

The Papers of Charles Hamlin (mss24661)

369_12_001-

Hamlin, Charles S., Scrap Book – Volume 263, FRBoard Members

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Scrap Book - Volume 263
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CONFIDENTIAL (F.R.)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date August 12, 1941

To The Files

Subject: _____

From Mr. Coe

MPC.

After correspondence with Mrs. Hamlin (see letters of May 25 and June 4, 1941) the items attached hereto and listed below, because of their possible confidential character, were taken from Volume 263 of Mr. Hamlin's scrap book and placed in the Board's files:

VOLUME 263

- Page 17 - Correspondence with Senator Glass re F.R. Building.
- Page 24 - Memo to Mr. Carpenter giving data re membership of F.R. System.
- Page 30 - Memo to Mr. Wyatt re Federal Reserve Bank loans on member bank promissory notes.
- Page 37 - Industrial Advances by F.R. Banks - July 17, 1935.
- Page 49 - Memo to Mr. Morrill from Mr. Smead re Treasury's request that gold certificates held by the bank be sent in to the Treasury for cancellation.
- Page 55 - Memo to Board from Mr. Hammond re Affiliates of member banks.
- Page 61 - Memo giving data re open market policy. (Copies of minutes of Board)
- Page 70 - Earnings and Expenses of F.R. Banks, July 1935.
- Page 73 - Open Market Operations of the Federal Reserve System.
- Page 77 - Data re Board membership - Assignment of subjects to Board members for primary responsibility.
- Page 79 - Illustrations of the kinds of ineligible paper which could be made eligible under Section 206 of the Banking Act of 1935.
- Page 82 - Memo to Mr. Hamlin from Mr. Goldenweiser re amount of munitions exported during war.
- Page 89 - Section 5 of Glass banking act -- data re.
- Page 91 - Memo to Mr. Hamlin from Mr. Wyatt re status of the provisions of the Banking Act of 1935.
- Page 95 - Memo to Mr. Hamlin from Mr. Morrill re hearings on Glass Bill, S. 4115.
- Page 121 - Memo to Mr. Hamlin from Mr. Goldenweiser re methods of operation of the Bank of England, the Bank of France, the Reichsbank, and Bank of Canada.
- Page 137 - Memo to Mr. Hamlin from Mr. Goldenweiser re Mr. Willis' Proposals in 1923 for amendments to the F.R. Act considered in the light of developments during the period 1923-1928.

COPY

UNITED STATES SENATE

February 16, 1935.

Dear Mr. Hamlin:

I have yours of February 13, and regret that you and Dr. Miller have no recollection of distinctly assuring me that the firm of Carneal, Johnston & Wright, of Richmond, Virginia, would be included in the list of ten architectural concerns which would be invited to bid on the new Federal Reserve Board building. My recollection of the incident is very clear, and on the same day that I visited your office on the subject I wrote Mr. Carneal that I had received the assurance indicated.

Very truly yours,

(Signed) Carter Glass.

Honorable C. S. Hamlin,
Federal Reserve Board,
Washington, D. C.

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C O P Y

February 13, 1935.

Honorable Carter Glass,
United States Senate,
Washington, D. C.

My dear Senator Glass:

I have your memorandum in regard to Carneal, Johnston & Wright, of Richmond, and in accordance with your request return herewith for your files their letter of February 8.

I have discussed the matter with Dr. Miller who is the Chairman of the Board's Committee on the new building and while of course we both recall that you asked us to consider this firm and we assured you that its application would be considered, we have no recollection of promising that it would be included among the competitors. This was before the final determination of the Board to ask Mr. Meeks and the Chairman of the Fine Arts Commission to advise us as to the best names for the competition. In this connection I may say that, while the qualifications of all the applicants have been carefully considered, those of Carneal, Johnston & Wright were given special attention and it appeared that their qualifications are primarily along engineering lines rather than those of architectural design. It was noted particularly that they voluntarily suggested that their capacities be utilized in association with some other firm of architects that had outstanding experience in aesthetic design and you may recall that such a suggestion was included in their letter of October 31 which you brought to the attention of Dr. Miller. Similar suggestions were also received from other applicants.

A very large number of applications were filed with us and numerous people wrote us letters and called upon us for the purpose of urging the qualifications

of particular applicants. After considering the situation at length we felt that we were not in a position to pass upon the relative merits of all the applicants and we submitted all the applications to our professional adviser, Mr. Everett V. Meeks, Dean of the School of the Fine Arts in Yale University. At the Board's suggestion he consulted with Mr. Charles Moore, Chairman of the Fine Arts Commission, as to the best procedure for us to follow. They recommended that we invite a limited number of the best qualified architects with national reputations to participate in the competition and pointed out a number of practical reasons in support of their recommendation. As the members of the Board did not feel that they were qualified to undertake the choose the architects who should be included in the list, Mr. Moore was asked to give the Board the benefit of his judgment as to the architects who should be invited to participate. In response to this request, Mr. Moore submitted a list and the architects to whom the Board sent its program and invitation to compete are the first nine on that list.

You may not be aware that the conditions under which the Board acquired the site on Constitution Avenue, among other things, required approval of the National Capital Park and Planning Commission and the Fine Arts Commission in respect to certain features of the building project, including height and exterior design. This was an added reason for asking for a recommendation from Mr. Moore in regard to the selection of a list of architects for the approval of the Federal Reserve Board.

The whole matter has consumed a great deal of time and thought on the part of the Board and the course of procedure adopted was one which we felt on the whole would be the most practical solution of the problem.

With kindest personal regards,
Sincerely yours, C. S. Hamlin.

CARNEAL, JOHNSTON & WRIGHT

RICHMOND, VA.

February 8, 1935.

Hon. Carter Glass,
Senate Office Building,
Washington, D. C.

Re: Federal Reserve Bank

Dear Senator:

We noted with a great deal of interest in the New York Times of last Tuesday, February 5th, that the proposed Federal reserve bank is taking shape, and that the Bank has employed Mr. Everett V. Meeks, Dean of the School of Fine Arts of Yale, to prepare a schedule of competition, and he has been retained as professional adviser.

This schedule has been approved by the Fine Arts Commission and the National Capital Park & Planning Commission, also the American Institute of Architects.

A jury of award has been selected composed of three architects, Mr. John W. Cross of New York City, Mr. William Emerson of Boston, and Mr. John Mead Howells of New York City, and two other members who are Mr. Frederic A. Delano, Chairman of the National Capital Park & Planning Commission, and Dr. Miller. This group has invited the following architects to submit designs:

Arthur Brown, Jr. - San Francisco
Coolidge, Shepley, Bulfinch & Abbott, Boston
Paul Philippe Cret, Philadelphia
Delano & Aldrich - New York City
Holabird & Root - Chicago
John Russell Pope - New York City
James Gamble Rogers - New York City
Egerton Swartwout - New York City
York & Sawyer - New York City

It is interesting to note that the procedure followed in Washington in the past is still continued in that the invited competitors are five from New York City, one from Philadelphia, one from Boston, one from Chicago, and one from San Francisco, and that property bounded by the Potomac on the north and the Mississippi on the west is not recognized now, or has it ever been in the past.

There surely must be some architects in this territory who are qualified and have demonstrated that they are, but the pitiful part is that they are not recognized in Washington. There are certainly eminent Doctors, lawyers, engineers and industrialists in this section, and this section certainly does

grow some few architects.

Please believe me when I say that our entire official family, as well as our fellow architects who happen to dwell in this forbidden territory, deeply appreciate your efforts, and perhaps if we keep on trying this section will certainly sooner or later break through.

Very sincerely yours,

(Signed) W. L. Carneal.

Office Correspondence

FEDERAL RESERVE
BOARDDate June 1, 1935. See No

To Mr. Carpenter

Subject: _____

From Mr. Thompson

16-852

In accordance with the request contained in Mr. Hamlin's memorandum of May 29, there are submitted below answers to his questions in the order in which they were submitted:

Number of National banks as of 3/4/35		5,446
Number of State member banks as of 3/4/35		976
Number of State nonmember banks as of 6/30/34:		
	Mutual savings	578
	Others	<u>8,882</u>
		<u>9,460</u>
	Total	<u>15,882</u>
		(in thousands of dollars)
Total assets of National banks as of 3/4/35		\$25,912,114
Total assets of State member banks as of 3/4/35		<u>14,356,043</u>
	Total	<u>\$40,268,157</u>
Percentage of National bank assets to total assets of all National and State member banks		64.3%
		(in thousands of dollars)
Deposits of State member banks as of 6/30/34		\$11,116,470
Deposits of State nonmember banks as of 6/30/34:		
	Mutual savings	\$9,780,000
	Others	<u>5,462,000</u>
		<u>15,242,000</u>
	Total	<u>\$26,358,470</u>
Percentage of deposits of State member banks to deposits of all State banks		42.2%

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Office Correspondence

FEDERAL RESERVE
BOARDDate June 17, 1935. See 121

To Mr. Wyatt, General Counsel
 From Wilson L. Hooff, Law Clerk.

Subject: Federal Reserve Bank
 Loans on Member Bank
 Promissory Notes.

16-852

The bill H.R. 6454 as introduced June 26, 1913, by Mr. Glass and which subsequently became the Federal Reserve Act, contained the following section:

"Sec. 14. Whenever in the opinion of the Federal Reserve Board the public interest so requires, the Federal Reserve Board may authorize the reserve bank of the district to discount the direct obligations of member banks, secured by the pledge and deposit of satisfactory securities; but in no case shall the amount so loaned by a Federal reserve bank exceed three-fourths of the actual value of the securities so pledged or one-half the amount of the paid-up and unimpaired capital of the member bank."

This bill was reintroduced by Mr. Glass as H.R. 7837 and bore that number until its final enactment into law. This second bill as passed by the House did not provide for loans by Federal Reserve banks to member banks upon their promissory notes.

The following paragraph was added to section 13 of H.R. 7837 by the Senate Banking and Currency Committee and became a part of the bill as passed by the Senate:

"The Federal Reserve Board may authorize the reserve bank of the district to discount the direct obligations of member banks, secured by the pledge and deposit of satisfactory securities; but in no case shall the amount so loaned by a Federal reserve bank exceed three-fourths of the actual value of the securities so pledged."

The Conferees struck out this paragraph and the Federal Reserve Act as originally enacted December 23, 1913, did not contain a provision authorizing such loans.

W. L. Hooff

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Sum

INDUSTRIAL ADVANCES BY FEDERAL RESERVE BANKS -- SUMMARY OF APPLICATIONS, APPROVALS, REJECTIONS AND COMMITMENTS, TO JULY 17, 1935

B-816

(Not for publication)

(Amounts in thousands of dollars)

Federal Reserve Bank	Applications received - net				Applications recommended for approval (with and without conditions) by Ind. Advisory Com.		Applications approved by Federal Reserve Bank				Rejections of applications					
	By Industrial Advisory Committee		By F.R. Bank from Industrial Adv. Committee*		Number	Amount	Total		Finally approved		Conditionally approved		Recommended by Industrial Advisory Committee		By Federal Reserve bank	
	Number	Amount	Number	Amount			Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Boston	383	21,693	355	20,156	131	9,423	88	6,551	85	6,486	3	65	243	11,327	256	11,943
New York	811	59,435	773	52,727	287	25,440	301	26,999	262	22,525	39	4,474	495	32,455	454	24,409
Philadelphia	454	27,741	435	26,355	148	15,262	114	15,558	89	9,403	25	6,155	294	12,007	319	10,472
Cleveland	524	16,252	513	15,115	149	6,703	131	5,940	83	4,021	48	1,919	365	8,400	382	9,175
Richmond	470	19,366	458	18,018	148	9,343	145	9,207	118	7,750	27	1,457	310	8,867	313	8,810
Atlanta	442	10,865	428	10,272	148	3,817	141	3,536	103	2,188	38	1,348	282	6,855	286	6,710
Chicago	878	38,719	843	35,994	123	9,061	96	6,208	68	4,447	28	1,761	731	28,046	742	29,557
St. Louis	298	10,621	295	10,424	102	5,062	101	5,070	83	3,709	18	1,361	193	5,472	194	5,354
Minneapolis	901	17,000	868	16,309	250	5,958	221	4,797	134	3,208	87	1,589	626	10,637	643	11,173
Kansas City	328	10,832	315	10,174	71	5,456	65	5,167	55	4,743	10	424	250	5,007	250	5,007
Dallas	409	10,322	399	10,074	96	3,898	91	3,694	81	2,805	10	889	305	6,277	308	6,379
San Francisco	867	25,169	811	23,037	219	8,538	205	8,457	174	6,584	31	1,873	592	14,020	595	13,973
Total	6,765	268,015	6,493	248,655	1,872	107,961	1,699	101,184	1,335	77,869	364	23,315	4,686	149,370	4,742	142,962

Federal Reserve Bank	Applications under consideration				Distribution of amounts finally approved by Federal Reserve bank								Financing institution guarantees
	By Industrial Advisory Committee		By Federal Reserve bank		Total	Federal Reserve bank participations				Financing institution participations			
	Number	Amount	Number	Amount		Outstanding		Advances re-paid	In process of completion		Withdrawn, reduced, or expired (unused)		
					Advances	Commitments		Advances	Commitments				
Boston	9	942	11	1,663	6,486	2,261	2,885	337	--	--	853	150	902
New York	29	1,540	18	1,319	22,525	6,901	8,060	410	878	1,638	3,251	1,387	4,800
Philadelphia	12	473	2	325	9,403	3,682	785	1,634	1,353	75	502	1,372	68
Cleveland	10	1,149	--	--	4,021	1,541	1,465	174	--	--	257	584	--
Richmond	12	1,156	--	--	7,750	4,519	1,816	329	247	14	264	561	97
Atlanta	12	193	1	25	2,188	1,071	665	324	2	--	85	41	163
Chicago	24	1,613	5	228	4,447	1,971	514	395	85	60	884	538	--
St. Louis	3	87	--	--	3,709	472	1,903	239	--	--	820	275	676
Minneapolis	25	405	4	339	3,208	2,052	150	457	178	16	24	331	--
Kansas City	7	370	--	--	4,743	1,165	243	191	60	950	461	1,673	6
Dallas	8	147	--	--	2,805	1,854	448	91	39	--	53	320	--
San Francisco	56	2,611	11	607	6,584	779	2,762	52	280	1,614	616	481	1,302
Total	207	10,686	52	4,506	77,869	28,268	21,696	4,633	3,122	4,367	8,070	7,713	8,014

*Applications acted on by Industrial Advisory Committee adjusted for changes in amount applied for and for withdrawals before approval or rejection by F.R. bank.

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS

JULY 23, 1935

VOLUME 263
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CLASSIFICATION OF APPLICATIONS FOR INDUSTRIAL LOANS REJECTED BY FEDERAL RESERVE BANKS, TO JULY 17, 1935

(Amounts in thousands of dollars)

(B-816-a)

(Not for publication)

Federal Reserve Bank	Total applications rejected		Reasons for rejections														Total, including duplications			
			Ineligible				Unsatisfactory financial condition		Unsatisfactory business prospects		Unsatisfactory management		Insufficient security		Rejected for other reasons					
			Not establish- ed industrial or commercial enterprises		Not for working capital		Otherwise ineligible		No.	Amount	No.	Amount	No.	Amount	No.	Amount			No.	Amount
No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	
Boston	256	11,943	3	30	38	5,005	1	15	198	5,669	30	5,224	9	312	223	8,134	15	726	517	25,115
New York	454	24,409	44	1,985	21	1,077	--	--	443	19,005	330	13,434	262	10,248	422	15,766	--	--	1,522	61,515
Philadelphia	319	10,472	9	451	19	829	2	53	76	3,130	142	5,052	8	176	167	4,016	19	581	442	14,288
Cleveland	382	9,175	22	496	66	2,126	3	448	166	3,564	169	5,084	25	687	279	5,467	42	547	772	18,419
Richmond	313	8,810	20	672	48	1,730	6	33	153	3,878	105	4,502	4	625	249	6,748	2	7	587	18,195
Atlanta	286	6,710	6	180	59	1,776	6	35	21	770	34	992	55	1,748	242	5,290	115	2,979	538	13,770
Chicago	742	29,557	85	2,601	155	8,457	2	300	349	9,805	19	764	20	2,339	410	14,189	76	4,358	1,116	42,813
St. Louis	194	5,354	16	548	28	1,342	--	--	120	1,876	43	1,766	7	240	111	1,900	60	1,196	385	8,868
Minneapolis	643	11,173	35	1,308	107	2,674	5	112	48	859	140	2,323	32	724	308	3,457	13	510	688	11,967
Kansas City	250	5,007	13	917	166	4,139	--	--	79	1,026	113	2,041	6	129	94	848	132	2,917	603	12,017
Dallas	308	6,379	9	224	69	2,171	3	133	190	3,897	44	2,140	5	355	251	4,187	1	1	572	13,108
San Francisco	595	13,973	38	2,190	44	1,547	3	38	285	6,089	5	113	4	513	538	11,604	506	10,781	1,423	32,875
Total, all Districts	4,742	142,962	300	11,602	820	32,873	31	1,167	2,128	59,568	1,174	43,435	437	18,096	3,294	81,606	981	24,603	9,165	272,950

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
JULY 23, 1935

SaPa

To Mr. Morrill

July 24, 1935.

From Mr. Smead

Attached is a letter from Mr. Stevens, Federal Reserve Agent at Chicago, with respect to the action taken by the Executive Committee of the bank on the Treasury's request that gold certificates held by the bank be sent in to the Treasury for cancellation and redemption.

You will note that, on the basis of counsel's opinion, the Executive Committee felt that it was proper to acquiesce in the request of the Treasury Department as to gold certificates which were received at the Federal Reserve banks subsequent to April 5, 1933, the date of the President's executive order, which required banking institutions and others to surrender gold and gold certificates, but that the Federal Reserve banks should not acquiesce in the Treasury's request for the surrender for cancellation and redemption of gold certificates held by the bank prior to April 5, 1933.

Reports received from the Federal Reserve banks indicate that on July 18, 1935, the Federal Reserve banks of New York, Philadelphia, Cleveland and Chicago held \$654,993,000 of gold certificates of the old series, and that of this total all but \$74,367,000 were held by the Federal Reserve agents. The Havana agency held \$42,000, representing current accumulations which are returned to the Treasury as soon as a sufficient volume has been received to warrant shipment. None of the other Federal Reserve banks held any such certificates. *

I understand from New York that Governor Harrison expects to be in Washington this week and that he will take the question of the return of the gold certificates to the Treasury up with the Board and perhaps with the Treasury Department.

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* Statement attached.

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COPY

FEDERAL RESERVE BANK OF CHICAGO

July 12, 1935

Federal Reserve Board

Washington, D. C.

Gentlemen:

This is to advise you that at a meeting of the executive committee of this bank today, the Chairman reviewed again the questions concerning the cancellation and redemption of all the old form of gold certificates held by this bank as requested in the telegram from the Treasury Department on January 26, 1935.

On February 1, 1935, the executive committee of this bank authorized the officers of the bank to comply with the instructions as noted and, thereafter, between February 14, 1935, and March 6, 1935, a total of \$77,572,000 of such old form gold certificates were shipped for cancellation under instructions of the Treasury Department.

The writer returned from his holiday on March 3, and the question arose as to whether the telegram from the Treasury Department constituted sufficient authority to this bank and to the Federal Reserve Agent to make such shipments without further instructions and authorization from the Federal Reserve Board. He telephoned on March 6 to Mr. Morrill, asking the Board's position in the matter, and was advised that a number of the banks were not cancelling such certificates as suggested, but that the matter would be looked into further. On April 25, he telephoned Mr. Morrill again that we had heard nothing further from the Treasury Department notwithstanding the fact that we had discontinued the shipment of certificates, and neither had we heard further from the Board.

The writer thereupon took up the matter with the New York Federal Reserve bank as to what their procedure was. This led to a continuation of correspondence between him and the Federal Reserve Agent and the General Counsel in the New York bank, in which we are advised that that bank had referred the matter to Mr. Newton D. Baker for his opinion.

On the basis of Mr. Baker's opinion, which was concurred in by the General Counsel in New York and our General Counsel, it was deemed proper to acquiesce in the request of the Treasury Department as to such gold certificates of the old form as had been received at the Federal Reserve banks subsequent to April 5, 1933, the date of the President's executive order, which required banking institutions and others to surrender gold and gold certificates.

July 12, 1935

A differentiation was suggested in these opinions between such certificates and those which had been previously held by the Federal Reserve banks in the ordinary course of business.

Our records disclose that between April 5, 1933 and December 28, 1933, inclusive, we received at the Chicago bank and its Branch, \$29,350,000 of gold certificates, and between the same two dates we had shipped to the Treasury unfit gold certificates to the amount of \$16,074,960. Following the procedure of the New York bank and the opinions of Counsel, we did not consider the latter amount an offset against the amount of gold certificates received in the period. It therefore would have been proper for us, under this procedure to have turned into the Treasury on its request of January 26, 1935, the amount of \$29,350,000. In complying with that order, however, between the dates of February 14, 1935 and March 6, 1935, we had shipped for cancellation a total of \$77,572,000, prior to our discontinuing such shipments as above noted.

It appears therefore that we have by such shipments more than complied with the suggested procedure by some \$47,000,000.

Inasmuch as the executive committee of this bank had voted on February 1, 1935 to authorize the officers to ship the full amount, on presentation of the matter to the committee again today, it concurred in the action of the bank and the Federal Reserve Agent in not making further shipments until further advices were received and considered.

We are giving you this for your information.

Very truly yours,

(Signed) Eugene M. Stevens

C H A I R M A N

EMS HH

HOLDINGS OF GOLD CERTIFICATES (1934 SERIES EXCLUDED) ON JULY 18, 1935

(In thousands of dollars)

Federal Reserve Bank	Bank	Agent	Total
Boston	—	—	—
New York	74,367	192,215	266,582
Philadelphia	—	62,650	62,650
Cleveland	—	89,215	89,215
Richmond	—	—	—
Atlanta	42*	—	42*
Chicago	—	236,546	236,546
St. Louis	—	—	—
Minneapolis	—	—	—
Kansas City	—	—	—
Dallas	—	—	—
San Francisco	—	—	—
TOTAL	74,409	580,626	655,035

MEMORANDUM: Series 1934

Richmond	\$100
Chicago	11,100
Kansas City	444,400
San Fran.	15,000,000
	<u>15,455,600</u>

*Current receipts at Havana Agency.

To Federal Reserve Board
From Mr. Hammond, Div. of Bank Operations

Subject: Affiliates of member banks

In response to the call of the Comptroller of the Currency and of the Federal Reserve Board, December 31, 1934, member banks reported affiliates (including holding company affiliates) as follows:

National banks reporting affiliates and holding company affiliates	1,142
State member banks reporting affiliates and holding company affiliates	<u>295</u>
Total	1,437
Member banks affiliated with other member banks (included in 1,437 member banks shown above)	542
Affiliates and holding company affiliates, other than member banks	<u>2,314</u>
Total	2,856

As compared with the previous years' figures the number of member banks reporting affiliates increased by 74, and the number of affiliates reported increased by 57.

The following is a classification of non-member and non-banking affiliates by kind of business:

Non-member banks	281
Bank building companies	110
Safe deposit companies	117
Bank holding companies	62
Securities companies	16
Investment Trusts and Investment Holding companies	255
Miscellaneous finance companies	327
Mortgage and real estate companies	438
Services (Utilities, warehouses, hotels, etc.)	197
Manufacturing, Mining and Transportation Companies	150
Affiliates concerned with agriculture	85
Affiliates engaged in merchandising and distribution	45
Foreign affiliates	124
Miscellaneous affiliates (Theatres, cemeteries, etc.)	38
Inactive affiliates (Not in liquidation)	<u>69</u>
Total	2,314

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of affiliations defined in the law. The following classifications of member banks according to their relationship to their affiliates and holding company affiliates, and of the affiliates and holding company affiliates according to their relationship to the member banks reporting them is based in each case on the most important relationship where more than one exists. The 1,437 member banks reporting affiliates as of December 31, 1934, are classified as follows according to their relation to their affiliates.

	National banks	State member banks	All member banks
Member banks with non-member and non-banking affiliates	634	192	826
Member banks which are holding company affiliates	22	14	36
Member banks whose stock is owned by holding company affiliate	316	64	380
Member banks whose stock is trustee'd	4	6	10
Member banks whose stock is owned by stockholders of affiliate	109	9	118
Member banks whose stock is controlled through intermediaries	52	8	60
Member banks with other affiliate relationships	<u>5</u>	<u>2</u>	<u>7</u>
	1,142	295	1,437

The 2,314 non-member and non-banking affiliates reported by the foregoing 1,437 member banks are classified as follows according to their relationship to the member banks reporting them:

Holding company affiliates	134
Affiliates whose stock is owned by member bank	527
Affiliates whose stock is trustee'd	107
Affiliates whose stock is owned by member bank stockholders	744
Affiliates controlled by same directors as bank	232
Affiliates controlled through intermediaries	554
Affiliates otherwise related to member bank	<u>16</u>
	2,314

The number of affiliates owned by the member banks reporting them,

The foregoing classifications can only be made loosely because functions are usually reported in general terms and because any given affiliate may have numerous and diverse functions.

Purpose of affiliation. Although the purpose or reason for an affiliation is not always evident, there are three general conditions under which affiliation may come about. First, an affiliate may be voluntarily established or acquired with the aim of expanding a bank's activities in fields in which it cannot itself legally or desirably operate. Second, a bank may come into possession of an affiliate through taking over corporate stocks in order to realize on bad assets, or it may form an affiliate to liquidate such assets. Third, the affiliation may be quite inadvertent, and due to the fact that the bank and another corporation have directors or stockholders in common. Affiliates have been classified accordingly as follows, with those engaged in the safe deposit business and in holding the bank premises shown separately for the reason that they are specially recognized by the law:

Affiliates incidental to expansion of activities	982
Affiliates incidental to liquidation of bad assets	709
Accidental affiliates	249
Holding company affiliates	147
Safe deposit and bank building companies	227
Member banks	<u>542</u>
	2,856

According to these figures a little less than a third of the affiliates owe their affiliation to deliberate expansion into activities mainly outside the recognized field of banking. Approximately another third represent affiliations due to liquidation or inadvertence.

Relationships. The relationships between member banks and their affiliates are frequently complicated and involve more than one of the forms

as shown above, was 527, whereas a year earlier it was 508. The number of affiliates owned by stockholders of the reporting member banks increased from 677 to 744, and affiliates controlled by member bank directors increased from 174 to 232. Affiliates whose stock is trusteed decreased from 219 to 107.

A meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Friday, May 13, 1927 at 11:00 a.m.

PRESENT: Governor Crissinger
Mr. Platt
Mr. Hamlin
Mr. Miller
Mr. James
Mr. Cunningham
Mr. Eddy, Secretary
Mr. McClelland, Asst. Secretary

At this point Mr. McIntosh ^{*****}entered the meeting.
_{*****}

At this point, the Secretary of the Treasury entered the meeting and took the Chair.

The Board then proceeded with further consideration of the recommendations of the Open Market Investment Committee, submitted at the meeting yesterday and on which no action was taken at that meeting.

Mr. Hamlin moved that the Board approve the recommendations of the Open Market Investment Committee contained in the report of the Committee dated May 11, 1927.

Mr. Miller stated that he would prefer to have action on the recommendations of the Committee deferred until the Board has had an opportunity to discuss the general question of open market policy with the Federal Advisory Council at their meeting on next Friday. He stated, however, that if the Board did not believe it desirable to defer action he wished to present for the Board's consideration, as an alternative for Mr. Hamlin's motion, a memorandum prepared by him as the basis of a letter to the Open Market Investment Committee regarding its report.

The Chairman pointed out the desirability of establishing a policy which he stated could, of course, be changed by the Board at any time if developments warranted. He stated that he believed unless there was some particular reason for not doing so the Board should concur in the recommendations of the Open Market Investment Committee, and pointed out that if the Board did so, and following the meeting of the Federal Advisory Council, wished to change that policy there was no reason why an amendatory action should not be taken by the Board. He suggested that the Board might approve the recommendations of the Committee and in advising of such approval state to the Committee that the question

of open market policy will be kept under consideration and that the Board upon review might wish to take further action.

Mr. Platt then moved that Mr. Hamlin's motion be amended to read as follows:

"Resolved, that the Federal Reserve Board approve the report and recommendations of the Open Market Investment Committee, with the feeling that the securities proposed to be purchased should be accumulated slowly and with a view to the possibility that it may not be advisable to purchase the full amount authorized within the time limit mentioned."

Mr. Hamlin accepted the amendment moved by Mr. Platt and by unanimous consent withdrew his original motion.

Mr. Miller then read to the Board the following memorandum prepared by him and as a substitute for Mr. Platt's motion moved its adoption by the Board as the basis of a letter to the Open Market Investment Committee:

"The Board has considered the recommendations of the Open Market Committee dated May 11, 1927, for the period ending August 1:

- (1) That no further sales of System securities be made in order to offset arrivals of gold from abroad now known or anticipated.
- (2) That it shall be the policy of the Committee between now and August 1 next, gradually to acquire, if possible to do so without undue effect upon the money market, sufficient additional short-time government obligations to bring the total of the committee's investment account up to \$250,000,000.

With respect to recommendation No. 1, it does not appear to the Board that the next few months will show gold imports to the United States in any such volume as would indicate the necessity or desirability in existing circumstances of an offsetting operation by the sale of System securities. It has, therefore, nothing to suggest by way of modification of the course of action outlined by the Committee, unless there should be a marked change in the situation in which case the matter should be reconsidered. The Committee's recommendation is, therefore, approved.

With respect to recommendation No. 2, it is the opinion of the Board that the System's Special Investment Account should, sooner or later, in accordance with the policy which has governed the operation of the Account in the past, be replenished by the purchase of an amount of securities that would bring up the total holdings in the Account to not less than \$200,000,000.

It is, however, the opinion of the Board that the present situation is not a favorable one for such an operation and that the resumption of purchases of securities for the Special Investment Account should be deferred until such time as it may appear that such purchases will have a desirable stimulating effect upon trade, industry or agriculture. The country is now entering a period of interseasonal trade lull with the demand for credit for commercial use slackening. The only highly active market in the country is the securities market. There is accumulating evidence of speculative excesses, which in part has been reflected in recent weeks in a great growth of brokers' demand loans. It is thought not to be desirable to stimulate these by a reduction of the cost of money in the New York market such as would result from the purchase during the next two months of from \$100,000,000 to \$150,000,000 of securities for the System account.

It is the view of the Board that the movement of business, credit, gold, money rates and other factors bearing upon the credit and open market policy of the Federal Reserve System should be carefully and constantly watched, in order that when action is taken to replenish the Special Investment Account it may be done with a minimum of undesirable stimulation.

For its part the Board will follow coming developments affecting open market policy with care and will keep in touch with the Committee in order that there may be a prompt exchange of views and suitable action when conditions warrant. For the present the Board does not think the situation favorable to a securities-purchase operation and, therefore, withholds approval of the recommendation that the Committee at this time be given authority to purchase securities between now and August 1 to an amount sufficient to bring up the System's account to \$250,000,000."

After a detailed discussion, Mr. Miller's substitute motion was put by the Chair and lost, the members voting as follows:

The Chairman, "no"
Mr. Platt, "no"
Mr. Hamlin, "no"
Mr. James, "no"
Mr. McIntosh, "no"
Governor Crissinger, "aye"
Mr. Miller, "aye"
Mr. Cunningham, "aye"

Mr. Platt's motion was then put by the Chair and carried, the members voting as follows:

The Chairman, "aye"
Governor Crissinger, "aye"
Mr. Platt, "aye"
Mr. Hamlin, "aye"
Mr. James, "aye"
Mr. Cunningham, "aye"
Mr. McIntosh, "aye"
Mr. Miller, "no"

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Mr. Cunningham then made the following statement:

"With the sincere hope that the view expressed in Mr. Platt's resolution that the securities which the open market investment committee recommends be purchased will be accumulated gradually up to August 1st next, I am voting in favor of the motion."

The Secretary of the Treasury then left the meeting and the Governor resumed the Chair.

* * * * *

The Secretary then presented draft of a letter to the Chairman of the Open Market Investment Committee, just prepared for the signature of the Governor, advising of the action taken by the Board at this meeting with respect to the recommendations submitted by the Committee yesterday.

Upon motion, the letter submitted by the Secretary was approved and ordered transmitted.

A meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Wednesday, July 27, 1927, at 11:00 a.m.

PRESENT: Governor Crissinger
Mr. Platt
Mr. Hamlin
Mr. James
Mr. McIntosh
Mr. Noell, Asst. Secretary
Mr. McClelland, Asst. Secretary

The Board participated in a meeting of the Open Market Investment Committee attended by Governors Strong, Harding, Norris, Fancher and McDougal, members of the Committee, and Mr. Burgess, Assistant Federal Reserve Agent at New York, Acting Secretary of the Committee. There were also present Deputy Governor Harrison of the Federal Reserve Bank of New York, Governor Young of the Federal Reserve Bank of Minneapolis, Governor Biggs and Chairman Martin of the Federal Reserve Bank of St. Louis, and Honorable Ogden L. Mills, Undersecretary of the Treasury.

The meeting recessed at 12:45 p.m. and reconvened at 2:00 p.m., all being present who attended the morning session with the exception of the Undersecretary of the Treasury.

Immediately upon reconvening, the following was presented and unani- mously adopted as the Open Market Investment Committee's minutes of the morning meeting:

"The meeting was called as a meeting of the Open Market Invest- ment Committee with the Federal Reserve Board and representatives of two of the mid-western banks were present. The Chairman presented his report reviewing open market operations and credit conditions. The credit policy of the System was thereupon fully discussed.

Consideration was given to the continued fall in commodity prices, to the fact that there was a diminution of borrowing from the reserve banks due apparently to some slackening in business, and especially to the relation of money rates in the United States to money rates in Europe. It was reported that because of heavy foreign payments which are likely to increase with the fall movement of commodities to Europe, there was a continued drain on European central bank gold reserves, which made it more than likely that

central bank rates in Europe would need to be further advanced this fall. The German and Austrian rates have already been once advanced and there is some probability of a one per cent advance in the rate of the Bank of England.

All present at the meeting recognized that these developments would necessarily have a depressing effect upon business abroad and might tend to restrict the freedom of purchases of goods in this country at the usual season. It was also brought out that it is the duty of the central banks to keep money rates at as low a level as may be attained with safety, and that at this time rates could be reduced not only without harm but with reasonable expectations of beneficial results. It was felt that the only possible adverse development resulting from a general lowering of discount rates would be in the speculative security markets, but that this possibility should not stand in the way of the execution of an otherwise desirable policy.

There was no exception to the view that the time had arrived, or was approaching, when the discount rate in New York should be reduced, and with one or two exceptions there was no dissent from the view that a System policy of lower discount rates should in general prevail. It was pointed out, however, that local conditions in some of the interior reserve districts did not indicate any demand for rate reductions in those districts and that the small borrowings from the reserve banks indicate an adequate supply of credit for all needs at the present rates. Officers of some of the larger member banks were quoted as opposed to rate reductions. On the other hand, it was pointed out that reductions now, which would result in no harm and considerable possible benefit, would place the reserve banks in position to make increases later which might serve as warnings without penalizing business with high rates.

It was also suggested that in order to make a three and one-half per cent discount rate effective some further purchases of securities might be desirable up to say \$50,000,000.

The most important consideration at the meeting was undoubtedly the fact that the differential between the rates in New York and the rates in London was not today sufficient to enable London, and therefore the rest of Europe, to avoid general advances in rates this autumn unless rates here were lowered, and that the consequence of such high rates as would result in Europe would be unfavorable to the marketing of our export produce abroad and would have an adverse effect generally on world trade."

Following this action, Mr. Hamlin moved that the authority of the Open Market Investment Committee be extended for the purchase, as and when conditions warrant, of not to exceed an additional \$50,000,000 of investments.

Mr. Hamlin's motion, being voted on by the members of the Board, was carried.

It was understood that a copy of the Open Market Investment Committee's

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minutes of this meeting, together with a copy of the report of the Chairman of the Committee, referred to therein, would be sent out under confidential cover to each Federal Reserve bank for presentation to its board of directors.

The meeting adjourned at 3:00 p.m.

A meeting of the Federal Reserve Board was held in the office of the Governor on Thursday, May 12, 1927 at 10:45 a.m.

PRESENT: The Chairman
Governor Crissinger
Mr. Platt
Mr. Hamlin
Mr. Miller
Mr. James
Mr. Cunningham
Mr. McIntosh
Mr. Eddy, Secretary
Mr. McClelland, Asst. Secretary

PRESENT ALSO: Governors Strong, Harding, Norris, Fancher and McDougal, Members of the Open Market Investment Committee.
Mr. Harrison, Secretary of the Open Market Investment Committee.
Mr. Goldenweiser, Director of the Division of Research and Statistics.

The Chairman of the Committee submitted, for the information of the Board, a memorandum relative to recent open market policy, covering the general credit situation and recent transactions resulting from large purchases of gold. He also presented the recommendations of the Open Market Investment Committee, stating that the recommendations had been submitted to the Governors Conference now in session and received the unanimous approval of the Governors of all twelve Federal Reserve banks. The recommendations of the Committee were as follows:

"The Open Market Committee, after considering the attached memorandum, and after discussion with the Federal Reserve Board, submits the following recommendations of policy for the period ending August 1 next:

(1) That no further sales of system securities be made in order to offset arrivals of gold from abroad now known or anticipated.

(2) That it shall be the policy of the committee between now and August 1 next, gradually to acquire, if possible to do so without undue effect upon the money market, sufficient additional short-time government obligations to bring the total of the committee's investment account up to \$250,000,000. In interpreting the expression "undue effect upon the money market," the committee would expect to keep in mind any changes which might occur in the general level of money rates, as well as the extent to which these purchases might effect a reduction in the amount of borrowings by member banks.

While this policy is not directed towards bringing about a reduction in discount rates by any Federal reserve bank, nor is that immediately anticipated, it is recognized that some lowering of market rates for money might nevertheless justify such a reduction later in the year, especially at the principal financial centers. The recommendation in paragraph two is also made after consideration of the fact that somewhat lower interest rates ordinarily operate to check gold imports; in fact, that was one of the effects of purchases of securities made in 1924.

The committee further expects to continue studies of those methods set out in the preliminary memorandum by which increases in the System's portfolio might be brought about without increasing the amount of Federal reserve credit in the market. It expects to discuss with the Treasury Department those methods with which the Treasury is concerned, and requests that the Federal Reserve Board give consideration to those particular items, such as reserves on time deposits, which relate to the regulations of the Federal Reserve Board."

Governor Crissinger called attention to the fact that the Board, under the impression that the Federal Advisory Council would meet here tomorrow, recently requested the Council to make a careful review of the open market policy of the Federal Reserve System since the organization of the Open Market Committee and to give the Board the benefit of its views and to submit any recommendations that may seem desirable with regard to changes in the method or objectives of open market policy. The Governor stated that the Federal Advisory Council would not meet until next Friday, May 20th, and consequently would not be able to discuss the matter as contemplated jointly with the Board and the Open Market Investment Committee.

Governor Strong, Chairman of the Committee, called attention to the fact that the preliminary memorandum presented to the Board shows the present condition of affairs and requested that consideration be given to that memorandum in connection with consideration of the Committee's recommendations.

Thereupon ensued a detailed discussion as to the present Open Market situation and the desirability of increasing the System's portfolio of government securities, as recommended by the Committee, and of methods whereby such

an increase could be accomplished without disturbing the money market.

Mr. Miller expressed his opinion that the recommendation of the Committee for an increase in the investment account up to \$250,000,000 was in the right direction but that the most important question concerned the proper time at which to make purchases.

Governor Strong stated that the purpose of the Committee was to agree with the Board upon the policy which would extend, under existing conditions, until August 1st, and having done so that it would seem to be the responsibility of the Committee to put the policy into execution, keeping the Board informed daily of all transactions.

There followed a discussion as to the possibility of future imports of gold and the effect of such imports upon the money market, in conjunction with a policy of the Federal Reserve System which itself might result in adding to the present supply of money.

Governor Strong expressed the opinion that the policy contemplated in the Committee's recommendations would not result in any increase in Federal Reserve credit in the money market, but would be offset by reductions in member banks' borrowings from the Federal Reserve Bank of New York or in the bill holdings of the System.

Mr. Hamlin then moved that the Board approve the recommendations of the Open Market Investment Committee, as above quoted.

Mr. Miller moved, as a substitute for Mr. Hamlin's motion, that the recommendations of the Open Market Investment Committee be received by the Board and made special order of business for a date to be fixed by the Governor after conference with the Chairman of the Board.

A general discussion then ensued as to the present method of executing open market policy, touching upon the relative responsibility of the Board

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and the Committee.

Following this discussion, Mr. Miller's substitute motion was put by the Chair and carried, the members voting as follows:

*Evidently
intended to be
Miller's vote*

Governor Crissinger, "aye"
Mr. Platt, "aye"
~~Mr. Hamlin "aye"~~
Mr. Cunningham, "aye"
Mr. McIntosh, "aye"
The Chairman, "no"
Mr. Hamlin, "no"
Mr. James, "no"

The Chairman of the Board and the Members of the Open Market Investment Committee then left the meeting and Governor Crissinger took the Chair.

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EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS, JULY 1935

See Nu

Federal Reserve Bank	Month of July 1935							Current expenses		Current net earnings		January - July 1935		
	Earnings from -							Exclusive of cost of F. R. currency	Total	Current net earnings		Total	Ratio to paid-in capital	Less accrued dividends and net charges (current) to profit and loss*
	Dis-counted bills	Pur-chased bills	Indus-trial ad-vances	U.S. Govt. securi-ties	Commitments to make in-dustrial advances	Other sources	Total			Total	Ratio to paid-in capital			
Boston	\$1,588	\$71	\$9,580	\$209,176	\$2,144	\$60	\$222,619	\$160,712	\$169,943	\$52,676	5.8	\$403,432	6.4	\$47,743
New York	7,152	377	31,297	1,033,965	7,729	5,321	1,085,841	604,085	626,900	458,941	9.1	3,423,882	9.9	1,540,925
Philadelphia	1,096	97	17,902	236,916	96	1,298	257,405	183,291	192,494	64,911	5.1	408,869	4.7	-126,692
Cleveland	195	89	7,686	288,009	1,501	5,579	303,059	224,081	238,272	64,787	5.8	543,329	7.1	64,647
Richmond	274	35	22,933	154,118	1,252	13,057	191,669	134,801	140,562	51,107	12.0	286,963	9.8	116,494
Atlanta	88	34	5,478	124,494	288	6,102	136,484	100,904	107,543	28,941	7.7	251,785	9.8	82,440
Chicago	59	114	9,043	446,164	857	18,963	475,200	272,706	290,749	184,451	17.0	1,821,110	24.5	1,519,035
St. Louis	13	2	2,101	142,956	1,751	5,348	152,171	115,061	123,593	28,578	8.5	261,870	11.2	129,193
Minneapolis	131	1,315	10,500	110,504	128	580	123,158	96,594	98,932	24,226	9.1	125,603	6.9	34,914
Kansas City	143	25	4,413	141,673	215	14,208	160,677	134,145	137,935	22,742	6.6	173,692	7.4	41,701
Dallas	707	24	8,911	113,368	375	2,471	125,856	97,559	100,674	25,182	7.4	207,492	8.9	96,867
San Francisco	432	65	3,875	263,317	3,302	4,704	275,695	213,289	217,302	58,393	6.4	362,852	5.8	47,489
TOTAL														
July 1935	11,878	2,248	133,719	3,264,660	19,638	77,691	3,509,834	2,337,228	2,444,899	1,064,935	8.6			
June 1935	13,918	965	125,958	3,190,308	18,838	80,187	3,430,174	2,358,259	2,441,561	988,613	8.2			
July 1934	57,781	1,359	--	3,957,898	--	133,467	4,150,505	2,388,001	2,430,442	1,720,063	13.8			
Jan. to July 1935	92,216	20,999	751,779	24,050,185	112,851	572,933	25,600,963	16,536,856	17,330,084	8,270,879	9.7	8,270,879	9.7	3,594,756
" " " 1934	1,023,992	122,062	--	27,036,568	--	744,086	28,926,708	16,646,675	17,250,380	11,676,328	13.8	11,676,328	13.8	7,626,630

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
AUGUST 12, 1935.

*Exclusive of profits of \$2,742,543 on sales of United States Government securities held in Special Investment Account.

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OPEN-MARKET OPERATIONS
OF THE FEDERAL RESERVE SYSTEM

OPEN-MARKET OPERATIONS OF THE FEDERAL RESERVE SYSTEM

Attached there is a record in tabular form for the years 1926-1934 of recommendations by the System Open Market Committee submitted to the Federal Reserve Board for review. From January 1, 1926, until May, 1930, recommendations with respect to open-market operations were made to the Board by a committee consisting of the Governors of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, and Chicago. Beginning with May 21, 1930, the Committee included a representative from each Federal Reserve bank, and after the passage of the Banking Act of 1933 such a committee was required by law. The attached document shows the dates upon which the Open Market Committee made its recommendations, the position of the open-market account at the time, the nature of the recommendations, and the action which the Board took on these recommendations. This record indicates that the Board in practically all instances concurred with the recommendations made by the Committee.

In examining this summary it should be kept in mind that the actual course of negotiations is not adequately indicated by the official record. Policies have been generally determined in informal conferences, by telephone or otherwise, prior to the making of formal recommendations. In these conferences the initiative has been taken not infrequently by the Governor of the Federal Reserve Board. It has not been unusual to have an informal agreement on a program between the Governor of the Board and the Chairman of the Open Market Committee prior to the meeting of the Committee. Approval of the program, first by the Committee and then by the Board, was usually to be expected in such cases.

Some of the smaller changes shown in System account represent either temporary transactions between that account and individual Reserve banks, which in no way affect the market, or occasional replacements in anticipation of maturities.

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
Jan. 17, 1926	\$260,000,000	Jan.18,1926--Agreed that while it is not advisable to sell immediately the \$50,000,000 short-term securities acquired during latter part of December 1925 for resale possibly in January 1926, situation should be carefully watched in order that action might be taken at any time that developments disclose desirability of selling.	On January 25 Board interposed no objection to Committee furnishing the market with an amount of certificates up to \$50,000,000 against definite orders. This action taken upon receipt of advice from New York bank that money conditions in New York were easing considerably.
Mar. 7, 1926	\$223,056,000	Mar.8,1926--Chairman of Committee recommended replacement of \$66,000,000 of maturing securities.	Board interposed no objection to Committee replacing so far as possible \$66,000,000 of securities maturing on March 15, 1926.
Mar. 19, 1926	\$173,589,000	Mar.20,1926--It was the unanimous opinion of the Committee that other than the replacement of the March 15 maturities no action should be taken, at least until after March 23, when the Treasury pays off \$121,000,000 of 3rd Liberty bonds and when readjustments after the usual quarter-day movement will have been completed.	On March 23 Board approved recommendations that no change be made in account except that March 15 maturities be replaced if conditions seemed to warrant. (\$31,000,000 of March 15 maturities had not been replaced at that time.)
Mar. 23, 1926	\$183,839,000	Mar.24,1926--Committee and Governor's Conference recommended that if developments in the money market indicate need for doing so, the amount of securities in the System Account be increased to \$300,000,000, but no purchases shall be made after April 15, 1926, without further consideration.	Recommendation was considered by Board at meetings on March 24 and 25 and approved on latter date.
June 1, 1926	\$282,500,000	June 2,1926--Committee agreed that \$37,000,000 of June 15 maturities should be replaced by other short-term governments.	Replacements approved by Board.

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
June 20, 1926	\$263,700,000	June 21, 1926--System Account Committee recommended that System Account be maintained at existing amount (approx. \$275,000,000) but with authority to make temporary purchases or sales within a range of \$50,000,000 as may be deemed advisable by the Committee, any such purchases to be liquidated within a reasonable time as market conditions warrant.	Board met jointly with Committee and Committee's recommendation and Board's approval was in simultaneous vote.
Aug. 16, 1926	\$267,863,000	<p>Aug. 17, 1926--Committee recommended sale of approximately \$40,000,000 Third Liberty Loan bonds to Treasury (at request of Treasury) without replacement and that a meeting be called the early part of September to consider conditions at that time.</p> <p>Committee also approved the sale, without replacement, to a foreign correspondent made on August 16, 1926, of \$2,300,000 Treasury notes, the sale of \$5,000,000 Treasury notes to a foreign correspondent sometime that week, and the sale to a foreign correspondent during the next few weeks of approximately \$15,000,000 of short-term securities.</p>	Committee meeting attended by three members of Board, and at its meeting on Aug. 23, Board noted approval by all Federal Reserve banks of sale to Treasury of \$40,000,000 of bonds without replacement. Minutes of Aug. 17 meeting of Committee presented at meeting of Board on Aug. 24 and were ordered circulated without action being taken.
Sept. 9, 1926	\$204,975,000	Sept. 10, 1926--Committee recommended that account be maintained for the present at approximately \$200,000,000, with the understanding that the Committee could, at its discretion, increase or decrease the account by not more than \$50,000,000. It was also understood that in the event of further gold imports for the account of foreign correspondent, we should continue to furnish them with securities from	In a separate meeting on Sept. 10, the Board authorized the Committee to maintain the account at from \$200,000,000 to \$225,000,000.

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
Nov. 6, 1926	\$200,000,000	<p>the special account as heretofore, thus offsetting the effect of the gold imports.</p> <p>Nov. 7, 1926--Committee recommended that it may be desirable to purchase up to \$100,000,000 of securities during the coming 6 weeks to be sold again at such time as credit conditions appear to make that course desirable. If business and credit conditions continue as at present, it would seem wise to sell the securities shortly after the turn of the year, but in the event of a decline in business activities, such as some observers think may occur, it then might be desirable to retain a part of the securities in the Federal Reserve portfolio. In any event, we should be prepared for either course.</p>	<p>At meeting of Board on Nov. 10, 1926, Board approved a letter to acting chairmen of Committee stating that Board understands that as the Committee views the situation at this time, there is no need for action looking toward a change in the amount of the Special Investment Account, as approved by the Board on Sept. 10, 1926 and in this view, the Board concurs. The Board, therefore, construes the Committee's suggestion as an expression of opinion on the part of the Committee that in the event of a future change in the present situation, it may be desirable to give consideration to increasing the account temporarily. The Board assumes that should there be any change in the present situation or any new developments which would seem to warrant increasing the account temporarily, the Committee will confer further with the Board.</p>
Mar. 4, 1927	\$200,000,000	<p>Mar. 5, 1927--Following statement by Federal Advisory Council, issued after its meeting on February 18, that it did not believe that there was anything in the business situation necessitating any change in present open-market policy, although should interest rates continue to decline the Federal Reserve banks should reduce their holdings of bills bought</p>	<p>On March 8 the Board approved of the Committee allowing the maturities to run off with the understanding that, at the meeting of the Committee called for March 21st, it could be determined if and when it would be advisable to replace them.</p>

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
Mar. 20, 1927	\$176,324,000	<p>in the open market, the Board transmitted the statement to the Board of Directors of the Federal Reserve Bank of New York for any recommendations that they might care to make and with the statement that the Board thinks it pertinent in connection with consideration of recommendation to take cognizance of the gold imports since the first of the year and the present state of the acceptance market, and to consider whether there should be any change in the volume of investments in the System's Special Investment Account, especially in view of the March 15 maturities. The New York directors replied that if the Committee concurred, it would be well to let the March 15 maturities run off.</p> <p>Mar. 21, 1927--Committee agreed that it would be desirable to replace the \$25,000,000 of March 15 maturities immediately and in view of reduction of system holdings of bankers acceptances due to sale to a foreign correspondent in replacement of securities matured on March 15, the Committee should be prepared to make additional purchases of Government securities up to an amount of about \$50,000,000, if necessary, to avoid drastic tightening of the money market.</p>	<p>On March 21, 1927, the Board approved the replacement of the \$25,000,000 of matured Government securities and advised the Committee that it would hold itself ready upon advice from the Committee, as a Committee, or from the Federal Reserve Bank of New York, if the Committee prefers to leave the matter in the hands of the Federal Reserve Bank, to act upon a recommendation for the purchase of an additional \$50,000,000 of short-term Government securities at any time such a course should appear to be desirable.</p>

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
		<p>During the period between March 21-May 11, after telephone consultation with the members of the Open Market Investment Committee and the Federal Reserve Board, it was arranged to purchase from the Bank of France about \$60,000,000 of gold and to sell to them a like amount of the September maturity of certificates of indebtedness held in the Open Market Investment account. Securities were sold to offset the \$9,000,000 to \$12,000,000 of gold which had already arrived, but no arrangements were made to offset the affect of the gold which was then scheduled to arrive.</p>	
May 10, 1927	\$135,812,000	<p>May 11, 1927--Committee submitted the following recommendations of policy for the period ending August 1: (1) That no further sales of System securities be made in order to offset gold imports known or anticipated, and, (2) That it be the policy of the Committee gradually to acquire, if possible to do so without undue effect upon the money market, sufficient additional short-term Government obligations to bring the total of the Committee's investment account up to \$250,000,000.</p>	<p>On May 13, 1927, the Board approved the recommendations of the Committee with the feeling that the securities proposed to be purchased should be accumulated slowly and with a view to the possibility that it may not be advisable to purchase the full amount authorized within the time limit mentioned.</p>
June 15, 1927	\$244,256,300	<p>June 16, 1927--In a letter to the Board Governor Strong expressed the view of the officers of the New York bank that it might be well to defer further purchases until possibly after the first of July even though in the meantime money rates might advance somewhat in the general market. In a letter dated June 20, 1927, Governor Strong again reviewed</p>	<p>On June 22, 1927, the Board advised the Committee that it did not consider the \$100,000,000 of securities purchased by the Committee since May 13, 1927, (to offset gold earmarked for foreign correspondents) as forming part of the authority granted to the Committee by the Board on that date.</p>

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
		<p>the situation stating that the bank was quite willing to watch the effect of somewhat higher rates for a short period, but that it would be hazardous to allow a general revision of the level of interest rates to occur.</p> <p>Governor Strong came to Washington on June 22 and at a meeting of the Board made an extended review of present and prospective conditions.</p>	
July 26, 1927	\$265,998,300	July 27, 1927--Committee voted that its authority be extended for the purchase, as and when conditions warrant, of not to exceed \$50,000,000 of investments.	Committee's action was taken in joint meeting with Federal Reserve Board which approved recommendation.
Nov. 1, 1927	\$405,222,000	Nov. 2, 1927--Committee recommended adoption of program of (1) continued offsetting of gold movements by purchases and sales of securities, (2) any considerable advances in money rates toward end of year would be dealt with only if necessary by temporary purchases of securities, (3) sales of securities in January in amounts sufficient to insure retirement of seasonal issue, and, (4) in event of renewal of gold movements to the United States, gold may be purchased abroad if necessary or exchange on foreign countries purchased so as to arrest a further importation of gold, the limit of such purchases to be \$100,000,000 and such purchases to be offset the same as gold movements.	Board approved policy as recommended.
Dec. 12, 1927	\$419,934,000	Dec. 13, 1927--Governor Strong transmitted opinion of New York directors that it might be well to let banks borrow additional funds up	On December 14, Board expressed concurrence in directors' opinion.

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
Jan. 8, 1928	\$422,030,000	to \$100,000,000 or \$150,000,000 rather than to undertake to ease the situation by making further purchases of securities. Jan. 9, 1928--Committee concurred in opinion of New York bank that it might be advisable to sell from \$40,000,000 to \$50,000,000 of Governments.	Board voted to approve sale of not to exceed \$50,000,000 of securities if and when deemed advisable by Committee.
Jan. 11, 1928	\$399,530,000	Jan. 12, 1928--Recommended that Committee program should now work toward somewhat firmer money conditions as far as necessary to check undue rapid further increases in volume of credit and in order to accomplish this, Committee would expect to sell further amounts of securities and, if necessary, to deal with gold movements in such manner as necessary to carry out the program.	Board authorized the Committee during the next two months to make sales of Government securities from time to time with accompanying authority temporarily to purchase such securities should developments not now in sight require such action.
Jan. 15, 1928	\$371,030,000	Jan. 16, 1928--Acting Chairman of Committee reported sale of Government securities to a point at which further securities would not be absorbed by market except at reduced price and it was proposed to withhold further sales for a day or two.	Board expressed sympathy with the proposal reported but that it would not favor any prolonged departures from the program recommended by the Committee and approved by Board on January 12.
Jan. 23, 1928	\$341,019,000	Jan. 24, 1928--Committee recommended sale of an additional \$50,000,000.	No objection expressed by Board to proposed sale.
Feb. 9, 1928	\$273,194,000	Feb. 10, 1928--New York directors expressed opinion that no further sales of securities be made for the next three or four days.	Board expressed agreement with conclusion of directors although there was a feeling on the part of some members that further sales should be suspended indefinitely.

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
Feb. 26, 1928	\$273,194,000	Feb. 27, 1928--New York directors reached conclusion that no further sales of securities should be made at this time.	This opinion shared by all members of the Board.
Mar. 25, 1928	\$273,269,000	Mar. 26, 1928--Committee recommended that the policy recommended in January be continued until another meeting is held or until a change in the situation makes an earlier reconsideration desirable. The Committee would expect to make such changes in the open-market account as are necessary to carry out the policy.	Board approved policy recommended by Committee and authorized Committee to make further sales of Government securities from time to time up to May 1, 1928, at about which time another meeting of the Committee with the Federal Reserve Board will be held unless a change in the situation makes earlier reconsideration desirable.
Apr. 10, 1928	\$253,038,000	Apr. 11, 1928--Deputy Governor Case reported plans to sell \$20,000,000 to \$25,000,000 of securities in order to keep a grip on the situation.	Governor reported he had advised Mr. Case there would be no objection to sale of securities contemplated.
Apr. 17, 1928	\$210,438,000	Apr. 18, 1928--Mr. Case reported New York directors felt that situation was getting out of control largely because of money coming into New York presumably attracted by high call rate.	Increase in discount rate at Boston Bank was under consideration and Board approved increase apparently on basis that sales of securities were not having desired effect.
Apr. 28, 1928	\$152,318,000	Apr. 29, 1928--In view of continued expansion of bank credit at what seemed to be an unduly rapid rate, notwithstanding the sales of securities and increase in discount rates, the Committee recommended that the general policy adopted at meeting on March 26 be continued.	On May 2 Board expressed agreement with procedure suggested by the Committee and approved its recommendations, but in doing so, reserved the same right that the Committee reserved, of changing its position should conditions develop which would make a change advisable.

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
May 24, 1928	\$100,000,000	May 25, 1928--Committee saw no reason to change policy adopted at last meeting and expressed opinion that it may be necessary to assert further pressure on the situation and, to this end, that it may be advisable to make further sales of securities.	Board approved policy outlined and approved further sales if such sales were deemed necessary by the Committee.
July 17, 1928	\$84,988,000	July 18, 1928--Committee recommended that no open-market action be taken at present or until moderately high level of money rates has continued long enough to provide a testing of the credit situation which may have effect of checking unsound uses of credit. Committee expressed opinion that amount of member bank borrowing and present money rates would not be wholesome if continued over an extended period, that the System should be prepared to exercise its influence to modify these conditions and that situation should have careful continued study.	
Aug. 12, 1928	\$75,488,000	Aug. 13, 1928--Committee expressed opinion that conditions did not necessitate immediate purchases, that there were indications that with approaching fall demands for credit, it might soon be possible or necessary to take steps looking toward the reduction or at least the avoidance of the necessity of any substantial increase in volume of member bank discounts and with these facts in view, Committee recommended the policy of purchasing securities whenever it should become necessary to avoid undue credit stringency.	On August 16 the Board expressed agreement with the Committee that the seasonal requirements would probably develop a strain upon the future credit situation which may react unfavorably upon commerce and industry and that if such a situation should develop, the System should take some action to relieve the strain. Board stated, however, that it would not care to agree to purchase of securities except as last resort, and with this understanding, it approved the purchase of securities up to \$100,000,000.

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
Nov. 14, 1928	\$75,488,000	Nov. 15, 1928--Committee renewed the recommendation contained in its report of August 13 that it be the policy of the System to purchase Government securities if and when it might become necessary to avoid an acute stringency.	On November 27 the Board refused to approve recommendation for reasons stated and advised committee that if adjustments of temporary credit situation were advisable it would hold itself in readiness to act promptly upon written or telephone request from the Committee in an amount not to exceed \$25,000,000.
Jan. 6, 1929	\$75,592,000	Jan. 7, 1929--Committee expressed opinion that System should be prepared to sell up to \$50,000,000 of securities during January or February if amount of member bank indebtedness should diminish to an amount where money rates became so easy as to stimulate further increases in total volume of credit beyond that required for business purposes, but that there was no occasion at that time to make a recommendation either as to purchase or sale of securities.	No action by Board.
Feb. 1, 1929	\$75,592,000		Feb. 2, 1929-- Board expressed no objection to Governor advising committee that Board sees no reason why sales of securities should not be made in small amounts.
Feb. 4, 1929	\$75,592,000		Feb. 5, 1929-- Governor of New York Bank was present at meeting of Board and referred to possible necessity of increase in the discount rate should other efforts fail to halt increasing volume of credit. Majority opinion of members of the Board was that further efforts should

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
Mar. 31, 1929	\$40,000,000	Apr. 1, 1929--Committee informally agreed that there appeared to be no need to consider the purchase of Government securities and that, as the Committee already had authority to sell Government securities, there was no occasion for a further recommendation at that time.	be made along the line of so-called direct action, and that a rate increase should not be considered until the System is satisfied that all other means had been exhausted.
May 20, 1929	\$20,500,000		May 21, 1929-- Federal Advisory Council publicly stated that it continued to agree with the view of the Board that an excessive amount of the country's credit had been absorbed in speculative security loans, that the policy pursued by the Board had had a beneficial effect and that efforts in this direction should be continued. Council recommended that it grant permission to raise the discount rate to 6% at the Federal Reserve banks requesting it. (All during this period up to August when the rediscount rate of 6% was approved for the Federal Reserve Bank of New York, there was continued consideration of discount rates in connection with the Board's policy of so-called direct action.)

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
Aug. 7, 1929	\$31,125,000	Aug. 8, 1929--The Governor's Conference expressed the opinion that increased credit demands incident to autumn requirements should be met so far as possible by an increase in bills and that this procedure can best and most safely be undertaken and with least risk of abuse in the use of the Federal Reserve credit under the protection of an effective discount rate in New York. Conference recommended that the Board act favorably on any application that may be made by the Federal Reserve Bank of New York for an increase in its existing rate.	The rate of 6% established by the New York directors was approved by the Board on August 8, after the Board had voted to adopt the report received from the Governors as a basis of Federal Reserve policy during ensuing months.
Sept. 16, 1929	\$36,125,000		Sept. 17, 1929-- The Federal Advisory Council expressed belief that the increasing of the New York Bank rate to 6% and the reduction in the buying rate for bills in the open market had worked satisfactorily and that such action had the approval of the Council.
Sept. 23, 1929	\$26,128,000	Sept. 24, 1929--Committee favored a further increase of open-market holdings for purpose of avoiding, if possible, any increase in total volume of member bank discounts during the fall season if this could be done without stimulating unnecessary or abnormal expansion of member bank credit. It favored an increase of these holdings by continued purchase of bills if these could be obtained and if not, by purchases of short-term Governments. Committee recommended that it be authorized to purchase not to exceed \$25,000,000 a week of short-term securities with the understanding that there	On October 1, Board approved proposed program and authorized purchase of short-term Governments at not to exceed \$25,000,000 a week. Board stated that its approval was mainly for seasonal reasons and should not be interpreted as a reversal of former policies.

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
Oct. 28, 1929	\$43,500,000	would be a careful current review of the consequences of such purchases.	Oct.29,1929--Board expressed the definite opinion that the most helpful thing at that time would be a reduction in the discount rate of the New York Bank to 5% coupled with an understanding that the System would suspend, for the time being, any purchases of Government securities pending future developments in the credit situation as a result of the rate reduction, and further consideration and approval by the Board.
Oct. 29, 1929	\$47,500,000	Oct.30,1929--Governor Harrison advised of purchases the day before of \$69,000,000 of Government securities for the New York Bank under authority of the board of directors who had authorized the purchase of securities by the bank in an unlimited amount in the discretion of the Governor.	No action taken by the Board.
Nov. 6, 1929	\$72,500,000	Nov.7,1929--Directors of New York Bank expressed the opinion that the policy of the System for the coming weeks should be to keep a plentiful supply of money in the market through the purchase of bills if available, and, if not, through the purchase of Governments.	
Nov. 11, 1929	\$97,500,000	Nov.12,1929--Committee recommended that the present limit of \$25,000,000 per week on the purchase of Government securities be removed and that the Committee be authorized in lieu	On November 13, the Board advised the Committee that it had authorized the Governor, should the Board not be immediately available to act on its

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
		thereof, to purchase not to exceed \$200,000,-000 of securities, with the understanding that there would be a careful current review by the Board and the Committee of the consequences of any such purchases.	<p>behalf, in giving approval in an emergency to purchases of securities, and that if an acute emergency arises where it was not practicable to confer with the Governor, the Board would interpose no objection to a purchase operation being undertaken with the understanding that prompt advice would be furnished the Board.</p> <p>On November 25, 1929, Board advised Committee that it had reconsidered its action of November 13, 1929, and had voted to approve the general principles as to future policy laid down in the report of the Open Market Investment Committee dated November 12 and the resolution adopted by the board of directors of the New York Bank on November 7, and had authorized the Committee to purchase from time to time not to exceed in the aggregate \$200,000,000 of securities, with the understanding that if at any time the Board feels that purchases are being made too rapidly, it will so express itself to the Committee and reconsider the whole situation.</p>
Jan. 27, 1930	\$277,500,000	Jan. 28, 1930--Committee expressed opinion that no open-market operations in Government securities were necessary at that time either to halt or to expedite the trend of credit, but recommended that the minimum buying rate for bills be reduced so that the Federal Re-	On Jan. 30, the Board considered a request from the Federal Reserve Bank of New York for a reduction to $3\frac{1}{2}\%$ in the minimum buying rate and advised that the request had been taken under review and had determined the minimum

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
Mar. 4, 1930	\$277,500,000	serve banks might have such flexibility in their bill operations as to avoid the hardening of rates.	buying rate to be $3\frac{3}{4}\%$. On February 12, 1930, the Board reduced to $3\frac{1}{2}\%$ the minimum buying rate on acceptances at the New York Bank. Mar. 5, 1930--The Governor of the Board was authorized to request that there be submitted to the New York directors a suggestion to purchase gradually not to exceed \$50,000,000 of securities during the next two weeks or so. On March 7, Mr. Case reported authorization by the directors of the New York Bank to purchase up to \$50,000,000 of securities in accordance with the Board's suggestion. On March 10, 1930, the minimum buying rate on acceptances by the New York Bank was reduced to 3%.
Mar. 23, 1930	\$307,250,000	Mar. 24, 1930--Committee expressed opinion that there was no occasion for further purchases of Government securities, but in the interest of flexibility and preparedness for the unexpected, favored a reduction in the minimum buying rate on bills to $2\frac{1}{2}\%$.	On March 25, action on request of New York Bank for reduction in minimum buying rate on bills to $2\frac{1}{2}\%$ was deferred. Action was again deferred at the meeting of the Board on March 26. On April 8, 1930, Board informed Committee that it concurred in Committee report of March 24, except in the event of some unforeseen development, bills should not be bought below 3% although in view of the trend of bill rates since the date of the meeting the Board desired to keep under review the question of a reduction to $2\frac{1}{2}\%$ in the minimum buying rate.

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
Apr. 23, 1930	\$327,300,000	Apr. 24, 1930--New York directors voted to establish rediscount rate of 3% predicated upon approval by Board of minimum buying rate of 2½% with the idea of putting into effect a rate of 2¾%, if the discount rate was reduced to 3%.	Board held request for 2½% buying rate under review and determined minimum buying rate to be 2¾% at meeting on April 30. On May 1 the Board approved a minimum buying rate of 2½%.
May 20, 1930	\$327,300,000	May 21, 1930--Committee voted to go on record that recommendations as to discount rate of any Federal Reserve bank is not within Committee's proper province and the directors of any Federal Reserve bank must be free at any time to change the discount rate for their bank, subject only to the review and determination of the Federal Reserve Board. Committee stated that it did not appear that any affirmative recommendation as to open-market operations was advisable at that time.	
May 28, 1930	\$327,300,000	May 29, 1930--Governor Harrison reported feeling on the part of the directors of the New York Bank that action should be taken to further ease the credit situation and had made a recommendation that the System proceed to purchase Government securities at the rate of \$25,000,000 a week; that seven banks concurred in the recommendation, four were opposed, and one interposed no objection.	On June 3 Board authorized purchase of not to exceed \$25,000,000 of securities a week for the next two weeks, the situation to be reviewed at the end of that time.
June 22, 1930	\$377,300,000	June 23, 1930--Committee expressed opinion that it was not desirable for System to undertake any further purchases of securities.	

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
Aug. 5, 1930	\$377,300,000	Aug. 6, 1930--Committee requested approval of purchase of \$25,000,000 of securities during current week.	Board gave approval requested.
Sept. 2, 1930	\$402,300,000	Sept. 3, 1930--Committee recommended authorization of purchase of securities up to \$50,000,000, with understanding that authority should be exercised only if necessary as a supplement to bill purchases in offsetting seasonal demands for credit, gold exports, or influences toward firmer money which might interfere with the continuance of present money conditions.	Board granted authority requested.
Sept. 24, 1930	\$402,300,000	Sept. 25, 1930--Committee recommended authorization to supplement bill purchases by purchases of Government securities in the event that the seasonal demand for Federal Reserve credit, gold exports, or other factors, should tend unnecessarily to tighten present money rates, and that in the event that conditions develop which would require sales of securities to execute this policy, the Committee should be authorized to make such sales; it being understood that if the Committee should have to buy or sell more than \$100,000,000 of securities to maintain the status quo, new authority should be procured in accordance with the prescribed procedure.	On October 2, 1930, the Committee was advised that the Board was prepared to approve the purchase or sale of Government securities within the limits proposed for the purpose of maintaining stability of rates, such authority to run until an agreeable date next January, unless a change in conditions before that time should make a review and reconsideration of open-market policy advisable at an early date. The advice also stated that it was understood that such purchases or sales of securities would be made in consultation with the Governor of the Board or acting executive officer, except purchases or sales made in small amounts in pursuit of an understood program, or in the event of a sudden emergency.

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
Oct. 21, 1930	\$402,300,000		Oct. 22, 1930--In considering a purchase of sterling exchange by the Federal Reserve Bank of New York, the Board stated that it is assumed that the special operations in foreign exchange will be considered as part of the open-market program subject to the policy agreed upon by the Open Market Committee and approved by the Board.
Nov. 17, 1930	\$402,300,000		Nov. 18, 1930--The Federal Advisory Council expressed the opinion that the present situation would be best served if the natural flow of credit were unhampered by open-market operations or changes in the discount rate; the seasonal demands during the balance of the year should be met by rediscounting on the part of member banks.
Dec. 19, 1930	\$402,300,000	Dec. 20, 1930--Committee expressed willingness to leave it to the judgment of the New York Bank whether some additional amount of Government securities should be purchased within the \$100,000,000 authority with the understanding that the New York Bank would keep in close touch with the members of the Committee.	
Jan. 5, 1931	\$417,729,000		Jan. 6, 1931--Board approved Governor Meyer's action in advising New York, that he felt, in the light of all circumstances, the Board interposed no objection to the purchase by the New York Bank of approximately \$45,000,000

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
Jan. 20, 1931	\$402,300,000	Jan. 21, 1931--It was the sense of the committee that it should be the policy of the System to continue an easy money policy in the best interest of trade and commerce, but that it would be desirable to dispose of some of the System's holdings of securities as and when opportunity affords without disturbance or tightening of the money position.	of securities from two member banks or the purchase of \$32,000,000 of securities made by the Committee because of banking and credit strain over the year end. On January 30, the Board advised Committee Board approved of recommendation.
Feb. 16, 1931	\$402,300,000		Feb. 17, 1931--Federal Advisory Council reiterated the recommendation made by its previous meeting that the situation would be best served if the natural flow of credit were unhampered by open-market operations or changes in the discount rates.
Apr. 28, 1931	\$402,300,000	Apr. 29, 1931--Committee recommended authorization if and when it appears necessary or advisable to purchase up to \$100,000,000 of securities.	On May 7 Board authorized, if and when it appears to committee necessary or advisable, to purchase up to \$100,000,000 of securities.
June 21, 1931	\$444,468,000	June 22, 1931--Committee voted to buy up to \$50,000,000 of securities with the understanding that there would be further conferences by telephone or otherwise between members of the Committee before any purchases were made beyond that amount.	

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
July 6, 1931	\$494,471,000	July 7, 1931--Committee agreed to proceed with purchase of an additional \$50,000,000 of securities.	
Aug. 9, 1931	\$524,468,000	Aug. 10, 1931 --To counteract tightening influence of \$50,000,000 of maturing bills held by Bank of France, Executive Committee of New York bank authorized officers to purchase up to \$50,000,000 of Government securities.	Governor Meyer and Mr. Miller were present at meeting in New York and, being familiar with the attitude of the Board, did not express objection to the action.
Aug. 10, 1931	\$524,468,000	Aug. 11, 1931--Committee recommended authorization to purchase up to \$120,000,000 of securities if and when it became necessary or advisable to do so, or if necessary or advisable to sell up to a similar amount.	On August 18, Board advised Committee that it gave a general approval to the contemplated purchase of Government securities, and in order that Committee may be prepared to act promptly on the current application of the policy of purchase, it had authorized the Governor of the Board, until such time as the matter of open-market policy should be reviewed and further considered, to act on its behalf with respect to the purchase of an aggregate of \$120,000,000 of Government securities. The Board also stated that it was not authorizing the Governor to exercise its approval with regard to sales of securities and that in the event conditions should take such a turn as to make sales of securities from System Account advisable in the judgment of the Executive Committee of the Conference, the Board would wish to consider the matter.

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
Oct. 21, 1931	\$524,468,000		Oct. 22, 1931--Expressed as feeling of members of the Board at meeting on October 22, 1931, that, if recommended by the Executive Committee of the Open Market Policy Conference, they would be inclined to approve the sale of securities from the open-market account, or to allow maturities to run off, to the extent of \$120,000,000.
Oct. 25, 1931	\$524,468,000	Oct. 26, 1931--Committee asks for the same leeway with respect to the sale of Government securities as it possessed with respect to purchases, as recommended by the resolution of August 11.	Board not disposed to grant authority requested, but no formal action taken.
Nov. 29, 1931	\$524,468,000	Nov. 30, 1931--While Committee was of the opinion that no occasion for immediate purchase of Government securities existed, it requested authority, in order to be prepared if and when occasion arose, to buy up to \$200,000,000 of Government securities before the end of the year and authority in its discretion to sell any security so bought after the turn of the year if conditions should then permit.	Board granted authority requested with understanding that it would run until January 30 or such earlier date as another meeting of the Committee
Jan. 11, 1932	\$566,816,000	Jan. 12, 1932--Committee recommended that it be authorized if and when desirable to purchase not to exceed \$200,000,000 of securities such purchases to be made only after the approval of the Executive Committee at a meeting to be called for the purpose of considering the occasion or need therefor.	On January 19, 1932 Board granted the authority requested with the understanding that any action taken by the Executive Committee would be subject to approval of the Federal Reserve Board. The Board also reserved the right to review and request its approval if and when cir-

Holdings		Committee Recommendations	Review by Federal Reserve Board
System Investment Account	Account		
Date	Amount		
Feb. 23, 1932	\$566,816,000	Feb. 24, 1932--Committee recommended that subject to the approval of the Federal Reserve Board the Executive Committee be authorized to purchase up to \$250,000,000 of securities at the approximate rate of \$25,000,000 per week; it being understood that purchases under this program should be made after a meeting of the Executive Committee called for the purpose of considering such purchases.	cumstances justify. Board granted authority requested and at immediate subsequent meeting of the Executive Committee of the Open Market Conference, it was decided to proceed with the purchases of Government securities if and when the Glass-Steagall bill was enacted in the law.
Apr. 4, 1932	\$696,816,000	April 5, 1932--Committee voted to continue purchases of securities at \$25,000,000 a week previously authorized.	
Apr. 7, 1932	\$711,816,000	April 8, 1932--New York directors voted subject to approval of Board that bank should purchase for its own account \$50,000,000 of Government securities.	Board concurred in Governor Meyer's advice to Governor Harrison that inasmuch as a meeting of the Open Market Policy Conference would be held during the next week for the specific purpose of considering the whole matter of open-market policy, the New York bank should postpone any purchases of securities until the Conference had had an opportunity to canvass the situation in all its aspects.
Apr. 11, 1932	\$736,816,000	April 12, 1932--Committee requested authority to purchase up to \$500,000,000 of Government securities in addition to the unexpired authority granted on February 24, and that these purchases, at least in the initial weeks, should be at a rate as rapid as may be practicable and if possible should amount to \$100,000,000 in the current statement week.	Board granted authority requested.

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
May 16, 1932	\$1,234,071,000	May 17, 1932--Committee requested authority to continue the purchase of Government securities as may seem advisable from week to week, but not to exceed an aggregate of \$500,000,000 without another meeting of the Open Market Policy Conference.	Authority requested granted by Board. In joint meeting of the Federal Reserve Board and Open Market Policy Conference, the issuance of a statement to the press was approved; it stated that the Governors of the Federal Reserve banks met with the Federal Reserve Board and it was decided to continue open-market operations by the purchase of Government securities, the extent and amount to be determined from time to time as conditions justify.
June 15, 1932	\$1,521,333,000	June 16, 1932--Committee agreed to a proposal that (1) until further notice sufficient purchases of Government securities should be made to keep excess reserves of member banks at a figure between \$250,000,000 and \$300,000,000, (2) that the System should continue to show an increase from week to week in total holdings of Government securities in order to avoid the creation of a feeling that the policy of the System had been changed, and (3) that in the coming week it appeared that the purpose might be accomplished by smaller purchases.	
July 13, 1932	\$1,609,583,000	July 14, 1932--Conference requested authority to buy securities to the extent necessary to maintain excess reserves at approximately \$200,000,000, total purchases to be limited to the amount previously authorized which was \$207,000,000. For the guidance of the	Authority requested was approved by Board.

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
		Executive Committee, it was the sense of the Conference that except in unusual or unforeseen circumstances purchases should not exceed \$15,000,000 a week, but for the next 4 weeks should be not less than \$5,000,000 a week.	
Nov. 14, 1932	\$1,639,607,500	Nov. 15, 1932--Conference was of the opinion that no change should be made in the amount of System holdings of Government securities pending another meeting of the Conference during the first week in January.	
Jan. 4, 1933	\$1,639,607,500	Jan. 5, 1933--Conference was of opinion that no change should be made in the System's policy intended to maintain a substantial amount of excess reserves, but recommended that authority be given (a) to reduce the System's holdings of short-term Treasury bills in order to offset such amount of the return flow of currency as may seem desirable provided such action did not result in any substantial reduction in existing excess reserves, and (b) if necessary, to purchase Government securities in sufficient amounts to prevent excess reserves falling below the present general level.	Recommendation approved by the Board. (Press statement issued in connection with this action.)
Feb. 26, 1933	\$1,629,399,400	Feb. 27, 1933--Secretary of Treasury suggested advisability of purchasing during the week securities in such amounts up to \$100,000,000 as might be necessary to steady the market.	Discussion at Board meeting indicated that members of Board were not disposed to favor the suggested action.

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
Apr. 21, 1933	\$1,629,399,400	Apr. 22, 1933--It was sense of the Conference that, subject to the approval of the Federal Reserve Board, the Executive Committee be authorized to arrange with the Secretary of the Treasury from time to time to purchase up to \$1,000,000,000 of Government securities to meet Treasury requirements.	On April 26, 1933, the Board advised the Chairman that it did not think it advisable to make any change in the System holdings of Government securities that week and that action on the resolution of the Conference had been deferred.
May 22, 1933	\$1,629,399,400	<p style="text-align: right;">authority</p> May 23, 1933--Executive Committee voted that/ given to it at previous meeting of the Conference should be amended to remove the restriction, "to meet Treasury requirements," in order that purchases of securities may be made promptly if, in the judgment of the Committee, such purchases are considered desirable, whether or not to meet Treasury requirements. <p>Committee also voted to purchase \$25,000,000 of Government securities during the statement week provided the majority of Conference ap-</p>	On May 12, 1933, the Board advised the Chairman of the Conference that it authorized the Committee to proceed with its proposed purchases of Government securities up to an aggregate of \$1,000,000,000. The Board also stated that it would have the whole matter of Open market policy under constant review and would advise the Committee of changes to be made in the program in order more fully to adjust it to the requirements of the national situation.

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
June 28, 1933	\$1,768,150,000	proved the proposed extension of authority to the Executive Committee. June 29, 1933--Executive Committee decided to purchase approximately \$20,000,000 of securities during the current week and no decision was reached as to definite action beyond the week because of the great uncertainty as to the position of the dollar and other influences affecting business activity.	
July 29, 1933	\$1,810,350,000	July 21, 1933--It was the sense of the Federal Open Market Committee that the authority to purchase up to \$1,000,000,000 of securities be reaffirmed and be continued for the unused portion of the authority.	Recommendation approved by Board.
Sept. 20, 1933	\$1,850,350,000	Sept. 21, 1933--Executive Committee voted that purchases not to exceed \$36,000,000 be made in the current statement week with the understanding that a lesser amount might be purchased if a change in conditions appeared to make that advisable.	
Oct. 9, 1933	\$2,102,150,000	Oct. 10, 1933--Committee voted that authority to purchase \$1,000,000,000 of securities be continued and reaffirmed for the unused portion of the authority.	On October 12, 1933, Board authorized the Executive Committee to proceed with the proposed purchases of securities to the extent of the unused portion of the aggregate of \$1,000,000,000. The Board again stated that it would have the whole matter of open-market policy under constant review and would advise the Committee of changes to be made in the program in order more fully to adjust it

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
Oct. 24, 1933	\$2,168,150,000	Oct. 25, 1933--Committee agreed that the policy of gradually diminishing purchases should be followed and that \$18,000,000 of securities should be purchased during the statement week.	to the requirements of the national situation.
Mar. 4, 1934	\$2,223,149,500	Mar. 5, 1934--Committee recommended that the authorization for the purchase of Government securities renewed on October 10, be reduced to \$100,000,000.	Recommendation approved by Board with understanding that the Board would be kept informed currently by the Executive Committee of its program of purchases and as to any development in the situation which might affect the application of the program.
Mar. 23, 1934	\$2,223,149,500	Mar. 24, 1934--The directors of the Chicago bank requested authority to allow its holdings of securities maturing on April 15, 1934, to run off without reinvestment.	On April 12 Board expressed opinion to Chicago bank it would be undesirable for the bank to take the contemplated action.
May 22, 1934	\$2,223,149,500	May 23, 1934--At meeting of Executive Committee, question was raised whether there was a possibility of a purchase of Government securities from the Federal Reserve System by the Treasury for the account of the stabilization fund. The question was discussed wholly tentatively, but no conclusion was reached.	
June 25, 1934	\$2,223,149,500	June 26, 1934--Committee recommended that Executive Committee be authorized to sell up to \$500,000,000 of securities to the Treasury, if and when it seemed desirable, it being pre-	On August 15 Governor Black advised Governor Harrison that since the Treasury had taken no steps to discuss the purchase of securities, it appeared un-

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
Sept. 20, 1934	\$2,223,149,500	<p>ferred that any securities so sold should be of the longer maturities.</p> <p>Sept. 21, 19345—It was voted as the sense of the Conference that the Federal Reserve System was deeply interested in the present, as in the past, financing of the Treasury, and instructed the Chairman of the Committee to convey to the Secretary of the Treasury the System's interest, and to advise the Secretary that the System would continue its active aid in the financing and would be pleased to consider such suggestions as may be made for further cooperation.</p> <p>Other meetings were held by the Executive Committee and the Federal Open Market Committee during 1934 but no action was taken of a character which would require reference thereto in this memorandum.</p>	necessary for the Board to take action on the matter at that time.

*See 120
See 121
7/1/35*

It is assumed for the purpose of this memorandum that the Board would consist of seven appointed members, without any ex officio members, but with a Governor and a Vice Governor as at present. It is also assumed that substantially the proposed Banking Act of 1935 would become law and responsibility would be more definitely fixed upon the Federal Reserve Board especially for open market policies.

Governor and Vice Governor

The Governor would be the Chairman of the Board and Chairman of the Board's Executive Committee. As the law provides, he would be the Board's active executive officer and, under the by-laws, he would have supervision of the Board's staff. By reason of the Board's more definitely fixed responsibility for open market policy he would concentrate very largely on that subject together with the discount rates of Federal reserve banks and the requirements as to reserves of member banks. He would give attention to the foreign relations of the Federal reserve banks; and also to the general relations of the Board with the Federal reserve banks.

Since the Vice Governor must be in position to act in the absence of the Governor he would devote his time and special thought to these subjects so that he could be always ready to assist the Governor in these matters and to function in his absence.

The other members of the Board naturally also would wish to make themselves conversant with these problems.

The increased power and responsibilities of the Federal reserve banks and the Federal Reserve Board in these and other matters, together with the rapidly growing public interest in the

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manner in which the Federal reserve system functions, indicate the desirability of close personal familiarity on the part of the entire Board with the problems and management of each of the Federal reserve banks and therefore that every member of the Board should devote a substantial part of his time to visiting the various Federal reserve banks and meeting with their boards of directors and executive officers.

All other matters requiring Board action would be distributed among the remaining five Board members. However, allowance must be made for the fact that there would be an additional appointment to be made of a person whose particular training and experience cannot be taken into consideration at this time but which might cause some alterations in the distribution of the work because of any special qualifications or background that he might have. However, the attempt has been made to group for each member subjects which are fairly related to each other.

On this basis the distribution of subjects among these five members would be as follows:

Member A

1. Interest on deposits of member banks.
2. Loans, discounts and investments of member banks.
3. Loans and discounts of Federal reserve banks.
4. Issuance and redemption of Federal reserve notes and Federal reserve bank notes by Federal reserve banks.
5. Settlement fund of Federal reserve banks.

Member B

1. Interlocking directorates and other relations subject to Clayton Act and Section 32 of the Banking Act of 1933.
2. Outside business and other connections of directors, officers and employees of Federal reserve banks.
3. Removal of directors, officers and employees of Federal reserve banks and member banks.
4. Extension and maintenance of credit by brokers, dealers, banks and others for purchasing or carrying securities.
5. Disposition of criminal violations of law.

Member C

1. Salaries and other expenditures at Federal reserve banks, fiscal agency and other services performed by Federal reserve banks for others, and reimbursement therefor.
2. Establishment and discontinuance of branches and agencies of Federal reserve banks.
3. Clearing accounts and other privileges at Federal reserve banks for non-member banks.
4. Examinations of Federal reserve banks by Federal Reserve Board.

Member D

1. Federal Reserve Board Building.
2. Research and statistical activities of Federal reserve system.
3. Monthly summary of business conditions, Federal Reserve Bulletin, and Annual Reports.
4. Periodical reports of condition of State member banks and their affiliates and special periodical reports of reporting member banks.
5. Classification of member banks into groups for election of Class "A" and Class "B" directors.

Member E

1. Admission to and termination of membership in Federal reserve system.
2. Establishment of branches, mergers and consolidations, adjustments of capital structure, trust powers, examinations, etc. of member banks.
3. Voting permits.
4. Institutions engaged in international and foreign banking subject to sections 25 and 25A of Federal Reserve Act; private bankers subject to section 21 of Banking Act of 1935; and examinations thereof.

Under the Board's present procedure recommendations as to the Board's appointments of directors of Federal reserve banks and their branches are handled by the Board's district committees. The Banking Act of 1935 would make the appointments of Governors and Vice Governors of Federal reserve banks subject to the Board's approval. The Governors would become Class C directors and the Vice Governors might be appointed Class C directors. The question would therefore arise as to the procedure that should be followed in these matters in future.

If the district committees are to be retained it is suggested that consideration be given to the desirability of making them one-man committees and that they should give attention to matters which are peculiar to the districts assigned to them and are not embraced within the duties otherwise assigned to the individual members of the Board.

clerkship
see Na

ILLUSTRATIONS OF THE KINDS OF INELIGIBLE PAPER
WHICH COULD BE MADE ELIGIBLE UNDER SECTION
206 OF THE BANKING ACT OF 1935.

Under existing law all commercial and industrial paper having a maturity in excess of 90 days, exclusive of days of grace, is ineligible for rediscount but could be made eligible under section 206 of the bill with such maturities as the Board might allow by regulations. Thus, paper arising out of commercial or industrial transactions which require 4, 5 or 6 months to complete could be made eligible with maturities up to 4, 5 or 6 months.

Finance paper (i.e., paper the proceeds of which have been or are to be advanced to some other borrower) is ineligible for rediscount under the present law but could be made eligible under the amendment if it is in fact commercial, industrial or agricultural paper. Thus, there could be made eligible millions of dollars of the paper of finance companies which borrow from banks in order to finance installment sales.

Account

A note of a farmer given for the purchase of a silo is not eligible under existing law because it is not deemed to be for a current agricultural purpose, but it could be made eligible under the amendment.

Under existing law a note of a farmer given to finance the production, harvesting, carrying and marketing of agricultural products is eligible only if it has a maturity not exceeding 9

B-79

months, exclusive of days of grace, but it could be made eligible with a longer maturity under the proposed amendment.

Notes given to finance the purchase, sale or carrying of stocks, bonds and other investment securities (other than Government obligations) are not eligible for rediscount under existing law but could be made eligible under the amendment as security for advances to member banks on their promissory notes.

Under existing law member banks can borrow from the Federal Reserve banks on their promissory notes secured by Government bonds for only 15 days but under the amendment the Board could permit them to borrow on such collateral for longer periods.

Under existing law member banks cannot borrow from Federal Reserve banks on their promissory notes secured by real estate mortgages but could do so under the proposed amendment if permitted by the Board's regulations.

Under existing law, a note the proceeds of which have been used or are to be used for permanent or fixed investments of any kind such as land, buildings, or machinery or for any other capital purpose is not eligible either for rediscount or as security to a member bank's promissory note; but, under the amendment, it could be made eligible as security for a member bank's promissory note.

Office Correspondence

FEDERAL RESERVE
BOARD

Date August 17, 1935

To Mr. Hamlin

Subject:

From Mr. Goldenweiser

670 16-852

In connection with Mr. McAdoo's inquiry, I find that it is not possible from printed sources to determine the amount of munitions that were exported during the war years. The nearest to that classification is a comparison of the total domestic merchandise exports with exports of explosives, which were as follows:

	<u>Total domestic merchandise</u>	<u>Explosives</u>
1914	\$2,071,000,000	\$10,000,000
1915	3,493,000,000	189,000,000
1916	5,423,000,000	716,000,000
1917	6,170,000,000	640,000,000
1918	6,048,000,000	244,000,000

I understand that some study of this subject has been made at the War Department, but it would be better for the Senator to ask them directly rather than to have us do so.

On acceptances, I find that it is impossible to find any classification of the underlying transactions prior to 1919. The total volume of acceptance credits in those years, however, was not large enough to finance any considerable part of our exports. Estimated figures for acceptances of member banks outstanding at the end of the year are as follows:

1915	\$32,876,000
1916	107,909,000
1917	390,900,000
1918	480,624,000

Section

Section 5 of the Glass banking act amends Section 9 of the Federal Reserve Act:

Each bank admitted to membership shall obtain from each of its affiliates other than member banks and furnish to the Federal reserve bank and to the Federal Reserve Board not less than three reports during each year.

Contents of such reports:

Each such report of an affiliate shall be transmitted at the same time as the corresponding report of the affiliated member bank.

Each such report shall contain such information as in the judgment of the Federal Reserve Board shall be necessary:

"To disclose fully the relations between such affiliate and such bank, and

To enable the Board to inform itself as to the effect of such relations upon the affairs of such bank."

Penalty for any affiliated member bank failing to obtain from any of its affiliates and furnish any report provided for above:

"Subject to a penalty of \$100 for each day during which such failure continues."

The term affiliate under this paragraph and the two preceding paragraphs to include holding company affiliates as well as other affiliates.

State member banks to be subject to the same limitations and conditions with respect to the purchasing, selling, underwriting, and holding of investment securities and stock as are applicable in the case of national banks under paragraph 7 of Section 5136 of the Revised Statutes as amended.

After one year from date of the enactment of the Banking Act of 1933, no certificate representing the stock of any state member bank shall represent the stock of any other corporation, except a member bank or a corporation, etc. etc. engaged solely in holding the bank premises of such state member bank * * * *

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Nor shall the ownership, sale, or transfer of any certificate representing the stock of any such bank be conditioned in any manner whatsoever upon the ownership, sale, or transfer of a certificate representing the stock of any other corporation except a member bank.

Each state member bank affiliated with a holding company affiliate shall obtain from such holding company affiliate * * * an agreement that such holding company affiliate shall be subject to the same conditions and limitations as are applicable under Section 5144 of the Revised Statutes, as amended, in the case of holding company affiliates of national banks.

Penalty for failure of state member bank affiliated with a holding company affiliate to obtain such an agreement:

"The Federal Reserve Board shall require such bank to surrender its stock in the Federal reserve bank and to forfeit all rights and privileges of membership in the Federal Reserve System."

Whenever the Federal Reserve Board shall have revoked the voting permit of any such holding company affiliate, the Board may, in its discretion, require any or all state member banks affiliated with such holding company affiliate to surrender their stock in the Federal reserve bank and to forfeit all rights and privileges of membership in the Federal Reserve System.

In connection with the examinations of state member banks, examiners selected or approved by the Board shall make such examinations of the affairs of all affiliates of such banks as shall be necessary:

"To disclose fully the relations between such banks and their affiliates and the effect of such relations upon the affairs of such banks."

Section 18 of the Glass Act amends Section 5139 Revised Statutes by adding a new paragraph:

After one year from the date of the enactment of this Act no certificate representing the stock of any such association shall represent the stock of any other corporation, except a member bank or a corporation existing on the date this paragraph takes effect engaged solely in holding the bank premises of such association.

Nor shall the ownership, sale, or transfer of any certificate representing the stock of any such association be conditioned in any manner whatsoever

upon the ownership, sale, or transfer of a certificate representing the stock of any other corporation except a member bank.

Section 19, election of bank directors of national banks.
Amends Section 5144 Revised Statutes.

"* * * Shares controlled by any holding company affiliate of a national bank shall not be voted unless such holding company affiliate shall have first obtained a voting permit as hereinafter provided, which permit is in force at the time such shares are voted* * *"

"* * * For the purposes of this section shares shall be deemed to be controlled by a holding company affiliate if they are owned or controlled directly or indirectly by such holding company affiliate, or held by any trustee for the benefit of the shareholders or members thereof."

"Any such holding company affiliate may make application to the Federal Reserve Board for a voting permit entitling it to cast one vote at all elections of directors * * *

"The Federal Reserve Board may, in its discretion, grant or withhold such permit as the public interest may require.

"In acting upon such application, the Board shall consider the financial condition of the applicant, the general character of its management, and the probable effect of the granting of such permit upon the affairs of such bank, but

"No such permit shall be granted except upon the following conditions:

"Every such holding company affiliate * * * to agree to receive etc. examiners duly authorized to examine such banks, who shall make such examinations of such holding company affiliate:

As shall be necessary to disclose fully the relations between such banks and such holding company affiliate,

And the effect of such relations upon the affairs of such banks *****"

The reports of such examiners shall contain such information:

"As shall be necessary to disclose fully the relations between such affiliate and such banks and the effect of such relations upon the affairs of such banks****"

"Such examiners may examine each bank owned or controlled by the holding company affiliate, both individually and in conjunction with other banks owned or controlled by such holding company affiliate.

"Publication of individual or consolidated statements of condition of such banks may be required."

Certain conditions imposed applicable after five years from the enactment of this Act.

Other conditions imposed to take effect five years after passage of Act.

Double liability of the shareholders of such holding company affiliate on the shares of stock held.

Other information to be furnished in application for such voting permit.

Penalty: If it shall appear to the Federal Reserve Board at any time that:

"Any holding company affiliate has violated any of the provisions of this Act or of any agreement made pursuant to this Section, - the Federal Reserve Board may revoke any such voting permit after giving 60 days notice****"

After such revocation:

"No national bank whose stock is controlled by the holding company affiliate shall receive deposits of public moneys of the United States.

"Nor shall any such national bank pay any further dividend to such holding company affiliate upon any shares of such bank controlled by such holding company affiliate."

"Whenever the Federal Reserve Board shall have revoked any such voting permit, the rights, privileges, and franchises of any or all national banks the stock of which is controlled by such holding company affiliate shall, in the discretion of the Federal Reserve Board, be subject to forfeiture in accordance with Section 2 of the Federal Reserve Act, as amended."

Section 27, amends Section 5211 of the Revised Statutes by adding a new paragraph:

"Each national banking association shall obtain from each of its affiliates other than member banks and furnish to the Comptroller not less than three reports during each year***

"For the purpose of this section the term 'affiliate' shall include holding company affiliates as well as other affiliates****.

"Each such report shall contain such information as in the judgment of the Comptroller shall be necessary:

To disclose fully the relations between such affiliate and such bank and to enable the Comptroller to inform himself as to the effect of such relations upon the affairs of such bank."

The Comptroller may publish such reports and may call for additional reports with respect to any such affiliate:

"Whenever in his judgment the same are necessary in order to obtain a full and complete knowledge of the conditions of the association with which it is affiliated."

Penalty for such affiliated bank which fails to obtain and furnish any report required under this section: -"\$100 for each day during which such failure continues."

Section 28, amends first paragraph of Section 5240 of the Revised Statutes, as amended, by adding a proviso that:

"In making the examination of any national bank the examiners shall include such an examination of the affairs of all its affiliates other than member banks

As shall be necessary to disclose fully the relations between such bank and such affiliates and

The effect of such relations upon the affairs of such bank."

Penalty for refusal to give information or to permit such examination: Forfeiture of all rights, privileges, and franchises of the bank in accordance with Section 2 of the Federal Reserve Act as amended.

"The Comptroller shall have power, and he is hereby authorized to publish the report of his examination of any national banking association or affiliate which shall not within 120 days after notification of the recommendations or suggestions of the Comptroller, based on said examination, have complied with the same to his satisfaction****"

Amends Section 5240 of the Revised Statutes by adding a paragraph:

"The examiner making the examination of any affiliate of a national bank shall have power to make a thorough examination of all the affairs of the affiliate, and in doing so he shall have power to administer oaths and to examine etc.etc. and to make a report of his findings to the Compt roller."

"If any affiliate of a national bank shall refuse to permit an examiner to make an examination of the affiliate or shall refuse to give any information required in the course of any such examination, the national bank with which it is affiliated shall be subject to a penalty of not more than \$100 for each day*****"

Office Correspondence

FEDERAL RESERVE
BOARDDate May 24, 1935*See Bu
Elizabeth*To Mr. Hamlin

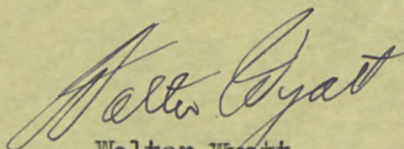
Subject: _____

From Mr. Wyatt, General Counsel.

GPO 2-8495

In accordance with your request I am handing you herewith a memorandum giving illustrations of two cases in which 90 days is not sufficient to cover commercial transactions and also a memorandum regarding the status of the provisions of the Banking Act of 1935 regarding the admission of insured nonmember banks to membership in the Federal Reserve System.

Papers attached



Walter Wyatt,
General Counsel.

ILLUSTRATION OF CASES IN WHICH NINETY DAYS IS NOT
SUFFICIENT TO COVER COMMERCIAL TRANSACTIONS.

A retail merchant engaged in the hardware or furniture business, or other line of business in which the stock turn-over is not rapid, buys a stock of goods and gives his note for it. It is unlikely that the goods will be disposed of within the ninety day period, and so the note must ordinarily be made for a longer maturity than ninety days. In such cases it is, of course, ineligible for rediscount at Federal Reserve banks under existing law, although clearly its proceeds are used for a commercial purpose.

In certain lines of industry more than ninety days are necessary to complete the manufacture of raw materials into finished products. Various stages of processing and refinement are sometimes necessary, which consume more than a ninety day period. For example, the time necessary between the purchase of raw materials by the builders of steamships or railroad engines or cars and the completion of the finished products is understood to be frequently in excess of ninety days. In such cases the note of the manufacturer given in payment for the goods must be for a longer period than ninety days if it is to cover the time during which the manufacturer has his funds tied up in the goods. Such notes with maturities in excess of ninety days, although given for an industrial purpose, are not eligible for rediscount at Federal Reserve banks under existing law.

Attention is also invited to the fact that under existing law member banks may make acceptances with maturities up to six months, but such acceptances may be discounted by Federal Reserve banks only when their maturities are not more than ninety days (unless drawn for agricultural purposes).

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Provisions of Banking Act of 1935 Regarding Admission of
Insured Nonmember Banks to Membership in Federal Reserve
System

Section 23 of the proposed Banking Act of 1935 (H.R. 5357), as originally introduced, provided that no State bank, other than a mutual savings bank, a Morris Plan Bank, or a bank located in Hawaii or Alaska, should become an insured bank or continue to have its deposits insured by the Federal Deposit Insurance Corporation after July 1, 1937, unless it should become a member of the Federal Reserve System. However, this provision was omitted from the bill as enacted by the House on May 9, 1935.

Section 202 of H.R. 5357, as originally introduced, amended section 9 of the Federal Reserve Act so as to permit the Federal Reserve Board, upon application of an insured nonmember bank at any time prior to July 1, 1937, to waive in whole or in part the requirements of section 9 relating to the amount of capital required of such bank for admission to membership in the Federal Reserve System. Section 202 also provided that an insured bank admitted to membership under this provision should comply with such capital requirement within such period as in the Board's judgment should be reasonable in view of all the circumstances.

At Governor Eccles' suggestion, section 202 of the bill was amended so as to permit the Federal Reserve Board, upon application of an insured nonmember bank, to waive any of the requirements of section 9 relating to the admission of such bank to membership, provided that the Board might require such bank, after admission to membership, to increase its

capital to an amount which should not exceed that required for the organization of a national bank in the same place. The bill, as it passed the House on May 9, 1935, contained section 202 in the form suggested by Governor Eccles.

Accordingly, H.R. 7617 in the form in which it is now pending in the Senate does not require insured nonmember banks to become members of the Federal Reserve System in order to continue to have deposit insurance but still contains the provision authorizing the Federal Reserve Board, upon the application of an insured nonmember bank, to waive any of the membership requirements provided by section 9 of the Federal Reserve Act.

See AM

June 4, 1935.

Memorandum to Mr. Hamlin:

We find in the record of the hearings on the Glass Bill, S. 4115, that Dr. Burgess appeared on behalf of Governor Harrison in his absence and presented a communication dated April 7 signed by Messrs. Case, Warner, Whitmarsh, Young, Wiggin, Woolley, Woodin and Reyburn, stating that an attached letter of Governor Harrison dated April 7 had been read and unanimously approved by the board of directors of the Federal Reserve Bank of New York present at their meeting on April 7, 1932. This letter was addressed to Senator Norbeck, as Chairman of the Committee on Banking and Currency, and signed by Governor Harrison. It stated that he very much appreciated the action of the committee in giving him this opportunity to present to it "a memorandum of our views with respect to this important bill". In the early part of the letter he said that "Apart from the relatively few provisions in the bill, such as those relating to branch banking and possibly the liquidating corporation, the great majority of its substantial sections appear to us to be deflationary or restrictive in their effect" and after a lengthy discussion he said "In conclusion, there do not appear to us to be any parts of the bill for which there is imperative need for immediate passage, although two sections of the bill are, indeed, of a character which might be expected to be helpful in the present emergency". The two sections to which he

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Memorandum to Mr. Hamlin - (2)

referred were those containing provision for a liquidating corporation and wider extension of branch banking.

On Tuesday, March 29, 1932, Governor Meyer appeared before the Senate Committee on Banking and Currency and presented a letter of that date signed by him and addressed to Senator Norbeck, together with a memorandum attached to the letter. He stated that they contained "expressions which are the unanimous views of the members of the Federal Reserve Board". In the letter it was stated that "the Federal Reserve Board is in sympathy with the purpose of the bill to strengthen the supervision of the Federal reserve system over general credit conditions and to invest the Federal reserve authorities with certain disciplinary powers in relation to banks that pursue unsafe and unsound policies or abuse the privileges of membership". The letter and the memorandum discussed various provisions of the bill, some of which were criticized and others favored with modifications.

On April 12, 1932, Governor J. B. McDougal, as Acting Chairman of the Open Market Policy Conference, addressed a letter to Governor Meyer in which reference was made to the committee's "unanimous concurrence in the opinion expressed by the Federal Advisory Council that the present is an inopportune time to inaugurate such changes in banking practice, and in the relations

Memorandum to Mr. Hamlin - (3)

between the Federal Reserve Board, the Federal Reserve Banks,
and the member banks, as are provided in this bill." This
statement had reference to Senate Bill No. 4115, known as the
Glass Bill.

CW

Secretary.

CM yd

Office Correspondence

FEDERAL RESERVE
BOARDDate *See DA*
June 1, 1935To Mr. Hamlin

Subject: _____

From Mr. Goldenweiser
GG

GPO 16-852

I am sending you a brief statement about the method of operation of the Bank of England, the Bank of France, the Reichsbank, and the Bank of Canada, and also a paragraph about German inflation. I am also enclosing a statement that shows the legal provisions in many foreign central banks in which the ones that you are particularly interested in are underlined.

On Canada we sent you a memorandum on May 23 and I am going to send a statement about the French situation later this morning.

3121

SUMMARY OF FOREIGN CENTRAL BANK STATUTES

NATIONAL BANK OF BELGIUM

(Statutes of 1927 as amended to August 1, 1930)

Ownership and control

The law does not set any requirement or limit as to the ownership of the bank's shares. At shareholders' meetings each holder has one vote for every thirty shares with a maximum of five votes. The bank is managed by a /board of /irectors, an /Administrative /ouncil, a /board of /ensors, and a /overnment /ommissioner.

Board of /irectors

The /oard is composed of a Governor, appointed by the Crown for a term of five years and serving at the pleasure of the Crown, and three directors elected by the shareholders for terms of six years. Neither the Governor nor the directors may be members of the legislature or directors of any commercial or industrial body. The board is in charge of the daily business of the bank.

Administrative /ouncil

The /ouncil is composed of the board of directors and nine regents elected by the shareholders for terms of six years. The regents must be engaged in commerce, industry, or banking and may not be members of the legislature. The council fixes the rate and conditions of discount.

Board of /ensors

The board of censors is composed of ten members elected by the shareholders for terms of three years. They must be engaged in commerce, industry, or banking and may not be members of the legislature. The censors supervise the bank's operation and examine the books.

Government /ommissioner

A commissioner who may attend meetings of the above bodies is appointed by the Government to supervise the bank's operations. The Government has the right to oppose any of the bank's measures considered contrary to the laws or interests of the State.

Profits

The profits of the bank are distributed among the surplus, the shareholders, and the Government in accordance with a complicated formula.

Note issue and reserves

The bank must hold gold equivalent to at least thirty percent and gold or claims payable in gold abroad equivalent to at least forty percent of its total sight obligations.

General business

The bank is obliged to buy and sell gold at the statutory rate. The bank may,

1. discount, buy, and sell bills of exchange, commercial and agricultural paper, and Treasury bills, provided that the latter held by the bank shall not be over 100,000,000 francs in excess of the Treasury bills acquired October 25, 1926 in connection with the stabilization of the currency,
2. acquire assets abroad and deal in gold and silver but no other commodities,
3. accept deposits,
4. make short-term advances against Government or Government-guaranteed securities, or similar securities of Luxemburg, and
5. hold Government securities, on authority of the Finance Minister, to the amount of its capital and surplus.

Other provisions

The bank acts as bankers to the Treasury without charge. The bank's charter expires December 31, 1952.

BANK OF ENGLAND

(Charter of 1694 as amended to Sept. 21, 1931)

Ownership and control

The law does not set any requirement or limits as to the ownership of the bank's shares. Holders of shares of not less than 2500 have one vote and no more at the meeting of shareholders, which elects each year twenty-four directors, a Governor, and a Deputy-Governor for managing the affairs of the bank.

Profits

The net profits of the issue department accrue to the Government.

Note issue and reserves

The bank may issue legal tender notes up to the amount of gold in the issue department plus £260,000,000 representing the fiduciary issue, which must be covered by securities. At the bank's request the Treasury may reduce the fiduciary issue, or, upon representation of the bank, increase it. The bank is obliged to buy all gold offered at the statutory rate, but since September 21, 1931, it is not obliged to sell gold.

General business

The bank may not deal in merchandise nor may it make advances to the Government without the express authority of Parliament, otherwise its business is not limited. The Government debt at the bank has been fixed at £11,015,100, although Parliament has given a standing authorization for ways and means advances on the condition that they be repaid in the quarter following that in which they were obtained. The bank is banker for the Government, but there is no specific legal provision to this effect.

Other provisions

The bank may require any holder in the United Kingdom of gold in excess of £10,000 to sell it to the bank. The bank shall continue a corporation until all stock is duly redeemed by Parliament.

BANK OF FRANCE

(Laws, ordinances, etc. to December 7, 1931)

Ownership and control

The law does not set any requirement or limits as to the ownership of the bank's shares. The two hundred French citizens holding the largest number of shares have one vote at the shareholders' meeting. This meeting elects each year fifteen regents for terms of five years, of whom three must be from the Treasury, and three auditors for terms of three years. A Governor and two Deputy-Governors, who may not be members of the legislature, are appointed by the President on the proposal of the Finance Minister for no specified term. The Governor must own one hundred shares and the two Deputy-Governors fifty shares each. The Governor directs the business of the bank and, together with the Deputy-Governors, the regents, and auditors, forms the General Council, which is responsible for the general administration of the bank.

Profits

The bank pays to the Government royalties computed with reference to the rate of discount and an amount equivalent to dividends in excess of twenty-four percent.

Note issue and reserves

The bank has the monopoly of note issue but its notes are legal tender. It is obliged at the statutory rate to buy gold and to redeem its notes in gold in minimum amounts of 215,000 francs. The bank is obliged to maintain a minimum gold reserve of thirty-five percent of its total sight liabilities.

General business

The bank may,

1. discount domestic bills of specified types of not more than three months maturity and bills payable abroad for the promotion of French export trade,
2. receive deposits without interest,
3. deal in gold,
4. grant ninety-day advances against securities of the central, colonial, and municipal governments and other specified securities,
5. sell and repurchase the bills turned over to it by the sinking fund as part of the plan for covering the bank's losses incurred in Russia during the war and in England during 1931 when that country abandoned the gold standard. The bank has never sold any of these bills of which it holds about 6,000,000,000 francs

A sum representing more than half of the bank's capital in legal reserve must be invested in French rentes. Upon renewals of the bank's charter loans have been granted to the Government, which are fixed at the present time at 3,200,000,000 francs.

The bank acts as banker for the Government without charge.

Other provisions

The bank is liable for ordinary taxes. Its charter expires December 31, 1945.

GERMAN REICHSBANK

(Act of 1924 as amended to Dec. 18, 1933)

Ownership and control

The law does not set any requirement or limit^g as to the ownership of the bank's shares. Each shareholder has one vote to a share but may not have more than 300 votes.

The bank is managed by a board of an unspecified number. The president of the board, who is president of the bank, is appointed for a four-year term by the president of the Reich with the advice of the board. Other members of the board are nominated by the president of the bank and appointed by the president of the Reich for terms of twelve years. On important grounds, any member of the board, including the president, can be dismissed at any time by the president of the Reich. Their salaries are determined at the time of appointment by a contract with the Reichsbank which must be approved by the president of the Reich. The shareholders select a permanent committee which may be consulted by the board.

Profits

The bank's profits are distributed among surplus, shareholders (cumulative dividend of eight percent), and Government.

Note issue and reserves

After December 31, 1935, when the note issue privilege of the state banks expires, the Reichsbank shall have the exclusive right to issue notes. According to the bank's statute, Reichsbank notes are redeemable in gold or gold exchange and a reserve must be held in gold equivalent to at least thirty percent and in gold and gold exchange equivalent to at least forty percent of notes outstanding. The balance of notes must be covered by bills of specified types and Government or Government-guaranteed securities. In exceptional circumstances, the minimum reserve of forty percent may be reduced by common consent of the board and committee of shareholders.

General business

The bank may,

1. buy and sell gold, silver, and foreign bills payable within

fourteen days,

2. discount, buy, and sell domestic and foreign bills carrying three signatures, or two signatures with special security,
3. discount, buy, and sell three-month Treasury bills carrying the guarantee of another party in addition to the Reich's, provided that the total so acquired or accepted as collateral for loans shall not exceed 400,000,000 reichsmarks.
4. make three-month loans against bonds of the Reich, states, or municipalities or bonds guaranteed by them, against bonds of foreign governments, against preferential shares of German railroads, against bonds of certain German Government credit institutions, and against bills of exchange, merchandise stored in Germany, and German Treasury bills (see preceding paragraph),
5. buy and sell German securities listed in four above which are quoted on the stock exchange,
6. accept noninterest-bearing deposits, and
7. grant credits to the Reich up to three months and not exceeding 100,000,000 reichsmarks, which must be repaid by July 15 of each year.

Other provisions

The bank accepts and makes payment for the Reich without charge. Fees for other business are arranged with the Reich. The bank is free of corporation, income, and trade taxes. The bank's charter extends fifty years expiring in 1974.

BANK OF JAPAN

(Act of 1882 as amended to 1933)

Ownership and control

Only Japanese may own shares in the bank. The Government may own up to one-half of the bank's capital but holds no shares as yet, although a large block is held by the Imperial household. Each shareholder has one vote for every ten shares and one extra vote for every additional fifty shares.

The Government shall control all the operations of the bank and shall prevent any operation contrary to the law or interest of the Government. The rate charged for collateral loans must be approved by the Finance Minister.

The management of the bank resides in a board of four directors appointed for terms of four years by the Finance Minister from a list of shareholders of one hundred shares or more submitted by the shareholders, and a Governor and Vice-Governor appointed for terms of five years by the Government. Members of the board may not become officers of other banks or companies during their tenure of office and the Governor and Vice-Governor may not hold any other official appointment. The salaries of the Governor and Vice-Governor are fixed by the Government but paid by the bank. The Governor may suspend, and refer to the Government, any decision of the board he considers contrary to the law or interests of the Government. Directors may be dismissed by the shareholders with the approval of the Finance Minister.

The shareholders appoint auditors to supervise the bank's business and the auditors together with the board form a general council to determine the distribution of profits, establishment of branches, etc. Decisions of the general council must be approved by the Finance Minister.

Profits

Profits in excess of a cumulative dividend of six percent are distributed among surplus, officers' bonuses, and shareholders.

Note issue and reserves

The bank purchases gold newly mined in Japan at a price determined by the Minister of Finance and other gold at the statutory price. The bank's notes, which are legal tender, have been irredeemable since December 17, 1931. The bank has a fiduciary issue of notes of 1,000,000,000 yen covered by Government securities or commercial bills, which may be increased by the bank on the approval of the Minister of Finance provided that an annual tax to be fixed by the Minister of Finance at not less than three percent is paid on such increase. All other notes in circulation must be covered 100 percent by gold or silver, but silver may not exceed one-fourth of the total reserve.

General business

The bank may,

1. discount or buy Treasury bills and commercial bills,

- 2. deal in gold and silver,
- 3. accept deposits,
- 4. make advances up to six months against Government or Government-guaranteed securities, and
- 5. buy and sell Government securities with approval of the Finance Minister.

Other provisions

The bank is banker for the Government. The bank's charter is for thirty years, expiring in 1942.

NETHERLANDS BANK

(Various statutes, chiefly Act of 1919)

Ownership and control

The law does not set any requirement or limits as to the ownership of the bank's shares. Dutch shareholders have from one to six votes, determined by a graduated scale based on the number of shares held.

Board

The management of the bank is largely in the hands of a board consisting of a president, a secretary, and not less than two directors according to the determination of the board and the commissaries. The president and secretary are appointed by the crown for terms of seven years from nominations submitted by the board and commissaries and on their proposal the crown may also dismiss the president and secretary. The directors are appointed by shareholders from nominations submitted by the board and commissaries, and upon the proposal of the board and commissaries the shareholders may also dismiss the directors. The remuneration of the members of the board is determined, with the approval of the crown, by the commissaries.

Advisory Committee

A committee of five members is elected by the shareholders for five years from nominations submitted by the board and commissaries to meet with and be consulted by the board on important matters. Members of the committee may also be commissaries, and their remuneration is determined, with the approval of the crown, by the commissaries. If there is disagreement between the committee and the board the commissaries are to be informed.

Commissaries

Not less than fifteen commissaries are elected by shareholders from among their own number for terms of five years to supervise the management of the bank.

Royal Commissioner

A commissioner is appointed by the Crown to attend all meetings of shareholders and commissaries with an advisory vote.

Profits

Profits are distributed among surplus, shareholders, state, board, and commissaries as provided in the act.

Note issue and reserves

The minimum metallic reserve required against notes and deposits of the bank is determined by royal decree and is at present forty per cent. The reserve may legally include silver.

General business

The bank may,

1. discount commercial paper and six-month debentures,
2. buy and sell foreign exchange,
3. make short-term advances against securities,
4. deal in precious metals,
5. perform, with Government approval, any other business in the public interest,
6. accept deposits, and
7. make limited noninterest-bearing advances to the Government.

Other provisions

The bank serves as banker to the Government without charge. The bank's charter expires March 31, 1994.

RESERVE BANK OF NEW ZEALAND

(Act of Nov. 27, 1933)

Membership and control

Shares may be held by British subjects resident in New Zealand to a maximum amount of 500 shares. Original capital £500,000 with shares of a par value of £5. The capital may be increased by the shareholders, subject to the approval of the Minister of Finance. Shares not subscribed for by public within three months must be taken by Minister of Finance to be again offered to public at par as soon as Board of Directors think time desirable. Holding of shares does not give the Minister the right to vote. The Government must pay into the bank's surplus £1,000,000 in cash or Government securities recoverable only upon liquidation of the bank, which sum may be reduced by the amount of the bank's shares held by the Government. All of the bank's present capital is privately owned.

Board of directors

The board of directors is composed of the Governor, Deputy Governor, the Secretary to the Treasury who shall have no vote, and seven directors with terms of five years, of which three are chosen by the Governor-General in council and four by the shareholders from among their number. Two of the shareholders' directors must be actively engaged in primary industry and two in industrial or commercial pursuits. Not more than one appointed member of the board may be a director of any other bank and no appointed member of the board may be a civil servant or a member of Parliament. The board, with the approval of the Governor-General in Council may remove any appointed member that in its opinion becomes permanently incapable of performing his duties. The Governor and Deputy Governor shall possess actual banking experience and shall be required to devote full time to their offices. They shall be appointed by the Governor-General in council on the recommendation of the board of directors for a term of seven years with remuneration fixed by the Governor-General in council. The board has the power to,

1. conduct generally the business of the bank,
2. determine rates of discount and interest,
3. deal with the general conditions and limits of the various categories of authorized business,
4. confirm or reject decisions of the Executive Committee,

- 11
5. select one director for the Executive Committee, and
 6. request the Minister of Finance to suspend reserve requirements.

The Governor shall on behalf of the board have permanent control of the administration of the assets and general business of the bank, with authority to act and to give decisions in all matters which are not specifically reserved to the board or the meeting of shareholders.

Executive Committee

The Executive Committee of the board consists of the Governor, the Deputy Governor, and not less than one other member acting as such by direction of the board, or, in the absence of such direction, acting with the concurrence of the Governor. The committee may deal with any matter within the competence of the board, but its decisions shall be subject to review of the board at its next meeting.

Profits

Profits after payment of a cumulative dividend of five percent are distributed between surplus and the Government as provided in the act.

Note issue and reserves

The bank shall have the sole right to issue notes. All gold held by other banks in New Zealand was sold at the old statutory price to the Reserve Bank at its establishment and the resulting profits were turned over to the Government. The bank must maintain a reserve in gold, gold exchange, or sterling exchange of not less than twenty-five percent of its demand liabilities, which requirement may be suspended by the Minister of Finance at the request of the board upon payment of a graduated tax to the Government. The bank is obliged to give sterling for notes presented up to 5,000 pounds and notes for gold and sterling at rates determined by the bank. All other banks in New Zealand must maintain balances at the Reserve Bank of not less than seven percent of their demand liabilities, other than bank notes still outstanding, and three percent of their time liabilities.

General Business

The bank may,

1. buy and sell gold and silver,
2. discount, buy, and sell short-term commercial bills,

3. discount, buy, and sell Treasury bills of any Government, or bills issued by any local authority or public body in the United Kingdom or in New Zealand or any other part of the British dominions,
4. grant short-term advances on security,
5. buy and sell Government securities of New Zealand and the United Kingdom, ~~and~~
6. buy and sell currencies of any country other than New Zealand, *and*
7. Accept deposits.

The bank acts as banker for the Government without charge.

Other provisions

The bank shall not be dissolved except by Parliament or until the bank has lost more than one-half of its paid-up capital. The bank is exempt from all but local taxes.

BANK OF SWEDEN

(Act of 1897 as amended to 1931)

Ownership and control

The capital shares of the bank are owned entirely by the Government. The bank is governed by a board of seven directors with terms of three years, of which six are elected by secret ballot by the legislature and one appointed by the King and designated president of the bank. The directors may not be members of the cabinet or directors of any other bank except the Post Office Savings bank and the Bank for International Settlements. Each year twelve auditors are appointed by the legislature to verify the bank's accounts and administration. 7

Profits

The bank's profits accrue to the Government.

Note issue and reserves

The bank has the sole right to issue notes, which are legal tender. The redemption of notes in gold has been suspended since the Royal decree

of September 27, 1931. All notes issued in excess of 250,000,000 kronor must be covered by at least fifty percent in gold (with a minimum reserve of 75,000,000 kronor) and the remainder in domestic bills, specified types of foreign exchange, and Swedish or foreign government securities or advances on such securities.

General business

The bank may,

1. buy and sell gold and silver,
2. buy and sell domestic and foreign bills of exchange of specified types,
3. buy and sell Swedish or foreign government securities,
4. make advances on merchandise,
5. make advances against securities, real estate, or personal guarantee, provided that such advances shall not exceed 15,000,000 kronor exclusive of the credit of 1,500,000 kronor which may be made to the state without security,
6. accept interest or noninterest-bearing deposits,
7. conduct business for profit at the bank's printing works and paper mills.

Other provisions

The Government guarantees the bank's liabilities. The bank acts as banker for the Government, although this is not specified in the law. The bank's charter is for no fixed term.

SWISS NATIONAL BANK

(Law of April 7, 1921, and other statutes, as amended to Dec. 20, 1929)

Ownership and control

Shares of the bank may be held only by Swiss citizens or firms domiciled in Switzerland. Each share carries one vote with 100 votes as the maximum.

Council

To supervise the bank's affairs there is a council of forty members with four-year terms. A president, vice-president, and twenty-three other members are chosen by the Federal Council (corresponding to the cabinet) and the remaining fifteen members are chosen by the stockholders. The council meets regularly only every three months but in the interval delegates its functions to a committee of seven members, including the president and vice-president.

General Direction

The supreme executive authority is vested in a general direction of three members, including the president and vice-president, with terms of six years, appointed by the Federal Council from nominations submitted by the council of the bank. Members of the assembly, cantonal governments, and the bank council may not be members of the direction.

Administration of branches

The bank's branches are managed by local committees appointed by bank council and by local directions appointed by the Federal Council from nominations submitted by the bank council.

Profits

Profits are distributed among surplus, shareholders (maximum dividend of six percent), the central government, and the cantonal governments.

Note issue and reserves

The bank has a monopoly of the issuance of notes. The note circulation must be covered by at least forty percent in gold and the remainder in foreign exchange, securities, Treasury bills, and loans on securities callable on ten days' notice. The Federal Council cannot declare the bank's notes legal tender or relieve the bank from the obligation to redeem them in gold or gold exchange at the statutory price, except in case of necessity at time of war.

General business

The bank may,

1. discount, buy, and sell commercial and agricultural bills payable in Switzerland, foreign sight drafts, Treasury bills of foreign governments, and securities payable in Switzerland and eligible as collateral for loans.

2. buy bonds of the central, cantonal, and foreign governments for temporary employment of funds,
3. make short-term advances against bonds,
4. accept noninterest-bearing deposits.

Other provisions

The bank acts as banker for the central government without charge. The charter of the bank expires 1937.

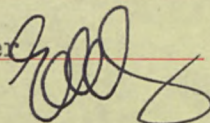
Office Correspondence

FEDERAL RESERVE
BOARDDate August 8, 1935

See RR

To Mr. Hamlin

Subject: _____

From Mr. Goldenweiser

GPO 16-852

I transmit herewith a memorandum prepared by Miss Burr in accordance with your request, in which the points made by Dr. Willis in his letter of April 9, 1923 are discussed.

June 1, 1935

Information requested by
Mr. Hamlin on May 29

Bank of England

The Bank of England deals with the London money market. Since the war the instrument which it has ordinarily employed has been that of open-market operations. During the post-war gold standard period the bank largely offset inward and outward gold movements by sales and purchases of securities. During 1932 the bank bought a substantial volume of securities in order to increase commercial bank reserves and has since maintained these reserves at a higher level.

Commercial banks do not borrow from the Bank of England. When they need funds they call in loans from bill dealers who may then be forced to borrow from the bank. This occurs regularly when the banks are making their mid-year or year-end statements. Except on these occasions, however, the market borrows from the bank only under conditions of unusual strain.

The importance of the bank's discount rate should not, however, be under-emphasized. In general, market rates follow the lead given by bank rate. If they do not, the Bank of England can make its rate effective through open-market operations.

The unusually close relations of the bank with bill dealers and investment houses enable it to exert some measure of direct control over bill rates and the flotation of new capital issues.

The bank lends to private customers as well as to the market; but as a matter of policy it has kept its private business within narrow limits.

Bank of France

Through its system of branches, the Bank of France serves the entire country and does not confine its operations to the Paris market alone. The bank has a considerable private business which is regarded as a safeguard to the small borrower against commercial bank domination.

Since the Bank of France is one of their chief competitors, French commercial banks are reluctant to borrow from it. Nevertheless, it is largely through discounts and advances that the bank serves the money market. It is not in position to engage in open-market operations. The law permits the bank to deal in some 6,000,000,000 francs of special bills that were acquired from the French government in exchange for loans to the defunct Russian government; but as these bills carry no interest, and the bank would have to pay interest on them if it sold them to the market, it has never used them to develop an open-market policy.

Reichsbank

The Reichsbank has a branch banking system and private customers as does the Bank of France. It, too, largely serves the money market through discounting bills and making advances against collateral. In November 1933 it was given certain open-market powers; but it has used these only on a limited scale and more with a view to influencing the bond market than to affecting the volume of commercial bank reserves.

Bank of Canada

The Bank of Canada is definitely designed to be a bankers' bank. It may rediscount and make advances on collateral and engage in open-market operations. While it has made a small amount of advances to the chartered banks, most of its business to date has been in short-term government securities.

GERMAN INFLATION

The German government probably had no conscious purpose in inflating the currency. Issues of paper marks were the only way in which the weak post-war administrations could cover their growing deficits.

The German people were not only unwilling to be taxed to pay reparations; but the recurrent reparation crises drove down the exchange rate of the mark and increased mark prices and the expenditures of the German government. Ultimately, panic psychology, which is always present during severe inflation and which tends to speed the process, occurred in an extreme form in Germany.

Aug. 8. 1935

MR. WILLIS' PROPOSALS IN 1923 FOR AMENDMENTS TO THE
FEDERAL RESERVE ACT CONSIDERED IN THE LIGHT OF
DEVELOPMENTS DURING THE PERIOD 1923-1928 1/

(1) Restore the original plan of reserves, not necessarily with the same percentages but the divided reserves of the original act.

The Federal Reserve Act originally provided for reserves against demand deposits of 12, 15, and 18 percent for the three classes of cities and of 5 percent against time deposits. These reserves were to be deposited as follows: (1) one-third in the vaults of the member bank; (2) somewhat more than one-third in the Federal Reserve bank of the district; and (3) the balance in the member bank's own vaults or in the Federal Reserve bank or in both at the option of the member bank. An amendment in 1917 reduced the reserve requirements for demand deposits to 7, 10, and 13 percent, and for time deposits to 3 percent and required that all reserves be deposited with the Federal Reserve banks.

Mr. Willis considers the 1917 change in the distribution of reserves a fundamental change in the Federal Reserve System. He says:

"The significance of the legislation from the broader banking standpoint must not be overlooked. Important as were all of the amendments thus enacted in 1917, the one which stood out as fundamentally important was that which changed the reserve situation. This modification, as already indicated, was a direct breach in the entire theory of the Reserve Act. . . . The theory of the act had been that in times when reserve banks needed greater strength they would so alter their policy and adjust their rates as to attract this variable element of reserves to their own vaults, while at times when credit could properly be relaxed they would repel it and thus transfer to member banks the responsibility for enlargements of the volume of credit in the market, enabling them to proceed regardless of reserve bank policy. This plan was substantially developed upon the experience of the Bank of England and represented an adaptation of the 'private' and 'public' rate policy and practice of that bank." (The Federal Reserve System (1923), p. 1179)

1/ Proposals made in a letter to Mr. Hamlin dated April 9, 1923.

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In an article in "The Burroughs Clearing House", July, 1925, he explained the effect of divided reserves in greater detail.

"So we naturally ask first of all what would happen if we demobilized reserves and went back to the old form of Reserve Act. The first thing that would result from such a step would of course be the release of a large amount of reserve money. Let us take for example the case of the city bank which now has to keep 13 percent of its deposits on hand. . . . Under the new plan there must be \$13,000 in the reserve bank, so that if we were to go back to the old plan it would be possible for a bank to withdraw \$6,000 for every \$100,000 of deposits and to put that amount into its vault for reserve use. . . . Now just how, if at all, would this advantage the bank which made such a change and how would it affect the general welfare? It would in the first place reduce the cash holdings of reserve banks . . . and would thus compel them to go out into the open market and operate with what resources they still retained, if they wished to attract to themselves a part of the floating supply of reserve which might be either in the vaults of the member bank or in those of the reserve bank. How would they do this? Evidently by establishing rates of discount and conditions of rediscounting, including rates, such that it would be more profitable for the member to obtain reserve credits than to keep his funds at home. This would ordinarily mean the adjustment of rates in such a way that a member bank, say, could to advantage take the reserve money which it was carrying in its vault, 'floating' . . . --use it to buy eligible paper, say acceptances, and then discount these acceptances with the reserve bank. Of course, it would not do that unless the rates were so adjusted that there would be a distinct margin of profit for it in such a rediscount operation. The same condition would apply to lending to customers. It would mean an active market for funds instead of a dead one."

"The effect of it would be simply to withdraw certain amounts of reserve money from the uses to which they are put at the present time in New York and other central money markets where they are employed by reserve banks in buying acceptances, treasury certificates and other forms of investment, or are used as a dead asset in the vaults of reserve banks, or at best serve as a basis upon which to build up a structure of discounts consisting of certain very narrowly limited kinds of eligible paper; and to transfer these funds to the outlying banks where they should be used as a vault reserve to sustain a structure of loans based upon many other classes of investment. Altogether, therefore, the effect of the shift may be

summed up by saying that it would broaden the field of operations in which banks could engage, would give them a much larger latitude correspondingly, and would thus grant to the country the use of funds that are now idle."

Mr. Willis does not explain lucidly in what way the redistribution of reserves of member banks would increase member bank lending power. The reserves must be kept intact, that is, idle, in either case by definition. Having them subject to check at the Reserve bank makes them, if anything, more readily available for temporary use than keeping them in clumsy cash in vault. Mr. Willis entirely ignores the fact that the only way to increase the member banks' lending power on the basis of existing reserves is to reduce reserve requirements, which he does not propose.

Mr. Willis explains that in order to attract the floating supply of cash the Reserve banks would lower their discount rates and that member banks would then take advantage of these rates to borrow, substituting balances at the Reserve banks for reserve cash in their own vaults and investing the cash. Just why member banks, having more cash in their vaults, would be induced to borrow more from the Reserve banks, Mr. Willis fails to explain. This is the only article where he has attempted to spell out his ideas on the effects of a redistribution of reserves, and it clearly shows that there is no basis other than a preconceived preference for his proposal.

The only other effect of member banks' holding a portion of their reserves in cash, rather than on deposit with the Reserve banks would be to diminish the reserves of the Reserve banks and, therefore, their lending power and their consequent ability to extend accommodation to

the member banks and to engage in open-market operations.

(2) Restore Federal Reserve notes to their status as real "banking currency."

In suggesting that Federal Reserve notes be restored to their status as real "banking currency" Mr. Willis apparently means repealing that part of the amendment in 1917 to the Federal Reserve Act which authorized the issue of Federal Reserve notes upon the pledge of gold or gold certificates as security. He says of this amendment:

"The Act of 1917, amending the Federal Reserve Act, . . . legalized the evasions that had been developed during the preceding years and so placed the note issue upon a totally new footing. . . . When the war had fairly opened the effort to draw gold into reserve banks and to issue notes in place thereof, practically made the reserve note, at least to a considerable extent, a gold certificate. . . . The changed status of the reserve note has continued down to the present moment and there is now no immediate prospect, so far as can be seen, of any changes. When the time will come, if ever, that there is a recurrence to the theory of an elastic currency, or 'asset currency' as it was formerly termed, it would be only conjecture to predict. The fact remains that the experiment of an elastic currency was tried for but a few months and then only in a half-hearted way and upon a very limited scale."

(The Federal Reserve System (1923), p. 871)

Repealing the 1917 amendment, however, would not restrict the issue of notes to the amount of eligible commercial paper which could be pledged as collateral with the Federal Reserve agent. This was demonstrated during the period before the amendment was passed when, in order to meet currency needs conveniently, the Reserve banks resorted to a device commonly known as "reversing the pump" whereby they were able to issue notes considerably in excess of a given amount of eligible collateral. After notes have been issued by the deposit of a certain amount of collateral the Reserve banks would redeem the collateral by the pledge of gold, as authorized

by section 16 of the Act, and repledge the collateral thus reacquired to secure the issue of more notes. With ample gold this process could be repeated again and again. Thus on December 30, 1916, there were outstanding \$300,000,000 of Federal Reserve notes originally issued against the deposit of eligible commercial paper but only \$18,000,000 were secured by eligible paper on that date, the banks' liability for the balance of the notes having been reduced by the deposit of gold.

If the 1917 amendment had been repealed in 1923, as suggested by Mr. Willis, a similar process would have taken place from 1923 to 1928. The banks would merely have been required to use more cumbersome machinery and more red tape than under the Act as amended.

It may be that Mr. Willis intended to suggest that the Act should be amended to prevent such devices as "reversing the pump" whereby notes could be issued to meet the currency needs of banks rather than to correspond with the amount of eligible commercial paper which could be pledged as collateral. This would seem likely since he criticizes severely the early experience with note issues.

"The working of the note issue section had thus, even within a few months, drifted very far away from its original intent and had done so in large measure because of the lack of sympathy of the system and of the Board itself with the general idea of elastic business currency."

(The Federal Reserve System (1923), p. 861)

"It was puzzling to member bankers to know why they could not take gold or legal tender notes to a reserve bank, turn them in, and receive in exchange an equal amount of federal currency fresh and clean for distribution to their customers. This they regarded as the essential service of a reserve bank, and when it was pointed out to them that the currency was intended to be 'elastic,' that is, corresponding to the needs

of business and not issued except when a new volume of transactions required it, they were impatient and restive, regarding this as an academic plan possessing no merit."

(The Federal Reserve System (1923), p. 858)

Had the Federal Reserve Act been amended in 1923 to meet Mr. Willis' criticism, the principal effect would have been a prompt demonstration of the fallacy of his theory that the demand for currency fluctuates with the supply of eligible commercial paper at the Federal Reserve banks. During most of this period after 1923 there was not enough eligible paper to supply 60 percent of the collateral of the Federal Reserve notes issued. This is illustrated by the following table giving end-of-the-year figures for 1922-1928 showing in the last two columns the eligible paper required to cover 60 percent of the notes issued compared with the eligible paper actually available.

Dec. 31	Federal Reserve notes issued		Required gold reserve	Maximum eligible paper required	Eligible paper pledged
	Total	Excluding those held by issuing bank			
(In millions of dollars)					
1922	2,817	2,396	958	1,859	859
1923	2,822	2,247	899	1,923	1,022
1924	2,245	1,862	745	1,500	669
1925	2,206	1,838	735	1,471	949
1926	2,261	1,851	740	1,521	969
1927	2,234	1,790	716	1,518	944
1928	2,277	1,838	735	1,542	1,470

With a rigid interpretation of the 1913 Act either there would have been an increased use of gold certificates and other currency to meet currency needs or the inadequacy of the original Act would have become

apparent in the difficulties encountered in attempting to supply the demand for currency.

The difficulties would have arisen from the fact that there is no close relationship between the collateral back of the Federal Reserve notes and the changes in the demand for currency. Demand for currency does not increase when commercial borrowing increases and diminish when borrowing decreases. The fluctuations in currency demand are for the most part seasonal in character, representing chiefly changes in the volume of retail trade and payrolls. This arises from the fact that the great bulk of payments is made by check and currency is merely the small change of business. The public does not wish to carry in its pockets more cash than it needs for day-to-day transactions that it is accustomed to pay for in cash, such as retail purchases, car fares, gasoline for automobiles, and, among employers, payrolls. Cash in excess of these needs is deposited at the banks, except when there is a lack of confidence in them. Banks in turn do not wish to carry in their vaults cash which does not count as reserves and they redeposit the currency at the Federal Reserve banks, where it counts as the banks' reserves.

The objections raised by the banks during the early days of the operation of the System which are referred to in the above quotation grew out of a practical situation which the currency provisions of the original Act failed to take into consideration.

(3) Eliminate most of the amendments which have been made, especially those relating to direct borrowing by member banks, extension of the volume of acceptances that may be made, and (4) repeal the various changes lengthening the maturity and relaxing the liquidity of paper, (including both legislative and administrative acceptances).

The object of these suggestions is to narrow the lending power of the Federal Reserve banks to essentially liquid commercial paper, as provided in the original Federal Reserve Act.

The principal amendments from 1913 to 1923 broadening the Reserve banks' powers to lend to member banks related to the rediscounting of agricultural paper, the purchase and discount of acceptances, and borrowing on Government securities as collateral.

An amendment in 1916 increased the total amount of agricultural paper which might be discounted. Other amendments in 1923 liberalized the definition of eligible agricultural paper, lengthened the maturity from six to nine months, provided for the discount of factor's paper issued for the purpose of making advances exclusively to producers of staple agricultural products in their raw state, and provided for the discount of agricultural paper of the Federal intermediate credit banks.

In regard to acceptances, amendments to the Federal Reserve Act increased the total volume of acceptances that a member bank could acquire and broadened the definition of acceptances which a member bank could make and a Federal Reserve bank could discount. In 1915 the Federal Reserve Board was given authority to increase the amount of acceptances based on the import and export of goods which a member bank might make and a Reserve bank might discount. An amendment in 1916 authorized member banks to accept and Reserve banks to discount bills and drafts growing out of domestic shipments of goods and also drawn in foreign countries for

the purpose of supplying dollar exchange. It also permitted Federal Reserve notes to be secured by acceptances rediscounted or purchased by the Reserve banks.

An amendment in 1916 permitting so-called "direct borrowing by banks" also broadened the lending powers of the Reserve banks by authorizing loans on United States bonds or notes as collateral. This amendment authorized advances to member banks on their promissory notes secured by notes, drafts, bills of exchange or bankers' acceptances eligible for rediscount or for purchase or by bonds or notes of the United States. In 1917 provision was made for the pledge of these fifteen-day notes as collateral for Federal Reserve notes.

These are the principal statutory changes in the lending powers of the Reserve banks to which Mr. Willis objects. He also wished to have eliminated Board regulations relaxing the standards for requiring liquid paper as a basis for borrowing. He says of the 1915 revision of old circular 13 governing the rediscount of commercial paper:

"It (the report of the committee on circular No. 13) meant that the reserve system, after only a very brief struggle and for the time being at least, surrendered the effort to put commercial paper upon a scientific basis and to apply to commercial credit those standards which are necessary to insure liquidity. The action of the Board, which followed not long after the report of the committee already referred to, was accordingly in the nature of a direct abandonment of principle which was the more regrettable because of the fact that circular No. 13 had so clearly embodied sound principle in connection with banking." (The Federal Reserve System (1923), p. 917)

"Although efforts were made in a limited way in the various reserve districts to encourage the development of sound practice on the part of country banks, the regulations were never in any material degree altered, and those in effect at

the close of 1922 still carried the exemption clause already referred to (exempting loans below \$2,500 from regulations).
(The Federal Reserve System (1923), p. 918)

And in connection with acceptances:

"There was no field of activity in which the efforts of the Board were more disappointing, and none in which the peculiar play of financial forces tending to drive the federal reserve system this way and that became at times more pronounced."
(The Federal Reserve System (1923), p. 985)

"Probably less important, although of fundamental significance, was the further decision that the reserve bank could not follow the transaction giving rise to an acceptance through to its conclusion in order to see that the proceeds of the acceptance were employed for a productive purpose. It was enough that the acceptance had grown out of an actual purchase and sale, the fact that the acceptance did thus constitute a means of liquidating a transaction being all that was necessary to bring it into conformity with the law."
(The Federal Reserve System (1923), p. 996)

"In all of these ways the position was gradually developed that in broadest terms practically any bankers' acceptance that might be drawn in connection with a present, past, or future export or import transaction was eligible for discount at a federal reserve bank, provided that the contract had been entered into in good faith. The obligation to keep the transaction closely connected with a specific shipment of goods had early disappeared, while the renewal plan had rendered it possible to disregard in practice the idea of self-liquidating and short-term credit. The acceptance had thus gradually, step by step, developed into a piece of accommodation paper."
(The Federal Reserve System (1923), p. 997)

It is clear from these comments that Mr. Willis' objections arise out of his belief that if member bank borrowing from the Reserve banks is restricted to liquid paper arising directly out of commercial transactions, their lending operations will tend to develop along these lines instead of traditional general banking lines that prevailed when the System was established. This point of view is emphasized in some of his comments on the early development of policies.

"The thought of the circular (old circular No. 13) thus was to insure real liquidity in commercial credit free of those tendencies to use the banks for general financing which had in the past been found so disastrous and had so frequently produced suspension through inability to recover payment upon assets which had been supposed available at a specified time. The question was whether the commercial and banking community would be willing to live up to the terms of so stringent a requirement and to carry out in good faith the general notion of a discount market which underlay the new circular." (The Federal Reserve System (1923), p. 909)

"Clearly, in order to have this kind of transaction (borrowing on bankers' acceptances) help rather than injure the business and credit structure, it is necessary that it should be very carefully safeguarded, in such a way as to insure that the acceptance should not merely become a means of borrowing for speculative purposes, or to help out hard-pressed banks or individuals, and especially in order not to provide an extension of credit which under ordinary commercial conditions could not be had. . . . Harm would come, therefore, if the acceptance were used merely to mask long-term or doubtful credit and thus bring about easy cashing or discounting of bills which in ordinary circumstances could not be cashed or discounted at all at a commercial bank."
(The Federal Reserve System (1923), p. 983)

It is doubtful if changes in the Federal Reserve Act and in Board regulations in 1923 along the lines suggested by Mr. Willis would have materially affected the course of banking developments from 1923 to 1928. To have restricted borrowing at Federal Reserve banks to the narrowly defined liquid commercial paper would not necessarily have restricted member bank credit to similar loans. In other words, it would not have prevented loans for speculative purposes. This is due to the fact that borrowing by member banks at the Reserve banks on a particular type of paper in order to establish reserves has no necessary connection with the type of loans which may be made on the basis of those reserves. The inability to control member bank credit through

the kind of paper on which it borrows at the Reserve banks is further emphasized by the fact that reserves built up by discounting commercial paper become the basis for loans for all kinds of purposes up to fifteen times the amount borrowed. There would, therefore, have been plenty of leeway for speculative loans during the period 1923 to 1928, even if Mr. Willis' suggestions had been followed.

Any effect on member bank loans during the period which might have resulted from the adoption of his suggestions would have come as a result of reduced total borrowings of member banks because of a lack of eligible paper. Such an outcome of Mr. Willis' proposal seems doubtful during the particular period, at least to any appreciable extent, since member bank borrowings were at no time of such volume that banks could not have obtained the desired funds on eligible commercial paper even if more rigidly defined. There might have been exceptions in the case of individual banks or of banks in particular areas such as the agricultural sections of the country. It is doubtful, however, if the more liberal provisions for borrowing on agricultural paper had any great effect on banking developments in financial centers where the great increase in speculative loans took place.

Information available in the annual report of the Board for 1926 indicates that paper eligible for discount greatly exceeded member bank needs for accommodation. The statistics of course include paper made eligible by the amendments which Mr. Willis would eliminate.

"The total volume of eligible paper in the hands of member banks on June 30, 1926, was about \$4,900,000,000 and,

in addition, the banks held \$2,850,000,000 of United States obligations available as security for borrowing at the reserve banks on collateral notes, so that the aggregate amount of borrowing from the reserve banks possible for the member banks on the basis of their present assets is more than \$7,500,000,000. This amount is about ten times as large as total borrowings from the reserve banks at any time in the past five years and more than two and one-half times as large as total discounts at their maximum in November, 1920. It would appear, therefore, that the amount of eligible paper and securities in the hands of member banks is sufficient in the aggregate to meet all the demands that are likely to arise, though there may be individual banks, or groups of banks in certain communities, with an inadequate supply of such paper."

(Annual Report of the Federal Reserve Board,
1926, p. 9)

Statistics on the amount of eligible paper of national banks for years prior to 1926 indicate an ample supply in those years, as compared with 1926. 1/

End of June

Paper eligible for rediscount

(In millions of dollars)

1918.....	3,218
1919.....	3,551
1920.....	4,320
1923.....	3,563
1924.....	3,542
1925.....	3,412
1926.....	3,497

1/ Annual Report of the Federal Reserve Board, 1926, p. 9.

The fact that member banks borrowed on direct loans collateralized by eligible paper or Government obligations rather than by rediscounting commercial paper merely indicates their preference for a particular form of borrowing rather than their inability to offer paper for rediscount. The collateral note reduces the amount of red tape in securing accommodation at the Reserve banks and is preferred by most banks.

(5) New legislation practically requiring Reserve banks to engage in open-market operations in such a way as to give them the true position of a European central bank and thus enable them to make their rates effective.

Further elaboration of Mr. Willis' ideas on this point appears in his discussion of the purpose of the original open-market provisions.

"The Federal Reserve Act, however, had made provision for a system whereby the benefits of the law could be definitely conveyed to the public at large whenever circumstances permitted. This was found in the open market section (Section 14) of the law. . . . This provision was necessary from a strict banking standpoint for the purpose of enabling the reserve banks to make their rates of discount effective—that is to say, to insure the extension of rates similar to those which they themselves were charging." (The Federal Reserve System (1923), p. 1037)

"The student of banking would, however, naturally inquire whether in fact the federal reserve system in its future operations was likely to confine itself largely to dealing with hard-pressed members. In answering this question a great deal had to depend upon the extent to which the banks entered the open-market field, and the extent to which individual business men consented to sell their paper in the form of bills of exchange available for purchase by reserve banks under the open-market section of the law."
(The Federal Reserve System (1923), p. 1039)

At the time that Mr. Willis was writing his book, the policy of using the open-market purchases and sales of Government obligations as a means of credit control was at its beginning. It was still believed by many that an open discount market could be developed in this country along the same lines as in foreign countries; in other words, that the acceptance would become a widely-used and highly-standardized credit instrument, the purchases and sales of which by the Reserve banks would be a means of making its credit available to others than member banks and thereby a means of making the Reserve banks' discount rates effective in controlling interest rates.

These expectations which had not been realized by 1923 were not realized in subsequent years. Although acceptances have come into more extensive use as a credit instrument largely as a result of encouragement given by the Federal Reserve Act, they have never become a credit instrument of the importance contemplated at the time the Act was passed. Different credit practices in this country, particularly the predominant use of single-name paper, have resulted in credit machinery which operates differently from foreign countries.

In the early days of the System, the Federal Reserve policy with reference to acceptances was directed toward encouraging the use of this type of credit instrument. Since the war the Reserve banks have for the most part assumed a passive role and have purchased all acceptances offered at the rate set by the banks and have reduced their holdings only as maturities exceeded the volume offered. For control over the credit situation the System has relied primarily on discount rates and on the purchase and sale of United States obligations. In this practical banking situation, it is difficult to imagine what legislation Mr. Willis had in mind which would have changed the credit habits of the country and would have established a discount market similar to that in foreign countries.

From another angle it may be said that making their discount rates effective through open-market operations is another way of describing the process by which the Reserve banks have put member banks in debt by selling securities in the open market and have enabled them to repay indebtedness by buying securities. That, if anything, is making the discount rate and

the discount policy effective. Mr. Willis, however, uses the phrase without clear understanding, with vague reference to imaginary British practice.