

REVISED PRINT

TO EXTEND THE PERIOD DURING WHICH
DIRECT OBLIGATIONS OF THE UNITED STATES
MAY BE USED AS COLLATERAL SECURITY
FOR FEDERAL RESERVE NOTES

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY
HOUSE OF REPRESENTATIVES

SEVENTY-FIFTH CONGRESS

FIRST SESSION

ON

S. 417

TO EXTEND THE PERIOD DURING WHICH DIRECT
OBLIGATIONS OF THE UNITED STATES MAY
BE USED AS COLLATERAL SECURITY
FOR FEDERAL RESERVE NOTES

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TO EXTEND THE PERIOD DURING WHICH DIRECT OBLIGATIONS OF THE UNITED STATES MAY BE USED AS COLLATERAL SECURITY FOR FEDERAL RESERVE NOTES

TUESDAY, FEBRUARY 16, 1937

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

The committee met at 10:30 a. m., Hon. Henry B. Steagall (chairman) presiding.

The CHAIRMAN. Mr. Eccles, whenever you are ready for the committee, we shall be very pleased to hear you. The Senate has passed S. 417, which is identical with H. R. 2302. If there is no objection, we will proceed to consider the Senate bill which the Reporter will insert at this point.

(S. 417 and H. R. 2302, the bills under consideration, read as follows:)

[S. 417, 75th Cong., 1st sess.]

AN ACT To extend the period during which direct obligations of the United States may be used as collateral security for Federal Reserve notes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the second paragraph of section 16 of the Federal Reserve Act, as amended, is amended to read as follows:

"Any Federal Reserve bank may make application to the local Federal Reserve agent for such amount of the Federal Reserve notes hereinbefore provided for as it may require. Such application shall be accompanied with a tender to the local Federal Reserve agent of collateral in amount equal to the sum of the Federal Reserve notes thus applied for and issued pursuant to such application. The collateral security thus offered shall be notes, drafts, bills of exchange, or acceptances acquired under the provisions of section 13 of this Act, or bills of exchange endorsed by a member bank of any Federal Reserve district and purchased under the provisions of section 14 of this Act, or bankers' acceptances purchased under the provisions of said section 14, or gold certificates: *Provided, however,* That until June 30, 1939, the Board of Governors of the Federal Reserve System may, should it deem it in the public interest, upon the affirmative vote of not less than a majority of its members, authorize the Federal Reserve banks to offer, and the Federal Reserve agents to accept, as such collateral security, direct obligations of the United States. At the close of business on such date, or sooner should the Board of Governors of the Federal Reserve System so decide, such authorization shall terminate and such obligations of the United States be retired as security for Federal Reserve notes. In no event shall such collateral security be less than the amount of Federal Reserve notes applied for. The Federal Reserve agent shall each day notify the Board of Governors of the Federal Reserve System of all issues and withdrawals of Federal Reserve notes to and by the Federal Reserve bank to which he is accredited. The said Board of Governors of the Federal Reserve System may at any time call upon a Federal Reserve bank for additional security to protect the Federal Reserve notes issued to it."

Passed the Senate February 10, 1937.

Attest:

EDWIN A. HALSEY, *Secretary.*

The CHAIRMAN. Mr. Eccles, will you proceed in your own way, sir?

STATEMENT OF HON. MARRINER S. ECCLES, CHAIRMAN OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. ECCLES. We are asking for an extension of the power to use Government bonds as collateral back of Federal Reserve notes. We are asking that this power be extended until June 30, 1939. This was a power that was given to the Reserve Board under the Glass-Steagall Act of February 27, 1932, for a period of 1 year.

The CHAIRMAN. Right on that point, would you state what, in your opinion, the reasons were for the passage of the act.

Mr. ECCLES. I have a statement here that was sent up to Chairman Steagall of your committee at the time it was recommended that the bill be passed and, if I may, I can refer to that statement.

The CHAIRMAN. Proceed in your own way, please sir.

Mr. ECCLES. Section 16 of the Federal Reserve Act was amended by the act of February 27, 1932, so as to provide that until March 3, 1933, the Federal Reserve Board (now the Board of Governors of the Federal Reserve System), if it deems it in the public interest, shall have authority, by an affirmative vote of not less than a majority of its members, to authorize the Federal Reserve banks to offer, and the Federal Reserve agents to accept, direct obligations of the United States as collateral security for Federal Reserve notes. The act was again amended by the act of February 3, 1933, so as to extend the period of this authority until March 3, 1934, and was further amended by the act of March 6, 1934, so as to extend the authorization to March 3, 1935, or until the expiration of such additional period not exceeding 2 years as the President may prescribe. The President has extended the authority until March 3, 1937, when it will expire unless it is renewed by the Congress.

At the time the act was first amended in this respect, February 27, 1932, it was deemed necessary in the public interest for the Federal Reserve System to attempt to maintain an easy-money policy and thus to encourage the extension of credit by member banks. The maintenance of an easy-money policy required the purchase by the Federal Reserve banks of large amounts of Government securities in order to put member banks of the Federal Reserve System in funds with which to pay off their existing indebtedness to the Federal Reserve banks and to build up reserves. It was the expectation that member banks in possession of excess reserves would become more active in seeking out opportunities to employ funds in order to increase their earnings and that these endeavors of the banks would tend to stimulate business and reduce unemployment and mitigate the forces of deflation. Another result would be the lowering of the interest rates both in the open market and on loans to customers, which would encourage enterprise and reduce the burden of debt service. The Board has continued to maintain an easy-money policy since that time, and it is believed that this policy has been an important factor in bringing about the broad recovery in business which is now under way.

In order to enable the Federal Reserve Banks to purchase United States Government obligations, in accordance with the System's easy-money policy, the Board, on May 5, 1932, authorized the Federal Reserve banks to pledge direct obligations of the United States as

collateral for Federal Reserve notes within certain limitations. Since that date, such obligations have been pledged continuously as collateral for Federal Reserve notes. The maximum amount pledged at any time amounted to \$1,098,000,000 on March 20, 1933. On December 2, 1936, Federal Reserve notes were outstanding in the amount of \$4,497,999,000 and there was pledged as collateral against them \$4,695,000 of eligible paper, which is a negligible amount of eligible paper, \$88,000,000 of United States Government securities, and \$4,464,838,000 of gold certificates.

As a consequence of large gold imports in recent years there are now enough gold certificates held by the 12 Federal Reserve banks combined to enable them to provide a 100-percent cover for all outstanding Federal Reserve notes. While this is true in the aggregate for the 12 banks, however, it is not true in the case of some of the individual Reserve banks. More important is the fact that in case gold should leave the country in large amounts, as it has on previous occasions, notably in 1931 and 1932, the Federal Reserve System, in the absence of authority to pledge United States Government obligations for Federal Reserve notes, might find itself compelled to adopt a restrictive credit policy at a time when such a policy might start a disastrous deflationary development, or aggravate one that was under way. In 1931 the System had the experience of being unable, owing to lack of authority to pledge Government obligations against Federal Reserve notes, to adopt an active policy of combating a deflation. A large outward movement of gold might reduce the gold-certificate holdings of the Federal Reserve banks below the amount necessary to provide cover for outstanding Federal Reserve notes, and, without authority to pledge Government securities for this purpose, the Federal Reserve banks, in order to get the necessary collateral to take the place of gold certificates held against outstanding Federal Reserve notes, would have to sell Government obligations to the point where member banks would be forced to borrow from the Federal Reserve banks. Such borrowings, in turn, might cause member banks to tighten their lending policies and to contract credits, with a consequent rise in money rates and serious restraint on business activity. It is clearly not in the public interest to run the risk of such a development by permitting the authority to pledge Government securities against Federal Reserve notes to lapse.

For these reasons it is proposed in the bill under consideration that the authority to issue Federal Reserve notes against United States Government obligations be extended until June 30, 1939, with the same safeguards against undue use of the authority as were incorporated in the original legislation.

Now, that is a very general statement of the history of the legislation.

The CHAIRMAN. Let me ask you a question, please. Why should we not make this permanent law?

Mr. ECCLES. I tried to get it. I tried, in the Banking Act of 1935, to eliminate altogether collateral requirements for Federal Reserve notes.

The CHAIRMAN. As far as I am concerned, I am in full accord with that, but I am wondering now why we should make this legislation temporary.

Mr. ECCLES. The only reason for it was that we felt we possibly could not get it as a permanent provision.

The CHAIRMAN. Who had that impression?

Mr. ECCLES. Well, that is the impression I had from a conference.

Mr. FORD. Do I understand by this that a bank that buys a million dollars worth of Government bonds can take that million dollars worth of bonds to the Federal Reserve Board and put them up as security and get back a million dollars in Federal Reserve notes?

Mr. ECCLES. You are speaking of a Reserve bank?

Mr. FORD. A member bank.

Mr. ECCLES. No; the member bank can borrow on a basis of 15 days, on Government bonds, from the Reserve banks of its district.

Mr. FORD. Yes.

Mr. ECCLES. And the Reserve bank will give it credit in its account and it can, of course, withdraw that entire credit either by asking the Reserve bank to transfer the funds, or it may want the funds transferred by wire, by draft, or it can draw down the entire balance in currency.

Mr. FORD. They can use those bonds for 15 days?

Mr. ECCLES. They can renew it. They can borrow money on the bonds.

Mr. FORD. When they borrow, they pay interest?

Mr. ECCLES. Yes.

Mr. FORD. That is all I wanted to know.

Mr. SPENCE. This does not contemplate the entire collateralization of these notes by direct obligations of the United States. It can be partly collateralized by these obligations and partly by acceptances.

Mr. ECCLES. I have another statement here that is a little more explanatory than the one I gave and if you want to take the time it really explains the entire thing. Mr. Chairman, should I take the time to give that?

Mr. FORD. We can take all the time that may be necessary.

The CHAIRMAN. You may proceed in your own way, Mr. Eccles.

Mr. ECCLES. This, I think, for the sake of brevity, really covers practically every question that might be asked with reference to this particular subject.

The CHAIRMAN. I suggest you just answer Mr. Spence's questions.

Mr. McKEOUGH. I would suggest that the gentleman read it for the benefit of the committee. I would like to hear it.

Mr. SPENCE. I would like to have an answer to my question, please.

Mr. ECCLES. Repeat it, please.

Mr. SPENCE. I wanted to know if, under this continuation, the issue of notes would be collateralized entirely by obligations of the United States Government or might it be partially collateralized by these obligations and partly by other eligible paper?

Mr. ECCLES. The law requires that they must be collateralized by gold certificates and eligible paper. In the absence of a sufficient quantity of eligible paper the only acceptable collateral was gold certificates. So that at a time when there were inadequate amounts of commercial paper, eligible paper, there was a very large amount of gold required to make up the deficiency in the available commercial paper. That happened at a time, in 1932, when we were losing a lot

of gold. Gold was going out of the country. It put the Reserve banks in a position where they could not carry out an open-market operation. They did not have a sufficient supply of gold, it was felt, to meet the outward flow of gold and to provide for the amount of gold collateral back of Federal Reserve notes in the absence of eligible paper, so that when it came to carrying on an open-market operation to ease the money situation they were unable to do it.

Under the Federal Reserve Act, Federal Reserve notes, theoretically, are issued not by the Federal Reserve banks but by the Board of Governors through the Federal Reserve agents. These agents must obtain from the Federal Reserve banks collateral consisting of eligible paper or gold certificates to cover the entire issue of Federal Reserve notes, 100 percent. Under the authority of the Glass-Steagall Act, as extended from time to time, United States Government obligations can also be used as collateral. These collateral requirements are entirely independent of the 40-percent gold certificate reserve requirements for Federal Reserve notes, which have always remained in effect.

In practical operation Federal Reserve notes are paid out by the Federal Reserve banks in response to the public demand for currency. They are not and cannot be forced out or kept out by the Reserve banks since the public will not keep more currency than it requires for its needs and all redundant currency comes back to the Reserve banks.

The requirement that collateral for Federal Reserve notes should consist only of eligible paper or gold certificates is based on a misconception of the way the Federal Reserve banks function. It is based on the idea that there is something inherently sound and safe in a currency that is covered by commercial paper and gold certificates, and that currency covered by Government obligations is somehow inherently inflationary. As a matter of fact, the Federal Reserve banks have two important liabilities to the public, Federal Reserve notes and deposits. All the assets of the Federal Reserve banks, including gold certificates, eligible paper, and United States Government obligations, are in effect security for both types of liability. There is no advantage in segregating one type of asset against one type of liability, and the other assets against the other type of liability. The soundness of each is equally important to the public.

Since it was deemed necessary for the Federal Reserve banks to acquire a large portfolio of United States Government obligations for the purpose of carrying out a policy of monetary ease in the interests of economic recovery it would not be good policy now to decree that the Reserve banks may no longer use these United States obligations as collateral for their notes.

To be sure, it happens that at the present time the 12 Federal Reserve banks combined hold enough gold certificates to cover their Federal Reserve notes, but this situation may not continue. If large exports of gold should occur and the Federal Reserve banks should lose a considerable part of their gold certificates, they might find themselves confronted with the same situation that existed in the autumn of 1931 and in the winter of 1932. At that time a terrific deflation was sweeping the country with devastating effects on our

economic life. Banks were heavily in debt to the Reserve banks and were losing gold to foreign countries and currency to the American public which was withdrawing its deposits from the banks for safe-keeping. In these circumstances the Federal Reserve banks were helpless to come to the assistance of the member banks, even though the Reserve banks had \$1,400,000,000 of gold in excess of legal-reserve requirements. They were helpless because nearly all this gold had to be held as collateral for Federal Reserve notes and could not be used as a basis of open-market purchases which would have helped to stop the deflation and might have prevented the worst phases of the depression.

It was to meet that situation that Congress passed the Glass-Steagall Act on February 27, 1932. After that the Reserve banks were enabled to engage in open-market operations—which greatly, though belatedly, relieved the situation, contributed to monetary ease, and were an important factor in assisting the recovery movement. It would not be wise now to deprive the Reserve banks of the authority to pledge United States Government obligations as collateral against Federal Reserve notes and run the risk of a repetition of the situation which existed in 1932.

While this country at present has a large and growing supply of gold, foreign countries have large claims against this gold, which may at any time result in a great outflow of gold from this country. At the end of 1936, banks in the United States held about \$1,500,000,000 of short-term balances due to foreigners, and foreigners held about \$6,500,000,000 of American investments, of which readily marketable stocks and bonds comprised perhaps two-thirds. A substantial withdrawal of these funds could rapidly change the situation and make it imperative once more to permit the Reserve banks to pledge United States obligations against Federal Reserve notes. In these circumstances the only wise and safe course is to continue this authority, which is used but little now, but may become important in the future.

It is at a time when gold is leaving the country, and when a liquidation is under way, that collateral requirements hamstring the Reserve banks and prevent them from following the course required by the public interest. At times when credit is expanding, and restraint may be necessary, collateral requirements do not exercise any restraint because at such times the banks borrow from the Reserve banks and their borrowings produce the eligible paper required as collateral for Federal Reserve notes. Collateral requirements therefore, are a perverse instrument of control; they restrain when expansion is urgently needed to arrest deflation and they cease to function as a restraint when a restraining influence would be in the public interest.

It should be mentioned also that, while the 12 Federal Reserve banks combined have at present enough gold certificates without pledging any United States Government obligations, the gold certificates are not evenly distributed among the Federal Reserve banks, and there are two Federal Reserve banks, those of Atlanta and Minneapolis, that would have to liquidate a part of their portfolio, if they were not permitted to use Government securities as collateral. The total amount of such securities pledged as collateral at the present time is \$87,000,000, of which \$60,000,000 is at these two banks.

A table showing the amount of Federal Reserve notes outstanding in each Federal Reserve district and the collateral against those notes as of February 3, 1937, is attached.

Federal Reserve note statement on Feb. 3, 1937

[In thousands of dollars]

	Total	Boston	New York	Philadelphia	Cleveland	Richmond	Atlanta
Federal Reserve notes:							
Issued to Federal Reserve bank by Federal Reserve agent.....	4,475,246	380,552	974,832	325,026	438,133	211,034	207,653
Held by Federal Reserve bank.....	317,179	29,100	96,975	21,511	28,626	11,435	25,143
In actual circulation.....	4,158,067	351,452	877,857	303,515	409,507	199,599	182,510
Collateral held by agent as security for notes issued to bank:							
Gold certificates on hand and due from U. S. Treasury.....	4,491,132	406,000	990,000	332,000	440,000	212,000	168,000
Eligible paper.....	2,556	50	1,537	483	20	-----	25
U. S. Government securities.....	87,000	-----	-----	-----	-----	-----	45,000
Total collateral.....	4,580,688	406,050	991,537	332,483	440,020	212,000	213,025
		Chicago	St. Louis	Minneapolis	Kansas City	Dallas	San Francisco
Federal Reserve notes:							
Issued to Federal Reserve bank by Federal Reserve agent.....	974,980	191,081	137,730	168,242	95,186	370,797	46,151
Held by Federal Reserve bank.....	27,318	11,569	3,421	8,350	7,580	-----	-----
In actual circulation.....	947,662	179,512	134,309	159,892	87,606	-----	-----
Collateral held by agent as security for notes issued to bank:							
Gold certificates on hand and due from U. S. Treasury.....	990,000	171,632	128,000	167,000	97,500	389,000	162
Eligible paper.....	-----	38	4	73	164	-----	-----
U. S. Government securities.....	-----	22,000	15,000	5,000	-----	-----	-----
Total collateral.....	990,000	193,670	143,004	172,073	97,664	-----	-----

Another table showing the position in regard to collateral requirements and to reserves on February 24, 1932, is also attached.

Reserve position of Federal Reserve banks, February 24, 1932

[In millions of dollars]

Total cash reserves.....	3,140
Required as deposit reserve.....	691
Required as note reserve.....	1,057
Total required as reserves.....	1,748
Excess reserves.....	1,392
Under Federal Reserve Act prior to Glass-Steagall amendment:	
Additional gold required as collateral for Federal Reserve notes.....	930
Gold in redemption fund.....	56
Total deductions from excess reserves.....	986
Free gold under Federal Reserve Act.....	406

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Reserve position of Federal Reserve banks, February 24, 1932—Continued

Gold that may be released by pledge of Government securities as	
Federal Reserve note collateral-----	713
Potential free gold under Federal Reserve Act as amended-----	1, 119
Federal Reserve notes issued-----	2, 908
Collateral pledged:	
Gold-----	2, 037
Eligible paper-----	921
	2, 958

Certain questions are sometimes asked about this proposal. Is it inflationary? The answer is that it enables the Federal Reserve banks to counteract a dangerous deflation by making it possible to engage in open market operations at a time when gold is leaving the country and a liquidation is in process. At other times it may increase the limits to which open-market operations of the Federal Reserve banks may be carried, but since these operations must be conducted in accordance with decisions of the open-market committee and on principles definitely laid down by Congress, it can become inflationary only if the Board and the open-market committee flagrantly disregard their duties and responsibilities.

Sometimes it is asserted that this proposal reintroduces bond-secured currency, which was one of the great evils prior to the establishment of the Federal Reserve System, and does away with the elastic character of our currency.

The answer to that is that the elasticity of our currency at the present time does not depend upon the nature of the collateral back of the currency, but upon the mechanism by which currency not needed for circulation purposes finds its way back to the Federal Reserve banks, and a currency demand can always be met through these banks. The situation differs from the one that prevailed prior to the Federal Reserve System in that at that time there was no effective method of absorbing redundant currency nor of expanding currency when a demand arose. The fact is that the establishment of the Federal Reserve System has made our entire supply of currency responsive to changes in the public's needs, and consequently elastic. There is nothing in the proposal that would in any way interfere with this elasticity.

Sometimes it is asserted that this proposal is a device by which the Federal Reserve banks can finance Treasury deficits. This assertion has nothing to sustain it. The Federal Reserve banks do not issue currency except in response to a demand, and if they did the currency would not remain in circulation but would come back. The power of the Federal Reserve banks to help the Government finance deficits rests not on the collateral requirements of Federal Reserve notes, but on the authority to buy Government securities, even though these purchases must be made in the open market. The power exists but is under control of the open-market committee, which has clearly defined duties and responsibilities and principles to guide it in its operations.

Mr. FORD. What would be more sound than the Government policy?

Mr. ECCLES. What would be, you say?

Mr. FORD. Yes.

Mr. ECCLES. I do not think anything would be. The idea of putting gold certificates and eligible paper as security back of the Fed-

eral Reserve notes, leaving Government bonds as the security back of the deposits has nothing to recommend it. You do not, of course, secure the deposit liability. You do secure the note liability, even to the point of restricting the security of the note liability to gold, commercial, or eligible paper. We have broadened that, of course, through this act, to permit the other important assets of the Reserve System, Government bonds, to also be used as collateral back of the note issue.

Mr. FORD. Right there, the deposit liability you speak of is the deposit of member banks in the Federal Reserve bank.

Mr. ECCLES. That is the principal deposit they have.

Mr. WILLIAMS. Why do the Government Reserve agents require a specific collateral for a certain issue?

Mr. ECCLES. Why do they?

Mr. WILLIAMS. Yes.

Mr. ECCLES. Because the law requires them before they can issue the notes.

Mr. WILLIAMS. Is there any necessity for that? There is none in your judgment, at least, is there?

Mr. ECCLES. I am on record on that. I debated that rather extensively for a long while. It does not make much difference at the present time. Of course, there will always be an adequate amount of security back of the liabilities and where the Reserve banks are permitted to pledge Government bonds, as well as gold and eligible paper, all it does is involve the additional expense and trouble of transferring the collateral from the bank to the agent and holding it against the notes which are issued through his hands.

Mr. WILLIAMS. What is the amount of eligible paper available at the present time?

Mr. ECCLES. The amount of eligible paper?

Mr. WILLIAMS. Yes.

Mr. ECCLES. Well, it is practically nothing.

Mr. WILLIAMS. What is the amount available for that use?

Mr. ECCLES. You mean in the Reserve System?

Mr. WILLIAMS. Yes.

Mr. ECCLES. I could not say.

Mr. HANCOCK. It has never exceeded 12 percent of the total assets of the member banks, has it?

Mr. ECCLES. I understood you to mean what eligible paper do the member banks have that they could put up with the Reserve banks.

Mr. WILLIAMS. That they have available.

Mr. ECCLES. Or that the Reserve banks have available to put with the agents.

Mr. WILLIAMS. Yes.

Mr. ECCLES. On February 10, about \$2,500,000 available for pledge with the agents.

Mr. WILLIAMS. That is what they have put up?

Mr. ECCLES. That is the total amount at the present time that they have available. That is the total amount of paper the Federal Reserve banks hold of all the member banks. They had \$2,390,000 with the agents on February 10.

Mr. WILLIAMS. How does that compare with the eligible paper that they had in 1932, at the time this act was originally passed?

Mr. FORD. Please define in a few words, eligible paper.

Mr. ECCLES. I do not know that I can do it in a few words. Those acceptances and commercial paper, paper of business institutions used for carrying on their current transactions, with maturities not exceeding 90 days. Agricultural paper, for the purpose of production, live-stock, and production paper not exceeding 9 months. That would consist of certain types of warehouse receipts, bill of lading paper, and so on. In other words, paper representing current transactions. Nothing exceeding 9 months.

Mr. FORD. That is about the same as the original Federal Reserve Act.

Mr. WILLIAMS. I want to know whether or not the Federal Reserve banks have up now all the eligible paper they have?

Mr. ECCLES. Yes; they have.

Mr. WILLIAMS. Have you available the figures showing the amount of eligible paper in the hands of member banks?

Mr. ECCLES. No; I do not have that.

The CHAIRMAN. Is there any way to get those figures?

Mr. ECCLES. Well, we can get it out of the reports.

The CHAIRMAN. There has to be an adjudication of the question in advance of that, nobody knows how much there is.

Mr. ECCLES. That is correct. A bank, itself, may think its paper is eligible and when it is submitted to the Reserve bank, the Reserve bank may throw it out on some technicality or some technical requirement. In other words, the member bank may think it is eligible and so classify it but the Reserve bank may not.

Mr. HANCOCK. Did you not state, in the hearings here in 1935, that member banks never did have more than 12 percent of their assets in eligible paper?

Mr. ECCLES. They did at one time, but by 1929 the amount had declined to between 12 and 13 percent of loans and investments according to their own estimates. Member banks reported that they held about \$2,500,000,000 of eligible paper at the end of 1936.

Mr. HANCOCK. That is what I understood.

Mr. WILLIAMS. I should like to pursue the question asked by Mr. Spence here about whether or not, when a request is made by a bank for notes, whether or not it can put up 100-percent bonds and get 100-percent notes?

Mr. ECCLES. Yes, it can.

Mr. WILLIAMS. Could they present, say, \$1,000,000 in bonds and get \$1,000,000 in notes for it?

Mr. ECCLES. Are you speaking of a member bank?

Mr. WILLIAMS. One of the Reserve banks.

Mr. ECCLES. The Reserve bank can get currency from the agent by putting up gold certificates, eligible paper, or Government bonds. In the absence of the eligible paper or Government bonds, then they would have to put up the balance in gold certificates. If they had no eligible paper and no Government bonds, they would have to put up 100 percent in gold certificates. To the extent that they have no eligible paper, they would have to put up 100 percent in gold certificates.

Mr. WILLIAMS. They would have to do that, although they already had gold certificate reserves.

Mr. ECCLES. It would not make any difference. They may own the gold certificates as assets, but they must pledge the assets.

Mr. WILLIAMS. Under this law, they must actually put them up with the Federal Reserve agents.

Mr. ECCLES. They, of course, usually pledge the gold certificates in the same way that they must actually pledge the Government's and the eligible paper.

Mr. WILLIAMS. I understand they have gold certificates available to the extent of about 4½ billion; is that it?

Mr. ECCLES. Yes.

Mr. FORD. Here is a bank that wants \$1,000,000 in currency and it has gold certificates and puts up 40-percent gold certificates and the remaining 60 percent in eligible paper and Government bonds. It takes those to the Federal Reserve bank and gets \$1,000,000 in currency.

Mr. ECCLES. Are you speaking of a member bank?

Mr. FORD. Yes.

Mr. ECCLES. No. They just get credit on the books of the Reserve bank.

Mr. FORD. Supposing the member bank needs currency, how do they get it?

Mr. ECCLES. They get the credit on the books and then ask the Reserve bank to ship them currency. They must carry a minimum reserve and if they wanted currency from the Reserve bank and the reserve was not of sufficient amount to enable them to get currency, they would then have to build up their reserve by rediscounting or borrowing. Then, to the extent that their balances were in excess of the legal reserve required balance, they could ask the Reserve bank to issue them currency.

Mr. FORD. To the amount of their needs?

Mr. ECCLES. That is right.

Mr. FORD. The reason I asked that question, Governor, is this: The charge is constantly made, and I would like to clear it up in this hearing if I can, that these banks get their money from the Federal Reserve Board and do not pay anything for it and then loan it out and get interest on it. I would like to have that cleared up.

Mr. ECCLES. Well, of course, banks, when they borrow from the Federal Reserve—you are speaking of the member banks getting their money without interest?

Mr. FORD. Yes.

Mr. ECCLES. Of course, that is not true.

Mr. FORD. That is what I wanted cleared up.

Mr. ECCLES. The member banks borrow from the Reserve bank and they pay whatever the established discount rate is, or whatever the rate may be on whatever other form of borrowing they may undertake. The Banking Act, as you know, gave the Reserve banks the authority to make advances up to 4 months against other than eligible paper at a rate not less than one-half of 1 percent higher than the established discount rate, so that the banks that borrowed do pay interest and that rate fluctuates depending upon the money-market situation.

Mr. FORD. Is not a member bank in the same position with reference to the Federal Reserve bank that I am in reference to my bank if I borrow money?

Mr. ECCLES. Well, a member bank, in borrowing from the Reserve bank, is in a little different position. The Reserve bank can always take care of the loan, so far as its ability to create money is concerned. An individual bank cannot. They may reach a situation where they cannot make any loans, because they have no paper upon which they could get credit and, therefore, they cannot pass credit to you without being able to go and get credit.

Mr. FORD. I understand that. The point is this: I am a member bank and I want to go to the Federal Reserve and borrow money, and I have to pay interest on it just exactly the same as I would have to from my own bank.

Mr. ECCLES. Yes; possibly at a different rate, however.

Mr. WILLIAMS. While you are on that question, Governor, the Federal Reserve banks, themselves, they do not pay interest, do they? The Federal Reserve banks, they get this money without interest?

Mr. ECCLES. Well, that is correct. Who would they pay interest to?

Mr. WILLIAMS. I say they do not pay interest. They do not pay any interest.

Mr. ECCLES. That is correct.

Mr. WILLIAMS. They get the right to issue the bonds upon the collateral put up without paying any interest to the Government?

Mr. ECCLES. That is right.

Mr. WILLIAMS. Now, what percentage of the outstanding obligations of the Government are now owned by the Federal Reserve System?

Mr. ECCLES. Well, the Reserve System owns \$2,430,000,000 of Governments out of possibly a total of around \$35,000,000,000 outstanding; it would be about 7 percent, something like that, between 7 and 8 percent.

Mr. WILLIAMS. In putting up this Government collateral, is there any limitation upon the kind of Government securities with reference to maturities?

Mr. ECCLES. I do not think so. There is no limitation. The guaranteed securities are eligible for purchase by the Federal Reserve banks but they may not be pledged with the Federal Reserve agents as collateral.

Mr. WILLIAMS. Are they used?

Mr. ECCLES. No; there are no guaranties at all. The Federal Reserve banks own none of the guaranteed securities.

Mr. WILLIAMS. Well, I thought that language was direct obligations. Does that include the guaranteed obligations?

Mr. ECCLES. There was an amendment in the Banking Act of 1935 that authorized the Federal Reserve banks to purchase guaranteed securities, the feeling being that they should not be discriminated against inasmuch as the Government had guaranteed or would guarantee them.

Mr. WILLIAMS. Can the Federal Reserve System acquire these Government obligations directly?

Mr. ECCLES. No; they must buy them in the market.

Mr. WILLIAMS. They have to acquire them in open market?

Mr. ECCLES. The Banking Act of 1935, I think, provided that they must buy them in the market.

Mr. WILLIAMS. Well, that is the fact, is it not? The law is you cannot acquire them directly from the Government.

Mr. ECCLES. That is correct.

Mr. HANCOCK. The House bill permitted them to acquire them.

Mr. ECCLES. That is right, and the Senate did not, and that is the way it ended.

Mr. GOLDSBOROUGH. I am in favor of this bill for several reasons, some of which have been stated and some of which have not been stated. It seems to me that the Board's recommendation for the passage of this bill might appear to be in conflict with the Board's action in raising the reserve requirements of the member banks. I believe it would be in the public interest if you would reconcile the action contemplated by this bill and the action of the Reserve Board in raising the reserve requirements.

Mr. ECCLES. Well, there is really no relationship.

Mr. GOLDSBOROUGH. The relationship that might appear to a great many people, it seems to me, is this: The raising of the reserve requirements would probably be considered for the purpose of preventing inflation, whereas the passage of this bill might indicate a necessity for remaining liquid, which seems to be a contradictory position.

Mr. ECCLES. The increasing of reserves affects the amounts of deposits that the member banks carry with the Reserve banks. Those are the reserves of the member banks. Increasing reserve requirements merely makes it necessary that the member banks carry larger deposits with the Reserve bank or larger reserves than otherwise would be the case. So far as the Reserve banks are concerned, they do not collateralize or secure in any way those deposits. There is nothing in the law that requires it. That is the other liability I referred to that requires no collateral. This has to do only with the collateral back of the Federal Reserve notes. Now, Federal Reserve notes are less now than they were at the bottom of the depression. In other words, at that time there was a lot of hoarded currency. At the present time there is not, certainly, the same amount of hoarded currency, and all this does is merely extend the period of time for the Reserve banks to continue to secure their outstanding Federal Reserve notes with Government bonds as well as with commercial paper. The gold provision of the security is in no way changed.

Mr. GOLDSBOROUGH. This has no relationship to either inflation or deflation except—I would just like an explanation and a reason for the raising of the reserve. I thought it might be helpful.

Mr. ECCLES. That is a long story. Of course, I would be glad to respond to whatever the committee may call upon me to do.

Mr. GOLDSBOROUGH. I do not insist upon it.

Mr. WOLCOTT. You were in the midst of a sentence there that I thought had possibilities. I wish you would proceed with it. I wish the stenographer would repeat that question, or rather, your statement.

The STENOGRAPHER (reading): "This has no relationship to either inflation or deflation except."

Mr. ECCLES. Speaking of the collateral back of the Federal Reserve notes, except the lack of authority to put up Government securities back of Federal Reserve notes, at a time when this country may be losing gold or at a time when gold was being hoarded when our money was convertible, or at a time when abnormal amounts of currency were being hoarded, of course, would be deflationary in that the Reserve System would be restricted to the extent that they had

commercial paper or eligible paper and gold certificates, so that a lack of this authority under certain conditions could tend to prevent the system from alleviating a deflationary situation.

Mr. GOLDSBOROUGH. Another present practice of the Treasury, which would appear to a great many to be in conflict with the purposes of the bill we are now considering, is the action of the Treasury in purchasing gold. Is there anything that you can observe that would indicate that there is no conflict between this policy and the provisions of this bill?

Mr. ECCLES. Well, of course, that would indicate that we are getting gold rather than losing it, and it would appear that, certainly, there is an adequate supply of gold.

Mr. GOLDSBOROUGH. But, the purpose in purchasing this gold is to take it out of the money system, is it not? Therefore, it is deflationary in its purpose.

Mr. ECCLES. The purpose of purchasing the gold is to keep it out of the money system and, to that extent, it does reduce what the excess reserves of the banks would otherwise be. The amount of the excess reserves was about \$2,150,000,000 at the time that the Treasury adopted their program of gold sterilization. Had they not adopted that program, gold imports would have added to the \$2,150,000,000 of excess reserves, and the \$2,150,000,000 was of sufficient amount, if gotten into the credit structure, to have created, with the deposits we now have, something between 20 and 30 billion dollars of additional credit, and, therefore, of course, it was recognized that further gold imports adding to the excess reserves, could serve no useful purpose and would get beyond the point where the Reserve Board had any power to control the situation because they were limited in their authority to increase reserve requirements to a specific amount.

Mr. GOLDSBOROUGH. Now, the question I am about to ask is necessary in order to clear up the difficulty in the minds of Members of Congress who have approached me about it. What is the authority given by the law to the Treasury Department to sterilize this gold? What is the authority and where are they given the authority to do that?

Mr. ECCLES. Well, I could not answer that. That is a matter that I suppose should be answered by the counsel of the Treasury. You would not expect me to answer that, would you?

Mr. GOLDSBOROUGH. I have been unable to find the statute giving the Treasury the right to sterilize this gold.

Mr. FORD. Is not this whole thing, this extension, just sort of a stand-by measure that we might describe in the Jesse Jones way as a "shotgun in the corner" against a sudden withdrawal of gold by foreign nations who now have some \$8,000,000 in securities which might be dumped at any time.

Mr. ECCLES. Yes; it is available for that purpose, but it is more important from the present position because there is no eligible paper available in the Federal Reserve banks and there are two banks in the System that do not have—although the 12 banks as a whole have sufficient gold to secure Federal Reserve notes to the amount now outstanding, 100 percent—there are two banks with a deficiency that would have to sell enough Government securities to put them in a position where they could—

Mr. FORD (interposing). Do you think it would help the committee to say what banks those are?

Mr. ECCLES. It would not hurt anything. There is no secret about it. I just want to give you the exact figures. There was an \$87,000,000 deficiency. It was not a great deal. At the present time the collateral held back of the Federal Reserve notes is \$4,491,132,000 of gold certificates; \$2,256,000 of eligible paper, and \$87,000,000 of Government securities. Those Government securities are up, at Atlanta, \$45,000,000; St. Louis, \$22,000,000; Minneapolis, \$15,000,000; and Kansas City, \$5,000,000. The St. Louis and Kansas City banks could have substituted gold certificates for the Government securities with the agents without reducing their reserves against deposits below the legal minimum of 35 percent.

Mr. WHITE. Is there any interest in this bill from the standpoint that it helps to maintain the market on Government bonds?

Mr. ECCLES. It has nothing to do with Government bonds so far as maintaining the market is concerned.

Mr. FORD. Then, locally, it is a matter of protecting Reserve banks.

Mr. ECCLES. I would not want to put it as a question of protecting the Reserve banks.

Mr. FORD. Well, facilitating their operation. Let us put it that way.

Mr. ECCLES. Yes. It makes it possible to equalize the distribution of the earning assets between the 12 banks in relationship to their need. In other words, other Reserve banks could, of course, take over the \$87,000,000 of governments from these particular banks, so that there would be no deficiency. It would reduce their earnings from that source and make an increase in the earnings of the other banks that took them over. The holdings of Government securities are allocated among the banks of the System from what we call the System portfolio. In other words, the \$2,430,000,000 are held in a System portfolio and each bank has a participation in that portfolio based upon a formula that calls for an adjustment quarterly. The failure or the lack of having this bill would tend to upset that. It would cause certain banks to reduce their proportionate holdings in this portfolio and increase that of other banks.

Now, one reason for that is that the reserves of the banks in each of the Reserve districts are not all carried in their districts. The correspondent-bank relationship permits member banks, so long as they carry the reserve requirements with their Reserve bank in the district, to carry any excess beyond that in a city correspondent, and that usually goes to the larger cities and finally lands in New York. That is where it would come. So that the reserves beyond the legal requirements, that is, the money, leaves the district and goes to the larger centers, as I say, and member banks in those cities then put it in their Reserve banks; that is, the New York Reserve bank, the Chicago Reserve bank, New York in particular, where they would have very much larger balances carried than the Reserve banks of other districts because New York and Chicago banks have the balances of banks outside, that is, that part of the balances representing the excess beyond what they are required to carry with a Reserve bank. That is why, as we increase reserve requirements, we will

pull on New York much harder than any other section because those banks, in order to meet the reserve requirement in their district, will draw against their balances in New York. Therefore, the New York banks have drawn down from the Reserve bank for not only the increased requirement for their own situation but to take care of a transfer of what we term "country-bank balances" out of New York into the Reserve bank of their respective districts.

Mr. FORD. Is this a fair question? I would assume that Atlanta, St. Louis, and Minneapolis, and Kansas City are in a poorer earning position than these other Reserve districts as a result of the present existing situation, and that their situation would be better if this were continued. Is that a good statement?

Mr. ECCLES. Well, it happens to be at the moment that is true. It may be that next month the situation would shift. The shifting of funds from one district to another affects this. I would not say they were in a poorer earning situation than any other. It merely represents a situation at this time. In 3 or 4 months, due to seasonal shifts and conditions that develop, you may find that those banks would have an adequate gold supply because, you see, there is what they call the gold settlement fund between the 12 banks and the ownership of the gold certificates transfers back and forth among these banks and as the excess of gold certificates owned in one may be transferred over to another, the requirement of Government bonds would be lifted in the one district and the requirements of another would be increased, so that the use of this merely gives some flexibility to a situation that otherwise would simply require constant shifting, and adjustment and consideration, in the absence of commercial paper, that there just does not seem to be any reason for.

Mr. FORD. It has two purposes then, both the internal and the external?

Mr. ECCLES. That is right.

Mr. WHITE. Do you accept the collateral at 100 cents on the dollar?

Mr. ECCLES. Yes; that is correct. They may have some excess. They may have excess collateral just as a customer does sometimes with a bank.

Mr. WHITE. Going back to the point I made just a minute ago, the question about whether or not it had any effect, directly or indirectly, on maintaining the market on Government bonds. If a bank wants money and is not able to get it and they have Government bonds the chances are they might be compelled to sell the Government bonds, is not that true?

Mr. ECCLES. Yes; they would either have to sell their Government bonds or other bonds or let some of their paper run off. They would have to liquidate something to get the money if they could not go to the Federal Reserve bank and borrow it.

Mr. WHITE. And, Government bonds are always readily used for such purpose.

Mr. ECCLES. Government bonds, of course, are the most liquid form of collateral and are very often used first with member banks for short-term borrowings.

Mr. WHITE. Inasmuch as that is true, therefore, would it not be true also that this does have an effect on the market value of Government bonds? I mean it prevents the sale of a lot of those Gov-

ernment bonds which, under this act, are used with the Federal Reserve.

Mr. ECCLES. It would not be necessary for the Reserve System to sell the bonds.

Mr. WHITE. If they were not eligible for use with the Reserve System?

Mr. ECCLES. The Reserve System does not use any bonds. They are deposited with it. I mean the Reserve System does not use the paper of a member bank that is secured by bonds. The Reserve System loans to a member bank on its notes, that note being secured by bonds. Those bonds and that paper is not used as collateral back of Federal Reserve notes at all. The only bonds used as collateral are the bonds which the Federal Reserve System own as an asset, that they have acquired through an open market operation.

Mr. WHITE. Maybe I do not make my point clear. If the local bank could use the process you describe under the terms of this law—

Mr. ECCLES (interposing). You mean a local member bank or a local Reserve bank?

Mr. WHITE. A local member bank.

Mr. ECCLES. This applies only to the Reserve banks.

Mr. HANCOCK. Would you mind explaining to the committee the mechanics in carrying on that undertaking?

Mr. ECCLES. I would prefer to have the Treasury experts that are operating that explain it.

Mr. HANCOCK. I thought you might explain it so far as it may affect the operation of the Federal Reserve System.

Mr. ECCLES. The only way it affects the Federal Reserve is that it keeps the gold imports from becoming part of the excess reserves. To that extent I could explain it, the way it accomplishes that.

Mr. HANCOCK. What character of obligation can the Treasury issue that would not be a deposit-creating instrument?

Mr. ECCLES. I do not just understand your question.

Mr. HANCOCK. The Treasury buys the gold, does it not?

Mr. ECCLES. Yes.

Mr. HANCOCK. That is the sterilization process?

Mr. ECCLES. Yes.

Mr. HANCOCK. Then, how do you keep it from getting into the banks and creating deposit liabilities?

Mr. ECCLES. It becomes a deposit liability. The gold as it comes in, remember, adds to the deposits but does not add to the excess reserves.

Mr. HANCOCK. That is what I want explained to us.

Mr. ECCLES. That is rather a technical process.

Mr. HANCOCK. Let me ask you this without expecting an answer, and I am not critical in this. Are not the Treasury Department and the Federal Reserve Board, in carrying forward the sterilization program, undertaking to defeat the failure of Congress to give you the authority to increase reserves up to the limit which you recommended they be increased in the act of 1935?

Mr. GOLDSBOROUGH. That question answers itself.

Mr. ECCLES. The limitation that was given to us to increase reserve requirements, of course, was not adequate.

Mr. TRANSUE. We did not put any ceiling on that.

Mr. ECCLES. To the extent there was a ceiling put on, it developed, as I anticipated when we asked for the authority, that it may not be adequate, and it did develop sooner than I expected, that it was not adequate, and, therefore, there were one or two alternatives either to get legislation giving the Reserve System further power to meet this problem, or to carry out the program of sterilization in the manner in which it is being carried out. Otherwise, we would have had a continuation, as long as gold imports come into this country, of an increasing excess reserve.

Mr. TRANSUE. How far can you substitute, or how far can the Treasury substitute, its gold-sterilization program for a lack of power to further increase reserve requirements?

Mr. ECCLES. Well, of course, it can continue to sterilize gold so long as it feels it is advisable to do so. All that operation does is at once to freeze the domestic banking situation so far as its reserve position is concerned. In other words, it isolates the domestic-credit picture from the effect of the repercussions that gold exports and imports may have upon it.

Mr. TRANSUE. Do you consider it an adequate substitute for the power this committee tried to give you last year and did not?

Mr. ECCLES. It is at this time. There is no serious question about increasing reserve requirements further where you do not have unification. So long as the banks which are members can withdraw at will from the Reserve System, and thereby evade the reserve requirements, to increase reserves substantially would tend to secure the Reserve System. In other words, they could defeat the whole purpose by withdrawing wholesale if they wanted to. So, as a practical matter, I question just how much further you may go in increasing reserve requirements and, at the same time, retain the banks that are now in the System; that is, the State banks which are now in the System.

Mr. FORD. As a practical matter, sterilization is more practical than increased reserve requirements. The other probably would be more effective.

Mr. ECCLES. Well——

Mr. HANCOCK. Well, it is less offensive; is it not?

Mr. ECCLES. Yes; much more so.

Mr. WOLCOTT. You made the statement that there is no available eligible paper. I think that is a fundamental question. Could you give us your opinion as to why there is no available eligible paper?

Mr. ECCLES. Because the banks have excess reserves and do not have to borrow. The banks have eligible paper, but the only way the Reserve System can get that paper would be to create such a tight money situation that the excess reserves would be completely wiped out and the banks would be forced to borrow from the Reserve System to maintain their reserve. In other words, by creating a deficiency of reserves so that the banks had to borrow to create the reserve requirement which, of course, would be an inadvisable thing to do at this time.

Mr. WOLCOTT. I understood it was for the reason that the banks are not loaning.

Mr. ECCLES. It would be simply because the banks are not borrowing from the Reserve System.

Mr. WOLCOTT. Now, another question that, perhaps, has very little relation to this bill. Using now 1929 as a basis, do you know where the index of business now stands?

Mr. ECCLES. Well, I could not give you that. Using the 1923-25 production index figures—you are speaking of production, not price?

Mr. WOLCOTT. Production; yes.

Mr. ECCLES. The production index figures of the Federal Reserve, which are based upon volume and not price, are 121 in December, and I think estimated at 115 in January, as against 1923-25 averages.

Mr. WOLCOTT. With that in mind, what is the index of bank credits on the same basis, or a comparable basis?

Mr. ECCLES. Well, I could not give you that.

Mr. WOLCOTT. The use of bank credit in proportion to our production?

Mr. ECCLES. Are you speaking of total bank credit? It includes, of course, all loans and investments, mortgage loans, commercial loans.

Mr. WOLCOTT. I am trying to get some method of comparison.

Mr. ECCLES. There is more bank credit outstanding today than there was in 1929.

Mr. WOLCOTT. You use the average in 1923-25 as the basis for estimating the production index?

Mr. ECCLES. Yes.

Mr. WOLCOTT. The index of production, I understand, you said was 119.

Mr. ECCLES. One hundred and fifteen estimated for January. It was 121 for December, as I recall the figures.

Mr. WOLCOTT. What I want to get is a comparison between that and the bank-credit index for a like period.

Mr. ECCLES. I cannot give you the amount for the total of outstanding bank credit in 1923-25; but the amount of bank credit outstanding in 1929 was substantially more than it was in 1927 and 1925 and, at the present time, it is more than it was in 1929. The total amount of outstanding bank credit today, as measured by deposits, is in excess of that outstanding in 1929.

Mr. WOLCOTT. How does that compare with the production index?

Mr. ECCLES. It is much greater. In other words, the production is not up to 1929 whereas the amount of bank credit outstanding is in excess of 1929.

Mr. WOLCOTT. Have we any way of determining that with some degree of accuracy? Figures have been given out somewhere that bank credit is only about 50 percent normal based upon the production index.

Mr. ECCLES. Of course, in speaking of bank credit that bank credit can only be interpreted as the total deposits of banks.

Mr. FORD. That includes banks and everything.

Mr. ECCLES. Yes; that is bank credit.

Mr. WOLCOTT. Then, perhaps, we could deduct the investments and Government obligations to arrive at a more accurate figure.

Mr. ECCLES. You mean bank credit—

Mr. WOLCOTT. The thing that surprises me, and maybe you can throw some light on the question, is that I have been told this is the first time in the history of the United States in which the

volume of currency has increased at the same time that the commodity-price index has increased. The commodity-price index increases usually as the result of the acceleration of credit which offsets, to a large degree, the use of currency, thereby driving currency out of circulation and substituting currency credit for it.

Mr. ECCLES. I cannot agree with that theory. Currency, necessarily, does not diminish with the expansion of bank credit. Currency would be likely to increase with the expansion of bank credit and with an increase in prices. If prices go up, with an expansion of the total means of payment, then it will take likely more currency for pay rolls and for pocket money, and that is what currency is largely used for. Currency has been going up. It has been going up because of the greatly increased business activities. People have more money to carry around with them than they had. The pay rolls are made in currency by a great many institutions and, with the increased pay rolls, both in number of people employed and in wages, it is taking more currency to meet that situation.

Mr. WOLCOTT. As business itself increases, there is usually a comparable increase in credit, is there not?

Mr. ECCLES. Well, there is an increase either in credit or an increase in the velocity of the turn-over of the existing money supply.

Mr. WOLCOTT. I have been trying to get at where this credit is coming from. If it is not coming from the banks, and we have been told that the industries and business of the Nation is establishing their own credit facilities so that they would be independent of the banks, in order that they would not fall with another bank crisis, and that they have been issuing stock and selling stock to the general public to get their money rather than going to the banks to get it as they usually have—

Mr. ECCLES (interposing). That was done to a very large extent during the twenties, when it was not difficult to sell stock and there was a very little or no restraint upon the disposition and distribution of the stocks that were issued.

Mr. WOLCOTT. Have you noticed any increase in that during the last couple of years?

Mr. ECCLES. I think very little. There has been considerable re-funding of outstanding bonded indebtedness at lower interest rates.

Mr. WOLCOTT. Has this bonded indebtedness been decreased by the issuance of stocks?

Mr. ECCLES. Not very much. I would say the great bulk of the refunding is bonds. They make much more favorable terms. The present market has encouraged that type of operation.

Mr. WOLCOTT. Has there been any increase in the holding of industrial bonds by the banks or are those bonds being sold to the general public?

Mr. ECCLES. Not much is being sold to the banks.

Mr. WOLCOTT. What I wanted to bring out was, if you are attempting to control inflation by raising reserve requirements and you have control of only about 50 percent of the credit which is being used as a base for this industrial activity, then you must take into consideration there is another 50 percent over which you might not have any control.

Mr. ECCLES. Well, of course, that assumption is that there is some way of financing that can be done outside of the banks. Of course,

that is not true. In the final analysis, even if business goes to the market and sells its securities to insurance companies or to trustees or individual investors, they, in turn, draw their money out of the bank and give it to the institution, and the institution puts it right back in the bank. All that operation does is increase the circulation of the existing supply of money and that is what we need. We have a deposit turn-over today of somewhere around 2 to 1 annually, based upon national income. During the twenties the average demand deposit turn-over was about 3 to 1 or, in other words, assuming the same velocity of the existing supply of bank deposits and currency, which constitutes 100 percent of our money or practically all—there is a little silver—assuming the same turn-over of the money that we now have in our banking system as we had in 1929, and we can support or produce a national income without further credit expansion of more than 90 billion dollars, or at least 25 billion more than we now have. We have about 2 billion dollars more of bank deposits and currency than we had at the peak in 1929 today; so if business goes to the market and finances, fine. That only tends to take deposits in banks which are idle and put them in circulation through the purchase of stocks and bonds or mortgages, because the person that borrows the money or sells the stock or the collateral that secures the stock, or the person that borrows the money, does that to put it back into circulation.

Mr. LUCE. Please explain to me how a foreign country can withdraw the gold; that is the mechanical process, I mean.

Mr. ECCLES. Well, it is a matter of selling dollars that the foreigners have here. They have possibly 7 or 8 billions.

Mr. LUCE. My point is this, the gold is supposed to be sterilized beyond the reach of any human being except for the purpose of international exchange.

Mr. ECCLES. That is right.

Mr. LUCE. How is it possible for them to get that gold?

Mr. ECCLES. In our stabilization agreement we agreed to give gold just as the British give you gold and the French. We are in the same position of supplying gold. If the foreigners with either deposits here or securities here, for any reason, decided to transfer those funds, to convert their securities into dollars and offer the dollars for sale, our stabilization fund would certainly have to intervene and would have to furnish gold and, just as is the case today, where, if a Britisher wants to sell pounds and buy dollars, why, as long as you have the stabilization arrangement working and have any stability between your currencies, you must permit the transfer of gold and, so long as that arrangement is working, you would have to permit gold to leave the country to maintain the dollar relation to other currencies.

Mr. LUCE. I still do not understand where that gold is coming from.

Mr. ECCLES. It would come out of the Treasury and later it could come from the Federal Reserve System. In other words, the Treasury owns the gold but it has given to the Federal Reserve banks gold certificates or credits payable in gold certificates. In other words, the Federal Reserve banks own a warehouse receipt on gold which is held in the Treasury.

Mr. LUCE. What I do not understand is how Smith & Jones of London can take a gold certificate and get gold for it while I cannot.

Mr. ECCLES. Well, Smith & Jones of London do not have a gold certificate. Smith & Jones have dollar balances or have American stocks and securities and Smith & Jones decide to sell those stocks or those bonds and they sell them and they get dollars in the New York bank, we will say.

Mr. LUCE. That is all clear so far, but somebody goes to the Treasury with something with which he gets the gold.

Mr. ECCLES. Smith & Jones have those dollars in the New York bank. They want those dollars transferred to London by cable transfer, we will say. The New York bank would have to have the credit in pounds in London, with the bank in London, to be able to make the transfer of dollars. Now, the way they can get this credit in London is through a gold transfer. The individuals do not own the gold and they do not get possession of the gold but when dollars are being sold, which would be the case if Smith & Jones wanted to transfer their dollars to pounds, dollars are being sold and pounds are being bought, and dollars go down and pounds go up unless the stabilization fund intervenes, just in the same manner that if pounds were being sold and dollars bought, which is the case today, unless Britain permits gold to come over here, the pound would go down in relation to the dollar. The individuals know nothing about it. It is an operation of the stabilization fund to keep the currencies in adjustment through the buying and selling.

Mr. McKEOUGH. And no individual gets any gold?

Mr. ECCLES. No; no individual gets any gold, but gold moves back and forth.

Mr. McKEOUGH. Does not Smith & Jones, in London, get gold if they demand it?

Mr. ECCLES. I think they can get gold by going into the free gold market. None of their obligations are payable in gold; but if Smith & Jones want to buy gold, there is a free gold market there, and they can go and buy gold on that market just as an American can. If any American wants gold and wants to hold that gold in London, he could sell his dollars and buy pounds, and then take the pounds and go to the free gold market and buy gold and hold his gold earmarked in London.

Mr. McKEOUGH. He could not have it delivered here?

Mr. ECCLES. No.

Mr. McKEOUGH. In other words, the American citizen is at a disadvantage as against the French or the English. An Englishman or Frenchman can sell his dollars in New York by disposing of his securities on the New York exchange, getting a credit in a New York bank, buy the pounds with the dollars he uses for credit here, and, with the credit established in London, go to the market and buy his gold at \$35 an ounce.

Mr. ECCLES. You have a free gold market in London.

Mr. McKEOUGH. We do not have it here.

Mr. ECCLES. No.

Mr. HANCOCK. The practical purpose of the gold is to substitute the purchase of dollars for pounds or the purchase of pounds for dollars.

Mr. ECCLES. It is a yardstick in international exchange.

Mr. LUCE. There are other factors that are constantly influencing exchange.

Mr. ECCLES. Yes.

Mr. LUCE. And you, of course, take those factors into account. I wish you would still further explain as to how they can withdraw the gold simply by the ordinary process of exchange.

Mr. ECCLES. Well, of course, I should not be talking about the stabilization fund. That is a function of the Treasury. They are operating that fund, and I may have a personal opinion with reference to it, but the actual operation Congress has given entirely to the Treasury to handle. They are managing it and I do not believe I should attempt to express the way it operates here, an opinion as to the way it operates or the forces and influences that may cause it to operate. I would prefer that the committee ask somebody from the Treasury to discuss that question.

Mr. McKEOUGH. Might I ask a question there? What concerns me is with the seven or eight billion dollars of investments in domestic market situations in the United States by foreigners, and their ability to transfer that out when, as, and if they desire, in an open free market in New York. Is the machinery set up between the Federal Reserve Board of Governors and the Treasury Department sufficient and adequate, in your judgment, to protect against any unwarranted break-down in New York prices?

Mr. ECCLES. You mean in stock-market prices?

Mr. McKEOUGH. Yes; or in Governments.

Mr. ECCLES. I would not say that it was adequate to prevent a break-down in stock prices. After all, the price of stocks depends upon whether or not there are enough buyers at any time to absorb what is being sold. The order in which the foreign holder of securities would sell his stock would be a factor. If sold slowly, over a long period, there possibly could be an orderly market. If, on the other hand, you take the entire holdings of securities held by foreigners, if they undertook to liquidate them in a very short space of time it could naturally, very easily, cause a revulsion in the stock market or in the bond market.

Mr. McKEOUGH. It is much better now than it was in 1929 for the reason that the values on the New York exchange are practically 40 billion as against a high of 90 billion in September of 1929.

Mr. ECCLES. Yes; the stock market is not as high now, relatively, as it was in 1929. Secondly, you have a very different money situation. You have today an adequate volume of funds. You have a very easy money situation. The volume of deposits available for investment is such that they could absorb a very large amount of securities without the use of bank credit.

Mr. McKEOUGH. But there is greater danger by reason of the large amount of foreign capital now charged to the New York market, according to the press and various economists throughout the country, who estimate seven to eight billions of dollars in foreign money now in this country in investments with the market at about \$42,000,000,000 in value as against \$90,000,000,000 in September of 1929. I am concerned about the American investor and whether by reason of the operation of the Treasury and the Federal Reserve Board of

Governors, whether the American investor is sufficiently protected or do we have to resort to closing the market in the event of some unlooked-for trouble in Europe that might produce heavy selling in New York.

Mr. ECCLES. I think heavy selling would not eventuate because the market today is on a cash basis as against a credit basis. As to the market in 1929, there was nine billion of brokers' loans alone, not taking into account the business of bank credit on collateral. Today your brokers' loans are about one billion and the market today is almost entirely a cash market. The foreigners', of course, purchases are all for cash. Now, that type of a market is very different, a very different market than a market permitted upon a small credit margin; I mean a small collateral margin in the case of credit such as existed in 1929.

Mr. McKEOUGH. It is not fair to assume that the seven or eight billion dollars poured in from outside sources has been, in a large measure, a contributing factor to the upward swing of the market?

Mr. ECCLES. It has not all come in to the market since the depression. There was, approximately, I would say, around three billion of it here all during the depression. It never left the country. There are always a lot of foreign investors here of the type that cannot be influenced and that seven or eight billion does not all represent stocks or bonds in the market at the present time. There is about one billion and a half of cash foreign balances. There is approximately one billion and a half in foreign plants and equipment here and foreign investments that just do not leave. They are just as permanent here as American capital.

Mr. McKEOUGH. Is that part of the set-up?

Mr. ECCLES. Yes; that is part of it so that you really have somewhere around, not to exceed four to five billion of total foreign investments in bonds and stocks. Some of that was here during the depression. The total amount of the increase in foreign investments since the bottom of the depression has been around \$4,000,000,000. Now, that four billion is pretty largely accountable for our huge increase in gold and is responsible for all the excess reserves that we have.

Mr. McKEOUGH. So that if that were hurriedly taken out it would have some severe repercussions not alone in the market but along the line.

Mr. ECCLES. After all, that money is here. It has gone into circulation and is back in the banks.

The CHAIRMAN. All right, gentlemen, the committee will meet at 11 o'clock Thursday morning.

(Whereupon, at 12:30 p. m., the hearing recessed until Thursday morning, Feb. 18, at 11 a. m.)

TO EXTEND THE PERIOD DURING WHICH DIRECT OBLIGATIONS OF THE UNITED STATES MAY BE USED AS COLLATERAL SECURITY FOR FEDERAL RESERVE NOTES

THURSDAY, FEBRUARY 18, 1937

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

The committee met at 11 a. m., Hon. Henry B. Steagall (chairman) presiding.

The committee had under consideration S. 417.

The CHAIRMAN. The committee will come to order.

Governor Eccles, Mr. Patman desires to discuss the bill with you. I now recognize him for that purpose.

STATEMENT OF MARRINER S. ECCLES, CHAIRMAN, FEDERAL RESERVE SYSTEM

Mr. PATMAN. Governor Eccles, you received the communication that I send down to you by messenger, did you not?

Mr. ECCLES. You mean yesterday afternoon, do you?

Mr. PATMAN. Yes; asking if you have available certain information to which I referred.

Mr. ECCLES. I did; yes, sir.

Mr. PATMAN. Most of the information had been furnished to me previously, but I wanted to make sure that you have it available. This bill is an amendment of paragraph 2, section 16 of the original Federal Reserve Act, and it deals with what is eligible as security for the issuance of Federal Reserve notes. Are Federal Reserve bank notes issued now at all?

Mr. ECCLES. Yes, sir. They make up a large part of our circulating medium.

The CHAIRMAN. He said Federal Reserve bank notes, Governor.

Mr. ECCLES. It is Federal Reserve note. The bank notes were issued during the emergency to a very small extent.

Mr. PATMAN. You are not issuing them at all now?

Mr. ECCLES. No, sir.

Mr. PATMAN. Practically all of our circulating medium, outside of the coin, is Federal Reserve notes?

Mr. ECCLES. Most of it.

Mr. PATMAN. In order that I may understand this I will ask you to follow a Government bond from the member bank to the proper person here in Washington and the issuance and delivery of Federal Reserve notes to the member bank in return for the bonds.

Mr. ECCLES. Notes are not delivered to the Federal Reserve member banks in payment of a bond.

Mr. PATMAN. I understand they are given credit. But if they want the money they can get it.

Mr. ECCLES. Not in payment of the bond.

Mr. PATMAN. Not in payment of the bonds?

Mr. ECCLES. No, sir. The only way the Federal Reserve banks get Government bonds, which they put up as collateral for Federal Reserve notes, is by purchasing them on the market.

Mr. PATMAN. You are talking about Federal Reserve banks; but I am talking about a Federal Reserve member bank.

Mr. ECCLES. But you asked how a Federal Reserve member bank could get notes from a Federal Reserve bank, by sending its Government bonds to the Federal Reserve bank?

Mr. PATMAN. Yes, sir; that is right.

Mr. ECCLES. It does not get notes in that way. It can borrow money from the Federal Reserve bank, secured by its note. It can borrow money on its own note; that is, on the bank's note secured by the bonds. The proceeds of the bank's note—that is, the member bank note, secured by Government bonds—would be deposited to the credit of the member bank.

Mr. PATMAN. And get Federal Reserve notes, if it desires?

Mr. ECCLES. Yes, sir; that is right.

Mr. PATMAN. That is the procedure you go through, is it?

Mr. ECCLES. Yes, sir; that is right.

Mr. PATMAN. If the Federal Reserve bank desires to get additional Federal Reserve notes it is required to deposit the bonds, as I understand it, with the Federal Reserve agent with 40 percent gold certificates.

Mr. ECCLES. That is right.

Mr. PATMAN. And then they are issued on par value, the par value of the bond, not the increased or market value of the bond.

Mr. ECCLES. That is right.

Mr. PATMAN. And those notes are available to member banks if they desire to place with the Federal Reserve bank the necessary collateral to secure it?

Mr. ECCLES. If they haven't the balance.

Mr. PATMAN. I presume this is in the Richmond district, is it not?

Mr. ECCLES. Yes, sir; it is in the Richmond district.

Mr. PATMAN. Suppose a bank here desires a million dollars worth of Federal Reserve notes. I presume it would send a million dollars in bonds to the Federal Reserve bank in Richmond as security for its own note to the amount of a million dollars, and then the Federal Reserve bank at Richmond would at least grant a credit?

Mr. ECCLES. That is right.

Mr. PATMAN. Which could be used for the issuance of the Federal Reserve notes to the amount of a million dollars?

Mr. ECCLES. That is right.

Mr. PATMAN. When the bank here gets these Federal Reserve notes it will be required to pay the rediscount, as I understand it?

Mr. ECCLES. That is right.

Mr. PATMAN. What is that rate now?

Mr. ECCLES. It is 2 percent.

Mr. PATMAN. How uniform is that rate?

Mr. ECCLES. It is 2 percent in all banks except two.

Mr. PATMAN. And then what is that?

Mr. ECCLES. It is 1½ percent.

Mr. PATMAN. Where is that?

Mr. ECCLES. In New York and in Cleveland.

Mr. PATMAN. In New York and in Cleveland it is 1½ percent?

Mr. ECCLES. Yes, sir; that is right.

Mr. PATMAN. Suppose the bonds deposited were 3-percent bonds and they paid 2 percent? Of course, they would continue to get the interest of 3 percent on the bonds?

Mr. ECCLES. That is right.

Mr. PATMAN. Just like a person borrowing from an individual bank?

Mr. ECCLES. That is correct.

Mr. PATMAN. If the Federal Reserve bank at Richmond wanted to increase its stock of Federal Reserve notes it would have a right to get these notes without paying any interest at all, would it not?

Mr. ECCLES. That is correct.

Mr. PATMAN. Section 16 of the Federal Reserve Act says—that is, one part of it does, but I do not recall which paragraph it is—that when the Federal Reserve agent issues Federal Reserve notes the Federal Reserve bank shall pay such interest charge as may be agreed upon by the Federal Reserve Board, which I presume is the Board of Governors of the Federal Reserve Bank. What is the policy of the Board of Governors on carrying out that particular section of the law?

Mr. ECCLES. I am not familiar with the section to which you refer. I do not know just what you are attempting to prove, but the Federal Reserve banks as such, of course, have never paid interest. There is no one to whom they could pay interest. There was a time when they paid a franchise.

Mr. PATMAN. I am not talking about the franchise, but about the part of this section.

Mr. ECCLES. To whom would they pay interest?

Mr. PATMAN. It would go to the Treasury, I presume.

Mr. ECCLES. That is what the franchise tax was, of course. It was a form of that.

Mr. PATMAN. And by the reason of the fact that there was a franchise tax and these excess earnings would go into the Treasury, the Board of Governors of the Federal Reserve Board fixed the zero rate of interest?

Mr. ECCLES. I could not say as to that.

Mr. PATMAN. At any rate, they never charged any interest rate?

Mr. ECCLES. That is right.

Mr. PATMAN. Since that time the law has been amended so that the excess earnings do not go to the Government, has it not?

Mr. ECCLES. Yes.

At the time the F. D. I. C. was organized there was \$149,000,000, as I recall it, of the capital of the Federal Deposit Insurance Corporation.

Mr. PATMAN. That is not what I am asking about, if you will pardon my making the suggestion. And I think we can shorten this a great deal.

Mr. ECCLES. Then, what is your question?

Mr. PATMAN. My question, Governor, is it not a fact now that excess earnings of the Federal Reserve banks do not go into the Treasury, as originally contemplated by the law?

Mr. ECCLES. That is correct. Of course, the Federal Reserve banks have practically no earnings. They have had practically none the past several years. It has been a very small amount.

Mr. PATMAN. The excess earnings under the present law would go into the surplus fund of each bank?

Mr. ECCLES. Yes, sir; that is correct.

Mr. PATMAN. And would not go into the Treasury?

Mr. ECCLES. That is correct.

Mr. PATMAN. Was that the same reason that was given back in 1914 or 1915 as to why there should be no interest rate charged, because excess earnings go into the Treasury anyway? That reason is not logical now, is it, for the reason that the excess earnings do not go into the Treasury?

Mr. ECCLES. Inasmuch as the member banks are limited to a fixed rate of return on the capital, any earnings in excess of that fixed rate of return would go to the surplus of the Reserve banks. And, of course, they could not be utilized except as Congress determined.

Mr. PATMAN. By special act of Congress?

Mr. ECCLES. Yes, sir; by special act of Congress. In other words, any excess, in case of liquidation after the stock of the Reserve banks was retired at its par value, which would include all earnings, would accrue to the Government.

Mr. PATMAN. That is only in the event of liquidation, is it?

Mr. ECCLES. Yes, sir; or at any time that Congress decided, they could do just as they saw fit.

Mr. PATMAN. There is no question about that.

Mr. ECCLES. So that the franchise tax, of course, would just eliminate any current earnings and may create a deficit.

Mr. PATMAN. I want to ask you some questions about the value of the United States securities held in the different banks. As I understand it, about \$2,430,000,000 worth are held by the 12 Federal Reserve banks?

Mr. ECCLES. Yes, sir; that is right.

Mr. PATMAN. What is the value of the securities held by the member banks of the Federal Reserve System, just approximately?

Mr. ECCLES. I am going to tell you that. I will ask Mr. Smead if that is it.

Mr. PATMAN. Well, just approximately.

Mr. ECCLES. On December 31, 1936, \$11,639,000,000 direct obligations of the United States Government.

Mr. PATMAN. And how many guaranteed by the Government?

Mr. ECCLES. I believe \$1,906,000,000.

Mr. PATMAN. \$1,906,000,000 that are guaranteed to the Government?

Mr. PATMAN. What about the nonmember banks of the Federal Reserve System? Have you a record showing the amount in value of the securities held by them?

Mr. ECCLES. I will ask Mr. Smead if he has that.

Mr. PATMAN. But you do know, as a matter of general information, that about 17½ billion dollars of Government securities are held in the banks of the country.

Mr. ECCLES. Do you mean those held by Federal Reserve System?

Mr. PATMAN. Yes; including those.

Mr. ECCLES. Yes, sir; that is right.

Mr. PATMAN. In other words, about 15 billion are held by member and nonmember banks?

Mr. ECCLES. Yes; that is correct.

Mr. PATMAN. And about two and a quarter billion dollars plus are held by the Federal Reserve banks?

Mr. ECCLES. Yes; that is correct.

Mr. PATMAN. In other words, the banks hold about 60 percent of the Government securities outstanding, do they not?

Mr. ECCLES. No, sir. There is 35 billion dollars outstanding; so they would not hold more than half.

Mr. PATMAN. They would hold not more than half?

Mr. ECCLES. Including those held by the Federal Reserve System?

Mr. PATMAN. Do you believe the policy of permitting the banks to purchase so many Government bonds have had a tendency to retard their efforts in the direction of obtaining eligible paper through direct commercial lines?

Mr. ECCLES. No; I do not.

Mr. PATMAN. You do not think so.

Mr. ECCLES. No; I do not.

Mr. PATMAN. Don't you think it is much easier for the banks to make money in that way than through normal commercial channels?

Mr. ECCLES. No, sir; I do not.

Mr. PATMAN. For instance, take when the Banking Act of 1933 passed; at that time it was the law that interest may be paid on demand deposits; and that interest, of course, was being paid on time deposits, and the law was changed so as to permit that interest rate to be regulated. Isn't it a fact that by reason of that the banks have been saved an enormous amount of money annually?

Mr. ECCLES. I think possibly the Government has.

Mr. PATMAN. The Government has, you say?

Mr. ECCLES. Yes, sir.

Mr. PATMAN. But haven't the banks?

Mr. ECCLES. I think the Government has.

Mr. PATMAN. I will ask you about the banks, Governor.

Mr. ECCLES. Directly, the banks have; indirectly, the Government has.

Mr. PATMAN. Both have profited by it, have they not?

Mr. ECCLES. Yes; they have.

Mr. PATMAN. Is it not a fact that in 1932, we will say—and I am sure you have the papers there before you—the member banks only—not all banks, but member banks, representing about 7,000 out of 14,000, approximately—isn't that right?

Mr. ECCLES. 7,000 out of 19,000.

Mr. PATMAN. They paid \$301,000,000 interest for that year on time deposits, but they are paying only now about half of that amount. Evidently some regulation was issued which permitted them to reduce their interest rates considerably. Is that right?

Mr. ECCLES. That is correct.

Mr. PATMAN. So they are saving about \$150,000,000 each year under 1932?

Mr. ECCLES. They are paying about that much less interest.

Mr. PATMAN. For 1930 they are saving about \$300,000,000 alone?

Mr. ECCLES. I think that is correct.

Mr. PATMAN. That is on time deposits?

Mr. ECCLES. Yes, sir; on time deposits.

Mr. PATMAN. On demand deposits is it not a fact that they are saving about \$220,000,000 a year?

Mr. ECCLES. I do not have the figures.

Mr. PATMAN. The amount of interest paid on demand deposits in 1936 as compared with 1930?

Mr. ECCLES. In 1936 there was nothing practically on demand deposits.

Mr. PATMAN. It was \$3,000,000 for the first half?

Mr. ECCLES. Yes; \$3,700,000.

Mr. PATMAN. In 1930 they paid \$225,000,000.

Mr. ECCLES. That is right.

Mr. PATMAN. Of course, that was reduced as time went on. But comparing 1936 with 1930, the 7,000 member banks are saving about a half billion dollars a year, are they not, Governor; representing the difference in what they would have paid had the 1933 Act not provided against demand deposits and had not permitted a regulation of time-deposit interest rates to the extent that it did?

Mr. ECCLES. I do not think they would have paid that. You are just assuming, of course, that they would have continued a rate of interest on deposits and an easy money situation such as we have had, as they paid at a time when they could get rates for money. The fact that we fixed a rate on time deposits at $2\frac{1}{2}$ percent—that it, as a maximum rate. I think the F. D. I. C. has done the same thing for the nonmember banks.

There is a very small percentage of the total time deposits in the banks which is receiving 2 percent. The banks have paid less than the maximum amount they are permitted to pay. Very few of the savings accounts are bearing more than 2 percent in the aggregate and many of them less than that rate. Therefore from that I must assume that if there had not been a maximum of $2\frac{1}{2}$ percent there is no reason to expect that they would have been paying more than 1 percent on the aggregate time deposits, which is $1\frac{1}{2}$ percent less than the maximum amount they could pay.

Mr. PATMAN. But at least they could have paid the contract rate if it had not been for this regulation.

Mr. ECCLES. They would not have made a contract rate higher than the 1 percent they are now paying.

Mr. PATMAN. Sometimes certain circumstances enter into these questions which cause them to pay more than they might have paid.

Mr. ECCLES. The ability to use the funds.

Mr. PATMAN. But I am talking about certain banks. An individual bank exercises the right to privately contract.

Mr. ECCLES. Of course, if he wants to run an unsound bank by paying more for money than he can use that money for, that is bad for the public interest.

Mr. PATMAN. But it is not evident that by the Government's saving the banks, let us say several hundred million dollars a year on the act of 1933, at the same time permitting them to receive interest on such a large amount of Government bonds that they purchased regularly—for which they should not be criticized under present laws and system—but the natural tendency is for them to

have that easy and comfortable situation rather than going out into the market and taking eligible paper and accepting even pretty good loans when they are offered to them?

Mr. ECCLES. I do not think that is correct. I think that recovery loans are increasing. The only way to bring about an increased borrowing is through an increased business activity.

Mr. PATMAN. Through increased business activity, you say?

Mr. ECCLES. Yes, sir; that is right.

Mr. PATMAN. But let me suggest this, that with increased governmental business activity, like the building of water and sewer projects and kinds of P. W. A. projects, the bonds heretofore would be handled locally by the local banks; that is, many of them would be, and the banks would get the benefit of that interest. But now is it not the tendency to take those bonds and put them together and sell them to the larger banks and deprive the smaller banks of that source of revenue?

Mr. ECCLES. No, sir; there is not a demand for credit until such time as individuals and institutions can use credit profitably. Business institutions and individuals do not borrow money except where they think they can use that money to their advantage. The Government borrows money as it did do, and it expends those funds in the social interest, and it is not motivated by profit. The credit of the Government is based upon the total national wealth and national resources. The credit of the municipality or of the corporation or of an individual is based entirely upon his income or the quoted value of the particular resources that he has at the time he wants credit.

Mr. PATMAN. In regard to the interest rates you mentioned a little while ago, Governor, what is the correction that your department is going to make now with reference to interest rates? Are you expecting to adopt a policy that will cause them to increase, stay as they are, or lower them?

Mr. ECCLES. We expect—or I will say, I expect, and I do not want to speak for other members of the Board—that the long-term rate is not likely to increase in the immediate future and, so far as I can see, in the indefinite future.

Mr. PATMAN. In other words, you are opposed to an increase in interest rates?

Mr. ECCLES. Yes; I am in the long-term rate. I am in favor of a long-term low rate. However, that rate will be determined largely by the total amount of savings of the country in the relation to the demand for capital; that is, the demand for new capital.

Mr. PATMAN. But the current interest rate is increasing, is it not, Governor?

Mr. ECCLES. There is a tendency for the rate, which was practically at the vanishing point, to increase.

Mr. PATMAN. As that increases Government bonds will necessary go down?

Mr. ECCLES. I do not think the long-term Governments will go down.

Mr. PATMAN. You say you do not think the long-term Government bonds will go down?

Mr. ECCLES. No, sir; I do not. The short-term rates are still excessively low—commercial paper, three-quarters of 1 percent, call money 1 percent, bankers' acceptances, five-sixteenths percent.

Mr. PATMAN. And, Governor, if you will permit an interruption, you expect them to go up a little bit, but you are not expecting any increase in the long-term notes?

Mr. ECCLES. That is correct.

Mr. HANCOCK. Governor, is it not a fact that within the last 3 or 4 months, due to the policy of the Federal Reserve Board, that the interest rate on short-term Government borrowings has jumped from about 0.09 to more than 0.37?

Mr. ECCLES. To just 0.37. That was the rate on the last \$97,000,000 offering.

Mr. PATMAN. That will make the Federal Reserve Board stabilization program that much more extensive.

Mr. ECCLES. Yes; that is correct.

Mr. PATMAN. If there should be a break in the market in Government bonds or a tendency downward, under the present law the Treasury could use the stabilization fund to protect your bond market?

Mr. ECCLES. As I understand it, the Treasury has the power to buy Government bonds with their fund.

Mr. PATMAN. That is, to the extent of 2 billion dollars?

Mr. ECCLES. Yes; that is correct.

Mr. PATMAN. If that would protect it?

Mr. ECCLES. Yes; that is correct. The average rate on Government bonds is about 2.3 percent today.

Mr. PATMAN. I do not know of any other way to get the information except to ask for it, Governor. The last few weeks I have noticed that certain large banks have been consistently selling 20 to 30 dollars worth of Government securities every week.

Mr. ECCLES. Getting prepared to take care of an increase in reserves.

Mr. PATMAN. Do these banks selling these bonds really need to do that, Governor?

Mr. ECCLES. Yes; I think they do. There are certain of the banks in the New York district which are unable to meet the increased reserve requirements.

Mr. PATMAN. I am very glad to get that information, because I was just a little apprehensive that they might be unloading their Governments onto the smaller banks of the country.

Mr. ECCLES. They hold very few Government bonds. Most of the paper held by the New York banks are the 90-day Government bills and notes, from 1-year to 5-year notes. The percentages of Government bonds that they hold is less than 40 percent of their total holdings of Governments. And I do not think they have been reducing their Government-bond holdings. Between June 30 and December 31, they increased by \$122,000,000. The reduction is in the short-term paper. In the reduction of that paper one bank may reduce it while another may take it. There is a shifting because certain banks have excess reserves while other banks have a deficiency. Those which may have deficiencies may sell and those which have excesses may buy. The result in the New York district as a whole, of course, is one of excess reserves. When the full amount of the increased reserve requirements goes into effect on May 1, of all the member banks there will be a total of 197 banks only with deficiencies, if one-half of the balances with correspondent banks is utilized.

Mr. PATMAN. Do you think the 197 banks that are selling Government bonds are getting ready for that?

Mr. ECCLES. The total deficiency is \$122,000,000. Of this deficiency, 12 New York banks have a deficiency of \$100,479,000; one Chicago bank has a deficiency of \$8,000,000; and 16 of the reserve city banks—and Chicago and New York are central reserve city banks—have a deficiency of \$10,998,000; and 168 country banks, figuring that they will leave one-half of their balances with city correspondents—well, the balances of the country banks with their city correspondents today are more than twice what they normally carry. So, figuring that they carry a normal amount, the total deficiency of country banks, using this one-half of the balances and the excess that they now have in the Reserve banks, would be \$2,349,000, on the basis of figures compiled early this year.

Mr. PATMAN. That is very interesting, Governor, but it still does not clear up in my mind about these banks selling, let us say, \$250,000,000 worth of these Government securities since December 15. For the future your answer seems to be very reasonable and logical, and it is reassuring to me, and I am very glad to get the information. But still I can hardly understand why before this order was issued they were consistently unloading 30 to 40 million dollars worth of Government securities a week.

Mr. ECCLES. Of course, it is a shifting from those who loaned up pretty fully.

Mr. PATMAN. You say it is just a shifting?

Mr. ECCLES. What is the total reduction? Do you have the figures as to the total reduction, Mr. Smead? Isn't it a reduction in the Government bonds held by the banks in the country?

Mr. HANCOCK. Governor, do the banks have advance notice of the proposed action of the Federal Reserve Board before the public has that information?

Mr. ECCLES. I do not believe I understand your question.

Mr. HANCOCK. As a general rule do the banks have advance notice of the anticipated policies of the Federal Reserve Board before that information is available to the public?

Mr. ECCLES. They do not. We try our best to keep the public fully informed, I might say.

Mr. HANCOCK. I wondered whether the banks knew that you were going to increase your reserve requirements before the public knew it.

Mr. ECCLES. No, sir; they did not. There was an indication on November 21. There was Treasury financing to be done, that is December financing. And in discussing the matter with the Secretary of the Treasury it was felt advisable, in order that no one could be accused of bad faith—

Mr. HANCOCK. I was not even hinting at that. I wanted to get your answers in the record—

Mr. ECCLES. It was felt advisable, in order that no one could be accused of bad faith, that the question of excess reserves be taken up for consideration. It was a public statement that I made to the press. The banks had no more notice than the public received. And when it came to taking action there was endless discussion and consideration by all members of the Board at numerous meetings, with a study of our findings and our charts, and with the best information that we could secure from our technicians. And when action was finally taken no one knew or could possibly have known what the final outcome would be until the Board had finally acted. And when the Board acted, then a press release was given out.

The public got that information through the press release at the same time that the banks received the information.

Mr. PATMAN. Governor, I shall ask you one more question, which I think will end this part of the discussion.

Mr. ECCLES. I was just going to tell you the decrease in Governments in the last 6 months. June 30, \$11,721,000,000; December 31, \$11,639,000,000, or about \$80,000,000 less. And practically all of this shifting was in New York.

Mr. PATMAN. That does not cover the question that I wanted to ask you.

Mr. ECCLES. It was 6 months.

Mr. PATMAN. I was asking about December and up to now. There is a reduction of \$80,000,000 shown there; that is, \$80,000,000 lower up to the end of the last 6 months. But I am asking about the time from December 15 up to the present.

Mr. ECCLES. We get weekly reports from the larger banks, which compose the great bulk of the reserve system. And on the weekly report and statement of December 16 the amount of Governments was \$9,310,000,000.

Mr. PATMAN. That shows a decrease there of \$2,000,000,000 and something?

Mr. ECCLES. No, sir. The other was all member banks.

Mr. PATMAN. But that is meaningless unless we have some explanation of it.

Mr. ECCLES. I was just going to show the fluctuation in Government securities for all of these reporting. There is no way in which we can get a statement from all banks except when we get them on these call dates.

Mr. PATMAN. Will you secure the information and furnish it to me privately, if you desire, as to these institutions that have been selling these bonds, showing whether or not the total amount has decreased consistently since December 15?

Well, we will just pass that, Governor. I do not like to delay the committee while you are looking for it.

Mr. ECCLES. I can give you the exact figures on the New York banks. On February 10 Government obligations held by the New York banks amounted to \$3,444,000,000.

Mr. PATMAN. That was February 10, you say?

Mr. ECCLES. Yes; that was February 10.

Mr. PATMAN. Now, how about December 15?

Mr. ECCLES. That was February 10. Now, I shall give you the figures on December 15. That was \$3,661,000,000.

Mr. PATMAN. That seems to show that they have had a definite policy there of unloading the Government securities, does it not?

Mr. ECCLES. I should say that the Government has \$50,000,000 a week of bills maturing.

Mr. PATMAN. But normally they would repurchase, would they?

Mr. ECCLES. They would, I suppose, if it were not for the matter of increasing their reserves.

Mr. PATMAN. But they did not know that back in the month of December, did they?

Mr. ECCLES. Except the statement I have just indicated.

Mr. PATMAN. Except the statement that was issued to the press, you mean?

Mr. ECCLES. Yes; that is right.

Mr. FORD. Is it not reasonable, Governor, to assume that the banks who watch closely the trends would be very likely to adopt the policy of preparedness with reference to possible increase in their legal reserves, knowing that this Board's tendency would be to bring it up, if necessary? Is that not reasonable to assume?

Mr. ECCLES. I think it is reasonable to assume that the banks would maintain an excess reserve, even though the Board had not indicated that, so far as their loans were concerned—the very fact that there was a possibility of increasing the reserve requirements, which was inevitable to most banks. With \$2,150,000,000 of excess reserve, it was quite apparent that some further increase at some time would be made in reserve requirements. As to the timing and as to the amount, that would be another question. But the wise bank would not get itself completely loaned up, even if it could. The purchase of short-term bills, of course, left the New York banks in a position where they simply would let their bills run off or let their notes run off; and that is exactly what happened.

Mr. PATMAN. I want you to know that I am in favor of giving the Board wide powers to stop deflation, and also inflation. But I just wondered about the inflation that you are trying to stop now. What is it?

Mr. ECCLES. Well, I do not see inflation now. All that I see is, with the excess reserves now in the System, if that reserve were used it could create a total debt structure.

Mr. PATMAN. I concede, Governor, that that is the situation that I know about. I knew about this reserve. But is there any other reason why you would want to guard against inflation?

Mr. ECCLES. There is this tendency. There is the tendency on the part of institutional investors, insurance companies, mutual savings banks, and trustees, to feel that the long-term rate is getting to a point where, with a speculative or an inflationary development, they would likely take losses or shrinkages in their investments. It is necessary to have confidence on the part of institutional investors in the long-term capital market, or in the long-term rate, as well as confidence on the part of individuals. Otherwise we would find investment funds that should go into the mortgage market, into the private bond market, the municipal market, to provide new capital to put people to work, going into the speculative fields of advanced commodity buying and stocks and speculation. In other words, when the rates on long-term bonds get so low that an investor feels that there is more speculation in that sort of an investment than there is in a stock, the money may be pulled from the capital market and go into a speculative inflation.

Mr. PATMAN. That is the other major reason you had in mind?

Mr. ECCLES. Yes, sir. That was one of the principal reasons—to give assurance to the investing public, that is, institutional investors, that the Board was desirous of preventing inflation, that there was no desire to force artificially the long-term rates to a point where they could not be sustained and would later come back and show substantial losses on the investments. The fact that the total supply of the means of payment, deposits and currency, is about \$2,000,000,000 in excess of what it was in 1929 was an indication to us that what was needed was that those funds should go out into investment channels, that sufficient funds had been created for the present pur-

pose to be able to carry a greatly increased volume of business without any increase in the mortgage or the bond field. In fact, I think mortgage rates in certain areas where they are held up to 6 percent or 5½ percent would likely come down, that the volume of funds for investment purposes, without banks lending at all, is far in excess of the current demand or use for funds. That demand is increasing rapidly. And there are sufficient funds now on deposit to supply that demand. And with those funds going into the investment rather than into the speculative field it will tend to put into velocity this existing supply of money which can support a national income of better than \$90,000,000,000 as compared with the national income of 1929. We had at that time \$55,000,000,000 of total time and demand—

Mr. PATMAN. You have answered the question I asked. Now, I would like to ask one additional question. The time is getting late. Naturally we are interested in the direction you are going in this legislation and in similar legislation.

Mr. ECCLES. At that time we had \$55,000,000,000 of total time and demand deposits.

Mr. PATMAN. You have answered the question I asked. But I would like to ask another question. I know the time is getting late, but, as I say, we are interested in the direction you are going in this legislation and in similar legislation, and personally I would like to know about that. Perhaps all the other members of the committee know about it, but I am a new member on this committee. I would like to know how you feel about branch banking. Are you working in the direction of eventually having a branch-banking system in this country?

Mr. ECCLES. If you are speaking about any work that the Board has been doing, the matter has not been discussed, nor has it been mentioned. So far as I personally am concerned, I have done nothing; that is, I have done no work whatever, I have given no thought to the subject, and I have prepared no legislation and I have not requested that any legislation be prepared with reference to the subject, in spite of the statements of some of the press and the bankers. So far as my position on branch banking is concerned, my position is well known. I stated my position before this committee 2 years ago; and I still feel as strongly as I felt 2 years ago that a limited branch-bank development in this country is not only desirable in the public interest, as well as in the interest of the little bank, but it is inevitable.

Mr. GOLDSBOROUGH. Will the gentleman from Texas yield to me for just a moment?

Mr. PATMAN. Certainly, Mr. Goldsborough.

Mr. GOLDSBOROUGH. In view of the fact that this discussion of branch banking is entirely aside from the issue before the committee, it is probably just as permissible for a member of the committee to state his opinion as it is for the Governor.

So far as I am concerned, I am not only unalterably opposed to any increase in branch banking but if I had my way there would not be a single branch bank in the United States.

The CHAIRMAN. If I might be permitted to make a suggestion, this is all very interesting, of course, and all of us are interested in everything you have said and everything you have suggested.

But I would like very much to finish with this bill so that we can report it today.

Mr. PATMAN. I am not going to ask many other questions. I will just tell you now, if you want to know, what I am driving at.

The CHAIRMAN. I do not want to cut you off at all.

Mr. PATMAN. I believe the chairman will agree with me that I have been asking questions rather rapidly.

The CHAIRMAN. And I am not finding fault at all; but I am suggesting that we could get into a discussion of this matter which might last for several days.

Mr. LUCE. Could you venture an opinion, Governor, as to how large a part of the deposits in the banks are time deposits and what part is demand deposits?

Mr. ECCLES. Are you speaking of member banks or of all banks, including mutual savings banks?

Mr. LUCE. I am speaking of member banks.

Mr. ECCLES. And of member banks only?

Mr. LUCE. Yes; of member banks only.

Mr. ECCLES. As I recall it, there is a total of about \$10,500,000,000 of time deposits of member banks only on June 30, which is the last complete figure we have on what is known as evidenced by savings passbooks, \$8,565,000,000; certificates of deposits, \$843,000,000. Then you have the Christmas savings and miscellaneous items.

Mr. LUCE. Have you no apprehension as to all of this program now going on on the thrift of the country?

Mr. ECCLES. To just what program do you refer?

Mr. LUCE. When one of the results is to bring the earnings of thrift money down below 2 percent do you think it will not be a discouragement to thrift?

Mr. ECCLES. I do not know how you get the impression that there was an effort being made to bring thrift earnings below 2 percent.

Mr. LUCE. Oh, no. I did not mean to intimate that you had intended to do that or to have that effect. But I am wondering if the element of thrift and its bearing on the social welfare is being kept in mind.

Mr. ECCLES. Certainly, I have it in mind. It is a difficult matter, of course, over any long period of time to determine or to fix long-term rates. They must be influenced by the total amount of savings that are needed in the country—not necessarily savings accounts in banks but the total savings available for investment in new facilities. We have not been short of savings, as evidenced in the 1920's, by having a large volume of funds available for the buying of foreign securities. If the total amount of savings for investment exceeds the demand or the need of new capital facilities at the time, naturally the rates are going to tend downward. On the other hand, if the demand exceeds the total amount available, the rate will tend upward.

Mr. PATMAN. Has the gentleman finished? While I am always willing to yield to the gentleman, it is really not related to the inquiry I had in mind.

Mr. LUCE. But I thought that you had finished.

Mr. PATMAN. Oh, no; I had not. I have a few more questions. I have here a list of the 109 largest banks in the United States, which I understand represent more than 50 percent of the total assets of all

banks, and the amount of Government securities they hold and their deposits of interbank deposits. And one thing is very noticeable to me on this list. For instance, take the first three banks, which are New York banks, with assets of \$2,356,000,000 for the first one, and the second one with total assets of \$1,972,869,000, and the next one with total assets of \$1,969,852,000. And all of these banks have interbank deposits. We find the Bank of America at San Francisco has total assets of \$1,366,000,000.

The Bank of America at San Francisco has total assets of \$1,366,000,000, but it has only \$39,584,000 of interbank deposits. Then going down the list there is \$254,122,000 interbank deposits for a smaller bank, and then \$278,969,000, \$170,966,000, and \$228,991,000. It is noticeable that the larger banks have a large amount in interbank deposits except in the case of banks where there are branches. For instance, take the Los Angeles bank, the Security First National Bank of Los Angeles, and, although the bank compares in size with those just ahead of it, they have only \$25,845,000 in interbank deposits. The one just ahead of it on the list has \$106,000,000 in interbank deposits.

The First National Bank of New York is smaller, yet it has \$158,000,000 in interbank deposits.

I have reached the conclusion, whether it is well founded or not—and I hope the Governor will tell me whether it is not—that where they have branch banks, like they do in California, that they want to do business only with their own banks, and consequently they do not have many large interbank deposit accounts.

For instance, take Los Angeles and San Francisco; if there were a bank needed in a town the large bank in San Francisco or in Los Angeles would have the first claim on it, because an independent bank would not be very successful unless it had a connection with one of these larger banks. Therefore, I have reached the conclusion from analyzing these figures, Governor, that branch banking has a tendency of concentrating the credit system of the country in a few hands, and that if we were to adopt a policy which led to branch banking that we would concentrate more power and wealth in the hands of a few. I presume the Governor may entertain an entirely different view than that.

Mr. ECCLES. Of course, this branch-banking question, I realize, is a very debatable question; and it has been for a long period of time. In other words, it is a hot subject. And for me to attempt to enter into a discussion with you, considering its advantages and its disadvantages—

Mr. PATMAN. I am not asking you to discuss it, Governor.

Mr. ECCLES. I realize that there are always two sides to every question. But no one is more sympathetic to the place that the little bank has been in the community than I am. And no one would be more unwilling than I would be to do anything to put that little bank out of business so long as it is giving the best service to its community. I would not want to be understood as favoring branch banking that permitted the establishment of branches in any community that already had banking service.

Mr. PATMAN. But, Governor, if you permit it, and then if your larger bank will not become the correspondent of the smaller bank in a little town, the bank will eventually dry up if it cannot get the service, and if the branch-banking concern does not want to serve it

it can destroy the little bank and in that way create a demand for one of their own branches, can it not?

Mr. ECCLES. Any unit bank can get far more service from the Federal Reserve System than from a correspondent bank.

Mr. PATMAN. But suppose it is not in the Federal Reserve?

Mr. ECCLES. Then it should join the Federal Reserve. I am also in favor of unification. Of course, there is the place where they should carry their balances. It is where the reserves should be kept, because the only place where a member of the System should keep his balance is with the Reserve bank.

Mr. PATMAN. I appreciate the information, but I shall not ask to delay the committee long, but I shall ask to have the information inserted.

On yesterday I asked Governor Eccles to prepare for the committee and to have available today a list of all the positions in the Federal Reserve System whose annual salary is \$10,000 or more, showing the name of the position.

Have you that information available with you, Governor? I just want to have it entered in the record, if you have it.

Mr. ECCLES. Earnings and expenses of the Reserve banks during 1936, you ask. Now, what is the next one?

Mr. PATMAN. It is no. 7 on the list.

Mr. ECCLES (reading):

Information with respect to the annual salaries of the officers and the employees of the Board of Governors as of December 31, 1935, is published on pages 240 and 245 of the Board's 1935 annual report, a copy of which is attached hereto.

Summaries or summary figures with respect to the salaries of officers and employees at the Federal Reserve banks are shown on page 250 of the same report. It would take some time to compile more detailed information with respect to the salaries paid to the individual officers of the Federal Reserve banks.

NUMBER AND SALARIES OF OFFICERS AND EMPLOYEES OF FEDERAL RESERVE BANKS

[Dec. 31, 1935]

Federal Reserve banks (including branches)	Annual salary of—		Other officers		Employees, except those whose salaries are reimbursed to bank		Employees whose salaries are reimbursed		Total	
	Chairman and Federal Reserve agent	Governor	Number	Annual salaries	Number	Annual salaries	Number	Annual salaries	Number	Annual salaries
Boston.....	\$20,000	\$30,000	11	\$105,250	616	\$945,956	73	\$90,890	702	\$1,192,006
New York.....	50,000	50,000	40	480,100	2,250	4,014,086	316	453,015	2,608	5,047,201
Philadelphia....	20,000	30,000	11	105,200	791	1,242,530	109	148,170	913	1,545,900
Cleveland.....		25,000	21	177,400	910	1,484,828	165	270,735	1,097	1,955,963
Richmond.....		25,000	17	126,100	547	791,014	167	211,136	732	1,153,250
Atlanta.....		25,000	30	182,540	368	507,457	329	361,596	728	1,076,593
Chicago.....	35,000	35,000	31	265,500	1,082	1,597,744	376	575,594	1,491	2,508,838
St. Louis.....	20,000	25,000	19	135,200	552	764,272	188	216,246	761	1,160,718
Minneapolis....	20,000	25,000	12	79,100	396	542,883	68	103,127	418	770,110
Kansas City....		25,000	19	144,800	491	764,566	160	228,475	671	1,162,841
Dallas.....	20,000	30,000	16	113,500	339	557,333	119	174,592	476	895,430
San Francisco..		30,000	30	212,600	775	1,291,324	148	216,476	954	1,750,400
Total.....	185,000	353,000	257	2,127,290	9,057	14,503,998	2,218	3,050,052	11,551	20,219,340

Mr. PATMAN. I think that will serve the purpose, Governor.

Now, then, Governor, the other question—that is, question no. 8—information relating to the retirement system of the Federal Reserve, showing the number of persons retired, the highest amount received, the lowest amount received, and the average, together with information regarding contributions to the fund.

Mr. ECCLES. Detailed information in answer to this question is not available at the Board's office. There is attached copy of rules and regulations of the retirement system, from which it will be noted the system is governed by a board of 26 trustees. Of the 26 trustees, 1 is elected by the employees of the Federal Reserve Board and 1 appointed by the Board, and there is 1 elected and 1 appointed member representing each of the 12 banks. All information with respect to the maximum and the minimum retirement allowances is contained in the records of the retirement committee of the board of trustees. A copy of the last annual report of the retirement system is attached hereto.

That is the report of April 1936.

Mr. PATMAN. If you will let me have that report I will pick out the parts I would like to have inserted in the record.

Mr. ECCLES. I will leave the whole thing here with you, and you can insert into the record whatever you want to insert.

(Excerpts from the April 1936 report to be inserted later by Mr. Patman.)

Mr. PATMAN. Do you happen to know what the maximum is?

Mr. ECCLES. I do not think there is a maximum in excess of \$4,000.

Mr. SMEAD. It is determined by using 1.5 percent of the average annual salary, multiplied by the number of years of service. Of course, the system has been in operation but a relatively few years, so what it might be under a given set of circumstances depends upon those circumstances in connection with the individual case.

Mr. PATMAN. What is the maximum?

Mr. SMEAD. There is no set maximum, nothing over \$12,000 is taken in figuring the allowance.

Mr. ECCLES. In other words, no pension applies to that portion of the salary above the \$12,000.

Mr. PATMAN. I just wanted to know about your system. Now, just one other question. This reserve fund for social security, if I understand it correctly, will eventually absorb all of the United States Government securities. I think that is a very desirable thing, for the reason that it will solve two very difficult and troublesome problems. One is tax-exempt securities and the other is the Government's paying interest for the use of its own credit.

Is the Governor or the Board making any effort or giving any consideration to the question of changing these excess reserve requirements? I mean the reserve fund. Is there any effort being made to change that?

Mr. ECCLES. Of course, that is not a responsibility of the Board of Governors. Any matter of that sort, of course, has a very direct bearing or influence upon the whole economy.

Mr. PATMAN. I know that. That is why I assumed you were considering it, if any change were contemplated.

Mr. ECCLES. Personally I have given considerable thought and study to the subject, and I have asked some of the people in the Division of Research to give some thought to its monetary effects.

Mr. PATMAN. May I just insert in the record at this point certain information regarding the 109 banks to which I referred a while ago? (List of principal assets and liabilities of the 109 largest insured commercial banks in the United States follows:)

Principal assets and liabilities of the 109 largest insured commercial banks in the United States

(In thousands of dollars)

Name and location of bank	Total assets ¹	U. S. Government securities ¹	Total capital account ¹	Total deposits ²	Inter-bank deposits ²
The Chase National Bank of the City of New York, New York, N. Y.	2,356,357	735,987	240,488	1,948,998	539,431
Guaranty Trust Co. of New York, New York, N. Y.	1,972,869	818,382	267,649	1,391,358	386,396
The National City Bank of New York, New York, N. Y.	1,969,852	622,645	194,401	1,388,736	345,282
Bank of America, National Trust & Savings Association, San Francisco, Calif.	1,366,549	492,485	105,036	1,219,705	39,584
Continental Illinois National Bank & Trust Co. of Chicago, Chicago, Ill.	1,364,755	610,964	110,428	1,085,907	274,122
Bankers Trust Co., New York, N. Y.	1,123,819	581,413	110,048	920,457	278,969
The First National Bank of Chicago, Chicago, Ill.	972,969	198,110	61,876	849,962	170,966
Central Hanover Bank & Trust Co., New York, N. Y.	970,721	397,944	92,326	764,668	228,991
Manufacturers Trust Co., New York, N. Y.	721,544	257,427	89,887	600,248	100,817
The First National Bank of Boston, Boston, Mass.	752,308	141,507	89,144	583,747	106,211
Security-First National Bank of Los Angeles, Los Angeles, Calif.	610,630	150,986	63,705	539,817	25,854
The First National Bank of the City of New York, New York, N. Y.	630,094	251,464	105,568	537,489	158,895
Irving Trust Co., New York, N. Y.	729,842	209,878	109,102	520,344	146,310
Chemical Bank & Trust Co., New York, N. Y.	635,115	156,571	82,493	497,259	176,339
Bank of the Manhattan Co., New York, N. Y.	561,647	104,024	48,380	472,150	100,545
The Philadelphia National Bank, Philadelphia, Pa.	461,393	141,100	40,569	388,418	143,482
The New York Trust Co., New York, N. Y.	437,659	163,196	45,787	368,953	101,797
National Bank of Detroit, Detroit, Mich.	427,413	183,454	26,366	359,402	44,098
Mellon National Bank, Pittsburgh, Pa.	354,193	214,001	39,717	308,756	93,548
The Cleveland Trust Co., Cleveland, Ohio.	348,412	70,854	32,477	302,795	13,134
The Northern Trust Co., Chicago, Ill.	334,492	168,278	20,757	298,164	50,436
The Union Trust Co. of Pittsburgh, Pittsburgh, Pa.	392,411	189,790	90,353	277,336	18,077
Corn Exchange Bank Trust Co., New York, N. Y.	329,306	150,279	32,471	274,122	26,713
American Trust Co., San Francisco, Calif.	288,181	33,586	23,209	271,974	17,631
The Pennsylvania Company for Insurances on Lives and Granting Annuities, Philadelphia, Pa.	255,611	47,892	24,305	236,146	51,171
Wells Fargo Bank & Union Trust Co., San Francisco, Calif.	247,636	98,649	17,482	219,449	46,296
First National Bank in St. Louis, St. Louis, Mo.	237,038	92,467	17,980	210,637	57,820
Harris Trust & Savings Bank, Chicago, Ill.	227,785	69,038	18,897	193,460	37,714
The Anglo California National Bank, San Francisco, Calif.	225,430	36,113	22,640	188,413	32,009
First National Bank of Baltimore, Baltimore, Md.	191,360	130,000	12,589	183,805	62,191
First Wisconsin National Bank, Milwaukee, Wis.	216,252	111,465	18,831	180,072	33,949
The National Shawmut Bank of Boston, Boston, Mass.	211,575	48,174	33,912	176,091	49,487
Commerce Trust Co., Kansas City, Mo.	181,694	37,077	9,418	164,612	81,685
Bank of New York & Trust Co., New York, N. Y.	186,146	60,547	19,274	162,252	30,163
The Marine Trust Co. of Buffalo, Buffalo, N. Y.	212,850	31,453	19,877	159,630	14,588
The San Francisco Bank, San Francisco, Calif.	171,078	62,318	14,606	153,425	1,796
Mercantile-Commerce Bank & Trust Co., St. Louis, Mo.	165,053	44,603	16,557	152,655	48,381
Fidelity Union Trust Co., Newark, N. J.	161,812	48,681	17,069	145,878	6,405
Fidelity-Philadelphia Trust Co., Philadelphia, Pa.	146,368	22,131	24,494	141,270	17,740
The Public National Bank & Trust Co. of New York, N. Y.	155,184	34,641	14,370	137,810	12,128
Central National Bank, Cleveland, Ohio.	158,271	57,619	15,262	133,971	14,536
First National Bank & Trust Co., Minneapolis, Minn.	159,560	59,343	13,787	127,448	37,230
The National City Bank of Cleveland, Cleveland, Ohio.	139,954	48,010	12,598	126,391	21,836
Crocker First National Bank of San Francisco, San Francisco, Calif.	142,653	52,401	14,085	124,701	16,658
Manufacturers National Bank of Detroit, Detroit, Mich.	139,449	23,883	6,682	124,539	11,705
Girard Trust Co., Philadelphia, Pa.	121,922	50,713	17,159	122,439	14,760
Seattle-First National Bank, Seattle, Wash.	143,012	39,295	11,773	120,571	17,632
First National Bank of St. Paul, St. Paul, Minn.	150,101	38,962	14,281	119,953	23,767
The Farmers and Merchants National Bank of Los Angeles, Los Angeles, Calif.	130,380	76,870	8,503	119,054	11,249
The Detroit Bank, Detroit, Mich.	129,998	44,584	6,500	118,742	3,977
Northwestern National Bank & Trust Co. of Minneapolis, Minneapolis, Minn.	131,137	39,435	12,250	116,827	33,314
Brooklyn Trust Co., Brooklyn, N. Y.	135,064	32,274	15,621	114,800	10,187

¹ Figures as of June 30, 1936, from 2d edition of Rand McNally Bankers Directory.

² Figures from F. D. I. C. Form 89, "Summary of deposits", May 13, 1936, Federal Deposit Insurance Corporation.

Principal assets and liabilities of the 109 largest insured commercial banks in the United States—Continued

[In thousands of dollars]

Name and location of bank	Total assets ¹	U. S. Government securities	Total capital account ¹	Total deposits ²	Inter-bank deposits ³
Industrial Trust Co., Providence, R. I.	131,227	43,094	15,546	114,435	2,948
First National Bank, Kansas City, Mo.	129,486	51,158	5,707	114,157	45,546
City National Bank & Trust Co., Chicago, Ill.	128,376	18,462	6,815	111,007	23,958
Citizens National Trust & Savings Bank of Los Angeles, Los Angeles, Calif.	118,074	21,842	9,890	106,863	10,077
Whitney National Bank of New Orleans, New Orleans, La.	119,212	43,983	8,394	106,178	21,64
The Bank of California, National Association, San Francisco, Calif.	129,379	28,313	15,276	105,700	15,260
The United States National Bank, Portland, Oreg.	114,603	47,520	9,003	104,949	10,904
First National Bank of Atlanta, Atlanta, Ga.	116,173	42,218	12,358	103,245	27,161
The Indiana National Bank of Indianapolis, Indianapolis, Ind.	108,715	50,607	7,454	99,233	20,453
The Marine Midland Trust Co. of New York, New York, N. Y.	120,522	25,985	13,685	98,408	26,456
First National Bank in Dallas, Dallas, Tex.	115,005	26,073	12,647	97,624	29,345
Corn Exchange National Bank & Trust Co., Philadelphia, Pa.	117,772	24,264	14,854	97,283	23,356
First National Bank at Pittsburgh, Pittsburgh, Pa.	114,915	43,162	12,282	96,320	29,100
The Riggs National Bank of Washington, D. C., Washington, D. C.	98,039	36,433	8,513	96,099	16,654
The Fifth Third Union Trust Co., Cincinnati, Ohio.	111,012	25,584	10,796	95,291	16,549
The Merchants National Bank of Boston, Boston, Mass.	98,267	27,123	8,846	93,091	31,726
Farmers Deposit National Bank, Pittsburgh, Pa.	107,500	62,579	15,693	91,606	23,431
Peoples-Pittsburgh Trust Co., Pittsburgh, Pa.	108,480	19,000	15,867	90,203	3,676
State Street Trust Co., Boston, Mass.	87,315	17,963	9,300	90,012	3,676
Manufacturers & Traders Trust Co., Buffalo, N. Y.	100,784	17,953	12,020	89,363	9,756
Mississippi Valley Trust Co., St. Louis, Mo.	95,548	31,388	8,824	87,847	20,814
The Hibernia Savings & Loan Society, San Francisco, Calif.	101,291	29,584	12,857	87,344	11
The Commercial National Bank & Trust Co. of New York, New York	108,406	32,769	16,997	84,591	21,670
California Bank, Los Angeles, Calif.	100,321	14,944	9,996	84,529	2,602
The First National Bank of Philadelphia, Philadelphia, Pa.	99,794	28,436	9,768	84,155	21,157
Citizens & Southern National Bank, Savannah, Ga.	90,513	16,054	7,736	80,755	20,849
The First National Bank of Portland, Portland, Oreg.	85,734	16,195	6,329	77,479	5,671
The Toledo Trust Co., Toledo, Ohio	87,390	24,806	8,152	76,598	
The Second National Bank of Boston, Boston, Mass.	78,250	9,971	7,018	74,999	17,932
City Bank Farmers Trust Co., New York, N. Y.	106,880	32,897	24,661	74,477	900
First National Bank, Cincinnati, Ohio	82,988	9,737	11,872	72,996	17,402
United States Trust Co. of New York, New York, N. Y.	106,308		32,194	72,683	6,589
The First National Bank of Scranton, Scranton, Pa.	82,703	30,472	10,032	70,831	2,033
Wachovia Bank & Trust Co., Winston-Salem, N. C.	85,518	29,705	6,050	70,266	21,475
Hartford National Bank & Trust Co., Hartford, Conn.	68,787	22,170	8,287	69,787	4,964
New York State National Bank, Albany, N. Y.	68,921	22,882	5,890	66,544	6,250
The Continental Bank & Trust Co. of New York, New York, N. Y.	75,655	7,641	9,596	65,774	5,305
Republic National Bank & Trust Co., Dallas, Tex.	77,675	20,199	8,243	65,495	19,917
First & Merchants National Bank of Richmond, Richmond, Va.	73,615	20,735	6,719	65,384	20,304
The Ohio National Bank, Columbus, Ohio	72,265	25,808	6,772	64,700	7,022
Empire Trust Co., New York, N. Y.	73,477	16,051	7,708	63,963	7,986
The Central Trust Co., Cincinnati, Ohio	72,164	25,225	7,151	62,722	5,039
National Bank of Tulsa, Tulsa, Okla.	63,356	16,671	8,670	61,930	10,638
Lincoln-Alliance Bank & Trust Co., Rochester, N. Y.	67,761	18,390	6,261	60,893	938
The National Bank of Commerce of Seattle, Seattle, Wash.	67,038	21,876	5,746	60,405	7,772
Commercial Trust Co. of New Jersey, Jersey City, N. J.	78,229	17,889	7,994	56,959	994
The First National Bank of Denver, Denver, Colo.	63,159	16,128	4,614	56,609	20,890
The Huntington National Bank of Columbus, Columbus, Ohio	61,944	11,410	5,913	56,584	13,291
Provident Trust Co. of Philadelphia, Philadelphia, Pa.	63,685	16,755	18,017	55,142	5,272
First National Bank & Trust Co., Oklahoma City, Okla.	62,795	13,145	7,817	52,850	13,955
Central-Penn National Bank, Philadelphia, Pa.	68,375	9,918	11,028	52,470	15,279
The Trust Co. of New Jersey, Jersey City, N. J.	60,661	12,888	7,268	52,416	471
First Trust & Deposit Co., Syracuse, N. Y.	63,513	6,812	10,132	51,926	2,406
Union Planters National Bank & Trust Co., Memphis, Tenn.	62,926	11,940	7,349	51,847	10,827
Citizens Union National Bank, Louisville, Ky.	54,464	20,207	3,977	51,503	20,935
The First National Bank of Birmingham, Birmingham, Ala.	63,755	16,097	11,794	51,382	10,782
Liberty Bank of Buffalo, Buffalo, N. Y.	60,538	17,492	8,684	50,701	2,452

The following statement was prepared by the Federal Deposit Insurance Corporation at my request:

Principal assets and liabilities of all insured commercial banks and of the 109 largest insured commercial banks in the United States

[In thousands of dollars]

	All banks (14,120 as of June 30, 1936)	109 largest banks	
		Amount	Percent of total
Total assets ¹	53, 578, 392	30, 118, 132	56. 2
U. S. Government securities ¹	14, 772, 477	9, 951, 656	67. 4
Total capital account ¹	6, 298, 588	3, 156, 616	50. 1
Total deposits ²	45, 187, 902	24, 894, 409	55. 1
Interbank deposits ²	6, 315, 339	5, 155, 371	81. 6

¹ Figures for all insured commercial banks from the June 30, 1936, call report of the Federal Deposit Insurance Corporation. Figures for the 109 largest insured commercial banks as of June 30, 1936, from the final 1936 edition of Rand McNally Bankers Directory.

² Figures from F. D. I. C. form 89, Summary of Deposits, May 13, 1936, Federal Deposit Insurance Corporation.

It will be noticed that 109 banks of the 14,120 hold 67.4 percent of the Government securities held by all insured banks.

Mr. PATMAN. And then the information about the interest paid and received by member banks, January 1, 1927, to June 30, 1936, I would also like to have inserted at this point.

(Statement referred to is here printed in full as follows:)

TABLE 1.—Interest paid and interest received by member banks, Jan. 1, 1927–June 30, 1936

[Amounts in thousands of dollars]

	1927	1928	1929	1930	1931	1932	1933			1934	1935	First half of 1936
							Total for year	First half	Second half			
Interest paid by member banks on:												
Deposits of other member and nonmember banks ¹	81,642	75,352	68,131	72,847	52,935	34,599	13,424	11,747	1,677	3,498	2,695	1,101
Other demand deposits.....	225,685	234,926	246,493	225,280	140,691	97,862	42,802	34,437	8,365	12,494	9,298	3,706
Other time deposits.....	405,711	439,384	444,636	450,865	387,284	301,863	231,765	115,947	115,818	227,371	196,490	88,210
Average amounts of member bank deposits: ²												
Deposits of other member and nonmember banks ¹	4,119,000	4,185,000	3,947,000	4,473,000	4,399,000	3,484,000	3,284,000	3,293,000	3,284,000	4,252,000	5,604,000	6,534,000
Other demand deposits ³	17,862,000	18,103,000	18,541,000	17,923,000	16,609,000	14,181,000	14,005,000	13,723,000	14,005,000	16,425,000	19,342,000	21,466,000
Other time deposits.....	12,138,000	13,146,000	13,158,000	13,302,000	12,716,000	10,694,000	8,983,000	8,890,000	8,993,000	9,497,000	10,036,000	10,394,000
Average rate ⁴ of interest paid by member banks on—												
Deposits of other member and nonmember banks ¹ percent.....	2.0	1.8	1.7	1.6	1.2	1.0	0.4	0.7	0.1	0.1	0.048	0.034
Other demand deposits ² do.....	1.3	1.3	1.3	1.3	.8	.7	.3	1.5	1.1	.1	.048	.034
Other time deposits..... do.....	3.3	3.3	3.4	3.4	3.0	2.8	2.6	2.6	2.6	2.4	2.0	1.7
Interest earned by member banks on—												
Loans.....	1,254,289	1,374,130	1,562,769	1,349,364	1,072,927	851,007	604,297	307,908	296,389	540,014	498,419	253,059
Investments (including dividends on stock).....	458,401	498,420	472,898	472,351	480,296	457,712	426,391	210,770	215,621	473,791	467,217	235,227
Balances deposited with other banks.....	36,318	33,178	33,264	35,799	28,682	16,759	7,705	6,190	1,515	2,425	1,681	596
Average rate ⁵ of interest earned by member banks—												
On loans..... percent.....	5.5	5.7	6.1	5.4	4.9	5.1	4.7	4.8	4.6	4.3	4.2	4.1
On investments..... do.....	4.7	4.7	4.7	4.6	4.1	3.9	3.5	3.5	3.6	3.3	2.8	2.5

¹ Including both demand and time balances.² Averages of figures reported on call dates.³ Exclusive of certified and officers' checks and cash letters of credit and travelers' checks.⁴ These are not averages of the prevailing rates but simply ratios obtained by dividing interest payments by average deposits.⁵ Annual basis.⁶ These are not averages of the prevailing rates, but simply ratios obtained by dividing interest received by average loans and average investments, respectively.

I would also like to have inserted at this point the statement of interest paid and interest received by insured nonmember commercial banks, 1934 and 1935.

(The statement is as follows:)

TABLE 2.—*Interest paid and interest received by insured nonmember commercial banks, 1934 and 1935*

[Source: 1934 and 1935 Annual Reports of Federal Deposit Insurance Corporation]

	1934	1935
Interest paid by insured nonmember banks on—		
Deposits of other insured and noninsured banks ¹	\$445,000	-----
Other demand deposits.....	4,510,000	-----
Other time deposits.....	74,711,000	² \$68,512,000
Average ³ amounts of deposits of insured nonmember banks:		
Deposits of other insured and noninsured banks ⁴	86,410,000	93,583,000
Other demand deposits ⁴	2,145,769,000	2,413,232,000
Other time deposits.....	2,715,751,000	2,855,914,000
Average rate ⁵ of interest paid by insured nonmember banks on—		
Deposits of other insured and noninsured banks ¹ percent.....	0.5	-----
Other demand deposits..... do.....	.2	-----
Other time deposits..... do.....	2.8	² 2.4
Interest earned by insured nonmember banks on—		
Loans.....	\$149,129,000	\$143,319,000
Investments (including dividends on stock).....	75,713,000	79,894,000
Balances deposited with other banks.....	1,077,000	-----
Average rate ⁶ of interest earned by insured nonmember banks on—		
Loans..... percent.....	5.7	5.6
Investments..... do.....	3.9	3.7

¹ Includes both demand and time deposits.

² Includes any interest paid on demand deposits.

³ Average of figures reported on call dates.

⁴ Exclusive of certified and officers' checks and cash letters of credit and travelers' checks.

⁵ These are not averages of the prevailing rates, but simply ratios obtained by dividing interest payments by average deposits.

⁶ These are not averages of the prevailing rates, but simply ratios obtained by dividing interest received by average loans and average investments, respectively.

Then I would like to insert in the record the statement of "Earnings and expenses of Federal Reserve banks during 1936", which showed practically all of the earnings are coming from interest on Government bonds; in other words, of total current earnings.

(Statement of "Earnings and expenses of Federal Reserve banks during 1936.")

Earnings and expenses of Federal Reserve banks during 1936

	Total	Boston	New York	Philadel- phia	Cleve- land	Rich- mond	Atlanta	Chicago	St. Louis	Minne- apolis	Kansas City	Dallas	San Fran- cisco
CURRENT EARNINGS													
Discounted bills.....	\$107,584	\$7,658	\$70,156	\$7,511	\$1,459	\$1,777	\$1,780	\$1,649	\$1,495	\$1,049	\$4,004	\$6,586	\$2,460
Purchased bills.....	29,592	2,163	10,577	3,035	2,816	1,159	1,037	3,693	798	561	833	832	2,088
U. S. Government securities.....	35,181,125	2,394,450	9,909,061	2,854,961	3,365,116	1,790,550	1,442,585	4,124,552	1,804,145	1,265,519	1,743,999	1,458,501	3,027,686
Industrial advances.....	1,586,688	140,768	374,869	311,519	84,341	211,204	42,368	105,086	20,385	79,125	47,995	93,293	75,735
Commitments to make industrial ad- vances.....	282,079	25,649	107,077	2,965	15,731	21,668	1,625	1,548	17,736	979	9,868	5,434	71,799
All other.....	713,571	2,865	65,290	76,506	67,696	29,795	34,726	186,948	18,658	14,785	166,605	10,059	39,638
Total current earnings.....	37,900,639	2,573,553	10,537,030	3,256,497	3,537,159	2,056,153	1,524,121	4,423,476	1,863,217	1,362,018	1,973,304	1,574,705	3,219,406
CURRENT EXPENSES													
Operating expenses:													
Salaries:													
Officers.....	\$2,628,875	\$141,917	\$588,160	\$158,796	\$195,485	\$155,642	\$200,848	\$308,226	\$175,278	\$126,291	\$191,473	\$155,150	\$231,609
Employees.....	17,304,889	1,066,946	4,461,410	1,405,995	1,628,741	988,167	880,831	2,123,984	929,865	614,200	983,910	716,856	1,503,984
Retirement System contributions for current service.....	932,023	54,870	233,413	71,728	83,548	54,988	43,726	112,586	54,586	36,984	62,520	39,642	83,432
Legal fees.....	69,502	1,598	4,698	7,045	5,234	571	4,866	3,658	193	10,147	11,432	9,215	10,845
Directors' fees and expenses.....	128,713	5,464	15,277	8,882	7,394	6,047	13,214	8,264	12,264	10,293	20,462	7,241	13,911
Federal Advisory Council fees and expenses.....	14,223	1,150	576	750	710	808	891	1,169	1,350	1,204	1,239	1,776	2,600
Traveling expenses (other than directors and members of Fed- eral Advisory Council).....	296,883	14,901	55,561	32,430	27,224	21,324	20,293	32,523	14,372	29,912	13,600	13,104	21,639
Postage and expressage.....	3,940,790	401,279	668,081	326,562	365,295	250,766	273,479	513,020	179,613	148,932	272,853	187,550	353,360
Telephone and telegraph.....	654,191	28,708	114,920	41,444	54,689	43,789	66,741	46,472	47,041	23,822	56,124	41,355	89,086
Printing, stationery and supplies.....	853,709	58,159	221,175	79,223	70,015	43,786	48,972	86,086	41,488	37,388	46,247	43,617	77,553
Insurance on currency and se- curity shipments.....	276,422	37,308	56,987	29,192	27,967	18,102	15,206	31,217	6,173	9,378	10,005	10,461	24,431
Other insurance.....	259,737	17,501	37,818	21,099	19,507	15,936	17,264	21,871	21,169	21,077	26,204	17,269	23,022
Taxes on bank premises.....	1,369,378	143,640	396,709	69,767	136,185	67,080	53,187	169,742	53,050	66,817	87,303	32,114	93,784
Depreciation on bank building.....	1,207,339	55,832	227,327	126,532	156,782	109,233	47,293	125,834	62,623	29,233	82,806	72,239	111,605
Light, heat, power, and water.....	393,592	26,168	73,964	35,478	45,259	23,459	19,345	45,522	23,311	20,067	36,262	19,140	25,617
Repairs and alterations to bank building.....	210,634	7,827	49,301	24,967	13,274	6,031	4,754	22,462	35,211	6,840	10,804	22,869	6,294
Rent.....	188,109	240	1,070	81,962	30,794	4,577	14,902	3,001	-----	-----	1,480	50,083	-----
Furniture and equipment.....	273,736	23,268	71,794	23,328	30,523	8,261	4,323	42,258	28,166	11,411	4,027	12,551	13,827
All other.....	990,906	30,515	493,762	72,285	44,188	29,143	43,421	62,581	38,155	34,135	40,099	32,141	70,481
Total operating expenses.....	31,993,651	2,117,286	7,770,933	2,536,573	2,993,982	1,873,927	1,763,231	3,772,377	1,726,908	1,238,131	1,957,370	1,435,770	2,807,163

Operating expenses:													
Salaries:													
Less reimbursements for certain fiscal agency and other expenses.	5,977,313	277,754	1,419,999	324,475	459,293	302,939	636,304	863,797	417,436	197,977	342,237	306,463	428,639
Net operating expenses.....	26,016,338	1,839,532	6,350,934	2,212,098	2,534,689	1,570,988	1,126,927	2,908,580	1,309,472	1,040,154	1,615,133	1,129,307	2,378,524
Assessment for expenses of Board of Governors.....	1,679,566	123,479	609,979	161,061	155,031	73,747	58,865	193,744	49,908	39,751	48,391	49,148	116,412
Federal Reserve currency:													
Original cost.....	2,011,748	172,398	444,896	138,315	221,401	90,270	119,591	327,433	80,095	57,826	66,735	96,677	196,111
Cost of redemption.....	166,371	12,787	35,199	13,854	11,921	10,192	12,880	23,623	11,210	5,458	6,773	7,403	15,071
Total current expenses.....	29,874,023	2,148,196	7,441,008	2,525,328	2,923,092	1,745,197	1,318,263	3,453,380	1,450,685	1,143,189	1,737,032	1,282,535	2,706,118

PROFIT AND LOSS ACCOUNT

Current earnings.....	\$37,900,639	\$2,573,553	\$10,537,030	\$3,256,497	\$3,537,159	\$2,056,153	\$1,524,121	\$4,423,476	\$1,863,217	\$1,362,018	\$1,973,304	\$1,574,705	\$3,219,406
Current expenses.....	29,874,023	2,148,196	7,441,008	2,525,328	2,923,092	1,745,197	1,318,263	3,453,380	1,450,685	1,143,189	1,737,032	1,282,535	2,706,118
Current net earnings.....	8,026,616	425,357	3,096,022	731,169	614,067	310,956	205,858	970,096	412,532	218,829	236,272	292,170	513,288
Additions to current net earnings:													
Profits on sales of U. S. Government securities.....	8,902,507	478,125	2,889,122	582,301	559,635	296,982	239,773	1,150,317	308,766	889,110	308,607	896,350	503,419
All other.....	584,301	3,106	2,288	7,797	554	3,296	22,976	375,743	13,878	106,871	20,205	4,073	23,514
Total.....	9,486,808	481,231	2,891,410	590,098	560,189	300,278	262,749	1,526,060	322,644	795,981	328,812	900,423	526,933
Deductions from current net earnings:													
Reserves for contingencies.....	3,569,550	57,500	413,101	63,120	10,000	406,982	39,316	927,009	301,355	689,110	88,309	500,000	73,748
Special reserves and charge-offs on bank premises.....	733,594		504,874							17,481		192,464	18,775
Prior service contributions to Retirement System.....	2,522,917	178,800	635,293	193,476	225,748	157,044	93,840	329,958	144,902	83,040	170,760	109,308	197,748
Assessment for building for Board of Governors.....	2,007,219	147,601	729,105	192,254	185,323	88,123	70,352	231,578	59,653	47,516	57,837	58,743	139,134
All other.....	167,711	565	2,947	2,490	34,279	21,537	10,837	75,433	4,101	14,224	386	124	788
Total.....	9,000,991	384,466	2,285,320	451,340	455,350	673,686	214,345	1,563,978	510,011	851,371	317,292	860,639	430,193

Earnings and expenses of Federal Reserve banks during 1936—Continued

	Total	Boston	New York	Philadel- phia	Cleve- land	Rich- mond	Atlanta	Chicago	St. Louis	Minne- apolis	Kansas City	Dallas	San Fran- cisco
PROFIT AND LOSS ACCOUNT—Continued													
Net additions to current net earnings.	\$485,817	\$96,765	\$803,090	\$138,758	\$104,839	-\$373,408	\$48,404	-\$37,918	-\$187,367	-\$55,390	\$11,520	\$39,784	\$96,740
Net earnings.....	8,512,433	522,122	3,699,112	860,927	718,906	-62,452	254,262	932,178	225,165	163,439	247,792	331,954	610,028
Paid U. S. Treasury (sec. 13b).....	227,448	34,488	13,752	83,968	14,431	-----	-----	28,354	-----	16,460	10,959	25,036	-----
Dividends paid.....	7,829,581	563,728	3,036,704	730,185	752,931	280,136	254,262	725,553	225,724	179,052	236,833	228,445	610,028
Transferred to surplus (sec. 13b).....	102,944	-----	-----	94,119	-----	-26,247	-----	25,030	-559	-----	-----	10,601	-----
Transferred to surplus (sec. 7).....	352,460	-76,094	648,656	-44,345	-48,456	-316,341	-----	153,241	-----	-32,073	-----	67,872	-----

NOTE.—Current expenses as shown above include the cost of furniture and equipment purchased during the year and normal depreciation on bank buildings and exclude contributions to the Retirement System on account of services rendered prior to the establishment of the Retirement System on Mar. 1, 1934. Heretofore prior service contributions have been included in current expenses and the cost of furniture and equipment and normal depreciation on bank buildings have been shown as deductions from current net earnings. Operating expenses now include reimbursable fiscal agency expenses which heretofore were shown separately.

The total current earnings of the Federal Reserve banks were \$37,900,000 last year and of that amount \$35,181,000 was acquired through interest on Government securities and only a million and a half, approximately, on industrial advances, which is the only other large item.

Mr. LUCE. Reserving the right to object, I understood the gentleman to say that questions relating to interest did not bear upon the matter now under consideration here.

Mr. PATMAN. The question of interest, you say?

Mr. LUCE. Yes; the question of interest.

Mr. PATMAN. Oh, no. I was talking about my particular line of questions. I had just asked a question relating to something else. The point I was making was that it was not related to the bank question that I was asking about.

The CHAIRMAN. The objection is overruled.

Mr. FORD. That information that the distinguished gentleman from Texas asked about is something in connection with which I would like to have this information shown; that is, the savings to the Treasury resulting from the low rates, or the lowest rates on Treasury securities ever enjoyed, that is in the last 4 years.

The CHAIRMAN. Are you prepared to furnish that information?

Mr. FORD. Can the Board furnish the information?

Mr. ECCLES. We can furnish the current rates of interest on the various types of Government securities.

The CHAIRMAN. Is not that information available in the Treasury reports?

Mr. ECCLES. Oh, yes; I think it would be available. The information showing the total amount of interest paid on the Government debt today; that is, the annual interest charge as against what it was at any previous date, the average rate of interest on the Government debt today as compared with what it has been in previous years.

The CHAIRMAN. Are not those figures available in the Treasury report?

Mr. ECCLES. Mr. Smead says that they are all available in the Treasury report. The debt figures are on page 419 and the interest figures on page 363 of the 1936 report.

Mr. FORD. If it is available and if it can be supplied, I would like to have it shown with this other information.

Mr. HANCOCK. Is it not a fact that with the present rate of interest, let us say, on \$30,000,000,000 it is costing the United States less than the \$20,000,000,000 cost in 1932?

Mr. FORD. \$24,000,000,000? Yes; it is.

Mr. ECCLES. I think the Government debt is about \$35,000,000,000 today.

Mr. HANCOCK. I was not speaking of the amount, but I was referring to the ratio. Are we not paying under the present rate of interest, less on \$30,000,000,000 than it cost to finance \$20,000,000,000 4 years ago? That is just based upon the prevailing rate today.

Mr. ECCLES. I do not know. If the prevailing rate today applied to all outstanding bonds that would mean a lower rate than is being paid, because some of the higher-rate bonds are still outstanding and have not been refunded.

Mr. HANCOCK. I would like to ask the Governor this question: In your opinion, Governor, do you believe that the stiffening of the

short-money rate will have any considerable adverse effect upon the price of commodities?

Mr. ECCLES. No, sir. In my opinion it will have no effect. As to the increase in the short-term rate, of course, there is no assurance that there will be any substantial increase in the short-term rate after the excess reserves go into effect. There is still as much excess reserves as the System has had at any previous time, and with the excess reserve, even after these ordered increases go into effect and with the huge pile of deposits held by institutions and individuals in the banks, I do not look to see high short-term rates. For commercial paper, which is only three-quarters of 1 percent, that would be no deterrent, certainly to business activity. If call loans, which are now 1 percent, should go to 1½ or 2 percent, I am sure that would not be a deterrent on borrowing on securities. The rates to livestock people and to the farmers are pretty largely controlled by the rate that the Production Credit Corporation establishes throughout the country. The Production Credit Corporation is able to go to the money market, as it does, and get its money on its debentures. I think just a week ago, after the announcement of the increase in reserve requirements the Farm Credit had greatly oversubscribed their offering of debentures at less than a half of 1 percent. I do not remember the exact figure but I think it was less than a half of 1 percent. Even though they were paying twice that, or three or four times that much, it would still be less than a 2-percent rate. That would in no way be a handicap to agriculture, because, as I understand it, the rate that they have established throughout the country today is 5 percent for livestock.

Mr. PATMAN. Four and a half percent, isn't it? No; I believe that is the crop loans.

Mr. ECCLES. That is the land bank.

Mr. PATMAN. I am talking about the crop loans.

Mr. ECCLES. This is a permanent organization known as the Production Credit Corporation. The intermediate credit banks borrow in the market. The intermediate credit banks then lend to the production credit associations, who lend directly to the farmers and to the livestock people in the various communities. That will tend to provide an abundant amount of funds at reasonable rates, I am sure. Even though these excessively low rates should go up, in no way would they be a deterrent upon the use of credit.

Mr. SPENCE. Mr. Chairman, may I ask the gentleman an admittedly irrelevant question?

The CHAIRMAN. I do not think that anybody will object.

Mr. SPENCE. I understand regulations forbidding exchange charges have been postponed for 90 days. Can you tell me what the attitude of the Board of Governors of the Federal Reserve System would be with regard to that matter?

Mr. ECCLES. The new regulation has been issued in which the Federal Deposit joined with the Federal Reserve Board, and that regulation is available, whether you have seen it or not.

Mr. SPENCE. I have seen that it was postponed for 90 days.

Mr. ECCLES. No, sir. It was postponed, but the new regulation has been issued, so there will not be any necessity to take up the other one in 90 days.

Mr. SPENCE. What is the new regulation?

Mr. ECCLES. That goes into another subject. It is also unification and branch banking, and all of these other questions; and all of them are pretty closely related.

Mr. SPENCE. Is there any intention on the part of the Board to return to the old regulation?

Mr. ECCLES. I cannot speak for the Board.

Mr. SPENCE. I think you can speak for the Board Governors, can you not?

Mr. ECCLES. I would not think that I could. What the Board may do I do not know. They have put out this regulation in which the F. D. I. C. has joined. Of course, the new regulation does not recognize the exchange or absorption of exchange as a payment of interest. I mean that it does not specifically spell it out as such. It would be a question of finding under the new regulation.

Mr. SPENCE. Is the new regulation in effect now?

Mr. ECCLES. Yes; the new regulation is in effect now. The matter of definition and the matter of interpretation is a bridge that we have not as yet crossed.

Mr. SPENCE. Then there is one other question that I would like to ask you. Is there any limitation as to the amount of Federal Reserve notes that may be issued for direct obligations of the United States except—

Mr. ECCLES. You mean Federal Reserve notes, do you?

Mr. SPENCE. Yes; Federal Reserve notes.

Mr. ECCLES. No, sir; there is no limitation. The only requirement is that they be secured with gold certificates and Government bonds, if this extension goes through, or eligible paper for the balance. The real limitation for issuing them, however, is the demand that the public has for currency. That fixes the limit. The minimum, of course, is the amount of currency that is required. If you put out currency, you cannot keep it out; it comes back.

Mr. SPENCE. You have exhausted your power in regard to reserve requirements?

Mr. ECCLES. We have; yes, sir.

Mr. SPENCE. To the full extent of the law?

Mr. ECCLES. Yes; that is correct.

Mr. SPENCE. Are you contemplating asking for any additional powers in that respect?

Mr. ECCLES. Not at this time.

Mr. PATMAN. If an emergency should occur, the President could declare an emergency existed, and you would have unlimited power to increase the fund, would you not?

Mr. ECCLES. As I understand it—no. This was a substitution.

Mr. PATMAN. You think this was a substitution for the existing statute?

Mr. ECCLES. That is as I understand it.

Mr. PATMAN. I am glad to have that information.

Mr. ECCLES. Yes; this is a substitution. The other instrument of credit control is by open market operations. Increasing the reserve requirements merely puts the Board into a position where it can exercise influence or control over the money market, whereas during the past 4 or 5 years the excess reserves were so large during that

time that it exercised no control whatever. This action was not taken in order to in any way influence or control the stock-market operations. It was not expected that by increasing the reserve requirements that it would in any way retard stock-market activity, either up or down.

Mr. PATMAN. On this question that Mr. Spence brought out a little while ago, does it seem to you to be a reasonable law that all of these small banks that are required to carry their deposits with their correspondent banks should not receive interest on those deposits, in view of the fact that the correspondent bank can use these funds with which to buy Government bonds or for any other purpose, and get interest on the funds all of the time; and if they need the money they can take the Government bonds and place them in the proper channels to get their money back very quickly. Under those circumstances does it seem to you that where the larger banks are going to get the benefit of this situation that some provision should be made that will permit—now, understand that this is rather an arbitrary law. Do you think some provision should be made to permit them to make a contract, any contract they want to make, which will permit the paying of interest?

Mr. ECCLES. The city bank correspondent relationship is one that recognizes that one bank—and usually it is a country bank—can carry its legal reserve as a deposit with another bank. That deposit in the other bank can then be invested by that bank as it sees fit, or it can be loaned. Therefore, it may not be a proper reserve of the country bank.

We have the situation in Michigan in which the city correspondent relationship meant that the city of Detroit had the reserves of the country banks of the State of Michigan who were not members of the Reserve System. The banks of Detroit invested those reserves in the various bonds and types of loans and securities, collateral loans and otherwise. And when it came to a question of suspending the Detroit banks, whereas many of the country banks were in a condition where they did not need to close, yet they were forced to close because that reserve was no longer a proper reserve.

So long as the city banks are permitted to pay interest on country-bank balances—and the Reserve banks, of course, cannot pay interest upon them—there would be a natural tendency to withdraw from the Reserve System and the concentration of the reserves in the city banks and thus make a much more unsound banking system. That is where you get your concentration of funds in your large cities through that process. That is where the real exercise of power and control comes; that is, through this concentration through country-bank balances in the cities instead of in the Federal Reserve banks in each district. If the funds of the district were concentrated in the Reserve banks of the district, and to the extent that you provide that interest is paid upon these balances, these reserves of the country banks, which are nothing more or less than the deposits of a city bank, just to that extent you weaken the Reserve System and invite banks to get out of the Reserve System so as to get interest from the correspondent. That was permitted during the 1920's before the bank holiday. It did not result in any public good.

There is another weakness in the payment of interest to country banks by city banks to the extent that it increases the balances of the

country banks. I mean to the extent it increases the reserves of the country banks carried with the city bank. To that extent it increases the deposits of the city bank. If the country bank carried those reserves in the Reserve System directly, then it would give to the Reserve System a much better control over the inflationary and deflationary problems.

With the reserves of a country nonmember bank carried in a city bank, that city bank is required only to carry 20 percent in the case of the Reserve city bank and 26 percent in the case of a central Reserve city bank, with the Federal Reserve banks, whereas if the country bank were a member of the Reserve System the full amount of the balance would be carried there. In other words, the greater the number of banks outside of the System, the greater the possibility of pyramiding, both on the up side and on the down side. And the greater it reflects the possibilities, the greater the flexibility and, hence, the difficulty of exercising monetary control by the Federal Reserve Board.

Mr. HANCOCK. Governor, when it comes to the question of control through open market operations, your restricting easy credit policies is more or less jeopardized as long as your reserves exceed the amount of Governments you own? Isn't that right?

Mr. ECCLES. Yes; that is right. If your excess reserves were greater than the amount of Governments, of course, you could not absorb them through the sale of Governments. Happily we are not in that position today, and we can either increase the reserves, if the money situation develops where for any reason it is desirable to expand excess reserves by purchasing bills or notes in the market, and, of course, we are in position to sell.

Mr. HANCOCK. You would have been in that position had you not increased your reserve requirements; and you would have had only one weapon left, which is the rediscount rate, and that is usually quite ineffective.

Mr. ECCLES. That is right. The amount of excess reserves was very close to the total amount of Governments, and to have absorbed all of the excess reserves by selling off our Governments rather than increasing the reserve requirements would have meant giving to the member banks Government bonds for those reserves. It would have meant that the flexible instrument of control of market operations would have been practically utilized, whereas the less flexible instrument, the instrument of increasing the reserve requirements, which has a national application, would have been all that was left. Therefore it was decided by the Board to meet the excess reserve problem through increasing the reserve requirements, which means the locking up of some of the banks' reserves rather than selling them Government bonds for those reserves on which they would get the interest, and the Reserve System would operate at a large deficit.

Mr. Chairman, in as much as this question of increased reserves has been raised and discussed to a considerable extent, the Board recognized that the instrument given to them by Congress to deal with the stock market was not to create a tight-money situation and thus hamper commerce, agriculture, and business expansion or recovery through higher-interest rates, but it was one of increasing the margin requirements.

The CHAIRMAN. You did that, did you not?

Mr. ECCLES. Yes, sir. It has been done twice, on brokers' loans. That has been done twice, until today the margin is 55 percent.

Well, let me put it in this way: The margin of cash payment of \$550 would have to be made for every thousand dollar purchase; or the amount that could be loaned upon a thousand-dollar purchase is \$450, which, of course, is a pretty steep margin as compared with what we have been accustomed to in the past.

This power given to the Board was for the purpose of preventing the undue use of credit for speculative purposes. To the extent that credit is not being used in the market an increase in margin requirements is not effective. In other words, so long as the market is largely a cash operation there is no way, so far as the Reserve Board is concerned, to influence the market by either increasing reserve requirements or increasing the margin requirements, to the extent that loans are made by the bank system. Margin requirements could continue to be increased and thus put the market on what might be considered a cash basis.

I wanted to make that point because there have been some impressions given that the Board is using an instrument to deal with the market situation and thus hampering commerce, agriculture, and industry rather than using the other instrument which the Congress has given them.

Mr. GOLDSBOROUGH. Isn't it your statement that the Governors of the Federal Reserve System would not feel justified in using its power to raise reserves for the purpose of controlling the stock market? Isn't that your statement?

Mr. ECCLES. Yes, sir; that is right.

The CHAIRMAN. I am not so much interested in stock-market operations as I am in agriculture, industry, and commerce. I would like to see the farmers in my district left where they can produce to the limit of their capacity, and such liberal policies invoked as are calculated to stimulate an enlarged consumption of products of others, until we get to the highest standard of living and absorb some of the millions who are unemployed, which is the situation that we face now. I am unable to see in the situation that exists where we are in any danger of flying too high or going too fast or reaching a basis of inflation. I just do not see it. I would not put my thought against yours in a matter of that kind, however.

Mr. ECCLES. No; and at the moment I do not feel that we are doing it.

The CHAIRMAN. I am wondering what may be the result.

Mr. ECCLES. Inflation is an insidious thing. If you get enough money created and then that money gets into circulation it is difficult to extinguish that money supply. And certainly with a volume of deposits 2 billion dollars in excess of that in 1929 we have no reason to say that deposits in the course of time cannot get into velocity or turn-over. And then there would be a sufficient means of payment to support a 90 billion national income on a 1929 price level. What we need today is to encourage those who have idle money to invest that money in mortgages and long-term securities for the expansion of industry and in the fields of private enterprise that would tend to give employment.

Mr. HANCOCK. Governor, if it could be carried on in a sound way I assume that you personally, together with the power which you

possess as the head of the Federal Reserve System, would be delighted to cooperate with the American people in doing a business of \$125,000,000,000 a year, would you not?

Mr. ECCLES. That is correct. And it seems to me that there is no reason why such a situation cannot develop. I would not want to see a \$125,000,000,000 national income if the total production were not increased proportionately. But merely getting a dollar income through a great price rise is not the thing that we need in this country. What we need in this country is the greatest possible amount of production of goods and of service.

Mr. HANCOCK. I feel the same way.

The CHAIRMAN. And distribution also.

Mr. ECCLES. Yes, sir. Of course, it will have to be distributed if it is produced. I mean the greatest production and distribution, and not entirely on credit. We do not want to get that huge production and have it distributed on the basis of too much credit. We want that distribution based upon the widest possible distribution of the current national income.

It seems to me Mr. Patman's questions would give a somewhat erroneous impression, taken by themselves, with reference to the bank picture. It would appear that as a result of the Government issuing and selling interest-bearing securities in which the banks and reserve system own approximately half of the total outstanding amount, and the fact that interest paid by banks to depositors has been greatly reduced through the prohibition to pay interest on demand deposits in accordance with the Banking Act of 1930, and through the Board's action in reducing the total amount paid on time deposits, the banks have made an undue profit at the expense of the public. It would seem to me that if we will but analyze the entire banking net income over a period of years, and particularly the last 6 years, the net result would certainly show that they were in the red, in my opinion.

When the banks closed at the time of the bank holiday, the Government, in the public interest, saw fit to make their opening possible. The Government did not open them because of the interest of the stockholders or the officers. The Government would not have put into them a billion dollars of new capital except for the fact that it was felt to be in the public interest.

The CHAIRMAN. But you are sure, however, that the action inured to the benefit of the stockholders of the banks very largely, in that it helped them out of the great dilemma in which they found themselves, and it enabled them to continue their business.

Mr. ECCLES. You could not do otherwise and preserve private banking.

The CHAIRMAN. I am not finding fault with it; I am only calling attention to the fact that the bankers did benefit by it. But it seemed to have made some of them angry, although we singled them out as a class and advanced this billion dollars without security, the Government standing aside until everybody else was paid. But still some of them have never seemed to realize that the administration had done a thing of advantage to them. I just wanted to say that.

Mr. ECCLES. Everybody benefited by it. And I think possibly the bankers were the least grateful for the assistance that the Government furnished to them.

We have not devised a money mechanism in this country yet that does not involve a debtor-creditor system, which means a system of interest. And until we do that, we have to have banks. And those banks will either be publicly or privately owned, or, as we have today, a portion of the stock, to the extent that the R. F. C. put the capital into them the stock is publicly owned.

The interest that the Reserve System and that the banks have received from the Government on their bonds in this case, of course, has enabled the banks to operate during a period of recovery until such time as the demand for credit by commerce, agriculture, and industry would take place.

It is my opinion that as Government retires its obligations from the banks, which it is doing over the period of recovery, that the banks will expand their loans and investments in private fields. In other words, that will be the compensating operation. When private borrowers were available and when credit could not be used profitably in the depression period the credit was not available because of depression values, but the Government stepped in and did the borrowing, and their borrowing from the banks created the money which they put into circulation. For that money they paid interest to the banks as any other borrower would do. The banks rendered a service. They could not hold the great bulk of deposits which the Government created and spent.

The earnings from their assets, including Government bonds, taking the banking system as a whole, has not been as remunerative as investments in almost any other kind of business. I know of no business as a class that is possibly more essential in our economic system and that has received over a period of 20 years a lower rate of return.

I just wanted to make that statement for the record.

Mr. PATMAN. You can consider the condition that they would have been in if they had not received these additional benefits. Of course, I am not charging that the banks made excessive rates of earnings.

Mr. ECCLES. I can see the condition that not only the banks would have been in but that the country was in. In fact, I remember the condition they were in.

Mr. CRAWFORD. Governor, having in mind that the F. D. I. C. encouraged the people to deposit their credits in the bank, and assuming we empowered the Federal Reserve Board to impose these increasing reserve restrictions, do you think that shadow hanging over the bank management all of the time with reference to increased reserves tended to cause the banks to be somewhat reluctant to make loans to these private individuals referred to, and that, in turn, resulted in a lower income to the banks?

Mr. ECCLES. In my opinion, that in no way affected the willingness of the banks to extend credit, because they had sufficient excess reserves not only to meet those requirements but reserves over and above that. The only thing that has deferred bank lending is the availability of acceptable borrowers.

Mr. CRAWFORD. Or interested adventurers in business?

Mr. ECCLES. Of course, banks cannot lend to adventurers. They must have something tangible lack of it.

Mr. CRAWFORD. They must have ample and satisfactory collateral to put up to the bank, but they would not be willing to do it because

they are not interested in adventuring. In that case the banks would lose their support.

Mr. ECCLES. That is right. Of course, that is correct. The bank credit did advance very rapidly the last 6 months of last year, which is a favorable indication. And it is expected that there will be a much more substantial increase in bank loans during the coming year, with the present business activity and the expected business activity.

The CHAIRMAN. Thank you very much, Governor.

Mr. GOLDSBOROUGH. Mr. Chairman, I move that this committee report the bill, and that the chairman be instructed to take such steps as are necessary to bring the bill before the House for consideration.

The CHAIRMAN. Unless there be objection, that will be the order of the committee. It is so ordered.

(Thereupon, at 1:05 p. m., the committee adjourned.)