

Branch, Chain, and Group Banking

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY HOUSE OF REPRESENTATIVES

SEVENTY-FIRST CONGRESS

SECOND SESSION

UNDER

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AUTHORIZING THE BANKING AND CURRENCY COMMITTEE
TO STUDY AND INVESTIGATE GROUP, CHAIN
AND BRANCH BANKING

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BRANCH, CHAIN, AND GROUP BANKING

TUESDAY, MARCH 25, 1930

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met in the committee room, Capitol at 10.35 o'clock, p. m., Hon. Louis T. McFadden (chairman) presiding.
The CHAIRMAN. The committee will come to order.

STATEMENT OF GOVERNOR ROY A. YOUNG—Resumed

The CHAIRMAN. Mr. Dunbar, I believe you had not finished with your questions.

Mr. DUNBAR. Governor Young, when we adjourned the other day, we were talking about what inducements could be offered to national banks so that they would remain within the Federal reserve system. You stated that that was a very hard question to answer.

Now, the Federal reserve system is becoming to be controlled by State banks and other institutions rather than the national banking system—is that so? Has there not been a very great number of national banks withdrawn from the Federal reserve system by reason of the forming of coalitions or absorptions of other banks operating under State control?

Governor YOUNG. That is correct.

Mr. DUNBAR. How much do you believe that the Federal reserve system should be under the control of the Federal Government by reason of the affiliation with it of national banks rather than the affiliation with it of State banks?

Governor YOUNG. Can I point out, Mr. Congressman, that a Federal reserve bank, because of the nature of its directors, or the way its directors are appointed, theoretically takes the actual control away from the banking interests? The banks elect three directors that may be stockholders of banks. They elect three other directors that represent business, that are not officers or directors of banks, although they may be stockholders. The Federal Reserve Board appoints three directors, two of which represent commerce and industry and can not be directors, stockholders, or officers of any bank; so that, theoretically, the control of every Federal reserve bank is in the hands of business rather than the banking interests.

Now, in addition to that, the Federal Reserve Board is appointed from various districts of the United States. No two members, except the ex officio members, can come from the same district. They are appointed to represent the industry of the country and, as I stated the other day, the powers of the Federal Reserve Board, if they elect

to exercise them, are very far reaching, in so far as the operation and policies of the reserve banks are concerned; so that I think I am safe in saying that the possibility of State banks gaining control of the reserve banks is very, very remote.

Mr. DUNBAR. Even though most of our national banks would become State banks and withdraw from the national banking system?

Governor YOUNG. No; I can not go that far.

Mr. DUNBAR. Is not that the present tendency; is not the present tendency in that direction?

Governor YOUNG. It is.

Mr. DUNBAR. Is it not very much so?

Governor YOUNG. The national system has lost a great deal in the last two or three years.

Mr. DUNBAR. Does the Chase National Bank in New York remain in the Federal reserve system?

Governor YOUNG. I am informed they are going to continue under a national charter.

Mr. DUNBAR. Then, according to your judgment, am I right in presuming that if national banks would largely withdraw from the Federal Reserve System, that the Federal Reserve bank could operate and function with practically the same degree of efficiency and economic requirements?

Governor YOUNG. Under war conditions, I would say it would be very advantageous to have a large representation of the banking strength of the country in national banks.

Mr. DUNBAR. You spoke the other day about national banks withdrawing from the Federal Reserve System by virtue of State charters being more advantageous to them than operating under the national banking system, and the subject was also discussed as to what we can do to make national banks remain in the system. Nothing can be done, as I understand it, that will not be applicable to State banks.

Now, have you any plan or do you think any readjustment is possible where greater inducement can be offered to banks that remain in the Federal reserve system and of those which remain out of the system by reason of the present inducement, so we could draw a number back and probably cause the greater number of our national banks to remain in the system?

Governor YOUNG. I think that additional inducement could be offered to member banks, but, obviously, in so far as the Federal reserve system is concerned, anything that would be done for a national bank it would be necessary to do the same thing for the State member banks. There is quite a feeling in the country at the moment that the members of the Federal reserve system are entitled to a larger return than the 6 per cent that they receive upon their stock investment in Federal reserve banks. I am inclined to agree with that view. Different proposals have been made.

I would not want to commit myself at the moment, but I lean very strongly toward increasing the dividends that are paid member banks.

One other suggestion has been made that would require a great deal of thought and further investigation, and there might be legal complications that would prevent it from being put into operation—but the suggestion has been made that it would be for the best in-

terests of the country if all banks in the United States were required to carry a portion of their reserve in the Federal reserve system, regardless of whether they are members or not.

Mr. DUNBAR. Is there any way possible by which the Federal Government could require that?

Governor YOUNG. That is a legal question, Mr. Congressman, that I am not prepared to say yes or no on at this moment.

Mr. DUNBAR. Each State exercises its sovereignty over the State banks, so that any Federal laws can not extend to them and that seems to be the weakness, in my opinion, of the present banking system of the Federal Government.

Governor YOUNG. Well, of course, the Federal Government abolished the wild cat currency that existed, by a tax. Whether that is applicable to checks or interstate transactions I am not prepared to say.

Mr. DUNBAR. You would not like to give us your views on that point? I think you entertained the thought that such a thing is impossible. Have you any other suggestion to make as to how the Federal reserve system could be made so attractive that State banks, as well as national banks, would become members of the Federal reserve system?

I think you believe that if all belonged to the Federal reserve system, much of our troubles and difficulties would disappear.

Governor YOUNG. No; I can not say that, Mr. Congressman. Membership in the Federal reserve system is not a guarantee of bank deposits.

Mr. DUNBAR. Is not a guarantee of banking deposits?

Governor YOUNG. Yes.

Mr. DUNBAR. What I mean is the system has the bulk of the deposits.

Governor YOUNG. I did not understand that, Mr. Congressman.

Mr. DUNBAR. You stated bank deposits were essential for the transaction of the banking business of all banks. We all recognize that. What is there in the Federal reserve system that would cause the depositors in those banks to get away from the Federal reserve banks?

Governor YOUNG. They can. A national bank can convert into a State bank and withdraw from membership. A member State bank can get out of the system on six months' notice.

Mr. DUNBAR. Pardon me, I suspect I misunderstood you. I thought you had reference to individual deposits in the banks which are members of the Federal reserve system?

Governor YOUNG. That is correct. We can not guarantee those deposits.

Mr. DUNBAR. No; you can not guaranty those deposits. They are the result of the natural volition of the people, and I do not see how the Federal reserve system can increase or decrease the deposits in any particular bank except in so far as people found it advantageous to do business with that bank.

Governor YOUNG. That is correct.

Mr. DUNBAR. A great many banks believe the Federal reserve system should pay an interest on daily deposits, the same as other banks do. What is your opinion with respect to that?

Governor YOUNG. I would be opposed to that. If that policy were adopted, there would be great pressure upon the reserve banks and the Federal reserve system, to earn good returns for their members. The reserve system was not intended as a money-making system. The Federal reserve system simply took the reserves held by individual banks, and thus concentrated them in one general gold reserve, which was the basis of the note issue and credit extension for seasonal requirements and other emergencies.

If the reserve banks under certain conditions were required to earn a return that would enable them to pay any rate of interest on deposits, it would so upset the entire credit structure of the country that the effects would be felt in all parts of the country.

Mr. DUNBAR. What are the daily deposits of member banks in the Federal reserve system?

Governor YOUNG. Approximately \$2,300,000,000. That varies from day to day and according to seasons approximately \$100,000,000 variation.

Mr. DUNBAR. The returns to the Federal Government last year were around \$3,000,000?

Governor YOUNG. A little higher than that, I think. You mean the franchise tax?

Mr. DUNBAR. Yes.

Governor YOUNG. \$4,283,000.

Mr. DUNBAR. \$4,283,000?

Governor YOUNG. Yes, sir.

Mr. DUNBAR. Did that approximately represent all the profits of the Federal reserve system?

Governor YOUNG. No, sir.

Mr. DUNBAR. What were the profits of the reserve system?

Governor YOUNG. Last year the dividends paid aggregated nine million five hundred and eighty-three thousand and odd dollars.

Mr. DUNBAR. That was 6 per cent?

Governor YOUNG. Yes, sir. Transferred to surplus, \$22,535,000; franchise tax paid to the United States Government, four million two hundred and eighty-three thousand and odd dollars. That is a total net earning of \$36,402,000?

Mr. DUNBAR. If all that were paid for interest on daily deposits of \$2,300,000,000 in the Federal reserve system, it would amount to about $1\frac{1}{2}$ per cent; so that if you paid all of it for interest to the depositors, it would not leave you any profit?

Governor YOUNG. It would not leave any profit, and 1929 was the highest year from the standpoint of earnings since 1921.

Mr. DUNBAR. That year you paid a Federal Reserve tax of \$60,000,000?

Governor YOUNG. In 1920 we paid a franchise tax of \$60,724,000.

Mr. DUNBAR. Would it not be very advisable, if some system could be conceived whereby interest on balances would be paid to the depositors of the Federal reserve system? I think it would make the system more popular than anything that could possibly be done, and if it could be made more popular you would have more money and you would retain your national banks as members of the system.

Now, you say the Federal reserve bank is not run for profits. That is true, but it is necessary that the profits be such that they

can maintain themselves and I believe they could maintain themselves by making the terms more attractive in order to retain the national banks and the State banks, and that this, to a considerable extent, would solve the problem of branch banking, group banking, and chain banking?

Governor YOUNG. I will agree with you, Mr. Congressman, except as to the procedure. I should regret very much to see legislation enacted that would compel the reserve banks to pay a fixed amount of interest on deposit accounts.

I would, however, be agreeable to any equitable plan that would permit more of the profits of the reserve system to be distributed to the member banks, if earned. But I would not put the obligation on the Federal reserve system of earning 1 per cent on deposit accounts, one-half of 1 per cent on deposit accounts, or any other amount.

Mr. BRAND. Will you yield to me for a question?

Mr. DUNBAR. Certainly.

Mr. BRAND. Referring to your answer, Governor, about the Federal reserve system, you say the Federal reserve system is not a money-making system. I want to call your attention to the fact that from 1914 to 1926 the gross earnings were \$678,999,660. The total expenses in this time were \$257,144,956. The net earnings for the 12 Federal reserve banks during that time, from 1914 to 1926, were \$421,854,704. Do you not think that was a pretty good money-making institution?

Governor YOUNG. Very.

Mr. BRAND. With very good net earnings?

Governor YOUNG. Yes, sir.

Mr. BRAND. Therefore, would you not say it was a money-making institution?

Governor YOUNG. Yes, sir.

Mr. BRAND. You spent nearly 25 per cent of that \$678,000,000 on expenses and yet you got nearly \$422,000,000 net profits?

Governor YOUNG. Correct.

Mr. BRAND. Then, it is a money-making machine?

Governor YOUNG. Yes, sir; it has been making money.

Mr. DUNBAR. You do not expect the Federal reserve system in the future, as now operated, to make anything like that money?

Governor YOUNG. It might or might not, but I would regret very much if a policy were ever adopted by the Federal reserve system which would be based upon earnings and not with the view of accommodating commerce and industry as the law now requires it.

Mr. DUNBAR. I agree with you. I am not in favor of any legislation that would compel you to pay interest on deposits. But I wish you could voluntarily work out a plan to do this.

You may not believe it to be right, but I believe if the Federal Reserve Board could work out some plan whereby it would pay interest on daily deposits, it would be the most popular thing to do and would result in advantage in your operations.

Governor YOUNG. Mr. Congressman, would it accomplish the same results if it was paid in dividends on stock?

Mr. DUNBAR. I do not know.

Governor YOUNG. Or if the earnings were paid above a certain amount on the capital investment they had in the Federal Reserve banks and the reserves they carry in the banks?

Mr. DUNBAR. People like to receive a return for every specific act and although some other plan might be devised which, in the aggregate, would pay more money, yet their return on single investments seems to impress them more than the aggregate on the whole proposition, which would bring them more. Everywhere I go I find complaints because the Federal reserve system does not pay an interest on daily deposits.

Governor YOUNG. I can say, Mr. Congressman, that that question has been referred to the Federal advisory council; has been referred to a conference of the governors of the Federal reserve banks; has been referred to a conference of Federal reserve agents, and I think that they are practically unanimous—not quite unanimous—in believing that the time has arrived when the member banks are entitled to a larger return on their stock investment in the Federal reserve system.

Mr. DUNBAR. In your opinion that will make the system more popular and will materially assist you in retaining banks in the system which are now going out?

Governor YOUNG. I believe so.

Mr. DUNBAR. The Massachusetts decision, and I believe the decision of the Supreme Court of New York, interfered very largely with the successful operation of the McFadden Act, did it not?

Governor YOUNG. In reference to fiduciary powers?

Mr. DUNBAR. Yes.

Governor YOUNG. Yes, sir; that is correct.

Mr. DUNBAR. Is there any way the national bank act might be amended, so as to permit national banks to exercise those powers?

Governor YOUNG. I do not think so. But if I may have the privilege of asking our counsel if he has any suggestions along those lines, I should like to do so.

Mr. DUNBAR. That is satisfactory to me.

Mr. WYATT. I think the act could be amended so as to compel the States to treat national banks exactly as they treat State institutions in respect to that question. The case referred to did not deny the right of national banks to exercise fiduciary powers, but dealt simply with the question of whether a consolidated bank resulting from the consolidation of a national bank with a State trust company, succeeded automatically to the executorships and trusteehips under which the trust company was acting, under wills, prior to the consolidation, and the court held that where the State law did not permit such a succession, the McFadden Act should not be construed as requiring it.

In so holding, however, they called attention to the fact that the McFadden Act was very careful to say that these consolidations should not be in contravention of State or local law and the court did not pass upon the question of whether Congress could pass an act requiring that result in contravention of State law. That was left open.

I feel certain, however, that Congress could pass a law compelling State courts to treat national banks exactly as they treat State banks in reference to recognizing a consolidated institution as a successor to the constituent institutions; in other words, Congress could provide that if, under State law, a consolidated institution, resulting from the consolidation of two State constituent institutions is recog-

nized as the same person and may be permitted to continue to execute the trusts held by the constituent institutions, such States shall permit a consolidated institution consisting of a national bank and a State institution, to do the same thing. I think that would be sustained by the courts.

Mr. DUNBAR. Were these decisions by State courts?

Mr. WYATT. The decision was of the Supreme Court of Massachusetts, which was affirmed by the Supreme Court of the United States, but on different grounds.

Mr. DUNBAR. You believe it would be advisable to work out a plan whereby a national bank and a State bank consolidates, and the consolidation does not continue as a member of the Federal reserve system, by reason of these decisions—do you believe that some plan might be worked out whereby that consolidated institution would be permitted to exercise all the powers that the State banks exercised and still be retained as a member of the Federal reserve system?

Mr. WYATT. I did not quite catch the question. I thought you said, in the first place, where they did not stay in the system.

Mr. DUNBAR. I will restate the question. Here is bank No. 1 in Massachusetts, a national bank, and it consolidates with bank No. 2, which is not a national bank, but by reason of the exercise of executorships by bank No. 2 and other business in the nature of trusts, they are not permitted to remain a national bank. That was true; was it not?

Mr. WYATT. No, sir.

Mr. DUNBAR. Well, what is the truth?

Mr. WYATT. The situation is this, that a State trust company, which was acting as an executor under a will, was consolidated with a national bank under the charter of the national bank, so that the consolidated institution was a national bank and remained a member of the Federal reserve system, necessarily. This consolidated national bank then attempted to file with the court, a final accounting as trustee or executor—I forget which—in the case in which the State bank had been appointed, and the court held that they could not recognize that national bank as the executor because it was not the executor named in the will and appointed by the court, but that it was a different institution, a different corporation and a different person; so, they said, the court would have to appoint another trustee or another administrator.

Now, the practical effect is this; that where you have got a big trust company, operating under the State law, and a national bank, and the directors of the two institutions decide to consolidate, the question always comes up whether the consolidated institution shall be a national bank or a State bank and, on account of that decision, they very frequently think it is safer to consolidate under State charters so that there will be no question of their right to continue the trust business under the consolidated State institution. Frequently the State banks have more trust business than the national banks, because they have been exercising that function longer.

Mr. STEVENSON. Did not the court hold that the national bank could, by application to the local probate court or whatever court handles probate matters, be appointed in place of the other?

Mr. WYATT. They suggested that it could be appointed, but there was nothing to control the action of the probate court.

Mr. STEVENSON. But it was eligible to be appointed, if they applied?

Mr. WYATT. Yes, sir.

Mr. WINGO. The decision specifically said so.

Mr. WYATT. In a great many States they have considered it safe to go ahead and take the national charter because they know the probate courts will appoint the consolidated national bank or administrator, except in cases where there are wills which have been executed, but where the testator has not died, they are afraid in some States, that unless they can get a codicil or new will appointing the new institution, there may be some difficulty about having the new institution recognized under that will.

Mr. STEVENSON. If a man appointed a State institution executor and, before he died, that institution was consolidated and became a national institution, the question is whether the national institution can succeed to the right which was provided in that will?

Mr. WYATT. Yes, sir.

Mr. DUNBAR. What suggestion have you to offer in the way of Federal legislation that would make it easier for a bank, under those circumstances, to remain in the Federal reserve system?

Mr. WYATT. They can all remain in the Federal reserve system. They usually do, even where they take the State charter. A State bank can be a member of the Federal reserve system.

Mr. DUNBAR. This bank in Massachusetts did not remain in the system?

Mr. WYATT. Yes, sir; as a matter of fact, it remained a national bank. The effect of the decision was to discourage other national banks from taking out the national charter instead of State charters when they consolidate with State trust companies.

Mr. DUNBAR. Have you any suggestion to make in reference to legislation that might be recommended by the Committee on Banking and Currency that would make it more attractive for banks to remain as members of the Federal reserve system?

Mr. WYATT. I think clearly the suggestion Governor Young made would be very helpful, and there is another recommendation which the Federal Reserve Board has made which I think would be helpful in a way, and that is a recommendation that the board be permitted to waive the cost of examining State member banks. At the present time the law requires the expenses to be assessed against the State member banks and they also have to pay for the examinations made by the State authorities and that is not very attractive to them.

The Federal Reserve Board has recommended, in its last two annual reports, that it be permitted to waive those costs.

Mr. DUNBAR. That is more irritating than it is a question of great expense?

Mr. WYATT. Nevertheless, the banks take serious exception to it.

Mr. DUNBAR. I know they do. That is the reason I would favor doing not only that, but granting the reserve banks interest on their deposits even though it might be only 1 per cent. I believe if the Federal reserve system would work out such a plan, it would remove a very irritating condition of mind among the banks who are members.

We spoke the other day, Governor Young—and I will not take up very much more time—or some members of the committee did—

about your being able or it being advisable to restrict the interest on call loans on the New York Stock Exchange, which went as high as 24 or 25 per cent, and it was thought by my friend on my left that if they could be restricted to 8 per cent, it would result in the welfare of the country during hours of disturbance.

But now, would that have restricted or helped in any way to have prevented the panic which we had last October? If banks were required by the board that controls the Federal reserve rates, to loan money at 8 per cent, they absolutely would not have loaned it, would they? They would not have had it to loan at those figures?

For instance, money was sent in from the interior to New York. One of the banks in my part of the State sent in \$100,000. They would not have sent it in at 8 per cent?

Governor YOUNG. What price did they send it in for?

Mr. DUNBAR. I do not know.

Governor YOUNG. Eight per cent is a very attractive rate.

Mr. DUNBAR. It is an attractive rate.

Governor YOUNG. And when you stop to consider that the banks throughout the United States maintain rates to business at 6 per cent and they have the option of placing their surplus funds in United States Government bonds, and bankers' acceptances at not to exceed $5\frac{1}{2}$ per cent for the bankers' acceptances or commercial paper at 6 per cent or possible $6\frac{1}{4}$ per cent, there would have been a strong desire to go to the New York call market at 8 per cent.

Mr. DUNBAR. Do you believe that the fixing of the maximum rate at 8 per cent by the three members of the stock exchange that fix the rates for call loans, could be made effective?

Governor YOUNG. I think there has been a great deal of misunderstanding about the three members who fix the call rates. People seem to be under the impression they arbitrarily fix those rates.

Mr. DUNBAR. You explained the other day they do not.

Governor YOUNG. They can not do that. If they fix the rate at 10 o'clock in the morning and it is not right, they have to change it during the day. It depends upon the funds that come in and the amount of money that is short in the market.

Now, the highest call rates, properly should have a restraining influence on the borrower. In 1927, 1928, and 1929, they did not seem to have a restraining influence. There is no specific evidence of it. But ordinarily, that rate would have a very restraining influence. Under the conditions that exist to-day, I think a 6 or 7 per cent call rate would have a restraining influence and a very effective one.

Mr. DUNBAR. You then would be inclined to adopt Mr. Seiberling's opinion on that?

Governor YOUNG. Eight per cent?

Mr. DUNBAR. Yes.

Governor YOUNG. I would not. I think that call rate had better be open.

Mr. DUNBAR. You said you believed an 8 per cent call rate would have a very beneficial effect on business?

Governor YOUNG. Under certain conditions, but I do not think it would have had any effect in 1927, 1928, or 1929 the way the American public felt about buying stocks.

Mr. DUNBAR. You do not think it would be a practical thing in times of emergencies?

Governor YOUNG. That is correct.

Mr. DUNBAR. The people did have a speculative mania—there is no doubt about that—and I suppose nothing would stop them. The Federal reserve system did try to stop that speculative mania, did it not?

Governor YOUNG. It did.

Mr. DUNBAR. I remember some people back home criticising the Federal reserve system very severely because its policies interfered with some of their transactions.

Governor YOUNG. Yes.

Mr. DUNBAR. It did have a restraining effect, did it not?

Governor YOUNG. We think so, to some extent.

The CHAIRMAN. Mrs. Pratt.

Mrs. PRATT. Mr. Chairman, I am sorry I was not here on Friday. It may be that some of the questions I may ask are already in the record. If so, will you please advise me?

The CHAIRMAN. Very well, Mrs. Pratt.

Mrs. PRATT. During the course of the hearings, Governor Young, a great deal has been said about the decentralization of credit. It has been stated that part of the proposed legislation to permit branch banking would be for the purpose of decentralizing credit and creating, as I understood it, a greater number of large credit centers. Is that inconsistent with approval of such mergers as we have seen recently in New York?

Governor YOUNG. May I answer that in this way: Let us take the Federal reserve system, for example. It mobilizes credit, which permits it to decentralize credit; in other words, the mobilization of the credit at any one point permits you to put it into the districts where it is needed and draw it from the districts where it is not needed.

Now, it is hoped—and in my opinion, it would be a very short-sighted policy on the part of large groups, large chains, and even of branch banking, if it is permitted, if that decentralization after mobilization is not followed as a policy by these groups or chains.

Mrs. PRATT. Now, to go to the subject of your paper: How does the concentration of capital in banking compare with the concentration of capital in business and industry in general?

Mr. BUSBY. Mr. Chairman, we can not hear, and we should like to follow the examination.

Mrs. PRATT. The question was, How does concentration of capital in banking compare with concentration of capital in business and industry generally?

Governor YOUNG. I can not state accurately, but I would say that up to 10 years ago, it lagged. Since then, consolidations, mergers and developments of groups and chains have been quite rapid. What relation that bears to business, I can not say. Can you tell us, Doctor Goldenweiser?

Doctor GOLDENWEISER. I would say it has not gone as far in banking as in other business.

Mrs. PRATT. That is the information I have. In your opinion, does the concentration in large communities, of the banking credits,

make it more difficult for smaller communities having smaller businesses, to secure accommodations and loans?

Governor YOUNG. I have seen no evidence of that to date.

Mrs. PRATT. On page 29 of your statement, in the second paragraph, I was impressed with the number of agencies which have been created for the relief of the farmer. Do you think the fact that the farmers in Canada have lost nothing from their bank failures, as compared with the losses of their near neighbors in the States south of them, points to the possibility that the troubles in our agricultural communities can be better solved by permitting branch banking than by providing additional credit facilities, by paternalistic methods which impose heavy drains upon the Treasury? That is what happened when all these various agencies were instituted after the war.

Governor YOUNG. Well, that is a very strong argument, Mrs. Pratt, for the branch banking system, in so far as the depositors are concerned.

I make that statement with a great deal of reluctance. I am a country banker and was raised in a country bank. My association has been with them for a great many years. I realize the difficulties they have experienced. I am thoroughly familiar with their resourcefulness and sticktoitiveness, and my sympathies are with the small country banker. I have the greatest admiration for those who have been able to pull through this very unfortunate period that we have had in the agricultural sections of the United States. I have great admiration for even some of those who were unfortunate enough to be compelled to close their institutions. But, I think, we are faced with facts rather than sympathies in this present situation. There has been a tremendous development of the group and chain idea, which is branch banking in another form.

Mrs. PRATT. You do feel, perhaps, that in many instances, the losses that were sustained might be laid to duplication of facilities?

Governor YOUNG. I think so.

Mrs. PRATT. Now, on page 61—and I shall try to concentrate the questions so as to make them as brief as possible—it appears there that the fundamental cause of bank failures, apparently, was the lack of sufficient capital and the existence of more banks than could profitably exist in many communities, especially in the small communities. Following that summary, the statistics indicate that the largest proportion of failures occurred in communities of less than 1,000 population. From 1921 to 1927, 80 per cent of the banks failed in communities of less than 2,500, and, during the last 9 years, 91.6 per cent were located in communities of less than 10,000 population. I think that is correct, is it not?

Governor YOUNG. I think so.

Mrs. PRATT. Now, it was in those communities, particularly, that the competition of facilities provided by the farm-loan system and later the intermediate credit banks operated, which would seem to indicate that the efforts of the Federal Government to extend cheap credit has produced harm rather than assistance and, as I intimated before, these communities may have lost more from bank failures than they gained through interest rate reductions.

Governor YOUNG. I could not make that positive statement. I think it can be stated in this way that the inauguration of the Fed-

eral reserve system took away certain profits that the country bank had in the past in the way of collection charges that were made on checks. I think that the Federal land banks and joint-stock land banks, took away certain profits that the banker had previously to the enactment of those laws—profits which he received in handling farm mortgages—so that these two agencies did interfere with his profits. Does that answer your inquiry?

Mrs. PRATT. I think I shall find that it does when I read it over. I was not able to follow it very closely.

Now, referring to Professor Sprague's statements quoted by you, I think it was in the last part of this statement, page 67, first paragraph, that Professor Sprague seemed to indicate that bank examinations have sometimes, prior to actual suspension, indicated increasingly unsatisfactory conditions. It might be giving too much power to a single individual to permit the Comptroller of the Currency, or a corresponding official charged with the duty of making such an investigation, to insist on a clean-up of the conditions complained of by the examiner; therefore—and this is a more or less an academic question—would it be advisable to set up some kind of banking board that would consider such questions as would arise from impending insolvencies?

Governor YOUNG. I do not think it necessary to set up such a board.

Mrs. PRATT. Do you think it is a good idea when they foresee an insolvency is inevitable that the operation should be more rapidly brought about rather than wait for the actual failure to occur?

Governor YOUNG. I doubt it. I think the actions of the board would be the same as the actions of the Comptroller of the Currency. It is the ambition of everyone, the Comptroller of the Currency and any board, to give the bank the advantage of the doubt and do everything within their power to attempt to pull that bank through, either through assessments, voluntary or legal, or assistance from neighbors or consolidations or what not. The banking authorities, in 99 cases out of 100, do everything they can before they permit a bank to close. I think that any board that might be set up would do the same thing, not in the interests of the stockholders of that bank particularly, but in the interests of the depositors, in the interests of the community, and, if you will, in the interests of some good near-by banks. The closing of a bank has a far-reaching effect upon institutions that are good and solvent.

Mrs. PRATT. I was very much interested in the next paragraph of Professor Sprague's report. In reading it over the thought occurred to me that it apparently suggests the approval to all new charters be withheld awaiting what we call—with respect to public utilities—a certificate of public convenience and necessity and where competition is not held to achieve a public benefit; in other words, where it would be a mere duplication and would not be a benefit, it seems to suggest the possibility of banks, as is the case with public utilities, being required to present a certificate of public convenience and necessity. Do you think that would be a bad proposition?

Governor YOUNG. I think that is what is done in actual practice to-day. I think previously to 1920, charters were granted rather freely, both by the national department and also by the State departments. After 1920 it was much harder to get a national charter,

because the supervising authorities realized that there were too many banks; so that, to-day, while the Comptroller of the Currency is vested with the power of granting national charters, in the last five or six years, I do not know of a national charter that was granted in the United States that was disapproved by the Federal reserve bank of the district.

Now there may be one or two exceptions, but I do not think so. So the procedure followed by the Comptroller of the Currency, when an application for a charter is made, is to refer that to the Federal reserve bank in the district in which the bank desires to locate. It is also referred to the chief examiner of that district and they both made independent investigations and recommendations to the Comptroller of the Currency to grant the charter, deny the charter, or withhold the charter. That is what happens in actual practice.

You may have a Comptroller of the Currency that would disregard that procedure and arbitrarily grant charters where he wanted to.

There has been a suggestion at different times that the approval of the national charters might go a little bit beyond the Comptroller of the Currency and include the Federal Reserve Board.

Mrs. PRATT. You think, as a general principle, that the creation of competition is better than the strengthening of the existing system? Which has the better effect—competition or—

Governor YOUNG. I should like to answer that both would be beneficial, good competition and strengthening of the banking structure.

Mrs. PRATT. I have been away, Mr Chairman, and I should like to ask more questions later.

The CHAIRMAN. Mr. Steagall.

Mr. STEAGALL. Governor Young, what is the total capital of the Federal reserve banks?

Governor YOUNG. \$172,245,000.

Mr. STEAGALL. What is the present surplus of the 12 Federal reserve banks?

Governor YOUNG. \$276,936,000.

Mr. STRONG. What is that surplus again?

Governor YOUNG. \$276,936,000.

Mr. STRONG. And what is the capital?

Governor YOUNG. \$172,000,000 paid in.

Mr. STEAGALL. Governor, you stated to Mr. Dunbar the amount that would be paid to the member banks if the present earnings of the system could be applied and distributed among the member banks on a basis of their balances. What per cent did you say that would have been last year?

Governor YOUNG. Mr. Dunbar figured it out.

Mr. DUNBAR. One and one-third per cent.

Mr. STEAGALL. Can you state what percentage it would be if distributed on the basis of stock held by the member banks?

Governor YOUNG. It would be almost 33½ per cent on the capital stock, I think. Let me examine the figures; \$22,000,000 was transferred to the surplus account.

Mr. STEAGALL. I mean to include in that the amount paid to the Government?

Governor YOUNG. \$26,000,000 that would be distributed on a capital of \$172,000,000. That is about 15 per cent or 16 per cent.

Mr. STEAGALL. The Federal reserve banks have set aside a surplus, down to this time, amounting to almost twice their capital?

Governor YOUNG. Twice the paid-in capital. The subscribed capital is—

Mr. STEAGALL. You are going to continue to set aside 10 per cent each year?

Governor YOUNG. For those banks who have already accumulated a surplus of 100 per cent of their subscribed capital.

Mr. STEAGALL. That is what I mean. Well, they will do it anyhow, will they not?

Governor YOUNG. They will take more into the surplus account—

Mr. STEAGALL. At any rate, after setting aside the 100 per cent they will continue to set aside 10 per cent after the earnings are paid?

Governor YOUNG. After the 6 per cent dividends are paid. The dividends are paid first.

Mr. STEAGALL. Do you think it advisable and wise that this law operate perpetually under which the banks will continue to increase their surplus?

Governor YOUNG. I think when the surplus gets to 100 per cent it is plenty large enough.

Mr. STEAGALL. We are still, nevertheless, paying the 10 per cent?

Governor YOUNG. Correct.

Mr. STEAGALL. The member bank is arbitrarily held to 6 per cent return on the capital stock and nothing upon balances or deposits?

Governor YOUNG. Correct.

Mr. STEAGALL. Your Federal reserve banks have paid into the Treasury, since the inauguration of the system, approximately \$150,000,000, have they not?

Governor YOUNG. \$147,000,000.

Mr. STEAGALL. \$147,000,000?

Governor YOUNG. Yes, sir.

Mr. STEAGALL. And during that time they have set aside \$170,000,000, did you say?

Governor YOUNG. \$276,000,000.

Mr. STEAGALL. \$276,000,000?

Governor YOUNG. Yes, sir.

Mr. STEAGALL. Surplus?

Governor YOUNG. Yes, sir.

Mr. STEAGALL. And this, of course, is exclusive of the varied and extensive expense accounts that they have encountered in the way of building—

Mr. STRONG. And salaries.

Mr. STEAGALL. And other things incident to the inauguration of the Federal reserve system?

Governor YOUNG. Yes, sir.

Mr. STEAGALL. Which, of course, would not be expected to continue in the future?

Governor YOUNG. That is correct. I will correct that just a bit, Mr. Congressman. The probabilities are, as time goes on, it will be necessary to build more branch buildings.

Mr. STEAGALL. There will not be many more buildings, I take it?

Governor YOUNG. Not unless the branch system of the Federal reserve system is extended.

Mr. STEAGALL. Well, what would you suggest instead of a continued accumulation of unnecessary surplus out of the earnings of these banks?

Governor YOUNG. I would suggest these earnings over a certain amount be paid to the stockholding member banks.

Mr. STEAGALL. Governor Young, I have had some bills pending before this committee for probably 10 years undertaking to enable member banks to share in the earnings of the system. I first introduced a bill providing that there should be an administration upon the assets of the Federal reserve banks after setting aside their surplus, paying the 6 per cent earnings to their stockholders and all expenses—that there should be an administration by the Federal Reserve Board and the earnings returned to member banks upon a basis of their daily balances and in proportion as those earnings accrued by reason of the operations of the Federal reserve banks with their member banks.

Governor YOUNG. Not retroactive?

Mr. STEAGALL. Not retroactive.

Governor YOUNG. But from that point on?

Mr. STEAGALL. Yes. Later I introduced the bill in a different form, providing that the earnings distributed be paid up on the basis of the capital stock held by the member banks, and I believe you said that the latter, you think, would be preferable, if such a law were to be passed.

Governor YOUNG. If I did, I spoke a little too quickly. I think, and this is a rather impulsive thought, that returns should be paid to member banks not alone on their stockholdings in the Federal reserve system but also in proportion to the reserves they carry—the combination of the two.

Mr. STEAGALL. I appreciate very much, representing an agricultural section that is in considerable distress, not only as expressed in banking facilities, but in a general way—I appreciate what you say in reference to the country banks and small banks.

If these earnings should be distributed on the basis of stock held, the proportion of help would be more favorable to the country banks and smaller banks than would be the case if it were distributed on the basis of daily balances; would it not?

Governor YOUNG. A slight preference, because the country banks carry lower reserves in proportion to the banks of the larger cities.

Mr. STEAGALL. And the deposits run lower than is the case with the larger banks in the larger cities?

Governor YOUNG. The difference would be very slight, Mr. Congressman.

Mr. STEAGALL. I want to ask you what portion of the earnings of the Federal reserve banks result from the relations of the Federal reserve banks with their member banks; in other words, what portion of those profits come out of the member banks?

Governor YOUNG. I suspect, Mr. Congressman, that would be confined entirely to the amount we lend member banks in discounts. Is that the way you want it divided?

Mr. STEAGALL. I want you to put that in your own way, because you are better informed than I am and can tell me things about it that, perhaps, I do not know.

Governor YOUNG. Our profits come from three main sources. First, there are the discounts received from member banks on the paper that they rediscount with us; the second source of income is that received on Government bonds that we buy in the open market; and the third source are the discounts that we earn on bankers' bills that we buy in the open market. Dividing those, the profit we get from member banks comes from the amount of paper that they rediscount. Then there are the bills that we buy and the Government securities, and the income on those constitutes profit that we do not get from the member banks.

Over the last 10 years, I would say on an average, and I am going to ask Mr. Smead to correct me if I am wrong, it has been just about 50-50.

May I insert this table in the record?

The CHAIRMAN. Without objection the matter referred to will be inserted in the record.

Governor YOUNG. Two-thirds of the earnings come from the paper that is discounted with the member banks, approximately.

Mr. STEAGALL. As a matter of fact—

The CHAIRMAN. I am under the impression that this matter has already gone into the record. Am I correct in that?

Governor YOUNG. Not to my knowledge.

Mr. STEAGALL. I was not here during all of this examination, and I do not like to repeat, but this is information that I am anxious to get into the record.

Governor YOUNG. Can I give this information?

The CHAIRMAN. All right; if you will read it into the record.

Governor YOUNG. Total earnings in 1920, \$181,000,000; earnings on discounted bills, \$149,000,000; on purchased bills, \$22,000,000; on United States Government securities, \$7,000,000; and there was a small amount of earnings coming from penalties on deficiencies in reserve, only amounting to \$1,500,000; miscellaneous other sources, \$1,500,000.

That was the year in which the banks were very heavily in debt to the Federal reserve.

In 1921 total earnings, \$122,000,000; earnings on discounted bills, \$109,000,000; on purchased bills, \$5,000,000; on United States Government securities, \$6,000,000.

From 1922 on, the earnings, I would say, averaged about \$43,000,000. The average return on bills discounted would amount to about \$23,000,000; the average earned on purchased bills, about \$8,000,000; the average on United States Government securities, about \$9,000,000.

Mr. STEAGALL. Governor, the fact is, is it not, that the Federal reserve banks get their money out of their member banks, even their capital?

Governor YOUNG. That is correct.

Mr. STEAGALL. Your rediscounts, or discounts, whichever you call them, are mainly with the smaller banks and the banks that are more in need of sharing the earnings of the Federal reserve system?

Governor YOUNG. In number, Mr. Congressman, but not in volume.

Mr. STEAGALL. Not in volume?

Governor YOUNG. Oh, no.

Mr. STEAGALL. These investments that you make, other than loans to member banks, are made out of your reserves and balances that are obtained from the member banks?

Governor YOUNG. Yes, sir.

Mr. STEAGALL. And all of the profits that you make out of these bills that you buy come out of the handling of the funds of the member banks maintained by the Federal reserve bank?

Governor YOUNG. Yes, sir.

Mr. STEAGALL. Governor, is it a true picture of that situation to say that only two-thirds of the profits of the Federal reserve banks accrue by reason of the relations of the Federal reserve banks with their member banks?

Governor YOUNG. No; that is not a fair statement.

Mr. STEAGALL. They make more than that out of the member banks, do they not?

Governor YOUNG. You might just as well say that they make everything out of the member banks. I thought you were trying to divide it.

Mr. STEAGALL. I wanted the whole picture, and you have answered it fairly and have given the information I had in mind, and done it in a comprehensive way, I think.

Governor YOUNG. I want to correct that somewhat. The United States Government has given the Federal reserve system a very unusual franchise in its note-issue power. I think that there is no doubt that that is one of the very valuable assets of the Federal reserve system, and I think it would be fair to say, Mr. Congressman, that in view of the power given to the Federal reserve system which enables it to issue an elastic and well-secured currency each and every individual of the United States contributes to a certain extent to the possibilities of profit of the Federal reserve system.

Mr. STEAGALL. After all, the franchise granted the Federal reserve banks by the Federal Government was in contemplation of an enlargement of the service of the banks already in existence and already chartered?

Governor YOUNG. Yes, sir.

Mr. STEAGALL. And, incidentally, it was an additional franchise for their benefit?

Governor YOUNG. I would say, a very important franchise, for without it it would have been extremely difficult for the Federal Reserve system to operate.

Mr. STEAGALL. It would require the enactment of legislation to terminate the operation of the system under which the surplus is continually enlarged 10 per cent annually, would it not?

Governor YOUNG. Yes.

Mr. STEAGALL. In your judgment, if no other provision of law is made for the redistribution of these earnings, you think some legislation should be passed which would terminate the setting aside of unnecessary surplus?

Governor YOUNG. Yes, sir. The Federal Reserve Board is making a recommendation to the Congress of the United States in its annual report that a greater distribution of the earnings of the Federal reserve system be made to the member banks. As to the details, the board has not yet arrived at any conclusions, but it is satisfied that it can eventually work something out after all plans and proposals are considered.

Mr. STEAGALL. The bill that I first introduced provides that the Federal Reserve Board shall be directed to ascertain approximately the proportion of the earnings that are made out of their member banks, and to distribute to those banks that portion of those earnings and pay the balance into the Treasury as a franchise tax. Would that be practical?

Governor YOUNG. Do you mean by that—

Mr. STEAGALL. Here is what I mean, as suggested in your answer to Mr. Dunbar as to the wisdom of attempting to set up a definite percentage of return to the member banks: It readily occurs to anyone, of course, that a situation might exist where all banks would not earn a sufficient amount to meet that requirement, and then, of course, they would be driven to the practical necessity of undertaking to make sufficient earnings to take care of that demand, or, failing to do so, would be unable to pay—

Governor YOUNG. That would be poor policy.

Mr. STEAGALL. Yes; I agree with you, but under the bill that I have suggested at the end of each fiscal year the Federal Reserve Board would administer upon their earnings, and it would not matter whether they had made large or small earnings; they would proceed to cast up the account to ascertain what portion of those earnings accrued by reason of their relations with member banks, and then base the returns to the member banks upon that calculation. That would be practical, would it not?

Governor YOUNG. Do you mean by that, Mr. Congressman, that if you had two banks in the community, one that had not borrowed from the Federal reserve system and the other that had borrowed liberally for the entire year, that the profits would go back to the borrower and not to the lender?

Mr. STEAGALL. No, sir; I do not mean to carry it to that finality, but simply to base it either upon the stock held by member banks or upon the stock plus daily balances as suggested by you.

What I am asking you now is for the practical way of going about the plan that I have outlined, by which the board would undertake to determine the amount of earnings that had accrued by reason of operations with their member banks.

Governor YOUNG. I can not give you the details at the moment, but I am confident in my own mind that some equitable basis of distributing earnings can be worked out.

Mr. STEAGALL. Governor, do you think the small banks in the smaller communities should not be permitted to impose charges for the collection of checks?

Governor YOUNG. Well, Mr. Congressman, that has been a debatable question for a great number of years. The Congress of the United States, I think, has answered that question.

Mr. STEAGALL. And thereby hangs a tale, but I will not go into that situation.

Mr. STEVENSON. That is the ultimate wisdom, of course.

Governor YOUNG. I will answer it this way, that I think it is extremely unfortunate that a State bank under certain conditions is permitted to make those charges and the national bank is denied that right.

Mr. STEAGALL. That discrimination was brought about by those who were responsible for the law or for the practices of national banks, was it not? The system before it was disturbed gave the same privilege to the national banks as to the State banks?

Governor YOUNG. That is correct.

Mr. STEAGALL. So that if there has been brought upon the national banks a discrimination that is injurious, we have ourselves to blame and not the State banks; have we not?

Governor YOUNG. That is debatable, whether it is injurious to them or not.

Mr. STEAGALL. I am not saying it is; but if it is injurious, whoever is responsible for that situation is to blame, and not the State banks. If it is right for banks to charge for remitting checks from rural districts to wholesale houses, the State banks are not to blame for continuing to permit that to be done, are they?

Governor YOUNG. No; you can not blame them.

Mr. STEAGALL. And if it is a legitimate charge for the exercise of a legitimate function of a bank, it also follows that we should not have taken that right from the national banks; does it not?

Governor YOUNG. Well—

Mr. STEAGALL. Anyhow, we did that; we took that right away—somebody did; I did not. At any rate, they got it taken away.

Are you familiar with the history of that legislation in Congress?

Governor YOUNG. Not entirely

Mr. STEAGALL. Well, that is beside the question. That is one instance in which the House of Representatives did something that they did not want to do. They instructed the conferees not to agree to the Senate amendment which took away that right, and they brought in a report which did take it away, and the House ratified the report; and that is how the national banks lost the right to collect for remitting checks. It was an error of the head and not of the heart. The House did not intend to do it.

(Thereupon, at 12 o'clock noon, the committee went into executive session.)

BRANCH, CHAIN, AND GROUP BANKING

WEDNESDAY, MARCH 26, 1930

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met in the committee room, Capitol, at 10.30 o'clock a. m., Hon. Louis T. McFadden (chairman) presiding.

The CHAIRMAN. The committee will come to order.

Mr. Steagall, you were questioning the governor when we adjourned yesterday.

STATEMENT OF GOVERNOR ROY A. YOUNG—Resumed

Mr. STEAGALL. Yesterday when we adjourned we were speaking of the discrimination against national banks in connection with making a charge for remitting from some rural district to, say, a wholesale house in a large center on checks drawn, and how that situation came about.

Mr. McFadden, you are a little more familiar with that history than I am. Will you state in your own language what took place in connection with that legislation, in my time? I can state it roughly, but probably you have the identical language in mind in which that amendment was expressed, and, if you have, inasmuch as we have already referred to it, I wish you would do so.

The CHAIRMAN. I do not recall now just the language of the amendment. It was known as the Hardwick amendment. It was inserted in the bill in the Senate and came over in a conference report to the House. It gave the banks the right to make a minimum charge of 10 cents, I believe, on the collection of checks, and I made the motion in the House to instruct the conferees to sustain the substance of the Senate amendment. After about 60 or 90 days' time, with great propaganda carried on throughout the country—the National Credit Men's Association and other affiliated organizations being interested in the collection of par checks—including the activities of the Federal Reserve Bank of New York, the Federal Reserve Board, and the administration generally, the matter finally came up for a vote; and, as I recall, my motion was defeated by 2 or 4 votes. That would have given the country banks the right to an exchange charge on the collection of checks.

Mr. STEAGALL. If you will pardon me, you have not expressed correctly what took place in a parliamentary sense with reference to your amendment. This is what occurred: You offered an amendment to instruct the conferees on the part of the House to agree to the substance of the Hardwick amendment—and I am going to ask the clerk to insert in the hearings right here the original Hardwick amendment.

(The amendment referred to is here printed in full, as follows:)

Provided, Such nonmember bank or trust company maintains with the Federal reserve bank of its district a balance sufficient to offset the items in transit held for its account by the Federal reserve bank: *Provided further*, That nothing in this or any other section of this act shall be construed as prohibiting a member or nonmember bank from making reasonable charges, in no case to exceed 10 cents per \$100 or fraction thereof, based on the total of checks and drafts presented at any one time, for collection or payment of checks and drafts and remission therefor by exchange or otherwise.

Mr. STEAGALL. Continuing, this is what took place: You made a motion to instruct the conferees to agree to the substance of the Hardwick amendment. They reported the Hardwick amendment with a proviso which nullified in effect the purpose of that amendment. A point of order was made in the House against that amendment, for the reason that the conferees had disobeyed the instructions, and Mr. Clark ruled it in order, upon the statement from distinguished Members of the House and members of the conference committee that what the conference committee had done did not amount to a violation of the instructions of the House but that the changes incorporated in the Hardwick amendment by them were simply designed to secure its practical operation, and, in short, that they had obeyed the rules of the House, and upon that assurance Speaker Clark overruled the point of order and the House voted upon the report of the conferees and sustained it, although it turns out that that report was in violation of the specific instructions of the House.

Now, the resolution offered by you to instruct the conferees was adopted in the House—

The CHAIRMAN. You are quite correct in that.

Mr. STEAGALL. That is the history of that transaction.

The CHAIRMAN. And an interval between that time and when the matter was finally voted on of about 60 days elapsed, in which such propaganda was spread throughout the country as I have never seen before nor since, and it resulted, of course, in the defeat of the right of banks to make that collection charge.

Mr. STEAGALL. And, as a matter of fact, this was a fight between the large wholesale houses and the large banks in the larger cities, on the one hand, and the small country bank, on the other; in short, it was an effort to require the small banks to render for nothing the service of collecting those checks and remitting on them.

Mr. STEVENSON. And if you will allow me to "butt in" now, the very same gang is endeavoring to get us to pass the Strong bill here, to give them a preference, to make them preferred claimants whenever they send a check to a bank to be collected for them for nothing, and it fails before the remittance clears. That is just the next step.

Mr. STEAGALL. I realize as a practical proposition that that fight is lost, I suppose; but it is just as well to let that history go into the record, and I do it for this reason, that the taking away of the right to impose charges for the collection of checks is one of the things under which the small banks have suffered and which, in my opinion, has contributed to their difficulties. If I am not in error in my recollection, the proof before this committee showed, when we had that matter under consideration, that it was not an unusual thing for small country banks to be able to realize out of these charges for

collecting checks sufficient sums to meet the salary rolls of those banks.

Mr. STEVENSON. And they enforced it in a brutal way, too.

Mr. STEAGALL. And there were instances brought before this committee—I did not intend to refer to them, but I will—where the Federal reserve banks, in cases in which the small banks had refused to render this service for nothing and to remit these checks without charge, started out with a practice of accumulating a number of checks and even sending them across the country with men on cars armed with Winchesters and throwing an accumulation of those checks on the windows of small country banks to be paid in cash—and not pay, of course, such bank loans—have had to close their doors.

You need not shake your head, Governor; there was proof of that before this committee. I am not censoring the present Federal Reserve Board or the Federal Reserve Board at that time, because I do not think they had any part in it, but it shows that Mr. Stevenson is not unjustified in saying that they went about it in a brutal manner in some instances.

I do not say that that was a common practice at all, or that the Federal Reserve Board was responsible for it.

Mr. BRAND. You know that the Federal Reserve Board did take a part in it.

Mr. STEAGALL. Not in that; they took part in putting over the plan by which banks were denied the right to charge for remitting checks.

Mr. BRAND. They were opposed to the paying of a collection charge on these checks.

Mr. STEAGALL. There is no question about that; but I am talking about these instances when the Federal reserve banks, when the little banks would not remit these checks for nothing, would accumulate quite a number of them and send them across the county with guards armed with Winchesters, an act, of course, calculated to break such banks.

Mr. BRAND. But they were not in favor of having the banks make this charge.

Mr. STEAGALL. There is no question about that; that is another matter entirely.

Mr. BRAND. They probably would have succeeded in getting a little benefit if it had not been for the Federal Reserve Board's activity, and the propaganda against it.

Mr. STEAGALL. I think the Federal Reserve Board had a large share of the responsibility for taking away that privilege from the little banks, but not the present Federal Reserve Board.

Governor YOUNG. Is it not fair to say, Mr. Congressman, that the board was required to do that under the law?

Mr. STEAGALL. Oh—do you mean the law as it finally passed?

Governor YOUNG. Yes.

Mr. STEAGALL. They had no authority to do it under the original law. Of course, as the law finally passed, it was construed to give them that authority.

Governor YOUNG. Mr. Congressman, I would like to have Mr. Wyatt answer some of these questions. He is thoroughly familiar with that matter.

Mr. STEAGALL. I would be glad to have him do so, but my only purpose in referring to it was to keep the record straight.

Governor YOUNG. I do not know but what it would be a good thing to put into the record the history of the par collection of checks, and the Hardwick amendment in particular—

Mr. STEAGALL. I have already asked that that be inserted.

Governor YOUNG (interposing). As construed by the Federal Reserve Board in the Pascagoula case, which I think is a complete history of it.

Mr. WINGO. No record would be complete without a copy of the statement that was made in the House at the time you brought in the report, when the House was told that the banks would be permitted to make the specific charge provided by the Hardwick amendment and that it was not the intention of the Federal Reserve Board to prevent the charge.

Mr. STEAGALL. If we attempted to encumber this record with one side of the argument in that controversy, to make it complete we would have to go back and get the file on the other side.

Mr. BRAND. That is *res adjudicata*.

The CHAIRMAN. Governor, did you want Mr. Wyatt to make a statement?

Governor YOUNG. Yes; I would like to have him make a statement.

Mr. WYATT. I would like to clear up two or three points about that.

In the first place, some reference was made to the propaganda that went on during the time the bill was in conference, and there was a lot of propaganda, but I would like to make it clear that the Federal Reserve Board did not engage in that propaganda. That was done by the National Credit Men's Association, which was the original proponent of par checks, and they fought that fight all the way through.

The CHAIRMAN. In view of that statement, I will say that I knew about some of the propaganda put forth, and I differ with you, particularly in regard to the Federal Reserve Bank of New York. They were very active in this matter, as were certain members of the Federal Reserve Board. The record is clear on that.

Mr. WINGO. The record of this committee shows that at least two members of the Federal Reserve Board were very active.

Mr. BRAND. Were you with the department at that time?

Mr. WYATT. Not at the time the Hardwick amendment was passed.

Mr. STEVENSON. Most of those fellows are gone. Let us draw the veil and try to forget the things that are past and look forward to doing something now. It does not seem to me that we are getting anywhere in rehashing all of this stuff. Paul was a wise man, and he said he believed in forgetting the things that are past.

The CHAIRMAN. I think that is a good suggestion; but if Mr. Wyatt wants to proceed, we will hear him.

Mr. WYATT. I do not want to take up the time of the committee. I think the suggestion made is a good one.

Mr. STEAGALL. Governor, this kind of a transaction took place in a small country State bank that is a member of the Federal reserve system in my district not long ago. The bank was closed. My information is that they owed only \$48,000, and they had \$50,000 capital and \$50,000 surplus. They were in a farming community. I do not know the details or the merits of any controversy that they may have had as to whether they should be closed or not except in

a general way, when some transaction of this kind were called to my attention: There were depositors in that bank who gave checks on that bank in payment of obligations, and the payees deposited those checks in another bank in the same county, which other bank was a member of the Federal reserve system. That bank forwarded, through their regular connections, these checks for collection to the Federal reserve bank, and the Federal reserve bank sent them direct to the bank on which they were drawn for collection. In the meantime the bank on which they were drawn charged these checks to the makers and surrendered them with a statement of their accounts and remitted with its own check to the Federal reserve bank, and the bank on which the checks were drawn, closed. The Federal reserve bank held the notes of this bank, not then due, and they charged these checks back against the bank from whom they received them. They took the balances of the bank on which these checks were drawn and applied them to the payment of notes not due, charged the checks back against the banks that had sent them in, and the bank that originally cashed the checks went back on the payees and required them to refund the money. The payees of those checks did not have the money and did not have the checks. They paid the money back to the banks that had cashed the checks, and the man who had drawn the checks originally had them in his possession marked paid and surrendered by the bank on which they were drawn.

What suggestion would you make with reference to a transaction like that, or a situation where those transactions can occur?

Governor YOUNG. I think the law holds that the drawer of the check is out of the transaction; he has paid his bill as far as he is concerned. Whether the reserve bank is liable or not would depend on whether they were negligent in the presentation or collection. The responsibilities beyond that would depend upon the terms of their circular. Generally speaking, reserve banks handle those checks as agents.

Now, there has been a recent decision of the Supreme Court of the United States that has a bearing on this whole transaction, and I am not an attorney, Mr. Congressman. It is rather difficult for me to answer this. May I have Mr. Wyatt answer it?

Mr. STEAGALL. Yes; I would be glad to have him discuss that.

Mr. WYATT. I do not think the recent decision of the Supreme Court in the case of Thomas A. Hurley, receiver, against the Federal Reserve Bank of Richmond has any great bearing on the general question except the fact that it definitely establishes the proposition that the rights, responsibilities, and duties of a Federal reserve bank in collecting checks are governed by the terms of their check collection circulars, which really constitute a contract between the Federal reserve banks and the banks which send in the checks.

Mr. STEAGALL. In other words, the Federal reserve bank has contracted with its member banks along lines that relieves it of any responsibility in this transaction, although it sends it direct to the member bank for collection?

Mr. WYATT. Of any responsibility except for their actual negligence and their liability as a guarantor of prior indorsements. The reason for that, Mr. Congressman, is that the Federal reserve banks handle such an enormous volume of checks that they simply could

not undertake to guarantee or underwrite the safe collection of those checks. I think the amount of checks collected through the Federal reserve system in one year runs like \$300,000,000,000.

Mr. STEAGALL. You do not mean that that is the amount of checks that went the rounds and ended like the ones I referred to?

Mr. WYATT. No; I am telling you the amount that they actually handle for collection. Under modern conditions it is physically impossible to present out-of-town checks across the counter and demand payment in cash as you are required to do under the old common-law rules. As I say, it is physically impossible; there really is not enough currency available to settle those checks every day, and it would be physically impossible to present them across the counter if you could get currency, and practically all the commercial banks that do not clear through the Federal reserve system have some such procedure as was in effect before the Federal reserve system was in operation.

Mr. STEVENSON. Under the decisions, if they mailed it direct to the drawee bank, and the remittance failed, they were held to have been negligent in selecting that method of collection.

Mr. WYATT. That was the old common-law rule, and it was so held in the case of Malloy against the Federal Reserve Bank of Richmond in the Supreme Court of the United States, and in that same case the Supreme Court said that these old common-law rules as to the duties of a collecting agent can be varied by contract, and they have been changed by contract. The Federal reserve banks have contracted for the right to present those checks through the mails and accept a remittance draft in payment instead of presenting them across the counter.

Mr. STEVENSON. In other words, they held that they could contract against negligence of a certain kind?

Mr. WYATT. No, sir; that they could contract as to the method by which they should collect the checks.

Mr. STEVENSON. The reason they could not collect that way and were held responsible was on the ground that it was negligence for them to make the drawee bank send for a remittance and then allow them by contract to excuse themselves for the negligence which had been held by all the courts, from the sending direct to the drawee bank for collection, but they held, further, that they could not contract against actual negligence if it was thought that the bank was in a shaky condition and they still sent it there, that they could be held.

Mr. WYATT. On this last point, you are right; the Federal reserve banks can not contract against liability for their negligence, and they have never attempted to do so. The board's regulations, and their circulars, say that they assume no liability except for their own negligence and for their own guaranty of prior indorsements.

This loss that Mr. Steagall mentioned is a very unfortunate thing, and I think it is unjust, but I do not think it results from the system of collection or the method adopted by the Federal reserve banks. I think the loss results from an unsound but, unfortunately, very well-established rule of law, and that is the rule to the effect that a check is deemed to have been good when it was charged to the depositor's account, even though the bank on which it is drawn never remits to anybody, and when that check is presented to the bank on

which it is drawn, the bank charges it to the drawer's account, cancels it and surrenders it, but never remits to anyone. Yet the courts hold that so far as the drawer is concerned, that check is paid and he is released, and I think that there is where the inequity comes in in the case of a failed bank; that results in the drawer of that check receiving his deposit in full to the amount of that check while the other depositors have to share the losses.

Mr. STEVENSON. That does not always follow that he gets it in full; it depends on the law in the State where it happens.

Mr. WYATT. Oh, yes.

Mr. STEVENSON. In a national bank he does not get it in full.

Mr. WYATT. I am talking about the man who drew the check; if that check is canceled and is charged to his account, his deposit is paid off to that amount and his account is reduced by that amount.

Mr. STEVENSON. The banks in this city do not all recognize that yet, because a year ago I sent a check to one of them for \$1,000, and it went down to the bank on which I drew it and was charged to my account and remittance made, but the bank closed before it was cleared—and it took them an unconscionable time to clear it—and the Riggs Bank was holding me for the \$1,000 just the same.

Mr. WYATT. Was that your check?

Mr. STEVENSON. Yes. I have been through that mill.

Mr. WINGO. You should have hired a lawyer. [Laughter.]

Mr. STEVENSON. I did.

Mr. WYATT. As to this method of collection—

Mr. STEVENSON. What I did was this: The State of South Carolina had passed a law that under those circumstances that was a preferred claim and should be paid before they began to pay general creditors, and I got it that way.

Mr. WYATT. You filed a claim against the receiver of your bank?

Mr. STEVENSON. Yes.

Mr. WYATT. And got your check paid in full. I might say that that rule has been adopted either by statute or by decision of the court in quite a number of the States in the last six or eight years, and—

Mr. STEVENSON. But the national banks do not always follow that rule.

Mr. WYATT. They can not, because the national bank act governs the receiver in the liquidation of the affairs of an insolvent national bank, and it says that the creditors shall be paid ratably and the matter is handled in the Federal courts. The receiver acts under the jurisdiction of a Federal court and those rules adopted by the States have no application to the liquidation of a national bank.

Mr. STEVENSON. I know it.

Mr. STEAGALL. Governor Young, what would you suggest should be done with reference to the practice in the system that makes this kind of a thing come about?

Governor YOUNG. Do you mean what the Federal reserve could do?

Mr. STEAGALL. What should be done by somebody?

Governor YOUNG. I do not know, Mr. Congressman, what could be done.

Mr. WYATT. May I answer that?

The American Bankers' Association has for the last two or three years been advocating a uniform State law giving the holder of a check that is canceled but for which no remittance is made a preferred claim against an insolvent bank on which that check is drawn, and such a statute has been passed in a number of States, and the American Bankers' Association is trying to get it enacted in all the States. If that is enacted in all the States, and, as I said a moment ago, that rule has been adopted by the courts as a common-law ruling in a number of States, that will very largely cure the situation in so far as State banks are concerned, but it will not cure the situation in so far as national banks are concerned, and I think it would place the national banks at a disadvantage because, assuming that this rule is adopted in all the States, it will mean that a person having a check in a State bank will get his check paid in full if it is charged off before the bank fails through having a preferred claim or he will get his check back uncanceled and duly protested.

The CHAIRMAN. Would that apply also to the collection of drafts?

Mr. WYATT. I think it will; yes, sir.

The CHAIRMAN. To any case covered by the Strong bill?

Mr. WYATT. Yes, sir; but if this State legislation goes through and no similar national legislation is passed, a person holding a check on a bank that fails after the check has been charged off would be in a much better position if that bank is a State bank than he would if it were a national bank, and people may get the impression that it is safer to write checks on State banks than national banks.

Mr. STEVENSON. Well, as I said a while ago, that saved me \$1,000, or at least whatever per cent I would have lost on that if I had been one of the general creditors. At the same time, within my town, a lady deposited a check that represented her husband's life insurance, \$3,000, all she had. It went into the bank and the bank collected it and then closed. In the first place, she has got to wait until \$90,000 of preferred claims growing out of that statute are paid in full to the bankers and to all the other people, the big shippers and all that, that are protected by it, and then take her pro rata of what is left. There is a great deal of inequity in it, and I would not be surprised if they repealed the law in South Carolina.

Mr. WYATT. I think it is inequitable, and that is why I suggested that the fair remedy would be to have the law changed so that a check that is charged to the depositor's account but for which no remittance is made and for which nobody is ever paid will not be deemed to have been paid, and the drawer of that check will not be released, so that the holder of that check can go back against the drawer. I think that would be the fair thing, but I do not believe that Congress has any jurisdiction to correct that situation. It is a matter of contract in commercial law, and you would have to correct it by amendments to the State laws in all the different States.

Mr. WINGO. Some of us have difficulty enough paying our debts once, but according to your rule we would have to pay twice.

Mr. WYATT. Well, the man who is unfortunate enough to select such a bank—

Mr. WINGO. You are overlooking the fact that the man who takes the check has his remedy now. Do you want to make the drawer of the check guarantee proper handling of his check and protect the

man against his willingness to take a check, without failing to demand something better?

Mr. WYATT. Of course, when a man draws a check, he contracts that that check will be paid.

Mr. WINGO. But he does not guarantee the method of payment; he simply says that when the check is presented it will be charged to his account.

Mr. WYATT. And that the holder will be paid.

Mr. WINGO. If he had presented it in person across the counter, it would have been paid and the payee would have gone out before the bank failed.

Mr. WYATT. That is right.

Mr. WINGO. But, for the convenience of the gentleman paid, he turns it over to his agent, and he has a right to demand something beside that check in the first instance if he wants to.

Mr. WYATT. That is right.

Mr. WINGO. But for his convenience as much as for the convenience of the drawer, he takes the check.

Mr. WYATT. You have to recognize that, under modern conditions, these checks could not be collected in the manner in which they are now collected if you had to present them across the counter and demand cash. It would be so expensive and inconvenient that people would not take checks as freely.

Mr. WINGO. Your suggestion is almost unanswerable not only under modern conditions but also under the rules of law.

Mr. WYATT. May I make one further statement? And that is, that all of this trouble grows out of failed banks, and if you can stop bank failures you can stop this trouble.

Mr. STEVENSON. And, according to the statement of the comptroller, something like 7,000 banks failed in the last 9 years. You said something about a man being unfortunate in the selection of his bank, and, it seems to me, that at the rate we have gone it takes a man who is a good gambler to determine which bank is not going to fail.

Mr. WINGO. Your remedy, to stop the banks from failing, is like saying, you can enforce the eighteenth amendment by eliminating the appetite for liquor.

Mr. STEAGALL. We can all understand that transactions of this kind evoke complaints, criticism, and irritation that should be avoided.

Governor YOUNG. Mr. Congressman, the law is so complicated in various States that you can see there are difficulties with every suggestion that has been made.

Mr. STEAGALL. Yes.

Governor YOUNG. The United States Government enters into a contract with anyone from whom it receives checks that they can pass the check back to the drawer, and, if I remember correctly, several of the large concerns have done that. That is the only remedy that I know of.

Mr. STEAGALL. Well, we will pass on from that.

In discussing the matter of permitting member banks to share the earnings of Federal reserve banks, you said something about requiring a law forcing State banks to carry balances with the Federal reserve bank. Did I understand you right?

Governor YOUNG. I said that had been a suggestion.

Mr. STEAGALL. What did you have in mind in that reference?

Governor YOUNG. On the theory or on the belief that we all think that the Federal reserve system has been beneficial to the country and it is quite necessary that it continue. Obviously, under the present conditions the nonmember bank can get many of the benefits indirectly through its correspondent that the member bank can get directly from the Federal reserve bank. In other words, I think that you found in your investigation that the main reason why State banks did not join the Federal reserve system was because they lost the 2 or 2¼ per cent interest that they might be paid by a correspondent if they carried their reserve with the Federal reserve bank.

Mr. STEAGALL. I can not agree with you that that was the main reason, but that was one of the reasons.

Do you think that Congress would have any right to pass a law requiring a State bank to deposit and maintain deposits in a Federal reserve bank?

Governor YOUNG. I do not know.

Mr. WINGO. Did you say "right" or "power"?

Mr. STEAGALL. Power.

Mr. WINGO. There is quite a difference.

Mr. STEAGALL. I am not as good a lawyer as you are.

I meant to ask if Congress has such legislative power?

Governor YOUNG. I do not know, Mr. Congressman. That is something for the lawyers to determine.

Mr. STEAGALL. Governor Young, I am interested in all of these various suggestions with respect to legislation, banking rules, and everything else designed to protect bankers and banks in their transaction with one another, and I think it should be done as far as it can be wisely done by legislation, but this discussion leads up to another suggestion. I am wondering what your views are upon the question of the advisability of trying to protect depositors in banks that are members of the Federal reserve system. I speak of that as in my views of the matter we have no authority to touch the question through legislation further than the Federal reserve system or its member banks.

Governor YOUNG. Well, of course, Mr. Congressman, I have given very much thought to it.

Mr. STEAGALL. I would like to hear your views upon it.

Governor YOUNG. Better banking, of course, would be the quickest and best solution of it.

Mr. STEAGALL. No question about that. That is like Mr. Wingo's suggestion about the Volstead Act, that if we all quit drinking it would be possible to enforce the law.

Mr. WINGO. No; you said that, I did not. You know I do not drink. I said if you killed the appetite. I am one of those fortunate individuals that has no appetite for liquor.

Mr. BRAND. You are very fortunate.

Governor YOUNG. I have given consideration to the question of the guarantee of bank deposits, and followed it in the various States where it has been enacted, and it does not seem to be practical. I have given some consideration to the segregation of certain specific assets, against savings deposits, because that is really the depositor that we want to protect more than anyone else, and I think there is

some merit in that plan embraced in the laws of California, Michigan, and Maine.

Mr STEAGALL. Do you think that the savings depositor has a fund that is entitled to more consideration than that of the ordinary citizen?

Governor YOUNG. From a legal standpoint, no; from a practical standpoint, sympathetic standpoint, I would say yes.

Mr STEAGALL. The savings deposit is more in the nature of an investment, is it not? The savings depositor goes out for the purpose of making money, as an investor, and he puts his money where it will bring him something. He does not contribute to the activities of business, commerce, industry and agriculture, but he simply follows what he thinks is the safe method of placing his money, where he can get it back with interest. So I would not think that that fund should be treated with more consideration than the fund of a depositor who puts his money into banks that in turn put it into the channels of trade and commerce.

Governor YOUNG. The savings depositor is usually a time depositor, and I suspect that in every instance in the United States before he can draw his money in an emergency, when a bank is in difficulty, he is required to give 30, 60, or 90 days notice, and during the interim many of the good assets of the institution may be sold or disposed of to pay the demand depositors, the business men, and others. Under those conditions I think that the savings depositor is entitled to some consideration.

Mr. STEAGALL. What you mean is that the rules of banking should be different in the effort to safeguard deposits of that character from what they are as applied to ordinary demand deposits?

Governor YOUNG. I think so.

Mr. STEAGALL. But you are not speaking of any effort to guarantee either sort of deposits, are you?

Governor YOUNG. I am not.

Mr. STEAGALL. You are merely speaking of the methods of banking?

Governor YOUNG. That is correct.

Mr. STEAGALL. But, getting back to the question of guaranteeing deposits, I believe you said that you have studied this effort that has been made in different States?

Governor YOUNG. That is right.

Mr. STEAGALL. You do not understand that there is any essential similarity between the effort of the State of Nebraska, for instance, in imposing assessments against banks to take care of deposits and the guaranty of deposits by the Federal reserve system? You would not attempt to say that that would be a guide by which you could ascertain whether or not the Federal reserve system could guarantee its deposits, would you?

Governor YOUNG. I think so.

Mr STEAGALL. What are the assets of the Federal reserve system?

Governor YOUNG. The member banks' reserve deposits are about \$2,300,000,000; the capital is about \$176,000,000; the undivided profits are \$278,000,000, I think, and there is a small surplus beyond that—I have forgotten what it is—and there are some Government deposits and some very small foreign deposits.

Mr. STEAGALL. The Federal reserve system embraces how many national banks and member banks?

Governor YOUNG. About 9,000—that is about right, is it not, Mr. Smead?

Mr. SMEAD. About 8,500.

Mr. STEAGALL. Would you say that the Federal reserve system, with all its resources and these 9,000 banks, should treat the experiments in Nebraska as a final determination of the question of what the Federal reserve system could do toward protecting deposits or guaranteeing deposits in member banks?

Governor YOUNG. I think so, in proportion. You have to take things in proportion. Let us take the Reserve Bank of Minneapolis—

Mr. STEAGALL. The Federal reserve banks embrace the whole United States, do they not?

Governor YOUNG. Yes.

Mr. STEAGALL. The United States is a unit. Do you not think that that makes a great deal of difference, as between that and a small State—not to call it backward, as some one has done—with a handful of small State banks?

Governor YOUNG. We have to take it in proportion, Mr. Congressman, and—

Mr. STEAGALL. Is not this true also, Governor Young, that the State banks are permitted to loan on real estate? Is not the trouble with them in a great many instances that their loans rest upon real estate and they can not realize them?

Governor YOUNG. National banks are permitted to loan money on real estate.

Mr. STEAGALL. But not like State banks, are they?

Governor YOUNG. Not to the degree that State banks are.

Mr. STEAGALL. And we came along and liberalized the law, and did it at the instance of men who were supposed to know all about banking, to permit national banks to increase their loans on real estate, and we made a mistake when we did it and added to their difficulties and helped to bring on some of these failures which all of us regret.

Governor YOUNG. I think the difficulty with the small banks did not come so much with loans on real estate as with loans that were made where they had to take equities in real estate.

Mr. STEAGALL. That is all very true, but you will find, I am sure—and you are better informed than I am—that a great many of these small national banks are banks that were members of the Federal reserve system and found that a great part of their difficulty was due to the fact that they got their loans tied up in real estate, out of which they could not realize. Every time we read of one of these banks failing we read headlines in the paper “bank freezes,” and in a large number of instances you will find that one reason for it is that they have a good portion of their loans tied up in real estate.

Governor YOUNG. Mr. Congressman, I am afraid you are under a misapprehension. Under the old national bank act you were permitted to take a real-estate mortgage, a first mortgage, second mortgage, or third mortgage, or anything you could get, for a debt previously contracted, and I think if you would look into the difficulties of the banks of the United States you would find that the reason

they closed was not because of an original loan on farm land, but it was because of taking an equity in the farm land.

Mr. STEAGALL. I do not doubt that some of it is that way.

Governor YOUNG. I was going to say that 90 per cent of it is that way.

Mr. STEAGALL. Anyhow, passing on from that—

Governor YOUNG. May I ask Mr. Awalt if that is an accurate statement?

Mr. AWALT. I do not know about the percentage, but that is true as to a great majority.

Governor YOUNG. Something that could have been done—

Mr. STEAGALL. I propose to defer to Mr. Awalt and not to attempt to pass judgment on that, but, at any rate, of course these State banks are up against that difficulty to a much larger extent than the national banks—that is, having their loans resting upon real estate which is not liquid, and that being the case, that, of course, would create—

Mr. BRAND. He has not answered that.

Mr. STEAGALL. I think that is a matter of common knowledge.

Governor YOUNG. I think it is the equity in real estate rather than the direct—

Mr. STEAGALL. You did not catch my question. I say that this is true, that the State banks have had greater difficulty in connection with loans on real estate because of the lack of the limitations as to loans on real estate that apply to national banks.

Governor YOUNG. The limits are more liberal.

Mr. STEAGALL. And, of course, in the case of State banks a larger percentage of their difficulties is traceable to real-estate loans than is the case with national banks.

Governor YOUNG. I do not know as much about the State member banks as I do about the national banks.

Mr. STEAGALL. Let me ask you this: What have been the total losses to depositors in national banks, and when I say national banks I include all banks down to this time which are members of the Federal reserve system. Do you know what the total losses of depositors have been since the establishment of the national bank system?

Governor YOUNG. I think that is covered in the comptroller's statement before this committee, and I—

Mr. STEAGALL. I will say this to you—and I will be glad to have you correct the figures if I am in error—that my information is that down to 1925 depositors in national banks had sustained losses totaling approximately \$45,000,000, and, while we have not the exact figures for the past five years, the comptroller's report and testimony show that insolvent banks have realized 79 per cent. Certainly \$1,000,000 a year, or very little more than that, would have taken care of the losses to depositors in national banks from the beginning of the national bank system down to now, would it not?

Governor YOUNG. I do not doubt that you are quoting accurate figures, but I am trying to think of the ninth Federal reserve district alone. I am quite sure that the losses to depositors are beyond that.

Mr. STEAGALL. That might be true.

Mr. FORT. I think they were put into the record in Mr. Pole's testimony.

Mr. STEAGALL. I think the comptroller's figures show that the maximum of losses to depositors from the foundation of the national banking system to 1930 was around \$80,000,000, which would be a little over \$1,000,000 a year, and I will say to the gentleman that those are the figures, for I happen to be familiar with them, and that is what the comptroller showed. That being true, the plain fact is that the Federal reserve system, not counting its surplus, which you think has now reached a larger sum than wisdom requires, and notwithstanding the absorption of the initial expense of incorporating the Federal reserve system and the building program carried out by the Federal reserve system, has paid into the Treasury \$150,000,000, a little under that, so that the franchise tax paid by the Federal reserve system into the Treasury amounts to substantially twice the sum that would be required to take care of or to guarantee all the losses to depositors in the national banks since the foundation of the system.

Governor YOUNG. Mr. Congressman, can we go a little further with those figures, and assume—

Mr. STEAGALL. That would be the fact, would it not?

Governor YOUNG. No; I am going to go a little bit further than that.

Mr. STEAGALL. All right. Answer it in your own way, of course.

Governor YOUNG. This figure of \$80,000,000 total losses to national banks covers a great number of years. What the actual losses were, of course, is much beyond that. Many of those losses were covered by voluntary assessments, and—

Mr. STEAGALL. A voluntary assessment would not be a loss against a depositor.

Governor YOUNG. Yes; but, Mr. Congressman, the point I am bringing out is this, that if you had a guaranty of bank deposits by the Federal reserve system, you would not be struggling with \$80,000,000; you would be struggling with an amount much in excess of that, because if the stockholders of a bank which got in bad condition knew that that institution was going to be taken care of by the Federal reserve system they would pay their 100 per cent legal assessment and that is all they would pay. As it is now, they pay 100, 200, 400, and even 500 per cent in certain cases. So these figures of the Comptroller of the Currency do not tell the entire loss.

Mr. STEAGALL. I beg your pardon; I do not think you should say that. I am talking about losses to depositors.

Governor YOUNG. You can see very readily that the amount that the Federal reserve system would be required to guaranty would be far in excess of this \$80,000,000.

Mr. STEAGALL. Well, I am only offering you the figures to show what the actual losses have been down to this time. You do not apprehend that conditions are going to get worse with respect to the solvency of the banks that are members of the Federal reserve system, do you?

Governor YOUNG. With the guaranty of deposits by the Federal reserve system every bank in the United States obviously would attempt to join the Federal reserve system.

Mr. STEAGALL. They would not have a right to join of their own will. The Federal Reserve Board would, of course, pass on the wisdom of taking them into membership.

Governor YOUNG. It would. But I think it is fair, Mr. Congressman, that you take the entire loss of all the banks in the United States into consideration with a guaranty such as you have in mind.

Mr. STEAGALL. You do not proceed upon the idea that the Federal Reserve Board would admit to membership all the State banks in the United States, including those who are not in condition to make them fit for membership in the Federal reserve system?

Governor YOUNG. All right; let us go back to 1917, when the appearance of all banks in the United States was good, even in the agricultural section. Those banks under this guaranty obviously would come to the Federal reserve system, and from what I know of the conditions out there at that time the probabilities are that we would have accepted a great majority of those banks for membership in the Federal reserve system. Then came your great agricultural crash throughout the United States. The losses would have been just the same to the depositors from 1919 on clear through to 1925 and right up to the moment, and I think that when you advocate any guaranty of bank deposits you have to take all those figures into consideration as to what you may have to pay, and that is why I say that you can take the State of Nebraska and the State of South Dakota to determine whether the guaranty of bank deposits is a good thing or not.

Mr. STEAGALL. What I have in mind is this: I appreciate the force of your suggestions and, of course, there will be some difficulties there, but I can not for a moment anticipate that conditions in the banking world are going to continue as they are or that they will fail to improve or that the Federal reserve banks would admit to membership State banks upon terms that would constitute a partial attitude on the part of the Federal Reserve Board toward State banks. My impression has been up to now that the Federal Reserve Board was inclined—and I will not say unfairly—to act more favorably with national banks, which was a natural thing, and I am not finding fault with them about it, but they have certainly been on their guard with respect to the admission of State banks into the Federal reserve system. I have known of such instances where I think they were right about it, where they exercised exceeding care, and I should think they would continue to do that.

Governor YOUNG. Of course, we do do that, Mr. Congressman, but the Federal reserve banks and examiners, and the Federal Reserve Board, are not infallible, as was conclusively shown by the fact that we did admit many State member banks that subsequently had to fail.

Mr. STEAGALL. You have had much more trouble with them than with the others, in proportion?

Governor YOUNG. With the State member banks?

Mr. STEAGALL. The Federal reserve system has not had any more trouble with the State member banks than with the others, has it?

Governor YOUNG. No.

Mr. STEAGALL. So that if they should exercise the same care in the future that they have in the past, there is nothing to fear in that connection, is there?

Governor YOUNG. For membership, no.

Mr. STEAGALL. I mean in the developments after they are admitted to membership. You have had just as fortunate results; in other

words, your member banks and State banks have succeeded as well as the national banks in the Federal reserve system?

Governor YOUNG. Generally speaking, yes.

Mr. STEGALL. That being true, then, of course, you would exercise the same wisdom in the future as in the past, so that you would not encumber your Federal reserve system with all of the weak State banks throughout the country?

Governor YOUNG. Well, I am just trying to think, Mr. Congressman, what the Federal Reserve Bank of Minneapolis would have done in 1917, if 3,000 member banks came to us for membership, because of this guarantee of bank deposits——

Mr. STEGALL. I agree they would come. It puts work on the Federal Reserve Board, I am sure.

Governor YOUNG. I dare say 2,500 would have been admitted from what we knew about those banks at that time or thought we knew.

Mr. STEGALL. Governor Young, is not this a fair statement: The law contemplates and, in practical operation, the Federal Reserve Board deals just as intelligently with State banks as with National banks in the system?

Governor YOUNG. That is true.

Mr. STEGALL. And that would continue to be true?

Governor YOUNG. Always.

Mr. STEGALL. Governor Young, I was glad to have your statement that you thought it would be wise to distribute some of the earnings of the Federal reserve banks to member banks instead of paying it into the Treasury as franchise taxes. I appreciate your views in that respect. It has occurred to me that the Federal Reserve Board could be empowered by Congress to set aside a part of the earnings of the Federal reserve system to build up a fund to be placed in the hands of the Comptroller of the Currency to be used by him in undertaking to work out the difficulties encountered in administering upon insolvent banks and to use in the purchase of assets where necessary and for the purpose of carrying a bank along for a time as seasonal conditions made it desirable to do so; to liquidate it in an orderly way and to conserve its resources and assets and within conservative and safe calculations to build up a fund and have it in the hands and under the control of the Comptroller of the Currency with which he would reimburse depositors in national banks who incurred losses; not that the Federal reserve system would attempt to say, "We are going to take over the whole banking business of the United States and guarantee all depositors," but that the Federal Reserve Board should take these earnings and begin to set aside this fund and establish rules by which this fund should be devoted to the absorption of these losses and the reestablishment of banks and assist the comptroller in the orderly liquidation of banks that have to be closed, and if the fund or earnings in the future, as in the past, prove themselves more than adequate to take care of these deposits, let that be done, and, if not, let the comptroller be empowered to use it in so far as it could be done, to take care of the conditions growing out of the distress and failures that may be expected.

That certainly would be a very different thing from any guaranty system that has been undertaken by a State, as a rule?

Governor YOUNG. Does not that come pretty close to the Nebraska plan?

Mr. STEAGALL. No.

Governor YOUNG. The Nebraska law, when they found a bank tottering the commissioner took it over and assessed the other banks.

Mr. STEAGALL. I would not favor that plan. I am not talking about that. I should think that would be unsafe. I do not think the Federal reserve system would be justified in attempting to levy any charges on any bank or assess any bank or have them assess themselves.

I am only making my inquiry in reference to what may be done out of the earnings of the Federal reserve banks which you say come out of their member banks and, of course, the assets of the member bank rest largely upon depositors and the only thought I have is that a part of those earnings should be put into a fund which would help in such situations and, if sufficient to do it, would take care of the depositors. If not, the comptroller would use it as intelligently as possible and make it go as far as possible.

The record shows down to this hour they have made enough to take care of the losses of all depositors.

Governor YOUNG. I am convinced in the ninth Federal reserve district from the year 1920 clear through to 1927 we could have given the capital, surplus, and all earnings of the Federal Reserve Bank of Minneapolis for that very purpose and probably a good portion of the reserves of the member banks.

Mr. STEAGALL. I am not talking about any particular district. What I have in mind is the disposition of the earnings of the whole system that are now going into the Treasury; this \$150,000,000 that went into the Treasury came out of the small banks that are struggling and failing and would have paid the depositors of those banks for 150 years from the passage of the national banking act based on the developments down to this time. That is the thing I have in mind. It is the matter of the distribution of those earnings; not for the Federal reserve banks to undertake to do a certain thing, anticipating ability they may not have when the time comes, but simply disposing of their earnings which they now pay into the Treasury.

Governor YOUNG. The difficulty with the whole program, Mr. Congressman, is this: In Nebraska, if the fund had been large enough, this would have carried through and would have been a success, but the assessments got to a point where the good banks knew they were carrying the poor banks, and the assessments which were being levied against the good banks went beyond their ability to pay.

Mr. STEAGALL. I agree with you that—

Governor YOUNG. That is entirely possible with any plan which is set up and, on top of that, your member banks now are asking for more earnings and, in my opinion, justly so.

Mr. STEAGALL. Well, that is what I am talking about; that we devote a part of the earnings to the depositors instead of distributing them to the stockholders.

Governor YOUNG. If you state to member banks, "We will give you the earnings, but we will hold on to them and put them into a pot to take care of your depositors," that would not please the member banks.

Mr. STEAGALL. You mean the depositors?

Governor YOUNG. The good member banks who feel that they do not need this protection of the deposits.

Mr. STEAGALL. I think we ought to look forward to the time when the depositors of the Federal national banks can look at their deposit slips as good to the last dollar, and when we pay out this money that comes into the Treasury from these banks, I think we should let some go to the protection of the depositors. I beg the chairman's pardon for taking so much time.

Governor YOUNG. I think the large part of the earnings Mr. Congressman, come out of the large banks of the United States. They are the heavier borrowers.

Mr. STEAGALL. I appreciate that fact, but the large banks are interested in the little banks and the little banks in the large banks and the big towns are interested in the little towns, or ought to be, and vice versa. We are all one people. I would like to see it succeed, and it is not succeeding now.

The CHAIRMAN. Will you yield to Judge Brand at this point?

Mr. STEAGALL. Certainly.

Mr. BRAND. Mr. Chairman, I want to submit a request and then I will yield to Mr. Stevenson who must leave to-morrow.

Governor Young, if it would not be too much inconvenience, I should like you to put into the record the gross earnings, the expenses, and the net earnings of all of the 12 reserve banks in the United States from 1912 down to and including the year 1929, showing the gross earnings of each bank, the expenses of each bank, and the net earnings of each bank during that period, which is for 15 years.

Governor YOUNG. You mean since 1914?

Mr. BRAND. Yes. I want the gross earnings for all, because that will show when we get it for each one. Can you do that?

Governor YOUNG. I have a report right here which has been prepared, Mr. Congressman, which shows the earnings and expenses of each reserve bank, gross, net, dividends paid, transferred to surplus, franchise tax paid the United States Government, for all of the 12 banks and for each individual bank.

Mr. BRAND. You have the expenses there, too?

Governor YOUNG. The expenses would be the difference between the gross and the net.

Mr. BRAND. Of course. But for convenience though—

Governor YOUNG. I can have Mr. Smead add those figures. It is nothing but a case of subtraction.

Mr. BRAND. For instance, the gross earnings of the Federal reserve bank at Atlanta is shown here as \$31,712,460; the total expenses of the Federal reserve bank at Atlanta are \$12,526,915, and the net earnings of the Atlanta bank are \$19,185,545, from the years 1914 to 1926. I would like to have a list showing that for each of the banks.

Governor YOUNG. It is all right here. This is to the close of business at the end of 1929.

The CHAIRMAN. Are you ready now, Mr. Stevenson?

Mr. STEVENSON. Yes, sir.

The CHAIRMAN. Without objection, these matters Governor Young submits will be inserted in the record at this point.

(The statistics referred to are printed in full as follows:)

EARNINGS AND EXPENSES OF EACH RESERVE BANK

No. 79.—GROSS AND NET EARNINGS OF EACH FEDERAL RESERVE BANK, AND DISPOSITION MADE OF NET EARNINGS, 1914-1929

Federal reserve bank	Earnings		Disposition of net earnings			Profit (+) or loss (-) carried forward
	Gross	Net	Dividends paid	Transferred to surplus ¹	Franchise tax paid to U. S. Government ¹	
All Federal reserve banks:						
1914-15.....	\$2,173,252	—\$141,459	\$217,463			—\$388,922
1916.....	5,217,998	2,750,998	1,742,774			+1,036,224
1917.....	16,138,339	9,579,807	6,801,726	\$1,134,234	\$1,134,234	+509,413
1918.....	67,584,417	52,718,310	5,540,684	48,334,341		—1,188,715
1919.....	102,380,583	78,367,504	5,011,832	70,651,778		
1920.....	181,296,711	149,294,774	5,684,018	82,916,014		
1921.....	122,865,866	82,087,225	6,119,673	15,993,086		
1922.....	50,498,099	16,497,736	6,307,035	—659,904		
1923.....	50,708,566	12,711,286	6,552,717	2,445,513		
1924.....	38,340,449	3,718,180	6,682,496	—3,077,962		
1925.....	41,800,706	9,449,066	6,915,958	2,473,808		
1926.....	47,599,595	16,611,745	7,329,169	8,464,426		
1927.....	43,024,484	13,048,249	7,784,539	5,044,119		
1928.....	64,052,890	32,122,021	8,458,463	21,078,899		
1929.....	70,955,496	36,402,741	9,583,913	22,535,597		
Total.....	904,628,021	515,215,983	90,672,460	277,433,949	147,109,574	
Boston:						
1914-15.....	125,459	—34,603				—34,603
1916.....	490,888	295,935	249,785			+46,200
1917.....	1,285,884	740,359	601,756		75,100	—11,597
1918.....	4,475,195	3,303,180	354,139			
1919.....	7,497,583	5,777,381	414,447		5,362,934	
1920.....	12,273,253	10,272,564	447,266		7,351,799	
1921.....	6,968,662	4,281,353	473,109		772,324	
1922.....	3,541,313	1,097,402	481,951		—170,782	
1923.....	3,506,883	1,252,135	480,267		77,187	
1924.....	2,559,016	470,422	477,798		—7,376	
1925.....	3,288,546	1,149,581	502,648		637,933	
1926.....	3,319,077	1,156,873	525,023		585,888	
1927.....	2,975,357	837,612	550,446		287,166	
1928.....	4,465,342	2,316,522	590,830		1,725,692	
1929.....	5,160,831	2,766,134	634,112		2,132,022	
Total.....	61,933,089	35,675,850	6,813,668		21,750,887	
New York:						
1914-15.....	345,035	—123,887				—123,887
1916.....	971,026	414,064	127,113			+286,951
1917.....	4,929,214	3,078,481	1,942,819		649,363	—163,064
1918.....	25,314,736	21,662,917	1,195,026		20,467,891	
1919.....	35,352,412	27,958,019	1,291,047		23,964,678	
1920.....	60,525,321	53,128,130	1,477,096		12,832,523	
1921.....	34,710,274	26,093,832	1,608,721		3,782,671	
1922.....	11,349,279	3,721,593	1,652,138		—1,397,603	
1923.....	11,413,183	3,043,679	1,749,239		129,444	
1924.....	8,569,350	616,852	1,796,530		—1,179,678	
1925.....	10,217,174	3,103,298	1,855,196		1,215,102	
1926.....	10,600,968	3,749,743	2,100,191		1,649,557	
1927.....	10,647,759	3,720,601	2,327,355		1,393,246	
1928.....	18,483,042	11,018,433	2,743,725		8,274,708	
1929.....	19,314,279	12,263,224	3,544,314		8,718,910	
Total.....	262,723,052	178,450,584	25,443,510		80,000,812	
Philadelphia:						
1914-15.....	113,972	—31,517				—31,517
1916.....	448,180	249,941	128,458			+121,483
1917.....	1,095,540	753,875	623,603			+130,272
1918.....	4,357,740	2,972,089	583,983		2,608,344	
1919.....	8,809,890	6,659,169	462,380		6,196,789	
1920.....	11,365,535	9,065,116	496,679		8,204,775	
1921.....	8,008,095	5,338,454	517,683		985,293	
1922.....	4,251,950	2,236,876	541,552		803,594	
1923.....	4,592,771	2,177,837	582,292		1,178,588	
1924.....	2,915,846	747,092	615,135		131,957	
1925.....	3,135,550	1,078,120	673,212		404,908	
1926.....	3,626,648	1,533,733	730,598		803,135	
1927.....	3,368,636	1,369,469	783,649		394,923	
1928.....	5,394,546	3,282,641	843,755		2,438,886	
1929.....	6,076,048	3,801,988	938,312		2,863,676	
Total.....	67,838,943	41,042,883	8,519,162		26,964,820	

¹ Amounts shown as transferred to surplus account for 1922 are net, i. e., after the deduction of amounts charged to surplus account on Dec. 31, 1922, and paid to the United States Government as franchise tax. For prior years as follows: For 1920—New York, \$270,389; for 1921—Boston, \$247,350; New York, \$1,334,160; Philadelphia, \$36,366; Richmond, \$20,456; Atlanta, \$213,629; Chicago, \$710,190; Minneapolis, \$52,423; Kansas City, \$208,170; San Francisco, \$306,926; total, \$3,129,673.

No. 79.—GROSS AND NET EARNINGS OF EACH FEDERAL RESERVE BANK, AND DISPOSITION MADE OF NET EARNINGS, 1914-1929—Continued

Federal reserve bank	Earnings		Disposition of net earnings			
	Gross	Net	Dividends paid	Transferred to surplus ¹	Franchise tax paid to U. S. Government ¹	Profit (+) or loss (-) carried forward
Cleveland:						
1914-15	\$113,815	—\$55,774				—\$55,774
1916	452,129	233,808	\$143,237			+150,571
1917	1,367,216	753,682	716,168			+87,514
1918	5,226,864	4,135,796	716,107	\$3,552,000		—132,311
1919	7,800,829	6,093,785	556,785	5,537,000		
1920	14,458,619	11,820,031	604,194	11,215,837		
1921	9,390,863	6,284,383	600,228	2,329,442	\$3,294,713	
1922	4,994,282	2,268,688	692,436	861,264	714,988	
1923	4,655,090	921,221	725,626	195,595		
1924	3,770,689	—473,153	756,152	—1,229,305		
1925	4,013,456	1,210,576	778,811	431,765		
1926	4,517,884	1,600,762	808,505	852,257		
1927	4,197,836	1,108,190	832,583	275,607		
1928	6,250,553	3,180,715	856,843	2,323,872		
1929	5,986,580	3,705,442	910,007	2,795,435		
Total	78,196,705	42,908,152	9,757,682	29,140,769	4,009,701	
Richmond:						
1914-15	319,580	174,955	151,940			+23,015
1916	334,102	186,571	197,922			—11,351
1917	621,195	462,224	240,844		116,472	—11,651
1918	2,979,048	2,312,030	232,432	2,079,598		
1919	4,775,324	3,877,266	252,872	3,624,394		
1920	6,902,643	5,238,506	293,052	4,740,860		204,685
1921	6,729,679	4,393,627	322,203	693,792	3,377,632	
1922	2,532,944	867,448	335,321	32,954	801,173	
1923	2,578,896	1,092,843	342,295	384,404	366,144	
1924	2,210,240	379,791	351,251	28,540		
1925	2,182,460	576,110	358,162	217,948		
1926	2,429,017	727,645	363,937	279,216	84,472	
1927	2,086,303	497,711	372,230	125,481		
1928	2,357,648	1,118,960	370,683	74,828	673,449	
1929	3,299,609	1,342,225	368,601	97,362	876,262	
Total	43,638,688	23,247,912	4,551,865	12,495,858	6,200,189	
Atlanta:						
1914-15	236,460	82,532				+82,532
1916	278,520	129,307	201,719			—72,412
1917	580,789	288,083	218,203	40,000	40,000	—10,120
1918	2,293,068	1,652,473	182,473	1,470,000		
1919	4,416,001	3,382,397	197,397	3,185,000		
1920	7,476,431	6,010,324	225,571	3,648,465	2,136,288	
1921	7,406,652	5,496,219	245,892	770,106	4,480,251	
1922	2,332,736	672,750	256,618	—172,018	583,130	
1923	2,682,314	352,179	264,622	8,756	78,801	
1924	1,907,121	272,656	272,656			
1925	2,072,378	26,191	276,488	—250,297		
1926	3,045,867	1,228,327	296,573	931,754		
1927	2,967,839	669,904	305,817	304,087		
1928	3,578,156	1,693,985	312,259	558,425	823,801	
1929	4,116,049	1,428,518	321,696	308,032	803,790	
Total	44,520,371	23,385,825	3,577,954	10,857,310	8,950,561	
Chicago:						
1914-15	268,885	20,091				+20,091
1916	665,937	403,206	361,319			+41,837
1917	2,085,164	1,217,879	892,259	215,799	215,799	—61,878
1918	8,481,747	6,805,081	604,635	6,200,446		
1919	12,012,078	8,576,204	700,807	7,875,397		
1920	30,303,218	25,875,749	792,769	14,688,500	10,394,480	
1921	20,382,170	14,505,117	853,785	2,075,323	11,576,009	
1922	6,748,863	1,405,215	876,203	—657,289	1,186,801	
1923	6,511,359	1,178,365	934,371	27,398	246,586	
1924	5,205,169	909,123	909,123			
1925	5,424,663	1,121,273	934,016	187,257		
1926	6,567,043	2,253,923	985,959	1,267,964		
1927	6,167,352	1,927,645	1,029,990	897,655		
1928	8,936,418	4,763,429	1,089,761	3,663,668		
1929	9,889,451	5,424,665	1,170,393	3,651,464	602,838	
Total	129,644,517	76,400,955	12,085,360	40,093,582	24,222,013	

¹See note on p. 573.

No. 79.—GROSS AND NET EARNINGS OF EACH FEDERAL RESERVE BANK, AND DISPOSITION MADE OF NET EARNINGS, 1914-1929—Continued

Federal reserve bank	Earnings		Disposition of net earnings			
	Gross	Net	Dividends paid	Transferred to surplus ¹	Franchise tax paid to U. S. Government ¹	Profit (+) or loss (-) carried forward
St. Louis:						
1914-15.....	\$86,838	-\$97,169				-\$97,169
1916.....	297,948	141,017	\$31,100			+109,917
1917.....	773,106	502,156	284,566			+217,690
1918.....	2,676,828	1,777,810	404,838	\$1,603,310		-230,338
1919.....	3,884,478	2,355,154	234,660	2,120,494		
1920.....	7,180,117	4,875,866	253,711	4,621,855		
1921.....	5,166,315	2,951,926	270,253	1,042,564	\$1,639,109	
1922.....	2,456,447	647,572	283,166	375,450	37,956	
1923.....	2,753,435	1,182,163	296,810	407,070	478,283	
1924.....	1,688,143	203,937	304,976	-101,039		
1925.....	2,055,637	-93,540	306,753	-400,293		
1926.....	2,511,509	683,022	314,420	368,602		
1927.....	2,228,079	775,681	317,727	457,954		
1928.....	2,901,925	785,159	321,855	423,011	40,293	
1929.....	3,247,936	885,884	319,231	56,665	509,988	
Total.....	39,908,736	17,576,338	3,944,066	10,876,643	2,755,629	
Minneapolis:						
1914-15.....	100,112	-32,341				-32,341
1916.....	255,177	134,603	57,720			+76,883
1917.....	672,799	394,353	363,895	37,500	37,500	-44,542
1918.....	2,049,954	1,545,847	168,103	1,377,744		
1919.....	3,007,041	2,333,943	180,186	2,153,757		
1920.....	5,307,351	4,131,053	195,871	3,410,948		
1921.....	4,966,311	3,151,154	211,657	488,530	2,450,967	
1922.....	1,969,248	782,695	213,774	4,469	564,452	
1923.....	1,749,253	325,455	212,733	11,272	101,450	
1924.....	1,609,070	329,102	202,828	12,028	113,646	
1925.....	1,435,341	234,954	193,560	4,139	37,255	
1926.....	1,622,333	448,033	187,609	26,043	234,381	
1927.....	1,390,031	296,077	180,726	11,535	103,816	
1928.....	1,710,304	614,704	181,203	43,350	390,151	
1929.....	1,926,031	794,762	184,030	61,073	549,659	
Total.....	29,773,386	15,484,394	2,733,895	7,642,988	5,107,511	
Kansas City:						
1914-15.....	102,474	-66,776				-66,776
1916.....	380,208	224,989	66,707			+158,282
1917.....	1,002,660	566,404	394,603			+201,901
1918.....	3,451,936	2,437,748	309,729	2,421,426		-293,407
1919.....	4,961,482	3,923,362	228,755	3,694,607		
1920.....	7,409,987	5,540,681	257,672	3,042,781	2,240,228	
1921.....	5,712,858	3,056,096	268,620	486,918	2,300,558	
1922.....	3,094,660	783,036	275,655	-157,432	664,813	
1923.....	2,993,919	347,711	275,313	7,240	65,168	
1924.....	2,262,910	-253,182	265,697	-518,879		
1925.....	2,309,985	282,921	258,426	2,450	22,045	
1926.....	2,677,340	756,469	252,764	60,370	453,335	
1927.....	2,304,938	414,726	252,753	16,198	145,775	
1928.....	2,597,968	659,760	263,254	40,651	365,855	
1929.....	2,976,376	1,013,585	256,549	75,703	681,333	
Total.....	44,239,901	19,687,530	3,686,397	9,162,033	6,939,100	

¹ See note on p. 573

No. 79.—GROSS AND NET EARNINGS OF EACH FEDERAL RESERVE BANK, AND DISPOSITION MADE OF NET EARNINGS, 1914-1929—Continued

Federal reserve bank	Earnings		Disposition of net earnings			
	Gross	Net	Dividends paid	Transferred to surplus ¹	Franchise tax paid to U. S. Government ¹	Profit (+) or loss (-) carried forward
Dallas:						
1914-15.....	\$244,666	\$75,388	\$65,523	-----	-----	+89,865
1916.....	326,372	166,046	134,096	-----	-----	+52,638
1917.....	621,970	352,667	188,224	-----	-----	+168,833
1918.....	2,089,526	1,240,175	261,503	\$1,184,408	-----	-205,736
1919.....	3,062,251	2,041,864	196,335	1,845,529	-----	-----
1920.....	4,904,522	3,228,231	226,424	3,002,807	-----	-----
1921.....	4,239,574	1,613,564	232,211	1,961,858	-----	-----
1922.....	2,085,775	354,125	251,915	102,210	-----	-----
1923.....	2,356,436	332,282	251,429	80,863	-----	-----
1924.....	2,157,964	265,024	249,789	15,235	-----	-----
1925.....	1,813,626	278,135	255,239	22,896	-----	-----
1926.....	2,127,049	857,211	257,562	599,709	-----	-----
1927.....	1,741,922	568,209	256,310	311,899	-----	-----
1928.....	2,119,666	713,455	268,544	163,301	\$291,610	-----
1929.....	2,496,030	770,391	266,613	244,417	259,361	-----
Total.....	32,387,349	12,856,167	3,370,579	8,934,617	550,971	-----
San Francisco:						
1914-15.....	115,961	-52,358	-----	-----	-----	-52,358
1916.....	316,511	111,511	43,736	-----	-----	+67,775
1917.....	885,802	456,044	394,776	-----	-----	+61,298
1918.....	4,187,785	2,869,164	497,675	2,448,174	-----	-76,686
1919.....	7,021,224	5,387,360	296,161	5,091,199	-----	-----
1920.....	12,706,668	10,108,823	354,713	6,654,855	3,069,265	-----
1921.....	9,184,413	4,920,500	435,361	1,254,824	3,230,315	-----
1922.....	4,821,202	1,660,356	448,306	-185,721	1,397,771	-----
1923.....	4,615,227	505,426	467,720	37,706	-----	-----
1924.....	3,487,931	250,516	480,561	-230,045	-----	-----
1925.....	3,848,890	490,447	490,447	-----	-----	-----
1926.....	4,554,860	1,555,990	506,068	1,049,931	-----	-----
1927.....	3,858,442	1,055,424	547,062	508,362	-----	-----
1928.....	4,757,292	1,974,258	625,761	1,348,507	-----	-----
1929.....	5,466,076	2,205,922	670,085	1,635,837	-----	-----
Total.....	69,823,284	33,499,392	6,288,422	19,513,629	7,697,341	-----

¹ See note on p. 573

Mr. STEVENSON. Governor Young, you were a practical banker before you came on the board, were you not?

Governor YOUNG. Yes, sir.

Mr. STEVENSON. What banks were you connected with?

Governor YOUNG. I started with the First National Bank at Marquette, Mich.; later with the Marquette National Bank of Marquette, Mich.; later with the First National Bank of Lake Linden, Mich.; later with the Citizens National Bank of Houghton, Mich.

Mr. STEVENSON. In all those relations you had more or less dealings with what are known as country banks, did you not?

Governor YOUNG. They were country banks.

Mr. STEVENSON. You learned something of their practical difficulties?

Governor YOUNG. Many of them.

Mr. STEVENSON. What was the capital stock of the bank you were with when you were appointed to the board?

Governor YOUNG. \$100,000. Pardon me, Mr. Congressman. You asked when I was appointed to the board?

Mr. STEVENSON. Yes.

Governor YOUNG. For 10 years I was governor of the Federal reserve bank at Minneapolis.

Mr. STEVENSON. When you became governor of the Federal Reserve bank at Minneapolis, you came from a country bank?

Governor YOUNG. Yes; a \$100,000 bank.

Mr. STEVENSON. Governor, reference has been made to the difficulties in the last 10 years of the banks and the failures. As a matter of fact, from your observation, has not a great deal of that come from the shrinkage in the values of the assets of the customers of the banks, which has come about—I am not charging it was anybody's fault—but has not a great deal of the difficulty resulted from the shrinkage in value of real estate and other assets of the people who dealt with the banks?

Governor YOUNG. It was a very contributing factor.

Mr. STEVENSON. For instance, in my country, agricultural products were high; agricultural lands were high, and the man who owned 200 acres of land was considered a perfectly good risk for a sizable loan anywhere from two to ten thousand dollars. When the deflation, or whatever it might be termed, of 1920 came about, the banks were full of paper of that kind. Men who were perfectly good, as their assets stood prior to the beginning of the decline—this is my observation down there and I take it was so where you were—the decline in the price of agricultural products (cotton with us and various other things with you) rendered that fellow unable to pay his debt, and the bank began to renew his paper.

By the next year they began to call for security and wanted a mortgage on the land. That is the way a great deal of the mortgages got into the banks with us. Is not that true in your section?

Governor YOUNG. Yes, sir; that is true with us, and usually they were second mortgages.

Mr. STEVENSON. He would come up and say, "I can not pay this, but I have land worth \$10,000. I can borrow \$5,000 from the Federal land bank and pay that to you and give you a second mortgage for the balance." That is about the history of things with us. They did that and he farmed another year and they did that again. The value of the land shrinks and he begins to fall down in his installments with the joint-stock land bank that he is dealing with and in about a year they begin to foreclose and sell him out. The margin the commercial bank has is wiped out. That is what happened with us. Is that what happened in the Northwest?

Governor YOUNG. That is an accurate description of what happened in the Northwest.

Mr. STEVENSON. Then he is out, barefooted and coat gone, and no way to farm; and there are thousands of those fellows who were that way, and it was the result of the collapse in agricultural values that got so much frozen assets in the banks. They continued to carry them. They could not do anything else. He, the farmer, did not have the money. The land was mortgaged, so it could not be given as further security.

Now, has there not been a great deal of this not due to any inefficiency in the system, in managing banks, but due to the conditions that arose without anybody being able to forecast it, that has torn down the country bank in this country?

Governor YOUNG. It was a very contributing factor, Mr. Congressman, if not the main factor, but on the other hand, in those same communities where banks did go down others stood up.

Mr. STEVENSON. Yes.

Governor YOUNG. Apparently they used more discretion in lending their money, so that management must also be a factor in the circumstances.

Mr. STEVENSON. The judgment of management, of course, is the final factor and that is so in all banking institutions.

Now, suppose we had had what we call a decentralized branch banking system spread all over that country and dealing with the same people, having the same character of security, and that had occurred. Would there not have been great danger of a decentralized branch banking system getting into the same fix?

Governor YOUNG. It would be possible, but not as probable, in my opinion. We can look across the border, and, if I am informed correctly, the Canadian banks had losses in that same territory, but the depositors did not lose. Now, the probabilities are that the Canadian bank did not lend as indiscriminately as the American unit bankers did. That may have been for the good of the territory, as I believe perhaps it was, so that when losses did develop with the man who had to go through a drought of 3, 4, or 5 years in succession, his losses were smaller and he was in better position to stand them than the small-unit banker.

Mr. STEVENSON. The advantage of a system of that kind, spread over a large area, would be, according to my observation, that the losses are somewhat local, sometimes.

Governor YOUNG. Frequently.

Mr. STEVENSON. And if you have them spread over a territory that has very diversified industries, the losses of one industry would be tided over by the success and prosperity of another. That is the situation that I think would probably arise in the Federal reserve district.

Governor YOUNG. I think, Mr. Congressman, that there is one thing I should mention before this committee. I have read very carefully all these reasons for bank failures. I think one of the things in the Northwest that caused as much trouble as anything, was a lack of confidence in the local bank which resulted in tremendous loss in deposits, thereby crippling their earning power and simultaneously putting them into a position where they could not take hold of a situation and work a man out, as you know many of these agricultural problems have had to be worked out with the aid of the bankers.

Those banks that did retain the confidence of the public, and had money to lend, accomplished more than those that lost deposits rapidly.

Mr. STEVENSON. They naturally held the best class of business and best class of deposits, and the fellow who was wobbling was obliged to take what the stronger banks left. That is about the size of it with us, and, of course, they ultimately went down.

Now, I was going to speak of the fourth Federal reserve district. I was not in Congress in those days when that matter was settled, but there was a member of the commission in South Carolina that appeared before the board before that district was established, and

our position was that we wanted to be in this district because of the diversification. If we were put in the Atlanta district, we were afraid that Georgia and Alabama would borrow all the money. But in this district we had wheat, coal, a diversity of livestock, and a great manufacturing industry in North and South Carolina, and then agriculture, and our belief was that when manufacturing and coal and all that kind of thing were not borrowing, we would be, and, in the fall of the year, when we had our cotton money then would be the time they would need to borrow. That has worked out very well. We got into the district after a fight, and I imagine that a district-wide branch banking system would get more benefits of that same thing; in other words, if they had losses in South Carolina or slow paper in South Carolina, they would have paper that was moving in Virginia, and West Virginia, and Maryland.

Would not that be an advantage of the proposed district-wide branch banking system?

Governor YOUNG. In my opinion, it would be.

Mr. STEVENSON. It would tend to stabilize it. But there is this—and we are depending upon that in South Carolina—there are three or four banks that have mighty near all the business in the State from the branches of subordinates that has taken place and they are exercising now a great deal more discretion about the loans they are making. We are having a terrific holler from the general public that they are choking business in the small towns. They have only one bank in a small town and the folks there can not borrow. The truth of the business is, probably, they have not the right kind of security. But that builds up sentiment, where they holler “monopoly.” They are beginning to do that now.

If there was money enough to establish independent unit banks, they would be established, but everybody has been burned up on bank stock and they are trying to give some of it away now. That psychological condition is going to arrive when you establish a system of that kind. You will have all kinds of complaints about monopoly.

What is the answer to that? You have to deal with these matters as human questions. We have campaigns on now against chain stores and against everything that is not centralized in the home community.

Governor YOUNG. There are still unit banks in your territory

Mr. STEVENSON. Yes, but mighty few of them.

Governor YOUNG. Of course the unit bank has the opportunity to diversify if it so elects. It can diversify through commercial paper, through bonds, through United States Government's and many investments that are not dependent upon their own territory.

Mr. STEVENSON. Then there is another great criticism which is being made and being directed at the very moment that is on now, and that is the deposits are collected and gathered and sent to New York and put on call. They say that is absolutely safe, and they are sure to get their money as they want it and get it at their profit as they go along, and the cry is being raised already that that means all money, instead of going to the development of local communities, is being taken into New York and loaned on call.

Is there any way to prevent that?

Governor YOUNG. I should think that those statements are overstatements, as I have looked into them, Mr. Congressman. I have stated many times before the committee that I thought it would be a very short-sighted policy for any group or chain or branch banking system to neglect industry in its own territory. I do not believe that they will do it and expect to continue in business in that territory.

Mr. Smead, it seems to me I checked up, at one time, on the State of South Carolina as to the amount of brokers' loans that the banks reported.

Mr. STEVENSON. That is national-banks or member banks?

Mr. SMEAD. Member banks; yes.

Governor YOUNG. And it aggregated \$1,600,000. I do not know what the total deposits of the State of South Carolina amount to.

Mr. STEVENSON. I do not remember either.

Governor YOUNG. It is at least fifty times that amount.

Mr. STEVENSON. At least that. I think, to be frank with you, that some of the difficulty banks get into on that matter is due to the officers of the banks getting into the market themselves. We had a catastrophe down there with one of the best banks in town, in my district. Less than three months ago, at Gaffney, the president of the bank got killed accidentally—supposed to be, but no question it was suicide—and it turned out he was \$130,000 short, and I think that pretty well ran back to the collapse in October on the stock market.

That was not a bank lending its money on call, but the president, an official of that bank, and a very efficient one, having gotten short and using the bank's money. Of course that is the personal element that has to be dealt with there. No system can overcome that.

Governor YOUNG. Was that covered by bond?

Mr. STEVENSON. Oh, a \$25,000 bond. It was the First National Bank, at Gaffney, and closed an affiliated bank with it. It was a terrible catastrophe in one of the best banking towns in my district, just a few miles out of Charlotte.

There was a discussion as to the Federal reserve system, and I wanted to ask your opinion here on the question of whether the Federal reserve system would continue if the national banks continued to go out of existence. You would not have very much to stand on when they got out, would you?

Governor YOUNG. If they all went out; no.

Mr. STEVENSON. And there has been quite a movement to go out?

Governor YOUNG. Well, while those national banks have given up their national charters, Mr. Congressman, they still find it advantageous to retain membership in the Federal reserve system.

Mr. STEVENSON. But after having given up the charter in such a way, they could not, under the law, be in the system. Take the national bank at Rock Hill, S. C., and the Columbia National Bank, two of the best banks in the State, the other day consolidated, making 2 branches 80 miles apart. They are not eligible under the McFadden Act to be members of the system.

Governor YOUNG. We are losing some members in that territory now.

Mr. STEVENSON. They could not be in the system. I have had an idea that we might get rid of that trouble and all of this quarrel

about whether the member banks were getting what they were entitled to, by the Government simply putting up the capital, which is only \$107,000,000 for the Federal reserve bank. The surplus belongs to the Government under the law. That could be done, and would make them entirely independent of any banks—make them a Government institution and let them serve all the banks that are worthy of service. Have you ever thought of that way to solve that question?

Governor YOUNG. I have not.

Mr. STEVENSON. It strikes me it is time for us to begin to consider that. It is property that all belongs to the Government—everything over and above the capital stock belongs to the Government. The capital of \$107,000,000 is all the banks have, except their equity in the surplus, and on that equity they can not get over 6 per cent under the present law. They would not be averse, if they were paid their money back, to letting the Government man run the whole business. I am personally in favor of some plan like that. Then you would not be subject to the varying whims of the banking world as to whether they will be in or out.

Governor YOUNG. I do not just understand your proposal. Will you go into that in a little detail?

Mr. STEVENSON. My proposal is to do exactly what you are doing with all banks you are prepared to accept as depositories and carriers of their reserves, but do not require them to put up any of the capital. Then, State and national banks both, when they were accepted as members of the institution would have the right to use the facilities of the Federal reserve bank and carry their reserves there, but they would not be required to furnish the capital with which to do the business. The Government naturally would select, then, the directors, instead of the banks selecting them, as they select part of them now.

That is not now before this committee, but it is an idea I have considered a great deal. I do not know when it will work out.

Now, you discussed the other day the election of directors. You said there were so many selected by the banks—class A directors, I believe. All directors are selected by the banks, but three are bankers and three not—all except those selected by the board.

Governor YOUNG. There are nine directors, of which six are selected by the banks.

Mr. STEVENSON. Yes.

Governor YOUNG. And three appointed by the board.

Mr. STEVENSON. Of those six selected by the banks, three are not bankers; they represent industry and agriculture. Is not that true?

Governor YOUNG. That is correct.

Mr. STEVENSON. So that the majority of the whole business is selected by the banks. The banks are in two classes, however, I believe—class A directors are elected by one set of banks and class B by the others.

Governor YOUNG. I will correct that just a little bit. Banks are in three groups in the district, according to the size of the banks.

Mr. STEVENSON. Yes.

Governor YOUNG. And each group elects a class A and a class B director, so that the little bank has the opportunity of electing one class B director just as much as the other group has.

Mr. STEVENSON. The banks all have a voice in the selection of six directors, but they must select three who are not bankers?

Governor YOUNG. That represent industry.

Mr. STEVENSON. That represent industry?

Governor YOUNG. Yes, sir.

Mr. STEVENSON. Now there was a discussion here during the examination that has been going on about the amount of dividends that has been paid. As I understood you, it was time when they might pay the member banks a little more dividends on the capital they have in?

Governor YOUNG. If earned.

Mr. STEVENSON. If earned?

Governor YOUNG. Yes, sir.

Mr. STEVENSON. That, of course, should always be optional with the Federal reserve bank or the Federal Reserve Board, because you would always want to keep a check on it, so as not to deplete too much your surplus?

Governor YOUNG. I would rather see it specified under the law "if earned."

Mr. STEVENSON. If earned; yes.

Governor YOUNG. And not left to the discretion of anybody or any board.

Mr. STEVENSON. Would you put a maximum limit on it?

Governor YOUNG. I would like to have more time to work out the details. We are making a recommendation to Congress that the member banks participate to a large extent in the earnings. The details we have not been able to work out yet.

Mr. STEVENSON. You spoke yesterday, I believe it was, of the intermediate credit banks and land banks taking away a great deal of the custom of member banks. As a matter of fact, they relieved the member banks of a great many customers who were pretty slow, did they not? Did they not rather help than hurt?

Governor YOUNG. What I had in mind, Mr. Congressman, was the earnings of small country banks.

You know in the old days the country banker handled farm mortgages for an insurance company or other investors, for which he got a commission. When the land bank came in he could not get that commission. That practically drove him out of the farm-mortgage business, which was a source of his profit.

Obviously, the land bank did take over many of those loans and relieved him after 1921, I think it was. You will recall that the tax clause of the land-bank bonds was not adjudicated until 1921, so the land banks were not in the field in 1919 and 1920, when they really should have been in the field.

Mr. STEVENSON. They were also excluded from the field because the Treasury Department was selling an enormous number of United States bonds and did not want the competition of the land-bank bonds. As a matter of fact, we appropriated \$200,000,000 to buy the first \$200,000,000 of land-bank bonds, according to my recollection, to keep them from interfering with the sale of Liberty bonds.

But those land-bank developments really, in the end, have been rather a source of weakness to the country banks, for the reason that they got the first mortgage always and, in the decrease in the

value of land which I referred to a little while ago, they got the land. They have a great deal of it now, by the way. But the commercial banker, when his customer got on the rocks, lost. He did not get anything out of that security, because the land banks got the whole security. That has been the result in the country districts.

Governor YOUNG. The country banker usually ended up with a \$2,500 note of a farmer who owned 160 acres of land with an \$8,000 mortgage ahead of the banker, and the only method he had of protecting the \$2,500 was to take up the first mortgage, but in many cases it was not advisable to do that.

Mr. STEVENSON. In the instance I mentioned of 7,500 acres of farm land, that is what occurred as the result of that process.

You spoke also of the intermediate credit bank. I want to call your attention to one difficulty about that institution which has not made it a help. The rate of discount was limited to 7 per cent. The intermediate credit bank would not handle any paper upon which more than 7 per cent had been charged.

In the cotton country 8 and 9 per cent and, in some States, I think 10 per cent is lawful as the contract rate. There is a bank in my town, for instance, that has got some farm customers who have raised \$25,000 worth of cotton. They want to get advances or get the advantage of the intermediate credit bank. They can not go to their bank and give it their paper and let it take it to the intermediate credit bank and rediscount it, because the bank can not afford to break its discount rate. If it breaks the 8 per cent rate for Jones, it has to break it for Smith. As the result, there is none of that paper handled through the banks and the customers get the money otherwise.

The result was disastrous, because it went through agricultural corporations, and the agricultural corporation required them to take 10 per cent of their stock in that corporation and charged them 7 per cent, and in the fall of the year they would make losses enough to lose the whole capital stock, and the man's money cost 17 per cent, and yet he was deprived of dealing through his own bank.

If the intermediate credit banks allowed the banks to handle that paper in the usual way and take it to the intermediate credit bank and rediscount it, whether 7 per cent or 8 per cent, the usual course would have been followed and the fellow would have paid 8 per cent. As it was, he paid 17 per cent and there have been worlds of losses. There has been a great scandal over it. In one instance they mortgaged a crop 3 miles down the road near Beaufort. When they identified the land it was on a highway. I believe it is now United States 29.

The intermediate credit bank, with that weakness, has not been of much help. I imagine the Federal Reserve Board would not oppose our amending that law so as to permit them to charge not over the local rate of the State in which it is located.

Governor YOUNG. There are difficulties in both ways, Mr. Congressman. It might end up in a rate of 6 per cent in Virginia and 10 per cent in South Dakota.

Mr. STEVENSON. If they were permitted to discount paper on which not over the contract rate in the State where it was located was charged, that would relieve that situation, so whenever the man was

located, he would simply pay the contract rate and could handle it through his usual local bank. That has destroyed the efficiency of the intermediate credit bank in our section.

Just one other question: I notice the comptroller recommends a decentralized district-wide branch banking system. Can you give me your idea of what that would be? The term "decentralized" is attractive, but what does it mean? I can not follow the comptroller in his reasoning on that, as to what would be decentralized, as contrasted to a centralized bank. For instance, you have the bank in Richmond given authority to place branches all over its Federal reserve district, and you call it a decentralized bank. It is not pretty considerably centralized if it has tenacles all over the district?

Governor YOUNG. It would mobilize the credit.

Mr. STEVENSON. I appreciate that.

Governor YOUNG. And as you mobilized the credit, as you do in the Federal reserve system, the decentralization comes afterwards, or you put that credit where it is needed. I think that is what the comptroller had in mind.

Mr. STEVENSON. His view is that such regulations should be applied as not to centralize the loans; in other words, to require them to make a fair distribution of their loaning capacity.

Governor YOUNG. It is to be hoped they would do that.

Mr. STEVENSON. I do not know just how you could do that, because the people who would handle a bank with a widespread business like that would have to be given the very widest discretion, would they not? If you would have it judiciously managed, you can not interfere too much with the details.

Governor YOUNG. No; I do not think you could regulate that.

Mr. STEVENSON. The cry of centralization would naturally arise from the communities that did not get as much money as they thought they should have.

Governor YOUNG. I did not know the Comptroller of the Currency had specified any area.

Mr. STEVENSON. I understood him here to say that he thought it should be limited to the area of the Federal reserve district.

Governor YOUNG. I thought it was the trade area.

Mr. STEVENSON. I got that from reading his report. I did not hear him on three days.

Governor YOUNG. I think his recommendation was trade area.

Mr. STEVENSON. But he has that provision, that it should not go beyond the Federal reserve district in which the parent bank is located.

Mr. WINGO. I am not sure about this, but I think the comptroller did, in his report, say the Federal reserve district. But I got the impression, since then, he has come to the conclusion that it was not necessary to confine it to the Federal reserve district, but to the trade area. That is the impression that was left with me.

The CHAIRMAN. He did not define what was a trade area. As I recall, he said Congress could define that. I understand the governor's expression on that was a little different. He wanted an elastic area. Is that correct, Governor?

Governor YOUNG. That is correct.

Mr. STEVENSON. The comptroller's report very distinctly intimates the idea of areas not going beyond the limits of the Federal reserve

district. Now, I did not hear his statement here on that particular question. I have not had the opportunity of being here all the time. Those are going to be very intensely practical questions when we come to write a bill, if we write one.

Governor YOUNG. Very.

The CHAIRMAN. I think the comptroller did specify Federal reserve districts, but in any particular trade areas where the Federal reserve districts or State lines interfered, the trade area lines should control rather than the Federal reserve district or State lines.

Mr. WINGO. In other words, in the last analysis, the trade area should be the controlling factor. For illustration, in my State, I think I asked the comptroller about this. My recollection is that my home town is in the Kansas City district. Little Rock is in the St. Louis district. I think we discussed it and I got the impression from him that the trade area lines should be the controlling factor, but they should stay within the Federal reserve district as far as possible. The trade area district should be the dominant factor in determining where the branches should be established.

Mr. STEVENSON. The governor will see that is a very hard thing to determine.

The CHAIRMAN. Will you yield to me?

Mr. STEVENSON. Yes.

The CHAIRMAN. It is my recollection, back in 1912 and 1913 when the Federal reserve act was passed, that the argument was made then that the organization of the Federal reserve system would tend to do the very things it is now proposed to do with the establishment of branch banks in trade areas.

As you said a moment ago, the money would flow through the Federal reserve system into those sections where it was needed. Has the Federal reserve system failed in that respect in serving the country through its system of banks?

Governor YOUNG. I would not say so, Mr. Chairman. What I said the other day was that it was not 100 per cent efficient. I do not believe it will ever be 100 per cent.

The CHAIRMAN. Is the Federal reserve system a branch banking system?

Governor YOUNG. I would rather classify it as a group system.

Mr. WINGO. It might be well for you gentlemen to read the debates on why we established the Federal reserve system the way we did instead of having a private branch bank system.

Mr. STEVENSON. What I want to get is a practical definition of trade area. We know what a Federal reserve district is. That is fairly well defined. If Congress is going to define a trade area, they will have to recast its legislation every few years, because business will develop and, for instance, oil will be discovered around Little Rock, and we will have a big trade area where there is just a bullfrog pond now, probably, and all that kind of thing. There is not very much chart or compass to that designation of a trade area. That is what I wanted to get at.

Governor YOUNG. In reply to an inquiry from the chairman the other day I said that that should be discretionary with the proper officers as to what the trade area is, because it does change.

Mr. STEVENSON. Just as the board had wide discretion in defining and limiting the Federal reserve districts.

Governor YOUNG. Branch districts?

Mr. STEVENSON. Yes. The Federal reserve districts were fixed by the board and not by statute.

Mr. WINGO. By a special committee.

Governor YOUNG. We could change the territory in a district now by giving it to another district. But I do not think we could change the number of reserve banks.

Mr. STEVENSON. The number of reserve banks was fixed, but the committee—Mr. McAdoo, Mr. Williams, and Mr. Houston—they delimited the districts and some have been changed since. I believe it is within the power of the board to do that.

Governor YOUNG. Yes, sir; that is within the power of the board.

Mr. STEVENSON. What would you suggest, if this plan was adopted, of having branch banks confined to trade areas? What board would you suggest should have authority to determine what would be the trade area in which to put branches? Would the Federal Reserve Board be given that power or would you establish a new board? Just what is your suggestion about that?

If we are going to write a law, we want to get the combined wisdom of the bankers in this country on how to apportion this thing.

Governor YOUNG. Granting charters is now under the Comptroller of the Currency.

Mr. STEVENSON. Yes.

Governor YOUNG. It seems to me if this trade area is to be determined, it should be left to him.

Mr. STEVENSON. In other words, when the bank desires to establish branches it should make a showing before the comptroller as to where they are to be put, and they could not do it without his approval; in other words, he establishes the trade area in which that particular bank would have a right to operate with branches?

Governor YOUNG. That is my idea.

The CHAIRMAN. Will you yield?

Mr. STEVENSON. Yes.

The CHAIRMAN. Would that be exclusive of the Federal reserve banks?

Governor YOUNG. It is now; yes.

The CHAIRMAN. You think the comptroller should have the sole power without consulting with the Federal reserve bank in that district?

Governor YOUNG. He has that in the granting of charters now.

The CHAIRMAN. But there is a consultation, is there not, with the Federal reserve agent?

Governor YOUNG. In actual practice it is referred to the Federal reserve banks. It could, of course, be extended to the Reserve Board and the Comptroller of the Currency.

Mr. STEVENSON. You have many member banks, and you would have many more very large State-chartered institutions, over which the comptroller would have no authority at all, who would probably desire to be members of the Federal reserve system and desire to have branches which would be in contravention of the McFadden Act as it now stands.

The comptroller could not determine where those member banks or those banks that desire to be member banks, who are under State charters could put branches.

Governor YOUNG. No.

Mr. STEVENSON. You would have to have some machinery to take care of that.

Governor YOUNG. Yes. I am doing a great deal of thinking while I am talking, and it would probably be better, under those circumstances, under the Reserve Board.

Mr. STEVENSON. Suppose some of these days we do write a law on this matter: Regardless of the insurance of deposits, and other things, the thing we need is information on where should we best lodge the power, if we are going to give authority to do these things, to work out the details. That is a very important subject that needs to be elucidated, in my mind.

Governor YOUNG. I realize that, Mr. Congressman. In my initial statement before the committee, I stated that the board was not prepared at the moment to make a recommendation; that they were making a further study of this whole question, and that is why I am unable to answer many of your questions as to details. I hope that the work we are doing and the work this committee is doing, will permit something to be worked out.

The CHAIRMAN. May I call your attention to the fact, Mr. Stevenson, that this Congress can not pass any legislation regulating where State banks shall have branches, except as they become members of the Federal reserve system.

Mr. STEVENSON. We have legislation that State banks that put branches elsewhere than where they are or elsewhere than within the city where it exists, can not become members of the Federal reserve system.

The CHAIRMAN. That is right.

Mr. STEVENSON. Of course, we will carry forward some legislation on that subject, and many of those things—for instance, the one I referred to a while ago; these two national banks in my State that consolidated under a State charter under the terms of the McFadden Act, are excluded from membership in the Federal reserve system. Many of them would like to come in, and we should have some authority to define within what area it should be allowed to operate branches and under what conditions they should be allowed to come in.

Of course, we could determine under the statute under what conditions they could come in. We could modify the statute.

That is all I wanted to add. I wanted to get the combined wisdom of your board before I helped write a bill, if we ever do.

Governor YOUNG. We will try to do that.

Mr. STEVENSON. The practical thing in my mind is, first to what extent—within what areas can banks who are members of the Federal reserve system have branches, and what authority shall determine what their areas shall be? Those are two fundamental things that have to be dealt with.

That is all I wanted to ask, Mr. Chairman.

The CHAIRMAN. Mr. Bland has left.

Mr. GOLDSBOROUGH. Governor Young, I think you said the other day that you thought the limits of these trade areas should be flexible. Is that your present view?

Governor YOUNG. That is my present view. I will put it this way, Mr. Congressman, that the establishment of branches could not be defined by law within certain territories, but should be left

to the discretion of somebody—the Federal Reserve Board, if you will.

In other words, they would have the right to permit branches to be established.

Mr. GOLDSBOROUGH. Do you believe that the body which has the discretion, such as the Federal Reserve Board, or the Comptroller of the Currency, would be any more able to control the boundaries of these trade areas than the Comptroller of the Currency is now able to control, as a practical proposition, mergers of enormous banking institutions?

Governor YOUNG. If Congress will give us that power; yes.

Mr. GOLDSBOROUGH. Congress, of course, gives the Comptroller of the Currency authority to permit or refuse authority to consolidate. A few days ago, the Comptroller of the Currency gave authority to the Chase National Bank, the Equitable Trust Co., and a smaller bank to consolidate into an institution with resources of nearly \$3,000,000,000.

Do you believe, as a practical proposition, he could have avoided granting that permission if he had felt himself it was an unwise thing to do?

Governor YOUNG. I am hesitating to try to think of what they could do.

Mr. GOLDSBOROUGH. What is that?

Governor YOUNG. I am trying to work out what they could do if he refused them.

Mr. GOLDSBOROUGH. You do not catch the force of what I had in mind. I mean, would not the pressure, political and otherwise, on a Comptroller of the Currency, in a case of this kind, be so great that he would practically be forced to grant it?

Governor YOUNG. No; I do not think so. The practical side of it—

Mr. GOLDSBOROUGH. I was not asking about the practical side. I understand that. You can answer that way, if you wish.

Governor YOUNG. In that case, Mr. Congressman, they could have consolidated under a State charter and, under those conditions, the comptroller would have had nothing to do with it.

Mr. GOLDSBOROUGH. Of course; now, this term "decentralization," I find—decentralized trade areas—is being used a great deal. I am getting letters about it and bankers and individuals are talking to me about it. I find it is a very attractive word.

But, is it any more valid than any other advertising slogan? For instance, you see advertised the "Sunkist" orange, and I buy an orange that is advertised as a Sunkist orange even if there is another orange right beside it that looks just exactly like it, because the slogan is extremely attractive.

Again, one man in Congress may call his element the progressive element and another element standpatters, whereas his opponets call themselves conservatives and his group radicals; in other words, does this word "decentralized," used in connection with this inquiry, mean anything at all except an endeavor to make a monopoly attractive? Is not that all there is in it?

Governor YOUNG. Well, that is not my expression, Mr. Congressman.

Mr. GOLDSBOROUGH. I did not intimate it was. But it was the comptroller's expression. According to his own statement, he is more responsible than anyone else for this agitation.

Governor YOUNG. Well, if it describes it accurately—

Mr. GOLDSBOROUGH. Well, does it describe a monopoly accurately to say it is decentralized?

Governor YOUNG. I think what he has in mind is decentralization from the very large centers within the United States—New York and Chicago—where they have not gone into branch banking or group banking.

Mr. GOLDSBOROUGH. If these areas are made flexible in size, will they not inevitably grow larger?

Governor YOUNG. In my opinion, yes.

Mr. GOLDSBOROUGH. Which tends to the very centralization which this proposed legislation is to do away with. Is not that true?

Governor YOUNG. That is true.

Mr. GOLDSBOROUGH. Then, what is the use of starting here and saying we are trying to fix trade areas which will decentralize monopoly, when the inevitable drift, after we do it, is to go back to the same condition we are trying to get away from?

Governor YOUNG. In those circumstances, I would suggest placing a limitation on it.

Mr. GOLDSBOROUGH. Is not this whole thing, as a matter of fact, simply an attempt to make universal branch banking—unlimited branch banking—attraction, by starting it in a particular way?

Governor YOUNG. I think that is what will eventually develop, but I do not think this country is ready for that at the moment.

Mr. STEVENSON. Mr. Goldsborough, there is one question I forgot to ask. Will you yield to me now?

Mr. GOLDSBOROUGH. Yes.

Mr. STEVENSON. Suppose it is a State member bank. Of course, its charter would not extend beyond the limits of the State. Therefore, this trade area limitation would not authorize a State member bank to put a branch in another State. There would have to be some State action there, would there not?

Take, for instance, New York and New Jersey. That is a good instance of it right there. A State bank in New York, chartered by the State of New York, would not have the right, without the consent of the State of New Jersey, to run a branch in the State of New Jersey?

Mr. WINGO. I think you are in error, there.

Mr. GOLDSBOROUGH. I have but six minutes left, Mr. Stevenson.

Mr. STEVENSON. I simply wanted to ask that question, but I do not want to enter into a discussion about it.

Mr. GOLDSBOROUGH. Governor Young, what I have in mind is, that it seems to me in approaching this subject, we ought to do it with our eyes open—and for the present I am not arguing against branch banking, but am suggesting that Comptroller Pole's proposal raises clearly the issue as between monopolistic banking and unit banking. If it does, let us discuss it from that standpoint.

Mr. Pole has testified he does not think there should be universal branch banking. He is advocating what he calls trade areas. That is another attractive term. A trade area, within which everybody can do business most conveniently, to a person who is not thinking

about it, sounds attractive, but it does not mean anything, especially when you say the size of the area shall be discretionary with some body.

Governor YOUNG. He did not say that. I said that.

Mr. GOLDSBOROUGH. I know, but it is all in the course of the discussion. I did not say that he said that.

Now, Governor Young, Prof. John Dewey, who is certainly the greatest modern philosopher and one of the most careful men I know, in an article entitled "Individualism, Old and New," in the New Republic, of January 27, makes this statement:

It was stated in a recent convention of bankers that 80 per cent of the capitalization of all banks in the country is now in the hands of 12 financial concerns. It is evident that actual control of the other 20 per cent, except for negligible institutions having only local importance, automatically ensues.

What do you think about the validity of that statement?

Governor YOUNG. I think the statement I left with the committee the other day will show just the contrary. If I remember your statement correctly, 12 financial—

Mr. GOLDSBOROUGH. Twelve financial concerns; yes.

Governor YOUNG. Own 80 per cent of the banking capital of the United States.

Mr. GOLDSBOROUGH. Yes; that is the statement.

Governor YOUNG. The figures we have prepared do not show any such conclusions.

Mr. GOLDSBOROUGH. I will approach it from another point of view, because the question of monopoly is the one I have in mind. I think you said, in your testimony, Governor, that the capital stock of the banks of the country, roughly speaking, amounted to about \$5,000,000,000?

Governor YOUNG. I guessed at that. I have not checked that figure.

Mr. GOLDSBOROUGH. I remember you did not claim the statement to be accurate.

Governor YOUNG. Mr. Smead says probably around \$4,000,000,000. I just took it roughly, one-tenth of the total banking resources:

Mr. GOLDSBOROUGH. Now, the total capital of the banks of Greater New York, alone, is \$1,155,062,000, according to the figures furnished to be my Mr. Smead, which would mean, of course, that more than one-fourth of the total banking capital of the country is centered in Greater New York alone.

The CHAIRMAN. It is now 1 o'clock.

Governor YOUNG. Mr. Congressman, can I just get the statement again? Your statement was that the capital of the banks in the city of Greater New York was \$1,155,062,000?

Mr. GOLDSBOROUGH. Yes.

Governor YOUNG. I have not that figure here, but that is approximately correct.

Mr. GOLDSBOROUGH. I will proceed a little further along that line when we meet on Friday.

The CHAIRMAN. The committee will stand adjourned until Friday at 10.30 o'clock.

(Whereupon, at 1 o'clock p. m. the committee adjourned to meet at 10.30 o'clock a. m. on Friday, March 28, 1930.)

X