICE PRESIDENT

Salaries: Secretary to the Vice President, \$4,620; clerk, \$2,400; assistant clerks—one \$2,280, one \$2,160; in all, \$11,460.

CHAPLAIN

Chaplain of the Senate, \$1,680.

OFFICE OF THE SECRETARY

Salaries: Secretary of the Senate, including compensation as disbursing officer of salaries of Senators and of contingent fund of the Senate, \$8,000; Assistant Secretary, Henry M. Rose, \$4,500; chief clerk, who shall perform the duties of reading clerk, \$5,500 and \$1,000 additional so long as the position is held by the present incumbent; financial clerk, \$5,000 and \$1,000 additional so long as the position is held by the present incumbent; assistant financial clerk, \$4,200 and \$600 additional so long as the position is held by the present incumbent; minute and Journal clerk, \$4,500 and \$1,000 additional so long as the position is held by the present incumbent; principal clerk, \$3,840; legislative clerk, enrolling clerk, and printing clerk at \$3,540 each; chief bookkeeper, \$3,600; librarian, \$3,360; executive clerk, file clerk, and assistant Journal clerk at \$3,180 each; first assistant librarian, and keeper of stationery at \$3,120 each; assistant librarian, \$2,460; skilled laborer, \$1,740; clerks—two at \$3,180 each, one \$2,880, one \$2,760, two at \$2,400 each, two at \$2,040

each; two assistant keepers of stationery at \$2,040 each; assistant in stationery room, \$1,740; messenger in library, \$1,560; special officer, \$2,460; assistant in library, \$2,040; laborers—two at \$1,620 each, three at \$1,380 each, one in stationery room, \$1,680; in all, \$118,520.

DOCUMENT ROOM

Salaries: Superintendent, \$3,960; first assistant, \$3,360; second assistant, \$2,700; assistant, \$2,040; two clerks, at \$2,040 each; skilled laborer, \$1,740; in all, \$17,880.

COMMITTEE EMPLOYEES

Clerks and messengers to the following committees: Agriculture and Forestry—clerk, \$3,900; assistant clerk, \$2,880; assistant clerk, \$2,580; assistant clerk, \$2,400; assistant clerk, \$2,220; additional clerk, \$1,800. Appropriations—clerk, \$7,000 and \$1,000 additional so long as the position is held by the present incumbent; assistant clerk, \$4,200; assistant clerk, \$3,900; three assistant clerks at \$3,000 each; two assistant clerks at \$2,220 each; messenger, \$1,800. To Audit and Control the Contingent Expenses of the Senate—clerk, \$3,900; assistant clerk, \$2,580; assistant clerk, \$2,400; assistant clerk, \$2,220; additional clerk, \$1,800. Banking and Currency—clerk, \$3,900; assistant clerk, \$2,880; assistant clerk, \$2,400; assistant clerk, \$2,220. Civil Service—clerk, \$3,900; assistant clerk, \$2,400; assistant clerk, \$2,220; additional clerk, \$1,800. Claims—clerk, \$3,900; assistant clerk, \$2,880; assistant clerk, \$2,580; two assistant clerks at \$2,220 each. Commerce—clerk, \$3,900; assistant clerk, \$2,880; assistant clerk, \$2,580; assistant clerk, \$2,400; assistant clerk, \$2,220. Conference Majority of the Senate—clerk, \$3,900; assistant clerk, \$2,880; two assistant clerks at \$2,580 each; assistant clerk, \$2,220. Conference Minority of the Senate—clerk, \$3,900; assistant clerk, \$2,880; two assistant clerks at \$2,580 each; assistant clerk, \$2,220. District of Columbia—clerk, \$3,900; two assistant clerks at \$2,880 each; assistant clerk \$2,220; additional clerk, \$1,800. Education and Labor—clerk, \$3,900; assistant clerk, \$2,580; assistant clerk, \$2,220; additional clerk, \$1,800. Enrolled Bills—clerk, \$3,900; assistant clerk, \$2,400; assistant clerk, \$2,220; additional clerk, \$1,800. Expenditures in the Executive Departments—clerk, \$3,900; assistant clerk, \$2,580; assistant clerk, \$2,220; additional clerk, \$1,800. Finance—clerk, \$4,200; special assistant to the committee, \$3,600; assistant clerk, \$2,880; assistant clerk, \$2,700; assistant clerk, \$2,400; two assistant clerks at \$2,220 each; two experts (one for majority and one for the minority) at \$3,600 each; messenger, \$1,800. Foreign Relations—clerk, \$3,900; assistant clerk, \$2,880; assistant clerk, \$2,580; assistant clerk, \$2,220; additional clerk, \$1,800; messenger, \$1,800. Immigration—clerk, \$3,900; assistant clerk, \$2,580; assistant clerk, \$2,220; additional clerk, \$1,800. Indian Affairs—clerk, \$3,900; assistant clerk, \$2,880; assistant clerk, \$2,400; assistant clerk, \$2,220; additional clerk, \$1,800. Interoceanic Canals—clerk, \$3,900; assistant clerk, \$2,580; assistant clerk, \$2,220; additional clerk, \$1,800. Interstate Commerce—clerk, \$3,900; assistant clerk, \$2,880; two assistant clerks at \$2,580 each; assistant clerk, \$2,220. Irrigation and Reclamation—clerk, \$3,900; assistant clerk, \$2,580; assistant clerk, \$2,220; additional clerk, \$1,800. Judiciary—

clerk, \$3,900; assistant clerk, \$2,880; two assistant clerks at \$2,580 each; assistant clerk, \$2,220. Library—clerk, \$3,900; assistant clerk, \$2,400; assistant clerk, \$2,220; additional clerk, \$1,800. Manufactures—clerk, \$3,900; assistant clerk, \$2,400; assistant clerk, \$2,220; additional clerk, \$1,800. Military Affairs—clerk, \$3,900; assistant clerk, \$2,880; assistant clerk, \$2,580; assistant clerk, \$2,400; two assistant clerks at \$2,220 each. Mines and Mining—clerk, \$3,900; assistant clerk, \$2,400; assistant clerk, \$2,220; additional clerk, \$1,800. Naval Affairs—clerk, \$3,900; assistant clerk, \$2,880; assistant clerk, \$2,400; two assistant clerks at \$2,220 each. Patents—clerk, \$3,900; assistant clerk, \$2,400; assistant clerk, \$2,220; additional clerk, \$1,800. Pensions—clerk, \$3,900; assistant clerk, \$2,580; four assistant clerks at \$2,220 each. Post Offices and Post Roads—clerk, \$3,900; assistant clerk, \$2,880; three assistant clerks at \$2,220 each; additional clerk, \$1,800. Printing—clerk, \$3,900; assistant clerk, \$2,580; assistant clerk, \$2,220; additional clerk, \$1,800. Privileges and Elections—clerk, \$3,900; assistant clerk, \$2,400; assistant clerk, \$2,220; additional clerk, \$1,800. Public Buildings and Grounds—clerk, \$3,900; assistant clerk, \$2,400; assistant clerk, \$2,220; additional clerk, \$1,800. Public Lands and Surveys—clerk, \$3,900; assistant clerk, \$2,880; assistant clerk, \$2,580; two assistant clerks at \$2,220 each. Revision of the Laws—clerk, \$3,900; assistant clerk, \$2,400; assistant clerk, \$2,220; additional clerk, \$1,800. Rules—clerk, \$3,900, and \$200 toward the preparation biennially of the Senate Manual under the direction of the Committee on Rules; assistant clerk, \$2,880; assistant clerk, \$2,580; assistant clerk, \$2,220; additional clerk, \$1,800. Territories and Insular Possessions—clerk, \$3,900; assistant clerk, \$2,580; assistant clerk, \$2,220; additional clerk, \$1,800; in all, \$481,300.

CLERICAL ASSISTANCE TO SENATORS

Clerical assistance to Senators who are not chairmen of the committees specifically provided for herein, as follows: Seventy clerks at \$3,900 each; seventy assistant clerks at \$2,400 each, and seventy assistant clerks at \$2,220 each, \$596,400. Such clerks and assistant clerks shall be ex officio clerks and assistant clerks of any committee of which their Senator is chairman.

Seventy additional clerks at \$1,800 each, one for each Senator having no more than one clerk and two assistant clerks for himself or for the committee of which he is chairman; messenger, \$1,800; \$127,800; in all, \$724,200.

OFFICE OF SERGEANT AT ARMS AND DOORKEEPER

Salaries: Sergeant at Arms and Doorkeeper, \$8,000; two secretaries (one for the majority and one for the minority) at \$5,400 each; two assistant secretaries (one for the majority and one for the minority) at \$4,320 each; messengers—five (acting as assistant doorkeepers, including one for minority) at \$2,400 each, thirty-eight (including two for minority) at \$2,040 each, one at \$1,560, one at card door, \$2,880; clerk on journal work for Congressional Record, to be selected by the official reporters, \$3,360; Deputy Sergeant at Arms and storekeeper, \$4,440; clerk, \$2,460; stenographer in charge of furniture accounts and records, \$1,740; upholsterer and locksmith,

\$2,400; cabinetmaker, \$2,040; three carpenters at \$2,040 each; janitor, \$2,040; skilled laborers—seven at \$1,680 each, one at \$1,560; laborer in charge of private passage, \$1,680; three female attendants in charge of ladies' retiring rooms at \$1,500 each; three attendants to women's toilet rooms, Senate Office Building, at \$1,500 each; telephone operators—chief, \$2,460, seven at \$1,560 each; night operator, \$1,380; telephone page, \$1,260; laborer in charge of Senate toilet rooms in old library space, \$1,200; press gallery—superintendent, \$3,660, assistant superintendent, \$2,520, messenger for service to press correspondents, \$1,740; laborers—three at \$1,320 each, thirty-four at \$1,260 each; twenty-one pages for the Senate Chamber, at the rate of \$4 per day each, during the session, \$10,164; in all, \$252,104.

Police force for Senate Office Building under the Sergeant at Arms: Special officer, \$1,740; sixteen privates at \$1,620 each; in all, \$27,660.

POST OFFICE

Salaries: Postmaster, \$3,060; chief clerk, \$2,460; wagon master, \$2,040; seven mail carriers at \$1,740 each; two riding pages at \$1,440 each; in all, \$22,620.

FOLDING ROOM

Salaries: Foreman, \$2,460; assistant, \$2,160; clerk, \$1,740; folders—chief, \$2,040, seven at \$1,560 each, seven at \$1,380 each; in all, \$28,980.

CONTINGENT EXPENSES OF THE SENATE

For stationery for Senators and the President of the Senate, including \$7,500 for stationery for committees and officers of the Senate, \$25,000.

Postage stamps: For office of Secretary, \$250; office of Sergeant at Arms, \$100; in all, \$350.

For maintaining, exchanging, and equipping motor vehicles for carrying the mails and for official use of the offices of the Secretary and Sergeant at Arms, \$7,960.

For driving, maintenance, and operation of an automobile for the Vice President, \$4,000.

For materials for folding, \$1,500.

For folding speeches and pamphlets, at a rate not exceeding \$1 per thousand, \$10,000.

For fuel, oil, cotton waste, and advertising, exclusive of labor, \$2,000.

For the purchase of furniture, \$5,000.

For materials for furniture and repairs of same, exclusive of labor, \$3,000.

For services in cleaning, repairing, and varnishing furniture, \$2,000.

For packing boxes, \$970.

For rent of warehouse for storage of public documents, \$2,000.

For miscellaneous items, exclusive of labor, \$100,000.

For expenses of inquiries and investigations ordered by the Senate, including compensation to stenographers of committees, at such rate

as may be fixed by the Committee to Audit and Control the Contingent Expenses of the Senate, but not exceeding 25 cents per hundred words, \$150,000: *Provided*, That except in the case of the Joint Committee on Internal Revenue Taxation no part of this appropriation shall be expended for services, personal, professional, or otherwise, in excess of the rate of \$3,600 per annum: *Provided further*, That no part of this appropriation shall be expended for per diem and subsistence expenses except in accordance with the provisions of the Subsistence Expense Act of 1926, approved June 3, 1926, as amended.

For reporting the debates and proceedings of the Senate, payable in equal monthly installments, \$54,306.

For repairs, improvements, equipment, and supplies for Senate kitchens and restaurants, Capitol Building and Senate Office Building, including personal and other services, to be expended from the contingent fund of the Senate, under the supervision of the Committee on Rules, United States Senate, \$30,000.

HOUSE OF REPRESENTATIVES

SALARIES AND MILEAGE OF MEMBERS

For compensation of Members of the House of Representatives, Delegates from Territories, the Resident Commissioner from Porto Rico, and the Resident Commissioners from the Philippine Islands, \$4,405,000.

For mileage of Representatives and Delegates and expenses of Resident Commissioners, \$175,000.

For compensation of officers, clerks, messengers, and others:

OFFICE OF THE SPEAKER

Salaries: Secretary to the Speaker, \$4,620; parliamentarian, \$4,500, and for preparing Digest of the Rules, \$1,000 per annum; assistant parliamentarian, \$2,760; clerk to Speaker, \$2,400; clerk to Speaker, \$1,440; messenger to Speaker's table, \$1,740; messenger to Speaker, \$1,680; in all, \$20,140.

CHAPLAIN

Chaplain of the House of Representatives, \$1,680.

OFFICE OF THE CLERK

Salaries: Clerk of the House of Representatives, including compensation as disbursing officer of the contingent fund, \$8,000; Journal clerk, two reading clerks, and tally clerk, at \$5,000 each; enrolling clerk, \$4,000; disbursing clerk, \$3,960; file clerk, \$3,780; chief bill clerk, \$3,540; assistant enrolling clerk, \$3,180; assistant to disbursing clerk, \$3,120; stationery clerk, \$2,880; librarian, \$2,760; assistant librarian, and assistant file clerk, at \$2,520 each; assistant Journal clerk, and assistant librarian, at \$2,460 each; clerks—one \$2,460, three at \$2,340 each; bookkeeper, and assistant in disbursing office, at \$2,160 each; four assistants to chief bill clerk at \$2,100 each; stenographer to the Clerk, \$1,980; assistant in stationery room,

\$1,740; three messengers at \$1,680 each; stenographer to Journal clerk, \$1,560; laborers—three at \$1,440 each, nine at \$1,260 each; telephone operators—assistant chief, \$1,620, eighteen at \$1,560 each; three at the rate of \$1,560 each per annum from December 1, 1932, to June 30, 1933, inclusive; substitute telephone operator when required, at \$4 per day, \$1,460; property custodian and superintendent of furniture and repair shop, who shall be a skilled cabinetmaker or upholsterer and experienced in the construction and purchase of furniture, \$3,960; two assistant custodians at \$3,360 each; locksmith and typewriter repairer, \$1,860; messenger and clock repairer, \$1,740; operation, maintenance, and repair of motor vehicles, \$1,200; in all, \$162,730.

COMMITTEE EMPLOYEES

Clerks, messengers, and janitors to the following committees: Accounts—clerk, \$3,300; assistant clerk, \$2,460; janitor, \$1,560. Agriculture—clerk, \$3,300; assistant clerk, \$2,460; janitor, \$1,560. Appropriations—clerk, \$7,000 and \$1,000 additional so long as the position is held by the present incumbent; assistant clerk, \$5,000 and \$1,000 additional so long as the position is held by the present incumbent; three assistant clerks at \$3,900 each; assistant clerk, \$3,600; two assistant clerks at \$3,300 each; messenger, \$1,680. Banking and Currency—clerk, \$2,760; assistant clerk, \$1,740; janitor, \$1,260. Census—clerk, \$2,760; janitor, \$1,260. Civil Service—clerk, \$2,760; janitor, \$1,260. Claims—clerk, \$3,300; assistant clerk, \$1,740; janitor, \$1,260. Coinage, Weights, and Measures—clerk, \$2,760; janitor, \$1,260. Disposition of Useless Executive Papers—clerk, \$2,760. District of Columbia—clerk, \$3,300; assistant clerk, \$2,460; janitor, \$1,260. Education—clerk, \$2,760. Election of President, Vice President, and Representatives in Congress—clerk, \$2,760. Elections Numbered 1—clerk, \$2,760; janitor, \$1,260. Elections Numbered 2—clerk, \$2,760; janitor, \$1,260. Elections Numbered 3—clerk, \$2,760; janitor, \$1,260. Enrolled Bills—clerk, \$2,760; janitor, \$1,260. Expenditures in Executive Departments—clerk, \$3,300; janitor, \$1,260. Flood Control—clerk, \$2,760; janitor, \$1,260. Foreign Affairs—clerk, \$3,300; assistant clerk, \$2,460; janitor, \$1,260. Immigration and Naturalization—clerk, \$3,300; janitor, \$1,260. Indian Affairs—clerk, \$3,300; assistant clerk, \$2,460; janitor, \$1,260. Insular Affairs—clerk, \$2,760; janitor, \$1,260. Interstate and Foreign Commerce—clerk, \$3,900; assistant clerk, \$2,640; janitor, \$1,560. Irrigation and Reclamation—clerk, \$2,760; janitor, \$1,260. Invalid Pensions—clerk, \$3,300; assistant clerk, \$2,880; expert examiner, \$2,700; stenographer, \$2,640; janitor, \$1,500. Judiciary—clerk, \$3,900; assistant clerk, \$2,160; assistant clerk, \$1,980; janitor, \$1,500. Labor—clerk, \$2,760; janitor, \$1,260. Library—clerk, \$2,760; janitor, \$1,260. Merchant Marine, Radio, and Fisheries—clerk, \$2,760; janitor, \$1,260. Military Affairs—clerk, \$3,300; assistant clerk, \$2,100; janitor, \$1,560. Mines and Mining—clerk, \$2,760; janitor, \$1,260. Naval Affairs—clerk, \$3,300; assistant clerk, \$2,100; janitor, \$1,560. Patents—clerk, \$2,760; janitor, \$1,260. Pensions—clerk, \$3,300; assistant clerk, \$2,160; janitor, \$1,260. Post Office and Post Roads—clerk, \$3,300; assistant clerk, \$2,100; janitor, \$1,560. Printing—clerk, \$2,760; janitor, \$1,560.

Public Buildings and Grounds—clerk, \$3,300; assistant clerk, \$1,740; janitor \$1,260. Public Lands—clerk, \$2,760; assistant clerk, \$1,740; janitor, \$1,260. Revision of the Laws—clerk, \$3,300; janitor, \$1,260. Rivers and Harbors—clerk, \$3,300; assistant clerk, \$2,460; janitor, \$1,560. Roads—clerk, \$2,760; assistant clerk, \$1,740; janitor, \$1,260. Rules—clerk, \$3,300; assistant clerk, \$2,100; janitor, \$1,260. Territories—clerk, \$2,760; janitor, \$1,260. War Claims—clerk, \$3,300; assistant clerk, \$1,740; janitor, \$1,260. Ways and Means—clerk, \$4,620; assistant clerk and stenographer, \$2,640; assistant clerk, \$2,580; clerk for minority, \$3,180; janitors—one, \$1,560, one, \$1,260. World War Veterans' Legislation—clerk, \$3,300; assistant clerk, \$2,460; in all, \$296,000.

Appropriations in the foregoing paragraph shall not be available for the payment of any clerk or assistant clerk to a committee who does not, after the termination of the Congress during which he was appointed, perform his duties under the direction of the Clerk of the House: *Provided*, That the foregoing shall not apply to the Committee on Accounts.

Janitors under the foregoing shall be appointed by the chairmen, respectively, of said committees, and shall perform under the direction of the Doorkeeper all of the duties heretofore required of messengers detailed to said committees by the Doorkeeper, and shall be subject to removal by the Doorkeeper at any time after the termination of the Congress during which they were appointed.

OFFICE OF SERGEANT AT ARMS

Salaries: Sergeant at Arms, \$8,000; Deputy Sergeant at Arms, \$3,180; cashier, \$4,920; two bookkeepers at \$3,360 each; Deputy Sergeant at Arms in charge of pairs, pair clerk and messenger, and assistant cashier, at \$2,820 each; stenographer and typewriter, \$600; skilled laborer, \$1,380; hire of automobile, \$600; in all, \$33,860.

Police Force, House Office Building, under the Sergeant at Arms: Lieutenant, \$1,740; nineteen privates at \$1,620 each; one sergeant at the rate of \$1,680 per annum, and twelve privates at the rate of \$1,620 per annum each, from December 1, 1932, to June 30, 1933, inclusive; in all, \$44,840.

OFFICE OF DOORKEEPER

Salaries: Doorkeeper, \$6,000; special employee, \$2,820; superintendent of House press gallery, \$3,660; assistant to the superintendent of the House press gallery, \$2,520; chief janitor, \$2,700; messengers—seventeen at \$1,740 each, fourteen on soldiers' roll at \$1,740 each; laborers—seventeen at \$1,260 each, two (cloakroom) at \$1,380 each, one (cloakroom) \$1,260, and seven (cloakroom) at \$1,140 each; three female attendants in ladies' retiring rooms at \$1,680 each; attendant for the ladies' reception room, \$1,440; superintendent of folding room, \$3,180; foreman of folding room, \$2,640; chief clerk to superintendent of folding room, \$2,460; three clerks at \$2,160 each; janitor, \$1,260; laborer, \$1,260; thirty-one folders at \$1,440 each; shipping clerk, \$1,740; two drivers at \$1,380 each; two chief pages at \$1,980 each; two telephone pages at \$1,680 each; two floor managers of telephones (one for the minority) at \$3,180 each; two

assistant floor managers in charge of telephones (one for the minority) at \$2,100 each; forty-one pages, during the session, including ten pages for duty at the entrances to the Hall of the House, at \$4 per day each, \$19,844; press-gallery page, \$1,920; superintendent of document room (Elmer A. Lewis), \$3,960; assistant superintendent of document room, \$2,760 and \$420 additional so long as the position is held by the present incumbent; clerk, \$2,320; assistant clerk, \$2,160; eight assistants at \$1,860 each; janitor, \$1,440; messenger to pressroom, \$1,560; maintenance and repair of folding room motor truck, \$500; in all, \$247,604.

SPECIAL AND MINORITY EMPLOYEES

For the minority employees authorized and named in the House Resolutions Numbered 51 and 53 of December 11, 1931: Two at \$5,000 each, four at \$2,820 each; in all, \$21,280.

Assistant foreman of the folding room, authorized in the resolution of September 30, 1913, \$1,980.

Laborer, authorized and named in the resolution of April 28, 1914, \$1,380.

Laborer, authorized and named in the resolution of December 19, 1901, \$1,380.

Clerk, under the direction of the Clerk of the House, named in the resolution of February 13, 1923, \$3,060.

Successors to any of the employees provided for in the five preceding paragraphs may be named by the House of Representatives at any time.

Office of majority floor leader: Legislative clerk, \$3,960; clerk, \$3,180; assistant clerk, \$2,100; for official expenses of the majority leader, as authorized by House Resolution Numbered 101, Seventy-first Congress, adopted December 18, 1929, \$2,000; in all, \$11,240.

Conference minority: Clerk, \$3,180; legislative clerk, \$3,060; assistant clerk, \$2,100; janitor, \$1,560; in all, \$9,900. The foregoing employees to be appointed by the minority leader.

Two messengers, one in the majority caucus room and one in the minority caucus room, to be appointed by the majority and minority whips, respectively, at \$1,740 each, \$3,480.

POST OFFICE

Salaries: Postmaster, \$5,000; assistant postmaster, \$2,880; registry and money-order clerk, \$2,100; thirty-four messengers (including one to superintend transportation of mails) at \$1,740 each; substitute messengers and extra services of regular employees, when required, at the rate of not to exceed \$145 per month each, \$1,240; laborer, \$1,260; in all, \$71,640.

For the purchase, exchange, maintenance, and repair of motor vehicles for carrying the mails, \$3,400.

OFFICIAL REPORTERS OF DEBATES

Salaries: Seven official reporters of the proceedings and debates of the House at \$7,500 each; clerk, \$3,360; six expert transcribers at \$1,740 each; janitor, \$1,440; in all, \$67,740.

COMMITTEE STENOGRAPHERS

Salaries: Four stenographers to committees, at \$7,000 each; janitor, \$1,440; in all, \$29,440.

Whenever the words "during the session" occur in the foregoing paragraphs they shall be construed to mean the one hundred and twenty-one days from December 1, 1932, to March 31, 1933, both inclusive.

CLERK HIRE, MEMBERS AND DELEGATES

For clerk hire necessarily employed by each Member, Delegate, and Resident Commissioner, in the discharge of his official and representative duties, in accordance with the Act entitled "An Act to fix the compensation of officers and employees of the Legislative Branch of the Government," approved June 20, 1929, \$2,200,000.

CONTINGENT EXPENSES OF THE HOUSE

For furniture and materials for repairs of the same, including not to exceed \$22,500 for labor, tools, and machinery for furniture repair shops, \$42,500.

For packing boxes, \$4,000.

For miscellaneous items, exclusive of salaries and labor unless specifically ordered by the House of Representatives, including reimbursement to the official stenographers to committees for the amounts actually and necessarily paid out by them for transcribing hearings, and including materials for folding, \$65,000.

For stenographic reports of hearings of committees other than special and select committees, \$25,000.

For expenses of special and select committees authorized by the House, \$50,000.

For telegraph and telephone service, exclusive of personal services, \$90,000.

For stationery for Representatives, Delegates, and Resident Commissioners, including \$5,000 for stationery for the use of the committees and officers of the House, \$60,000.

For medical supplies, equipment, and contingent expenses for the emergency room and for the attending physician and his assistants, including an allowance of not to exceed \$30 per month each to three assistants as provided by the House Resolutions adopted July 1, 1930, and January 20, 1932, \$2,500.

For postage stamps: Postmaster, \$250; clerk, \$450; sergeant at arms, \$300; doorkeeper, \$150; in all, \$1,150.

For folding speeches and pamphlets, at a rate not exceeding \$1 per thousand, \$20,000.

For preparation and editing of the laws as authorized by the Act approved May 29, 1928 (U. S. C., Supp. V, title 1, sec. 59), \$6,000, to be expended under the direction of the Committee on Revision of the Laws.

CAPITOL POLICE

Salaries: Captain, \$2,460; three lieutenants at \$1,740 each; two special officers at \$1,740 each; three sergeants at \$1,680 each; forty-four privates at \$1,620 each; one-half of said privates to be selected

by the Sergeant at Arms of the Senate and one-half by the Sergeant at Arms of the House; in all, \$87,480.

For contingent expenses, \$200.

For purchasing and supplying uniforms and motor cycles to Capitol police, \$7,750.

One-half of the foregoing amounts under "Capitol police" shall be disbursed by the Secretary of the Senate and one-half by the Clerk of the House.

JOINT COMMITTEE ON PRINTING

Salaries: Clerk, \$4,000 and \$800 additional so long as the position is held by the present incumbent; inspector under section 20 of the Act approved January 12, 1895 (U. S. C., title 44, section 49), \$2,820; assistant clerk and stenographer, \$2,400; for expenses of compiling, preparing, and indexing the Congressional Directory, \$1,600; in all, \$11,620, one half to be disbursed by the Secretary of the Senate and the other half to be disbursed by the Clerk of the House.

OFFICE OF LEGISLATIVE COUNSEL

For salaries and expenses of maintenance of the office of Legislative Counsel, as authorized by law, \$75,000, of which \$37,500 shall be disbursed by the Secretary of the Senate and \$37,500 by the Clerk of the House of Representatives.

STATEMENT OF APPROPRIATIONS

For preparation, under the direction of the Committees on Appropriations of the Senate and House of Representatives of the statements for the first session of the Seventy-second Congress, showing appropriations made, indefinite appropriations, and contracts authorized, together with a chronological history of the regular appropriation bills, as required by law, \$4,000, to be paid to the persons designated by the chairman of said committees to do the work.

ARCHITECT OF THE CAPITOL

OFFICE OF THE ARCHITECT OF THE CAPITOL

Salaries: For the Architect of the Capitol, Assistant Architect of the Capitol, and other personal services at rates of pay provided by law; and the Assistant Architect of the Capitol shall act as Architect of the Capitol during the absence or disability of that official or whenever there is no Architect, \$48,580.

CAPITOL BUILDINGS AND GROUNDS

Capitol Buildings: For necessary expenditures for the Capitol Building and electrical substations of the Senate and House Office Buildings, under the jurisdiction of the Architect of the Capitol, including minor improvements, maintenance, repair, equipment, supplies, material, fuel, oil, waste, and appurtenances; furnishings

and office equipment; personal and other services; cleaning and repairing works of art; maintenance, and driving of motor-propelled passenger-carrying office vehicle; pay of superintendent of meters, and \$300 additional for the maintenance of an automobile for his use, who shall inspect all gas and electric meters of the Government in the District of Columbia without additional compensation; and not exceeding \$300 for the purchase of technical and necessary reference books, periodicals, and city directory; \$240,000.

Appropriations under the control of the Architect of the Capitol shall be available for expenses of travel on official business not to exceed in the aggregate under all funds the sum of \$3,500.

Capitol Grounds: For care and improvement of grounds surrounding the Capitol, Senate and House Office Buildings; Capitol Power Plant; personal and other services; care of trees; plantings; fertilizers; repairs to pavements, walks, and roadways; purchase of waterproof wearing apparel; maintenance of signal lights; and for snow removal by hire of men and equipment or under contract without compliance with sections 3709 (U. S. C., title 41, sec. 5) and 3744 (U. S. C., title 40, sec. 16) of the Revised Statutes; \$100,000.

Capitol garages: For maintenance, repairs, alterations, personal and other services, and all necessary incidental expenses, \$7,540: *Provided*, That the employees engaged in the care and maintenance of the Senate garage shall be transferred to the jurisdiction of the Architect of the Capitol on July 1, 1932, without any reduction in compensation as the result of such transfer: *Provided further*, That hereafter the underground space in the north extension of the Capitol Grounds shall be under the jurisdiction and control of the Architect of the Capitol, subject to such regulations respecting the use thereof as may be promulgated by the joint action of the Vice President of the United States and the Speaker of the House of Representatives.

Subway transportation, Capitol and Senate Office Buildings: For repairs, rebuilding, and maintenance of the subway cars connecting the Senate Office Building with the Senate wing of the United States Capitol and for personal and other services, including maintenance of the track and electrical equipment connected therewith, \$2,000.

Senate Office Building: For maintenance, miscellaneous items and supplies, including furniture, furnishings, and equipment and for labor and material incident thereto and repairs thereof; and for personal and other services for the care and operation of the Senate Office Building, under the direction and supervision of the Senate Committee on Rules, acting through the Architect of the Capitol, who shall be its executive agent, \$175,000.

House Office Buildings: For maintenance, including miscellaneous items, and for all necessary services, \$250,000.

To continue carrying out the provisions of the Act entitled "An Act to provide for the acquisition of a site and the construction thereon of a fireproof office building or buildings for the House of Representatives," approved January 10, 1929 (45 Stat., p. 1071), including printing and binding, travelling expenses heretofore incurred in connection with such construction by authority of the commission in charge, and other miscellaneous expenses, \$406,000, to remain available until expended.

Capitol power plant: For lighting, heating, and power for the Capitol, Senate and House Office Buildings, Supreme Court Building, Congressional Library Buildings, and the grounds about the same, Botanic Garden, Capitol garages, folding and storage rooms of the Senate, Government Printing Office, and Washington City post office; personal and other services, engineering instruments, fuel, oil, materials, labor, advertising, and purchase of waterproof wearing apparel in connection with the maintenance and operation of the heating, lighting, and power plant, \$325,000.

For the installation of duplicate steam lines to new buildings; clean-water intake screens and auxiliaries and high-tension switching equipment, including all necessary work in connection with such installation, and for all labor, materials, travel expenses and subsistence therefor; and without regard to section 35 of the Public Buildings Act, approved June 25, 1910, as amended, or the Classification Act of 1923, as amended, for employment of all necessary personnel, including architectural, engineering, and professional services and other assistants, and for all other expenses incident thereto, \$125,000, to be immediately available.

The appropriations under the control of the Architect of the Capitol may be expended without reference to section 4 of the Act approved June 17, 1910 (U. S. C., title 41, sec. 7), concerning purchases for executive departments.

The Government Printing Office and the Washington City post office shall reimburse the Capitol power plant for heat, light, and power furnished during the fiscal year 1933 and the amounts so reimbursed shall be covered into the Treasury.

LIBRARY BUILDING AND GROUNDS

Salaries: For chief engineer and all personal services at rates of pay provided by law, \$46,960: *Provided*, That the Architect of the Capitol may continue the employment under his jurisdiction of Damon W. Harding, but not beyond June 30, 1934, notwithstanding any provision of the Act entitled "An Act for the retirement of employees in the classified civil service, and for other purposes," approved May 22, 1920, and any amendment thereof, prohibiting extensions of service for more than four years after the age of retirement.

For trees, shrubs, plants, fertilizers, and skilled labor for the grounds of Library of Congress, \$1,000.

For necessary expenditures for the Library Building under the jurisdiction of the Architect of the Capitol, including minor improvements, maintenance, repair, equipment, supplies, material, and appurtenances, and personal and other services in connection with the mechanical and structural maintenance of such building, \$13,500.

For furniture, including partitions, screens, shelving, and electrical work pertaining thereto and repairs thereof, \$10,000.

To continue carrying out the provisions of the Act entitled "An Act to provide for the construction and equipment of an annex to the Library of Congress," approved June 13, 1930 (46 Stat., p. 583), \$150,000, to be immediately available and to remain available until expended.

Botanic Garden, building and grounds: The appropriation for construction of new conservatories and other necessary buildings for the United States Botanic Gardens is hereby made available for the removal of tropical and hardy plant material in the old Botanic Garden to the new conservatory and grounds, including the hire of labor and equipment.

BOTANIC GARDEN

Salaries: For the director and other personal services, \$100,000; all under the direction of the Joint Committee on the Library: *Provided*, That the quarters, heat, light, fuel, and telephone service heretofore furnished for the director's use in the Botanic Garden shall not be regarded as a part of his salary or compensation, and such allowances may continue to be so furnished without deduction from his salary or compensation notwithstanding the provisions of section 3 of the Act of March 5, 1928 (U. S. C., title 5, sec. 678), or any other law.

Maintenance, operation, repairs, and improvements: For all necessary expenses incident to maintaining, operating, repairing, and improving the Botanic Garden, and the nurseries, buildings, grounds, and equipment pertaining thereto, including procuring fertilizers, soil, tools, trees, shrubs, plants, and seeds; materials and miscellaneous supplies, including rubber boots and aprons when required for use by employees in connection with their work; not to exceed \$25 for emergency medical supplies; disposition of waste; traveling expenses and per diem in lieu of subsistence of the director and his assistants not to exceed \$975; street-car fares not exceeding \$25; office equipment and contingent expenses; the prevention and eradication of insect and other pests and plant diseases by purchase of materials and procurement of personal services by contract without regard to the provisions of any other Act; repair, maintenance, and operation of motor trucks and passenger motor vehicle; not to exceed \$2,500 for purchase and exchange of a motor truck; purchase of botanical books, periodicals, and books of reference, not to exceed \$100; repairs and improvements to director's residence; and all other necessary expenses; all under the direction of the Joint Committee on the Library, \$40,000.

The sum of \$100 may be expended at any one time by the Botanic Garden for the purchase of plants, trees, shrubs, and other nursery stock, without reference to section 3709 of the Revised Statutes (U. S. C., title 41, sec. 5).

No part of the appropriations contained herein for the Botanic Garden shall be used for the distribution, by congressional allotment, of trees, plants, shrubs, or other nursery stock.

LIBRARY OF CONGRESS

SALARIES

For the Librarian, Chief Assistant Librarian, and other personal services, \$842,045.

For the Register of Copyrights, assistant register, and other personal services, \$249,380.

LEGISLATIVE REFERENCE SERVICE

To enable the Librarian of Congress to employ competent persons to gather, classify, and make available, in translations, indexes, digests, compilations, and bulletins, and otherwise, data for or bearing upon legislation, and to render such data serviceable to Congress and committees and Members thereof, including not to exceed \$5,700 for employees engaged on piecework and work by the day or hour at rates to be fixed by the Librarian, \$67,500.

DISTRIBUTION OF CARD INDEXES

For the distribution of card indexes and other publications of the Library, including personal services, freight charges (not exceeding \$500), expressage, postage, traveling expenses connected with such distribution, expenses of attendance at meetings when incurred on the written authority and direction of the Librarian, and including not to exceed \$58,500 for employees engaged in piecework and work by the day or hour and for extra special services of regular employees at rates to be fixed by the Librarian; in all, \$170,000.

TEMPORARY SERVICES

For special and temporary service, including extra special services of regular employees, at rates to be fixed by the Librarian, \$3,000.

INDEX TO STATE LEGISLATION

To enable the Librarian of Congress to prepare an index to the legislation of the several States, together with a supplemental digest of the more important legislation, as authorized and directed by the Act entitled "An Act providing for the preparation of a biennial index to State legislation," approved February 10, 1927 (U. S. C., Supp. V, title 2, secs. 164, 165), including personal and other services within and without the District of Columbia including not to exceed \$2,500 for special and temporary service at rates to be fixed by the Librarian, travel, necessary material and apparatus, and for printing and binding the indexes and digests of State legislation for official distribution only, and other printing and binding incident to the work of compilation, stationery, and incidentals, \$25,000, and in addition the unexpended balance of the appropriation for this purpose for the fiscal year 1932 is reappropriated for the fiscal year 1933.

INDEX TO FEDERAL STATUTES

To enable the Librarian of Congress to revise and extend the index to the Federal Statutes, published in 1908 and known as the Scott and Beaman Index, to include the Acts of Congress down to and including the Acts of the Seventieth Congress, and to have the revised index printed at the Government Printing Office, as authorized and directed by the Act approved March 3, 1927, as amended June 14, 1930, the unexpended balance of the appropriation for this purpose in the Legislative Appropriation Act for the fiscal year 1932 is continued available for the fiscal year 1933.

SUNDAY OPENING

To enable the Library of Congress to be kept open for reference use on Sundays and on holidays within the discretion of the Librarian, including the extra services of employees and the services of additional employees under the Librarian, at rates to be fixed by the Librarian, \$18,000.

UNION CATALOGUES

To continue the development and maintenance of the Union Catalogues, including personal services within and without the District of Columbia (and not to exceed \$1,400 for special and temporary service, including extra special services of regular employees, at rates to be fixed by the Librarian), travel, necessary material and apparatus, stationery, photostat supplies, and incidentals, \$20,000.

INCREASE OF THE LIBRARY

For purchase of books, miscellaneous periodicals and newspapers, and all other material, for the increase of the Library, including payment in advance for subscription books and society publications, and for freight, commissions, and traveling expenses, including expenses of attendance at meetings when incurred on the written authority and direction of the Librarian in the interest of collections, and all other expenses incidental to the acquisition of books, miscellaneous periodicals and newspapers, and all other material for the increase of the Library, by purchase, gift, bequest, or exchange, to continue available during the fiscal year 1934, \$100,000.

For purchase of books and for periodicals for the law library, under the direction of the Chief Justice, \$25,000.

For purchase of new books of reference for the Supreme Court, to be a part of the Library of Congress, and purchased by the Marshal of the Supreme Court, under the direction of the Chief Justice, \$2,500.

To enable the Librarian of Congress to carry out the provisions of the Act entitled "An Act to provide books for the adult blind," approved March 3, 1931 (U. S. C., Supp. V, title 2, sec. 135a), \$90,000.

PRINTING AND BINDING

For miscellaneous printing and binding for the Library of Congress, including the Copyright Office, and the binding, rebinding, and repairing of library books, and for the Library Building, \$190,000.

For the publication (1) of the remaining unpublished volumes of the Journals of the Continental Congress (volumes 30, 31, 32, and 33); and (2) the fourth, and final, volume of the Records of the Virginia Company; and (3) in connection with the Bicentenary of the Birth of George Washington, the rebinding, in full morocco, of the Papers of George Washington, three hundred and two volumes; the unexpended balance in the appropriation for this purpose in the Legislative Appropriation Act for the fiscal year 1932 is continued available for the fiscal year 1933.

For the publication of the Catalogue of Title Entries of the Copyright Office, \$50,000.

For the printing of catalogue cards, \$120,000.

CONTINGENT EXPENSES OF THE LIBRARY

For miscellaneous and contingent expenses, stationery, supplies, stock, and materials directly purchased, miscellaneous traveling expenses, postage, transportation, incidental expenses connected with the administration of the Library and Copyright Office, including not exceeding \$500 for expenses of attendance at meetings when incurred on the written authority and direction of the Librarian, \$9,000.

For paper, chemicals, and miscellaneous supplies necessary for the operation of the photoduplicating machines of the Library and the making of photoduplicate prints, \$5,000.

LIBRARY BUILDING

Salaries: For the superintendent, disbursing officer, and other personal services, in accordance with the Classification Act of 1923, as amended, \$161,822.

For extra services of employees and additional employees under the Librarian to provide for the opening of the Library Building on Sundays and on legal holidays, at rates to be fixed by the Librarian, \$4,500.

For special and temporary services in connection with the custody, care, and maintenance of the Library Building, including extra special services of regular employees at the discretion of the Librarian, at rates to be fixed by the Librarian, \$500.

For mail, delivery, and telephone services, uniforms for guards, stationery, miscellaneous supplies, and all other incidental expenses in connection with the custody and maintenance of the Library Building, \$8,900.

GOVERNMENT PRINTING OFFICE

PUBLIC PRINTING AND BINDING: To provide the Public Printer with a working capital for the following purposes for the execution of printing, binding, lithographing, mapping, engraving, and other authorized work of the Government Printing Office for the various branches of the Government: For salaries of Public Printer, \$10,000, and Deputy Public Printer, \$7,500; for salaries, compensation, or wages of all necessary officers and employees additional to those herein appropriated for, including employees necessary to handle waste paper and condemned material for sale; to enable the Public Printer to comply with the provisions of law granting holidays and half holidays and Executive orders granting holidays and half holidays with pay to employees; to enable the Public Printer to comply with the provisions of law granting thirty days' annual leave to employees with pay; rents, fuel, gas, heat, electric current, gas and electric fixtures; bicycles, motor-propelled vehicles for the carriage of printing and printing supplies, and the maintenance, repair and operation of the same, to be used only for official purposes, including

operation, repair, and maintenance of motor-propelled passenger-carrying vehicles for official use of the officers of the Government Printing Office when in writing ordered by the Public Printer; freight, expressage, telegraph, and telephone service; furniture, typewriters, and carpets; traveling expenses; stationery, postage, and advertising; directories, technical books, newspapers and magazines, and books of reference (not exceeding \$500); adding and numbering machines, time stamps, and other machines of similar character; machinery (not exceeding \$300,000); equipment, and for repairs to machinery, implements, and buildings, and for minor alterations to buildings; necessary equipment, maintenance, and supplies for the emergency room for the use of all employees in the Government Printing Office who may be taken suddenly ill or receive injury while on duty; other necessary contingent and miscellaneous items authorized by the Public Printer: *Provided*, That inks, glues, and other supplies manufactured by the Government Printing Office in connection with its work may be furnished to departments and other establishments of the Government upon requisition, and payment made from appropriations available therefor; for expenses authorized in writing by the Joint Committee on Printing for the inspection of printing and binding equipment, material, and supplies and Government printing plants in the District of Columbia or elsewhere (not exceeding \$1,000); for salaries and expenses of preparing the semimonthly and session indexes of the Congressional Record under the direction of the Joint Committee on Printing (chief indexer at \$3,480, one cataloguer at \$3,180, two cataloguers at \$2,460 each, and one cataloguer at \$2,100); and for all the necessary labor, paper, materials, and equipment needed in the prosecution and delivery and mailing of the work; in all, \$2,250,000, to which shall be charged the printing and binding authorized to be done for Congress, the printing and binding for use of the Government Printing Office, and printing and binding (not exceeding \$2,000) for official use of the Architect of the Capitol when authorized by the Secretary of the Senate; in all to an amount not exceeding this sum.

Printing and binding for Congress chargeable to the foregoing appropriation, when recommended to be done by the Committee on Printing of either House, shall be so recommended in a report containing an approximate estimate of the cost thereof, together with a statement from the Public Printer of estimated approximate cost of work previously ordered by Congress within the fiscal year for which this appropriation is made.

During the fiscal year 1933 any executive department or independent establishment of the Government ordering printing and binding from the Government Printing Office shall pay promptly by check to the Public Printer upon his written request, either in advance or upon completion of the work, all or part of the estimated or actual cost thereof, as the case may be, and bills rendered by the Public Printer in accordance herewith shall not be subject to audit or certification in advance of payment: *Provided*, That proper adjustments on the basis of the actual cost of delivered work paid for in advance shall be made monthly or quarterly and as may be agreed upon by the Public Printer and the department or establishment concerned. All sums paid to the Public Printer for work that

he is authorized by law to do shall be deposited to the credit, on the books of the Treasury Department, of the appropriation made for the working capital of the Government Printing Office, for the year in which the work is done, and be subject to requisition by the Public Printer.

All amounts in the Budget for the fiscal year 1934 for printing and binding for any department or establishment, so far as the Bureau of the Budget may deem practicable, shall be incorporated in a single item for printing and binding for such department or establishment and be eliminated as a part of any estimate for any other purpose. And if any amounts for printing and binding are included as a part of any estimates for any other purposes, such amounts shall be set forth in detail in a note immediately following the general estimate for printing and binding: *Provided*, That the foregoing requirements shall not apply to work to be executed at the Bureau of Engraving and Printing.

No part of any money appropriated in this Act shall be paid to any person employed in the Government Printing Office while detailed for or performing service in any other executive branch of the public service of the United States unless such detail be authorized by law.

The Public Printer may continue the employment under his jurisdiction of Samuel Robinson, Congressional Record messenger, notwithstanding the provisions of any Act prohibiting his employment because of age.

OFFICE OF SUPERINTENDENT OF DOCUMENTS

For the Superintendent of Documents, assistant superintendent, and other personal services in accordance with the Classification Act of 1923, as amended, and compensation of employees paid by the hour who shall be subject to the provisions of the Act entitled "An Act to regulate and fix rates of pay for employees and officers of the Government Printing Office," approved June 7, 1924 (U. S. C., title 44, sec. 40), \$550,000: *Provided*, That for the purpose of conforming to section 3 of this Act this appropriation shall be considered a separate appropriation unit.

For furniture and fixtures, typewriters, carpets, labor-saving machines and accessories, time stamps, adding and numbering machines, awnings, curtains, books of reference; directories, books, miscellaneous office and desk supplies, paper, twine, glue, envelopes, postage, car fares, soap, towels, disinfectants, and ice; drayage, express, freight, telephone and telegraph service; traveling expenses (not to exceed \$200); repairs to buildings, elevators, and machinery; preserving sanitary condition of building; light, heat, and power; stationery and office printing, including blanks, price lists, and bibliographies, \$100,000; for catalogues and indexes, not exceeding \$34,800; for supplying books to depository libraries, \$76,000; in all, \$210,800: *Provided*, That no part of this sum shall be used to supply to depository libraries any documents, books, or other printed matter not requested by such libraries, and the requests therefor shall be subject to approval by the Superintendent of Documents.

In order to keep the expenditures for printing and binding for the fiscal year 1933 within or under the appropriations for such fiscal

year, the heads of the various executive departments and independent establishments are authorized to discontinue the printing of annual or special reports under their respective jurisdictions: *Provided*, That where the printing of such reports is discontinued the original copy thereof shall be kept on file in the offices of the heads of the respective departments or independent establishments for public inspection.

Purchases may be made from the foregoing appropriation under the "Government Printing Office," as provided for in the Printing Act approved January 12, 1895, and without reference to section 4 of the Act approved June 17, 1910 (U. S. C., title 41, sec. 7), concerning purchases for executive departments.

SEC. 2. No part of the funds herein appropriated shall be used for the maintenance or care of private vehicles.

SEC. 3. In expending appropriations or portions of appropriations, contained in this Act, for the payment for personal services in the District of Columbia in accordance with the Classification Act of 1923, as amended, the average of the salaries of the total number of persons under any grade in the Botanic Garden, the Library of Congress, or the Government Printing Office, shall not at any time exceed the average of the compensation rates specified for the grade by such Act, as amended: *Provided*, That this restriction shall not apply (1) to grades 1, 2, 3, and 4 of the clerical-mechanical service, (2) to require the reduction in salary of any person whose compensation was fixed as of July 1, 1924, in accordance with the rules of section 6 of such Act, (3) to require the reduction in salary of any person who is transferred from one position to another position in the same or different grade in the same or a different bureau, office, or other appropriation unit, (4) to prevent the payment of a salary under any grade at a rate higher than the maximum rate of the grade when such higher rate is permitted by the Classification Act of 1923, as amended, and is specifically authorized by other law, or (5) to reduce the compensation of any person in a grade in which only one position is allocated.

SEC. 4. The detail of the present incumbent as attending physician at the Capitol shall be continued until otherwise provided by law.

PART II

TITLE I—FURLOUGH OF FEDERAL EMPLOYEES

FURLOUGH PROVISIONS

SECTION 101. During the fiscal year ending June 30, 1933—

(a) The days of work of a per diem officer or employee receiving compensation at a rate which is equivalent to more than \$1,000 per annum shall not exceed five in any one week, and the compensation for five days shall be ten-elevenths of that payable for a week's work of five and one-half days: *Provided*, That nothing herein contained shall be construed as modifying the method of fixing the daily rate of compensation of per diem officers or employees as now authorized by law: *Provided further*, That where the nature of the duties of a per diem officer or employee render it advisable, the provisions of subsection (b) may be applied in lieu of the provisions of this subsection.

(b) Each officer or employee receiving compensation on an annual basis at the rate of more than \$1,000 per annum shall be furloughed without compensation for one calendar month, or for such periods as shall in the aggregate be equivalent to one calendar month, for which latter purpose twenty-four working days (counting Saturday as one-half day) shall be considered as the equivalent of one calendar month: *Provided*, That where the nature of the duties of any such officer or employee render it advisable, the provisions of subsection (a) may be applied in lieu of the provisions of this subsection: *Provided further*, That no officer or employee shall, without his consent, be furloughed under this subsection for more than five days in any one calendar month: *Provided further*, That the rate of compensation of any employee furloughed under the provisions of this Act shall not be reduced by reason of the action of any wage board during the fiscal year 1933.

(c) If the application of the provisions of subsections (a) and (b) to any officer or employee would reduce his rate of compensation to less than \$1,000 per annum, such provisions shall be applied to him only to the extent necessary to reduce his rate of compensation to \$1,000 per annum.

Sec. 102. No officer or employee shall be exempted from the provisions of subsections (a) and (b) of section 101, except in those cases where the public service requires that the position be continuously filled and a suitable substitute can not be provided, and then only when authorized or approved in writing by the President of the United States. The Director of the Bureau of the Budget shall report to Congress on the first Monday in December in 1932 and 1933 the exemptions made under this section divided according to salary, grade, and class.

Sec. 103. All rights now conferred or authorized to be conferred by law upon any officer or employee to receive annual leave of absence with pay are hereby suspended during the fiscal year ending June 30, 1933.

DEFINITIONS

Sec. 104. When used in this title—

(a) The terms "officer" and "employee" mean any person rendering services in or under any branch or service of the United States Government or the government of the District of Columbia, but do not include (1) officers whose compensation may not, under the Constitution, be diminished during their continuance in office; (2) Senators, Representatives in Congress, Delegates, and Resident Commissioners; (3) officers and employees on the rolls of the Senate and House of Representatives; (4) carriers in the Rural Mail Delivery Service; (5) officers and members of the Police Department of the District of Columbia, of the Fire Department of the District of Columbia, of the United States Park Police in the District of Columbia, and of the White House Police; (6) teachers in the public schools of the District of Columbia; (7) public officials and employees whose compensation is derived from assessments on banks and/or is not paid from the Federal Treasury; (8) the enlisted personnel of the Army, Navy, Coast Guard, and Marine Corps; (9) postmasters and postal employees of post offices of the first,

second, and third classes whose salary or allowances are based on gross postal receipts, and postmasters of the fourth class; (10) any person in respect of any office, position, or employment the amount of compensation of which is expressly fixed by international agreement; and (11) any person in respect of any office, position, or employment the compensation of which is paid under the terms of any contract in effect on the date of the enactment of this Act, if such compensation may not lawfully be reduced.

(b) The term "compensation" means any salary, pay, wage, allowance (except allowances for subsistence, quarters, heat, light, and travel), or other emolument paid for services rendered in any civilian or noncivilian office, position, or employment; and includes the retired pay of judges, and the retired pay of all commissioned and other personnel of the Coast and Geodetic Survey, the Lighthouse Service, and the Public Health Service, and the retired pay of all commissioned and other personnel (except enlisted) of the Army, Navy, Marine Corps, and Coast Guard; but does not include the active or retired pay of the enlisted personnel of the Army, Navy, Marine Corps, or Coast Guard; and does not include payments out of any retirement, disability, or relief fund made up wholly or in part of contributions of employees.

(c) In the case of any office, position, or employment, the compensation for which is calculated on a piecework, hourly, or per diem basis, the rate of compensation per annum shall be held to be the total amount which would be payable for the regular working hours and on the basis of three hundred and seven working days, or the number of working days on the basis of which such compensation is calculated, whichever is the greater.

COMPENSATION REDUCTIONS

Sec. 105. During the fiscal year ending June 30, 1933—

(a) The salaries of the Vice President and the Speaker of the House of Representatives are reduced by 15 per centum; and the salaries of Senators, Representatives in Congress, Delegates, and Resident Commissioners are reduced by 10 per centum.

(b) The allowance for clerk hire of Representatives in Congress, Delegates, and Resident Commissioners is reduced by $8\frac{1}{3}$ per centum, such reduced allowance to be apportioned by the Representative, Delegate, or Resident Commissioner among his clerks as he may determine, subject to the limitations of existing law, but the compensation of such clerks shall not be subject to reduction under subsection (c) of this section.

(c) The rate of compensation of any person on the rolls of the Senate or of the House of Representatives (other than persons included within subsection (a)), if such compensation is at a rate of more than \$1,000 per annum, is reduced by $8\frac{1}{3}$ per centum, except that if the rate of compensation is \$10,000 or more such rate shall be reduced by 10 per centum.

(d) In the case of the following persons the rate of compensation is reduced as follows: If more than \$1,000 per annum but less than \$10,000 per annum, $8\frac{1}{3}$ per centum; if \$10,000 per annum or more, but less than \$12,000 per annum, 10 per centum; if \$12,000 per annum or more, but less than \$15,000 per annum, 12 per centum; if \$15,000

per annum or more, but less than \$20,000 per annum, 15 per centum; if \$20,000 per annum or more, 20 per centum:

(1) Persons exempted, under section 102, from the provisions of subsections (a) and (b) of section 101;

(2) Carriers in the Rural Mail Delivery Service, but in the case of such carriers the term "compensation" does not include the allowance for equipment maintenance;

(3) Officers and members of the Police Department of the District of Columbia, of the Fire Department of the District of Columbia, of the United States Park Police in the District of Columbia, and of the White House Police;

(4) Teachers in the public schools of the District of Columbia;

(5) Postmasters and postal employees of post offices of the first, second, and third classes whose salaries or allowances are based on gross postal receipts, and postmasters of the fourth class;

(6) Officers and employees (as defined in section 104 (a)) occupying positions the nature of the duties and periods of work of which make it impracticable to apply the provisions of subsections (a) and (b) of section 101;

(7) Officers and employees (as defined in section 104 (a)), not otherwise provided for in this section, to whom the provisions of subsections (a) and (b) of section 101 do not apply.

(e) Subsections (c) and (d) of this section shall not operate (1) so as to reduce any rate of compensation to less than \$1,000 per annum, or (2) so as to reduce the rate of compensation of any of the postmasters or postal employees provided for in paragraph (5) of subsection (d) of this section, to a rate which is less than 91 $\frac{2}{3}$ per centum of his average rate of compensation during the calendar year 1931.

RETIRED PAY

SEC. 106. During the fiscal year ending June 30, 1933, the retired pay of all judges (except judges whose compensation may not, under the Constitution, be diminished during their continuance in office) and the retired pay of all commissioned and other personnel (except enlisted) of the Army, Navy, Marine Corps, Coast Guard, Coast and Geodetic Survey, Lighthouse Service, and the Public Health Service shall be reduced as follows: If more than \$1,000 per annum but less than \$10,000 per annum, 8 $\frac{1}{3}$ per centum; if \$10,000 per annum or more, but less than \$12,000, 10 per centum; if \$12,000 per annum or more, but less than \$15,000 per annum, 12 per centum; if \$15,000 per annum or more, but less than \$20,000, 15 per centum; if \$20,000 per annum or more, 20 per centum. This section shall not operate so as to reduce any rate of retired pay to less than \$1,000 per annum.

SPECIAL SALARY REDUCTIONS

SEC. 107. (a) During the fiscal year ending June 30, 1933—

(1) the salary of each of the members of the International Joint Commission, United States section, shall be at the rate of \$5,000 per annum;

(2) the salaries of the following officers shall be at the rate of \$10,000 per annum: Commissioners of the United States Shipping Board, members of the Federal Farm Board (except the Secretary

of Agriculture), members of the Board of Mediation, commissioners of the Interstate Commerce Commission, commissioners of the United States Tariff Commission, the American commissioner of the General Claims Commission, United States and Mexico, and the umpire and American commissioner of the Mixed Claims Commission, United States and Germany;

(3) no officer or employee of any of the boards or commissions enumerated in paragraph (1) or (2) shall (except as provided in paragraph (4)) receive salary at a rate in excess of \$10,000 per annum;

(4) no officer or employee of the United States Shipping Board, the United States Shipping Board Merchant Fleet Corporation, or the Reconstruction Finance Corporation, shall receive salary at a rate in excess of \$10,000 per annum, except that in the case of any position the salary of which at the date of the enactment of this Act is at a rate in excess of \$12,500 per annum such salary may be at a rate not in excess of \$12,500 per annum; and

(5) the salaries and retired pay of all judges (except judges whose compensation may not, under the Constitution, be diminished during their continuance in office), if such salaries or retired pay are at a rate exceeding \$10,000 per annum, shall be at the rate of \$10,000 per annum.

(b) The furlough provisions and the compensation reductions contained in other sections of this title shall not apply to any office, position, or employment the salary or retired pay of which is reduced or fixed under the provisions of subsection (a) of this section.

GOVERNMENT CORPORATIONS

SEC. 108. In the case of a corporation the majority of the stock of which is owned by the United States, the holders of the stock on behalf of the United States, or such persons as represent the interest of the United States in such corporation, shall take such action as may be necessary to apply the provisions of sections 101, 102, 103, 105, and 107 to offices, positions, and employments under such corporation and to officers and employees thereof, with proper allowance for any reduction in compensation since December 31, 1931.

REMITTANCES FROM CONSTITUTIONAL OFFICERS

SEC. 109. In any case in which the application of the provisions of this title to any person would result in a diminution of compensation prohibited by the Constitution, the Secretary of the Treasury is authorized to accept from such person, and cover into the Treasury as miscellaneous receipts, remittance of such part of the compensation of such person as would not be paid to him if such diminution of compensation were not prohibited.

APPROPRIATIONS IMPOUNDED

SEC. 110. The appropriations or portions of appropriations unexpended by reason of the operation of this title shall not be used for any purpose, but shall be impounded and returned to the Treasury.

LIMITATION ON JURISDICTION OF COURTS

SEC. 111. No court of the United States shall have jurisdiction of any suit against the United States or (unless brought by the United States) against any officer, agency, or instrumentality of the United States arising out of the application of any provision of this title, unless such suit involves the Constitution of the United States.

RURAL CARRIERS EQUIPMENT ALLOWANCE

SEC. 112. During the fiscal year ending June 30, 1933, payments for equipment maintenance to carriers in the Rural Mail Delivery Service shall be seven-eighths of the amount now provided by law.

TITLE II—PROVISIONS AFFECTING PERSONNEL

SUSPENSION OF PROMOTIONS AND FILLING OF VACANCIES

SEC. 201. All provisions of law which confer upon civilian or noncivilian officers or employees of the United States Government or the municipal government of the District of Columbia automatic increases in compensation by reason of length of service or promotion are suspended during the fiscal year ending June 30, 1933; but this section shall not be construed to deprive any person of any increment of compensation received through an automatic increase in compensation prior to July 1, 1932.

SEC. 202. No administrative promotions in the civil branch of the United States Government or the government of the District of Columbia shall be made during the fiscal year ending June 30, 1933: *Provided*, That the filling of a vacancy, when authorized by the President, by the appointment of an employee of a lower grade, shall not be construed as an administrative promotion, but no such appointment shall increase the compensation of such employee to a rate in excess of the minimum rate of the grade to which such employee is appointed, unless such minimum rate would require an actual reduction in compensation. The President shall submit to Congress a report of the vacancies filled under this section up to November 1, 1932, on the first day of the next regular session. The provisions of this section shall not apply to commissioned, commissioned warrant, warrant, and enlisted personnel, and cadets, of the Coast Guard.

SEC. 203. No appropriation available to any executive department or independent establishment or to the municipal government of the District of Columbia during the fiscal year ending June 30, 1933, shall be used to pay the compensation of an incumbent appointed to any civil position under the United States Government or the municipal government of the District of Columbia which is vacant on July 1, 1932, or to any such position which may become vacant after such date: *Provided*, That this inhibition shall not apply (a) to absolutely essential positions the filling of which may be authorized or approved in writing by the President of the United States, (b) to temporary, emergency, seasonal, or cooperative positions, or (c) to commissioned, commissioned warrant, warrant, and enlisted personnel, and cadets, of the Coast Guard. The appropria-

tions or portions of appropriations unexpended by the operation of this section shall not be used for any other purposes but shall be impounded and returned to the Treasury, and a report of all such vacancies, the number thereof filled, and the amounts unexpended, for the period between July 1, 1932, and October 31, 1932, shall be submitted to Congress on the first day of the next regular session: *Provided*, That such impounding of funds may be waived in writing by the President of the United States in connection with any appropriation or portion of appropriation, when, in his judgment, such action is necessary and in the public interest.

COMPULSORY RETIREMENT FOR AGE

SEC. 204. On and after July 1, 1932, no person rendering civilian service in any branch or service of the United States Government or the municipal government of the District of Columbia who shall have reached the retirement age prescribed for automatic separation from the service, applicable to such person, shall be continued in such service, notwithstanding any provision of law or regulation to the contrary: *Provided*, That the President may, by Executive Order, exempt from the provisions of this section any person when, in his judgment, the public interest so requires: *Provided further*, That no such person heretofore or hereafter separated from the service of the United States or the District of Columbia under any provision of law or regulation providing for such retirement on account of age shall be eligible again to appointment to any appointive office, position, or employment under the United States or the District of Columbia: *Provided further*, That this section shall not apply to any person named in any Act of Congress providing for the continuance of such person in the service.

RATE OF COMPENSATION UPON WHICH RETIRED PAY SHALL BE BASED

SEC. 205. The provisions of this Part of this Act providing for temporary reductions in compensation and suspension in automatic increases in compensation shall not operate to reduce the rate of compensation upon which the retired pay or retirement benefits of any officer or employee would be based but for the application of such provisions, but the amount of retired pay shall be reduced as provided in Title I: *Provided*, That retirement deductions authorized by law to be made from the salary, pay, or compensation of officers or employees and transferred or deposited to the credit of a retirement fund, shall be based on the regular rate of salary, pay, or compensation instead of on the rate as temporarily reduced under the provisions of this Act.

TEMPORARY REDUCTION OF TRAVEL ALLOWANCES

SEC. 206. During the fiscal year ending June 30, 1933—
(a) all provisions of law which authorize the payment of mileage to officers of the services mentioned in the Pay Adjustment Act of 1922 [U. S. C., title 37] are hereby suspended and in lieu thereof such officers shall be entitled to allowances for travel only as provided for civilian employees of the Government, and the Subsistence Expense Act of 1926, as modified by this Act, and by the Act of

February 14, 1931 (Supp. V, U. S. Code, Title 5, sec. 73a), shall apply to such travel: *Provided*, That all appropriations available for the payment of such mileage during the fiscal year 1933 shall be construed as being available for the payment of the allowances herein provided;

(b) the mileage allowance of Senators, Representatives in Congress, and the Delegate from Hawaii is reduced 25 per centum; the allowance to the Delegate from Alaska provided by section 1 of the Act of May 7, 1906, the allowance to the Resident Commissioners from the Philippine Islands provided by section 8 of the Act of July 1, 1902, and the allowance to the Resident Commissioner from Porto Rico provided by section 36 of the Act of March 2, 1917, are reduced by 25 per centum; and

(c) the traveling allowances provided for in the Act entitled "An Act reclassifying the salaries of postmasters and employees of the Postal Service, readjusting their salaries and compensation on an equitable basis, increasing postal rates to provide for such readjustment, and for other purposes," approved February 28, 1925 [U. S. C., title 39, § 633], shall not exceed \$2 per day.

PERMANENT REDUCTION OF TRAVEL ALLOWANCES

SEC. 207. Section 3 of the Subsistence Expense Act of 1926, approved June 3, 1926 (44 Stat. 688, 689), is hereby amended to read as follows:

"SEC. 3. Civilian officers and employees of the departments and establishments, while traveling on official business and away from their designated posts of duty, shall be allowed, in lieu of their actual expenses for subsistence and all fees or tips to porters and stewards, a per diem allowance to be prescribed by the head of the department or establishment concerned, not to exceed the rate of \$5 within the limits of continental United States, and not to exceed an average of \$6 beyond the limits of continental United States."

SEC. 208. Sections 4, 5, and 6 of the said Subsistence Expense Act of 1926 are hereby repealed, and section 7 thereof is hereby amended by striking out the reference therein to actual expenses so that the section, as amended, will read as follows:

"SEC. 7. The fixing and payment, under section 3, of per diem allowance, or portions thereof, shall be in accordance with regulations which shall be promulgated by the heads of departments and establishments and which shall be standardized as far as practicable and shall not be effective until approved by the President of the United States."

SEC. 209. Hereafter, no law or regulation authorizing or permitting the transportation at Government expense of the effects of officers, employees, or other persons, shall be construed or applied as including or authorizing the transportation of an automobile: *Provided*, That not more than \$5,000 in any fiscal year may be expended for such purposes by the War Department, and not more than \$5,000 in any fiscal year by the Navy Department.

SEC. 210. The provisions of all Acts heretofore enacted inconsistent with sections 207, 208, and 209 are, to the extent of such inconsistency, hereby repealed, and such sections shall take effect on July 1, 1932.

LIMITATIONS ON OVERTIME COMPENSATION

SEC. 211. (a) During the fiscal year ending June 30, 1933—

(1) no officer or employee of the Government shall be allowed or paid a higher rate of compensation for overtime work (either day or night) or for work on Sundays and holidays;

(2) wherever by or under authority of law compensation for night work (other than overtime) is at a higher rate than for day work, such differential shall be reduced by one-half;

(3) in so far as practicable, overtime work shall be performed by substitutes or unemployed regulars in lieu of persons who have performed a day's work during the day during which the overtime work is to be performed, and work on Sundays and holidays shall be performed by substitutes or unemployed regulars in lieu of persons who have performed a week's work during the same week.

(b) This section shall not apply to compensation for overtime services performed by Federal employees under existing law at the expense of private interests.

LIMITATIONS ON AMOUNT OF RETIRED PAY

SEC. 212. (a) After the date of the enactment of this Act, no person holding a civilian office or position, appointive or elective, under the United States Government or the municipal government of the District of Columbia or under any corporation, the majority of the stock of which is owned by the United States, shall be entitled, during the period of such incumbency, to retired pay from the United States for or on account of services as a commissioned officer in any of the services mentioned in the Pay Adjustment Act of 1922 [U. S. C., title 37], at a rate in excess of an amount which when combined with the annual rate of compensation from such civilian office or position, makes the total rate from both sources more than \$3,000; and when the retired pay amounts to or exceeds the rate of \$3,000 per annum such person shall be entitled to the pay of the civilian office or position or the retired pay, whichever he may elect. As used in this section, the term "retired pay" shall be construed to include credits for all service that lawfully may enter into the computation thereof.

(b) This section shall not apply to any person whose retired pay plus civilian pay amounts to less than \$3,000: *Provided*, That this section shall not apply to regular or emergency commissioned officers retired for disability incurred in combat with an enemy of the United States.

PERSONNEL REDUCTIONS—MARRIED PERSONS

SEC. 213. In any reduction of personnel in any branch or service of the United States Government or the District of Columbia, married persons (living with husband or wife) employed in the class to be reduced, shall be dismissed before any other persons employed in such class are dismissed, if such husband or wife is also in the service of the United States or the District of Columbia. In the appointment of persons to the classified civil service, preference shall be given to persons other than married persons living with husband or wife, such husband or wife being in the service of the United States or the District of Columbia.

TEMPORARY ASSIGNMENTS IN POSTAL SERVICE

SEC. 214. During the fiscal year ending June 30, 1933, the Postmaster General may, when the interest of the service requires, temporarily assign any clerk to the duties of carrier or any carrier to the duties of clerk, and in an emergency may assign any Post Office employee to the duties of a railway postal clerk, or any railway postal clerk to the duties of a Post Office employee without change of pay roll status.

ANNUAL LEAVE WITH PAY REDUCED TO FIFTEEN DAYS

SEC. 215. Hereafter no civilian officer or employee of the Government who receives annual leave with pay shall be granted annual leave of absence with pay in excess of fifteen days in any one year, excluding Sundays and legal holidays: *Provided*, That the part unused in any year may be cumulative for any succeeding year: *Provided further*, That nothing herein shall apply to civilian officers and employees of the Panama Canal located on the Isthmus and who are American citizens or to officers and employees of the Foreign Services of the United States holding official station outside the continental United States: *Provided further*, That nothing herein shall be construed as affecting the period during which pay may be allowed under existing laws for so-called sick leave of absence: *Provided further*, That the so-called sick leave of absence, within the limits now authorized by law, shall be administered under such regulations as the President may prescribe so as to obtain, so far as practicable, uniformity in the various executive departments and independent establishments of the Government.

FURLOUGH OF GOVERNMENT EMPLOYEES DURING FISCAL YEAR 1933

SEC. 216. In order to keep within the appropriations made for the fiscal year 1933, the heads of the various executive departments and independent establishments of the United States Government and the municipal government of the District of Columbia are hereby authorized and directed to furlough, without pay, such employees carried on their respective rolls, such time as in their judgment is necessary to carry out said purpose without discharging such employees, the higher salaried to be furloughed first whenever possible without injury to the service: *Provided*, That rules and regulations shall be promulgated by the President with a view to securing uniform action by the heads of the various executive departments and independent Government establishments in the application of the provisions of this section.

TITLE III—MISCELLANEOUS PROVISIONS

PHILIPPINE SCOUTS

SEC. 301. The President is authorized at any time to disband the Philippine Scouts or to reduce the personnel thereof.

LIMITATIONS ON EXPENDITURES FOR PRINTING AND BINDING, PAPER, AND STATIONERY

SEC. 302. During the fiscal year ending June 30, 1933, not more than \$8,000,000 shall be obligated for printing and binding for the use of the United States and the District of Columbia done at the Government Printing Office, including printing and binding done elsewhere under contract by the Public Printer, or obtained in the field under authority of the Joint Committee on Printing for the exclusive use of a field service; of the foregoing amount \$2,500,000 shall be for printing and binding for the use of the legislative branch of the Government. The amount available hereunder for the executive departments and independent establishments, the judiciary, and the government of the District of Columbia shall be distributed by the Director of the Bureau of the Budget among the several departments and establishments, the judiciary, and the government of the District of Columbia as, in his judgment, the needs of the service may require. Nothing in this section shall be construed to authorize the discontinuance of any report or publication specifically required by law. This section shall not apply to printing and binding for the use of the Patent Office or to the manufacture of postal cards and money orders for the Post Office Department.

SEC. 303. During the fiscal year ending June 30, 1933, not more than \$400,000 shall be expended for paper furnished by the Government Printing Office for the use of the several executive departments and independent establishments and the government of the District of Columbia. The amount available hereunder for the executive departments and independent establishments and the government of the District of Columbia shall be distributed by the Director of the Bureau of the Budget among the several executive departments and independent establishments, and the government of the District of Columbia, as, in his judgment, the needs of the service may require. This section shall not apply to expenditures for paper used in the course of manufacture by the Bureau of Engraving and Printing.

SEC. 304. During the fiscal year ending June 30, 1933, (1) not more than \$16,000 shall be available for expenditure for stationery for Senators and the President of the Senate, and for committees and officers of the Senate, (2) not more than \$44,000 shall be available for expenditure for stationery for Representatives, Delegates, and Resident Commissioners, and for the committees and officers of the House of Representatives, and (3) each Senator, Representative, Delegate, and Resident Commissioner shall be allowed \$90 for stationery allowance or commutation therefor, to be paid out of the sums provided in (1) or (2), as the case may be.

WEST POTOMAC PARK HEATING PLANT

SEC. 305. Until otherwise provided by law no further obligations shall be incurred under the appropriation of \$750,000 for the construction of a heating plant in West Potomac Park, contained in the Second Deficiency Act, fiscal year 1931.

REORGANIZATION OF SHIPPING BOARD

SEC. 306. (a) The United States Shipping Board shall be composed of three commissioners to be hereafter appointed by the President, by and with the advice and consent of the Senate. One of such commissioners shall be appointed from the States touching the Pacific Ocean, one from the States touching the Atlantic Ocean, or a navigable river directly tributary thereto, and one from the States touching the Gulf of Mexico, but not more than one shall be appointed from the same State. Not more than two of the commissioners shall be appointed from the same political party.

(b) Terms of office of the first commissioners appointed under this section, shall expire, as designated by the President at the time of nomination, one at the end of one year, one at the end of two years, and one at the end of three years after the date of the enactment of this Act. The term of office of a successor to any such commissioner shall expire three years from the date of the expiration of the term for which his predecessor was appointed, except that a commissioner appointed to fill a vacancy occurring prior to the expiration of the term for which his predecessor was appointed, shall be appointed for the remainder of such term. The commissioners appointed hereunder shall hold office until their successors are appointed and qualify.

(c) Notwithstanding the provisions of subsection (a) the United States Shipping Board as constituted upon the date of the enactment of this Act shall continue to function until the date of reorganization of the commission pursuant to the provisions of such subsection. The board shall be deemed to be reorganized upon such date as the three commissioners appointed as provided in such subsection have taken office, and no such commissioner shall be paid salary, as such commissioner, for any period prior to such date.

(d) This section shall be held to reorganize the United States Shipping Board, and, except as herein modified, all laws relating to such board shall remain in full force and effect, and no regulations, action, investigations, or other proceedings under any such laws existing or pending on the date of the enactment of this Act shall abate or otherwise be affected by reason of the provisions of this section.

(e) Whenever under existing law the concurrence of four or more of the commissioners is required, such requirement of law shall, after the reorganization of the board provided by this section, be held to be complied with by the concurrence of two commissioners.

(f) \$200,000 of the unexpended balance of the allotment of \$500,000 made available to the United States Shipping Board Merchant Fleet Corporation for experimental and research work, by the Independent Offices Appropriation Act, fiscal year 1930, and continued by subsequent appropriation Acts, shall not be expended, but shall be covered into the Treasury as miscellaneous receipts.

(g) The sums available for expenditure, during the fiscal year ending June 30, 1933, for personal services of employees of the United States Shipping Board Merchant Fleet Corporation assigned to and serving with the United States Shipping Board are reduced by \$167,000 from the pay roll of March 31, 1932, and the amounts of reduction applicable to the various bureaus shall be as follows:

(1) Bureau of Research, \$30,000, (2) Bureau of Law, \$103,000, (3) Bureau of Traffic, \$9,000, (4) Bureau of Construction, \$5,000, and (5) Bureau of Operations, \$20,000.

(h) The United States Shipping Board Merchant Fleet Corporation shall, during the fiscal year ending June 30, 1933, transfer from the operating funds and cover into the Treasury as miscellaneous receipts the sum of \$1,938,240.

INCREASES IN CERTAIN CHARGES AND FEES

SEC. 307. After the date of the enactment of this Act, the price at which additional copies of Government publications are offered for sale to the public by the Superintendent of Documents shall be based on the cost thereof as determined by the Public Printer plus 50 per centum: *Provided*, That a discount of not to exceed 25 per centum may be allowed to authorized book dealers and quantity purchasers, but such printing shall not interfere with the prompt execution of work for the Government. The surplus receipts from such sales shall be deposited in the Treasury of the United States to the credit of miscellaneous receipts. The Superintendent of Documents shall prescribe the terms and conditions under which he may authorize the resale of Government publications by book dealers, and he may designate any Government officer his agent for the sale of Government publications under such regulations as shall be agreed upon by the Superintendent of Documents and the head of the respective department or establishment of the Government. The selling price of publications as provided for herein shall be in lieu of that prescribed in the public resolution approved May 11, 1922 (U. S. C., title 44, secs. 72 and 220), and section 42 of the Act of January 12, 1895 (U. S. C., title 44, sec. 114).

SEC. 308. After the expiration of thirty days after the enactment of this Act (but in no event prior to July 1, 1932), the base fee of \$25 provided by section 4934 of the Revised Statutes, as amended [U. S. C., Sup. V, title 35, sec. 78], to be paid upon the filing of each original application and upon each renewal application for patent, except in design cases, and on issuing each original patent, except in design cases, is hereby increased to \$30.

SEC. 309. Section 4934 of the Revised Statutes, as amended [U. S. C., Sup. V, title 35, sec. 78], is amended by adding at the end thereof the following:

"On filing each petition for the revival of an abandoned application for a patent, \$10."

SEC. 310. The Secretary of Commerce shall make such charges as he deems reasonable for special statistical services; special commodity, technical, and regional news bulletins and periodical services; lists of foreign buyers, and World Trade Directory Reports, and the amounts collected therefrom shall be deposited in the Treasury as miscellaneous receipts.

SEC. 311. Section 5 of the Act entitled "An Act to establish in the Department of the Interior a Bureau of Mines", approved May 16, 1910, as amended and supplemented [U. S. C., title 30, sec. 7], is amended to read as follows:

"SEC. 5. For tests or investigations authorized by the Secretary of Commerce under the provisions of this Act, as amended and

supplemented, except those performed for the Government of the United States or State governments within the United States, a fee sufficient in each case to compensate the Bureau of Mines for the entire cost of the services rendered shall be charged, according to a schedule prepared by the Director of the Bureau of Mines and approved by the Secretary of Commerce, who shall prescribe rules and regulations under which such tests and investigations may be made. All moneys received from such sources shall be paid into the Treasury to the credit of miscellaneous receipts."

SEC. 312. Section 8 of the Act entitled "An Act to establish the National Bureau of Standards", approved March 3, 1901, as amended and supplemented [U. S. C., title 15, sec. 276], is amended to read as follows:

"SEC. 8. For all comparisons, calibrations, tests, or investigations, performed by the National Bureau of Standards under the provisions of this Act, as amended and supplemented, except those performed for the Government of the United States or State governments within the United States, a fee sufficient in each case to compensate the National Bureau of Standards for the entire cost of the services rendered shall be charged, according to a schedule prepared by the Director of the National Bureau of Standards and approved by the Secretary of Commerce. All moneys received from such sources shall be paid into the Treasury to the credit of miscellaneous receipts."

SEC. 313. In the annual report to Congress of each executive department or independent establishment there shall be included a statement of receipts during the period covered by such report, from fees or charges paid to such department or establishment under this Act and all other Acts of Congress.

SEC. 314. Sections 310, 311, and 312 shall take effect July 1, 1932.

RESTRICTIONS ON TRANSFER OF ARMY AND NAVY PERSONNEL

SEC. 315. The President is authorized, during the fiscal year ending June 30, 1933, to restrict the transfer of officers and enlisted men of the military and naval forces from one post or station to another post or station to the greatest extent consistent with the public interest.

STATISTICS CONCERNING HIDES, SKINS, AND LEATHER

SEC. 316. The Act authorizing and directing the Director of the Census to collect and publish statistics concerning hides, skins, and leather, approved June 5, 1920 (U. S. C., title 13, secs. 91, 92, and 93), is hereby repealed.

TRANSFER OF APPROPRIATIONS

SEC. 317. Not to exceed 12 per centum of any appropriation for an executive department or independent establishment, including the municipal government of the District of Columbia, for the fiscal year ending June 30, 1933, may be transferred, with the approval of the Director of the Bureau of the Budget (or, in the case of the War Department and Navy Department, with the approval of the President), to any other appropriation or appropriations under the same

department or establishment, but no appropriation shall be increased more than 15 per centum by such transfers: *Provided*, That a statement of all transfers of appropriations made hereunder shall be included in the annual Budget for the fiscal year 1935, and a statement of all transfers of appropriations made hereunder up to the time of the submission of the annual Budget for the fiscal year 1934, and all contemplated transfers during the remainder of the fiscal year 1933, shall be included in the annual Budget for the fiscal year 1934.

VOCATIONAL EDUCATION

SEC. 318. (a) Notwithstanding the provisions of section 1 of the Act entitled "An Act to provide for the further development of vocational education in the several States and Territories," approved February 5, 1929 (U. S. C., Supp. V, title 20, sec. 15a), not more than \$1,500,000 is authorized to be appropriated for the purposes of such section for the fiscal year ending June 30, 1933.

(b) For the fiscal year ending June 30, 1933, (1) the annual appropriations (for the purpose of cooperating with the States) provided for by sections 2, 3, and 4 of the Act entitled "An Act to provide for the promotion of vocational education; to provide for cooperation with the States in the promotion of such education in agriculture and the trades and industries; to provide for cooperation with the States in the preparation of teachers of vocational subjects; and to appropriate money and regulate its expenditure," approved February 23, 1917 (U. S. C., title 20, secs. 12-14, inclusive), shall be \$2,700,000 (in the case of section 2), \$2,700,000 (in the case of section 3), and \$900,000 (in the case of section 4); (2) the minimum allotment of funds to any State, under each of such sections, for the said fiscal year, shall be \$9,000; and (3) the additional appropriations (for the purpose of providing the minimum allotment to the States) provided for by such sections for the fiscal year 1933 shall be \$24,300 (in the case of section 2), \$45,000 (in the case of section 3), and \$81,000 (in the case of section 4).

(c) For the fiscal year ending June 30, 1933, the amount authorized to be appropriated under section 4 of the Act entitled "An Act to extend the provisions of certain laws to the Territory of Hawaii," approved March 10, 1924 (U. S. C., title 20, sec. 29), shall be \$27,000; and the amount authorized to be appropriated under section 1 of the Act entitled "An Act to extend the provisions of certain laws relating to vocational education and civilian rehabilitation to Porto Rico," approved March 3, 1931 (U. S. C., Supp. V, title 20, sec. 30), shall be \$94,500, and the amounts expended for each of the purposes set forth in such section shall be proportionately reduced.

RATE OF INTEREST ON JUDGMENTS AND OVERPAYMENTS

SEC. 319. Hereafter the rate of interest to be allowed or paid shall be 4 per centum per annum whenever interest is allowed by law upon any judgment of whatsoever character against the United States and/or upon any overpayment in respect of any internal-revenue tax. All laws or parts of laws in so far as inconsistent herewith are hereby repealed.

RESTRICTION ON CONSTRUCTION AND RENTAL OF BUILDINGS

SEC. 320. Authorizations heretofore granted by law for the construction of public buildings and public improvements, whether an appropriation therefor has or has not been made, are hereby amended to provide for a reduction of 10 per centum of the limit of cost as fixed in such authorization, as to projects where no contract for the construction has been made. As to such projects where a contract has been made at a cost less than that upon which the authorization was based, such cost shall not, unless authorized by the President, be increased by any changes or additions not essential for the completion of the project as originally planned.

SEC. 321. Hereafter, except as otherwise specifically provided by law, the leasing of buildings and properties of the United States shall be for a money consideration only, and there shall not be included in the lease any provision for the alteration, repair, or improvement of such buildings or properties as a part of the consideration for the rental to be paid for the use and occupation of the same. The moneys derived from such rentals shall be deposited and covered into the Treasury as miscellaneous receipts.

SEC. 322. Hereafter no appropriation shall be obligated or expended for the rent of any building or part of a building to be occupied for Government purposes at a rental in excess of the per annum rate of 15 per centum of the fair market value of the rented premises at date of the lease under which the premises are to be occupied by the Government nor for alterations, improvements, and repairs of the rented premises in excess of 25 per centum of the amount of the rent for the first year of the rental term, or for the rental term if less than one year: *Provided*, That the provisions of this section shall not apply to leases heretofore made, except when renewals thereof are made hereafter, nor to leases of premises in foreign countries for the foreign services of the United States.

TEMPORARY REDUCTION OF FEES OF JURORS AND WITNESSES

SEC. 323. During the fiscal year 1933—

(a) the per diem fee authorized to be paid to jurors under section 2 of the Act of April 26, 1926 (44 Stat. 323), shall be \$3 instead of \$4;

(b) the per diem fee authorized to be paid to witnesses under section 3 of the Act of April 26, 1926 (44 Stat. 323), shall be \$1.50 instead of \$2, and the proviso of said section 3, relative to per diem for expenses of subsistence, shall be suspended.

TITLE IV—REORGANIZATION OF EXECUTIVE DEPARTMENTS

DECLARATION OF POLICY

SEC. 401. In order to further reduce expenditures and increase efficiency in government it is declared to be the policy of Congress—

(a) To group, coordinate, and consolidate executive and administrative agencies of the Government, as nearly as may be, according to major purpose;

(b) To reduce the number of such agencies by consolidating those having similar functions under a single head;

(c) To eliminate overlapping and duplication of effort; and
(d) To segregate regulatory agencies and functions from those of an administrative and executive character.

DEFINITIONS

SEC. 402. When used in this title—

(1) The term "executive agency" means any commission, board, bureau, division, service, or office in the executive branch of the Government, but does not include the executive departments mentioned in title 5, section 1, United States Code.

(2) The term "independent executive agency" means any executive agency not under the jurisdiction or control of any executive department.

POWER OF PRESIDENT

SEC. 403. For the purpose of carrying out the policy of Congress as declared in section 401 of this title, the President is authorized by Executive order—

(1) To transfer the whole or any part of any independent executive agency, and/or the functions thereof, to the jurisdiction and control of an executive department or another independent executive agency;

(2) To transfer the whole or any part of any executive agency, and/or the functions thereof, from the jurisdiction and control of one executive department to the jurisdiction and control of another executive department; or

(3) To consolidate or redistribute the functions vested in any executive department or in the executive agencies included in any executive department; and

(4) To designate and fix the name and functions of any consolidated activity or executive agency and the title, powers and duties of its executive head.

SEC. 404. The President's order directing any transfer or consolidation under the provisions of this title shall also designate the records, property (including office equipment), personnel, and unexpended balances of appropriations to be transferred.

SAVING PROVISIONS

SEC. 405. (a) All orders, rules, regulations, permits, or other privileges made, issued, or granted by or in respect of any executive agency or function transferred or consolidated with any other executive agency or function under the provisions of this title, and in effect at the time of the transfer or consolidation, shall continue in effect to the same extent as if such transfer or consolidation had not occurred, until modified, superseded, or repealed.

(b) No suit, action, or other proceeding lawfully commenced by or against the head of any department or executive agency or other officer of the United States, in his official capacity or in relation to the discharge of his official duties, shall abate by reason of any transfer of authority, powers, and duties from one officer or executive agency of the Government to another under the provisions of this title, but the court, on motion or supplemental petition filed at any

time within twelve months after such transfer takes effect, showing a necessity for a survival of such suit, action, or other proceeding to obtain a settlement of the questions involved, may allow the same to be maintained by or against the head of the department or executive agency or other officer of the United States to whom the authority, powers, and duties are transferred.

(c) All laws relating to any executive agency or function transferred or consolidated with any other executive agency or function under the provisions of this title, shall, in so far as such laws are not inapplicable, remain in full force and effect, and shall be administered by the head of the executive agency to which the transfer is made or with which the consolidation is effected.

STATUTORY AGENCIES

SEC. 406. Whenever, in carrying out the provisions of this title, the President concludes that any executive department or agency created by statute should be abolished and the functions thereof transferred to another executive department or agency or eliminated entirely the authority granted in this title shall not apply, and he shall report his conclusions to Congress, with such recommendations as he may deem proper.

DISAPPROVAL OF EXECUTIVE ORDER

SEC. 407. Whenever the President makes an Executive order under the provisions of this title, such Executive order shall be transmitted to the Congress while in session and shall not become effective until after the expiration of sixty calendar days after such transmission, unless Congress shall sooner approve of such Executive order or orders by concurrent resolution, in which case said order or orders shall become effective as of the date of the adoption of the resolution: *Provided*, That if Congress shall adjourn before the expiration of sixty calendar days from the date of such transmission such Executive order shall not become effective until after the expiration of sixty calendar days from the opening day of the next succeeding regular or special session: *Provided further*, That if either branch of Congress within such sixty calendar days shall pass a resolution disapproving of such Executive order, or any part thereof, such Executive order shall become null and void to the extent of such disapproval: *Provided further*, That in order to expedite the merging of certain activities, the President is authorized and requested to proceed, without the application of this section, with setting up consolidations of the following governmental activities: Public Health (except that the provisions hereof shall not apply to hospitals now under the jurisdiction of the Veterans' Administration), Personnel Administration, Education (except the Board of Vocational Education shall not be abolished), and Mexican Water and Boundary Commission, and to merge such activities, except those of a purely military nature, of the War and Navy Departments as, in his judgment, may be common to both and where the consolidation thereof in either one of the departments will effect economies in Federal expenditures, except that this section shall not apply to the United States Employees' Compensation Commission.

REPORT TO CONGRESS

SEC. 408. The President shall report specially to Congress at the beginning of each regular session any action taken under the provisions of this title, with the reasons therefor.

TITLE V—PARTICULAR CONSOLIDATIONS EFFECTED

BUREAU OF NAVIGATION AND STEAMBOAT INSPECTION

SEC. 501. The Secretary of Commerce is authorized and directed to consolidate and coordinate the Steamboat Inspection Service and the Bureau of Navigation of the Department of Commerce in a bureau in such department to be known as the Bureau of Navigation and Steamboat Inspection, to be under the direction of a chief of bureau who shall be appointed by the Secretary of Commerce.

SEC. 502. (a) The Secretary of Commerce is authorized and directed to transfer to the Bureau of Navigation and Steamboat Inspection the records and property, including office equipment, of the Bureau of Navigation and the Steamboat Inspection Service.

(b) The Secretary of Commerce is authorized and directed to transfer to such bureau such officers and employees of the Bureau of Navigation and the Steamboat Inspection Service as in his judgment are indispensable to the efficient operation of such bureau. Such transfer of officers and employees shall be without changes in classification or compensation, but the Secretary may make such changes in the titles, designations, and duties of the officers and employees transferred as he may deem necessary to carry out the purposes of sections 501 to 504, inclusive, of this title. The Secretary is authorized to dismiss such officers and employees of the Steamboat Inspection Service and the Bureau of Navigation as are not, in his judgment, indispensable to the efficient operation of the Bureau of Navigation and Steamboat Inspection.

(c) The consolidation and coordination herein provided for shall be effected not later than October 1, 1932, and when the Secretary of Commerce declares such consolidation and coordination has been effected, the duties, powers, and functions vested in the Steamboat Inspection Service and the Bureau of Navigation shall be exercised by the Bureau of Navigation and Steamboat Inspection, and the Steamboat Inspection Service and the Bureau of Navigation shall cease to exist.

SEC. 503. All proceedings, hearings, or investigations commenced or pending before the bureau and the service abolished shall be continued by the Bureau of Navigation and Steamboat Inspection. All orders, rules, regulations, permits, licenses, enrollments, registrations, and privileges which have been issued or granted by the bureau and the service abolished and which are in effect shall continue in effect until modified, superseded, revoked, or repealed. All rights, interests, or remedies accruing or to accrue out of any provision of law or regulation relating to, or out of action taken by, the bureau and the service abolished shall be valid in all respects and may be exercised and enforced.

SEC. 504. Appropriations and unexpended balances of appropriations available for expenditure by the bureau and the service abolished shall be available for expenditure by the Bureau of Naviga-

tion and Steamboat Inspection in the same manner as if such bureau had been named in the laws providing for such appropriations, except that such parts of such appropriations and such unexpended balances as may not be absolutely necessary for the purposes of such bureau shall not be expended but shall be impounded and returned to the Treasury.

TRANSFER OF PERSONNEL CLASSIFICATION BOARD TO CIVIL SERVICE COMMISSION

SEC. 505. The duties, powers, and functions of the Personnel Classification Board are hereby transferred to the Civil Service Commission; and

(a) the Personnel Classification Board, and the position of director of classification, are hereby abolished;

(b) all records and property, including office furniture and equipment, of the Board, are hereby transferred to the Civil Service Commission; and

(c) such of the officers and employees of the Board, as in the judgment of the Civil Service Commission, are indispensable to the efficient operation of the commission, are hereby transferred to such commission, and all other officers and employees of such Board shall be dismissed.

SEC. 506. Any transfer of officers or employees under section 505 shall be without changes in classification or compensation, but the Civil Service Commission is authorized to make such changes in the titles, designations, and duties of such officers and employees as may be deemed necessary to carry out the provisions of sections 505 to 508, inclusive, of this title.

SEC. 507. (a) All orders, determinations, rules, or regulations made or issued by the Personnel Classification Board, and in effect at the time of such transfer, shall continue in effect to the same extent as if such transfer had not been made, until modified, superseded, or repealed by the Civil Service Commission.

(b) All provisions of law relating to the Personnel Classification Board and the director of classification shall continue in force with respect to the Civil Service Commission, in so far as such provisions of law are not inconsistent with the provisions of section 505 or 506.

SEC. 508. Such parts of appropriations and unexpended balances of appropriations available for expenditure by the Personnel Classification Board as the Civil Service Commission deems necessary shall be available for expenditure by the Civil Service Commission in the same manner as if such commission had been named in the laws providing for such appropriations, and the remainder of such appropriations and such unexpended balances shall not be expended but shall be impounded and returned to the Treasury.

SEC. 509. The provisions of sections 505, 506, 507, and 508 shall become effective October 1, 1932.

INTERNATIONAL WATER COMMISSION ABOLISHED

SEC. 510. The International Water Commission, United States and Mexico, American Section, is hereby abolished. The powers, duties, and functions of such section of such commission shall be exercised by the International Boundary Commission, United States and Mexico, American Section. This section shall take effect July 1, 1932.

TRANSFER OF RADIO DIVISION OF THE DEPARTMENT OF COMMERCE TO THE FEDERAL RADIO COMMISSION

SEC. 511. The President is authorized, by Executive order, to transfer the duties, powers, and functions of the Radio Division of the Department of Commerce to the Federal Radio Commission, and upon the issuance of such order—

(a) the Radio Division shall be abolished;

(b) all records and property, including office furniture and equipment, of the division, shall be transferred to the Federal Radio Commission; and

(c) such of the officers and employees of the division, as, in the judgment of the President, are indispensable to the efficient operation of the Federal Radio Commission, shall be transferred to such commission and all officers and employees of the division and commission not indispensable to the service shall be dismissed.

SEC. 512. Any transfer of officers or employees under section 511 shall be without changes in classification or compensation, but the President is authorized to make such changes in the titles, designations, and duties of such officers and employees as he may deem necessary to carry out the provisions of sections 511 to 514, inclusive, of this title.

SEC. 513. (a) All orders, determinations, rules, or regulations made or issued by the Department of Commerce in respect of the Radio Division, or by the Radio Division, and in effect at the time of such transfer, shall continue in effect to the same extent as if such transfer had not been made, until modified, superseded, or repealed by the Federal Radio Commission.

(b) All provisions of law relating to the Radio Division shall continue in force with respect to the Federal Radio Commission, in so far as such provisions of law are not inconsistent with the provisions of section 511 or 512.

SEC. 514. Such parts of appropriations and unexpended balances of appropriations available for expenditure by the Radio Division as the President deems necessary shall be available for expenditure by the Federal Radio Commission in the same manner as if such commission had been named in the laws providing for such appropriations, and the remainder of such appropriations and such unexpended balances shall not be expended but shall be impounded and returned to the Treasury.

TITLE VI—INTERDEPARTMENTAL WORK

SEC. 601. Section 7 of the Act entitled "An Act making appropriations for fortifications and other works of defense, for the armament thereof, and for the procurement of heavy ordnance for trial and service, for the fiscal year ending June 30, 1921, and for other purposes", approved May 21, 1920 [U. S. C., title 31, sec. 686], is amended to read as follows:

"SEC. 7. (a) Any executive department or independent establishment of the Government, or any bureau or office thereof, if funds are available therefor and if it is determined by the head of such executive department, establishment, bureau, or office to be in the

interest of the Government so to do, may place orders with any other such department, establishment, bureau, or office for materials, supplies, equipment, work, or services, of any kind that such requisitioned Federal agency may be in a position to supply or equipped to render, and shall pay promptly by check to such Federal agency as may be requisitioned, upon its written request, either in advance or upon the furnishing or performance thereof, all or part of the estimated or actual cost thereof as determined by such department, establishment, bureau, or office as may be requisitioned; but proper adjustments on the basis of the actual cost of the materials, supplies, or equipment furnished, or work or services performed, paid for in advance, shall be made as may be agreed upon by the departments, establishments, bureaus, or offices concerned: *Provided, however,* That if such work or services can be as conveniently or more cheaply performed by private agencies such work shall be let by competitive bids to such private agencies. Bills rendered, or requests for advance payments made, pursuant to any such order, shall not be subject to audit or certification in advance of payment.

“(b) Amounts paid as provided in subsection (a) shall be credited, (1) in the case of advance payments, to special working funds, or (2) in the case of payments other than advance payments, to the appropriations or funds against which charges have been made pursuant to any such order, except as hereinafter provided. The Secretary of the Treasury shall establish such special working funds as may be necessary to carry out the provisions of this subsection. Such amounts paid shall be available for expenditure in furnishing the materials, supplies, or equipment, or in performing the work or services, or for the objects specified in such appropriations or funds. Where materials, supplies, or equipment are furnished from stocks on hand, the amounts received in payment therefor shall be credited to appropriations or funds, as may be authorized by other law, or, if not so authorized, so as to be available to replace the materials, supplies, or equipment, except that where the head of any such department, establishment, bureau, or office determines that such replacement is not necessary the amounts paid shall be covered into the Treasury as miscellaneous receipts.

“(c) Orders placed as provided in subsection (a) shall be considered as obligations upon appropriations in the same manner as orders or contracts placed with private contractors. Advance payments credited to a special working fund shall remain available until expended.”

SEC. 602. (a) Notwithstanding the provisions of this title, such section 7, as in force prior to the date of the enactment of this Act, shall remain in force with respect to the disposition of funds transferred thereunder prior to such date.

(b) Nothing in this title shall be construed to authorize any Government department or independent establishment, or any bureau or office thereof, to place any orders for material, supplies, equipment, work, or services to be furnished or performed by convict labor, except as otherwise provided by existing law.

(c) The provisions of this title are in addition to and not in substitution for the provisions of any other law relating to working funds.

TITLE VII—PROVISIONS APPLICABLE TO VETERANS

SEC. 701. There is hereby created a joint congressional committee which shall be composed of five Members of the Senate, to be appointed by the President of the Senate, and five Members of the House of Representatives, to be appointed by the Speaker of the House of Representatives. Such committee shall conduct a thorough investigation of the operation of the laws and regulations relating to the relief of veterans of all wars and persons receiving benefits on account of service of such veterans and report a national policy with respect to such veterans and their dependents, and shall also report and recommend such economies as will lessen the cost to the United States Government of the Veterans' Administration. The committee shall report to the Senate and the House of Representatives not later than the 1st of January, 1933, the results of its investigation, together with such recommendations for legislation as it deems advisable.

The committee is authorized to sit and act, whether or not the Senate or House of Representatives is in session, at such times and places as it may deem advisable, and to call upon various departments of the Government for such information and for such clerical assistance as may be necessary, using the services of employees on the Government¹ pay roll, and also to call upon and use the clerks of the Committee on World War Veterans' Legislation, the Committee on Pensions, and the Committee on Invalid Pensions, of the House of Representatives; and the clerk of the Committee on Pensions of the Senate.

TITLE VIII—SPECIAL PROVISIONS

SEPARABILITY CLAUSE

SEC. 801. If any provision of this Act, or the application thereof to any person or circumstances, is held invalid, the remainder of the Act, and the application of such provision to other persons or circumstances, shall not be affected thereby.

SUSPENSIONS AND REPEALS

SEC. 802. All Acts and parts of Acts inconsistent or in conflict with those provisions of this Act which are of temporary duration are hereby suspended during the period in which such provisions of this Act are in effect. All Acts or parts of Acts inconsistent or in conflict with those provisions of this Act which are of permanent nature are hereby repealed to the extent of such inconsistency or conflict.

PROVISIONS OF PART 2 APPLICABLE TO APPROPRIATION ACTS FOR FISCAL YEAR 1933

SEC. 803. The provisions of Part 2 herein are hereby made applicable to the appropriations available for the fiscal year 1933, whether contained in this Act or in Acts prior or subsequent to the date of the approval of this Act.

Approved, June 30, 1932, 11.30 A. M.

¹ So in original.

Proposed amendment to Section 13, Federal Reserve Act:

The second paragraph of Section 13 of the Federal Reserve Act is hereby amended by adding the following:

The Federal Reserve Board, by an affirmative vote of five members, in times of emergency, is hereby given the power to permit Federal reserve banks, for such periods as it may determine, to discount paper eligible under the Act directly for individuals or corporations without requiring an endorsement of any bank, said paper to be subject to the maturity and other limitations now prescribed by said Act. The Federal reserve bank, before discounting any such paper, shall satisfy itself that the borrower can furnish satisfactory collateral and that it is unable to procure a loan from a member bank, and, on passing of the emergency, shall revoke its consent as to any future loans under this provision.

said paper to have a satisfactory endorsement

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X-7199

(TENTATIVE DRAFT - Intended only as basis for discussion and not recommended for approval.)

July 14, 1932

SUBJECT: DISCOUNTS FOR INDIVIDUALS AND CORPORATIONS.

TO ALL FEDERAL RESERVE BANKS:

The third paragraph of Section 13 of the Federal Reserve Act, as amended by the Act of July , 1932, provides as follows:

"For a period of two years in unusual and exigent circumstances, the Federal Reserve Board, by the affirmative vote of not less than five members, may authorize any Federal reserve bank, during such periods as the said board may determine, at rates established in accordance with the provisions of section 14, subdivision (d), of this Act, to discount for any individual or corporation, notes, drafts, and bills of exchange of the kinds and maturities made eligible for discount for member banks under other provisions of this Act when such notes, drafts, and bills of exchange are indorsed and otherwise secured to the satisfaction of the Federal reserve bank: Provided, That before discounting any such note, draft, or bill of exchange for an individual or corporation the Federal reserve bank shall obtain evidence that such individual or corporation is unable to secure adequate credit accommodations from other banking institutions. All such discounts for individuals or corporations shall be subject to such limitations, restrictions, and regulations as the Federal Reserve Board may prescribe. No note, draft, or bill of exchange discounted under the provisions of this paragraph shall be eligible as collateral security for Federal reserve notes."

In view of the exceptional and unusual nature of the power conferred upon the Federal reserve banks by this provision, and in view of the limited period during which it is effective, the Federal Reserve Board has not prescribed any formal regulations governing the exercise of this power; but the requirements of the law and the procedure which the Federal Reserve Board will expect to be followed are outlined below for the information of the Federal reserve banks and any individuals or corporations who may apply to them for discounts.

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I. LEGAL LIMITATIONS.

It will be observed that, by the express terms of the above provision of law:

1. Federal reserve banks may discount eligible paper for individuals and corporations only:

- (a) In unusual and exigent circumstances,
- (b) Within two years from July , 1932,
- (c) When authorized by the affirmative vote of
not less than five members of the Federal
Reserve Board, and
- (d) During such periods as the Federal Reserve Board
may prescribe;

2. They may discount for individuals and corporations only notes, drafts and bills of exchange of the kinds and maturities made eligible for discount for member banks, under other provisions (Sections 13 and 13a) of the Federal Reserve Act.

3. Such paper must be indorsed and otherwise secured to the satisfaction of the Federal reserve bank;

4. Before discounting paper for any individual or corporation, the Federal reserve bank must obtain evidence that such individual or corporation is unable to obtain adequate credit accommodations from other banking institutions;

5. Such discounts may be made only at rates established by the Federal reserve banks, subject to review and determination by the Federal Reserve Board;

6. Paper discounted for individuals and corporations is not eligible as collateral security for Federal reserve notes; and

7. All discounts for individuals or corporations are subject to such limitations, restrictions, and regulations as the Federal Reserve Board may prescribe.

II. PERMISSION OF THE FEDERAL RESERVE BOARD.

1. Permission to discount eligible notes, drafts, and bills of exchange for individuals and corporations will be granted by the Federal Reserve Board only upon written application of a Federal Reserve Bank containing a full statement of the exceptional and exigent circumstances which, in the judgment of the Board of Directors of the Federal reserve bank, justify such action.

2. Such permission will be granted for periods specified by the Federal Reserve Board, not exceeding six months; but applications for renewals of extensions of the Board's permission will be accepted and considered at any time during the two weeks preceding the expiration of an existing authorization.

3. Requests for renewals or extensions of such permission must be made in the same manner as an original application.

III. ELIGIBILITY.

1. When authorized by the Federal Reserve Board, the Federal reserve banks may discount for individuals or corporations, eligible commercial, industrial and agricultural paper actually owned by such individuals or corporations and bearing their indorsement.

2. In order to be eligible for such discount, notes, drafts and bills of exchange must comply as to maturity and in all other respects

with the provisions of Section 13 or Section 13(a) of the Federal Reserve Act and with the applicable requirements of the Board's Regulation A.

IV. APPLICATIONS FOR DISCOUNT.

Each application of an individual or corporation for the discount of eligible paper by the Federal reserve bank must be made in writing on a form furnished for that purpose by the Federal reserve bank and must contain, or be accompanied by, the following:

1. A statement of the circumstances giving rise to the application and of the purposes for which the proceeds of the discount are to be used;
2. A statement of the efforts made by the applicant to obtain adequate credit accommodations from other banking institutions, including the names and addresses of all other banking institutions to which application for such credit accommodations has been made, the dates upon which such applications were made, whether such applications have been definitely refused and the reasons, if any, given for such refusal;
3. Financial statements of the applicant and the principal obligors on the paper offered for discount;
4. A list of all banks with which the applicant has had banking relations, either as a depositor or as a borrower, during the preceding year, with the approximate dates upon which such banking relations commenced and terminated;
5. Evidence sufficient to satisfy the Federal reserve bank as to,

(a) the legal eligibility of the paper offered for discount and (b) its acceptability from a credit standpoint;

6. A list and description of the collateral or other security offered by the applicant; and

7. An agreement by the applicant, in form satisfactory to the Federal reserve bank, (a) to furnish to the Federal reserve bank when requested, additional financial statements, copies of recent auditors' reports, and other credit information, and (b) to submit to audits, credit investigations and examinations by representatives of the Federal reserve bank, whenever the Federal reserve bank shall so desire.

V. GRANTING OR REFUSAL OF APPLICATION.

Before discounting notes, drafts, or bills of exchange for any individual or corporation, the Federal reserve bank shall ascertain to its satisfaction by such means as it may deem appropriate:

1. Whether any member bank located in the territory served by such applicant is willing to grant the credit accommodations for which application has been made to the Federal reserve bank;

2. Whether the applicant is unable to obtain adequate credit accommodations from other banking institutions;

3. The financial condition and credit standing of the applicant and the need for the credit accommodations applied for;

4. Whether the paper offered for discount is acceptable from a credit standpoint and eligible from a legal standpoint;

5. Whether the security offered is adequate to protect the Federal reserve bank against loss; and

6. That the proceeds of such discount will be used for a purpose which would give rise to paper which would be eligible for discount under other provisions of the Federal Reserve Act, if offered by member banks.

In discounting paper for individuals or corporations, a Federal reserve bank should not make any commitment to renew or extend such paper or to grant further or additional discounts.

VI. LIMITATIONS.

No Federal reserve bank shall discount for any one individual or corporation paper amounting in the aggregate to more than one per cent of the paid in capital stock of such Federal reserve bank.

VII. ADDITIONAL REQUIREMENTS.

Any Federal reserve bank which obtains permission from the Federal Reserve Board to discount eligible paper for individuals and corporations may issue a circular prescribing such additional requirements and procedure respecting such transactions as it may deem necessary or advisable; provided that it is not inconsistent with the provisions of the law and the Board's regulations and with the terms of this letter.

By order of the Federal Reserve Board.

Chester Morrill,
Secretary.

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See AM

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7201

July 16, 1932.

SUBJECT: Proposed Circular re Discounts for Individuals, Partnerships and Corporations.

Dear Sir:

There is inclosed for your information a tentative draft of a circular on the above subject outlining a suggested procedure in connection with the discount of eligible paper for individuals, partnerships and corporations under the provisions of the Emergency Relief and Construction Bill, the conference report on which was approved by the House of Representatives yesterday and is under consideration in the Senate at the time this letter is written.

This circular has not been approved even tentatively by the Federal Reserve Board; but an earlier draft of it was discussed at the joint meeting of the Governors of all the Federal reserve banks with the Federal Reserve Board on Friday, July 15, 1932, and the inclosed is a revised draft prepared in the light of that discussion. It will be appreciated if you will telegraph your comments and suggestions regarding this circular to us as soon as possible, in order

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that, when the Bill becomes a law, the circular may be revised and considered by the Board at the earliest possible date.

Tentative drafts of forms for use in this connection are also being prepared here and will be submitted to all the Federal reserve banks at the earliest possible date and their comments and suggestions will be invited.

It is important that this letter and the inclosed circular be regarded as strictly confidential.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

Inclosures.

TO GOVERNORS AND CHAIRMEN OF ALL F. R. BANKS.

July 16, 1932.

SUBJECT: DISCOUNTS FOR INDIVIDUALS, PARTNERSHIPS AND
CORPORATIONS.

TO ALL FEDERAL RESERVE BANKS:

The third paragraph of Section 13 of the Federal Reserve Act, as amended by the Act of July , 1932, provides as follows:

"In unusual and exigent circumstances, the Federal Reserve Board, by the affirmative vote of not less than five members, may authorize any Federal reserve bank, during such periods as the said board may determine, at rates established in accordance with the provisions of section 14, subdivision (d), of this Act, to discount for any individual, partnership or corporation, notes, drafts, and bills of exchange of the kinds and maturities made eligible for discount for member banks under other provisions of this Act when such notes, drafts, and bills of exchange are indorsed and otherwise secured to the satisfaction of the Federal reserve bank: Provided, That before discounting any such note, draft, or bill of exchange for an individual, or a partnership or corporation the Federal reserve bank shall obtain evidence that such individual, partnership or corporation is unable to secure adequate credit accommodations from other banking institutions. All such discounts for individuals, partnerships or corporations shall be subject to such limitations, restrictions, and regulations as the Federal Reserve Board may prescribe."

In view of the fact that the power conferred upon the Federal reserve banks by this provision can be exercised only in "unusual and exigent circumstances", the Federal Reserve Board has not prescribed any formal regulations governing the exercise of this power; but the requirements of the law and the procedure which the Federal Reserve Board will expect to be followed are outlined below for the information of the Federal reserve banks and any individuals, partnerships or corporations who may contemplate applying to them for discounts.

I. LEGAL REQUIREMENTS.

It will be observed that, by the express terms of the law:

1. Federal reserve banks may discount eligible paper for individuals, partnerships or corporations only:

- (a) In unusual and exigent circumstances,
- (b) When authorized by the affirmative vote of not less than five members of the Federal Reserve Board, and
- (c) During such periods as the Federal Reserve Board may prescribe;

2. They may discount for individuals, partnerships or corporations only notes, drafts and bills of exchange of the kinds and maturities made eligible for discount for member banks, under other provisions (Sections 13 and 13a) of the Federal Reserve Act.

3. Such paper must be both (a) indorsed and (b) otherwise secured to the satisfaction of the Federal reserve bank;

4. Before discounting paper for any individual, partnership or corporation, the Federal reserve bank must obtain evidence that such individual, partnership or corporation is unable to secure adequate credit accommodations from other banking institutions;

5. Such discounts may be made only at rates established by the Federal reserve banks, subject to review and determination by the Federal Reserve Board; and

6. All discounts for individuals, partnerships or corporations are subject to such limitations, restrictions, and regulations as the Federal Reserve Board may prescribe.

II. PERMISSION OF THE FEDERAL RESERVE BOARD.

1. Permission to discount eligible notes, drafts, and bills of exchange for individuals, partnerships or corporations will be granted by the Federal Reserve Board only upon written or telegraphic application of a Federal Reserve Bank containing a full statement of the unusual and exigent circumstances which, in the judgment of the Board of Directors of the Federal reserve bank, justify such action.

2. The Federal Reserve Board will not undertake to consider individual cases or grant permission to discount specific paper for specific individuals, partnerships or corporations; but will grant to any Federal reserve bank applying for it general permission to discount eligible paper for all individuals, partnerships and corporations, when there are unusual and exigent circumstances which, in the judgment of the Federal Reserve Board, justify the granting of such permission.

3. Such permission will be granted for periods specified by the Federal Reserve Board, not exceeding six months.

4. Requests for renewals or extensions of such permission must be made in the same manner as an original application.

III. ELIGIBILITY.

1. When authorized by the Federal Reserve Board, the Federal reserve banks may discount for individuals, partnerships or corporations, eligible commercial, industrial and agricultural paper actually owned

by such individuals, partnerships or corporations and bearing their indorsement.

2. In order to be eligible for such discount, notes, drafts and bills of exchange must:

(a) Comply as to maturity and in all other respects with the provisions of Section 13 or Section 13(a) of the Federal Reserve Act and with the applicable requirements of the Board's Regulation A;

(b) Be indorsed; and

(c) Be otherwise secured to the satisfaction of the Federal Reserve Bank.

IV. APPLICATIONS FOR DISCOUNT.

Each application of an individual, partnership or corporation for the discount of eligible paper by the Federal reserve bank must be made in writing on a form furnished for that purpose by the Federal reserve bank and must contain, or be accompanied by, the following:

1. A statement of the circumstances giving rise to the application and of the purposes for which the proceeds of the discount are to be used;

2. A statement of the efforts made by the applicant to obtain adequate credit accommodations from other banking institutions, including the names and addresses of all other banking institutions to which application for such credit accommodations has been made, the dates upon which such applications were made, whether such applications have been

definitely refused and the reasons, if any, given for such refusal;

3. Financial statements of the applicant and the principal obligors on the paper offered for discount;

4. A list of all banks with which the applicant has had banking relations, either as a depositor or as a borrower, during the preceding year, with the approximate dates upon which such banking relations commenced and terminated;

5. Evidence sufficient to satisfy the Federal reserve bank as to (a) the legal eligibility of the paper offered for discount and (b) its acceptability from a credit standpoint;

6. A list and description of the collateral or other security offered by the applicant;

7. An agreement by the applicant, in form satisfactory to the Federal reserve bank, (a) to furnish to the Federal reserve bank, when requested, additional financial statements, copies of recent auditors' reports, or other credit information, and (b) to submit to audits, credit investigations or examinations by representatives of the Federal reserve bank, whenever the Federal reserve bank shall so desire; and

8. Any additional information or assurances which the Federal reserve bank, in its discretion, may require.

V. GRANT OR REFUSAL OF APPLICATION.

Before discounting notes, drafts, or bills of exchange for any partnership individual, or corporation, the Federal reserve bank shall ascertain to its satisfaction by such means as it may deem appropriate:

1. That the financial condition and credit standing of the applicant justify the granting of such credit accommodations;

2. That the paper offered for discount is acceptable from a credit standpoint and eligible from a legal standpoint;
3. That the security offered is adequate to protect the Federal reserve bank against loss;
4. That there is a reasonable need for such credit accommodations; and
5. That the applicant is unable to obtain adequate credit accommodations from other banking institutions.

A special effort should be made to determine whether any member bank in the territory in which such applicant's principal place of business is located and/or in which its principal banking business is transacted is willing to grant such credit accommodations to the applicant.

Federal reserve banks should discount paper for individuals, partnerships and corporations only when given adequate assurances that the proceeds of such discount will be used by the applicant to finance current operations in his own business and not for speculative purposes, for permanent or fixed investments, for any other capital purpose, or for the purpose of paying off existing indebtedness to other banking institutions.

Paper bearing the signature or indorsement of non-member banks should not be discounted for individuals, partnerships or corporations; and no paper should be discounted for non-member banks. ✓

In discounting paper for individuals, partnerships or corporations, a Federal reserve bank should not make any commitment to renew or extend such paper or to grant further or additional discounts.

VI. RATES OF DISCOUNT.

When authorized by the Federal Reserve Board to discount eligible paper for individuals, partnerships and corporations, the Federal reserve banks, subject to the review and determination of the Federal Reserve Board, shall establish special rates for such discounts which rates shall be reasonable in the light of the rates charged on similar paper by commercial banks to which the applicant ordinarily would have access.

VII. LIMITATIONS.

Except with the permission of the Federal Reserve Board, no Federal reserve bank shall discount for any one individual, partnership or corporation paper amounting in the aggregate to more than one per cent of the paid-in capital stock and surplus of such Federal reserve bank.

VIII. ADDITIONAL REQUIREMENTS.

Any Federal reserve bank which obtains permission from the Federal Reserve Board to discount eligible paper for individuals, partnerships and corporations may issue a circular prescribing such additional requirements and procedure respecting such transactions as it may deem necessary or advisable; provided that it is not inconsistent with the provisions of the law and the Board's regulations and with the terms of this letter.

By order of the Federal Reserve Board.

Chester Morrill,
Secretary.

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Office Correspondence

FEDERAL RESERVE
BOARDDate July 22, 1932. Lee H. H.

To Mr. Morrill

Subject:

From Mr. Hamlin

2-8405

Dear Mr. Morrill:

I have read over the minutes of the meeting of Tuesday, July 12th, and I would suggest the following changes at the bottom of Page 9, and the top of Page 10, so that it will read as follows:

A discussion ensued, during which Mr. Hamlin reported that in a telephone conversation with Senator Glass on Saturday morning at about 12:30 - one-half hour before the close of the working day, he had expressed to Senator Glass his disapproval of the power granted in the relief bill to the Reconstruction Finance Corporation to make loans to individuals, and that he added that if such a power were suggested to be given to the Federal Reserve System, he personally would favor it; that such a power was vested in practically all of the European central banks, and actually exercised by many of them.

He also stated that Senator Glass did not respond favorably to the idea, but later called him back on the telephone and requested that he draft an appropriate amendment to the Federal Reserve Act, which he had done hurriedly with the assistance of Counsel's office, on the clear understanding with Senator Glass that this was done as a personal matter only at his request, without in any way representing the views of the Federal Reserve Board or any of its members, except himself.

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Abstract from Minutes of meeting of Board Tuesday, July 12, 1932.

"A discussion ensued during which Mr. Hamlin reported that in a telephone conversation with Senator Glass on Saturday morning he had mentioned the fact that most, if not all, foreign central banks have authority to make direct loans to individuals, even though it may not be exercised in all cases, and had stated that he, personally, would favor an amendment to the Federal Reserve Act along such lines. He also stated that Senator Glass did not respond favorably to the idea, but, later, called him back on the telephone and requested that he draft an appropriate amendment to the Federal Reserve Act, which he had done hurriedly and with the assistance of Counsel's office.

"The Secretary stated that the amendment was considered and approved by the Banking and Currency Committee of the Senate this morning, that he is informed that it is planned to bring the bill up on the floor of the Senate this afternoon, with the probability that it will be passed by the Senate today, and that it is possible, because of the desire in Congress for an early adjournment, that the bill will be acted upon immediately by the House of Representatives.

"Some members of the Board indicated the feeling that in other circumstances there might be merit in an amendment to the Federal Reserve Act giving the Federal reserve banks authority to discount paper for individuals, etc., under proper safeguards, but that the present is not an opportune time for such an amendment and all of the members, except Mr. Hamlin, expressed strong disapproval of the procedure by which the Act might be

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amended in an important respect without an adequate opportunity for the Board, the Federal reserve banks, or the member banks of the system to consider it carefully or to be heard regarding it.

"It was pointed out that, as the amendment had already received the approval of the Senate Committee on Banking and Currency, it would probably be acted upon by the Senate today, and perhaps also by the House; that the bill related chiefly to other matters with which the President would be concerned as a result of his veto of the Wagner-Garner bill, and that it might be transmitted to the President for approval before the Board's position could be effectively presented to either House of Congress.

"In view of these exceptional circumstances, Mr. Miller was requested to arrange for a talk with the President of the United States on the telephone and to express to him the Board's disapproval of the inclusion of such an important amendment to the Federal Reserve Act in the pending unemployment relief and construction bill, especially in view of the fact that there had not been afforded an opportunity for a hearing on the proposal or careful consideration of its merits."

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July 25, 1932.

To: Federal Reserve Board Subject: Discounts for individuals,
From: Messrs. Harrison, Morrill, partnerships and corporations.
Goldenweiser, Smead, Siems
and Wyatt.

We respectfully recommend that the proposed circular on the above subject be approved by the Board in the revised form attached hereto.

Especial attention is invited to the revised Sections II and III and to the fact that the proposed section regarding the rate of discount has been omitted.

In the earlier drafts of Section II, it was proposed to require Federal reserve banks to apply for the Board's permission to discount eligible paper for individuals, partnerships and corporations and to state the unusual and exigent circumstances which, in the judgment of their directors, justify such action. It is believed, however, that the Board is already in possession of sufficient information to enable it to reach the conclusion that unusual and exigent circumstances exist in all Federal Reserve Districts, and it would simplify the procedure and expedite matters if the Board would authorize all Federal reserve banks generally for a period of six months to discount eligible paper for individuals, partnerships and corporations.

Section III has been revised so as to provide that a Federal reserve bank may discount for individuals, partnerships or corporations (a) notes, drafts, or bills of exchange, which are the obligations of other parties actually owned by such individuals, partnerships or corporations and indorsed by them, or (b) the promissory notes of such

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individuals, partnerships or corporations indorsed by other parties whose indorsements are satisfactory to the Federal reserve bank. This construes the law as permitting direct advances to individuals, partnerships and corporations on their own promissory notes. On this point, the law is not at all clear. Technically, it could be construed as authorizing the Federal reserve banks to discount only eligible paper consisting of obligations of other parties actually owned by such individuals, partnerships or corporations; but it is believed that, in view of the remedial character of the legislation, it should be given the more liberal interpretation, which would permit direct advances. Otherwise, the benefits of the amendment would be greatly restricted.

The proposed section regarding discount rates has been omitted entirely from this draft of the circular; because it is not believed to be necessary and because it is believed that this subject can be dealt with better when it arises, in the light of the circumstances existing in each Federal Reserve District, and especially in the light of the rates customarily charged by commercial banks in each district on similar classes of paper.

Respectfully,

(S) Walter Wyatt

Chester Morrill

L. A. A. Siems

E. L. Smead

E. A. Goldenweiser

WW:mnw

July 25, 1932.

SUBJECT: DISCOUNTS FOR INDIVIDUALS, PARTNERSHIPS AND
CORPORATIONS.

TO ALL FEDERAL RESERVE BANKS:

The third paragraph of Section 13 of the Federal Reserve Act, as amended by the Act of July 21, 1932, provides as follows:

"In unusual and exigent circumstances, the Federal Reserve Board, by the affirmative vote of not less than five members, may authorize any Federal reserve bank, during such periods as the said board may determine, at rates established in accordance with the provisions of section 14, subdivision (d), of this Act, to discount for any individual, partnership, or corporation, notes, drafts, and bills of exchange of the kinds and maturities made eligible for discount for member banks under other provisions of this Act when such notes, drafts, and bills of exchange are indorsed and otherwise secured to the satisfaction of the Federal reserve bank: Provided, That before discounting any such note, draft, or bill of exchange for an individual or a partnership or corporation the Federal reserve bank shall obtain evidence that such individual, partnership, or corporation is unable to secure adequate credit accommodations from other banking institutions. All such discounts for individuals, partnerships, or corporations shall be subject to such limitations, restrictions, and regulations as the Federal Reserve Board may prescribe."

In view of the fact that the power conferred by this provision can be exercised only in "unusual and exigent circumstances", the Federal Reserve Board has not prescribed any formal regulations governing the exercise of this power; but the requirements of the law and the procedure which the Federal Reserve Board will expect to be followed are outlined below for the information of the Federal reserve banks and any individuals, partnerships or corporations that may contemplate applying to them for discounts.

I. LEGAL REQUIREMENTS.

It will be observed that, by the express terms of the law:

1. The power conferred upon the Federal Reserve Board to authorize Federal reserve banks to discount eligible paper for individuals, partnerships or corporations may be exercised only:
 - (a) In unusual and exigent circumstances,
 - (b) By the affirmative vote of not less than five members of the Federal Reserve Board, and
 - (c) For such periods as the Federal Reserve Board may determine.

2. When so authorized, a Federal Reserve Bank may discount for individuals, partnerships or corporations only notes, drafts and bills of exchange of the kinds and maturities made eligible for discount for member banks, under other provisions (Sections 13 and 13a) of the Federal Reserve Act. (Such paper ^{therefore} must comply with the applicable requirements of Regulation A of the Federal Reserve Board).

3. Paper discounted for individuals, partnerships or corporations must be both (a) indorsed and (b) otherwise secured to the satisfaction of the Federal reserve bank.

4. Before discounting paper for any individual, partnership or corporation, a Federal reserve bank must obtain evidence that such individual, partnership or corporation is unable to secure adequate credit accommodations from other banking institutions.

5. Such discounts may be made only at rates established by the Federal reserve banks, subject to review and determination by the Federal Reserve Board;

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6. All discounts for individuals, partnerships or corporations are subject to such limitations, restrictions, and regulations as the Federal Reserve Board may prescribe.

II. AUTHORIZATION BY THE FEDERAL RESERVE BOARD

The Federal Reserve Board, being satisfied that there are in all Federal reserve districts unusual and exigent circumstances which justify such action, hereby authorizes all Federal reserve banks for a period of six months from the date of this letter to discount eligible notes, drafts and bills of exchange for individuals, partnerships and corporations, subject to the provisions of the law, the Board's regulations, and this circular.

III. FOR WHOM PAPER MAY BE DISCOUNTED.

A Federal reserve bank may discount for individuals, partnerships or corporations notes, drafts or bills of exchange, which are the obligations of other parties actually owned by such individuals, partnerships or corporations and indorsed by them, or the promissory notes of such individuals, partnerships, or corporations indorsed by other parties whose indorsements are satisfactory to the Federal reserve bank.

Within the meaning of this circular, the term "corporations" does not include banks.

IV. APPLICATIONS FOR DISCOUNT.

Each application of an individual, partnership or corporation for the discount of eligible paper by the Federal reserve bank must be addressed to the Federal Reserve Bank of the District in which the principal place of business of the applicant is located, must be made in writing on a form furnished for that purpose by the Federal reserve bank and must contain, or be accompanied by, the following:

1. A statement of the circumstances giving rise to the application and of the purposes for which the proceeds of the discount are to be used;

2. Evidence sufficient to satisfy the Federal reserve bank as to (a) the legal eligibility of the paper offered for discount under Section 13 or Section 13(a) of the Federal Reserve Act and Regulation A of the Federal Reserve Board and (b) its acceptability from a credit standpoint;

3. A statement of the efforts made by the applicant to obtain adequate credit accommodations from other banking institutions, including the names and addresses of all other banking institutions to which applications for such credit accommodations were made, the dates upon which such applications were made, whether such applications were definitely refused and the reasons, if any, given for such refusal;

4. A list showing each bank with which the applicant has had banking relations, either as a depositor or as a borrower, during the preceding year, with the approximate date upon which such banking relations commenced and, if such banking relations have been terminated, the approximate date of their termination;

5. Complete credit data regarding the financial condition of the principal obligors and indorsers on the paper offered for discount;

6. A list and description of the collateral or other security offered by the applicant;

7. A waiver by the applicant to demand, notice and protest as to applicant's obligation on all paper discounted by the Federal reserve bank or held by the Federal reserve bank as security; and

8. An agreement by the applicant, in form satisfactory to the Federal reserve bank, (a) to furnish additional credit information to the Federal reserve bank, when requested, (b) to submit to audits, credit investigations or examinations by representatives of the Federal reserve bank at the expense of the applicant, whenever requested by the Federal reserve bank, and (c) to furnish additional security whenever requested to do so by the Federal Reserve Bank.

V. GRANT OR REFUSAL OF APPLICATION.

Before discounting notes, drafts, or bills of exchange for any individual, partnership or corporation, the Federal reserve bank shall ascertain to its satisfaction by such means as it may deem appropriate:

1. That the financial condition and credit standing of the applicant justify the granting of such credit accommodations;

2. That the paper offered for discount is acceptable from a credit standpoint and eligible from a legal standpoint;

3. That the security offered is adequate to protect the Federal reserve bank against loss;

4. That there is a reasonable need for such credit accommodations; and

5. That the applicant is unable to obtain adequate credit accommodations from other banking institutions.

A special effort should be made to determine whether the banking institutions with which the applicant ordinarily transacts his banking business or any other banking institution to which the applicant ordinarily would have access is willing to grant such credit accommodations.

A Federal reserve bank should not discount such paper unless it appears that the proceeds of such discounts will be used to finance current business operations and not for speculative purposes, for permanent or fixed investments, or for any other capital purposes. Except with the permission of the Federal Reserve Board, no such paper should be discounted if it appears that the proceeds will be used for the purpose of paying off existing indebtedness to other banking institutions.

In discounting paper for individuals, partnerships or corporations, a Federal reserve bank should not make any commitment to renew or extend such paper or to grant further or additional discounts.

VI. LIMITATIONS.

Except with the permission of the Federal Reserve Board, no Federal reserve bank shall discount for any one individual, partnership or corporation paper amounting in the aggregate to more than one per cent of the paid-in capital stock and surplus of such Federal reserve bank.

VII. ADDITIONAL REQUIREMENTS.

Any Federal reserve bank may prescribe such additional requirements and procedure respecting discounts hereunder as it may deem necessary or advisable; provided that such requirements and procedure are consistent with the provisions of the law, the Board's regulations and the terms of this circular.

By order of the Federal Reserve Board.

Chester Morrill,
Secretary.

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Office Correspondence

FEDERAL RESERVE
BOARDDate August 23, 1932 see DM

To Mr. Hamlin

Subject:

From Mr. Parry *WEP*

2-8495

Concerning the new provision for individual loans, which you mentioned to me the other day--in relation to the forthcoming President's Conference-- I understand that certain material sent in by the reserve banks is being digested for the Board by the Division of Bank Operations and that the digest is expected to be mimeographed tomorrow.

The only suggestions that have occurred to me concerning material that might be of use to you at this conference relate to certain important differences between the underlying banking situation that confronts this conference and the one that confronted the conference held by the President last year--about October 7. I refer in particular to the fact that bank failures have recently been on the decline and money has been coming out of hoards to some extent, whereas the exact contrary was the case during the period immediately preceding the conference of last year. The facts are presented briefly in the following table, which shows for each of the last six weeks, in comparison with the six weeks ending with October 10, 1931, the number of bank suspensions and the deposits involved, the number of banks reopened and their deposits, and changes in the demand for currency (adjusted for seasonal variations):

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NUMBER OF BANKS SUSPENDED

Week ending--	Number	Week ending--	Number
July 16, 1932	36	Sept. 5, 1931	54
23	31	12	42
30	21	19	63
Aug. 6	20	26	99
13	17	Oct. 3	74
20	<u>22</u>	10	<u>143</u>
Total	147	Total	475

DEPOSITS OF SUSPENDED BANKS

Week ending--	Deposits (000,000 omitted)	Week ending--	Deposits (000,000 omitted)
July 16, 1932	\$24	Sept. 5, 1931	\$50
23	13	12	15
30	6	19	66
Aug. 6	8	26	61
13	9	Oct. 3	76
20	<u>5</u>	10	<u>146</u>
Total	65	Total	414

NUMBER OF BANKS REOPENED

Week ending--	Number	Week ending--	Number
July 16, 1932	6	Sept. 5, 1931	...
23	3	12	1
30	2	19	3
Aug. 6	7	26	1
13	2	Oct. 3	1
20	<u>3</u>	10	<u>4</u>
Total	23	Total	10

DEPOSITS OF REOPENED BANKS

Week ending--	Deposits (000,000 omitted)	Week ending--	Deposits (000,000 omitted)
July 16, 1932	\$5	Sept. 5, 1931	*
23	15	12	*
30	1	19	1
Aug. 6	3	26	*
13	2	Oct. 3	*
20	<u>1</u>	10	<u>1</u>
Total	27	Total	3

* Less than \$500,000.

CHANGES IN DEMAND FOR CURRENCY--ADJUSTED FOR SEASONAL VARIATIONS

(Weekly averages of daily figures--in millions of dollars)

Week ending--	Change from preceding week	Week ending--	Change from preceding week
July 16, 1932	+17	Sept. 5, 1931	+25
23	+19	12	+10
30	-23	19	+12
Aug. 6	+11	26	+76
13	-18	Oct. 3	+78
20	0	10	+143

These figures relating to currency demand, which show the extent to which an increase, for example, has exceeded (or fallen short of) the usual seasonal increase, come the nearest of any figures that we have to representing changes in "hoarding." For recent weeks the story that they tell is complicated by the fact that some increase in demand, which we are not yet in position to measure, reflects the increased use of cash since the new tax on checks. The daily data from which the averages are derived indicate that "hoarding" reached its peak on July 20, 1932, and that from that time to August 20 the return of currency from hoards amounted to not less than \$81,000,000--of which \$33,000,000 came back in the two weeks August 8 to August 20.

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See PM

Federal Reserve Direct Loans, by Districts.

District #1.
Boston.

Up to August 9, 210 applicants, of which 126 requested information on real estate loans and non-eligible personal loans. Received also 50 inquiries by letter. Up to August 20, six different applications received, - one was withdrawn, 3 not satisfactorily secured, 2 apparently personal loans, and ineligible.

None of these requests were placed with other banks.

District #2.
New York.

*20 Aug 10.
500 inquiries*

500 inquiries, mostly ineligible.

Up to August 20, 1 loan for \$125,000 granted.

24 applications refused, - 2 because ineligible, 21 as unsatisfactory risks, and one regarded as now being granted adequate bank credit.

District #3.
Philadelphia.

Up to August 13, one application received. Rejected because not satisfactorily secured, and because of lack of confidence in the management.

District #4.
Cleveland.

Up to August 22, 2 applications. Both rejected, - one because of unsatisfactory security and unsatisfactory statements of endorsers, and the other because of lack of endorsement and inadequate security. One case was of such merit that it was referred to a local bank, where a satisfactory banking connection was established, and the necessary accommodation received.

District #5.
Richmond.

Up to August 20, 25 applications, aggregating \$390,000. None of

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these were granted or placed with other banks. 20 of these were ineligible, and in nearly all cases either not satisfactorily secured or not satisfactorily endorsed.

In the 5 apparently eligible cases, the applicant was unable to furnish either satisfactory security or satisfactory endorsers.

District #6.
Atlanta.

Up to August 20, 14 applications. 1 was placed with a member bank, 13 were rejected, - 4 because ineligible, and 9 because not satisfactorily secured, or not supported by satisfactory financial statements.

District #7.
Chicago.

Up to August 16, out of 472 inquiries, 309 were merely requests for information. 145 requests for loans clearly ineligible. Of the other applicants, 4 were found to have other banking facilities available, 10 desired loans having no satisfactory credit basis, and the remaining 4 were asked for additional credit information.

District #8.
St. Louis.

The 90-day maturity limitation prevents the making of some desirable loans to small or medium sized concerns. Suggests possibility of establishing some institution - such as a trust company - to make loans of this kind.

Up to August 20, 11 applications all rejected, - 2 because of being ineligible, and 9 because of unsatisfactory security.

District #9.
Minneapolis.

In a number of cases, the Federal reserve bank sent applicants to

proper sources of credit where they could be taken care of. 2 farm loans were turned over to the Land Bank Committee, 2 to a savings bank, and the cattle feeder was directed to a bank in an adjoining town which was glad to make the loan.

The Federal reserve bank has been working on a line for a manufacturing concern, and hopes to establish the necessary credit with a commercial bank.

11 applications have been refused, 7 because of unsatisfactory security or not secured, 2 because there was no basis of credit, 1 because ineligible, and another because of being a poor credit risk, and because the maturity was beyond that permitted by law.

District #10.
Kansas City.

Up to August 20, 8 applications received, of which 4 were ineligible, 2 did not show denial of credit by other banks, 1 had a maturity in excess of that permitted by the amendment, and 1 not properly secured.

District #11.
Dallas.

Up to August 13, 2 applications, - one rejected because not properly secured or endorsed, 1 because it was not properly secured.

One of the loans rejected was probably taken care of by the local bank. In another case, during progress of negotiations, before final application filed, the applicant obtained accommodation at another bank.

District #12.
San Francisco.

Up to August 20, many inquiries, but no applications received, although a number of applications were in process of negotiation.

Confidential

SUMMARY OF FEDERAL RESERVE BANK AND BANKING AND INDUSTRIAL COMMITTEE ACTIVITIES
IN CONNECTION WITH CREDIT REQUIREMENTS

M. Hamlin

FEDERAL RESERVE DISTRICT NO. 1 - BOSTON

A. ACTIVITIES OF BANKING AND INDUSTRIAL COMMITTEE

1. Circular to trade, business and credit associations (August 9) requesting

that each association send an accompanying questionnaire to its members, the completed questionnaire to be returned direct to the Banking and Industrial Committee. The questionnaire requests that the conditions under which Federal reserve banks may discount paper for individuals, partnerships or corporations, as given in an accompanying statement, be borne in mind in answering the following two questions:

(1) Do you now require credit for use in your business which you are unable to obtain at your bank? If so, please give full particulars.

(2) Do you know of others now in need of credit for legitimate business purposes which cannot be obtained from banking institutions? If so, please give particulars.

2. Circular to business and industrial concerns (August 11) requesting that

the same questionnaire be filled out by such concerns and returned to the committee.

3. Circular to all commercial banks (August 16)

(a) Calls attention to the fact that there is a large amount of credit now available through the Federal reserve banks and Intermediate credit banks for merchants, manufacturers, agriculturists and producers of raw material, who are deserving of such credit, and that it is for the best public interest that this credit be made available for sound business purposes to stimulate trade and to

increase employment and purchasing power throughout the country.

- (b) States that the Federal reserve banks are now authorized to make direct loans to individuals, partnerships and corporations, but that this available credit properly should be advanced through local banking institutions.
- (c) Suggests that if the community could be made to realize how desirable and proper it is that the seasonal and immediate needs of commerce, industry and agriculture should be taken care of, then rediscounting or borrowing by banks would be considered a logical and constructive service; and that if properly presented in a bank's published statement, for example as rediscounts "for purposes of customers' manufacturing requirements," such borrowings would be accepted by the community as a constructive service of the bank.
- (d) Asks banks' cooperation in making it clear to business interests that there is no need to curtail the volume of their operations because of lack of credit facilities.

4. Circular to building and loan associations and cooperative banks (July 6)

Supplements a similar questionnaire previously sent out by the New England Council to chambers of commerce, business organizations, etc., and seeks a further check of the real estate situation.

B. ACTIVITIES OF FEDERAL RESERVE BANK

Federal reserve bank is making a careful survey, in cooperation with the Banking and Industrial Committee, of the needs for credit in the different lines of business and agricultural activities, using for

this purpose the replies to the questionnaire sent out by the committee.

C. DATA GATHERED BY COMMITTEE FOR FEDERAL RESERVE BANK

1. Federal reserve bank has analyzed tabulations made by New England Council of results of questionnaire sent out by the Council on June 28 to organizations throughout New England, principally chambers of commerce, boards of trade, etc., and in some cases to newspapers. This questionnaire embraced five inquiries, two of which had a particular bearing on commercial bank credit. These questions and the results of the tabulation are as follows:

Inquiry 1. Are there any instances of banks being unable or unwilling to grant sound loans for business purposes?

Yes (or qualified) - 36 No - 125

Inquiry 2. Are there any projects, commercial, industrial or municipal, that are held up for lack of credit? Would they be executed if credit from some source outside were made available?

Yes (or qualified) - 23 No - 134

2. Analysis of replies of building and loan associations and cooperative banks to the July 6 questionnaire sent out by Banking and Industrial Committee.

a. Are building and loan associations in your section in position to loan money on sound mortgages?

Yes - 7 No - 21

b. Is there any considerable demand for real estate loans which can not be satisfied with present facilities?

Yes - 21 No - 7

c. Is there any need for additional housing facilities in your section?

Yes - 5 No - 23

d. Is there a demand for sound real estate loans for repair purposes on existing homes?

Yes - 25 No - 3

e. Would any considerable number of new homes be built if loans could be arranged on a sound basis - say 60%?

Yes - 9 No - 19

D. APPLICATIONS TO FEDERAL RESERVE BANK FOR LOANS TO INDIVIDUALS, PARTNERSHIPS AND CORPORATIONS

1. Up to August 9, 210 applicants had been interviewed, of which 126 requested information on real estate loans and non-eligible personal loans; and 50 inquiries by letter had been received.

2. Up to August 20, Federal reserve bank had received 6 definite applications, one of which was later withdrawn. Of the remaining 5, one for \$5,000 from a shoe company was not satisfactorily secured, two aggregating \$2,140 were apparently personal loans and ineligible, one for \$600 from a beauty shop was not satisfactorily secured, and one for \$500 from an office supply company was not satisfactorily secured. None of these requests for loans were placed with other banks.

SUMMARY OF FEDERAL RESERVE BANK AND BANKING AND INDUSTRIAL COMMITTEE ACTIVITIES
IN CONNECTION WITH CREDIT REQUIREMENTS

FEDERAL RESERVE DISTRICT NO. 2 - NEW YORK

A. ACTIVITIES OF BANKING AND INDUSTRIAL COMMITTEE

1. Survey by National Industrial Conference Board to ascertain whether there are any needs for credit which are not being supplied. The Conference Board sent questionnaires to 6,000 business men in all parts of the country, replies to which are now being received. The Federal Reserve Bank has requested that the replies be compiled and individual cases segregated by Federal reserve districts, so that the results may be made available to the Banking and Industrial Committee in each of the respective districts.
2. In cooperation with the Federal reserve bank, the Committee is now working on plans for a survey of the agricultural and mercantile fields.

B. ACTIVITIES OF FEDERAL RESERVE BANK

1. Is cooperating with the National Industrial Conference Board in making a classification, by Federal reserve districts, of the replies received to the questionnaires sent by the Conference Board to 6,000 business men (chiefly manufacturing concerns) throughout the country, so that the material may be available for the respective Federal reserve districts, thereby avoiding duplication of effort in surveying the needs for credit.
2. In cooperation with the local Banking and Industrial Committee the Federal reserve bank is now working on plans for a survey of the agricultural and mercantile field.

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3. Is endeavoring to bring about a correct understanding of the amendment authorizing Federal reserve banks to discount paper for individuals, partnerships and corporations, through a widespread distribution of the Federal Reserve Board's circular and by a brief article in the Federal reserve bank's Monthly Review.

C. DATA GATHERED BY COMMITTEE OR FEDERAL RESERVE BANK

Analysis of replies to National Industrial Conference Board. The material submitted to the Federal reserve bank thus far by the National Industrial Conference Board comprises 47 replies from the second Federal reserve district to the Conference Board's questionnaires. Practically all of these replies were complaints of inability to obtain credit or of forced reductions in long standing credit lines, although in a few cases the writers reported that they had been able to obtain credit from other sources.

In only two of these 47 cases were mortgage loans desired; and in the majority of cases the credit desired was to finance current business operations. Some reported inability even to discount trade acceptances or other receivables. In a number of cases there were complaints that a good record for a long period of years and an adequate ratio of assets to liabilities meant nothing to the banks now against a poor current record of earnings or a low cash position. In several cases the writers reported that the banks with which they had been doing business for long periods had been taken over for liquidation or had merged with other banks, and that the continuing banks had declined to extend the usual lines of credit. A considerable

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portion of the cases appeared to be technically eligible for Federal reserve bank loans, and in all such cases the would-be borrower will be given an opportunity to submit additional information.

Among the reasons given for the refusal of banks to extend credit in the usual amounts were: (a) desire to maintain their own liquidity; (b) unprofitable conditions in the borrower's industry; (c) no money to lend; (d) paper not rediscountable at Federal reserve banks.

D. APPLICATIONS TO FEDERAL RESERVE BANK FOR LOANS TO INDIVIDUALS, PARTNERSHIPS AND CORPORATIONS

Inquiries. During the first ten days of August nearly 500 inquiries for loans were received, of which 156 were for real estate loans, 36 for personal loans for ineligible purposes, and 65 miscellaneous loans which appeared to be clearly not of a character even possibly eligible. The remaining were mostly for business loans, though a small number were for agricultural purposes.

In 140 of these cases it appeared that the loans might be technically eligible and the applicants were given copies of the application blank. It is probable that in a considerable number of these there will be no satisfactory basis of credit, but thus far 40 cases have appeared to justify a credit investigation.

Applications

(a) None of the applications have been placed with other banks.

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- (b) One loan for \$125,000 has been authorized by the Federal reserve bank to a large truck gardening enterprise located in another part of the country but with headquarters in New York. This loan supplements loans made by two commercial banks, and together with them is secured by a real estate mortgage. This concern, which had been operating successfully for years, but sustained a severe loss last year, with the result that though it had been able to borrow very substantially in prior years, it was unable to borrow this year for the purpose of planting crops.
- (c) To August 20, twenty-four applications had been refused - 2 on account of ineligibility, 21 considered as unsatisfactory risks, and one regarded as now being granted adequate bank credit.

SUMMARY OF FEDERAL RESERVE BANK AND BANKING AND INDUSTRIAL COMMITTEE ACTIVITIES
IN CONNECTION WITH CREDIT REQUIREMENTS

FEDERAL RESERVE DISTRICT NO. 3 - PHILADELPHIA

A. ACTIVITIES OF BANKING AND INDUSTRIAL COMMITTEE

(After a conference between the Banking and Industrial Committee and the Federal reserve bank, it was decided best to have the Federal reserve bank make a survey concerning the availability of credit accommodations for legitimate business requirements.)

B. ACTIVITIES OF FEDERAL RESERVE BANK

1. Circular to trade associations sent out in the early part of

August inclosing a questionnaire to be filled out by members of the trade association, particularly those engaged in the manufacture and distribution of commodities. This questionnaire is rather complete and asks eleven questions as follows:

- (1) From your experience, have you found that there have been unusual difficulties in borrowing sufficient funds for working capital required for the production and marketing of goods? A detailed statement will be of the utmost help.
- (2) Do you know of deserving applicants for loans of this character who, failing to obtain accommodations from a bank in your locality, tried to make contacts with other banks and with what result? The details of specific cases would be most useful.
- (3) In your judgment, were the loans applied for and denied of such character that under ordinary circumstances there would be no difficulty in obtaining them in accordance with sound business and banking practices? As far as you know, were the applicants entitled to these loans?
- (4) a. Has the general line of credit in your locality been reduced by a larger amount than the decline in the volume and prices of goods would warrant? If so, why and by what per cent as compared with the usual amount of accommodation?

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- b. To what extent has this reduction in credit for working capital requirements resulted in curtailment of business activity in your locality?
- (5) Have the banking facilities in your section been adequate to take care of all reasonable requests for loans?
- (6) Under what credit terms and conditions would you proceed with the purchase of additional stocks of raw materials in advance of present needs? If such credit were available, what would be the character and approximate dollar value of these purchases?
- (7) a. In your company what is the character and approximate cost of machinery and equipment which you consider to be out-of-date and which under normal conditions you would replace? Roughly, how does the cost of such obsolete equipment compare with the total cost of all your equipment?
- b. What improvements and additions would you undertake under normal conditions and at what approximate expenditure?
- c. How much of such replacements or other improvements or additions has been delayed because of inability to secure capital or credit on suitable terms? Give details.
- d. Under what credit terms and conditions would you proceed with such replacements, improvements, or additions?
2. Circular to selected representative business concerns, requesting that they fill out the same questionnaire and return it direct to the Federal reserve bank.

C. DATA GATHERED BY COMMITTEE OR FEDERAL RESERVE BANK

(No compilation has yet been made of the replies received to the questionnaire sent out by the Federal reserve bank.)

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D. APPLICATIONS TO FEDERAL RESERVE BANK FOR LOANS TO INDIVIDUALS, PARTNERSHIPS
AND CORPORATIONS

Applications. Up to August 13 one application had been received,
which was rejected because of not having been satisfactorily
secured and because of lack of confidence in the management.

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SUMMARY OF FEDERAL RESERVE BANK AND BANKING AND INDUSTRIAL COMMITTEE ACTIVITIES
IN CONNECTION WITH CREDIT REQUIREMENTS

FEDERAL RESERVE DISTRICT NO. 4 - CLEVELAND

A. ACTIVITIES OF BANKING AND INDUSTRIAL COMMITTEE

1. Circular to all banking institutions (July 18), stating that:

- (a) A summary made by the Committee, based on bank condition statements of June 30, indicates that there is credit available for use of commerce and industry.
- (b) A simultaneous survey based on questionnaires sent to 3,000 manufacturers indicates with great clearness that there is a vast amount of productive business available, particularly to the smaller manufacturers, if the required banking accommodation can be extended. Much of this potential business is predicated on orders actually in hand.
- (c) As notes evidencing loans of this nature may, generally speaking, be rediscounted with Federal reserve banks, the creation of such credit would not affect the liquidity of the lending bank.
- (d) The Committee is convinced that the most profitable points of attack upon the deadlock in business is in the business and prospects of the small manufacturer.
- (e) The Committee recommends a study of use of the trade acceptance as a means of credit advance to the small manufacturer.

2. Circular to business interests (July 21), inclosing a copy of the letter sent to the banking institutions and calling attention to the fact that Committee has encouraged a more liberal attitude

on the part of the banks in considering loans for current productive enterprises.

3. Bank advertising. As a result of the Committee's activities, at least one bank has advertised that it has "MONEY TO LOAN." The advertisement reads as follows:

"We have

MONEY TO LOAN

To Aid Industry and
Increase Employment

A recent investigation made by the banking and industrial committee of the Fourth Federal Reserve district, indicates that there is a vast amount of productive business available, particularly to the small manufacturers.

In order to fully cooperate with this committee, this bank will loan money to any firm, partnership or corporation in this community for their current needs, predicated upon orders actually placed by responsible parties, evidenced by industrial, commercial or agricultural paper eligible for rediscount with the Federal Reserve Bank, supported by financial statements warranting such credit."

B. ACTIVITIES OF FEDERAL RESERVE BANK

Is making a study of the replies received to the Banking and Industrial Committee's questionnaire with a view to selecting those cases in which relief can perhaps be afforded by direct loans to individuals, partnerships, corporations or otherwise.

C. DATA GATHERED BY COMMITTEE OR FEDERAL RESERVE BANK.

1. As previously indicated, the surveys made by the Banking and Industrial Committee have disclosed that banks are in a position

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to extend credit for the use of commerce and industry, and that there is a vast amount of productive business available, particularly to the small manufacturer, if banking accommodation can be extended.

2. Considerable time has been spent to ascertain the need for credit to cattle feeders and efforts to provide financial help to sugar beet growers. Arrangements have been effected to finance beet growers in the 7 northwestern counties of Ohio through a large Toledo bank and through local banks to the extent of their ability.

D. APPLICATIONS TO FEDERAL RESERVE BANK FOR LOANS TO INDIVIDUALS, PARTNERSHIPS AND CORPORATIONS.

Inquiries. During the first week in August conducted about 95 personal interviews and had a great deal of correspondence with respect to probable borrowers. During the next two weeks about 60 conferences were held and a slightly larger number of letter inquiries were answered. Apparently the purpose and intent of such loans are not understood, and there is a great deal of confusion about the facilities of the Reconstruction Finance Corporation and the Federal reserve banks.

Applications. Two definite applications have been received up to August 22, both having been rejected, one because of unsatisfactory security and unsatisfactory statements of endorsers, and the other because of lack of endorsement and inadequate security.

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One case brought to the Federal reserve bank's attention was so obviously one of merit that it was referred to a local bank, where a satisfactory banking connection was established and the necessary accommodation obtained.

SUMMARY OF FEDERAL RESERVE BANK AND BANKING AND INDUSTRIAL COMMITTEE ACTIVITIES
IN CONNECTION WITH CREDIT REQUIREMENTS

FEDERAL RESERVE DISTRICT NO. 5 - RICHMOND

A. ACTIVITIES OF BANKING AND INDUSTRIAL COMMITTEE

1. Circular to business and industrial concerns (August 4) to be distributed by the respective state committees. (In the case of Maryland, the circular was also to be sent to county agents.)
 - (a) Incloses a circular describing the July 21, 1932, amendment to the Federal Reserve Act, which provides for direct loans to individuals, partnerships and corporations.
 - (b) Requests that 4 questions be answered in order to enable the Committee to estimate the extent to which applications for such discounts are likely to be made.

B. ACTIVITIES OF THE FEDERAL RESERVE BANK

In addition to cooperating with the Banking and Industrial Committee, has arranged to obtain from the National Industrial Conference Board replies originating in the Fifth Federal reserve district to the questionnaire sent out by the Conference Board in its nation-wide survey.

C. DATA GATHERED BY COMMITTEE OR FEDERAL RESERVE BANK

Following is an analysis of replies to Committee's questionnaire received up to August 20 from Maryland, Virginia and West Virginia. (No replies as yet received from North Carolina, South Carolina and District of Columbia)

- (1) In answer to the Committee's first question "From what you know of the demands for credit in your business line and in your section, do you believe that you or others known

to you are likely to make application for such loans (direct loans by Federal reserve bank) within the next few months?"

40 replied "No"

3 replied "Yes"

One of the replies stated that although local banks appear to be taking care of the situation, a certain factory possibly might be able to resume operations if fresh operating capital could be secured. In another case the reply stated that while loans were not needed now, they perhaps would be needed in the near future because of the banking situation in the particular locality.

The more important comments received along with these replies are to the effect that local people cannot qualify under the amendment providing for direct loans by the Federal reserve bank to individuals, partnerships and corporations, there being too many restrictions, the maturity of the loans being too short, etc. It was agreed, however, that the passage of the amendment has had a favorable psychological effect.

(2) In answer to the Committee's question "Do you know of specific cases, occurring within the past 60 days of refusal by any of your local banks to make direct loans of the type qualified under the amendment?"

34 replied "No"

3 replied "Yes", all of these cases being due to the banking situation in the locality.

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(3) General comments indicated that in some localities banks are willing but unable adequately to cope with the situation; that the country banker is the only one who can help locally, and the important thing is to see that he is kept in a position to be of assistance; and that the greatest need of the moment is a source of real estate mortgage money for new and refinancing operations, and for the stabilization and increase of real estate values.

D. APPLICATIONS TO FEDERAL RESERVE BANK FOR LOANS TO INDIVIDUALS, PARTNERSHIPS AND CORPORATIONS

1. Inquiries. A total of 123 inquiries had been received by the Federal reserve bank by August 12, 7 being from cotton or cloth mills, 2 from oil mills, 32 from other manufacturers, 9 from farmers, 28 from merchants and 45 from other sources. In addition there were quite a number of personal calls which have not been classified.
2. Applications. Up to August 20, 25 applications for loans were received aggregating approximately \$390,000, none of which were granted or placed with other banks. In all but 5 of these cases the loans were ineligible for discount by the Federal reserve bank and, in addition, in nearly all cases they were either not satisfactorily secured or not satisfactorily endorsed. In the five cases where the loans apparently were eligible, the applicant was unable to furnish either satisfactory security or satis-

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factory endorsement. Two of the applications were from cotton mills, one each from a coal company, a furniture company, a publishing house, a textile machinery company, a piano company and a department store, and most of the remainder apparently were for personal loans.

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SUMMARY OF FEDERAL RESERVE BANK AND BANKING AND INDUSTRIAL COMMITTEE ACTIVITIES
IN CONNECTION WITH CREDIT REQUIREMENTS

FEDERAL RESERVE DISTRICT NO. 6 - ATLANTA

A. ACTIVITIES OF BANKING AND INDUSTRIAL COMMITTEE

A meeting of the Committee was to be held around the first of August, at which time the subject of the July 21, 1932, amendment to the Federal Reserve Act was to be fully considered and plans made for a survey more complete, if practicable, than the one that is to be made by the officers of the Federal reserve bank.

B. ACTIVITIES OF THE FEDERAL RESERVE BANK

A survey is being made under the direction of a senior officer of the Federal reserve bank and the managers of its four branches, in order to determine the extent to which there may be demands for loans which are not being met by other banking institutions and which could be handled by the Federal reserve bank under the July 21, 1932, amendment to the Federal Reserve Act.

C. DATA GATHERED BY COMMITTEE OR FEDERAL RESERVE BANK

As a result of the survey now being conducted, including visits to bankers by the officials of the Federal reserve bank, it has been learned that in the opinion of member banks all eligible and acceptable loans are being handled by them. Several merchants and manufacturers have also stated that, so far as they know, eligible and acceptable loans were being handled by banks.

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D. APPLICATIONS TO FEDERAL RESERVE BANK FOR LOANS TO INDIVIDUALS, PARTNER-
SHIPS AND CORPORATIONS

Inquiries. Numerous inquiries have been received and information furnished as to the conditions under which the Federal reserve bank may make direct loans to individuals, firms and corporations.

Applications

- (a) Up to August 20, one application has been received for a loan of \$1,500 which the Federal reserve bank has succeeded in placing with a member bank.
- (b) In addition, 13 applications were not granted, 4 of which were for loans that were ineligible and the remainder not satisfactorily secured or not supported by satisfactory financial statements. Eleven of the applications that were not granted aggregated \$186,700 in amount, and the two remaining did not state the amount of the loans desired.

SUMMARY OF FEDERAL RESERVE BANK AND BANKING AND INDUSTRIAL COMMITTEE ACTIVITIES
IN CONNECTION WITH CREDIT REQUIREMENTS

FEDERAL RESERVE DISTRICT NO. 7 - CHICAGO

A. ACTIVITIES OF BANKING AND INDUSTRIAL COMMITTEE

Circular on trade acceptances (issued around the middle of July) to about 70 trade associations and to the state banking associations, accompanied by a suggested form of letter to be sent by trade associations to their members.

The suggested form of letter stated that (a) although the purchase of Government bonds by reserve banks is serving to make available surplus credit in the banking system as a whole, under present conditions such credit does not always exist in communities where a worthy demand for it arises; and (b) that trade acceptances if put to more general use should be effective in meeting this situation. The letter also described briefly the creation and the use of the trade acceptance, and enumerated eight advantages of its use.

Circular to all banks in the district (August 3)

- (a) Recognizes great importance of making available any necessary credit which may operate to stimulate trade and increase employment and purchasing power.
- (b) States that a large amount of credit is available for the use of worthy borrowers through the Federal reserve banks, Intermediate credit banks, and the major banks in the cities and otherwise, if the normal channels for obtaining such credit are followed.

(B-834)

- (c) Suggests that publicity be given to the nature and purpose of borrowings by local banks so that such borrowings might not be misconstrued but be regarded by the community as a constructive move to bring into the community, for temporary and seasonal use, funds from outside sources which are established for that express purpose; suggests that the bank's published statements might show the purpose of such borrowings, as for example, "Rediscounts for feeder loan purposes."

B. ACTIVITIES OF FEDERAL RESERVE BANK

1. Has arranged to have the major correspondent banks in Chicago and Detroit send letters to their banking correspondents with respect to trade acceptances, similar to the letter sent to trade associations by the Banking and Industrial Committee.
2. Through its Bank Relations department, the Federal reserve bank is conducting a survey of the needs for feeder loans in the live stock sections of the district, particularly in Iowa. The Bank Relations men will personally see a large number of the bankers in the district, not only to learn the situation first hand, but also to indicate the Federal reserve bank's willingness to cooperate in furnishing those credits on good feeder loans through the banks.

C. DATA GATHERED BY COMMITTEE OR FEDERAL RESERVE BANK

1. Up to August 16 the Bank Relations representatives had interviewed about 65 bankers, and they report that almost everywhere a con-

(B-834)

siderable demand for feeder loans is expected and that, in a majority of cases, the banks expect to take care of them and to use the facilities of the Federal reserve bank where necessary. In some cases, furthermore, the banks are extending their operations to adjacent territory, where banking facilities no longer exist. In a few cases, however, especially in districts where banks have gone on moratoria, the banks report that they will not be able to meet the demand and will refuse to rediscount because of the attitude of the community on rediscounts. In these cases attempts are being made for the formation of cattle associations or contract feeding to meet the situation.

2. The list sent out by the Banking and Industrial Committee to all banks, which particularly stressed the necessity for local banks acting as mediums for the initiation of feeder loans, have elicited a good many responses. Some 25 or 30 letters from non-member banks stress the need for outside funds for feeder loan purposes, and the Banking and Industrial Committee has been requested to refer such letters to the Federal Intermediate Credit Bank with the suggestion that the Intermediate Credit Bank may care to follow up these situations.

3. Federal reserve bank is to receive a memorandum with respect to credit needs in the district based on national questionnaire recently gotten out by the National Industrial Conference Board. This memorandum will be taken up in cooperation with the Banking and Industrial Committee.

(E-834)

D. APPLICATIONS TO FEDERAL RESERVE BANK FOR LOANS TO INDIVIDUALS, PARTNERSHIPS
AND CORPORATIONS

Inquiries. Up to August 16 a total of 472 inquiries had been received at the bank and its Detroit branch with respect to direct loans by the Federal reserve bank to individuals, partnerships and corporations, of which number 309 were merely requests for information and 145 were requests for loans which were clearly ineligible under the law, many of them being against real estate. Of the other applicants, 4 were found to have other banking facilities available, 10 desired loans having no satisfactory credit basis, and the remaining 4 were asked for additional credit information.

There have also been a good many requests relative to the new Federal Home Loan Bank Act, and the Federal reserve bank is furnishing requested information in that connection.

(B-834)

SUMMARY OF FEDERAL RESERVE BANK AND BANKING AND INDUSTRIAL COMMITTEE ACTIVITIES
IN CONNECTION WITH CREDIT REQUIREMENTS

FEDERAL RESERVE DISTRICT NO. 8 - ST. LOUIS

A. ACTIVITIES OF BANKING AND INDUSTRIAL COMMITTEE

1. Circular to 236 business concerns (August 8) asking the following questions:

- (1) Have you had any difficulty in obtaining commercial credit for operating purposes from your regular banking connection?
- (2) Could you and would you operate your business more actively if more banking credit were available for your operating purposes?
- (3) Can you suggest any way in which the Committee might serve the business interests of the district?

B. ACTIVITIES OF FEDERAL RESERVE BANK

The officers of the Federal reserve bank and the managers of its three branches are making inquiries in business circles to ascertain if any legitimate business enterprise is being denied proper credit by banks.

C. DATA GATHERED BY COMMITTEE OR FEDERAL RESERVE BANK

1. Up to August 20, 72 replies had been received to the questionnaire sent out by the Committee on August 8 to 236 business concerns. Apparently there has been very little difficulty in obtaining credit from regular banking channels, as may be noted from the following summary of replies to the first two questions asked by the Banking and Industrial Committee.

(B-834)

(1) Have you had any difficulty in obtaining commercial credit for operating purposes from your regular banking connection?

No - 43

Yes - 3 (Construction, Metal Weatherstrip, Coal)

Have not asked for credit - 21

Do not borrow in St. Louis - 5

(2) Could you and would you operate your business more actively if more banking credit were available for your operating purposes?

No - 56

Yes - 5 (Construction, Metal Weatherstrip, Coal,
Shoe Mfg., Ready-to-Wear)

General comments indicate that the large business concerns have found that many of their customers (retail merchants, etc.) are in need of financial assistance, but there is also a general feeling that there is no lack of credit where such credit is justified and that in some cases it would not be sound financing to furnish additional capital to concerns that need money.

As to the possibility of more active operation of business, the general feeling appears to be that it is not lack of financial assistance but lack of a market that is responsible for the business difficulties.

Among suggestions as to ways in which business interests might be served are:

(a) Establishment by the Federal reserve bank and by member banks of a slightly preferential discount rate on trade

(B-834)

acceptances; strong and forceful encouragement of trade acceptances.

- (b) Stimulation of buying by railroads, by furnishing railroads with funds to maintain their properties.
- (c) Forestalling bank suspensions by arranging for mergers.
- (d) Urge the banks to be a little more lenient with borrowers who are hard pressed but who have a good chance to pull through the depression.
- (e) Provide credit and encouragement to the small manufacturer.

2. The Governor of the Federal reserve bank states that, on basis of experience with applications for direct loans, the 90 day maturity limitation prevents the making of some desirable loans to small or medium sized concerns, since often a year's time is needed by the would-be borrower and the Reserve bank cannot make any commitment to renew or extend such paper. Suggests possibility of establishing some institution, such as a trust company, to make loans of this kind, having in mind that they can be re-discounted with the Reconstruction Finance Corporation. A regional agricultural credit corporation authorized under Section 201 (e), title II, Emergency Relief and Construction Act of 1932, might be of considerable benefit, especially in making loans on cattle. The Reserve bank can handle loans secured by chattel mortgage on cattle when coming through a member bank, which can keep in touch with the security, but it is practically impossible for the Reserve bank to make such loans direct.

(B-834)

D. APPLICATIONS TO FEDERAL RESERVE BANK FOR LOANS TO INDIVIDUALS, PARTNERSHIPS
AND CORPORATIONS

Applications. Up to August 20 the Federal reserve bank had received 13 applications for loans to individuals, partnerships and corporations, aggregating approximately \$166,000, two of which were rejected because of being ineligible and the remainder because of unsatisfactory security.

SUMMARY OF FEDERAL RESERVE BANK AND BANKING AND INDUSTRIAL COMMITTEE ACTIVITIES
IN CONNECTION WITH CREDIT REQUIREMENTS

FEDERAL RESERVE DISTRICT NO. 9 - MINNEAPOLIS

A. ACTIVITIES OF BANKING AND INDUSTRIAL COMMITTEE

(No information has been received as to the activities of the Committee)

B. ACTIVITIES OF FEDERAL RESERVE BANK

Federal reserve bank has initiated a survey of the unsatisfied demand for legitimate banking credit, starting with a questionnaire to a large list of industrial and mercantile firms in Minneapolis, St. Paul and Duluth. The investigation will probably be expanded to include the smaller cities of the district and the farming communities.

C. DATA GATHERED BY COMMITTEE OR FEDERAL RESERVE BANK

(No report has as yet been submitted as to the results of the Federal reserve bank's survey)

D. APPLICATIONS TO FEDERAL RESERVE BANK FOR LOANS TO INDIVIDUALS, PARTNERSHIPS AND CORPORATIONS

Inquiries. Scores of calls and letters have been received but the great majority of the prospective loans are clearly ineligible. Some of the applicants would like to borrow on second mortgages or on their homes or farms, and some who are plainly insolvent want to borrow to pay off bank loans.

Applications

(a) Two applications have been formally approved thus far and one informally, for a total of \$110,000. One of the applicants was a manufacturer, another a cannery, and the third a grain dealer.

(B-834)

- (b) In a number of cases the Federal reserve bank has been able to send applicants who applied informally to proper sources of credit where they could be taken care of. Two farm loans for example, both desirable, were turned over to the land bank; a home loan went to a savings bank; and a cattle feeder was directed to a bank in an adjoining town which was glad to make the loan. The Federal reserve bank has also been working on a line for a manufacturing concern and has hopes of establishing the necessary credit with a commercial bank.
- (c) A total of eleven applications aggregating \$171,000 have been refused, seven because of unsatisfactory security or no security, two because there was no basis of credit, one because the loan was not eligible, and another because of being a poor credit risk and because the maturity was beyond that permitted by law.

(B-834)

SUMMARY OF FEDERAL RESERVE BANK AND BANKING AND INDUSTRIAL COMMITTEE ACTIVITIES
IN CONNECTION WITH CREDIT REQUIREMENTS

FEDERAL RESERVE DISTRICT NO. 10 - KANSAS CITY

A. ACTIVITIES OF BANKING AND INDUSTRIAL COMMITTEE

The Committee is making investigations of the extent to which country banks are unable or unwilling to supply adequate credit for grain, farm and livestock operations. Inquiries have been made in this connection of the county agricultural agents.

B. ACTIVITIES OF FEDERAL RESERVE BANK

The Federal reserve bank's surveys will be based on the inquiries made by the Banking and Industrial Committee, and on Federal reserve bank correspondence and contact with bankers and others.

C. DATA GATHERED BY COMMITTEE OR FEDERAL RESERVE BANK

Following is a brief summary of the Federal reserve bank's report to the Federal Reserve Board:

(a) Generally speaking, the banks are taking care of loans based on adequate security or on good credit position, but borrowers whose business has been with banks that have suspended or are in an overextended condition are finding difficulty in making satisfactory new banking connections.

(b) Banks are very much more critical than in past years.

Borrowers both in agricultural and other industries who cannot give adequate security or make a good credit showing cannot obtain credit, and in some cases are being forced to discontinue farming or business activity.

(B-834)

(c) The kinds of loans presenting the most serious problems are existing loans to farmers and livestock men which cannot be repaid unless crops can be raised and sold at reasonable prices, or unless they are paid from the proceeds of the sale of livestock and equipment. In most cases banks are continuing to carry these loans because forced sales of the security would not liquidate the indebtedness.

(d) It does not seem that the Federal reserve bank can make loans of this character, even where the security may be deemed adequate, because of the uncertainty of the time of repayment.

(e) Federal reserve bank does not believe that recent amendment opens a very wide field for loans which can be made direct by it.

D. APPLICATIONS TO FEDERAL RESERVE BANK FOR LOANS TO INDIVIDUALS, PARTNERSHIPS AND CORPORATIONS

Inquiries. Up to August 9 approximately 200 inquiries had been received, but in all but two or three cases the prospective borrower desired money for purposes which would make his loan ineligible, and in the remaining cases there is doubt of meeting the requirements as to security and endorsement.

Applications. Up to August 20, eight applications had been received, of which 4 were ineligible, 2 were not accompanied by a showing of a denial of credit by other banks, 1 had a maturity in excess of that permitted by the amendment, and 1 was not properly secured.

SUMMARY OF FEDERAL RESERVE BANK AND BANKING AND INDUSTRIAL COMMITTEE ACTIVITIES
IN CONNECTION WITH CREDIT REQUIREMENTS

FEDERAL RESERVE DISTRICT NO. 11 - DALLAS

A. ACTIVITIES OF BANKING AND INDUSTRIAL COMMITTEE

Circular to trade associations (August 16)

- (a) Outlines the conditions under which Federal reserve banks may make loans direct to individuals, partnerships or corporations.
- (b) Requests that the associations send questionnaires to their members, in accordance with an inclosed sample, which questionnaire asks each member of the association to report:
 - (1) Whether it finds any difficulty in obtaining bank accommodation and, if so, on what grounds accommodation has been refused; also whether the member is interested in the "direct loan" facilities of the Federal reserve bank.
 - (2) Similar information as to any other concerns known to the reporting member as having had difficulty in obtaining credit accommodation from banks.
 - (3) What improvement has been observed recently in the reporting concerns own business or in the general business situation and outlook.

B. ACTIVITIES OF THE FEDERAL RESERVE BANK

Federal reserve bank will make use of the data elicited by the Committee's questionnaire as the basis of its activities.

C. DATA GATHERED BY COMMITTEE OR FEDERAL RESERVE BANK

No data have yet been collected, as the Committee's questionnaire only recently sent out (on August 16)

D. APPLICATIONS TO FEDERAL RESERVE BANK FOR LOANS TO INDIVIDUALS, PARTNERSHIPS
AND CORPORATIONS

Numerous inquiries have been received for additional information with respect to direct loans by Federal reserve banks to individuals, partnerships or corporations. Most of them pertain to loans for the purpose of financing some kind of real estate transactions, or for capital or other ineligible purposes.

Applications

Up to August 13 only two actual applications for direct loans to individuals, partnerships or corporations were received by the Federal reserve bank, one of which was rejected because it was not properly secured or endorsed, and the other because it was not satisfactorily secured.

One of the loans that was rejected could have been made if the applicant had been disposed to furnish acceptable collateral and satisfactory endorsement. The applicant's bank furnished satisfactory information with respect to the financial responsibility and status of the applicant, but at the same time advised that, after discussing the matter with this bank, the applicant had decided to withdraw his request for direct accommodation from the Federal reserve bank. It is probable that in this case the local bank decided to make the loan itself.

In another case, during progress of negotiations and before a formal application had been filed, the applicant applied to another bank for the accommodation and obtained it.

SUMMARY OF FEDERAL RESERVE BANK AND BANKING AND INDUSTRIAL COMMITTEE ACTIVITIES
IN CONNECTION WITH CREDIT REQUIREMENTS

FEDERAL RESERVE DISTRICT NO. 12 - SAN FRANCISCO

A. ACTIVITIES OF BANKING AND INDUSTRIAL COMMITTEE

Members of the Banking and Industrial Committee have made a tentative survey of the district, concentrating their efforts mostly on improvement of the unemployment situation by advocating the staggering of employment. No survey has been made pertaining to the unsatisfied demand for loans which might be met by the Federal reserve bank under the provisions of the July 21, 1932, amendment permitting direct loans to individuals, partnerships and corporations.

B. ACTIVITIES OF FEDERAL RESERVE BANK

In addition to the survey made of various parts of the district by individual members of the Banking and Industrial Committee, the Governor of the Federal reserve bank with the committee member in Southern California made a tentative survey of the State of California.

C. DATA GATHERED BY COMMITTEE OR FEDERAL RESERVE BANK

Owing to the great extent of the San Francisco Federal reserve district a comprehensive survey would require close examination by qualified men at considerable expense but, based upon results of the wide publicity given to the amendment to the Federal Reserve Act permitting their direct loans to individuals, partnerships and corporations, and upon the large number of inquiries and applications that have been made verbally and otherwise, the Federal reserve bank is

of the opinion that the only kind of credit which is sought widely and not satisfied is generally of a character ineligible under the amendment. The Federal reserve bank's experience is that the banks in the district are generally able and willing to meet legitimate requirements for current business operations.

D. APPLICATIONS TO FEDERAL RESERVE BANK FOR LOANS TO INDIVIDUALS, PARTNERSHIPS AND CORPORATIONS

Inquiries. During the first week of August, 325 direct inquiries were received at the Federal reserve bank and its five branches, of which possibly 121 may have some grounds for filing applications. It is probable, however, that few can qualify. A large proportion of the applicants have confused the recent amendment to the Federal Reserve Act with the Home Loan Act. No applications had been presented for action by the Federal reserve bank up to August 20, although a number of applications were "in process of negotiation."

8109

See 134

POSSIBLE CLASSIFICATION OF PAPER DISCOUNTED FOR INDIVIDUALS, PARTNERSHIPS AND CORPORATIONS FOR PURPOSE OF ESTABLISHING DIFFERENT RATES.

(Note: The following classes of paper may be further subdivided according to the maturity of the paper, e. g., 1 to 15 days, 15 to 30 days, 30 to 60 days, 60 to 90 days, and more than 90 days.)

1. Trade acceptances actually owned and indorsed by the party for whom they are discounted.
2. Business paper actually owned and indorsed by the party for whom it is discounted.
3. Promissory notes bearing accommodation indorsements -
 - (a) Secured by Government bonds;
 - (b) Secured by warehouse receipts for commodities;
 - (c) Secured by chattel mortgages on live stock;
 - (d) Secured by liens on growing crops;
 - (e) Otherwise secured.
4. Notes of wholesale merchants.
5. Notes of retail merchants.
6. Notes of manufacturing establishments.
7. Notes of farmers the proceeds of which are used for the purpose of producing crops.
8. Notes of farmers the proceeds of which are used to finance the harvesting or marketing of a crop.
9. Notes of livestock growers.
10. Notes of livestock feeders, the proceeds of which are used to finance the fattening of livestock for market.
11. Notes of cooperative marketing associations the proceeds of which are advanced to their members.

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12. Notes of cooperative marketing associations secured by warehouse receipts.
13. Notes the proceeds of which are used to purchase raw materials for manufacture.
14. Notes the proceeds of which are used to purchase manufactured goods for distribution at wholesale.
15. Notes the proceeds of which are used to purchase goods for retail sale.

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Office Correspondence

FEDERAL RESERVE
BOARD

See Bp

Date October 12, 1932.

To Mr. Hamlin

Subject: _____

From Mr. Morrill

••• 2-8495



There is attached hereto, for your information and files,
a copy of the memorandum which Dr. Burgess presented at his
meeting yesterday with the Executive Committee.

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PAGE 119

B119

C O P Y

To: Governor Harrison

September 30, 1932.

From: J. W. Jones

Suggestions for Spreading the Work

Mr. Burgess, in discussing with me my memorandum to you of September 28 on the above subject, requested me to submit an alternative plan based on a salary adjustment which would provide for hiring 100 people without any change in our present total salary liability, but without attempting to maintain the present salary rate per hour.

With this in mind the following is suggested:

1. A normal working week to consist of five days, beginning November 1, 1932 and ending April 30, 1933, which is 9 per cent less time than they now work.
2. Hire approximately 100 people at salaries ranging from \$720 to \$2,200 at a total cost of \$85,000 for the six months in question, with the understanding that they may be released on April 30, 1933.
3. Make a 4 per cent deduction from the semi-monthly salary payments of all officers and employees beginning November 1, 1932 and ending April 30, 1933. This would amount to approximately \$85,000.

In making this suggestion no change is necessary or is contemplated in our existing salary standardization.

G. J. G.

Mr. Hamlin *in 121*

October 19, 1932

Mr. Morrill

Direct Loans to Individuals, etc.

Mr. Van Fossen

CONFIDENTIAL

Attached hereto are statements showing the number of applications of individuals, partnerships and corporations for loans not granted by the Federal reserve banks to October 1 and to October 8, respectively, including a tabulation of the reasons for not granting the loans applied for.

It will be noted that of 482 applications refused to October 8, as shown in the second statement, 258 were because of unsatisfactory security; 210 paper not eligible; 8, loans placed with other banks; 3, present credit deemed adequate; and 3, denial of credit by other banks not shown.

Direct loans to individuals, partnerships and corporations granted by the Federal reserve banks to October 17 are as follows:

Federal Reserve Bank of New York

Anawalk Nursery Co.		\$15,000
Dorman Brothers	Astoria, N. Y.	5,000
Foster and Stewart Co.	New York, N.Y.	50,000
Friedman & Sons, Neckwear Co., Inc.	New York, N.Y.	25,000
Joseph H. Meyer Brothers	New York, N. Y.	12,500
Miller-Cummings Co., Inc.	New York, N.Y.	125,000
Morris White Mfg. Co.	New York, N.Y.	19,000
New Jersey Flour Mills Co.	Clifton, N. J.	50,000
Scaramelli & Co., Inc.	New York, N.Y.	20,000
S. Shuff Sons, Inc.	New York, N.Y.	10,000

Federal Reserve Bank of Philadelphia

J. F. Apple & Co., Inc.	Lancaster, Pa.	400
J. B. Henkeln (Henkeln & McCoy)	Philadelphia, Pa.	3,427

Federal Reserve Bank of Atlanta

Continental Turpentine & Rosin Corp.	Laurel, Miss.	19,750
Richmond Hosiery Company	Roseville, Ga.	50,000
Mississippi Cotton Seed Products Co.	Jackson, Miss.	48,000

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10-1-1938
October 13, 1938

Mr. Merrill - #2

Several Loans to Individuals, etc.

Dr. Van Dusen

Federal Reserve Bank of Minneapolis

Bricelyn Canning Co.	Bricelyn, Minn.	\$90,947
H. C. Ervin Co.	St. Cloud, Minn.	*7,580
Kiddie Oym Co.	Minneapolis, Minn.	7,500

*Revised.

of individuals, partnerships and corporations. The loans are made to the

Following is a summary of a letter dated October 1 from the Chairman of the Board of Directors of the Federal Reserve Bank of Chicago in regard to credit demands in the Chicago district:

Little legitimate demand for credit which cannot be satisfied through banking or other channels. An exception may be feeder loans, but this problem is thought to be in a fair way to being taken care of. The worst condition to be contended with is the agricultural one, particularly with relation to maturing farm mortgages. Low prices for farm products in many instances make it absolutely impossible for the farmers to meet these obligations. The problem is very serious, particularly so in Iowa, where the farmers through mass meetings, resolutions, and strikes are approaching a state of revolt. Resolutions are being passed in some counties protesting against anyone bidding for farm lands being sold under foreclosure. Protest is also being made against exorbitant taxes and in some cases a moratorium on the payment of taxes and mortgage charges has been proposed.

Federal Reserve Bank of Minneapolis

J. S. ...	Minneapolis, Minn.	...
J. S. ...	Minneapolis, Minn.	...

Federal Reserve Bank of Chicago

...	Chicago, Ill.	...
...	Chicago, Ill.	...
...	Chicago, Ill.	...

APPLICATIONS OF INDIVIDUALS, PARTNERSHIPS AND CORPORATIONS FOR LOANS NOT GRANTED
BY THE FEDERAL RESERVE BANKS - TO OCTOBER 1, 1932

	Number		Reasons for not granting loans applied for				Amount of loans declined#	
	Week ending Oct. 1	Total to Oct. 1	Loans placed with other banks	Present credit deemed adequate	Paper not eligible	Paper not satisfactorily secured		Denial of credit not shown
Boston	--	7	--	--	3	4	--	\$19,240
New York	3	98	2	3	17	76	--	2,890,400
Philadelphia	2	41	--	--	26	15	--	851,600
Cleveland	2	7	--	--	1	6	--	26,000
Richmond	2	42	--	--	30	12	--	857,295
Atlanta	2	102	1	--	55	46	--	1,670,828
Chicago	4	87	--	--	47	40	--	1,088,750
St. Louis	2	30	1	--	6	23	--	259,800
Minneapolis	2	13	1	--	6	6	--	172,000
Kansas City	--	17	--	--	11	3	3	41,172
Dallas	2	9	--	--	1	8	--	68,200
San Francisco	2	8	1	--	--	7	--	143,250
	23	461	6	3	203	246	3	8,088,535

#Approximate; amounts sometimes not stated.

OF BANK OPERATIONS
OCTOBER 19, 1932.

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APPLICATIONS OF INDIVIDUALS, PARTNERSHIPS AND CORPORATIONS FOR LOANS NOT GRANTED
BY THE FEDERAL RESERVE BANKS - TO OCTOBER 8, 1932

	Number		Reasons for not granting loans applied for					Amount of loans declined [†]
	Week ending Oct. 8	Total to Oct. 8	Loans placed with other banks	Present credit deemed adequate	Paper not eligible	Paper not satisfactorily secured	Denial of credit not shown	
Boston	--	7	--	--	3	4	--	\$19,240
New York	9	107	4	3	17	83	--	3,002,050
Philadelphia	--	41	--	--	26	15	--	851,600
Cleveland	--	7	--	--	1	6	--	26,000
Richmond	3	45	--	--	33	12	--	869,884
Atlanta	3	105	1	--	56	48	--	1,677,065
Chicago	4	91	--	--	49	42	--	1,289,650
St. Louis	--	30	1	--	6	23	--	259,800
Minneapolis	1	14	1	--	7	6	--	232,000
Kansas City	--	17	--	--	11	3	3	41,172
Dallas	--	9	--	--	1	8	--	68,200
San Francisco	1	9	1	--	--	8	--	163,250
Total	21	482	8	3	210	258	3	8,499,911

[†]Approximate; amounts sometimes not stated.

DIVISION OF BANK OPERATIONS
OCTOBER 19, 1932.

Office Correspondence

FEDERAL RESERVE
BOARD

*Approved draft of Review of
Month by [unclear] on Fed. See [unclear]
[unclear] [unclear] [unclear] [unclear]*

Date October 6, 1932

To Mr. Miller

Subject: _____

From Mr. Goldenweiser

2-8405

I attach a carbon copy of the proposed review of the
month for October.

*Certain corrections to the
this covered with Dr. [unclear]
and Board*

P, 35

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REVIEW OF OPEN-MARKET POLICY SINCE 1929

Recent banking developments

During recent weeks reserve bank holdings of United States Government securities purchased in the open market have remained unchanged at the level reached early in August. Reserve funds of member banks, however, have been continuously increased from an inflow of gold amounting to \$275,000,000 from the low point on June 15 to the end of September; from a return of currency by the public, amounting to \$130,000,000 since July 20, when hoarding was at its peak, a movement contrary to the usual trend at this season, when demand for currency ordinarily increases by more than one hundred millions, and from the issue of \$100,000,000 of new national bank notes under the provisions of the recent law extending the circulation privilege to all United States Government bonds bearing an interest rate of 3 3/8 per cent or less. This inflow of funds to the member banks has enabled them to reduce their indebtedness to the reserve banks by \$200,000,000 to the lowest level since October of last year and at the same time to increase their reserves in excess of legal requirements to approximately \$400,000,000. This growth in member bank reserve balances from the middle of July to the end of September has been accompanied by an upturn in total loans and investments of member banks in leading cities, which amounted to \$575,000,000, or 3 per cent. The increase has been largely at banks in New York City; it has consisted of a growth in holdings of United States Government securities by banks throughout the country, offset in part by a continued decline in loans by banks outside New York City. The increase in the total of member bank credit has been reflected in a considerable growth of their demand and time deposits.

Review of three years

Credit developments since the break in the stock market in 1929 may be divided into five periods of unequal length and characterized by different conditions, particularly from the point of view of the reserve system's open-market policy and its effect on the credit situation. During the first two years, up to the middle of September, 1931, the reserve banks purchased \$590,000,000 of securities and in addition there was a growth in monetary stock of gold of \$640,000,000. Additions to the reserve funds of member banks from these two sources were absorbed to the extent of \$680,000,000 in a reduction of member bank indebtedness, and to the extent of \$340,000,000 in increased money in circulation due largely to hoarding. Member bank reserve balances showed only a relatively slight increase of \$50,000,000 during this period notwithstanding the large purchases of securities and heavy gold imports. Loans and investments of member banks in leading cities declined by \$550,000,000 between the autumn of 1929 and the autumn of 1931.

The next period is that between September 16, 1931, just prior to the departure of England from the gold standard, and February 24, 1932, when the work of the Reconstruction Finance Corporation was under way and the Glass-Steagall Act became effective. During that period the Federal reserve banks made no change in their portfolio of Government securities, largely because with the rapid loss of gold and the existing restrictions on eligible collateral the banks were not in a position to increase their holdings of United States Government obligations, the latter being ineligible as collateral against Federal reserve notes. As a consequence, member banks, being obliged to meet a loss of gold of \$665,000,000 and an increase in the demand for currency for hoarding of

\$505,000,000, increased their debt to the reserve banks by \$570,000,000 and drew down their reserve balances by \$540,000,000. The inability of the Federal reserve banks under the law to relieve member banks at a time when they were subjected to heavy drains from domestic and foreign sources resulted in heavy pressure on the banks, reflected in an increase of their indebtedness and a decrease of their reserves amounting together to \$1,000,000,000. This was a period of rapid decrease in business activity, numerous bank failures, increased hoarding, and liquidation of bank credit. Loans and investments of reporting member banks decreased by \$2,500,000,000 and their deposits by \$3,300,000,000 during the period.

At the end of February, after the passage of the Glass-Steagall bill permitting for one year the use of United States Government securities as collateral for Federal reserve notes, the reserve banks adopted an aggressive policy of purchase of Government securities and between February 24 and June 15 purchased \$950,000,000 of such obligations. During this period the member banks had to meet an additional demand for \$440,000,000 of gold, which absorbed that much of the funds created by the security purchases, and used \$340,000,000 to reduce their heavy indebtedness to the reserve banks. At the same time there was some improvement in the currency situation reflected in a decrease of \$130,000,000 in money in circulation, so that member bank reserve balances increased by \$220,000,000 and on June 15 the banks had excess reserves of \$270,000,000. Loans and investments of reporting member banks, however, showed a further decrease of \$500,000,000 between the end of February and the middle of June.

During the period from June 15 to July 20, although the reserve banks bought an additional \$140,000,000 of Government securities and there was a re-

versal in the gold movement to the extent of \$40,000,000, there was a growth of hoarding owing largely to banking disturbances in Chicago, with the consequence that member bank reserves were reduced by \$70,000,000 and their indebtedness increased by \$40,000,000.

This brief review brings out the fact that it has been only during the past ten weeks -- when the reserve banks kept unchanged the volume of their securities and there was a large inflow of gold and a return flow of currency from the public, as well as additional issues of national bank notes -- that the effects of the open market policy inaugurated by the Federal reserve system three years ago have not been offset by other developments. During this most recent ten-week period there has been a continuous growth of member bank reserves accompanied by an increase in the total volume of member bank credit.

A table summarizing developments for the five periods discussed in the preceding paragraphs is presented below:

*All the above paragraphs won't do without by Linn -
Jarrison,*

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BANKING DEVELOPMENTS: 1929-1932

(In millions of dollars)

	:Sept. 25, :1929 to :Sept. 16, : 1931	: Sept. 16, : 1931 to : Feb. 24, : 1932	: Feb. 24, : 1932 to : June 15, : 1932	: June 15, : 1932 to : July 20, : 1932	: July 20, : 1932 to : Sept. 28, : 1932
Open-market purchases by re- serve banks	590	-2	952	144	18
Changes in discounts for member banks	-681	572	-339	41	-198
Changes in gold stock	641	-665	-441	43	232
Changes in money in circu- lation	344	505	-126	269	-131
Changes in reserve balances	53	-540	223	-66	233
Changes in loans and invest- ments of reporting member bks.	-550	-2,526	-519	-754	574
Changes in net demand and time deposits of these banks	128	-3,343	34	-448	597

Decrease in hoarding

A factor in the situation, second in volume only to gold movements, has been the course of the demand for currency. The chart shows for the period from 1926 to date the amount of money in circulation, as officially defined, that is, money outside the United States Treasury and the reserve banks, with an adjustment for the estimated usual seasonal changes. From 1926 to 1929 demand for currency tended downward, chiefly because of increased use of checks, economy in the use of cash by banks, and a return of American currency from abroad. The increase in the middle of 1929 was due to a temporary growth in the demand for currency at the time the change was made from large-size to small-size bills. In 1930 the decline in currency reflected the reduction in payrolls and retail trade that characterized the depression. From the autumn of 1930 to the middle of this year there was a growth in money in circulation representing chiefly a growth in hoarding, though it also reflected an indeterminable increase in the demand for cash in communities that were deprived of banking service owing to bank failures, and also an increased use of cash due to the imposition by banks of service charges on small accounts and to the tax on checks. The increase in hoarding has not been continuous. There was an improvement in the early part of 1931 and again in the late autumn of that year after ^{the} National Credit Corporation was organized and bank failures became less numerous. A large return flow, amounting to about \$250,000,000, began last February when the Reconstruction Finance Corporation got under way. But last summer the heavy loss of gold and the banking disturbances in Chicago and elsewhere once more led to a crisis of confidence, so that hoarding increased again and reached a maximum in the third week in July. Since July 20 there has been

a decrease in money in circulation, when allowance is made for the usual seasonal movement, amounting to approximately \$250,000,000 for the ten week period. This decline in hoarding, marking as it does a reduction in the number of bank failures and a trend toward the restoration of confidence in banks, is the most important single indicator of the recent improvement in banking conditions.

Gold Reserves in Europe

Changes in the central gold reserves of the principal European countries have been relatively small since June. The principal changes during the past month occurred in the central holdings of France and Netherlands which increased by \$16,000,000 and \$5,000,000 respectively, and those of Belgium which declined by \$4,000,000.

GOLD RESERVES OF SELECTED CENTRAL BANKS

(In millions of dollars)

Central bank of--	Date, 1932	Gold reserves	Change from--	
			Month before	Year before
England	Sept. 21	p/678	+ 3	+ 28
France	Sept. 23	p/3,239	+16	+913
Germany	Sept. 23	p/186	+ 3	-141
Italy	Sept. 10	p/303	+ 3	+ 21
Belgium	Sept. 15	361	- 4	+136
Netherlands	Sept. 12	416	+ 5	+149
Switzerland	Sept. 15	509	---	+275

p Preliminary

Bank of England

The Bank of England in the four weeks ending September 21 added £692,000 (\$3,368,000) of gold to its reserves, which now amount to £139,420,000 (\$678,501,000) as compared with £133,628,000 (\$650,314,000) at the time England suspended the gold standard about a year ago.

On September 10 the British Government announced the repayment of 2,500,000,000 francs (\$100,000,000) of British Treasury bills issued to the French public in September of last year. The transaction was handled largely through the "exchange equalization account" maintained by the Government for the purpose of dealing in gold and foreign currencies, but to some extent it was reflected in the Bank of England statement; for although the gold stock of the bank was not affected, the volume of foreign exchange held by the bank declined. During the month "other securities," in which the bank's holdings of foreign exchange are reported, were reduced by £13,684,000, while Government securities held by the bank increased by a corresponding amount.

With a return of currency from circulation, which is usual at this season, bankers' balances increased somewhat and short-term money rates on the open market continued easy.

BANK OF ENGLAND

(In thousands of pounds sterling; figures preliminary)

	September 21, 1932	Change from--	
		August 24, 1932	September 23, 1931
Gold	139,420	+ 692	+ 5,792
Discounts and advances	12,005	- 1,261	- 1,574
Government securities	332,485	+12,419	+33,464
Other securities	28,218	-13,684	-30,036
Bankers' deposits	82,586	+ 2,640	+17,671
Public deposits	23,915	+ 1,712	+ 897
Other deposits	32,901	- 1,528	+18,061
Notes in circulation	359,265	- 4,617	+ 6,589

Bank of France

The Bank of France in the five weeks ending September 23 acquired 419,000,000 francs (\$16,425,000) of gold and lost 405,000,000 francs of foreign exchange. "Other deposits," which include balances of the French commercial banks, were increased somewhat during the period by additional borrowing at the bank and by the transfer of funds from Government account.

The French Government announced on September 18 that the 85,000,000,000 francs of 5, 6, and 7 per cent Government bonds outstanding, with the exception of that portion for which applications for cash redemption would be received during the week ending September 24, would be converted to a 4 1/2 per cent basis this coming November 1. Applications for cash redemption, to be made at par, approximated 4,000,000,000 francs, but net payments by the Government will be required for only about one-half of this amount since new orders were placed for 2,000,000,000 francs of the 4 1/2 per cent bonds. The conversion will reduce the amount of interest to be paid on the public debt in the coming year by about 1,300,000,000 francs.

BANK OF FRANCE

(In millions of francs; figures preliminary)

	September 23, 1932	Change from--	
		August 19, 1932	September 25, 1931
Gold	82,621	+ 419	+23,275
Foreign exchange	4,992	- 405	-20,202
Domestic discounts and advances.	6,375	+ 588	- 2,260
Government deposits	3,667	- 656	- 3,690
Other deposits	23,614	+1,059	+ 5,072
Notes in circulation	80,200	+ 73	+ 2,027

Reichsbank

Total gold and foreign-exchange reserves of the Reichsbank, which began to increase towards the close of last July, continued to increase during the month ending September 23, the growth amounting to 16,000,000 reichsmarks (\$3,811,000). Reichsbank notes returning from circulation were utilized by the market in retiring discounts and advances. Usually these loans to the market fluctuate largely in response to changes in the demand for currency, and since the beginning of the year they have steadily declined along with the volume of Reichsbank notes in circulation.

The bank reduced its rate of discount from 5 to 4 per cent on September 22, after the Bank for International Settlements had consented to an amendment of the provision in the Reichsbank's statutes requiring the bank to maintain a discount rate of not less than 5 per cent when its gold and foreign-exchange reserves were below 40 per cent of the amount of notes in circulation. For the past year Reichsbank reserves have been below 40 per cent of the note circulation, and are now at about 26 per cent.

REICHSBANK

(In millions of reichsmarks; figures preliminary)

	September 23, 1932	Change from--	
		August 23, 1932	September 23, 1931
Gold	782	+ 14	- 592
Foreign-exchange reserves	146	+ 2	- 152
Discounts and advances	2,792	- 84	- 352
Deposits	358	+ 5	+ 18
Notes in circulation	3,505	-112	- 669

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See AP

Office Correspondence

FEDERAL RESERVE BOARD

Date October 20, 1932

To Mr. Hamlin

Subject: _____

From Mr. Smead

[Handwritten signature]

2-8495

Enclosed is a draft of Mr. Riefler's analysis of Dr. Benjamin Anderson's criticisms of the report made by the Committee on Bank Reserves. This draft is confidential at the present time.

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MEMBER BANK RESERVE REQUIREMENTS

An Examination of the Criticisms mad by Dr. Benjamin Anderson
on the Report of the Committe on Bank Reserves

October 1932

MEMBER BANK RESERVE REQUIREMENTS

An Examination of the Criticisms made by Dr. Benjamin Anderson
on the Report of the Committee on Bank Reserves

In November 1931, the Federal Reserve Board released for publication a series of recommendations looking toward thoroughgoing revision in the legal reserve requirements of member banks. These recommendations were formulated by a committee composed of officials of the Federal reserve banks and the Federal Reserve Board, known as the Committee on Bank Reserves of the Federal Reserve System, and were adopted by that committee after a searching investigation into the functioning of present reserve requirements and the relation of these requirements to the overexpansion of credit in the securities markets which facilitated the stock market boom that culminated in 1929. At the time these recommendations were released to the public in the late fall of 1931, the Federal Reserve Board took no position on the advisability of the reserve requirements proposed. Subsequently, however, the Federal Reserve Board unanimously recommended to the Banking and Currency Committee of the Senate that the proposals advanced by the Federal Reserve System Committee on Bank Reserves be enacted into law with certain minor modifications.

Summary of Committee recommendations

The recommendations of the Committee on Bank Reserves are summarized in its report as follows:

"In the opinion of the Committee, our present system of legal requirements for member bank reserves has never functioned effectively since its inception

in 1914. It has not operated to relate the expansion of member bank credit to the needs of trade and industry, nor has it adequately reflected changes in the volume and activity of member bank credit. Furthermore, the Committee also finds that present requirements for reserves are inequitable and unfair as between individual member banks and groups of member banks and do not adequately take into account genuine differences in the character of banking in which a member bank may be engaged.

"The Committee takes the position that it is no longer the primary function of legal reserve requirements to assure or preserve the liquidity of the individual member bank. The maintenance of liquidity is necessarily the responsibility of bank management and is achieved by the individual bank when an adequate proportion of its portfolio consists of assets that can be readily converted into cash. Since the establishment of the Federal reserve system, the liquidity of an individual bank is more adequately safeguarded by the presence of the Federal reserve banks, which were organized for the purpose, among others, of increasing the liquidity of member banks by providing for the rediscount of their eligible paper, than by the possession of legal reserves. The two main functions of legal requirements for member bank reserves under our present banking structure are, first, to operate in the direction of sound credit conditions by exerting an influence on changes in the volume of bank credit, and, secondly, to provide the Federal reserve banks with sufficient resources to enable them to pursue an effective banking and credit policy. Since the volume of member bank credit needed to meet the legitimate needs of trade and industry depends on the rate at which credit is being used as well as on its aggregate amount, it is essential for the exercise of a sound control that legal requirements differentiate in operation between highly active deposits and deposits of a less active character. Requirements for reserves should also be equitable in their incidence, simple in administration, and, so far as possible, not susceptible of abuse.

"Similar principles underlie the present reserve law, which in requiring lower reserves against time deposits than against demand deposits, and lower reserves against the demand deposits of country banks than against the demand deposits of reserve and central reserve city banks may have been expected to impose higher reserves on more active deposits than on less

active deposits. Notwithstanding the fact, however, that existing requirements would appear to be so arranged as to make reserve requirements vary with the volume and activity of deposits, experience shows that since 1914 and especially since 1922 the proportion of primary reserves held by member banks has steadily declined in relation to the volume of member bank deposits and to their activity.

"This outcome has been the result of defects in the definition of reserves, in the method of determining liabilities against which reserves must be carried, and in the classification of banks and of deposits for reserve purposes. The exclusion of vault cash from required reserves of member banks in 1917 has been followed by a reduction in the vault cash holdings of some city banks to a minimum; the rule that amounts due from banks may be deducted only from amounts due to banks has tended to decrease reserves in times of business activity and to increase reserves in times of depression, and the establishment of a low reserve against time deposits in 1914 has facilitated the growth of bank credit without a corresponding growth in reserves. Even if these particular defects in the present system of reserves had not existed, however, the rapid increase in the turnover of demand deposits which has occurred in recent years would still have tended to prevent reserve requirements from increasing in proportion to the growth in the effective use of credit by the customers of member banks.

"Before deciding to recommend fundamental changes looking toward the establishment of a new basis for calculating required reserves, the Committee made every effort to frame provisions designed to correct the existing situation through modifications in the classification of cities for reserve purposes and in the classification of deposits subject to reserve, including a more stringent definition of time deposits. As these proposals were studied, however, it became more and more evident that they would not be effective and that an entirely new approach to the reserve problem was necessary.

"The Committee proposes, consequently, to abolish completely the classification of deposits into time and demand deposits, and the classification of member banks according to their location, into central reserve city banks, reserve city banks, and country banks. Instead, the Committee recommends that all member banks and all deposits be treated alike for reserve purposes, and that the formula used in calculating reserve requirements

take into account directly, instead of indirectly as in the existing law, the activity as well as the volume of the deposits held by each individual member bank, without regard to the location of the bank or the terms of withdrawal on which the deposits are technically held. To accomplish this, the Committee proposes that each member bank be required to hold a reserve equivalent to (a) 5 per cent of its total net deposits, plus (b) 50 per cent of the average daily withdrawals actually made from all of its deposit accounts. These withdrawals, which are shown by debit entries on the books of member banks, are the only real test of the activity of a deposit account and furnish the only basis by which that activity can be equitably and effectively reflected in requirements for reserves. Under this proposal, therefore, each deposit will carry a total reserve based on its activity as well as on its amount. A totally inactive deposit will carry a total reserve of only 5 per cent, while a deposit balance which is checked out on the average once a week will carry a total reserve equivalent to 12 per cent of its amount. For the average member bank the total reserve under the proposed formula will be equivalent to about 8 per cent of its deposits. To prevent this formula from imposing too great a burden in extreme cases, the recommendations of the Committee also provide that in no case shall the aggregate reserve required of a bank exceed 15 per cent of its gross deposits.

"The Committee proposes to include in legal reserves, in addition to the funds which member banks have on deposit with their Federal reserve banks, their vault cash, with certain limitations, as both classes of funds contribute to the strength of the reserve banks and have a direct effect on the reserve system's control of changes in member bank credit. It proposes also to place country member banks on a parity with city banks with respect to deductions from deposit accounts by permitting banks in calculating net deposits subject to reserve to deduct balances due from member banks and items in process of collection from total deposits instead of from balances due to banks alone, as is the practice at present.

"The Committee feels that the existing volume of reserves is sufficient at the present time to provide the reserve banks with the funds they require to perform their functions. Its proposals, consequently, do not contemplate a change in the total amount of reserves. They are intended rather to change the nature of fluctuations in the volume of reserves and to iron out inequitable features in their distribution among the member banks."

Reception of plan

Dr. Benjamin Anderson, economist of the Chase National Bank of New York City, has characterized the plan in the Chase Economic Bulletin for May 1932 as a thoroughly unsound and dangerous proposal, and has stated that it rests "on an unsound and arbitrary theory, and a very inadequate examination of the facts," and "that it is a dangerous and radical innovation." To support these charges Dr. Anderson formulated nine specific indictments of the plan proposed by the Committee on Bank Reserves, and in addition advanced his own plan for curing defects in member bank reserve requirements.

The Anderson plan for member bank reserves

According to the plan advocated by Dr. Anderson for correcting existing abuses in the functioning of member bank reserve requirements, each individual member bank would be permitted to maintain indefinitely a volume of time deposits equal to its existing time deposits and to hold a 3 per cent reserve against these deposits. All future increases in its deposits, however, would carry a demand deposit reserve of 7, 10, or 13 per cent according to the classification of the bank as a country, reserve city, or central reserve city member bank. Should a member bank's time deposits decline in the future, the level to which they decreased would constitute a new maximum of the volume of time deposits on which it could claim a 3 per cent reserve.

The chief advantage of this suggestion is that it would prevent further weakening in the reserve position of member banks arising out of the classification as time deposits, of deposits which are

essentially demand in character. It would be unsound, however, since it would use deposits as of an arbitrary date to determine the amount of reserves required. It would give some banks a low reserve on a large proportion of their deposits and other banks a high reserve on most of their deposits without reference to their actual future composition. At the same time, it would not correct in any way the present reserve advantages of those banks which have been most actively concerned with the abuses which have developed in connection with time deposits. In fact, those banks which are benefitting competitively today as a result of a false classification of deposits for reserve purposes would retain these competitive advantages indefinitely under the Anderson proposal.

In advancing this proposal, Dr. Anderson accepts the view of the Committee on Bank Reserves which associates the overexpansion of bank credit prior to 1929 with the progressive decline in the ratio of reserves to bank credit outstanding. His proposal for correcting the situation confines itself, however, solely to that phase of the problem which is related to the overexpansion of time deposits and does not touch in any way the decline in vault cash reserves which followed the 1917 amendment to the Federal Reserve Act, which eliminated member bank vault cash from required reserves. Following the enactment of this amendment, member banks have progressively decreased their holdings of vault cash. This decrease, the Committee on Bank Reserves showed, was fully as important in the overexpansion of bank credit prior to 1929 as the overexpansion which may be attributed to the 3

per cent reserve against time deposits. It was particularly marked, moreover, at the larger metropolitan banks which can obtain additional currency supplies quickly because they are located close to the Federal reserve banks, and thus tended to establish serious inequalities in the relative proportion of aggregate reserves carried by different individual banks. Nor does the Anderson plan correct in any way the other major defects in the existing system of reserves which were outlined in the report of the Committee on Bank Reserves, namely, the technical problem of defining what deposits are subject to reserve and what deductions may be permitted in arriving at the volume of net deposits subject to reserve requirements. The Committee showed that the present definitions of the items had operated not only against sound credit conditions by tending to increase required reserves when business is inactive and to decrease reserves in times of increasing business activity, but also to the advantage of the large city correspondent banks which competed actively for the balances of other banks. In short, the merit in the Anderson proposal arises solely out of the fact that it would prevent future overexpansion of bank credit arising out of a false classification of time deposits. In accomplishing this end, however, it would preserve all the competitive advantages which individual member banks have achieved in the past by permitting deposits of a demand character to be classified as time deposits. It would not correct the tendency for effective reserves to be further reduced by further economies in vault cash nor would it eliminate the tendency for reserve requirements insofar as they are affected by the definition of net deposits subject to reserve, to fluctuate in an

opposite direction to that required for the maintenance of sound credit conditions. Finally, it would not disturb in any way those conditions which since 1914 have gradually had the effect of creating an inequitable distribution in the volume of reserves carried in favor of the large metropolitan city banks and against the smaller outlying banks located at a considerable distance from the reserve banks.

NINE SPECIFIC CRITICISMS OF PLAN PROPOSED BY THE COMMITTEE ON BANK RESERVES

I Effect of Committee's proposal prior to 1928

In commenting on the plan proposed by the Committee on Bank Reserves under which all member banks would be required to carry reserves in cash or with the Federal reserve banks equivalent to 5 per cent of their net deposits and 50 per cent of their average daily debits to deposit accounts, Dr. Anderson makes the following criticism:

"It is clear that the proposal would have imposed little restraint until 1928, by which time the vast expansion of net deposits was practically completed, and the substitution of real estate mortgages and stock market assets for commercial assets in the portfolio of banks was practically completed. Thus the plan would facilitate rather than retard bank expansion, up to the point where a dangerous boom was already under way."

In making this criticism, Dr. Anderson was misled by the fact that the chart published in the report of the Committee on Bank Reserves, which compared present requirements with those recommended by the Committee, showed that required reserves under the Committee's plan would have been higher than present requirements since 1928 and lower than present requirements prior to that time. From this fact, Dr. Anderson drew two erroneous conclusions: (1) that the Committee's plan would

not have exercised restraint prior to 1928, and, (2) that it would have facilitated bank credit expansion prior to that time. The fact is that in formulating its recommendations the Committee sought to impose requirements which at the time they were adopted would neither increase nor decrease greatly the existing aggregate volume of member bank reserves. This is on the same theory of letting bygones be bygones as that adopted by Dr. Anderson when he proposed that each bank be permitted to carry a 3 per cent reserve on its existing time deposits and that the higher reserve requirement be applied only to future increases in time deposits. Under conditions prevailing in 1931 a smooth transition was achieved in the Committee's plan by recommending a reserve of 5 per cent of total net deposits and 50 per cent of average daily debits to deposit accounts. Under conditions prevailing in 1924, on the other hand, it would have been necessary, in order to carry out this same principle, to recommend higher rates, say, 6 per cent of total net deposits and 60 per cent of average daily debits to deposit accounts, since between 1924 and 1931 the various defects in our present system of reserve requirements have in the aggregate permitted a material reduction in the ratio of member bank reserves to member bank liabilities. In view of this reduction, any comprehensive plan for the reform of reserve requirements which carried out this principle and did not, as in Dr. Anderson's plan, permit individual member banks to retain competitive advantages which arose out of loopholes in present reserve requirements, would be bound to show lower requirements on the basis of 1924 figures than actual requirements at that time. In other words, if the proposed requirements were such that they would increase more rapidly between

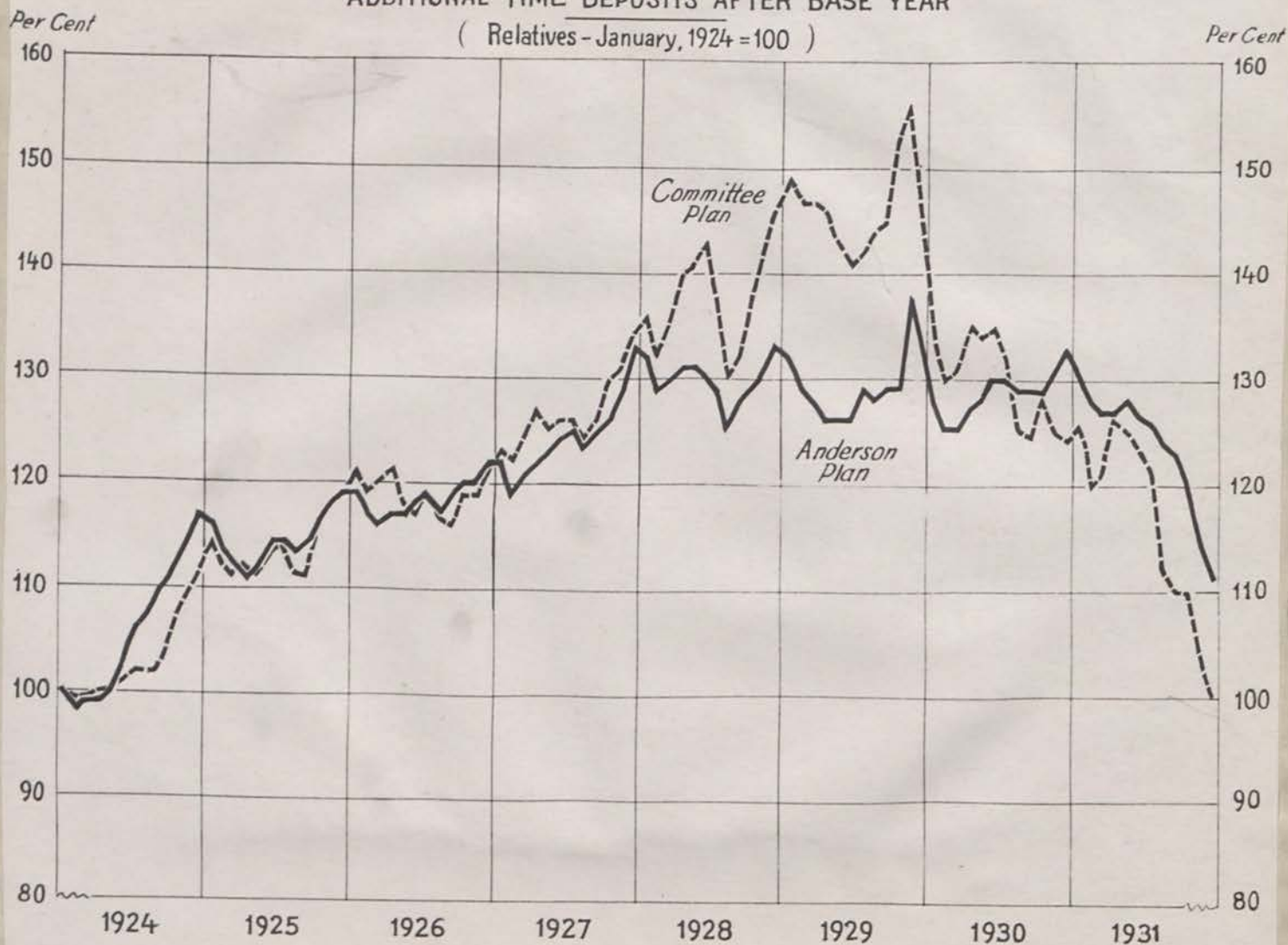
1924 and 1931 than present requirements and if they were applied with percentages that would bring about no material change in 1931 at the time of transition, the percentages recommended would of necessity show a smaller volume of reserves on the basis of 1924 figures than present requirements. For the very same reason, however, had the proposed plan been adopted in 1924 with percentages which would have involved no change in the aggregate volume of required reserves in that year, total reserves under that plan would have increased more rapidly thereafter than reserves under present requirements.

The extent of this increase is indicated on the attached chart where the plan of reserve requirements proposed by the Committee on Bank Reserves is compared with that proposed by Dr. Anderson.^{1/} It is assumed in this comparison that both plans were placed in operation on a parity in January 1924, and both lines on the chart, consequently, are drawn in relatives with January 1924 equal to 100. This chart shows that required reserves under the Anderson plan would have increased more rapidly than under the plan proposed by the Committee on Bank Reserves during 1924 only, when there was a business recession and restraint was not needed, but that in 1925, 1926, and 1927, the Committee's proposal would have acted just as effectively to check overexpansion of credit as that proposed by Dr. Anderson. In 1928 and 1929, during the worst phases of the boom, the Anderson proposal would have exerted no additional pressure

^{1/} In this computation of Dr. Anderson's plan, funds deposited with member banks as time deposits in January 1924 are permitted to retain a 3 per cent reserve but all additional time deposits are required to maintain the same reserve as demand deposits.

GROWTH OF RESERVES FOLLOWING 1924

COMPARISON OF COMMITTEE PLAN FOR MEMBER BANK RESERVES BASED ON ACTIVITY OF DEPOSITS
WITH ANDERSON PLAN BASED ON THE ELIMINATION OF
ADDITIONAL TIME DEPOSITS AFTER BASE YEAR



while that of the Committee on Bank Reserves would have applied increasing pressure on the credit situation until the boom was checked.

II Irregularity vs. activity as the true basis of reserves

The second criticism of Dr. Anderson attacks a major premise underlying the Committee's recommendations, namely, that the activity of a deposit account as well as its volume should be taken into consideration in determining the amount of reserve which it should carry, as follows:

"Activity of accounts is not a sound criterion for bank reserves; irregularity is much more significant. The country bank with a large time deposit from a corporation in another city may be subject to a constant menace, even though the deposit remains inactive for months or years. A city bank with high daily activity, with well understood accounts of customers who regularly balance their books at the end of the day, and whose income and outgo match within a few hundred dollars on a daily volume which may run into millions, does not need to keep a large reserve against this turnover. Inactive deposits of state, county and other public money have again and again made difficulties for small banks. Furthermore, when activity waxes and wanes, both as to incoming and outgoing funds, keeping a close balance between them, it imposes no justification for increased reserves. The true theory of reserves relates them to (a) liquidity of other assets, and (b) irregularity in net demand liabilities, and (c) to variability in customers' borrowing demands. It may be added that activity of deposits is usually a concomitant of liquidity of assets. To the extent that assets other than reserves are liquid, a bank needs less reserves."

In this criticism of the Committee's recommendations, Dr. Anderson has failed to distinguish between primary and secondary reserves. In the paragraph cited, Dr. Anderson states admirably and concisely the principles that should govern a bank in determining the volume of its secondary reserves, i.e. the volume of funds it has invested in assets that may be readily converted into cash to meet withdrawals. This

volume must be determined by each bank on the basis of an analysis of its accounts in terms of their irregularity, i.e. their likelihood of withdrawal, and is naturally affected by the liquidity of its other assets. Secondary reserves, however, are not primary reserves and failure to distinguish properly between the two may become a menace to the preservation of sound credit conditions.

Secondary reserves are invested funds and place no limit on the potential capacity of bank credit as a whole to expand indefinitely. It is the function of primary reserves, on the other hand, to safeguard the credit structure against such overexpansion of its liabilities. Primary reserves consist of cash or balances with the Federal reserve banks, both of which are closely related to gold in that they are covered to a considerable percentage of their face value by gold. If primary reserves are maintained in proportion to the volume and use of credit instruments that are substitutes for cash, they limit the tendency of banks to overexpand these instruments in periods of boom conditions and tend to ease credit in periods of depression.

Confusion between these two types of reserves inevitably leads to banking disorders. A banking system which held no primary reserves but invested all its assets in secondary reserves instead would not thereby assure its ability to meet withdrawals on demand, since this very process would remove all reserve limitations on the potential capacity of credit to expand and would tend to inflate the credit structure to the point where even the soundest secondary reserves would become unliquid when attempts were made to realize upon them.

Conversely, primary reserves alone cannot perform the function of

secondary reserves in the maintenance of bank liquidity or in assuring the ability of a bank to meet withdrawals arising out of irregularity in its deposits. In the first place, primary reserves are not sufficiently large to perform this function. They constitute considerably less than ten per cent of the liabilities of our banks, the greater number of which normally experience much larger fluctuations than this in their accounts. No plan for primary reserves which established requirements sufficient to protect a bank against irregularity of withdrawals could be seriously proposed if the amount of primary reserves involved in such a proposal were once computed. Dr. Anderson, himself, in company with other students of the problem, has condemned the reserve provision in the original Glass bill, which added \$660,000,000 to the primary reserves of member banks in the course of the next five years, on the ground that it would force far too great a liquidation of member bank credit. A primary reserve requirement, however, which protected individual banks against irregularity in their deposits, and which enabled them to meet the constant shifting of deposits from bank to bank that accompanies the normal processes of trade and industry, would involve an increase in primary reserves by a far greater amount than \$660,000,000, and would exert an influence toward liquidation of far greater magnitude.

In the second place, the attempt to substitute primary for secondary reserves has always had serious repercussions when it has been tried in this country. Prior to the establishment of the Federal reserve system, national banks outside the central reserve cities were required to hold a certain proportion of their reserves in cash, i.e. as primary reserves, while, for the remainder of their requirements, they were permitted to

utilize either cash or secondary reserves in the form of balances with their city correspondent banks. When, in times of strained credit conditions, these banks exercised their legal right to hold the whole of their legally required reserves in cash, the ensuing drain of cash from correspondent banks to interior banks tended always to create a money panic.

Irregularity of deposits constitutes a major factor in the determination of a bank's policy with regard to secondary reserves, but is not, and cannot be made, a determining factor with regard to primary reserves. To adopt the principle that legal requirements for primary reserves should be based upon irregularity of withdrawals would not only involve drastic credit liquidation because of the huge amount of primary reserves required. It would at the same time unduly favor large banking units and ultimately open the door for a wider and more far-reaching decline in the future ratio of primary reserves to credit in use than that which accompanied and facilitated the disastrous boom which culminated in 1929. This would come about, because irregularity of deposit accounts reflects in part the unit size of business organizations. It is not possible for the isolated small industrial organization to achieve the same regularity in its accounts as the huge vertical combine which exercises control over the fabrication process from the extraction of its raw materials to their final sale to the consumer. Similarly, the small independent unit bank experiences greater irregularity in net withdrawals or outpayments than large unit banks or the huge consolidated branch banking system in which a large proportion of checks drawn are paid over to other customers of the same institution and involve no net outpayment

of funds by the bank. Theoretically, if a single bank with its branches conducted the banking business of the entire country, there would be no net bank withdrawals arising out of internal trade. While such a condition is conceivable only in theory, nevertheless, there has taken place in recent years a marked trend toward the integration and consolidation of both industrial and banking units in this country and this trend may continue to characterize the future. Should Dr. Anderson's principle of irregularity be adopted as the basis for determining legal requirements for bank reserves, it would favor large institutions as compared with small and a continuation of the present trend toward banking integration would in and of itself act as a generative force toward a tremendous credit inflation since a decrease in irregularity arising out of integration of corporate units would constitute an apparently valid reason for a reduction in primary reserve requirements.

To adopt the principle of irregularity, furthermore, would, as Dr. Anderson implies, justify higher required reserves against savings deposits which though inactive may occasionally be withdrawn in substantial amounts, than against highly active accounts which maintain a stable net balance, no matter how large the volume of business transacted through such accounts might be. This would divorce variations in reserve even further from variations in business conditions. It would even lead to the conclusion that no reserves should be required against brokers' balances, for brokers' accounts typify probably as well as any those deposit balances described by Dr. Anderson as accounts of customers "who regularly balance their books at the end of the day, and whose income and outgo match within a few hundred dollars on a daily volume which may run into

millions." Finally, irregularity cannot be objectively determined. There is no workable formula by which variations in the regularity of deposits can be legislated into corresponding and adequate variations in reserves.

Irregularity as a criterion for reserves, therefore, relates to sound banking procedure with respect to secondary reserves but cannot be used as a guiding principle in the formulation of legal requirements for primary reserves. Dr. Anderson's own plan for reserve requirements, namely, that each member bank should maintain existing reserves on its existing deposits but that future increases in all deposits, both demand and time, should carry a primary reserve equivalent to 13, 10, or 7 per cent according to its location in member banks classified as central reserve city banks, reserve city banks, or country banks does not contain any specific proposal that applies the principle that "the true theory of reserves relates them to (a) liquidity of other assets, (b) irregularity in net demand liabilities, and (c) variability in customers' borrowing demands."

III Reserve requirements in relation to credit policy

In his third criticism, Dr. Anderson admits there may be some merit in the Committee's proposal, but objects that reserve requirements cannot be relied upon to replace discount and open-market operations in restraining a boom.

"It is sometimes, not always, true that reserve requirements based on activity would constitute a brake in the final stages of a period of speculation. But the traditional method of increasing discount rates and selling securities would be a safer brake, and one that could be applied much earlier. The reserve requirement plan would not be subject to the use of judgment, and might easily be too drastic. It might, on the other hand, be inadequate, through the markets finding ways to reduce turnover."

This paragraph reads into the report of the Committee on Bank Reserves implications which are not there. The Committee advanced no proposals for abolishing or limiting the freedom of action of the reserve banks with respect either to discount rate changes or to open-market operations. The Committee did point out that present reserve requirements frequently work to neutralize the effectiveness of discount and open-market operations. It also took the position that a correct system of reserve requirements should act in the same direction as an effective open-market and discount rate policy. There is nothing in the Committee's recommendations to imply, however, that the Committee regarded its plan as a substitute for changes in discount rates or for open-market operations.

IV Effect of Committee plan during a panic

The fourth criticism of Dr. Anderson's relates to the effect of the Committee's plan on bank reserves during the culminating period of a boom and the commencement of a business decline:

" activity of deposits usually reaches its very peak in a panic. When speculation has once collapsed, it becomes definitely dangerous that reserve requirements should be suddenly and sharply raised in a period of panic and liquidation. The chart on page 19 of the Federal reserve memorandum shows that its requirements would have been highest in the midst of the panic of 1929, when every effort was being made by the Federal reserve system to relax the tension."

It is true that the activity of deposits increased very sharply to peak levels during the initial stages of the decline in 1929 and that this activity would have tended to increase reserve requirements under

the Committee's plan at that time. Dr. Anderson neglects to state, however, that the same chart to which he refers shows that bank reserves under present requirements also increased sharply, due to the sudden depositing with banks of a huge volume of funds which had previously been loaned by others than banks in the call loan market. This increase in deposits as well as the increase in activity was an import factor in the increase in reserves under the Committee plan shown on the chart and the same increase would have occurred under the plan of reserve requirements which he, himself, advocates. (See Chart I) The increase under the Committee's plan during this period would have differed in only one important respect from present requirements or from requirements under the Anderson plan. Under present requirements and under the Anderson plan, the increase in reserve requirements during the market break at the end of October 1929 came suddenly, almost overnight, and the Federal Reserve Bank of New York was forced to buy open-market securities hurriedly in order to prevent tension in the money market. Had the Committee's plan for member bank reserves been in operation, however, the increase in requirements due to increased activity would have been averaged over the following eight weeks, and part, at least, of these same open-market operations could have been planned for in advance. One of the merits of the Committee's plan is that it would permit the Federal reserve system to prepare itself to offset the effect of sudden and drastic shifts in credit conditions such as those which occurred during the autumn of 1929.

V Effect of Committee's proposal at year-end settlements

Dr. Anderson next criticizes the effect of the Committee's plan on year-end settlements:

"The new plan, furthermore, would increase the tension in the money market at the year-end settlement periods. The curve on page 19 of the Federal reserve memorandum shows how reserve requirements under the new plan rise more sharply at the year-end than under the existing law, and how the new plan would prolong the tension by carrying it over into the new year."

In making this criticism, Dr. Anderson misreads the chart to which he refers and neglects to take into account the importance of seasonal changes in currency demand at the year-end. The following table compares the increase in member bank reserves between November and December of each year under present requirements and under the Committee's plan, as shown by the figures from which the chart to which he refers was prepared. It indicates that the year-end increase in reserves shown on the chart was usually smaller under the Committee plan than under the present plan.

ESTIMATED CHANGES IN MEMBER BANK RESERVES (INCLUDING VAULT CASH)
BETWEEN NOVEMBER AND DECEMBER 1924-1930

(Millions of dollars)

	1924	1925	1926	1927	1928	1929	1930
Under present requirements	+ 61	+ 33	+ 37	+ 82	+ 75	- 89	+ 63
Under the Committee plan	+ 57	+ 13	+ 43	+ 66	+ 86	-257	- 26

Tension in the money market, however, during December reflects only in minor part the effect of year-end settlements, the major factor being the high seasonal level of currency demand which accompanies the holiday season. Currency normally goes out from the banks into circulation in huge volume from Thanksgiving to Christmas, and brings heavy pressure on

the money market in the process. Between Christmas and New Year's Day some of this currency returns but is offset in its effect upon the money market by a sharp increase in bank reserves due to year-end settlements, window dressing for the year-end call of the Comptroller, etc. During January the whole situation changes; open-market money rates decline and tension is followed by seasonal slack in the money market as currency returns from circulation and the year-end pressure on bank reserves is relieved.

The Committee on Bank Reserves consciously and definitely took this succession of factors into consideration in framing the technical phases of its recommendations. By recommending that the reserve against activity of deposit accounts be calculated on the basis of average daily debits during the preceding eight weeks, it provided a plan in which the high activity of deposit accounts during December would not be reflected wholly in December requirements for bank reserves, when currency pressure was also high, but would be passed on in part into January when the return flow of currency from circulation normally creates a short period of "sloppy" money conditions. The fact, therefore, that member bank reserve requirements would be somewhat higher in January than in December under the Committee plan does not mean, as Dr. Anderson states, that the year-end tension would be prolonged into January. Instead, it means that the Committee devised a plan by which some of the effect of the year-end pressure from bank reserves would be removed from December when the banks are also under pressure to provide currency for circulation, and shifted to January when the return of currency is more than ample to offset its effects.

VI Effect of Committee plan on agricultural banks during marketing season

In his sixth criticism, Dr. Anderson analyzes the effect of the

Committee's proposal on agricultural banks during the period of agricultural marketing:

"More important are the longer settlement periods in agricultural regions. Banks there show little activity through the greater part of the year, with sudden spurts when crops are being sold and farmers are paying their debts. This period ought not to be complicated by a sharp increase in reserve requirements. The fact that the Federal reserve plan proposes to base reserve requirements on an eight weeks' average of activity might soften the difficulties regarding year-end settlements and very short and sharp periods of panic security liquidation, but not those of slower commercial crises, or of agricultural settlement periods. These periods often run for four months, and sometimes five months."

The implication of this paragraph that agricultural banks would find it difficult to meet increased reserve requirements during the summer and fall marketing season is quite contrary to the facts. Reserve requirements of typically agricultural banks would not fluctuate greatly because of activity under the Committee plan for the reason that the activity of country bank deposits is relatively low. To the extent that turnover increases required reserves would also increase, of course, but the total reserves required of these banks would fluctuate more with changes in their deposits than with changes in activity.

The period in which most agricultural banks are under greatest pressure is that which precedes the marketing season. It is during the spring that farmers are drawing down their cash and borrowing most heavily in order to purchase seed, fertilizer, and meet other expenses incidental to the production of crops. These demands put the agricultural banks under pressure at that time and cause them to liquidate secondary reserves and to borrow both at city correspondents and at the Federal reserve banks.

During this period deposits decline and activity is low, and reserves under the Committee plan would be reduced. When crops are harvested and the marketing season arrives this pressure usually changes to one of increasing ease because farmers use the cash received from marketing their crops to pay off their loans and build up their deposits. The agricultural bank in turn uses these funds to retire its own borrowing and to increase its secondary reserves in the open market. In short, the period of crop marketing is customarily the period when an agricultural bank is in a favored position to hold increased reserves.

VII Effect of Committee plan on general credit conditions in 1919-1920

Dr. Anderson next criticizes the manner in which the Committee plan of bank reserves would have operated in 1919 and 1920, as follows:

"Had the figures for 1919-20 been studied, I do not believe that the proposal would have been made. These figures show that velocity of bank deposits for the whole country outside New York City stood virtually as high in the seven-month crisis and liquidation period, June to December 1920, as they stood in the boom period preceding, August 1919 to May 1920, and well above the velocity of the more tranquil period that preceded the boom. The velocity index, obtained by dividing individual debits by deposits of reporting member banks, was as follows: February-April 1919, 191; August 1919-May 1920, 217; June 1920-December 1920, 213. Similar results are obtained by dividing clearings by deposits, the figures showing: February-April 1919, 170; August 1919-May 1920, 195; June 1920-December 1920, 189. Had the Federal reserve 'velocity' plan been in operation in the crisis, 1920, the difficulties of the banks outside New York City would have been greater than they actually were."

It is true that the activity of deposits at reporting member banks outside New York City decreased only slightly on the average during the months June-December 1920, as compared with the months August 1919-May

1920. It is equally true, however, that average net demand plus time deposits of these same banks for the same periods did not decrease at all. In fact, they increased by five per cent. It follows that required reserves under the Committee plan which takes into account the activity as well as the volume of deposits, would have been reduced somewhat after May 1920 because the activity of deposits decreased, while required reserves under the Anderson plan, which takes into account only the volume of deposits, would have been increased. In the following table, total reserves (including vault cash) of reporting member banks outside New York City are compared during 1919 and 1920 by semiannual periods, in terms of relatives with January-June 1919 equal to 100.

RESERVES INCLUDING VAULT CASH OF REPORTING MEMBER BANKS
OUTSIDE NEW YORK CITY

(Relatives for semiannual periods with January-June 1919 - 100)

	Present plan	Anderson plan	Committee plan
1919			
January-June	100	100	100
July-December	108	110	114
1920			
January-June	115	120	124
July-December	114	120	123

Of the three plans for reserves compared on this table, the one which is advocated by Dr. Anderson, himself, is the only one which would have failed completely to reduce reserve requirements at banks in leading cities outside New York after the culmination of the boom in 1920. Requirements under the present plan and under the Committee plan, on the other hand, both showed a slight reduction during this period, reflecting in the case of the present plan a reduction in demand deposits which was partly offset

by a growth of time deposits, and in the case of the Committee plan, a reduction in the velocity of deposits, which was partly offset by a growth in the volume of deposits.^{2/} In the accompanying chart fluctuations in reserves for this group of banks under the Committee plan are compared with fluctuations under the Anderson plan for the three years 1919, 1920, and 1921. The chart shows clearly how much more effective the Committee plan would have been both in tightening credit conditions during the boom in 1919, and also in easing conditions during the depression and liquidation of 1921.

VIII Effect of Committee plan on individual cities--1919-1920

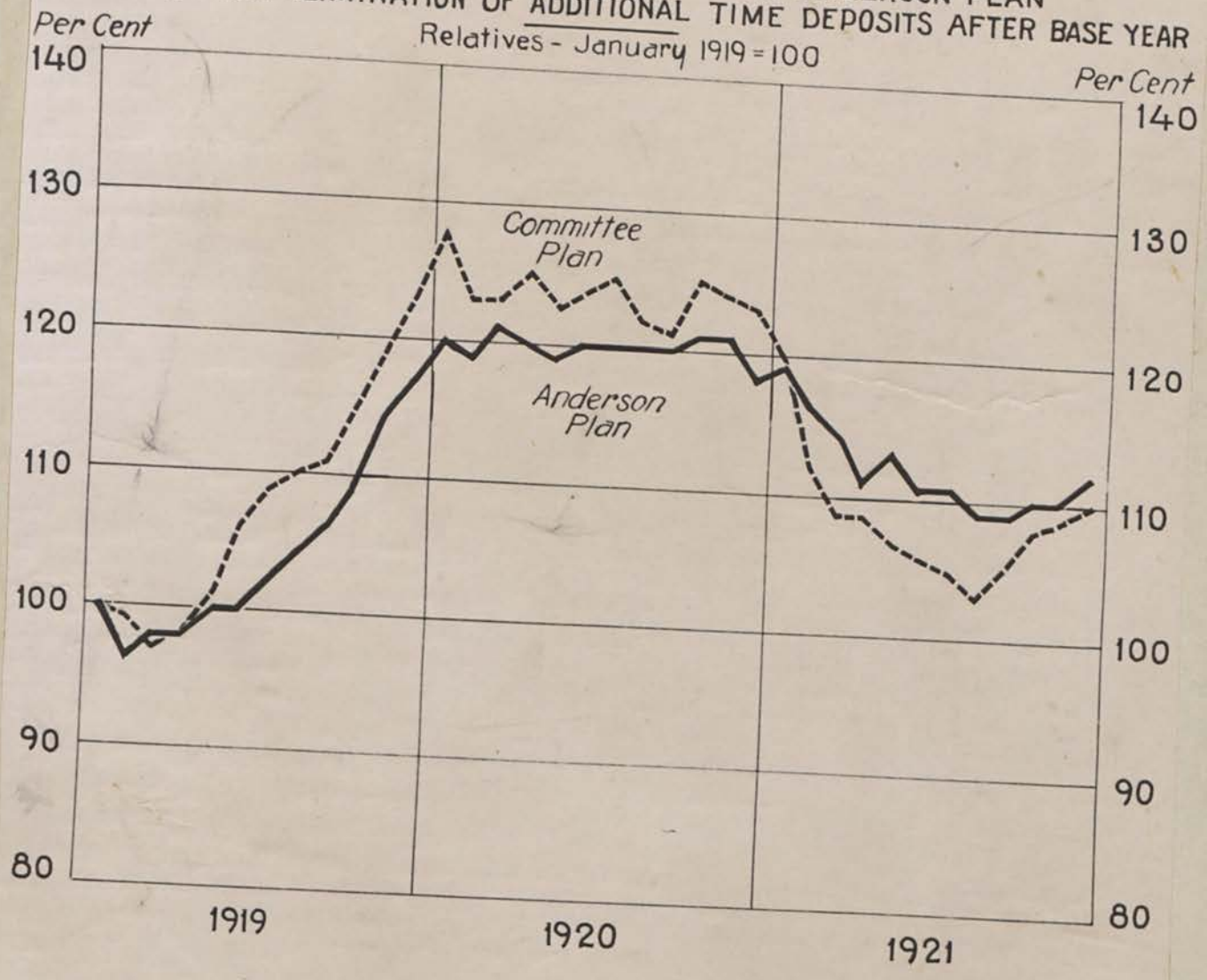
"When individual cities and regions are studied, many are to be found where velocity during the crisis period was far higher than velocity during the preceding period of boom.

"Comparing National bank deposits with debits to individual accounts, we find this to be true for Fort Worth, Texas, for Indianapolis, for Cedar Rapids, Iowa, for Wichita, Kansas, and for San Francisco. In all five of these cities, which are representative of a large number of others, reserve requirements would have been higher in the seven months of crisis and liquidation than in the preceding boom period."

^{2/} These figures are based on estimates of reserves required under the three plans. For these estimates, figures of net demand deposits, time deposits, U. S. Government deposits and vault cash are directly available from published figures for reporting member banks outside New York City. Average daily debits to individual account are estimated as equal to 83.7% of total reported debits outside New York City during that period, and debits to bank account of this group of banks as equal to 85% of debits to individual account. In the computation of reserves under the Anderson plan, funds deposited on time with member banks in January 1919 are permitted to retain a 3 per cent reserve but all additional time deposits are given the same reserve as demand deposits.

CHART II

REPORTING MEMBER BANKS OUTSIDE NEW YORK 1919-1921
COMPARISON OF COMMITTEE PLAN FOR MEMBER BANK RESERVES
BASED ON ACTIVITY OF DEPOSITS WITH ANDERSON PLAN
BASED ON THE ELIMINATION OF ADDITIONAL TIME DEPOSITS AFTER BASE YEAR
Relatives - January 1919 = 100



"INDICES OF VELOCITY OF BANK DEPOSITS IN CERTAIN CITIES

	San Fran- cisco	Cedar Rapids	Wichita	Fort Worth	Indian- apolis
Pre-boom, March-May 1919	100	100	100	100	100
Boom, September 1919-February 1920	107.6	126.3	97.8	93.5	103.2
Crisis, June-December 1920	123.5	161.5	105.6	101.7	103.2 "

While reserves in some localities might have increased under the Committee plan, it is extremely doubtful whether the five cities cited by Dr. Anderson would have fallen into this category. Dr. Anderson computed his indices of velocity for these five cities by comparing the deposits of all national banks with debits for all clearing house banks within each city, thus introducing a strong possibility of error in the event that relative changes in deposits of national banks did not reflect changes in the deposits of all clearing house banks.

In the case of Indianapolis, Wichita, and Fort Worth, there were 27 national banks in these cities in 1919, of which four were not members of the Clearing House, according to Rand McNally. In 1920 there were 32 national banks in these cities, of which all but one were members of the Clearing House. At the same time, the number of non-national banks that were members of the clearing house in these cities increased from 11 in 1919 to 18 in 1920. The comparison in these cities is further complicated by the fact that they are all important livestock centers and the total debits which they report upon which Dr. Anderson has based his calculations include debits from stockyard banks which, as the Committee indicated in its report, are extremely high in relation to deposits. The high rate of turnover at these banks, however, would not necessarily be reflected in a

corresponding increase in reserves under the Committee plan since the reserve requirement of these banks might be limited by the provision recommended by the Committee fixing 15 per cent of gross deposits as the maximum reserve required of any individual bank, or by the provision subsequently recommended by the Federal Reserve Board which would permit member banks to ignore turnover on extremely active accounts provided they maintained a reserve of 50 per cent against the net balance in such accounts. In the case of San Francisco, the comparison is vitiated for the same reason. During 1920, furthermore, the Mercantile National Bank was merged with the Mercantile Trust Company, which at the same time was joined by the Savings Union Bank and Trust, a merger which had a tendency to decrease national bank deposits and to increase clearing house debits.

In the case of Cedar Rapids, Iowa, there may have been a real increase in deposit activity during 1920. In this city there were no shifts in national banks or in banks having clearing house membership to account for a very sharp increase in the volume of debits. The increase, however, is much more puzzling than is indicated by Dr. Anderson. Debits in Cedar Rapids averaged around \$20,000,000 a month during the first five months of 1919, then suddenly doubled to around \$40,000,000 a month, and continued to fluctuate seasonally and cyclically around this inflated level in the midst of the depression through all of 1921. During the first half of 1922, they returned to their previous level of around \$20,000,000 a month and have moved in harmony with that level since that time. It is probable, consequently, that there is some special and particular reason which accounts for the sudden doubling of debits from their expected volume in Cedar Rapids from June 1919 to December 1921, and that this increase was

not, as is implied in the quotation, a typical aftermath of the boom.

It is one of the distinctive advantages of the Committee plan that it is highly responsive to business conditions. It is responsive moreover in a selective sense, increasing or decreasing only in those localities where the volume or activity of deposits is increasing or decreasing, and within those localities fluctuating at those banks whose customers are involved in the activity. While the ebb and flow of economic activity between boom and depression exhibits considerable similarity throughout the industrialized world, it is by no means uniform. It is a matter of common observation, for example, that during the present depression France for a long time appeared little affected, while during the depression of 1920-1921 certain important parts of South America were affected much later than the United States. It is highly probable that this same diversity might be found in some degree within the United States, that some areas might be found in which business continued to expand for a time after the peak of the boom had passed in the country as a whole, and that in these areas the activity or volume of deposits at that time were such as to require increased reserves under the Committee plan. It is one of the merits of the plan that it would act in this manner, for business and financial commitments in such a community, undertaken at a time when the rest of the world is heading into a depression, are particularly susceptible to disaster.

IX Effect of Committee plan in Florida

"The Report of the Federal Reserve Committee on Bank Reserves (page 18) refers to the Florida real estate boom as occasioning increase in velocity of

deposits, in illustration of their contention that reserves based on velocity would operate as a brake on speculation. They give no figures. The fact is that the Florida figures offer a most powerful argument against their plan. The figures for Florida are as follows:

"INDEX OF VELOCITY OF BANK DEPOSITS IN FLORIDA

	Deposits (000,000)	Debits (1920-1924 = 100)	Index of velocity
1922 December 29	201.5	106	52.6
1923 April 3	238.3	110	46.2
June 30	230.8	106	45.9
September 14	216.0	89	41.2
December 31	243.8	122	50.0
1924 March 31	286.6	116	40.5
June 30	273.8	111	40.5
1925 April 18	472.2	176	37.3
June 30	530.2	197	37.2
September 28	682.4	226	33.1
December 31	788.8	293	37.1
1926 April 10	704.2	242	34.4
June 30	566.8	215	37.9
December 31	486.8	210	43.1
1927 March 23	456.3	198	43.4
June 30	425.4	159	37.4
October 10	383.3	141	36.8
December 31	385.9	160	41.5

"The Florida boom was active in 1923. It reached dangerous heights in the latter part of 1924, and fantastic heights in 1925. The frenzied buying of real estate suddenly ceased in the late autumn of 1925. The winter of 1925-1926 and the whole of 1926-1927 were a period of prostration and liquidation.

"The velocity of bank deposits, however, declined sharply from 1923 on through the whole of the boom. The point is that, while debits to deposits grew, deposits grew more rapidly than debits. The Florida banks during the boom, therefore, would have seen

their required reserve percentages come down, and money would have been easier during the boom than it was. Velocity does not rise in the figures above until the period December 1926 to March 1927, something more than a year after the crash had come, at which time the surviving banks were under a cruel pressure and ought not to have been subject to any more."

To state that the Florida boom "suddenly ceased in the late autumn of 1925" and that "the winter of 1925-26 was a period of prostration and liquidation" over-simplifies a rather complex situation. The Florida boom was not concentrated in a single market such as the New York Stock Exchange where turning points can be located to the day, but extended over various parts of Florida and responded to some extent to varying local conditions. A more accurate statement would be that the pace of the boom began to slacken in the late fall of 1925 and that the episode on the whole was in process of liquidation by the spring of 1926. The full impact of Dr. Anderson's criticism, however, does not center around this point but around the figures which he presents as indicative of the velocity of deposits at Florida banks during these years.

To obtain this index of velocity, Dr. Anderson has divided an index of Florida debits compiled from debits reported by three cities only--Jacksonville, Pensacola, and Tampa--and representative of conditions, therefore, in these three cities alone, by deposits of banks, not in these three cities but in banks throughout the whole of Florida including both member and non-member banks. The result is a series of figures having no statistical validity whatever since deposits for the State of Florida as a whole increased at a much more rapid rate up to 1926 than deposits in these three cities alone and declined thereafter at a much more rapid rate than deposits

in these cities.

It happens that the actual velocity of deposits for these three cities over the period cited can be computed with less probability of error than usual since practically all of the banks in these cities which report debits are member banks for which comparable deposit figures are available. In October 1931, in fact, a special study made by the Committee on Bank Reserves showed that member banks accounted for all of the debits reported in Pensacola, for 97.3 per cent of the debits reported in Jacksonville, and for 96.2 per cent of the debits reported in Tampa. If it is assumed that these banks accounted for the same proportion of total debits reported in earlier years, the turnover of individual deposits for the three cities can be computed for several dates during each year. The following table compares the actual turnover of individual bank deposits in these cities with the index computed by Dr. Anderson.

3/
INDEX OF VELOCITY FOR JACKSONVILLE, TAMPA, AND PENSACOLA COMBINED

(Relative average of 4 dates 1923 = 100)

Date	As computed by Dr. Anderson (converted to average 1923 basis)	As computed on basis of actual figures	Percentage of error in Dr. Anderson's figures after base period
1923 April 3	101	106	...
June 30	100	100	...
September 14	90	92	...
December 31	109	103	...
1924 March 31	88	106	- 17
June 30	88	97	- 9
1925 April 6	81	112	- 28
June 30	81	113	- 28
September 28	72	122	- 41
December 31	81	119	- 32
1926 April 2	75	106	- 29
June 30	83	99	- 16
December 31	94	103	- 9

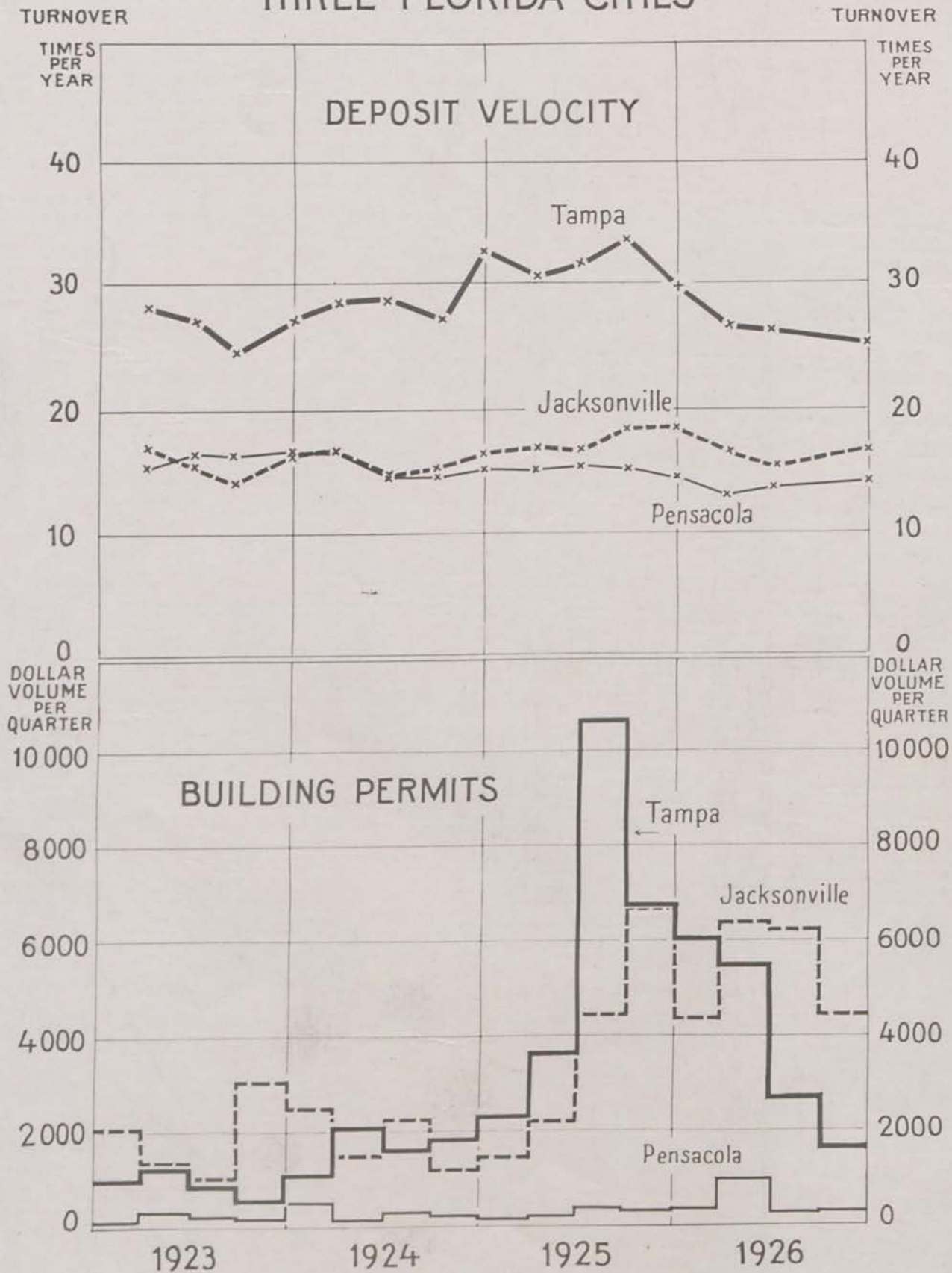
This comparison shows (1) that the velocity of deposits in these three Florida cities did increase greatly with the boom, (2) that velocity reached its peak with the peak of the boom at the end of 1925, and (3) that velocity declined throughout 1926 as the boom subsided. It shows also that the error in Dr. Anderson's computation grew to 40 per cent at the critical period in the comparison. It is true that the Committee formula would not have caught all of this increase in velocity up to the autumn of 1925 nor all of the decrease thereafter, since debits first grew and subsequently declined so rapidly that average daily debits over an eight-week

3/ In these computations individual deposits as of call dates are divided into average daily individual debits for the four weeks preceding and the four weeks following the call date.

period did not adequately reflect the daily volume of debits at the end of the period. The Committee formula would have reflected a considerable part of this change, however.

These velocity figures continue to illustrate the advantages of the Committee plan when they are studied individually, by cities. The varying degree to which these cities were affected by the Florida boom is indicated roughly by the accompanying chart which compares changes in the velocity of deposits in each of these cities with changes in the dollar volume of building permits issued. The lower part of the chart indicates that of the three cities, Pensacola had only a small volume of building activity throughout the period, that Tampa was the center of the largest increase in building activity, and that the peak in building activity in Tampa fell in the latter part of 1925, whereas in Jacksonville building continued very high well into 1926. The upper part of the chart shows that these same developments were reflected in the activity of deposits, that the velocity of deposits was very much higher in Tampa where the boom was most pronounced than in Jacksonville or Pensacola, that velocity increased in Tampa through 1925 while building activity was increasing, and declined subsequently with the passing of the peak in building, that velocity fell less in 1926 in Jacksonville where building activity remained high than in Tampa where building activity declined, and that Pensacola, the city least affected by the boom, was the only city in which velocity decreased throughout the period. The different rates of turnover in the three cities also indicate the desirability of taking velocity into account. Under the Anderson plan all new deposits in Tampa, where velocity was highest, would carry a 7 per cent reserve, whereas such deposits in Jacksonville where

THREE FLORIDA CITIES



velocity was materially lower would carry a 10 per cent reserve. Under the Committee plan average deposits in each city would carry a reserve corresponding to the average velocity in that city, and individual deposits of different customers in each bank would carry a reserve that corresponded with the velocity of the deposits.

Although Dr. Anderson's conclusion that the activity of deposits decreased sharply in Florida during the boom and increased thereafter was based upon erroneous calculations, there is no theoretical reason why this development might not have occurred. On the basis of past records, changes in the velocity of deposits have regularly corresponded with changes in business conditions, but it is not inconceivable from a theoretical point of view that a situation might arise in which credit expansion was extremely excessive and had as one result an increase in deposits that was more rapid than the increase in debits. During a depression following such a boom, deposits might decrease more rapidly than debits and there might therefore be an increase in the velocity of deposits. In the event that this should happen in the future at a time when the Committee plan of bank reserves were in operation, it would not, as Dr. Anderson suggests, place banks under "cruel pressure" at a "period of prostration and liquidation." The figures which he cites for Florida, unrepresentative as they are of the actual facts, may be used as representative of this hypothetical situation. In this table of figures both debits and deposits increased rapidly up to December 1925 and decreased rapidly thereafter. Reserves based upon deposits and debits under the Committee plan, consequently, as well as under the Anderson plan, or the present plan, would have increased up to December 1925 and have decreased thereafter during the slump which followed the boom. An increase

in velocity at that time, had it occurred, would not have put the banks under "cruel pressure" but merely have prevented required reserves from decreasing as rapidly as reserves based on deposits alone.

Conclusion

Discussions of the Committee plan since its publication have revealed some confusion over the extent to which credit conditions should reflect an automatic influence such as reserve requirements as compared with policy-expressing influences reflected in discount and open-market operations of the reserve banks. The fact is that credit conditions under modern banking organizations do reflect, and must reflect, both types of influence. Without reserve requirements, imposed either by law or custom, policy-expressing influences such as changes in open-market operations and in discount rates would have little or no effect upon credit conditions, for in the final analysis the efficacy of these operations depends on the extent to which they affect either the volume of reserves which member banks hold, or the cost which member banks must incur when they borrow such reserves from the reserve banks. If, under these circumstances, there were no reserve requirements, customary or legal, and member banks were indifferent to the volume of reserves which they held, the influence of open-market operations and discount rates would be correspondingly impaired.

Reserve requirements, consequently, constitute a necessary part of the machinery that makes open-market and discount operations effective. They are, furthermore, necessarily objective and automatic in their operation. They form part of the fixed legal background or framework of our credit institutions in which the volume of reserves required fluctuates in accordance with changes in the items upon which they are based. Under

a formula which bases required reserves solely on the volume of deposits, for example, without regard to whether they are active demand deposits or inactive time deposits, total required reserves would automatically have remained high in the Middle West following May 1920, largely because such reductions as occurred in demand deposits at that time were offset to a considerable extent by increases in time deposits.

This fact, that reserve requirements in their very nature must be automatic in their effect, constitutes the main reason why the items upon which they are based should reflect insofar as possible basic elements in the credit and business situation, for otherwise reserve requirements will fail to support credit policies, as they should, and might even work in direct opposition to policy, as has been the case on many occasions under existing reserve requirements. The Committee plan meets this test by recommending that reserve requirements be based on (1) the volume of deposits, which measure the total volume of funds involved, and (2) the total volume of debits, which measure the actual dollar use made of these funds. By defining its requirements definitely in terms of these two basic elements, the Committee plan automatically takes into consideration the distinction between time deposits and demand deposits, and also between demand deposits in different classes of cities, which form the basis of differences in reserve requirements under the existing system of reserves.

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powers, it follows that Congress has the power to establish such a system and to take such steps as in its judgment are necessary to protect it in the proper performance of its functions.

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C O N F I D E N T I A L

X-7278-a

October 21, 1932.

TO Federal Reserve Board
FROM Mr. Wyatt, General Counsel.

SUBJECT: Questions of law and policy
arising in the administration of
Section 8 of the Clayton Act.

It is contemplated that, during their meeting in Washington commencing on November 14, 1932, the Board will discuss with the Federal Reserve Agents the policy and procedure which govern in granting permits under the provisions of the Clayton Act relating to interlocking bank directorates; and it is the purpose of this memorandum and the attached memorandum by Mr. Chase to review this subject in the light of questions which have arisen during the past year or two, in order to furnish a convenient and helpful basis for discussion.

HISTORY OF THE LEGISLATION.

It is believed that it would be conducive to a more thorough understanding of the subject if the history and purpose of the Clayton Act as a whole are reviewed briefly before entering upon a discussion of the specific problems confronting the Board.

The Sherman Anti-Trust Act dealt generally with monopolies and restraints of trade and was construed originally by the Supreme Court of the United States as making unlawful all contracts, combinations, etc., which restrained trade.

Later decisions, however, established what is known as the "rule of reason", which was to the effect that only those contracts, combinations, etc., were unlawful which operated to the prejudice of the public interest by obstructing and restraining trade unduly and unreasonably.

Under both interpretations, the Sherman Act dealt only with the past, i. e., it attempted to prevent contracts and combinations in

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restraint of trade by penalizing those which actually had restrained trade.

As a result of the adoption of the rule of reason by the Supreme Court in interpreting the Sherman Act, there was much public agitation; and, in an effort to abolish the rule of reason, Congress enacted the Clayton Act, supplementing the Sherman Act and other existing laws relating to monopolies and combinations in restraint of trade.

The Clayton Act sought to prevent restraints of trade in their incipiency by prohibiting certain types of agreements, relationships and transactions which may result in a substantial lessening of competition.

The Clayton Act, therefore, unlike the Sherman Act, looks to the future and deals with results which may arise from the contracts, relationships and transactions with which it deals rather than with results which have been accomplished.

This is an important distinction which must be borne in mind constantly in administering and applying the provisions of the Clayton Act.

Following the panic of 1907, there was also an extended investigation of the so-called "Money Trust". This investigation was made by a special committee of Congress known as the Pujo Committee, which recommended a number of different legislative measures to prevent a restriction of credit and the stifling of competition between banks.

One of the committee's recommendations was that interlocking directorates between banks be restricted; and it was in response to this

recommendation that there was inserted in Section 8 of the Clayton Act a provision forbidding all interlocking directorates between banks of certain classes.

As originally enacted on October 15, 1914, therefore, Section 8 of the Clayton Act forbade all interlocking directorates between banks of certain classes; and there was no authority anywhere to permit interlocking directorates between banks within the prohibited classes.

The Kern Amendment of May 15, 1916, made an exception to Section 8 of the Clayton Act, authorizing the Federal Reserve Board, in its discretion, to permit interlocking directorates between not more than three banks in the prohibited classes, if such banks were not in substantial competition.

The other provisions of the Clayton Act had dealt with transactions which may result in a substantial lessening of competition, and it is obvious that the Kern Amendment was based upon the same policy, the theory being that, if certain banks were not in substantial competition, then no substantial lessening of competition could result from an interlocking directorate between them.

It was found that the Kern Amendment operated illogically and in some cases unjustly. Thus, it sometimes happened that a person would serve for years as a director of three banks which were not within the provisions of the Clayton Act because of their size. One of the banks would grow until its resources exceeded \$5,000,000, thus bringing the interlocking directorate within the prohibitions of the Clayton Act and making it unlawful for the director to continue to serve all three banks without first obtaining the Board's permission. When the director applied

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for the Board's permission, it would be found that, notwithstanding the interlocking directorate, the banks were then in substantial competition. The Board would have to deny the permit and the director would have to resign either as a director of the \$5,000,000 bank or as a director of both of the other banks. He was thus penalized for having permitted the banks to compete.

In order to cure this situation and to prevent this and similar injustices, the Federal Reserve Board recommended that the Kern Amendment be further amended so as to authorize the Board to permit interlocking directorates between not more than three banks in the prohibited classes if, in the Board's judgment, such interlocking directorates "will not result in a restriction of credit or lessening of competition" between the banks involved.

Congress, however, amended the Clayton Act so as to authorize the Board to permit interlocking directorates between not more than three banks in the prohibited classes, "if in its judgment it is not incompatible with the public interest."

As pointed out by Mr. Chase in the attached memorandum, Congress probably had in mind only such interlocking directorates as might result in a restriction of credit or a lessening of competition when it used the phrase "incompatible with the public interest"; but the language has a much broader meaning and can be applied to any interlocking directorate which may for any reason whatsoever be incompatible with the public interest.

MAJOR QUESTIONS ARISING UNDER THE AMENDMENT.

This gives rise to the question whether, in passing upon applications for permits under the Kern Amendment, as amended, the Board should, (a) consider only the question whether the proposed interlocking directorates may result in a restriction of credit or a substantial lessening of competition, or (b) should consider also whether they will be incompatible with the public interest for any other reason.

Regardless of whether the Board must consider the second question, there also arises a question whether, as a matter of policy, it would be advisable for the Board to exercise the power conferred upon it by the amendment in such a way as to promote the public interest generally--for example, by limiting the sphere of influence of bank directors whose services in this capacity may be harmful to the banks, because of either their malfeasance or their nonfeasance.

It could be argued that the language of the law is so clear that there is no justification for referring to its legislative history and that, therefore, in passing upon applications for permits under the Clayton Act, the Board must take into consideration every factor having any bearing upon the question whether the proposed interlocking directorate would be compatible with the public interest.

On the other hand, it could be argued that the language is so general that the Board is justified in considering the legislative history in determining the scope of its duty in the premises; that the Clayton Act deals only with the relationships between two or more banks; and that, in the light of the history of the Clayton Act, the Board is not required to

consider anything except the question whether the interlocking directorate may result in a restriction of credit or a substantial lessening of competition between the banks involved.

Even if the Board decides that it is not required to consider anything except the question whether the proposed interlocking directorate will result in a restriction of credit or a substantial lessening of competition between the banks involved, however, there would seem to be nothing to preclude the Board from considering other questions. The question whether it is incompatible with the public interest to permit an interlocking directorate is left to the Board's judgment; and the Board is not required to issue permits but is merely authorized to do so. The courts are very reluctant to review actions taken by administrative officers under statutes vesting them with judgment or discretion and, when they review such actions, they do not overrule the administrative authority unless it appears that there was no reasonable foundation for the action taken and that it necessarily must have been based upon prejudice, whim or caprice. Even if it should appear unlikely that an interlocking directorate between two banks would result in a restriction of credit or a substantial lessening of competition, therefore, the courts would not be likely to hold that the Board exceeded its authority in refusing such a permit, if the Board should base its action upon some other ground having a reasonable relation to the public interest.

A DIRECTOR'S QUALIFICATIONS AND RECORD.

While it cannot be said in the light of its legislative history that the Clayton Act imposes a positive duty upon the Board to consider any question other than whether interlocking directorates probably would result in a restriction of credit or a substantial lessening of competition, yet it

would seem that the Board has ample authority, if it desires to do so, to refuse to grant permits for interlocking directorates when for any other reason the granting of such permits would, in the Board's judgment, be incompatible with the public interest.

The question arises, therefore, whether, as a matter of policy, the Board should consider only the question whether interlocking directors probably will result in a restriction of credit or a substantial lessening of competition or whether the Board should consider other questions affecting the public interest and especially the possibility of limiting the influence of individual directors whose activities have been positively harmful to the banks which they have served previously.

Where it appears that a director has had a bad influence upon a bank, that he has been guilty of abusing his position as a director, that he has grossly neglected his duties as a director, or that for any other reason he is an undesirable bank director, the Board cannot, under existing law, prevent him from serving a single member bank; but, through the exercise of the powers conferred upon it by Section 8 of the Clayton Act, the Board can limit the sphere of influence of such a director by withholding its permission for him to serve more than one bank within the classes affected by that Act.

It is well known that the principal cause of bank failures is bad or careless management; the Board has formally approved a section of the Glass Bill which would authorize it to remove bank officers and directors who have been guilty of repeated violations of law or continued bad management; and the question arises whether the Board should not take such factors into consideration in passing upon applications for its permission to serve two or more banks within the classes affected by the Clayton Act.

There are many cases in which the courts have held bank directors liable in their individual capacities for losses sustained by their banks as a result of the directors' misconduct or negligence; and in some of these cases the courts have criticized the directors severely.

Suppose that, in such a case, the defendant should show the court that, with full knowledge of the course of conduct upon which the suit is founded, the Federal Reserve Board had issued a permit authorizing him to serve as a director of the bank in question and also two other banks.

Or, suppose that it has been clearly established that a particular individual completely dominated the affairs of a certain bank and that his mismanagement and wrongdoing resulted in the bank's ruin. Suppose that such a director should subsequently apply to the Board for permission to serve three banks which obviously are not in substantial competition. Would it be good policy for the Board to grant such a director its affirmative permission to serve the three banks?

On the other hand, if the Board decides to consider questions of this kind in its administration of the Clayton Act, problems will arise as to how far the Board should go in investigating the records of applicants, how far afield such investigations will lead the Board, and how large a burden of responsibility the Board must assume in this connection?

Three possible alternatives are suggested:

1. The Board could consider in this connection only such information as is contained in records of which it has actual or constructive notice--i.e., information in the records of the Board, the Federal Reserve Agents and the Federal reserve banks; or
2. The Board could supplement information already in such records

by requiring the applicant (and possibly the Federal Reserve Agent and the Chief National Bank Examiner) to answer a series of questions designed to disclose the character of the director's influence as such and whether his record as a director is good or bad; or

3. The Board could cause an independent and searching investigation to be made regarding the character, qualifications and record of each person who applies to it for a permit under the Clayton Act.

If the Board decides to go into this phase of the subject, it will be necessary to consider which of these three course of action or what other course of action it will pursue.

THE QUESTION OF COMPETITION.

Applications involving banks which clearly are not in substantial competition usually present no difficulties, because it can safely be assumed that an interlocking directorate between them will not result in a substantial lessening of competition; and such applications clearly should be granted, unless it is incompatible with the public interest for some other reason.

When the Board receives an application for a permit to serve two banks which clearly are in substantial competition, however, a number of administrative questions arise.

If such banks have no common directors, it could be argued that the mere fact that they are in substantial competition is not alone sufficient evidence that a single interlocking directorate between them probably will result in a substantial lessening of competition and that, therefore, the application should not be denied unless there is some other evidence tending to show that a substantial lessening of competition probably will result.

If this view is adopted, however, then the question will arise whether, under similar circumstances, the Board should grant permits for a second, a third, a fourth, a fifth, interlocking directorate, and so on. In other words, how many interlocking directorates between such banks should the Board permit? Should it permit a third of the directors of the one bank to be directors of the other? or half of them? or three-fourths of them? or all of them?

It could hardly be denied that to permit all of the directors of one bank to serve also as directors of a competing bank probably would result in a substantial lessening of competition; and it would seem exceedingly difficult to establish anything but an arbitrary rule as to the number of common directors which should be permitted between such banks.

In this connection, it must be remembered that the Clayton Act establishes a basic rule that no interlocking directorates shall be permitted between banks in the prohibited classes and that, when a director applies to the Federal Reserve Board for permission to serve two or three banks in the prohibited classes, he is asking the Board to take action which will bring him within one of the exceptions to the Clayton Act. He is asking the Board to make a special exception in his case; and, in order to grant his request, the Board must find that it is not incompatible with the public interest to do so.

In these circumstances, it would seem that, if the banks are in substantial competition, the Federal Reserve Board, for its own protection, ought to have in its records some affirmative evidence that such an interlocking directorate will not result in a substantial lessening of competition;

and it would seem logical to place the burden of furnishing such information upon the applicant who is asking the Board to grant him a special privilege. It would also seem that the evidence justifying the Board's action should be something more than a mere expression of opinion by the applicant or the Federal Reserve Agent.

In other words, the fact that the banks are in substantial competition could be considered as creating a presumption that an interlocking directorate between them will tend to lessen competition; and the burden could be placed on the applicant to furnish some affirmative ground for granting the permit.

It would seem entirely reasonable, therefore, to adopt the policy of refusing to grant any new permits for interlocking directorates between banks which are in substantial competition, unless the applicant is able to show the Board that there are exceptional circumstances which afford some affirmative basis for such action.

It would be difficult, if not impossible, for the applicant to show affirmatively that his service as a director of both banks will not result in a substantial lessening of competition (unless he can show that they are not in substantial competition); but a justification for the granting of the permit could often be furnished in the form of some affirmative reason why it would be in the public interest for him to serve both banks.

Thus, the Board might feel justified in granting the application if it could be shown that one of the banks has been in serious difficulties; that the applicant and his friends are willing to put large sums of money in the bank to save it, if the applicant can become a director of such

bank in order to protect their interests as well as the interests of the public.

Likewise, the Board might feel justified in granting a permit for an interlocking directorate between competing banks, if it should appear that the applicant has contributed materially to the good management of one of the banks and that the management of the other bank would be materially strengthened by obtaining his services as a director.

Another reason for placing upon the applicant the burden of showing some affirmative reason why his application should be granted is that normally there is no one who will object to the granting of such applications. The information submitted by the applicant naturally is submitted in such a way as to make out the strongest possible case for him consistent with honesty and truthfulness, and he cannot reasonably be expected to point out reasons why his application should not be granted. Experience has shown that Federal Reserve Agents seldom recommend that Clayton Act applications be refused and seldom produce facts not contained in the applications and accompanying exhibits which tend to show that they should not be granted. It is exceedingly difficult, if not impossible, for the Federal Reserve Board to discover and produce such information.

MISCELLANEOUS QUESTIONS.

Other questions arising from time to time in the administration of the Clayton Act may be indicated very briefly as follows:

1. Whether additional permits for interlocking directorates should be granted when the banks involved are already closely knit with numerous other banks in the same city by a spider web of interlocking directorates.

2. Whether it is in the public interest for the Board to facilitate the organization of a chain or group of banks by permitting the parent bank to have interlocking directorates with the other banks in the group or chain.

3. Whether under any circumstances it is proper to permit interlocking directorates between a rapidly expanding branch banking system and independent unit banks located in cities in which the parent bank has branches.

REVOCATION OF EXISTING PERMITS.

Section 8 of the Clayton Act, as amended, also authorizes the Federal Reserve Board to revoke any permit for an interlocking directorate issued thereunder "whenever it finds, after reasonable notice and an opportunity to be heard, that the public interest requires its revocation".

The question arises, therefore, whether the Board has a duty to review existing permits from time to time and, if so, on what grounds existing permits should be revoked.

Since the purpose of the Clayton Act, as amended, is not to penalize competition between banks but to preserve and foster such competition, it would seem obvious that:

1. A permit for an interlocking directorate should not be revoked merely because competition between the banks has increased since the permit was issued; and

2. A permit should be revoked if it appears that the existence of the interlocking directorate has reduced competition between the banks or has prevented the growth of competition between them.

If the Board decides that, in granting Clayton Act permits, it will go into the question whether the influence of the applicant on the banks involved might be detrimental, it would also be proper to consider the same questions in determining whether or not to revoke existing permits; and all of the problems suggested above should be considered in this connection.

It would seem that the possession of the power to revoke existing permits whenever in its judgment the public interest so requires imposes a duty upon the Federal Reserve Board to exercise this power in such a way as to promote the public interest. Therefore, it would seem that all existing Clayton Act permits should be reviewed at reasonable intervals with view of determining whether they should be revoked. In deciding whether to revoke existing permits, however, the Board could properly take into consideration the question whether it would be in the public interest to do so in the light of all circumstances existing at the time, including the unsettled banking situation; and it would not seem necessary to review existing permits unless and until the Board is prepared to revoke them and thereby disrupt existing relationships, in cases where the facts seem to warrant such action.

RECOMMENDATION.

I respectfully recommend that copies of this memorandum and of the attached memorandum by Mr. Chase be sent to all Federal Reserve Agents for their information in advance of their conference with the Board and also that I be authorized to send copies to Counsel for all of the Federal reserve banks, in order that they may be prepared to discuss the subject with the Federal Reserve Agents.

I discussed the subject orally with Counsel for the Federal reserve banks during their recent conference here; but I think it would be helpful for them to have copies of these memoranda.

Respectfully,

Walter Wyatt,
General Counsel.

WW:mw

(3) If that is not the only question, what other matters should be considered?

There are no court decisions which answer these questions specifically, and it will therefore be necessary to examine, first, certain decisions of the Supreme Court relating to the general purpose of the Clayton Act, second, the legislative history of the particular provision of section 8, and, lastly, certain legal principles and matters of policy involved in the third question stated above.

I. SUPREME COURT DECISIONS RELATING TO THE GENERAL PURPOSE OF THE CLAYTON ACT.

The Clayton Act was enacted with the purpose of changing and supplementing the existing statute dealing generally with monopolies and restraints of trade, the Sherman Act. The Sherman Act at first had been interpreted by the United States Supreme Court as making unlawful all contracts, combinations, etc., which restrained trade. Later decisions, however, (see particularly Standard Oil Co. v. United States, 221 U.S. 1; 31 S.Ct., 502, 516-518) established what is known as the "rule of reason", which was that only those contracts, combinations, etc., were unlawful which operated to the prejudice of the "public interest" by obstructing and restraining trade unduly and unreasonably.

After considerable political agitation, and after the decision of the Standard Oil case, the Clayton Act was enacted. Two leading cases were subsequently decided by the Supreme Court involving the meaning of the phrase "substantially lessen competition" as used in the basic sections of the Clayton Act dealing with subjects other than banks. The first, Standard Fashion Company v. Magrane-Houston Co., 258 U.S. 346, 42 S.Ct. 360 held that:

1. Although much was said in the briefs concerning the reports of committees, "the words of the Act are plain and their meaning is apparent

without the necessity of resorting to the * * * often unsatisfactory aid of such reports."

2. "The Clayton Act sought to reach the agreements embraced within its sphere in their incipiency, and in the section under consideration to determine their legality by specific tests of its own. * * * ". In other words, under sections 2 and 3 of the Clayton Act it is not necessary to show that the acts have actually resulted in a restraint of competition: it forbids acts which "may" lessen competition, thus reaching the evil in its incipiency.

3. The use of the words "may" and "substantially" shows that the statute was intended to reach not all the acts described but only those which would "probably lessen competition or create an actual tendency to monopoly. That it was not intended to reach every remote lessening of competition is shown in the requirement that such lessening must be substantial."

The second case, United Shoe Machinery Corp. v. United States, 258 U.S. 451; 42 S. Ct. 363, illustrates point 2, above. It involved a group of transactions which had previously been held not to violate the Sherman Act. They were held to be in violation of the Clayton Act (or rather, certain facts which were immaterial in the Sherman Act case were held to amount to a violation of the Clayton Act). The Court held that the first decision did not make the question res judicata under the Clayton Act, saying:

"Under the Sherman Act, as interpreted by this court before the passage of the Clayton Act contracts were prohibited which unduly restrained the natural flow of interstate commerce, or which materially interrupt the free exercise of competition in the channels of interstate trade. In the second section monopolization or attempts to monopolize interstate trade were condemned. The Clayton Act (section 3) prohibits contracts of sale, or leases made upon the condition, agreement, or understanding that the purchaser or lessee

shall not deal in or use the goods of a competitor of the seller or lessor where the effect of such lease, sale, or contract, or such condition, agreement, or understanding 'may' be to substantially lessen competition or tend to create monopoly. The cause of action is therefore not the same."

To summarize:

1. The phrase "the public interest" was used by the Supreme Court in the leading Standard Oil Case in describing the purpose of the Sherman Act, and in laying down the "rule of reason" for interpreting the prohibitions contained in that Act.

2. The Clayton Act was enacted to amend the existing law as interpreted by the courts. It sought to prevent the evils in question by reaching them in their incipiency, and provides a standard of its own to be applied to the specific acts with which it deals. The standard is: Whether the acts are such that they "may" "substantially" lessen competition, or tend to create a monopoly, -- which means, in the words of the Supreme Court, such as will "probably" lessen competition "substantially"; that is, by amending the law, Congress did not intend to make unlawful acts which only had a remote and possible tendency to lessen competition.

3. The two Acts, as interpreted by the Supreme Court, both obey the legal maxim that the law will not concern itself with matters of trifling importance, -- the Sherman Act, by not condemning contracts unless they restrain commerce unreasonably to the detriment of the public interest; the Clayton Act,

by forbidding certain actions only when they probably will result in a substantial lessening of competition, the test in Section 8 of the latter Act being compatibility with the "public interest".

LEGISLATIVE HISTORY

The first part of the legislative history of the present provision is completely summarized in the Annual Reports of the Federal Reserve Board.

1921 Report, pp. 87-89:

"As originally enacted section 8 of the act approved October 15, 1914, known as the Clayton Antitrust Act, absolutely prohibited interlocking directorates between certain classes of banks. The act of May 15, 1916, known as the Kern amendment, modified the provisions of that section so as to allow a person who first obtains the permission of the Federal Reserve Board to serve not more than three banks in the prohibited classes, if such banks are not in substantial competition. " * * * "When the work done in connection with the review of the interlocking directorates revealed to the Board how many instances there were in which a strict enforcement of the terms of section 8 of the Clayton Act would operate inequitably, the Board decided to consider the question of a further amendment to the Clayton Act to carry out more effectually the intention of Congress to promote and encourage competition. The matter was referred to the Board's committee on the Clayton Act, which, after making a careful study of the problem, with the assistance of counsel, rendered a report in which it recommended an amendment which would authorize the Federal Reserve to permit a person to serve not more than three competing banks, when the Board is satisfied that such interlocking directorates will not result in a restriction of credit or lessening of competition between the banks involved, the Board, however, to continue to have full power to revoke such permits at any time. * * * The Board adopted the recommendations of its committee on the Clayton Act and a bill amending the Clayton Act in this manner was drafted and submitted to the Senate and House Committees on Banking and Currency." (H.R. 4826).

The recommendation that the Kern amendment be further amended was renewed in every annual report up to and including the Report for 1926. The

recommendation was omitted from the 1927 Report perhaps for the reason that an amendment was then actually in the process of being enacted.

1923 Report, p. 52:

"* * *The Board directed its 12 Federal reserve agents to make a comprehensive review * *. This investigation disclosed that in a few cases banks with common directors have become substantial competitors since the time when permits for such directorates were granted, either through the natural growth of competitive business or through the acquisition of competitive business incident to a consolidation."

and the Board accordingly renewed the recommendation contained in its 1921 Report..

In the interval between the Report for 1923 and the Report for 1924 a bill was introduced in the Senate known as S. 3299 which contained the phrase "lessening of competition". A bill was introduced in the House by Representative McFadden known as H.R. 9344 which contained the phrase which has subsequently been enacted, "not incompatible with the public interest". It does not appear from the Board's files that the Board suggested to any member of Congress the broader language of the latter bill, but the Board approved the language, as is shown by its Report for 1924. In discussing these two pending bills, the Board said:

1924 Report, p. 29:

"In its present form section 8 of the Clayton Act in operation often defeats the purpose for which it was enacted; it discriminates against national banks, and in many cases its enforcement results in unnecessary hardship to individuals and to the disadvantage of the banking and credit situation in certain communities. The board has repeatedly recommended the enactment of an amendment to the Clayton Act to overcome these defects. * * * The fundamental purpose of both bills, however, was to give the board more latitude in the matter of permitting interlocking directorates and thus enable it to administer the Clayton Act more effectively and

more nearly in harmony with the apparent purpose and intent of Congress in regulating interlocking directorates. The Senate bill was introduced at the board's request and the House bill with the board's approval."

1928 Report:

After the enactment of the present provision, the Board made note of the fact in its Annual Report, but did not undertake to answer the question discussed herein. It said, p. 37:

"* * Under the amendment the board is authorized to grant such permits if in the judgment of the board the issuance of such a permit is not incompatible with the public interest, and such permits may be granted even though no member bank of the Federal reserve system is involved."

The letters and memoranda sent by the Board to various members of Congress in connection with the various bills referred to above relate only to the question of competition in its various aspects, and as indicated in the 1924 Report of the Board, its approval of the language of H.R. 9344, which was the language ultimately enacted into law, was based on those considerations.

In view of the length of time which elapsed between the original enactment of the Clayton Act, -- and even between the enactment of the Kern amendment, -- and the subsequent enactment of the present provision, there is little logical justification for assuming that the thoughts of the members of Congress which were not actually put into legislation persisted unaltered until the time of the enactment of the present provision in 1928. Little help can therefore be expected from the debates and other parts of the legislative history of the earlier provisions. Three reports of committees

concerning bills containing the language which was finally enacted into law in 1928 should, however, furnish as reliable a guide as committee reports are apt to furnish in any case.

The Senate Committee inserted an amendment containing the phrase "not incompatible with the public interest" in H.R. 2 (a bill containing numerous amendments to the Federal banking laws, which, after enactment with changes, became known as the McFadden Act of Feb. 25, 1927) and this amendment was passed by the Senate but rejected by the House. Two bills were introduced in the 60th Congress containing similar provisions, H.R. 9098 and S. 3007. The bill which was ultimately enacted on March 9, 1928, was known as H.R. 6491.

None of the bills which contained the language which has since been enacted, except the proposed Senate amendment to H.R. 2 (which was rejected by the House) and H.R. 6491, was ever made the subject of a report by a committee of Congress. The report on H.R. 2 (Senate Report 473, 69th Cong.) contains the following (at p. 13):

"* * *By the passage of the Kern amendment Congress recognized the fact that it is not objectionable per se for the same person to serve as director of a limited number of banks. Interlocking directorates become objectionable when by reason of the common domination of several banking institutions competition is unduly restricted and concentration of the control of credit results. Presumably Congress intended to vest a discretion in the board to determine, within the limits prescribed by it, when it became incompatible with the public interest for the same director to serve on the boards of two or three banking institutions. The test applied, however, namely, the degree of competition existing as between such institutions, has proven impracticable and unworkable." * * *

"This amendment retains the limit on the number of banks that may have common directors, but vests in the board a discretion to determine when interlocking directorates within the limits imposed by Congress are inconsistent with the purpose of the Clayton Act. This is

a question which must be determined by consideration of all the facts in a given case and which can not be determined by the application of any formula."

The Senate report on H. R. 6491 (Sen. Rep. 439, 70th Cong., 1st Sess.) contains no original comment but merely quotes in full the report of the House committee. The latter report is explicit.

The House report on H. R. 6491, (House Rep. 487, 70th Cong. 1st Sess.) the language and substance of which is derived largely from letters and memoranda from the offices of the Board, begins with a brief statement of the original provision and of the Kern amendment. The report then states that the experience of the Board has been "that the Kern Amendment in its present form does not work out in the way in which it was intended". Illustrations are given. Competition has grown up between banks in spite of common directorates, showing that they had not prevented the existence of competition. In some cases requiring a director to resign might precipitate a crisis in the affairs of the bank by undermining public confidence in it. The report then sums up the situation as follows:

"To sum up briefly, the Kern amendment was designed to permit limited interlocking directorates, but only in cases where the public interest would not be prejudiced, as by the lessening of competition between banks or the restriction of credit. * * *

It is not particularly important whether banks which wish common directors are or are not in substantial competition -- that has little to do with the question -- but it is important what effect the interlocking directorates will have on the banking and credit situation in the community. Consequently the test for permitting interlocking directorates should be

whether or not such directorates will in-
juriously affect the public interest by
discouraging interbank competition or re-
stricting credit or otherwise, and not
the present test as to the existence of
substantial competition."

* * * * *

"The above discussion should demonstrate clearly that the Kern amendment in its present form operates in an illogical way and often defeats the very purpose for which it was enacted. It follows that the law should be further amended in such a way as to enable the Federal Reserve Board to administer it more effectively and more nearly in harmony with the apparent purpose and intent of Congress in regulating interlocking directorates."

The debate in Congress was very meagre. In the House, Mr. McFadden's statement explaining the bill is merely a summary of the Committee's report. In response to questions from the floor, he explained that competition was the "principal" factor to be considered by the Board, but did not name any other factors. (Cong. Rec. Vol. 69, p. 2335). Mr. Goldsborough and Mr. LaGuardia opposed the bill on the ground that interlocking directorates should be forbidden absolutely. In the Senate there was virtually no debate. An extract from a letter from the Board was read, saying that the amendment "will enable us to function more in accordance with the original intent of the law."

The conclusion which I reach upon the first two questions are, therefore --

1(a) The Board must, as a matter of law, deny an application if in its judgment the granting of it would probably result in a substantial lessening of competition between the banks involved.

(b) The Board is "authorized" to grant an application if in its judgment no substantial lessening of competition will probably result, and provided no other reason exists which in its judgment would make the granting of the application incompatible with the public interest.

2. Section 8, as amended, provides that the Board is "authorized" to issue a permit if in its "judgment" it would not be incompatible with the "public interest". The words "competition" and "monopoly" are not used in this provision. It follows, therefore, that although Congress had in mind only the question of competition, or restriction of credit, the language of the act clearly vests the Board with discretion to deny an application if in its judgment it would be incompatible with the public interest to grant it; and the Board is vested with a wide discretion in deciding upon the matter.

Moreover, under well-established legal principles, the courts will not disturb an exercise of discretion thus vested by statute unless the discretion has been plainly abused and exceeded.

However, the fact that the Board is "authorized" to grant the permit in its discretion, also means that the permit must not be denied arbitrarily or capriciously.

III. MATTERS OTHER THAN COMPETITION.

In the event that the Board should decide to consider matters other than competition, a number of questions are raised:

Should the Board grant a permit, even if the banks are not in competition, if it knows that the applicant -- taking the extreme case as an illustration -- has ruined a bank by his unlawful acts?

Should it, on the other hand, attempt to improve the quality of directors generally, by exercising its limited right to deny an application involving more than one bank within the prohibited classes, -- in spite of the fact that its decision, even when adverse, can only affect the number of banks which the applicant can serve without being able to prevent him from serving any bank, even though it is a member of the Federal Reserve System?

Should it undertake to pass upon the qualifications of directors although it is not in a position to make an informed decision in a great many cases?

From what sources and in what manner would the Board seek information with regard to his qualifications :

- (a) Should the Board grant the permit unless there is information in its files or those of the Federal Reserve Agent which indicates that it would be incompatible with the public interest to grant the permit:
- (b) Should the Board require the applicant to answer a series of questions regarding his experience, training and other qualifications, his attendance at directors' meetings, etc; or
- (c) Should the Board cause a special investigation to be made of the applicant's qualifications and record as a bank director or officer.

These are questions of policy which are not within the scope of this memorandum. It will be assumed, however, for the purpose of discussion, that the Board may avoid the extremes indicated above, and take a middle ground, denying an application, regardless of competition, when information readily available to it indicates that the applicant has some positive disqualification.

In order to ascertain the facts with regard to such matters, the Federal Reserve Agent could be requested to give his comments at the time of forwarding the application to the Board, and, in addition, such means could be adopted as the Board may determine for ascertaining whether the reports of examination and similar sources of information either show definitely an objection to the applicant along the lines referred to or give an indication sufficient to make further inquiries advisable.

In that event, it would seem that the questions to be considered, aside from competition, should include:

1. Whether the applicant is dishonest or incompetent, -- the character of the management of the banks with which he is associated and the extent of his responsibility therefor, being considered pertinent to this inquiry.
2. Whether the applicant discharges the duties and responsibilities of his office by attending directors' meetings, etc., -- the geographical location of the banks being one of the factors considered in this connection.
3. Whether he abuses his borrowing privilege, -- or, more specifically, whether the examiner has criticized loans to the applicant, his family or his interests, as being excessive, or for any other reason.

The questions outlined above are necessarily general in character since it would not be possible to predict except in a general way what facts might be developed which would make the granting of the application undesirable from the standpoint of the public interest in the less restricted meaning of that phrase.

Matters such as dishonesty, incompetence and knowingly directing the bank's affairs in violation of statutory provisions, require no illustration or description.

The abuse of the borrowing privilege may, of course, be indirect and consist of excessive borrowing not only by the director but by members of his family and his or their interests.

The character of the bank's investments may be found to be highly speculative, and the applicant be found to be responsible therefor.

The undesirability of a director who serves merely as a figure-head also requires no extended comment. The point is aptly summarized by the Supreme Court of the United States in the case of Martin v. Webb, 110 U. S. 7, 3 S. Ct. 428, 433:

"* * Directors cannot, in justice to those who deal with the bank, shut their eyes to what is going on around them. It is their duty to use ordinary diligence in ascertaining the condition of its business, and to exercise reasonable control and supervision of its officers. They have something more to do than, from time to time, to elect the officers of the bank, and to make declarations of dividends. That which they ought, by proper diligence, to have known as to the general course of business in the bank, they may be presumed to have known in any contest between the corporation and those who are justified by the circumstances in dealing with its officers upon the basis of that course of business."

As was stated by the Supreme Court in another case, however,

(Briggs v. Spaulding, 141 U. S. 132, 11 S. Ct. Rep. 924) it is not possible to define with precision the degree of care and attention which a director should give to the affairs of the bank. That must depend upon all the facts of the particular case. The Court concluded, however:

"* * Without reviewing the various decisions on the subject, we hold that directors must exercise ordinary care and prudence in the administration of the affairs of a bank, and that this includes something more than officiating as figure-heads. They are entitled under the law to commit the banking business, as defined, to their duly-authorized officers, but this does not absolve them from the duty of reasonable supervision, nor ought they to be permitted to be shielded from liability because of want of knowledge of wrong-doing, if that ignorance is the result of gross inattention; but in this case we do not think these defendants fairly liable for not preventing loss by putting the bank into liquidation within 90 days after they became directors, and it is really to that the case becomes reduced at last."

In Bowerman v. Hammer, 250 U. S. 504, 39 S. Ct. 549, a decree against Bowerman as director for losses sustained by the bank as the result of unlawful and negligent management of its affairs was affirmed. Bowerman lived 200 miles from the bank and had not attended a single meeting of the board.

"* * He was a man of such importance and reputation that the use of his name must have contributed to securing the confidence of the community and of depositors for the bank, and it would be a reproach to the law to permit his residence at a distance from the location of the bank, a condition which existed from the time he first assumed the office of director, to serve as an excuse for his utter abdication of his common-law responsibility for the conduct of its affairs and for the flagrant violation of his oath of office when it resulted in loss to others."

Respectfully submitted,

G. Howland Chase,
Assistant Counsel.