

## The Papers of Charles Hamlin (mss24661)

367\_04\_001-

Hamlin, Charles S., Scrap Book – Volume 238, FRBoard Members

205.001 - Hamlin Charles S  
Scrap Book - Volume 238  
FRBoard Members

Box 367 Folder 4

TRANSFER  
CONFIDENTIAL (F.R.)

RETURN TO  
FILES SECTION  
DO NOT REMOVE ANY  
PAPERS FROM THIS FILE  
CONFIDENTIAL (F.R.)

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date August 11, 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 238 of Mr. Hamlin's scrap book and placed in the Board's files:

VOLUME 238

Page 27

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

Page 94

Letter to Gov. Meyer from President Hoover re Bank Holiday.

Page 95

Memo to Mr. Mitchell from Mr. Wyatt re meaning of phrase "tested banking experience" as used in Section 4 of the Federal Reserve Act.

Page 98

Letter to Secretary Woodin from Mr. Hamlin re emergency legislation.

Page 121

Memo to Mr. Hamlin from Mr. Parry re acceptances against receivables.

Page 126

Decline in cost of living. (Mr. Smead to Mr. Hamlin)

Page 127

Bylaws of the Federal Reserve Board.

Page 129

Data prepared by Gov. McKinney of F.R.Bk. of Dallas re advisability of reducing the scale of salaries.

Page 133

The Policy of the F.R. Board in the Extension of Credit to Agricultural Interests.

Page 139

(X-1894) Deficiencies in Reserves.

Page 142

Letter from President Hoover to F.R. Board urging Board to take action in the control and management of currency.

March 1, 1933

Mr. Morrill

Direct Loans to Individuals,

Mr. Van Fossen

etc.

CONFIDENTIAL

Attached hereto is a statement showing the number of applications of individuals, partnerships and corporations for loans not granted by the Federal reserve banks to January 31, 1933, including a tabulation of the reasons for not granting the loans applied for.

It will be noted that of 606 applications refused, as shown in the statement, 341 were because of unsatisfactory security; 244 paper not eligible; 12 loans placed with other banks; 4 present credit deemed adequate and 5 denial of credit by other banks not shown.

Direct loans to individuals, partnerships and corporations granted by the Federal reserve banks to January 31 and the amount of such loans outstanding on that date were as follows:

<u>Federal Reserve Bank of New York</u>		<u>Advanced</u>	<u>Outstanding</u>
Anawalk Nursery Company	Anawalk, N. Y.	\$15,000	—
Ira R. Crouse	Perth Amboy, N. J.	10,000	\$10,000
Dorman Brothers	Astoria, N. Y.	5,000	2,500
Poster and Stewart Co.	New York, N. Y.	75,000	75,000
Friedman & Sons, Neckware Co., Inc.	New York, N. Y.	25,000	17,500
Joseph H. Meyer Bros.	New York, N. Y.	15,500	13,950
Miller-Cummings Co., Inc.	New York, N. Y.	165,000	165,000
Morris White Mfg. Co.	New York, N. Y.	31,000	3,000
New Jersey Flour Mills Co.	Clifton, N. J.	50,000	25,000
Scaramelli & Co., Inc.	New York, N. Y.	20,000	10,000
S. Shuff Sons, Inc.	New York, N. Y.	10,000	9,500
L. G. Smith & Corona Typewriters, Inc.	New York, N. Y.	300,000	300,000

<u>Federal Reserve Bank of Philadelphia</u>			
J. F. Apple & Co., Inc.	Lancaster, Pa.	400	—
Banta Refrigerator Co.	Clearfield, Pa.	3,000	2,944
J. B. Henkeln (Henkeln & McCoy)	Philadelphia, Pa.	3,427	—

827

Mr. Morrill - #2

	<u>Advanced</u>	<u>Outstanding</u>
<u>Federal Reserve Bank of Atlanta</u>		
Continental Turpentine & Rosin Corporation	Laurel, Miss. \$19,750	--
Mississippi Cotton Seed Products Company	Jackson, Miss. 48,000	--
Richmond Hosiery Company	Rossville, La. 50,000	\$25,000
<u>Federal Reserve Bank of Minneapolis</u>		
Bricelyn Canning Co.	Bricelyn, Minn. 90,247	74,872
H. C. Ervin Company	St. Cloud, Minn. 7,900	2,220
Kiddie Gym Company	Minneapolis, Minn. 7,500	--
Magill and Company	Fargo, N. D. 7,275	7,275
<u>Federal Reserve Bank of Kansas City</u>		
New Mexico Lumber & Timber Co.	Bernalillo, N.M. 128,285	64,735

APPLICATIONS OF INDIVIDUALS, PARTNERSHIPS AND CORPORATIONS FOR LOANS NOT GRANTED  
BY THE FEDERAL RESERVE BANKS - TO JANUARY 31, 1933

Federal Reserve Bank	Number of applications not granted -		Total number of applications not granted, July 21, 1932 to June 31, 1933	Reasons for not granting loans applied for					Amount of loans declined July 21, 1921 to January 21, 1933
	Dec. 4 to 31, 1932	January 1933		Loans placed with other banks	Present credit deemed adequate	Paper not eligible	Paper not satisfactorily secured	Denial of credit not shown	
Boston	--	--	11	--	--	3	7	1	\$114,240
New York	10	11	149	6	3	20	120	--	5,079,550
Philadelphia	--	1	51	--	1	30	20	--	967,600
Cleveland	1	--	12	--	--	4	7	1	101,000
Richmond	1	--	48	--	--	36	12	--	878,496
Atlanta	2	3	117	1	--	58	58	--	1,907,765
Chicago	3	8	115	--	--	61	54	--	1,405,800
St. Louis	--	--	32	1	--	7	24	--	271,300
Minneapolis	--	--	22	1	--	11	10	--	287,000
Kansas City	--	--	26	2	--	13	8	3	114,469
Dallas	1	1	12	--	--	1	11	--	93,400
San Francisco	--	--	11	1	--	--	10	--	178,250
<b>Total</b>	<b>18</b>	<b>24</b>	<b>606</b>	<b>12</b>	<b>4</b>	<b>244</b>	<b>341</b>	<b>5</b>	<b>11,398,870</b>

#Approximate; amounts sometimes not stated.

See Bk

THE WHITE HOUSE

Washington

March 4, 1933

Hon. Eugene Meyer  
Federal Reserve Board  
Washington, D. C.

My dear Governor Meyer:

I received at half past one this morning your letter dated March 3rd. I must assume that this letter was written on the basis of information received by you prior to 11.30 o'clock last night for the reason that before your letter was sent you had certain information as follows:

a. At 11 o'clock last night the President-elect had informed me he did not wish such a proclamation issued.

b. The Attorney General had renewed the same opinion which he had already given to the Board that the authorities on which you were relying were inadequate unless supported by the incoming Administration.

c. That groups of representative bankers in both Chicago and New York, embracing members of the Board of Directors of the Federal Reserve Banks in those cities, were then in conference with the governors of the states of Illinois and New York, and that the governors of these two states were prepared to act if these representative groups so recommended. It appears that the governors did take action under their authorities, declaring a temporary holiday in these two critical states, and thus accomplishing the major purposes which the Board apparently had in mind.

In view of the above I am at a loss to understand why such a communication should have been sent to me in the last few hours of this Administration, which I believe the Board must now admit was neither justified nor necessary.

Yours faithfully,

HERBERT HOOVER

94

## Office Correspondence

FEDERAL RESERVE  
BOARDDate October 30, 1922. See Also

To Mr. Mitchell.

Subject: Meaning of phrase "tested banking experience" as used in Section 4 of the Federal Reserve Act.

From Mr. Wyatt- General Counsel.

2-3405

Section 4 of the Federal Reserve Act requires that each Federal Reserve Agent and each Assistant Federal Reserve Agent shall be a person of "tested banking experience", and you have requested me to advise you as to the meaning of the expression "tested banking experience."

So far as I can find, the term "tested banking experience" has never been defined either by the lexicographers or by the courts. The word "tested" seems never to have been defined by the courts. The word "banking" has been defined frequently by the courts, but the definition given by Webster, which is quoted below, is substantially the same as those given by the courts, and the meaning of the term is so well understood that it is not believed necessary to quote here the definitions given by the courts. While there have been a few definitions of the word "experience", the subject matter and context has been such that those definitions would be of little or no value in this connection. It is necessary, therefore, to rely upon the definitions of these words given by the dictionary.

Webster's unabridged dictionary defines the verb "test" as follows:

"To put to the test or truth; to try the truth, genuineness, or quality of by experiment, ~~or by some other experiment~~, or by some other principle or standard; as, to test the soundness of a principle, the validity of an argument, the strength of a material."

It also defines the noun "test" as follows:

"Examination or trial by the cupel; hence, any critical examination or decisive trial; as to put a man to a test. Hence (a) Means of trial; discriminative characteristic of fact; specif. subjection to conditions that show the real character of a person or thing in a certain particular; as absence is a test of love. (b) That with which anything is compared for proof of genuineness; touchstone; standard."



It defines the word "banking" as follows:

"The business of a bank or of a banker. The business of banking originally was that of money changing; at present banking, in general, consists in taking money on deposit subject to check or draft, loaning money, as by discounting notes and bills, issuing drafts, and any other associated form of general dealing in money or credit. One or more of the operations if carried on with the public in general may be construed as banking."

It defines the word "experience" as follows:

" 1. Trial or test; either a tentative trial or experiment, or a crucial test, or demonstration.

" 2. The actual living through an event or events; participation in anything through sensation or feeling; the real life as contrasted with the ideal or imaginary; personal acquaintance with reality; actual enjoyment or suffering; hence, the effect upon the judgment or feelings produced by persons and direct impression as contrasted with description or fancies; as, to know by experience."

\* \* \* \* \*

"4. Knowledge, skill or technique resulting from experience; experimental or inductive knowledge; hence skill facility, or practical wisdom gained by personal knowledge, feeling or action.

\* \* \* \* \*

"7. Philosophy. The sum total of the conscious events which compose an individual life; also the ultimate, non-analyzed data of all happenings that may be apprehended; the summum genus of all knowable reality."

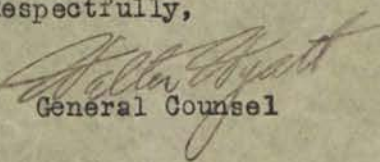
Experience, therefore, is the actual living through an event or events or the participation in anything through sensation or feeling. In another sense, it is the knowledge, skill or technique resulting from such living through an event or events or from such participation in anything. Banking experience, then, must be knowledge, skill or technique resulting from actual participation in the business of banking. If we accept this as a definition of banking experience, it only remains to ascertain what added significance is given by the use of the word "tested". From the definition quoted above, it appears that the noun "test" means "subjection to conditions that show the real character of a person or

thing in a certain particular, and the verb "test" means "to put to the test". It is reasonable to assume, therefore, that the word "tested" was used in this connection to require that the person selected should be a person who has been subjected to such conditions as to show the real character of his banking experience - i. e., the real character of his knowledge, skill or technique resulting from actual participation in the business of banking.

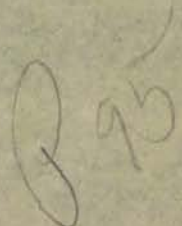
Reading these words together in the light of the above definitions, therefore, I should say that a person of "tested banking experience" is a person who has knowledge, skill, or technique resulting from actual participation in the business of banking, and who has been subjected to such conditions as to demonstrate his ability as a banker. To state it more freely, one might say that a person of "tested banking experience" within the meaning of Section 4 is a person who has proven his ability as a banker through actual participation in the business of banking.

I realize that this is not a very precise definition, but I believe that it is not practicable to frame one which is more precise. In the last analysis, the question whether a particular person is a person of tested banking experience is a question of fact to be decided in the light of all the attendant circumstances; and no definition can be framed which will be properly applicable to all circumstances which might arise.

Respectfully,

  
General Counsel

WW QMC



March 7, 1933.

Dear Mr. Secretary:

Today at noon I happened to meet Hon. Robert Lane, a Republican Member of the Banking and Currency Committee of the House of Representatives. He asked me if I would be good enough to give notice that if the administration requires any emergency legislation, the members of the Banking and Currency Committee of the House should be taken into confidence before the legislation is formally proposed. He stated that this was the course followed in the emergency legislation of last year, and he intimated that observance of this suggestion might tend to expedite matters greatly. I told him that I had no authority to accept any such notice, as I was not engaged in the matter of preparing legislation, and then he asked me to give this message to the proper authority, and this is my reason for now troubling you.

Sincerely yours,

Hon. William H. Woodin,  
Secretary of the Treasury,  
Washington, D. C.

398

## Office Correspondence

FEDERAL RESERVE  
BOARDDate December 22, 1932To Mr. HamlinSubject: Acceptances against ReceivablesFrom Mr. Parry

... 2-8405

*l.e.p.*

This proposal, as submitted to you by ex-Senator Owen, would (1) authorize any member bank to accept, and (2) any Federal reserve bank to rediscount, bills secured by "notes, bills, or accounts receivable.....arising from the sale of merchandise and due by merchants, manufacturers or distributors." The proposal contemplates that acceptances created in this way would be secured by the designated receivables not only at the time of acceptance but also, through the use of a revolving fund of such receivables, throughout the life of the acceptance.

The principal legal effect of this proposal, as it seems to me, is to authorize member banks to accept without "shipping documents" bills of exchange of the same essential nature as certain of the bills that they may and do now accept only when accompanied by such documents. The security of the accepting bank throughout the life of the acceptance, and not merely as at present only after shipping documents have been detached, would consist merely of claims against the seller and the buyer of the goods figuring in the original transactions. The accepting bank, however, would look for its pay first to the seller of the goods, with recourse to collecting claims represented by the collateral, instead of looking first to the buyer, as at present, with recourse to the seller.

In practical effect, however, the proposed change would merely offer certain customers of member banks the opportunity to ask that acceptance credits, secured by the designated receivables, be extended to them instead of outright loans secured by the same collateral. In the present circumstances, at least, there is no reason to suppose that member banks would be

any more willing to grant an acceptance credit than to make an outright loan. Loans of this type, considered as assets of member banks, are of course eligible for rediscount at the reserve banks.

Some comments of miscellaneous character are attached.

Theory of proponents. - From the way the proposal is set up, I infer that its proponents think that the member banks must at present be withholding credits, in some cases at least, because the banks "have no money to loan," and that the proposal would enable them to get the necessary money by rediscounting the proposed acceptances at the reserve bank. The truth is, of course, that with \$500,000,000 of excess reserves many of the banks have plenty of money to loan and other banks could get it by resort to the Federal reserve banks, either with eligible assets that they already own or with the eligible paper that would arise from loans secured by the designated receivables. It is the unacceptable borrower that is likely to be told by his bank that it has "no money to loan."

Receivables. - "Notes, bills, or accounts receivable.....arising from the sale of merchandise" represent of course a large part of the current assets of merchants, manufacturers, etc., and must at all times figure directly or indirectly as security for a large part of the bank loans outstanding. They are often specifically pledged by borrowers as collateral for loans.

Due by merchants, manufacturers or distributors. - This description, by eliminating the promissory notes, etc., of consumers, confines the designated receivables to paper representing in some sense "goods in motion." The description appears to mean "owing from" merchants, etc.,--not "past due."

Attitude of the acceptance market. - From my general knowledge of the acceptance market, I should expect that banks engaged in the acceptance business, dealers in acceptances, etc., would see no point in the proposal, but I have made no specific inquiry in these quarters.

Opinion of Counsel. - A detailed examination would apparently require an opinion from Mr. Wyatt's office concerning the legal effect of the proposal. I have not consulted Mr. Wyatt's office on this.

P121

## Office Correspondence

FEDERAL RESERVE  
BOARDDate Dec. 30, 1932. *See Nu*To Mr. Hamlin

Subject: \_\_\_\_\_

From Mr. Smead (by telephone)

... 2-8406

Between June, 1929, and June, 1932, the cost of items entering into the cost of living declined as follows:

Food	35.3%
Clothing	20.8%
Rent	16.9%
Fuel and light	10.3%
House furnishing goods	22.7%
Miscellaneous	<u>2.5%</u>
All items ...	20.3%

The relative importance in the family budget of the working man of food is 38.2% according to the Bureau of Labor Statistics, and according to the National Industrial Conference Board it is 33%.

The relative importance of food is, of course, higher in the working man's budget than in that of the salaried employee. The National Industrial Conference Board shows that 20% of the working man's budget goes for housing, 12% for clothing, 5% for fuel and light, and 30% for sundries.

See Am

X-6733

BY-LAWS OF THE FEDERAL RESERVE BOARD

EFFECTIVE OCTOBER 13, 1930.

Article I.

The Chairman.

The Secretary of the Treasury, as Chairman of the Board, shall preside at all meetings when present. In the absence of the Chairman, the Governor shall act as presiding officer. In the absence of both the Chairman and the Governor, the Vice-Governor shall preside, and in the absence of all three such officers, the remaining member of the Executive Committee shall preside.

Article II.

The Governor.

Sec. 1. The Governor of the Federal Reserve Board shall be the active executive officer thereof; subject, however, to the supervision of the Board and to such rules and regulations as may be incorporated herein or may from time to time, by resolution, be established.

Sec. 2. The Governor shall have general charge of the executive and routine business of the Board not specifically assigned under the by-laws or by resolution of the Board to any individual member or committee thereof, and shall have supervision of the Board's staff.

Sec. 3. The Governor shall be an ex-officio member of all Standing Committees of the Board.

Article III.

The Vice-Governor.

Sec. 1. In the absence or disability of the Governor, his powers shall be exercised and his duties discharged by the Vice-Governor, and in the absence or disability of both of these officers, such powers shall be exercised and such duties discharged by the remaining member of the Executive Committee; in the absence or disability of all members of the Executive Committee the powers and duties of the Governor shall be exercised by the senior member of the Board present.

Sec. 2. It shall be the duty of the Vice-Governor to cooperate with the Governor in the administration of the executive business of the Board.



Article IV.

Secretary and Assistant Secretaries.

Sec. 1. The Board shall appoint a Secretary and one or more assistant secretaries.

Sec. 2. The Secretary shall keep an accurate record of the proceedings of the Board and shall conduct such correspondence and perform such other duties as may be assigned to him by the Governor or by the Board. In the absence or disability of the Secretary, the duties of that office may, by direction of the Board, be performed by an assistant secretary.

Sec. 3. The Secretary shall have custody of the seal and, acting under the authority of the Board, shall have power to affix same to all instruments requiring it. Such instruments shall be attested by the Secretary.

Sec. 4. The assistant secretaries shall each perform such duties as may be assigned to them from time to time by the Board or by the Secretary.

Article V.

Assistant to the Governor.

Sec. 1. The Board may authorize appointment of an Assistant to the Governor.

Sec. 2. The Assistant to the Governor shall perform such duties as shall be assigned to him by the Governor.

Article VI.

The Executive Committee.

Sec. 1. There shall be an Executive Committee of the Board consisting of three members, which shall include the Governor, Vice-Governor and one of the appointive members of the Board. The appointive member of the Committee shall be nominated and elected at a regular meeting of the Board. Members of the Board shall serve as far as practicable in rotation and for approximately equal terms. The presence of three members shall be requisite for the transaction of business by the Executive Committee, and action shall be taken only on unanimous vote of the Committee.

Sec. 2. In the absence of the Governor and Vice-Governor the appointive member of the Executive Committee shall act as Chairman and shall, with two other appointive members of the Board present in Washington to be chosen by him in the order of their seniority, exercise the powers and discharge the duties of the Executive Committee. In the absence of all three regular members of the Executive Committee the three remaining appointive members of the Board, provided there be three in Washington, shall act as an interim committee and exercise the powers and discharge the duties of the Executive Committee, the senior member acting as Chairman.

Provided, however, that if only two of the appointive members of the Board are in Washington such two members may act as an interim committee and exercise the powers and discharge the duties of the Executive Committee. Any action taken by such interim committee of two members, however, shall not be finally effective unless and until ratified by the Board. At the next regular meeting of the Board there shall be reported to it for ratification all actions taken by such interim committee of two members since the last regular meeting of the Board. Upon ratification by the Board, all actions taken by such interim committee of two members shall have the same force and effect as actions taken by the Board itself and shall be effective as of the date such action was taken by the interim committee of two members unless otherwise specifically provided by the Board.

Sec. 3. It shall be the duty of the Executive Committee to review and submit drafts of important correspondence involving the expression of opinions or decisions of the Board, and to prepare and make recommendations governing the conduct of the Board's business.

Sec. 4. The Executive Committee shall also have charge of all matters appertaining to the internal organization of the Board, and shall make recommendations from time to time on this matter. It shall also prepare annually a budget of proposed expenditures.

Sec. 5. In the absence of a quorum of the Federal Reserve Board and for the transaction of business requiring action during the absence of such quorum, the Executive Committee is authorized to transact business which can be transacted in accordance with established principles and policies of the Board and to perform such additional duties as may be specifically delegated to it from time to time by instruction of the Federal Reserve Board.

The Secretary of the Board shall serve as Secretary of the Executive Committee.

## Article VII.

### Standing Committees.

In addition to the Executive Committee there shall be the following Standing Committees, appointments to which shall be made by the Governor, subject to the approval of the Board.

#### Sec. 1. Law.

To the Law Committee shall be referred for study and report all questions of a legal nature. To this Committee shall also be assigned the preparation or revision of the Board's regulations, contemplated amendments to the Federal Reserve Act, applications under the Kern amendment to the Clayton Act, and applications for the exercise by national banks of trust powers.

The General Counsel shall serve as Secretary of the Committee.

#### Sec. 2. Examination.

To this Committee shall be referred all questions relating to the examination of Federal Reserve or member banks including

admission of state banks and permission to establish and operate branches.  
The Chief Examiner shall serve as Secretary of this  
Committee.

Sec. 3. Research and Statistics.

This Committee shall have charge of all investigations of an economic and statistical character authorized by the Board and shall supervise the work of the Division of Research and Statistics and the preparation and publication of the Federal Reserve Bulletin. This Committee shall also have supervision of the statistical and publication work of the Federal Reserve Banks.

The Director of the Division of Research and Statistics shall serve as Secretary of this Committee, or in his absence the Assistant Director shall so serve.

Sec. 4. Salaries and Expenditures of Federal Reserve Banks.

To this Committee shall be assigned all recommendations from Federal Reserve Banks for changes of salaries and other expenditures. This Committee shall make reports with respect to charge-offs and franchise tax of Federal Reserve Banks.

The Secretary of the Board shall serve as Secretary of this Committee.

Sec. 5. District Committees.

To each Federal Reserve Bank and District shall be assigned a Committee of not less than two members of the Federal Reserve Board. It shall be the duty of each Committee to keep itself informed by correspondence and visit of the affairs of the Bank and the condition of the District, and make investigation and report on all questions appertaining to the operation of any Federal Reserve Bank or the condition of any Federal Reserve District that may be referred to it by the Board. These Committees shall also aid the Committee on Salaries and Expenditures with information regarding personnel of the respective Federal Reserve Banks of which they have charge. These Committees shall also make recommendations to the Board for the appointment of Directors at Federal Reserve Banks and Branches.

Article VIII.

The Fiscal Agent and Deputy Fiscal Agent.

Sec. 1. The Board shall appoint a Fiscal Agent and a Deputy Fiscal Agent. The duty of the Fiscal Agent shall be to collect and deposit all moneys receivable by the Board with the Treasurer of the United States, to be placed in a special fund established on the books of the Treasurer for the Federal Reserve Board. The Deputy Fiscal Agent shall perform the duties of the Fiscal Agent during his absence or disability.

Sec. 2. The Fiscal Agent and Deputy Fiscal Agent shall each execute a separate bond with surety satisfactory to the Board.

Sec. 3. Payments of expenses and other disbursements of the Board shall be made by the Fiscal Agent upon proper vouchers out of moneys

advanced to him by requisition and warrant out of the special fund and placed to his official credit with the Treasurer of the United States as provided by Section 5 of this Article. In the absence of the Fiscal Agent payment of expenses and other disbursements shall be made by the Deputy Fiscal Agent upon proper vouchers out of moneys advanced to the Fiscal Agent by requisition and warrant out of the special fund and placed to his official credit with the Treasurer of the United States as provided by Sections 5 and 6 of this article.

Sec. 4. The Fiscal Agent shall prepare a quarterly account in such form as shall be approved by the Comptroller General of the United States and, after approval by the Governor, such quarterly account shall be submitted to the General Accounting Office. Such account shall cover payments of expenses and other disbursements made by both the Fiscal Agent and the Deputy Fiscal Agent.

Sec. 5. The Governor shall, when necessary, make requisition on the Treasurer of the United States for the advance of such sums to the Fiscal Agent as may be necessary from the Federal Reserve Board fund.

Sec. 6. The Deputy Fiscal Agent in making disbursements of the Board upon proper vouchers out of the moneys advanced to the Fiscal Agent shall sign against funds to the official credit of the Fiscal Agent with the Treasurer of the United States in the name of the Fiscal Agent by himself as Deputy Fiscal Agent.

#### Article IX.

##### Gold Settlement Fund

and

##### Federal Reserve Agents' Fund.

All funds deposited by or for account of the respective Federal Reserve Agents in the Federal Reserve Agents' fund of the Federal Reserve Board and all funds deposited by or for account of the respective Federal Reserve Banks in the Gold Settlement Fund of the Federal Reserve Board shall be held on deposit with the Treasurer of the United States and shall be subject to withdrawal only by check of the Federal Reserve Board signed by the Secretary or an Assistant Secretary and countersigned by the Governor or acting executive officer of the Board.

#### Article X.

##### Requisition for Delivery

of

##### Federal Reserve Notes.

Requisitions upon the Comptroller of the Currency for the delivery

of Federal Reserve notes to the respective Federal Reserve Agents shall be made by the Secretary or Assistant Secretary in response only to requests made by the Federal Reserve Agents to the Board for such notes. The Secretary or Assistant Secretary shall submit daily for approval to the Governor or acting executive officer of the Board a schedule showing the amount of each denomination of Federal Reserve Notes requisitioned by him for the account of each Federal Reserve Agent.

Article XI.

The Seal.

The following is an impression of the seal adopted by the Board.

SEAL.

Article XII.

Counsel.

Sec. 1. The Board shall appoint a General Counsel whose duty it shall be to advise with the Board, or any member thereof, as to such legal questions as may arise in the conduct of its business; to prepare, at the Board's request opinions, regulations, rulings, forms and other legal papers and to perform generally such legal services as he may be called upon by the Board to perform.

Sec. 2. Subject to the direction of the Governor, the General Counsel shall have authority to correspond directly with the Counsel of the various Federal Reserve Banks and to request their opinions as to the interpretation of the local laws of the States included in their respective Federal Reserve Districts. Copies of all such correspondence shall be furnished to the Board for its information.

Sec. 3. Whenever it may be deemed advisable, the Board may appoint one or more Associate or Assistant Counsel, or one or more Assistants to Counsel. The duty of such Associate or Assistant Counsel shall be to assist the General Counsel in the performance of his duties and to perform the duty of the General Counsel in his absence. The duty of such Assistant to Counsel or Assistants to Counsel shall be to assist the General Counsel in the performance of his duties.

Sec. 4. The Board may appoint from time to time Consulting Counsel, who may be attorneys at law engaged in outside practice.

Article XIII.

Meetings.

Sec. 1. Five members of the Board shall constitute a quorum for the transaction of business.

Sec. 2. Stated meetings of the Board shall be held on such days of the week and at such hours as the Board by a majority vote may fix from time to time. One meeting day each week shall be set apart for consideration of the following matters, advance notice of not less than two days being sent to members of important questions to be taken up at the meeting:

Discount and open market matters;  
Approval of expenditures and salaries;  
Establishment of Federal Reserve Branches,  
Agencies, Currency Stations;  
Permission for establishment of member  
bank branches;  
Amendment of Board's rules and regulations;  
New policies or changes of policy;  
Such other major matters as may be reserved  
for consideration at the weekly meeting.

Sec. 3. Special meetings of the Board may be called by the Chairman or Governor or upon the written request of three members of the Board.

Sec. 4. At all meetings of the Board the following shall be the order of business:

- (1) Reading or inspection of the Minutes of the last regular meeting and Minutes of meetings of the Executive Committee.
- (2) Report of the Governor.
- (3) Report of the Secretary.
- (4) Reports of the committees or members on assigned business.
- (5) Unfinished business.
- (6) New business.

Sec. 5. No vote shall be taken or motion made by the Board at a meeting or conference when others than the members of the Board and its Secretarial staff are present.

Article XIV.

Absences.

Sec. 1. Absences of appointive members of the Board shall as far as practicable be arranged so as not to interfere with the expeditious conduct of the Board's business in Washington.

Article XV.

Information and Publication.

Sec. 1. All persons employed by the Board shall keep inviolate its business, affairs, and concerns, and shall not disclose or divulge the same to any unauthorized person whomsoever, and any employee who shall give information contrary to this by-law shall be liable to immediate dismissal. Except upon vote of the Board, no one other than a Member of the Board, or the Secretary, Assistant Secretaries, Assistant to the Governor, and General Counsel, shall be permitted to inspect any of the Board's minutes.

Sec. 2. No statements shall be made to the press expressive of the Board's policy or descriptive of its action except as authorized and approved by the Board. Such statements shall be issued only in written form and when authorized and approved they shall be issued through the office of the Governor or such other officer or member of the Board as may be specifically designated. While each member of the Board must determine for himself the propriety or necessity of expressing publicly his individual opinion on any question, members shall not quote publicly the opinion of other members on matters which have not formally been passed upon by the Board.

Sec. 3. There shall be published monthly, a bulletin to be known as "The Federal Reserve Bulletin", which shall be the official periodical organ or publication of the Federal Reserve Board.

Sec. 4. No resolutions of a personal character shall be passed by the Board on the termination of the membership of a member of the Board.

Article XVI.

Amendments.

These by-laws may be amended at any regular meeting of the Board by a majority vote of the entire Board, provided that a copy of such amendments shall have been delivered to each member at least seven days prior to such meeting.

201/20  
Prepared by Gov.  
McKinney, St. Louis  
June 4, 1933.  
Aly

The executive officers of the bank fully recognize the fact that any question relating to the advisability of reducing the scale of salaries paid by the bank involves their own salaries, a circumstance which naturally causes them to feel some hesitancy in expressing their views on the subject. Nevertheless, they recognize also that even this circumstance does not excuse them from the duty they owe to the board of directors to assist as much as possible in the task of bringing out all of the various facts and factors that have a bearing upon the question under consideration. We have already assembled and turned over to the Board's special committee a compilation of facts and figures which present a comprehensive basis for studying the present salary structure of the bank. It only remains to supplement this report with a brief outline of the views of the officers as to the fundamental principles that should be considered in connection with these facts. These views are respectfully submitted to the Board for what they may be worth and with the full knowledge that they will be given only such consideration as they may deserve.

It is the opinion of the officers of the bank that the question of effecting a general reduction in the salaries and wages of a business institution should be considered in the light of the facts and circumstances surrounding that institution's affairs. It should not be determined, in our judgment, as a result of any public pressure or clamor. Putting it another way, the compensation of officers and employees of any particular concern should not be arbitrarily reduced, as we understand has been suggested by a director of another Federal reserve bank, for the purpose of setting a precedent or giving comfort to the managers of those enterprises whose situations unhappily require such action. As a matter of fact, it is doubted if any business organization in the country whose income and dividends remain unimpaired has brought about a general reduction in wages. Moreover, no genuine benefit accrues to

8129



an enterprise, which has made such a reduction, from reductions made by other organizations. On the contrary, every reduction affects the purchasing power of the country and serves to lessen business activity. The larger the number of business organizations who are able to maintain their wage schedules the greater will be the benefit to accrue to those who found it necessary to bring about a reduction and the sooner will the latter be able to return to the pre-reduction status.

Someone has well said that there are two situations that justify a reduction of salaries. One is when an employee doesn't earn his salary and the other is when the employer can't continue to pay it. These broad principles, when applied to our situation, give rise to the following questions:

1. Have the salaries paid by this bank reached a point where they exceed the level of salaries paid by other comparable institutions for services of similar quality and quantity?

Strictly speaking, the other eleven Federal reserve banks are the only institutions in the country whose earnings, expenses and services are analogous to ours, and, therefore, the only ones whose salaries are really comparable to ours. Nevertheless, it is well worth while to make some salary comparisons in the broader, if less analogous, field occupied by the larger commercial banks of our district. These comparisons, which have been covered in detail in a separate memorandum, show that the average salaries received by the officers and employees of the comparable commercial banks are not only well up to the level of salaries in our own institution, but, when closely analyzed, if there is any advantage at all it is found to be on the side of the compensation received by officers and employees of the commercial banks. In contrast with these institutions, we find that the average officer or employee of a Federal reserve bank receives only one form of compensation for his services, namely, the actual salary that he receives. On the other hand, the compensation enjoyed by the

average individual employed in a large commercial bank takes several forms, as follows:

- (a) His salary.
- (b) Bonuses, dividends, and other forms of extra direct compensation, including in some instances participation in excess profits of the bank.
- (c) Opportunities for making profits in trading and investment transactions that arise in the normal course of his contacts with the bank's customers and the general public, including in many cases proper advisory or service relationships with other corporations and organizations, which carry fees or other compensations.
- (d) Greater opportunities for promotion to higher positions in the banking world by reason of his more intimate and frequent contacts with other commercial banks and bankers.

In addition to the foregoing, the comparison would not be complete unless it be extended to the relative demands that are made upon the earnings of Federal reserve bank people as compared with those made on commercial bank people. Commercial banks, operating under less restrictive legal regulations, are large givers to charitable, educational and religious enterprises, while Federal reserve banks are prohibited from making such donations. The result is that although commercial bank officers and employees do their share of individual giving to these causes, they are not subjected to anything like as much pressure in this connection as are those who hold positions in a bank whose restrictions are such that the bank's own funds cannot be used to aid these philanthropic enterprises. While this inequality is not of serious importance in ordinary times, it becomes a matter of considerable proportions in times of unusual distress like the present.

A further factor that deserves some consideration at this time is

the current policy with respect to salary reductions pursued by corporations other than banks. Aside from the fact that the factors which determine the policies of a Federal reserve bank in the management of its earnings are fundamentally different from those governing the policies of an ordinary commercial or industrial enterprise that is operated purely for profit, it is only fair to keep in mind the fact that during the boom days preceding the present depression the level of corporate salaries, generally speaking, followed the upward trend of corporate profits; whereas, there was no corresponding expansion of salaries in the Federal reserve banks. For example, during the four-year period from 1926 to 1930, the average salary paid to the officers of our own bank showed an average annual increase of 2.7 per cent. It might be well observed here, too, that in connection with many corporations throughout the country the reductions in salaries that have been effected have been more than offset by the benefits that have accrued to officers, and in some cases employees, in their capacities as stockholders, through the preservation of the corporations' capital structures.

2. The second important question that should be considered in connection with our salary situation is the one that applies the test of the capacity to pay. There come times when an enterprise, even though served by officers and employees who by every test deserve the salaries paid them, finds itself in such a financial condition that it is compelled to reduce salaries in order to keep its expenses within the limits of its ability to pay them. The question arises, has that point been reached by our institution? The only factor that appears to have a legitimate bearing upon this question is the interpretation that should be placed upon the laws that created our bank with particular reference to the uses and purposes of its earning power. If the purposes of the law have been fulfilled when we have accumulated a sufficient surplus of earnings to meet our obligations to member banks in the form of dividends and services, we are justified in using our accumulated earnings for the maintenance of fair salaries to our workers in years

when our current gross earnings are deficient. It seems reasonable to assume that the purpose of the law that authorizes us to build up a surplus twice the amount of our capital was, among other things, to enable us in years of large earnings to create a fund for meeting our obligations to our stockholders, including dividends and services, in years of lean earnings. If we now repudiate this policy the logical alternative would be to establish current net earnings as the governing factor of our salaries, increasing or decreasing the salary scale each year according to the annual fluctuations in our net earnings account. Such a policy, of course, while more or less followed by ordinary business enterprises, would certainly not conform to the peculiar nature of a Federal reserve bank.

3. A third question that may be worthy of some consideration, in view of present economic and political conditions, is the question whether or not, wholly aside from the considerations discussed above, it would be advisable for our bank to take some action at this time in regard to its salaries as a matter of public policy. The pressure of public opinion for retrenchments and economies in the costs of government has given rise to the belief in some quarters that the Federal reserve banks, being linked in the public mind with government institutions, are expected to get in line with the general program of salary cutting, and unless they do so will be exposed to criticism. Those, however, who see in the recent reduction of the salaries of certain employees of the Federal government a criterion that should be followed by all business institutions, including Federal reserve banks, should bear in mind two important points: First, that the reduction of salaries of Federal employees was not based on the thought that their salaries had become excessive by reason of a decline in the cost of living, but, on the contrary, it was necessitated by the very opposite situation. It grew out of the fact that one of the largest elements of the nation's cost of living, namely: taxation, had increased to such intolerable proportions that it became necessary to reduce government salaries in order to reduce the tax burden to more tolerable proportions. Another im-

portant distinction between the position of the Federal government and that of the Federal reserve banks is the fact that the government has no surplus of accumulated earnings in its Treasury available for the maintenance of its usual scale of salaries. These vital differences should be borne in mind; and yet it is the thought of the officers of the bank that if any Federal reserve bank finds upon investigation that its salaries are out of proportion to the value of the services of its officers and employees, or out of proportion to its ability to pay them, such bank should proceed to readjust its salaries to conform to the requirements of its own particular case. On the other hand, if it is decided that a reduction of salaries should be made solely as a matter of public policy, every consideration would point to the conclusion that such action should be taken concurrently by all of the Federal reserve banks, as a System matter. It seems to us that any other course of action would be ineffective, and in certain cases rather unfair. Our own institution, having reduced its general expenses this year more drastically than any other reserve bank in the System, should at least be joined by the other reserve banks before making, out of deference to outside conditions, any revision in its salaries.

In this connection, some thought may well be given to the effects that a general contraction of our payroll disbursements would have upon the public welfare. A certain financial writer has recently well said that the clerical workers of this country, the so-called "white collar" class, are now the bone and sinew of our nation's purchasing power. It seems clearly apparent that the communities in which our four offices are situated would not be benefited by a substantial curtailment of our payrolls. Any deficiency that might be caused in the earnings of our employees would multiply itself several times over in the ultimate curtailment that it would cause in the purchasing and debt-paying power of the communities in which they live.

-----  
Notwithstanding the facts heretofore referred to, that differentiate

our institution from ordinary business enterprises, and thinking alone of the general economic situation, your officers have come to the conclusion that our bank would be well justified in participating in the nationwide movement to relieve unemployment through the "share the work" plan that has been adopted by large employers of labor throughout the country, including several Federal reserve banks. Since our bank's cooperation has been requested by the national committee in charge of the movement, and since the plan, as adopted by the Federal Reserve Banks of New York and Philadelphia, has been definitely approved by the Federal Reserve Board, your officers recommend that it be put into effect by our bank for a reasonable period of time. By this means, through a moderate reduction of the salaries of our officers and employees, we could reemploy a number of our former employees whom we were compelled to release and who have not yet found connections elsewhere. These people have been tested and in most cases found competent, trustworthy, loyal and discreet. We would be safe in taking such people back temporarily into our various departments, and if it is found that we cannot meet our full requirements from the ranks of our former employees, we can undoubtedly make up the deficiency with other competent and deserving people who are filing applications with us almost daily. Such a step on our part would not contract the aggregate purchasing power growing out of our payroll, and would require only a moderate and temporary sacrifice on the part of members of our force whose individual salaries would be reduced under the plan. Unlike a general reduction of our total payroll, such a plan would have a distinctly stimulating effect upon the community and the general business situation. And for that reason your officers recommend it as an appropriate and constructive method of contributing to the public welfare.

P. 29

See 124

February 7, 1925.

The Policy of the Federal Reserve Board in the Extension of Credit to Agricultural Interests.

The rulings of the Federal Reserve Board involving extension of credit to the agricultural interests of the country have always been extremely liberal. In construing and administering the Federal Reserve Act the Board has done all that it lawfully could do to improve the credit standing and economic position of the farming interests of the country in the greatest possible degree and to place the resources of the Federal Reserve System at their disposal so far as is consistent with the principles of sound banking. The amendments to the Federal Reserve Act which have been passed for the purpose of liberalizing the extension of credit to farmers and live stock growers, cooperative marketing associations and other agricultural interests have in nearly every instance had the approval of the Federal Reserve Board. As indicative of this liberal policy toward the agricultural interests which the Federal Reserve Board has pursued since its organization a number of rulings involving the extension of credit to agriculture will be mentioned. Many of the rulings mentioned involved very close questions of law in which the decision might well have been either in favor of extension of credit to the agricultural interests or against such credits. In every case mentioned, however, the Board decided in favor of the desired credit.

133

Several rulings of the Board favoring agriculture were made as early as the year 1915, shortly after the organization of the Federal Reserve System. For example, the Board held that agricultural paper is eligible for rediscount at a Federal reserve bank, irrespective of security, provided that the direct primary purpose of the loan is to carry on the ordinary operations of agriculture. The Board also ruled that horses and mules constitute live stock within the meaning of that provision of Section 13 of the Federal Reserve Act making paper based on live stock and having a maturity not exceeding six months eligible for rediscount. It also held that six months notes given for commercial fertilizer to be used under growing crops are eligible as agricultural paper, and further that notes made by a farmer in payment or part payment of mules to be used on his farm are agricultural paper which may be rediscounted with maturities up to six months. At the time these rulings were made the limitation upon the maturity of agricultural paper eligible for rediscount at a Federal reserve bank was six months; this has since been increased to nine months by an amendment to the Federal Reserve Act.

The favorable rulings made by the Board in 1915 seem to have been precedents for the liberal policy which the Board has pursued with reference to agricultural interests since that time. The following paragraphs are synopses of various rulings which the Board has made since 1915, showing the liberal attitude the Board has adopted toward the agricultural interests in interpreting and construing the Federal Reserve Act:



Agricultural implement paper. Notes given by farmers in payment for agricultural implements to be used on the farm are eligible for rediscount as agricultural paper. A bill drawn by a dealer on a farmer in payment for agricultural implements purchased by the farmer is a bill that has been "drawn or issued for agricultural purposes or the proceeds of which have been or are to be used for agricultural purposes", and agricultural implements which wear out rapidly and in most cases have to be replaced within a comparatively short time are not to be considered as permanent or fixed investments. Notes of a farmer and bills drawn by implement dealers on a farmer against the sale to him of agricultural implements are therefore eligible for rediscount as agricultural paper. But notes of a dealer or merchant which are given for the purchase of articles intended for use in agriculture, to be later retailed or sold, are not agriculture paper and hence cannot be discounted by a Federal reserve bank if they have a maturity at the time of discount of more than 90 days.

Cattle Paper. Cows. A note issued by a farmer and discounted by him at a bank, the proceeds of which are used for the purchase of cows which will be retained for a considerable length of time to produce milk, butter, cheese, etc., is eligible for rediscount as a note drawn for agricultural purposes or based on live stock since live stock includes cows.

Cattle Paper. Loans on cattle for breeding, raising, or fattening may be made under the classification of agricultural paper which may be rediscounted as such with the Federal reserve bank.

Cattle Paper. A loan made by a member bank in good faith to a farmer for the purpose of assisting him to produce a crop or to fatten his cattle will be eligible for rediscount as agricultural paper by a Federal reserve bank whether secured by a mortgage or not.

Tractors used in agricultural operations.

Notes given for the purchase price of tractors which are to be resold may be discounted as commercial paper and notes given for the purchase price of tractors which are not to be resold, but are to be used for an agricultural purpose, may be discounted as agricultural paper, since a tractor, although its use is extended over several seasons, is not classed as a fixed investment, but, like horses and mules is considered as being used for current agricultural purposes.

Notes of farmers for commodities used in farming. Where a farmer makes his note payable to the seller of a commodity and actually uses the commodity for agricultural purposes, such a note may be treated as agricultural paper, whether discounted with a member bank by the farmer as the maker, or by the seller as the indorser; and where the farmer makes his note payable to the member bank and uses the proceeds for an agricultural purpose, such note is likewise eligible as agricultural paper. If, however, the farmer does not use or intend to use the commodity for an agricultural purpose, although it is capable of being so used, the note in question may be treated as commercial paper and may be rediscounted only if it has a maturity of 90 days or less.

Notes for purchase price of commodities used for agricultural purposes. A note given for the purchase price of a commodity can be classed as agricultural paper eligible for rediscount when having a maturity in excess of 90 days, if the maker is to use the commodity for an agricultural purpose, regardless of whether the note is discounted by the maker or by the indorser.

Notes for draining and tilling farm land.

Where land to be drained is already in use as farm land, the draining may be treated as incidental to the cultivation of the land, and notes the proceeds of which are used for draining purposes are eligible as agricultural paper. Notes the proceeds of which are used for tilling farm lands are clearly agricultural paper.

Drafts of growers accepted by cooperative marketing associations. Tobacco growers deliver tobacco to their cooperative marketing associations, to be sold in due course, each grower receiving a distributive share of the proceeds of the sales. To finance themselves the growers obtain advances from the association by drawing drafts on it and discounting them after acceptance by the association. If the proceeds of such drafts are used by the growers for agricultural purposes, the drafts are eligible as agricultural paper. If the delivery of the tobacco to the association amounted to a sale thereof, and the drafts were drawn to pay for the tobacco, the original negotiation of the drafts would have been for a commercial purpose and would have precluded them from being eligible as agricultural paper; (Note. Under the law as amended March 4, 1923, drafts drawn and accepted for such a purpose are expressly made eligible as agricultural paper) but under the facts stated the association does not purchase the tobacco, but merely loans its credit in making the acceptances, and the original negotiation of the drafts is their discount by the growers.

Drafts of growers accepted by cooperative associations - Carrying crops as agricultural purpose. As held in the ruling last mentioned, drafts drawn upon the association, accepted by it and discounted by the growers at their banks, are eligible for rediscount as agricultural paper if the proceeds are used by the growers for an agricultural purpose. If the growers use the proceeds to pay obligations previously incurred by them in growing and harvesting their crops, this may be considered an agricultural purpose, in that it enables the grower to meet his obligations without selling his crop immediately, and thus he uses the proceeds specified in the Board's Regulation A as constituting eligibility. If, however, the crops are held for speculative purposes, rather than carried pending the orderly marketing thereof, drafts drawn to finance the growers would be ineligible. The dividing line between legitimate carrying and speculative withholding involves a question of fact to be determined by the lending banks.

In 1923 the Board published a summary of its rulings affecting the rediscount and purchase by Federal reserve banks of cooperative marketing association paper. In this summary were contained a number of rulings favorable to such cooperative marketing associations. Some of these rulings have been mentioned above. The others are shown in brief form in the following paragraphs.

Drafts drawn on and accepted by cooperative marketing associations. Where a member of a cooperative marketing association doing business in the manner described delivers his crop to the association and at substantially the same time drafts a draft on the association, which is accepted by it and discounted by the drawer at his own bank, such a draft is a bill of exchange drawn against actually existing values within the meaning of the fourth paragraph of section 13 and is therefore excepted from the limitation prescribed therein on the aggregate amount of paper of any one borrower, which a Federal reserve bank may rediscount from any one member bank.

Notes and drafts of associations for funds to finance packing and marketing products of their members may be eligible for discount as agricultural paper.

Notes and drafts of associations for funds to pay for products purchased from their members may be eligible for discount as agricultural paper.

Notes and drafts of associations for funds to advance to their members for an agricultural purpose may be eligible for discount as agricultural paper.

Bankers' acceptances drawn by associations for agricultural purposes are eligible for acceptance and discount with maturities up to six months when secured by warehouse receipts covering readily marketable staples.

In 1922 the Board amended its Regulation B so as to permit Federal reserve banks to purchase in the open market bankers' acceptances with maturities not in excess of six months, which are drawn by growers or by cooperative marketing associations composed exclusively of growers of non-perishable 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 similar receipts issued by parties independent of the borrowers conveying security title to such products. In transmitting this regulation as amended in this respect, the Board stated that it "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 regulation of 1922 was superseded by Regulation B of 1923 which contains even more liberal provisions along this line, to accord with the changes in the Federal Reserve Act made by the amendment of March 4, 1923.

C133

*See No*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

April 10, 1920.

X-1894

Subject: Deficiencies in Reserves.

Dear Sir:-

The attention of the Federal Reserve Board has been directed to the fact that there is some slight confusion in the method employed by different Federal Reserve Banks in determining the amounts of their gold reserves against note and deposit liabilities.

There is enclosed, herewith, for your information an opinion filed by Counsel, dealing with the general subject of deficiencies in reserves and the rights and obligations of the Federal Reserve Banks in the matter of allocating their gold assets against deposit and note liabilities.

Yours very truly,

Governor.

To Chairmen of all F.R. Banks.

*P. 139*

March 5, 1920.

To: Federal Reserve Board

From: Mr. Harrison

Subject: Deficiencies in reserves.

Upon the request of the Federal Reserve Board I wish to confirm in writing a statement which I made orally to the Board at its meeting on February 26th, with reference to the allocation of its gold reserves against deposit and note liabilities and with reference to the tax upon the deficiency in reserves against either of those liabilities.

The question first presented is whether a Federal Reserve bank whose total reserves against the aggregate of note and deposit liabilities is below the minimum requirements may allocate its gold assets in such a manner that its reserves against notes are maintained at 40 per cent while its reserves against deposits fall below 35 per cent.

A study of the provisions of Section 16 of the Federal Reserve Act indicates that beyond a doubt a Federal reserve bank may maintain its 40 per cent reserves against Federal Reserve notes even though the reserves against deposits may, as a result, fall below the 35 per cent limit. Paragraph 3 of Section 16, which fixes the minimum reserve requirements against both note and deposit liabilities, provides "that when the Federal Reserve Agent holds gold or gold certificates as collateral for Federal Reserve notes issued to the bank, such gold or gold certificates shall be counted as part of the gold reserves which such bank is required to maintain against its Federal reserve notes in actual circulation." Under the terms of this paragraph all gold or gold certificates held by a Federal Reserve Agent as collateral for outstanding notes must

necessarily be counted as reserves against those outstanding notes and cannot lawfully be considered as part of the reserve against deposits.

So, also, Section 16 provides in next to the last paragraph that -

"Gold deposits standing to the credit of any Federal reserve bank with the Federal Reserve Board shall, at the option of said bank, be counted as part of the lawful reserve which it is required to maintain against outstanding Federal reserve notes, or as part of the reserve it is required to maintain against deposits."

Under the terms of this clause the Federal reserve bank is granted express authority at its own option to count credits in the gold Settlement Fund as a part of the reserves which it is required to maintain against Federal reserve notes.

There is no express provision in the law itself conferring upon the bank the right to allocate the free gold held by it (that is, gold not with the Federal reserve agent and not with the Gold Settlement Fund) as a part of its reserve against Federal reserve notes instead of as a part of its reserves against deposits. It is believed, however, that that option must exist since for all practical purposes the same result may be attained under those other sections of the law previously referred to. In other words, inasmuch as the bank is authorized to procure Federal reserve notes from the Federal reserve agent upon the deposit of as much as 100 per cent gold, and inasmuch as all deposits with the Federal reserve agent must necessarily count as part of the reserves to be maintained against notes outstanding, the Federal reserve bank may always maintain its reserves against notes at the expense of its deposit reserve account by transferring free gold to the Federal reserve agent as collateral for outstanding notes. It then automatically becomes a part of the reserve against



notes. The bank may also accomplish this same purpose by depositing free gold in the Gold Settlement Fund since credits in the Gold Settlement Fund may by law, at the option of the bank, be counted either as reserve against notes or as reserve against deposits. In view of these facts it would seem to be futile to deny the right of the bank to consider free gold in its vaults as reserve against notes even though to do so results in a deficiency in the reserve against deposits.

Assuming this to be true, the sole question to be considered is whether the Federal Reserve Board is required to impose a tax upon the deficiency in reserves against deposits.

Section 11 (c) provides:

"To suspend for a period not exceeding thirty days, and from time to time to renew such suspension for periods not exceeding fifteen days, any reserve requirements specified in this Act: PROVIDED, That it shall establish a graduated tax upon the amounts by which the reserve requirements of this Act may be permitted to fall below the level hereinafter specified, AND PROVIDED FURTHER, That when the gold reserve held against Federal reserve notes falls below forty per centum, the Federal Reserve Board shall establish a graduated tax of not more than one per centum per annum upon such deficiency until the reserves fall to thirty-two and one-half per centum, and when said reserve falls below thirty-two and one-half per centum, a tax at the rate increasingly of not less than one and one-half per centum per annum upon each two and one-half per centum or fraction thereof that such reserve falls below thirty-two and one-half per centum. The tax shall be paid by the reserve bank, but the reserve bank shall add an amount equal to said tax to the rates of interest and discount fixed by the Federal Reserve Board."

Two questions are presented in connection with the construction of this paragraph, (1) whether the Federal Reserve Board is obliged to establish a graduated tax upon the amounts by which the Federal reserve bank reserves against deposits fall below the required minimum, and (2) if so, whether the amount of the tax shall be added to the rates of discount fixed by the Federal Reserve Board.

The first proviso of Sub-section (c) requires that the Federal

Reserve Board shall establish a graduated tax upon the amounts by which "the reserve requirements of this Act" may be permitted to fall below the specified levels. There is little doubt that the law which uses the obligatory "shall", and not the optional "may", imposes upon the Federal Reserve Board an obligation to establish a graduated tax upon the deficiency in the reserves against Federal Reserve Bank deposits since that is one of the "reserve requirements of this Act". This tax, however, may be fixed at any amount, large or small, that the Board deems to be advisable. Technically, it may even be an infinitesimal amount. It must, however, be a graduated tax based upon the amount of the deficiency in the reserves.

There is nothing in the law specifying to whom such a tax must be paid. In the case of a member bank it is paid to the Federal Reserve Bank, but in the case of a Federal Reserve Bank there is no one to whom the tax could reasonably be paid other than to the Government. But if paid to the Government, it would amount in substance to a tax upon the Government's own equity in the Federal Reserve Bank's surplus. The decisions of the Supreme Court have frequently held that no Federal tax law should be construed to impose a tax upon the Government itself and it might by analogy be argued with some force that Congress did not intend to require the Federal Reserve Bank to pay a tax, even though in the nature of a penalty, to the Government out of a fund which, in the final analysis, belongs to the Government.

It would seem however, that although there is nothing in the law to indicate that the tax should be paid to the Government, and although, as suggested above, it is perhaps illogical to require the Federal Reserve Bank to pay a tax to the Government out of its surplus, nevertheless, if any effect is to be given to those provisions of the law imposing the tax, the Government is the only logical payee, and if imposed, it is

believed that it would have to be paid in that manner. These inconsistencies are referred to only for the purpose of emphasizing the fact that this section is not in its entirety susceptible of any complete or satisfactory construction.

The remaining question for consideration is whether the imposition of such a tax upon the deficiency in the reserves against deposits must necessitate a corresponding increase in the rate of discount fixed by the Federal Reserve Board. Upon this question there can be little doubt since the phrase requiring the increase in discount rates is not a part of the first proviso of Sub-section (c) which provides for the tax upon the deficiency in reserves against deposits, but instead is enacted as a part of the second proviso of that paragraph which relates solely to the tax upon the deficiency in reserves against Federal reserve notes. It might be contended that the last sentence of sub-paragraph (c) refers back to the first proviso as well as to the second proviso but that is a position which it would be difficult to sustain.

In the first place, sub-section (c) of Section 11 as originally passed by the House contained only one proviso which read as follows:

"Provided that it shall establish a graduated tax upon the amounts by which the reserve requirements of this Act may be permitted to fall below the level hereinafter specified, such tax to be uniform in its application to all banks, but said Board shall not suspend the reserve requirements with reference to Federal Reserve notes."

When the bill was passed by the Senate the first part of this proviso was left substantially as it reads above but the requirement that the Board "shall not suspend the reserve requirements with reference to Federal reserve notes" was struck out and the present second proviso was inserted in lieu thereof. It is this second proviso, imposing an automatic graduated tax upon the deficiency in the reserves against notes, that contains the clause requiring the reserve bank to "add an amount

equal to said tax to the rates of interest and discount fixed by the Federal Reserve Board." Inasmuch as that clause was enacted at the same time, and as a part of, the present second proviso, and inasmuch as the two together were substituted for that part of the House bill prohibiting a suspension of reserves against notes, the logical inference is that the automatic increase in discount rates results only in the case of a tax upon a deficiency in the reserves against Federal reserve notes and not in the case of a tax upon a deficiency in the reserves against deposits. But even if the legislative history of this section leaves any doubt as to its meaning, nevertheless, the context of the section as a whole precludes the possibility of any other construction.

The first proviso provides for the establishment of a graduated tax upon the deficiency in any of the reserve requirements of the Act other than those relating to Federal Reserve notes which are expressly covered in the second proviso. That being so, if the last sentence of sub-section (c), providing for the automatic increase in the discount rates equal to the amount of tax upon deficiency in reserves should be construed to apply to the first proviso, then a deficiency in the reserves of any member bank would necessitate an increase in the discount rates since member banks' reserves are one of the reserve requirements of the Act. Any increase in the discount rates, regardless of the cause, would be applicable to all member banks alike. It is certain that no such result could have been contemplated by Congress.

Aside from the provisions of the paragraph under consideration, and independently of the question of the tax upon deficiencies in reserve, the Federal Reserve Board, of course, has power to determine rates of discount for each class of paper and that power would in itself include the power to nullify any automatic increase resulting from a

deficiency in reserves against deposits, even if a contrary interpretation of the law, discussed in this memorandum, could be supported.

In conclusion, it is the opinion of this office, first, that a Federal reserve bank may allocate its free gold in such a way as to maintain its reserves against notes at a minimum of 40 per cent even though that results in a deficiency in reserves against deposits; second, that the Federal Reserve Board is required by law to establish a graduated tax upon deficiencies in reserves against deposits although that tax may be made so small as to be practically negligible; and third, that a tax upon deficiencies in reserves against deposits does not result in an automatic increase in the rates of discount fixed by the Federal Reserve Board.

Respectfully,

GEORGE L. HARRISON.

General Counsel.

139

Sen Ba

THE WHITE HOUSE

Washington

February 22, 1933

Gentlemen:

I wish to leave no stone unturned for constructive action during the present crisis. Without being technical in regard to the provisions of the law, it is obvious that the Federal Reserve Board has a great responsibility in the control and management of the currency. It is obvious that hoarding of currency, and to some minor extent of gold, has now risen to unprecedented dimensions, and this, together with the evidence that our own people are showing of a disposition to export their capital, has become a threat to public interest.

I should like to be advised by the Board as to whether the Board considers that the situation is one that has reached a public danger and whether the Board considers the Federal Reserve System can protect the public interest, or whether the Board considers any measures should be undertaken at this juncture and especially what, if any, further authority should be obtained.

Yours faithfully,

(Signed) Herbert Hoover

The Governor and Members  
of the Federal Reserve Board,  
Washington, D. C.

C O P Y

VOLUME 238  
PAGE 142

B 142