

The Papers of Eugene Meyer (mss52019)

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Subject File, Federal Reserve Board, Office Correspondence, 1930

EUGENE MEYER

SUBJECT FILE

FEDERAL RESERVE BOARD
OFFICE CORRESPONDENCE
1930

Office Correspondence

FEDERAL RESERVE
BOARDDate September 30, 1930.To Federal Reserve BoardSubject: Revision of Membership ConditionFrom Mr. McClellandre Purchase of Bank Stocks.

... 2-8495

Under date of June 27, the Board addressed a letter to all Governors and Federal Reserve Agents and requested them to advise the Board whether the following revision of condition No. 3 of Section 4 of Regulation H was advisable and as to whether the percentages contained in the revision with reference to the amount of stock of other banks and trust companies which might be purchased by a member bank were appropriate and advisable:

"(3) Such bank or trust company, except after applying for and receiving the permission of the Federal Reserve Board, shall not acquire more than 50 per cent of the capital stock of any other bank or trust company; and, except with the Board's permission, its total investments in the stock of other banks and trust companies shall not exceed 20 per cent of its own capital stock and surplus."

Replies to this letter were summarized in the Counsel's office and upon being considered by the Board, it was decided to refer the proposed revision to the Fall Conferences of Governors and Federal Reserve Agents.

At the Joint Conference of Governors and Federal Reserve Agents on September 26, the Chairman of the Governors' Conference reported as follows:

"The Conference of Governors gave careful consideration to the Board's letter, X-6692, subject, "Revision of Membership Condition re Purchase of Bank Stocks", and it was voted that in the opinion of the Conference no material change should be made in the present condition of membership No. 3, - except that there might be added a provision that it shall not be necessary for a State bank member to obtain the approval of the Federal Reserve Board before purchasing stock in other banks where the aggregate amount of such stock does not exceed 5% of the capital and surplus of the purchasing member bank or 10% of the capital of the bank purchased.

"The Conference was in agreement that no material change in the present condition of membership regarding the purchase of bank stock should be made until the Committee on Group and Chain Banking has made a complete report and the Governors' Conference has made a definite recommendation. In order, however, to eliminate the petty annoyances arising where State bank members have for one reason or another acquired small blocks of the stock of other banks and to relieve the Federal Reserve Board of the necessity of approving such purchases the Conference felt that the action taken was desired."

At the same meeting, Mr. Curtiss, as Chairman, reported the following action of the Federal Reserve Agents' Conference:

"This conference has reviewed the Board's letter X-6692 and has reached the conclusion that it would not be desirable, at the present time, to amend condition of membership No. 3 contained in Section IV of Regulation H, which at present requires the Board's permission before any stock of banks or trust companies may be purchased by a member bank subject to the condition.

"The Conference has adopted this view because the question has a bearing upon branch, chain and group banking, a subject which is now being studied by a System Committee. We therefore recommend that the question be held in abeyance until the final findings of the committee are available."

October 7, 1930.

Mr. James Shaw,
Banking Commissioner,
Austin, Texas.

Dear Mr. Shaw:

In the last 13-1/2 years the Federal Land Bank of Houston has loaned \$197,807,891 to 66,308 borrowers, handling the business through 368 national farm loan associations served by 808 executive officers designated as secretary-treasurers. During this time 31 of these officers defaulted, embezzled, or misapplied funds which resulted in loss of office, and in several cases followed by prosecution and conviction.

A percentage of 3.83 plus defaulted out of 808. These men were selected, not by the Federal Land Bank, but by the directors of associations. I am curious to know how this percentage compares with a like record of defalcations of executive officers of state banks operating in Texas in the same time.

The information requested may require a little time to assemble, though you may have it easily available. I have the thought you may be sufficiently interested in the subject to have it looked up, and I will appreciate your reply at your early convenience. I am making a like request of the Comptroller of the Currency as to national banks operating in Texas covering the same time.

Thanking you in advance for the trouble here imposed,
I am

Yours very truly,

/s/ M. H. Gossett
President.

MHG:EC

Office Correspondence

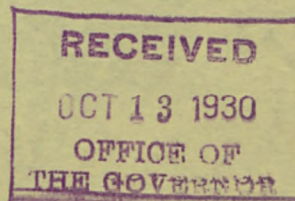
FEDERAL RESERVE
BOARDDate October 11, 1930To Governor Meyer

Subject: _____

From Mr. Goldenweiser

... 2-8495

You asked me the other day to give you an estimate of the amount of reserves that has been saved through the more rapid growth of time than of demand deposits. I have had a calculation made comparing May 4, 1920 with June 30, 1930 and find that on the basis of the distribution between net demand and time deposits at that time member banks would at the present time require about \$350,000,000 more reserves. This means, speaking very broadly, that the more rapid growth of time than of demand deposits has had the same effect on the credit situation during the period as ~~would have~~ an importation of \$350,000,000 of gold.



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FEDERAL RESERVE
BOARDDate October 13, 1930.To Governor Meyer

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From Mr. McClelland

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In order that you may be acquainted with the development of the present policy of the Board with regard to examination of member banks there is given below a memorandum of the action of the Board in connection with the establishment in its organization of a Division of Member Bank Examination, and the policy which has been followed since the discontinuance of that Division.

On November 21, 1924 Mr. Miller submitted the following resolution which was adopted on September 17, 1925:

"That the Committee on Examinations of the Federal Reserve Board be requested to investigate and report to the Board on the advisability and practicability of coordinating all examining work in the Federal Reserve System under the supervision of the Board, acting through its Division of Examinations, in order to give fuller effect to the provisions of the Federal Reserve Act (Section 9) that 'examinations made by direction of the Federal Reserve Board or of the Federal reserve bank' shall be made 'by examiners selected or approved by the Federal Reserve Board.'"

At the suggestion of the Committee on Examinations the question of the advisability and practicability of coordinating the examination work in the Federal Reserve System under the supervision of the Board, acting through its Division of Examination, was referred to the Conference of Federal Reserve Agents held in the fall of 1925. The Agents' Conference appointed a Standing Committee on Examinations composed of Messrs. Jay, Martin and Hoxton, which Committee was to work in cooperation with the Board's Committee on Examinations. The final report of the Federal Reserve Agents' Committee to the Board's Committee on Examinations, copy of which is attached, was submitted at a meeting held on August 4, 1926.

During this entire period the question of examinations was continually before the Board but not until August 6, 1926 was a proposal made that a division be established in the Board's organization for the purpose of examining state member banks when, in the opinion of the Board, such examinations of member banks appear to be necessary, and at a meeting held on August 11, 1926, this matter was taken up as a special order of business and the following resolution adopted:

"RESOLVED, That the Board employ a competent bank examiner for the purpose of analyzing the reports of examination of each member state bank as they are received by the Board and report to the Board, through the chief executive officer, his opinion of the adequacy of the examination and whether or not in his opinion the condition of the bank or character of examination conducted by the State Department or the examination policies of the State Banking Department, as disclosed by the report of examination, warrants the Board's directing a special examination be made in accordance with Section IX of the Federal Reserve Act.

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"BE IT FURTHER RESOLVED, in order that there may be available a staff of examiners to conduct such special examinations of state member banks as may be found necessary by the Board following the report of the bank examiner referred to in the previous resolution, that the Governor be authorized to employ as and when necessary the services of a sufficient number of bank examiners."

On August 23, 1926 Governor Crissinger and Mr. McIntosh were appointed a committee with power to negotiate for the employment of the examiners contemplated in the above resolution, and on September 2, the committee reported the employment of Mr. H. W. Black as an examiner, effective September 1st. The Governor stated at this meeting that the committee also had in mind the later employment of Mr. Claude Gilbert, who was then serving as Assistant Federal Reserve Agent at the Federal Reserve Bank of Atlanta, and that the Committee was also negotiating with several other examiners.

During this period the question of the scope of the work contemplated by the resolution adopted on August 11 was before the Board but no definite action was taken, and at the meeting on November 3, 1926, the Board's Committee on Examinations submitted a report reading in part as follows:

"The Board's Committee having given consideration to the report of the Agents' Committee on Examinations, begs leave to make comment and recommendations thereto.

"The Federal Reserve Agents' Committee in summarizing its report to the Board's Committee makes the following statement:

'The Committee believes in maintaining and improving the present examination practice. It does not favor the concentration of Federal Reserve examining responsibilities in the Board because it believes it should be exercised in cooperation with State Supervisors and Chief National (Bank) Examiners, and for effective cooperation with those authorities, close personal relations are important; but the Board should satisfy itself that at all times the Federal Reserve Agents are satisfactorily discharging their responsibilities in this regard and should require from them such current information as it desires. This is a fundamental feature of the program which the Committee recommends.'

"the information before the Board's Committee at the present time is not sufficient to enable it to determine to what extent it may ultimately become necessary to centralize, under the Board, certain features of the examination work in order to more effectively coordinate the examination work of the system. In the main, however, the Committee finds itself in hearty accord with the recommendations as above recited, and believes that for the present the Board should hold the Federal Reserve Agents responsible and should

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"take such measures as may be necessary to satisfy itself that the Federal Reserve Agents are 'satisfactorily discharging their responsibilities in this regard.'

"In order to provide the Board with all data necessary to enable it to determine the most practicable manner in which to proceed in the full discharge of its responsibilities with reference to the examination of member banks, the Board's Committee would recommend the appointment of a man well qualified for the work, to make a survey, and report as to the efficiency and thoroughness of the examinations and credit investigations made by each Federal Reserve bank, and as to the efficiency and thoroughness of the examinations of State banking departments - with particular reference to the question whether the State examinations, or Clearing House examinations, furnish the information to Federal Reserve banks upon which they may safely act when asked to extend credit. This survey should not only bring in additional information to the Board, but should result in recommendations for such action or changes of policy as may be indicated so that the Board may at all times feel assured of the competency of the examination of member banks.

"The Committee does not feel that it will be in a position to make a final recommendation on the question submitted to it in the resolution of November 21, 1924, to wit: 'The advisability and practicability of coordinating all examining work in the Federal Reserve System under the supervision of the Board,' until the data, information and recommendations which will result from the survey recommended above, are available.

"The Board's Committee believes that the ideal system for State bank members in many States would be to have one examination by State authorities, and one by Federal Reserve authorities each year. This cannot be done under State laws excepting in a few States at the present time, but an effort should be made to obtain the necessary amendments to State laws so that it may be authorized. Complete joint examinations by State and Federal Reserve authorities are often also desirable and an amendment to the Federal Reserve Act to permit such examinations should be recommended when opportunity occurs."

A motion was adopted tentatively approving recommendations contained in the Committee's report and requesting the Committee to report back in detail the proposed duties of the examiners whose employment was recommended.

At the meeting on November 22, 1926 the Committee on Examinations, in accordance with the request made at the meeting on November 3, submitted a memorandum setting forth the following questions in connection with the survey of examinations recommended in the Committee's report:

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"(1) Do the examinations now made give the necessary information to enable the Federal Reserve Board to determine whether or not the member banks are operating within the requirements of the Federal Reserve Act, the regulations of the Board and the conditions of membership?

"(2) How are the examining forces of each of the Federal reserve banks selected and organized? Is the personnel of the examining force made up of men qualified and trained for their work? What experience in bank examination did they have before entering the Federal Reserve bank?

"(3) Are the Federal reserve banks receiving adequate information as to the condition of the State member banks upon which they may safely act in extending credit?

"(4) Are their examining forces capable of conducting an examination of the larger banks in their districts?

"(5) Are their examining forces making adequate credit investigations, which involve the loan policies, personnel and organization, as well as an appraisal of the assets of a bank?

"(6) How far do they rely on State examinations? By what means do the Federal Reserve banks determine whether State examinations are adequate for their purposes and are the methods by which they determine whether State examinations should be accepted adequate?

"(7) Where Federal reserve examiners participate with State examiners in their examinations of State member banks does such participation tend to raise the standard of State examinations?

"(8) To what extent are Federal reserve banks aware of the development of unfavorable conditions in member banks, through their daily contacts - cash letters, loans, etc.?

"(9) When the Federal reserve bank receives reports of examinations, or makes credit investigations, or otherwise obtains information with relation to the condition of a member bank, is the information properly analyzed and filed so that it can be readily obtained?

"(10) What steps are taken by Federal reserve banks to secure the correction of unsatisfactory conditions in member banks?

"(11) In general what can the Federal Reserve Board do to improve examinations in districts or in states where they are most in need of improvement?"

As a result of the discussion which ensued, the following resolutions were unanimously adopted:

"(1) That the report of the Board's Committee on Examinations, dated October 30, 1926, which report was tentatively approved by the Board at the meeting on November 3rd, be now definitively approved, and the recommendation contained therein, to the effect that a competent examiner be appointed 'to make a survey, and report as to the efficiency and thoroughness of examinations and

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"credit investigations made by each Federal reserve bank, and as to the efficiency and thoroughness of examinations of State banking departments', be adopted;

"(2) That the outline of the scope of the proposed survey, presented today in a supplementary report of the Committee on Examinations, be approved;

"(3) That for the purpose of making this inquiry and survey Mr. Claude Gilbert be employed by the Board effective November 24, 1926, with the title of Supervisor of Examination, with compensation at the rate of \$10,000 a year, and that for administrative purposes he be connected with the office of the Secretary of the Board; and

"(4) That action under that paragraph of the Board's resolution of August 11, 1926, reading 'in order that there may be available a staff of examiners to conduct such special examinations of state member banks as may be found necessary by the Board following the report of the bank examiner referred to in the previous resolution, that the Governor be authorized to employ as and when necessary the services of a sufficient number of bank examiners', be suspended until the results of the survey to be undertaken by the Supervisor are available, when it may be determined how far it may be necessary for the Board to go in itself undertaking member bank examinations through a division of member bank examination."

In accordance with the above Mr. Claude Gilbert was employed by the Board, effective November 24, 1926, with the title of Supervisor of Examination.

At the meeting of the Board on November 30, the attached report of the discussions at the November 1926 Federal Reserve Agents' Conference and the recommendations made by that Conference was referred to the Board's Committee on Examinations. The Committee on Examinations brought the action of the Conference up for discussion at a meeting of the Board on December 10th, at which time the Secretary reported that Mr. Gilbert had completed that portion of the survey regarding the examination of state member banks that could be completed in Washington, and that he contemplated visits to some of the Federal Reserve Banks to secure additional information. The Committee on Examinations was vested with authority in the matter of permitting visits to Federal Reserve Banks which Mr. Gilbert had in mind, and at the meeting on December 14th, reported that it had met with Mr. Gilbert and gone over with him the work he had accomplished to date in the matter of the survey he was making and had authorized him to proceed to the Federal Reserve Bank of St. Louis.

At the meeting of the Board on April 14, 1927, report made by Mr. Gilbert on his visit to the St. Louis Bank, together with the following general

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recommendations made by him, was considered:

"1. That the examination of state member banks continue, as at present, under the direct supervision of the Federal Reserve Agent of St. Louis, but that the Board prescribe and maintain the necessary routine for observing the details of his examining operations.

"2. Requirement by the Board that all reports of examination of state member banks shall be analyzed, as soon as received by the Federal Reserve Agent, by his Chief Examiner or other qualified persons in his examining department for the purpose of adequately appraising the facts and figures recorded for the information and guidance of himself in connection with his supervisory duties and of the loan officers of the Federal Reserve Bank in extending credit and that copies of such analyses shall be forwarded to the Board with the reports to which they relate.

"3. Adoption by the Board of a suitable form of analysis to be used by the Chief Examiner, or others in the Examining Department of the Federal Reserve Agent, whose duty it may be to analyze reports.

"4. The undertaking by the Board, through a competent bank examiner employed for the purpose, of its own regular and thorough review of analyses of reports as prepared in the Agent's Department, the reports to which they relate, and all relative correspondence, for the following purposes:

'a. To inform the Board of the current condition of State Member Banks;

'b. To disclose whether the Federal Reserve Agent is properly performing for the Board its statutory duties relating to examinations; and

'c. To determine the quality and scope of the work of the individual Federal Reserve Examiners, and State Examiners, in those instances where their reports are solely relied upon.

"5. Adoption by the Board of a form of report that shall be used in the examination of State Member Banks in the Eighth District and shall provide for the certain assembling of all information required to determine solvency, character and capacity of management and violations of the Federal Reserve Act and the Board's regulations and conditions of membership based thereon, and be so designed as to facilitate analysis.

"6. Requirement by the Board that Federal Reserve Examiners in assembling facts and figures and writing reports shall follow certain recommendations, made in the attached report of survey, designed to improve the art of reporting, render more or less completely intelligible to reviewing authorities matters set forth, particularly with reference to criticized items of loans and discounts and other assets, and provide a means for readily following the condi-

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"tion of a bank from examination to examination.

"7. Insistence by the Board that reports of examination made by State Examiners without participation by Federal Reserve Examiners, which are accepted and relied upon with respect to State Member Banks in Illinois, shall provide for the assembling of all information needed by the Board and the Federal Reserve Bank in the discharge of their duties and responsibilities; otherwise, State Member Banks in that State to be examined by Federal Reserve Examiners and the costs assessed and collected from the banks examined.

"8. Requirement by the Board that the Federal Reserve Agent shall so arrange the work of his examiners that reports of examination may be forwarded promptly after the examination to the Board's Examination Division.

"9. Inauguration by the Board of the practice of referring regularly and currently such information as analysis of reports reveals to the Board's Examining Committee who shall be instructed to supervise the carrying on of correspondence with the Federal Reserve Agent designed to develop, when necessary, further information than the reports and analyses show and to instruct him generally or specifically as need may arise, to the end that examination practice may be perfected in scope and quality, the law fully enforced and member banks kept in a clean and sound condition.

"10. The undertaking by the Board of an investigation and study to determine the most suitable and least burdensome method of assessing and collecting, or paying, the costs of examination of State Member Banks to the end that thorough and complete examinations may be made and misuse of the so-called credit investigation for general examination purposes ended.

"11. Requirement by the Board that all State members shall be examined by Federal Reserve Examiners operating jointly with State Examiners in those States with which co-operative arrangements are now in effect, at least once in each calendar year, and that all seriously sub-standard State members shall be examined by Federal Reserve examiners, operating independently of other agencies, at the earliest practicable time and the costs assessed in accordance with the present law with a view to taking prompt rehabilitation measures or, in appropriate cases, moving for expulsion from membership.

"12. Requirement by the Board that in connection with each Federal Reserve examination or credit investigation, there shall be set up in the report a brief survey of local economic conditions essential to a full understanding of other facts and figures recorded therein, the scope and details of which to be adopted after further investigation and conference with the Board's Division of Statistics.

"13. Adoption by the Board of a requirement that applicants for appointment as examiners shall be required to pass an examination to test their fitness to be conducted by representatives of

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"the Board after receiving from the Federal Reserve Agent a complete statement relating to their education, previous business or other experience and special qualifications for examining work in accordance with an outline to be adopted.

"14. Adoption by the Board of the policy and practice of furnishing to member banks without cost, supplies of individual, firm and corporate forms of statements of assets and liabilities to be used by them in assembling credit data relative to borrowing customers and the issuance of special instructions to the Federal Reserve Agent directing him to systematically and persistently use every reasonable means of insuring the keeping by member banks of adequate credit files.

"15. Requirement by the Board that the Examining Division and the Division of Statistics collaborate in an undertaking to determine the best method of studying real estate values throughout the country, particularly of farm lands, with a view to supplying bank examiners with basic valuations to be used by them in the appraisal of mortgage loans and all other loans dependent in the last analysis upon the real property holdings of borrowers.

"16. Issuance by the Board of special instructions to the Federal Reserve Agent directing that any substantial deficiencies in accounting forms, books and methods found in State Member Banks shall be followed up and every effort made to obtain correction, and in this connection, that an opinion of counsel be obtained on the question of the particulars and extent of the Board's power to enforce suitable and necessary accounting in State Member Banks.

"17. Employment by the Board of a qualified trust expert, to be loaned to the Federal Reserve Agent, as needed, to make examinations of trust departments of State Member Banks in the Eighth District, whose special duty it would be to read and make written analyses of trust indentures for the guidance of Federal reserve and State examiners in their regular examinations or credit investigations.

"18. Reference by the Board of the attached report of survey to its Examining Committee for consideration with a view to adoption of numerous recommendations made therein that are not set forth in this letter of transmittal."

At this same meeting consideration was also given to the attached memorandum from Counsel dated April 6, 1927, regarding the powers and duties of the Board, the Federal Reserve Agents and the Federal Reserve Banks with respect to the examination of state member banks. As the result of the discussion at this meeting, the following resolutions were adopted:

"In view of the recommendations contained in the report of the survey made by Mr. Gilbert of the work of examining

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"state member banks, the Board continue the examination function as at present, under the direct supervision of the Federal Reserve Agents.

"That the Supervisor of Examinations, subject to the approval of the Federal Reserve Board, be instructed to make such arrangements as will develop the detailed routine operations designed to enable the Board to keep itself informed as to the condition of State Member Banks, and whether or not such banks are observing the conditions of membership imposed, and whether or not they are conducting their business within the provisions of the Federal Reserve Act relating to State member banks.

"That the Supervisor of Examinations be instructed to prepare a form of analysis to be used by the respective Federal Reserve Agents covering each report of examination, and to prepare for submission to the Board for its approval, a standard report form to be used by examiners in the field under the direction of the Federal Reserve Agents."

In accordance with the resolution last quoted, Mr. Gilbert, at the meeting on July 12, 1927, reported the completion of the preparation of a standard form of report of examination and a standard form of analysis of examination report to be used by the Federal Reserve Agents in the conduct of examinations of state member banks, and following some discussion it was voted to request Mr. Gilbert to prepare a memorandum to the Board setting forth in detail the variance between the several items in the proposed standard form of report and those in the form of report now being used by the Comptroller of the Currency, and to set out in detail certain features of the standard form of report described as experimental. It was also voted that following the submission of the memorandum by Mr. Gilbert the proposed standard form of report should be submitted to each Federal Reserve Bank with the request for an expression of the Agents' views as to the practicability of its use in his district.

The question of the organization of the division to carry on the work inaugurated by Mr. Gilbert was discussed from time to time during the summer of 1927, but no action was taken. At the meeting on October 18th the following report, dated September 1st, was submitted by the Committee on Examinations:

"Acting as the Examination Committee of the Board, we have gone over with Mr. Gilbert the proposed standard form of report of examination designed for use by all Federal Reserve Agents in conducting examinations of member banks of the Federal Reserve System and the comparative set-up of the questions, instructions and matters of the proposed form with those of the report form used by the Comptroller of the Currency in the examination of

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"national banks, which the Board has instructed Mr. Gilbert to prepare.

"We have paid particular attention to the questions, instructions and matters of the proposed form for which there are no corresponding questions, instructions or matters in the Comptroller's form. We have suggested a number of changes in the phraseology of several questions and instructions which have no complete counterparts in the Comptroller's form which, Mr. Gilbert informs us, have been made.

"From the statements made by Mr. Gilbert, we believe that the proposed form in its present arrangement and scope should receive the tentative approval of the Board with authority to have it printed, upon the understanding that before it shall be finally adopted and the Federal Reserve Agents instructed to use it in their examination work, Messrs. Gilbert and Black be authorized to visit a Federal Reserve District and, using the proposed form, assist the examining force of the Federal Reserve Agent in making a number of examinations. With the experience and data thus obtainable, it should be possible to ascertain whether the additional information called for by the form can be assembled at a cost in time and money commensurate with its value.

"It is suggested that after such a test is made and the making of any modifications that, in the light of the experience gained, shall appear to be desirable, the Assistant Federal Reserve Agents and/or other officers in charge of examinations, and the Chief Examiners of all of the twelve Federal Reserve banks, be called to Washington for a conference. With the proposed form as a basis, it should be possible at such a meeting to reach an agreement as to a form that will meet the requirements of all districts and at the same time produce a desirable degree of uniformity in the scope and character of information relating to condition of member banks required for the Board's purposes."

Following a discussion, the proposed standard form of report of examination prepared by Mr. Gilbert was tentatively approved and ordered printed and Messrs. Gilbert and Black were authorized to visit the Federal Reserve Bank of St. Louis for the purpose of participating in independent examinations conducted by the Federal Reserve Agent at St. Louis, in which examinations, the proposed standard form of report of examination would be used.

At this time there were employed in the work being conducted by Mr. Gilbert five employees including Messrs Gilbert and Black, Mr. Good, an examiner, and two stenographers.

At the meeting on October 18th, the Secretary reported that Mr. Gilbert had been able to comply only partially with the Board's instructions

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that he make a survey and report as to the efficiency and thoroughness of examinations and credit investigations made by each Federal Reserve Bank, and as to the efficiency and thoroughness of examinations of State Banking Departments, in that such surveys had been made in only the St. Louis and Kansas City districts, surveys in the other Federal Reserve Districts being delayed because of Mr. Gilbert's activities in the preparation of the report form. He further stated that it was not contemplated that any further surveys would be made as those completed in the St. Louis and Kansas City districts were considered to be typical and further surveys believed unnecessary.

Between this date and the middle of 1928 Mr. Gilbert visited the Federal Reserve Banks of Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis and Kansas City for the purpose of trying out, in those districts, the form of examination report prepared by him and the proposed form was also discussed with representatives of the Federal Reserve Agents' departments of the various Federal Reserve Banks.

At the meeting of the Board on April 9, 1928 the Governor referred to the work being done under the supervision of Mr. Gilbert and presented to the Board several letters and memoranda submitted to him relative to the condition of state member banks as disclosed by reports of examination. He stated that he objected to signing certain of the letters as he did not agree with the position apparently held by Mr. Gilbert that the Board, through the Federal Reserve Agents, should attempt correction of criticized matters disclosed by the examinations. He expressed the opinion that the Board's responsibility is limited to determining whether or not the state member, on the basis of its condition as disclosed by the examination, should be permitted to continue to retain its membership in the Federal Reserve System. He stated that as he has already informally advised the Board, a procedure has been made effective at certain of the Federal Reserve Banks whereby a report of examination disclosing a state member bank to be in an unsatisfactory condition is presented by the Federal Reserve Agent to the Executive Committee of the bank and is forwarded to the Board with a definite recommendation as to what if any action should be taken regarding the bank's membership. He pointed out further that the Board has never formally adopted a definite policy with respect to the scope of the work to be conducted by Mr. Gilbert and stated that by the absence of such a policy he is handicapped in dealing with the matters submitted to him by Mr. Gilbert. While a detailed discussion of the general question of examination of state member banks was had at this meeting, no action was taken.

The matter was again discussed at the meeting on June 12 and on June 13 the following motion was adopted by the Board:

"That the work of the Supervisor of Examinations and the several employees assisting him be developed along the lines of cooperating with the Federal Reserve Agents in the conduct of

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"the work of member bank examinations and of establishing an administrative check over the operations of the examining departments in charge of the Federal Reserve Agents and of improving the efficiency of said Departments where, after investigation, it may seem to be needed; and that the Board's Committee on Examinations be requested to report to the Board a practical outline of the procedure to be followed in this direction by the Board's Supervisor of Examinations."

At the meeting on October 4, 1928 consideration was again given to the scope of the work to be undertaken by the Federal Reserve Board, through the office of Mr. Gilbert. During the discussion at this meeting the question as to whether it is the duty of the Federal Reserve Board to satisfy and keep itself informed as to the condition of state member banks was formally answered in the affirmative.

At the meeting of the Board on October 9th, further discussion was had with regard to the matter of examinations and several resolutions were introduced as a basis for the Board's policy in connection with the examination of member banks, and at the meeting on October 10th, the following resolutions were adopted:

"BE IT RESOLVED, That the Federal Reserve Board recognizes its duty under the Federal Reserve Act to keep itself informed as to the condition of all member banks;

"BE IT FURTHER RESOLVED, That the Board is of the opinion that it is justified in relying upon the Comptroller of the Currency for such information as to National banks;

"BE IT FURTHER RESOLVED, That whenever the reports of examination of State member banks furnished by the State authorities are not deemed satisfactory either to the Federal reserve bank of the district concerned or to the Federal Reserve Board, the Federal reserve bank or the Board shall cause to be made at least one examination or investigation each year of such character as to furnish satisfactory information, the cost of such examinations to be assessed against the member banks examined."

At the meeting of the Board on October 11, 1928, the Governor presented draft of a memorandum setting forth rules and regulations with respect to the examination of state member banks, together with draft of a proposed letter to all Federal Reserve Agents advising of the rules and regulations and setting forth a general procedure to be followed in making them effective. Copies of this memorandum, one of which is attached, were furnished to all members of the Board for discussion at a later meeting.

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At the request of the Governor, his memorandum of October 12th was referred to the 1928 Fall Conference of Federal Reserve Agents, and on November 13th there was submitted to the Board advice of the action of the Agents' Conference in voting to concur in the statements contained in the memorandum and in the proposed letter, with one exception.

At the meeting of the Board on December 4th further discussion was had regarding Governor Young's memorandum and the proposed letter to all Federal Reserve Agents, following which it was unanimously voted as follows:

"That the present set-up of the Federal Reserve Board, known as the Department of State Bank Examination, be abolished, effective February 1, 1929.

"That the Federal reserve agents be acquainted by letter with the responsibilities of the Federal Reserve Board as the Board sees them, and that the agents be charged with the duty of seeing to it that the Board's views are carried out.

"That responsibility for proper functioning by the Federal Reserve Agents be placed upon the Chief Examiner, who now does a good deal of this work, and that a qualified man travel with the examining force and spend sufficient time in the agents' departments of the reserve banks visited to investigate the agents' bank examination departments to see that the instructions of the Board are being carried out.

"That the Federal reserve agents be instructed to discontinue their present practice of furnishing the Board with reports of examination of State member banks, except in extreme cases where the agents may wish to ask for advice or request the Board to cancel membership; and that in lieu of the complete report of examination, the agents furnish the Board with a modified analysis of the bank's condition, a written statement as to its general condition, a list of violations of the law, and other violations affecting the terms of membership of the bank. This report should also be accompanied, if necessary, by a letter from the agent stating the corrective measures that have been taken by State authorities or by the Federal reserve agent himself.

"That a letter of instruction be given to the Chief Examiner as to what the Board wants him to watch particularly, and at any time he has a case where he feels everything is not being done that could be done by the agent, or where he feels the State member bank is in such a condition that its membership is not desirable, he should bring such situation to the attention of either the Governor or the Vice Governor for determination as to whether or not the matter should go before the Federal Reserve Board.

"That the following letter be addressed to the Federal Reserve Agents:

'The Federal Reserve Act requires that the cost of

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"examinations of member banks made by the Federal reserve banks or the Federal Reserve Board through the Federal reserve agents, be assessed against the member bank examined. The Board has already recommended to Congress that the law be amended in such a way as to make the charges for member bank examinations discretionary with the Board. It will again present the amendment at the opening of Congress in December.

'Upon several occasions in the past the Board has attempted, by circular letter, to define a credit investigation, but after several years experience it has arrived at the conclusion that a far too liberal interpretation has been placed upon credit investigations by the agents.

'The Board has had this matter under review for some time and on October 10 passed the following resolutions which deal with the responsibility of the Federal Reserve Board in reference to member banks as it interprets the law:

'BE IT RESOLVED, That the Federal Reserve Board recognizes its duty under the Federal Reserve Act to keep itself informed as to the condition of all member banks;

'BE IT FURTHER RESOLVED, That the Board is of the opinion that it is justified in relying upon the Comptroller of the Currency for such information as to National banks;

'BE IT FURTHER RESOLVED, That whenever the reports of examination of State member banks furnished by the State authorities are not deemed satisfactory either to the Federal reserve bank of the district concerned or to the Federal Reserve Board, the Federal reserve bank or the Board shall cause to be made at least one examination or investigation each year of such character as to furnish satisfactory information, the cost of such examinations to be assessed against the member banks examined.'

"In order to avoid duplications, triplications, and unnecessary expense of operation, which now exist, the Board has instructed me to advise you that the Department of State Bank Examination, now in operation in the Board's quarters in Washington, will be abolished, effective February 1, 1929, and that you are charged with the duty of seeing to it that the Board's views, as covered in the above resolutions, are carried out in your district. This does not mean that the Board is attempting to relieve itself of all responsibility, and you are advised that through its examining force it will check carefully your bank examination department.

"The following instructions will serve as a guide to you in performing your duties:

1. The Comptroller of the Currency is a member of the Federal Reserve Board and under the law is charged with the responsibility of enforcing the terms of the National Bank

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"Act and also of the Federal Reserve Act. The Board, therefore, relies upon the Comptroller of the Currency to perform his duties and it will not be necessary for the Federal reserve agents to duplicate the work.

"2. In our opinion, State reports of examination can be relied upon in the great majority of cases to furnish the necessary information to the agents.

"3. If a State examination is unsatisfactory, a credit investigation will not be sufficient information for the agents to act intelligently upon and a complete examination should be made for which the member bank should be charged. This does not prohibit investigations of member banks by Federal reserve banks or Federal reserve agents without cost, because the Board realizes that unusual situations require unusual action. Therefore, the Board will act promptly by approving or disapproving the request of any Federal reserve bank or any Federal reserve agent for permission to make an investigation without cost. The Federal reserve banks, however, and the Federal reserve agents, in making such request for investigation without cost must bear in mind that if the investigation contemplates anything covered by the following language, which appears in Section 21 of the Federal Reserve Act, the Board cannot waive the cost: 'The expense of such examinations shall be borne by the bank examined. Such examinations shall be so conducted as to inform the Federal reserve bank of the condition of its member banks and of the lines of credit which are being extended by them.'

"4. If Federal reserve agents have evidence in the form of letters or otherwise, that officers and directors of State member banks have had their attention called to violations of the law and unsound banking practices by State authorities, it is not necessary for agents to duplicate this work.

"5. If this supervision is not conducted by State authorities Federal reserve agents are directed to take such action, as in their opinion, will discharge the responsibilities of the Board.

"6. When a State member bank fails to show any disposition whatever to correct these irregularities within a reasonable time so as to show improvement in its condition, the Federal reserve agent will be expected to lay the information before the directors of his bank and ask them to make a formal recommendation to the Federal Reserve Board, with reasons, as to whether or not the State member bank should continue as a member.

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"7. Federal reserve agents are instructed to discontinue their present practice of furnishing the Federal Reserve Board with reports of examination of State member banks, except in extreme cases where they may wish to ask for advice or request the Board to cancel membership. In lieu of these reports, agents will furnish the Board with an analysis of each report received or made by them (form of analysis enclosed).

"The Federal reserve agents are advised that the Board thoroughly realizes that it is utterly impossible to lay down uniform, detailed procedure in each and every district because of the local conditions which exist in the 48 states. It does believe, however, that certain fundamental policies can be laid down and asks your cooperation toward that end."

A letter in accordance with the above action was transmitted to all Federal Reserve Agents under date of January 26, 1929. There is attached hereto a digest prepared by the Board's Examiner in Charge outlining the procedure followed by each Federal Reserve Bank, except Richmond, under the policy outlined in the Board's letter, in assessing charges for examinations against member banks examined, from which it will be noted that there was considerable lack of uniformity in the manner in which this matter was handled.

Following the passage of the amendment to Section 9 of the Federal Reserve Act vesting in the Federal Reserve Board discretion in assessing the cost of examinations of member banks, the attached letter dated July 26 1930, outlining the present policy of the Board with regard to examinations and declaring its policy in the matter of assessing costs of examinations against the member banks examined in accordance with the Board's enlarged powers under the law as amended, was forwarded to all Federal Reserve Agents.

BY-LAWS OF THE FEDERAL RESERVE BOARD

EFFECTIVE OCTOBER 13, 1930.

Article I.

The Chairman.

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

Article II.

The Governor.

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

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

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

Article III.

The Vice-Governor.

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

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

Article IV.

Secretary and Assistant Secretaries.

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

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

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

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

Article V.

Assistant to the Governor.

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

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

Article VI.

The Executive Committee.

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

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

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

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

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

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

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

Article VII.

Standing Committees.

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

Sec. 1. Law.

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

The General Counsel shall serve as Secretary of the Committee.

Sec. 2. Examination.

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

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

Sec. 3. Research and Statistics.

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

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

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

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

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

Sec. 5. District Committees.

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

Article VIII.

The Fiscal Agent and Deputy Fiscal Agent.

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

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

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

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

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

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

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

Article IX.

Gold Settlement Fund

and

Federal Reserve Agents' Fund.

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

Article X.

Requisition for Delivery

of

Federal Reserve Notes.

Requisitions upon the Comptroller of the Currency for the delivery

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

Article XI.

The Seal.

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

SEAL.

Article XII.

Counsel.

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

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

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

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

Article XIII.

Meetings.

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

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

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

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

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

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

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

Article XIV.

Absences.

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

Article XV.

Information and Publication.

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

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

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

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

Article XVI.

Amendments.

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

Office Correspondence

FEDERAL RESERVE
BOARDDate October 15, 1930To Governor Meyer, ✓

Subject: _____

From Mr. McClelland.

... 2-8495

Referring to the discussion which took place at the meeting this morning with regard to the effect of purchases and sales by Federal reserve banks of foreign exchange, and the responsibility of the Board in connection with such purchases and sales, there is given below a short memorandum of the consideration which has been given by the Board to this matter.

At the meeting on June 30, 1927, Mr. Miller stated he thought some action should be taken by the Board to clarify its responsibility with respect to the purchase and sale by Federal reserve banks of bills of exchange and bankers' acceptances in foreign money markets and that he would bring the following motion up for action at the next meeting:

"That it be the sense of the Federal Reserve Board that the authority conferred upon it in Section 13 of the Federal Reserve Act reading: 'The discount and rediscount and the purchase and sale by any Federal reserve bank of any bills receivable and of domestic and foreign bills of exchange, and of acceptances authorized by this Act, shall be subject to such restrictions, limitations, and regulations as may be imposed by the Federal Reserve Board', applies to the purchase and sale of bills of exchange and acceptances made abroad as well as at home and that the Board rule that such purchases and sales are subject to such restrictions, limitations and regulations as it may see fit to impose."

In response to a request that he submit an opinion as to whether Mr. Miller's motion was a correct statement of the legal situation, the Board's Counsel advised that in his opinion there could be no doubt as to the correctness of the conclusions stated in Mr. Miller's motion; also, that the language of the Act is all-inclusive and applies to the purchase and sale of bills of exchange and bankers' acceptances abroad as well as to purchases and sales at home appears so clearly from a reading of the statute itself that no argument was necessary to support Mr. Miller's conclusion.

The entire matter was considered at the meeting of the Board on July 6, and the following motion was adopted:

"That it be the sense of the Federal Reserve Board that the authority conferred upon it by Sections 13 and 14 of the Federal Reserve Act, with respect to the purchase and sale of bills of exchange and acceptances, applies to such purchases and sales made abroad as well as at home, and that the Board rule that such purchases and sales are subject to its regulation and approval."

At the meeting of the Executive Committee on July 12, the Board's Counsel was instructed to prepare and submit a regulation such as contemplated by the above action. Under date of August 17, Mr. Wyatt submitted a memorandum to

the Board requesting more specific instructions as to the character of the regulations which the Board desired to promulgate on this subject and the general nature of the restrictions, if any, which the Board desired to place upon the purchase and sale of bills of exchange and bankers' acceptances abroad.

With Mr. Wyatt's request before it, the Board gave further consideration to the matter at the meeting on August 30, 1927, but action was deferred. Since that time, while the question has been discussed in connection with other subjects which have come before the Board, no action has been taken. However, under date of October 20, 1927, Mr. Wyatt submitted a detailed memorandum on the subject, "The Board's Power Over Foreign Transactions of the Federal Reserve Banks", a copy of which is attached for your information.

(Confidential)

X-4980

October 20, 1927.

To: The Federal Reserve Board,
From: Mr. Wyatt- General Counsel.

Subject: The Board's power over foreign
transactions of Federal Reserve Banks.

The Board has requested an opinion with respect to what regulations, limitations and restrictions it is authorized to prescribe as to foreign or international transactions of Federal reserve banks, and as to its general authority over such transactions. I understand that the Board desires to have the following points covered in this opinion:

(1) Whether the Board has power to regulate, limit, or restrict transactions involving the opening of accounts, the appointment of correspondents, or the establishment of agencies in foreign countries;

(2) Whether the Board has power to regulate, limit, or restrict dealings in bills of exchange and bankers' acceptances between Federal reserve banks and foreign central banks;

(3) Whether the Board has power to regulate, limit, or restrict dealings in gold between Federal reserve banks and foreign central banks; and

(4) Whether the Federal reserve banks may lawfully charge a commission or fee in connection with such foreign transactions.

CONCLUSIONS.

After careful consideration of these questions, I have reached the following conclusions:

(1) Under the specific terms of section 14(e) of the Federal Reserve Act, no Federal reserve bank may lawfully open or main-

tain accounts, appoint correspondents, or establish agencies in foreign countries without first obtaining the consent of the Federal Reserve Board; and the opening and maintenance of such accounts, the appointment of such correspondents, the establishment of such agencies and the conduct through such correspondents or agencies of "any transaction" authorized by section 14 of the Federal Reserve Act for or on behalf of other Federal reserve banks is expressly made subject to such rules and regulations as the Federal Reserve Board may prescribe. In addition, the Board has the power to order or direct Federal reserve banks to open and maintain accounts, appoint correspondents and establish agencies in foreign countries.

(2) By virtue of specific provisions of the Federal Reserve Act, the Federal Reserve Board is authorized and empowered to prescribe regulations, restrictions and limitations governing dealings in bills of exchange between Federal reserve banks and foreign central banks.

(3) By virtue of its right to exercise general supervision over Federal reserve banks, and by virtue of certain other powers specifically granted in the Federal Reserve Act, the Federal Reserve Board is authorized to regulate, limit or restrict important dealings in gold involving large amounts between Federal reserve banks and foreign central banks under section 14(a) of the Federal Reserve Act.

(4) Whenever the Federal reserve banks enter into any lawful transaction involving the extension of credit to, or the performance of any service for, a foreign central bank, they may lawfully charge a reasonable commission or fee for the extension of such credit or the rendition of such services.

DISCUSSION.

The only one of these questions which presents any difficulty is the question whether the Board has the power to regulate, limit or restrict dealings in gold between Federal reserve banks and foreign central banks. I shall, therefore, discuss the other questions first and take up this more difficult question last.

FOREIGN ACCOUNTS, CORRESPONDENTS AND AGENCIES.

The authority for Federal reserve banks to open and maintain accounts, appoint correspondents, and establish agencies in foreign countries is conferred by the following language of Section 14:

"Every Federal reserve bank shall have power:

"(e) To establish accounts with other Federal reserve banks for exchange purposes and, with the consent or upon the order and direction of the Federal Reserve Board and under regulations to be prescribed by said board, to open and maintain accounts in foreign countries, appoint correspondents, and establish agencies in such countries wheresoever it may be deemed best for the purpose of purchasing, selling, and collecting bills of exchange, and to buy and sell, with or without its indorsement, through such correspondents or agencies, bills of exchange (or acceptances) arising out of actual commercial transactions which have not more than ninety days to run, exclusive of days of grace, and which bear the signature of two or more responsible parties, and, with the consent of the Federal Reserve Board, to open and maintain banking accounts for such foreign correspondents or agencies. Whenever any such account has been opened or agency or correspondent has been appointed by a Federal reserve bank, with the consent of or under the order and direction of the Federal Reserve Board, any other Federal reserve bank may, with the consent and approval of the Federal Reserve Board, be permitted to carry on or conduct, through the Federal reserve bank opening such account or appointing such agency or correspondent, any transaction authorized by this section under rules and regulations to be prescribed by the board."

From a mere reading of this language it is obvious that the Federal Reserve Board is given full control of all transactions conducted thereunder. No Federal reserve bank may open or maintain accounts, appoint correspondents, or establish agencies in foreign countries except with the consent and subject to the regulations of the Federal Reserve Board; and any Federal reserve bank must open and maintain accounts, appoint correspondents, or establish agencies in foreign countries if ordered or directed to do so by the Federal Reserve Board. The opening and maintaining of such accounts, the appointment of such correspondents, and the establishment of such agencies is expressly made subject to "regulations to be prescribed by said board." No Federal reserve bank may open and maintain banking accounts through such foreign correspondents or agencies without the consent of the Federal Reserve Board. Other Federal reserve banks may participate in such transactions only with the consent and approval of the Federal Reserve Board. And all transactions through such correspondents or agencies in which other Federal reserve banks participate must be conducted "under rules and regulations to be prescribed by the Board."

This gives the Board the fullest possible measure of control, and it is important to note that the rules and regulations which may be prescribed by the Board governing transactions in which other of the Federal reserve banks participate pertain to all transactions authorized by any part of Section 14, and is not limited to transactions under subdivision (e).

DEALINGS IN BILLS OF EXCHANGE AND ACCEPTANCES.

The power of the Federal reserve banks to deal on the open market in bills of exchange and bankers' acceptances is conferred by the

first paragraph of section 14, which reads as follows:

"Sec. 14. Any Federal reserve bank may, under rules and regulations prescribed by the Federal Reserve Board, purchase and sell in the open market, at home or abroad, either from or to domestic or foreign banks, firms, corporations, or individuals, cable transfers and bankers' acceptances and bills of exchange of the kinds and maturities by this Act made eligible for rediscount, with or without the indorsement of a member bank."

It is obvious that all transactions conducted under authority of this paragraph are expressly made subject to "rules and regulations prescribed by the Federal Reserve Board."

Further and more complete authority to control such transactions is conferred upon the Federal Reserve Board by the following paragraph of section 13:

"The discount and rediscount and the purchase and sale by any Federal reserve bank of any bills receivable and of domestic and foreign bills of exchange, and of acceptances authorized by this Act, shall be subject to such restrictions, limitations, and regulations as may be imposed by the Federal Reserve Board."

It has been suggested that this paragraph pertains only to domestic transactions and gives the Board no power over transactions in foreign countries; but, the broad language used by Congress is not subject to any such restricted interpretation. It will be noted that it applies not only to the discount and rediscount but also to the purchase and sale by any Federal reserve banks of any bills receivable and of domestic and foreign bills of exchange and of acceptances authorized by this Act. It is not limited in terms to domestic transactions but is couched in the broadest possible language and is obviously intended to include all purchases and sales by any Federal reserve bank of any bills receivable, domestic and foreign bills of exchange, or acceptances authorized by the Federal Reserve Act.

It has been suggested that it was intended to apply only to transactions under section 13 and does not apply to dealings under section 14. A glance at the legislative history of this provision, however, shows that it could not possibly have been intended to apply only to section 13. As contained in the original Federal Reserve Act, this provision applied only to rediscounts but it was amended by the Act of September 7, 1916, so as to apply also to purchases and sales. At that time section 13 did not authorize Federal reserve banks to purchase and sell bills receivable, bills of exchange or bankers' acceptances but dealt with discounts and rediscounts and the only authority for the purchase and sale of bills of exchange and acceptances by Federal reserve banks was contained in section 14. Even at this late date, the only authority in section 13 to purchase and sell bills of exchange is the authority added by the Agricultural Credits Act of March 4, 1923, to purchase and sell bills of exchange payable at sight or on demand which are drawn to finance the domestic shipment of nonperishable readily marketable staple agricultural products.

It is obvious, therefore, that the authority conferred upon the Federal Reserve Board by the above quoted provision of section 13 is intended to apply to the purchase and sale of bills of exchange and bankers' acceptances by Federal reserve banks at home or abroad under section 14.

In my opinion, therefore, the specific provisions of the Federal Reserve Act authorize and empower the Federal Reserve Board to prescribe regulations, restrictions, and limitations covering dealings in bills of exchange and bankers' acceptances between Federal reserve banks and foreign central banks.

RIGHT OF FEDERAL RESERVE BANKS TO MAKE A REASONABLE
CHARGE IN CONNECTION WITH FOREIGN TRANSACTIONS.

Assuming that Federal reserve banks have power to engage in transactions whereby they sell or lend gold to foreign banks, purchase bills for the account of foreign banks or extend credit in any way to foreign banks, have the Federal reserve banks the right to charge a reasonable commission or fee for so doing?

In my opinion it is an incidental power of Federal reserve banks to make a reasonable charge for any service lawfully rendered by them, unless such charge is prohibited by statute or is contrary to public policy. There is no statute prohibiting the making of charges by Federal reserve banks in connection with dealings in gold or bills of exchange with foreign central banks, nor is there anything in the Federal Reserve Act to indicate that such a charge should be considered contrary to public policy. Assuming that the Federal reserve banks have power to engage in these foreign transactions, I am of the opinion, therefore, that they are legally authorized to make a reasonable charge for the services which they render in that connection.

GOLD TRANSACTIONS.

Section 14(a) authorizes and empowers the Federal reserve banks:

"(a) To deal in gold coin and bullion at home or abroad, to make loans thereon, exchange Federal reserve notes for gold, gold coin, or gold certificates, and to contract for loans of gold coin or bullion, giving therefor, when necessary, acceptable security, including the hypothecation of United States bonds or other securities which Federal reserve banks are authorized to hold;"

This section does not expressly authorize the Federal Reserve Board to regulate, limit or restrict the exercise of the powers conferred thereby; but I am of the opinion that such authority is to be found else-

where in the Act.

I am not familiar with the details of the arrangements between the Federal Reserve Bank of New York and the various central banks of foreign countries; but it is my understanding that, whenever the Federal Reserve Banks have undertaken to enter into transactions with foreign central banks involving the purchase and sale of bills of exchange or dealings in gold, the Federal Reserve Bank of New York has first entered into mutual arrangements with such central banks whereby each bank appoints the other its correspondent or agent, and that the transactions which take place under these arrangements are conducted by the Federal Reserve Bank of New York on behalf of all Federal Reserve Banks on a pro rata basis. Where this is done there can be no doubt of the Board's power to prescribe rules and regulations governing all such transactions which are authorized by any part of Section 14; because the last sentence of Section 14(e) provides that:

"Whenever any such account has been opened or agency or correspondent has been appointed by a Federal reserve bank, with the consent of or under the order and direction of the Federal Reserve Board, any other Federal reserve bank may, with the consent and approval of the Federal Reserve Board, be permitted to carry on or conduct, through the Federal reserve bank opening such account or appointing such agency or correspondent, any transaction authorized by this section under rules and regulations to be prescribed by the board."

It has been suggested that the words "any transactions" as used here refer only to the purchasing, selling and collecting of bills of exchange under authority of subdivision (e) of Section 14; but, in my opinion, no such restricted interpretation can properly be given to these words. The words "any transaction authorized by this section"

are very broad in their scope and clearly include every transaction authorized by any part of Section 14, including the power granted by Subdivision (a) to deal in gold coin and bullion at home or abroad. In my opinion, therefore, this provision of subdivision (e) of Section 14 specifically authorizes the Board to prescribe rules and regulations governing any and all transactions in gold between a Federal reserve bank and a foreign central bank which has been appointed as the agent or correspondent of such Federal reserve bank, if other Federal reserve banks participate in such transactions.

Independently of the power conferred by section 14(e), however, I am further of the opinion that the Federal Reserve Board is authorized to regulate, limit or restrict international gold transactions of the Federal reserve banks, even when such transactions are not conducted through correspondents or agencies opened or established pursuant to section 14(c). This power in my opinion is included in the power conferred by section 11(j) "to exercise general supervision over said Federal reserve banks" and the power conferred by Section 11(i) to "perform the duties, functions, or services specified in this Act, and make all rules and regulations necessary to enable said Board effectively to perform the same.

In view of the great importance of this question, I shall discuss at length the nature and extent of the Board's power of general supervision, the legislative history of the open market powers of the Federal reserve banks, the respective functions of the Federal reserve banks and the Federal Reserve Board in the Federal Reserve System and the relation of international gold transactions to other

transactions over which the Board has been given specific powers. Before entering upon such a lengthy discussion, however, I shall state briefly my reasons for the above conclusion.

1. It has long been recognized that banking is a business affected with the public interest and that banks are subject to regulation under the police power for the protection of the general welfare of the people.

2. Because of their very nature and because of the far-reaching effects of their policies and transactions on the general welfare of the people, this is especially true of Federal reserve banks.

3. Federal reserve banks are instrumentalities of the Federal government created for public purposes and are at all times and in all respects subject to the paramount authority of the Federal government.

4. The Federal Reserve Board is an arm of the Federal government created for the purpose of administering the Federal Reserve Act and exercising general supervision over the Federal reserve banks, to the end that they may function in a manner best calculated to carry out the purposes of the Federal Reserve Act, to serve the public policy of the United States, and to benefit the people of the United States.

5. The Board's general power of supervision includes the power to see that the Federal reserve banks preserve and protect the banking reserves of the country with which they are entrusted, that they do nothing which may endanger the solvency or soundness of their currency, that they carry out faithfully the purposes of the Federal Reserve Act and that they comply in all respects with both the letter and the spirit of the law. This power carries with it the power to

require the Federal reserve banks to cease doing anything which is ultra-vires or which might defeat the purposes of the Federal Reserve Act or which might be detrimental to the public interest. Moreover, this power is to be construed liberally so as to enable the Board effectively to safeguard the great public interests confided to it.

6. From an examination of the Committee reports and legislative debates on the Federal Reserve Act it is perfectly clear that the power of carrying on the regular routine everyday business of the Federal reserve banks and the power of determining local policies was entrusted to their respective board of directors, but the Federal Reserve Board was created as "a general board of management" entrusted with the power to overlook and direct the general functions of the banks in order that the Board, on behalf of the government, might retain some power over the exercise of the "broader banking functions" affecting the country as a whole.

7. To this end, the Board was given power, among other things, to review and determine the rates of discount to be fixed by each Federal reserve bank from time to time, to regulate the open market transactions of the Federal reserve banks, to exercise general supervision over the Federal reserve banks, and to make all rules and regulations necessary to enable the Board to perform the duties, functions or services specified in the Federal Reserve Act.

8. The power to purchase and sell bills of exchange and bankers' acceptances in the open market was conferred upon the Federal reserve banks in order to enable them to make their rediscount rates effective and to protect their gold reserves, but this power was subjected to

regulation by the Federal Reserve Board in order that the Board might have some control over the reserve positions of the banks, the rediscount rates, and general credit conditions throughout the country.

9. For the same reason, the Board was given a great measure of control over the other open market operations of the Federal reserve banks, over their power to appoint correspondents, open accounts and establish agencies abroad, and over the transactions which might be conducted through such foreign correspondents and agencies.

10. The effectiveness of the powers thus conferred upon the Board would be seriously impaired and the Board's ability to exercise some control over the rediscount rates, open market operations and foreign transactions of the Federal reserve banks with a view to protecting the general credit situation and overseeing the "broader banking functions" affecting the country as a whole might be rendered nugatory if the Federal reserve banks could enter into transactions with foreign banks involving the purchase and sale, lending, borrowing and earmarking of gold, thereby moving great quantities of gold into or out of the country, without being subject to any regulation or check by the Federal Reserve Board.

11. Any statute must be construed as a whole and in such a way as to carry out the intent of the legislature. The intent of the legislature must be obtained by reading the act as a whole and not by construing isolated provisions of the same without any reference to their relation to the other provisions of the act or the effect of such construction upon other provisions of the act.

12. To construe the Board's powers "to exercise general supervision over the Federal reserve banks" and "to perform the duties,

functions or services specified in this act and to make all rules and regulations necessary to enable said Board effectively to perform the same" strictly and in such a way as not to include the power to exercise some control over international gold transactions, would clearly defeat the broad purposes of the Federal Reserve Act and greatly impair the Board's function as a "general board of management" entrusted with the power to overlook and direct the general functions of the banks in order that the Board, on behalf of the government, might retain some power over the exercise of the "broader banking functions" affecting the country as a whole.

13. Dealings in gold between the Federal reserve banks and foreign central banks are transactions of importance to the entire Federal Reserve System and to the public interests of the United States as a whole. Normally large amounts are involved in these dealings. Frequently in such transactions the funds of the Federal reserve banks are invested in or represented by assets located in foreign countries. This use of large amounts of the funds of the Federal Reserve System might cause a serious restriction upon the amount of funds available for use in this country and harmful results upon the Federal Reserve System or upon the business interests of this country might ensue. It could seriously affect the gold reserves of the country and the effectiveness of the rediscount rate.

14. Under these circumstances, the question whether and to what extent Federal reserve banks should engage in transactions of this kind is an important question of policy to the Federal Reserve System as a whole. The practical responsibility of such transactions is one

which in the last analysis, must rest upon the Federal Reserve Board. If the Federal Reserve Board's power of general supervision over Federal reserve banks is to have any practical effect or is to be given any substantial meaning, it must be considered to extend to and include the regulation or restriction of such important activities of Federal reserve banks as these international dealings in gold, which may impair the effectiveness of the rediscount rate and the open market transactions over which the Board is expressly given a large measure of control.

I am of the opinion, therefore, that by virtue of its right to exercise general supervision over Federal reserve banks the Federal Reserve Board is empowered and authorized to restrict or regulate important dealings in gold involving substantial amounts between Federal reserve banks and foreign central banks under section 14(a) of the Federal Reserve Act and that accordingly the Federal Reserve Board may, if it so desires, require Federal reserve banks to obtain its approval before entering into such transactions.

FURTHER DISCUSSION AND CITATION OF AUTHORITIES.

The above is only a summary of the reasons for my conclusions regarding the Board's power to exercise supervision and control over international gold transactions. In view of the vast importance of this subject, I have made a very lengthy and complete study and feel that I should submit below for future reference the results of that study and the citations of such authorities as I have found.

GENERAL SUPERVISORY POWER.

I have made a careful and thorough study of the Board's general supervisory power and of the legal authorities regarding the general supervisory or visitatorial powers in general. I submit the following discussion of that subject for the Board's further information.

It is customary in American law to vest in some board, commission, or officer, the power to exercise general supervision over certain types of corporations such as common carriers, insurance companies, and banks, which are affected with a public interest. Furthermore, under American law all corporations are chartered by the Government and have only such powers as are expressly granted in their charters or in the laws under which they are incorporated and such incidental powers as are necessary to the exercise of the powers expressly granted. It is well settled that by implication they are forbidden to exercise any other powers. The State, therefore, is interested in any attempt by a corporation to exceed its corporate powers and it is well settled that the State is the one to complain of any ultra vires acts of a corporation and is the only one which can institute quo warranto proceedings to compel a corporation to cease performing ultra vires acts. The duties of boards, commissions or officers charged with general supervision over corporations affected with a public interest, therefore, are primarily to see that such corporations do not exceed their lawful powers and that they carry out the purposes of their organization in such a way as to benefit rather than injure the public, and to prevent or check any abuses of any character.

This power, in its general nature and purpose is quite similar to, if not the same as, the common law power of visitation. A discussion of the authorities on the subject of visitatorial powers, therefore, may throw some light on the extent of the Board's duties and powers in the premises.

The visitors of eleemosynary and ecclesiastical corporations at common law, however, frequently performed all the functions and possessed all the powers which are now divided between the directors of banks and the governmental authorities having supervision over them; and it is im-

portant to keep this in mind while reading the authorities quoted below:

Bouvier's Law Dictionary. (p. 3404) discusses this subject as follows:

"Visitation. The act of examining into the affairs of a corporation.

"The power of visitation is applicable only to ecclesiastical and eleemosynary corporations. 1 Bla. Com. 480. The visitation of civil corporations is by the government itself, through the medium of the courts of justice. See 2 Kent, 240. In the United States, the legislature is the visitor of all corporations founded by it for public purposes; Dartmouth College v. Woodward, 4 Wheat. (U.S.) 518 4 L. Ed. 629.

* * * * *

"All eleemosynary corporations who are to receive the charity of the founder have visitors if they are ecclesiastical corporations; and if a particular visitor is not provided by the founder, then the Ordinary of the place is the visitor; if they are lay corporations, the founder and his heirs are perpetual visitors; 5 Mod. 404. It is a necessary incident of an eleemosynary corporation; 1 Mod. 82; "a power to correct abuses and to enforce due observance of the statutes of the charity, but not a power to revoke the gifts, to change uses or divest rights;" Allen v. McKean 1 Summ. 276, Fed. Cas. No. 229, per Story, J.

"A visitor has the right of inspecting the affairs of the corporation, and superintending all officers who have charge of them according to the statutes of the founder, without any control or revision of any other person or body, except the judicial tribunals, by whose authority and jurisdiction he may be restrained and kept within the limits of the granted powers, and made to regard the general laws of the land; in re Murdock, 24 Mass. 303. No. appeal lay from a visitor unless he visits qua Ordinary, when an appeal lay to the Crown in Chancery. It was said by Lord Camden that visitation is despotism uncontrolled and without appeal; Grant, Corp. 534. See, generally, Tudor, Charitable Trusts; Stephens, Statutes Relating to Ecclesiastical, etc., Institutions; Report of Oxford Commission (1852); 7 Com. Dig. 545; 21 Viner, Abr. 587. See 34 L. Mag. and Rev. 40, as to Oxford and Cambridge Universities.

"In Massachusetts it is held that the visitation of eleemosynary corporations according to the common law is in force except as altered by statute; In re Murdock, 24 Mass. 303; such statutes may vest visitatorial power in the courts, in the absence of a personal visitor, or even where there is one; In re Taylor Orphan Asylum, 36 Wis. 534; but where visitatorial power is conferred on certain public officers, the courts may not interfere unless such visitors should act contrary to law; Nelson v. Cushing, 2 Cush. (56 Mass.) 519.

"Even where a testator, in founding a hospital, directed that the trustees should annually report their acts to the court and give bonds, it was held that the court had no visitatorial power or other supervision;

Jenkins v. Berry, 119 Ky. 350, 83 S.W. 594.

"The visitatorial power of a court over a cemetery association does not authorize it to substitute its own business judgment for that of the association; Roanoke Cemetery Co. v. Goodwin, 101 Va. 605, 44 S.E. 769.

"Under the visitatorial powers of a state over corporations doing business within its borders, it is competent for it to compel such corporations to produce their books and papers for investigation and to require the testimony of their officers and employees to ascertain whether its laws have been complied with, and this power extends to the production of books and papers kept outside of the state, and a statute requiring such production does not amount to an unreasonable search or seizure or a denial of due process of law; Consolidated R. Co. v. Vermont, 207 U. S. 541, 28 Sup. Ct. 178, 52 L. Ed. 327, 12 Ann. Cas. 658; Hammond P. Co. v. Arkansas, 212 U.S. 322, 29 Sup. Ct. 370, 53 L. Ed. 530, 15 Ann. Cas. 645. A corporation, being the creature of the state, has not the constitutional right to refuse to submit its books and papers for an examination at the suit of the state, and an officer of a corporation charged with criminal violation of a statute cannot plead the criminality of the corporation as a refusal to produce its books; Hale v. Henkel, 201 U. S. 43, 26 Sup. Ct. 370, 50 L. Ed. 652. A corporation is bound to furnish information when called for by the state, so far as reasonably possible, and state the facts which excuse them from answering more fully; State v. Express Co., 81 Minn. 87, 83 N.W. 465, 50 L.R.A. 667, 83 Am. St. Rep. 366; by statute the right exists in Kansas; See Western U. Tel. Co. v. Austin, 67 Kan. 208, 72 Pac. 850.

"It may be considered that, to a certain extent, railroad commissions are the machinery created by law for the exercise of visitatorial power.

"This power does not include the common law right of the shareholder to inspect the books of the corporation; Guthrie v. Harkness, 199 U.S. 148, 26 Sup. Ct. 4, 50 L. Ed. 130, 4 Ann. Cas. 433."

In the famous Dartmouth College Case, 17 U.S. (4 Wheat) 517, 672, Mr. Justice Story discusses the subject of visitors of eleemosynary corporations as follows:

"To all eleemosynary corporations, a visitatorial power attaches, as a necessary incident; for these corporations being composed of individuals, subject to human infirmities, are liable, as well as private persons, to deviate from the end of their institution. The law, therefore, has provided, that there shall somewhere exist a power to visit, inquire into, and correct all irregularities and abuses in such corporations, and to compel the original purposes of charity to be faithfully fulfilled. 1 Bl. Com. 480. The nature and extent of this visitatorial power has been expounded with admirable fulness and accuracy by Lord Holt in one of his most celebrated judgments. Phillips v. Bury, 1 Ld. Raym. 5; s.c. 2 T.R. 346. And of common right, by the dotation, the founder and his heirs are the legal visitors, unless the founder has appointed and assigned another person to be visitor. For the founder may, if he please, at the time of the

endowment, part with his visitatorial power, and the person to whom it is assigned will, in that case, possess it in exclusion of the founder's heirs. 1. Bl. Com. 482.
*** But where trustees or governors are incorporated to manage the charity, the visitatorial power is deemed to belong to them in their corporate character. Philips v. Bury, 1 Ld. Raym. 5; s.c. 2 T.R. 346; Green v. Rutherford, 1 Ves. 472; Attorney-General v. Middleton, 2 Ibid. 327; Case of Sutton Hospital, 10 Co. 23, 31."

That the power to supervise and examine banks is a visitatorial power is indicated by the following passage in Morse on Banks and Banking (5 Ed.) Vol 1, p.44:

"A state may invest the supervision of banks in a bank commissioner or other examiner, and grant to him visitatorial powers over banks and impose upon him the duty of examination of banks, the investigation of their solvency, and the winding up of their affairs if the protection of the depositors demands such action. He may examine the records of the bank, change the personnel of the board of directors, and establish rules for the proper discharge of his duty. His power should not be unduly narrowed by construction, nor can he be removed by the governor."

In Guthrie v. Harkness, 199 U.S. 148, a stockholder in a national bank applied for leave to inspect the books, accounts and loans of the bank for the purpose of ascertaining the value of his stock. Upon refusal to allow such inspection, he instituted proceedings to compel the officers of the bank to permit him to examine the books. One of the defenses made on behalf of the officers was that the common law right of the stockholder to inspect the books of a corporation is cut off as to stockholders of national banks by Section 5241 of the Revised Statutes, which provides that "No association shall be subject to any visitatorial powers other than such as are authorized by this title or are vested in the courts of justice." The court held that the stockholder was entitled to examine the books of the bank and that the officers thereof must permit him to do so.

Mr. Justice Day said:

"But, it is said, the right of the shareholder to inspect the books is cut off by section 5241, providing 'no association shall be subject to any visitorial powers other than such as are authorized by this Title, or are vested in the courts of justice. We are unable to find any definition of 'visitorial powers' which can be held to include the common law right of the shareholder to inspect the books of the corporation * * *.

* * * * *

"The meaning of this section was before Judge Baxter in the case of First Nat. Bank of Youngstown v. Hughes, 6 Fed. Rep. 737, and of the meaning of the term 'visitorial powers', as used in section 5241, that learned judge said:

'Visitation, in law, is the act of a superior or superintending officer, who visits a corporation to examine into its manner of conducting business, and enforce an observance of its laws and regulations. Burrill defines the word to mean "inspection; superintendence; direction; regulation."'

"At common law the right of visitation was exercised by the King as to civil corporations and as to eleemosynary ones by the founder or donor. 1 Cooley's Blackstone, 481. 'In the United States the legislature is the visitor of all corporations created by it, where there is no individual founder or donor, and may direct judicial proceedings against such corporations for such abuses or neglects as would at common law cause forfeiture of their charters.' 1 Cooley's Blackstone, 482, note.

"In the case before us the Supreme Court of Utah quotes from Merrill on Mandamus as follows:

'Visitors of corporations have power to keep them within the legitimate sphere of their operations, and to correct all abuses of authority, and to nullify all irregular proceedings. In America there are very few corporations which have private visitors, and in the absence of such, the State is the visitor of all corporations.'

"In no case or authority that we have been able to find has there been a definition of this right, which would include the private right of the shareholder to have an examination of the business in which he interested, and the right of discovery of the methods and means by which the agents of the corporation are conducting its affairs. The right of visitation being a public right, existing in the State for the purpose of examining into the conduct of the corporation with a view to keeping it within its legal powers, Congress had in mind in passing this section that in other sections of the law it had made full and complete provision for investigation by the Comptroller of the Currency and examiners appointed by him, and, authorizing the appointment of a receiver, to take possession of the business with a view to winding up the affairs of the bank. It was the intention that this statute should contain a full code of

"provisions upon the subject, and that no state law or enactment should undertake to exercise the right of visitation over a national corporation. Except in so far as such corporation was liable to control in the courts of justice, this act was to be the full measure of visitorial power."

The Board's power to exercise general supervision over Federal reserve banks and examine into their affairs is quite similar to the corresponding power of the Comptroller of the Currency over national banks, and it would seem that the nature and purpose of the Board's power must be practically the same as that of the Comptroller's.

In the case of State v. Morehead, (Nebr.) 155 N. W. 879, the court in discussing the right of the State Banking Board to refuse to issue a charter to a savings bank said:

"When the general rule of statutory construction is applied and section 16 is considered in connection with the other provisions, it must be held that the board is vested with authority not only to correct evils that may creep into the management of an existing bank, but to guard against dangers, that may threaten institutions about to be formed.

"The power to compel, beforehand, co-operation, and thus, it is believed, to make a failure unlikely and a general panic almost impossible, must be recognized, if government is to do its proper work, unless we can say that the means have no reasonable relation to the end. Noble State Bank v. Haskell, 219 U.S. 104, 112, 31 Sup. Ct. 186, 188 (55 L. Ed. 112, 32 L.R.A.(N.S.) 1062, Am. Cas. 1912A, 487)."

" * * * We think the intention of the Legislature was to vest the banking board with general control and with authority to do all things reasonably necessary for the protection of depositors throughout the state. The Board also stands in the nature of a trustee for this guarantee fund, and it is its duty to take such precautions as may be necessary to protect its integrity. The terms 'general supervision and control' vest the banking board with duties of a very high order, and they are not to be perfunctorily discharged, but to be administered with the highest degree of intelligence and discretion.

"It is customary for Legislatures to grant to administrative bodies of this character the power to adopt rules, by-laws, and regulations reasonably necessary to carry out the purpose for which they are created, and this grant is not an improper delegation

"of authority. *Blue v. Beach*, 155 Ind., 121, 56 N.E. 89, 50 L.R.A. 64, 80 AM. St. Rep. 195 and cases cited. This is held generally to be the rule in matters coming within the police power of the state. That the banking business comes within that power is no longer an open question.

"The police power extends to all the great public needs (*Camfield v. United States*, 167 U.S. 518, (17 Sup. Ct. 864, 42 L. Ed. 260) and includes the enforcement of commercial conditions such as the protection of bank deposits and checks drawn against them by compelling cooperation so as to prevent failure and panic." (*Noble State Bank v. Haskell*, 219 U. S. 104)

"The business of banking coming within the police power of the state, the same rule of construction may be applied to banking acts and to rules and regulations established by banking boards as applies to acts creating other administrative bodies coming within the police power. The Supreme Court of Judicature of Indiana, in discussing this phase of the question, in *Blue v. Beach*, supra, says:

"While it is true that the character or nature of such boards is administrative only, still the powers conferred upon them by the Legislature, in view of the great public interests confided to them, have always received from the courts a liberal construction, and the right of the Legislature to confer upon them the power to make reasonable rules, by-laws, and regulations, is generally recognized by the authorities."

The case of Great Northern Railway Company v. Snohomish County, 48 Wash. 478, 93 Pac. 924, involved the construction of a State statute requiring the State Board of Tax Commissioners to exercise "general supervision" over assessors and county boards of equalization and the assessment of taxable property in order to secure equality in taxation. The case turned upon the proper meaning of the term "general supervision" - whether it authorized the Commissioners to act merely in an advisory capacity or whether it authorized them to classify inter-county railroads and fix the value thereof for the purpose of taxation. The court held that the statute authorized the Commissioners to classify inter-county railroads and fix the value thereof for purposes of taxation; that the words "general supervision" imply something

more than a mere power to advise and suggest; that they confer authority to oversee and review the acts and correct errors of those over whom the right of supervision is granted. In the course of the opinion the court said:

"While these several provisions bear more or less directly on the question under consideration, the case turns principally on the meaning of the term 'general supervision' in the act defining the powers and duties of the state board of tax commissioners. * * * The state board of tax commissioners is given general supervision over assessors and county boards of equalization, to the end that all taxable property shall be placed on the assessment rolls and equalized as between the different counties and municipalities, so that equality of taxation shall be secured according to the provisions of law. What is meant by 'general supervision'? Counsel for respondents contend that it means to confer with, to advise, and that the board acts in an advisory capacity only. We cannot believe that the Legislature went through the idle formality of creating a board thus impotent. Defining the term 'general supervision' in *Vantongerren v. Hefferman*, 5 Dak. 180, 38 N.W. 52, the court said: 'The Secretary of the Interior, and under his direction, the Commissioner of the General Land Office, has a general "supervision over all public business relating to the public lands." What is meant by "supervision"? Webster says supervision means "to oversee for direction; to superintend; to inspect; as to supervise the press for correction." And, used in its general and accepted meaning, the Secretary has the power to oversee all the acts of the local officers for their direction, or, as illustrated by Mr. Webster, he has the power to supervise their acts for the purpose of correcting the same; and the same power is exercised by the Commissioner under the Secretary of the Interior. It is clear, then, that a fair construction of the statute gives the Secretary of the Interior, and under his direction, the Commissioner of the General Land Office, the power to review all the acts of the local officers, and to correct, or direct a correction of, any errors committed by them. Any less power than this would make the "supervision" an idle act - a mere overlooking without power of correction or suggestion.' Defining the like term in *State v. F.E. & M.V. R.R. Co.*, 22 Nebr. 313, 35 N.W. 118, the court said: 'Webster defines the word "supervision" to be "the act of overseeing; inspection; superintending." The board therefore is clothed with the power of overseeing, inspecting, and superintending the railways within the state, for the purpose of carrying into effect the provisions of this act, and they are clothed with the power to prevent unjust discrimination against either persons or places.' It seems to us that the term 'general supervision' is correctly defined in these cases. Certainly a person or officer who can only advise or suggest to another has no general supervision over him, his acts or his conduct."

Similarly, it would seem that the Board's power to exercise "general

supervision" over the Federal reserve banks would include the power to require the Federal reserve banks to carry out the purposes of the Act and to check any practices which would be detrimental to the public interest or inconsistent with the purposes of the Act. Certainly, the Board's power of general supervision should not be construed in such a way as to "make the 'supervision' an idle act - a mere overlooking without power of correction or suggestion."

On the other hand, there are some cases indicating the limitations on this power of general supervision.

One of such cases is that of State v. Bronson, (Mo.) 21 S.W.1125. The constitution of Missouri provides that "The supervision of instruction in the public schools shall be vested in a board of education whose powers and duties shall be prescribed by law." The legislature passed a law creating a commission to purchase the books necessary for use in the schools. This law was objected to by the directors of a school district as being unconstitutional on the ground that it was in violation of the powers vested in the board of education by the constitution.

The court held that the selection and purchase of the school books does not come within the fair meaning of the words "the supervision of instruction" and the law does not violate the constitutional provision. In so holding the court said:

"With such a general system of public schools it must be evident that when the constitution says the supervision of instruction shall be vested in the state board of education, it does not mean that this board shall enter into the details of giving instruction or carrying on the schools. All this is and may be left to subordinate officers. It means no more than a general oversight over the matter of instruction."

In the case of Roanoke Cemetery Co. v. Goodwin, 101 Va. 605, 44 S.E. 769, the lower court had reviewed the reasonableness of regulations prescribed by the cemetery association for the conduct of its business and the fees charged for opening graves and had issued a decree whereby the court undertook to prescribe its own rules and regulations for the management of the affairs of the company, even going to the extent of determining the fund out of which the salary of the superintendent should be paid. The Supreme Court of Appeals in Virginia held that the decree exceeded the power of the court and said:

"It is not permissible for a court to thus substitute its own business discretion and judgment for that of the company; its visitorial powers have no such scope. 1 Clark & Marshall, p. 547. "

Similarly, it might be said that the authority to exercise general supervision over the Federal reserve banks does not carry with it the duty to enter into the details of operating the banks nor the authority for the Federal Reserve Board to substitute its own business judgment and discretion for that of the directors.

Without attempting to lay down a precise definition of the Board's power of general supervision, it may be said that generally it includes the power and carries with it the duty to see that Federal reserve banks do not exceed their corporate powers; that they do not discriminate in favor of or against any class of the public or any member banks; that they preserve and protect the banking reserves of the country with which they are entrusted; that they do not do anything which may endanger their solvency or the soundness of their currency; that they carry out faithfully the purposes of the Federal Reserve Act; and that they comply in all respects with both the letter and spirit of

the law. I am further of the opinion that this power carries with it the power to require the Federal reserve banks to cease doing anything which is ultra vires which might defeat the purposes of the Federal Reserve Act or which might be detrimental to the public interest.

Moreover, this power is to be construed liberally so as to enable the Board effectively to safeguard the great public interests confided to it. *Blue v. Beach*, 155 Ind. 121, 45 N.E. 89. As stated in *State v. Moreland*, supra, "The terms 'general supervision and control' vest the banking board with duties of a very high order, and they are not to be perfunctorily discharged, but to be administered with the highest degree of intelligence and discretion."

On the other hand, I am of the opinion that this power does not carry with it either the duty or the power to interfere in the details of the operation of the Federal reserve banks or to substitute the Board's own business judgment and discretion for that of the directors of the Federal reserve banks.

It does, however, include the power to check any actions on the part of the Federal reserve banks which would nullify or impair the effective exercise of any lawful powers of the Federal Reserve Board or which would constitute an evasion of any control which the Federal Reserve Board is authorized to exercise over the general credit policies of the System as a whole. Within this class of actions which are subject to regulation under the Board's general supervisory power would clearly be included international dealings in gold, which might tend to affect or impair the effectiveness of the rediscount rate, which is expressly made subject to review and determination by the Federal Reserve Board, or which would nullify the effect of the Board's restrictions on the open market operations of the banks.

THE RELATIVE FUNCTIONS OF THE BOARD AND THE BANKS
AS SHOWN BY LEGISLATIVE HISTORY.

That these views, based upon a purely legal interpretation of the Board's powers, are in accordance with the intent of Congress at the time it enacted the Federal Reserve Act appears from the following passages in the report on the original Federal Reserve Act submitted to the House of Representatives by Mr. Glass, on behalf of the Banking and Currency Committee, under date of September 9, 1913 (pages 16, 18, 19, 42 and 46):

"In order that the banks may be effectively inspected, and in order that they may pursue a banking policy which shall be uniform and harmonious for the country as a whole, the committee proposes a general board of management intrusted with the power to overlook and direct the general functions of the banks referred to. To this it assigns the title of 'The Federal reserve board.'"

* * * * *

"The only factor of centralization which has been provided in the committee's plan is found in the Federal reserve board, which is to be a strictly Government organization created for the purpose of inspecting existing banking institutions and of regulating relationships between Federal reserve banks and between them and the Government itself. Careful study of the elements of the problem has convinced the committee that every element of advantage found to exist in cooperative or central banks abroad can be realized by the degree of cooperation which will be secured through the reserve-bank plan recommended, while many dangers and possibilities of undue control of the resources of one section by another will be avoided. Local control of banking, local application of resources to necessities, combined with Federal supervision, and limited by Federal authority to compel the joint application of bank resources to the relief of dangerous or stringent conditions in any locality are the characteristic features of the plan as now put forward. The limitation of business which is proposed in the sections governing rediscounts, and the maintenance of all operations upon a footing of relatively short time will keep the assets of the proposed institutions in a strictly fluid and available condition, and will insure the presence of the means of accommodation when banks apply for loans to enable them to extend to their clients larger degrees of assistance in business. It is proposed that the Government shall retain a sufficient power over the reserve banks to enable it to exercise a directing authority when necessary to do so, but that it shall in no way attempt to carry on through its own mechanism the routine operations of banking which require detailed

knowledge of local and individual credits and which determine the actual use of the funds of the community in any given instance. In other words, the reserve-bank plan retains to the Government power over the exercise of the broader banking functions, while it leaves to individuals and privately owned institutions the actual direction of routine."

* * * * *

"In this section provision has been made for the creation of a general board of control acting on behalf of the national Government for the purpose of over-seeing the reserve banks and of adjusting the banking transactions of one portion of the country, as well as the Government deposits therein, to those of other portions."

"(e) In paragraphs (e), (f), (g), (h), and (i) are conveyed powers which are largely self-explanatory and about which there can be little or no question, granting the general idea of effective Government oversight through a Federal reserve board or some similar organization."

The power of carrying on the regular routine every-day business of the Federal reserve banks, therefore, and of determining the local policies was entrusted to their respective boards of directors, but the Federal Reserve Board was created as "a general board of management" entrusted with the power to overlook and direct the general functions of the banks in order that the Board, on behalf of the Government, might retain some power over the exercise of the "broader banking functions" affecting the country as a whole.

That the open market operations of the Federal reserve banks and their transactions with foreign central banks in gold, credits and bills of exchange is a function affecting the country as a whole, seems perfectly obvious, and it would seem to follow that the Board was intended to have a control over all such operations. This will appear more clearly from a consideration of the history and nature of such transactions.

HISTORY AND NATURE OF OPEN MARKET FUNCTIONS.

The report of the House Banking and Currency Committee (pp. 52 and 53) discusses section 15 of the original Federal Reserve Bill, which later became section 14 of the Federal Reserve Act as follows:

"Section 15.

"It will have been observed that the transactions authorized in section 14 (now section 13 of the Federal Reserve Act) were entirely of a nature originating with member banks and involving a rediscount operation. It is clearly necessary to extend the permitted transactions of the Federal reserve banks beyond this very narrow scope for two reasons:

"1. The desirability of enabling Federal reserve banks to make their rate of discount effective in the general market at those times and under those conditions when rediscounts were slack and when therefore there might have been accumulation of funds in the reserve banks without any motive on the part of member banks to apply for rediscounts or perhaps with a strong motive on their part not to do so.

"2. The desirability of opening an outlet through which the funds of Federal reserve banks might be profitably used at times when it was sought to facilitate transactions in foreign exchange or to regulate gold movements.

"In order to attain these ends it is deemed wise to allow a reserve bank, first of all, to buy and sell from anyone whom it chooses the classes of bills which it is authorized to rediscount. The reserve bank evidently would not do this unless it should be in a position which, as already stated, furnished a strong motive for so doing. Outright purchases in the open market would of course require the payment of the face of the paper less discount, whereas rediscount operations would require simply the holding of a reserve of $33 \frac{1}{3}$ per cent behind the notes issued or deposit accounts created in the course of the rediscount operation. Apart from this fundamental permission, it was deemed wise to allow the banks to buy coin and bullion and borrow or loan thereon and to deal in Government bonds. The power granted in subsection (d) to fix a rate of discount is an obvious incident to the existence of the reserve banks, but the power has been vested in the Federal reserve board to review this rate of discount when fixed by the local reserve bank at its discretion. This is intended to provide against the possibility that the local bank might be establishing a dangerously low rate of interest, which the reserve board,

familiar as it would be with credit conditions throughout the country, would deem best to raise.

"The final power to open and maintain banking accounts in foreign countries for the purpose of dealing in exchange and of buying foreign bills is necessary in order to enable a reserve bank to exercise its full power in controlling gold movements and in facilitating payments and collections abroad."

The open market powers granted to Federal reserve banks under Section 14, therefore, were designed primarily to enable the Federal reserve banks to make their discount rates effective, to facilitate transactions in foreign exchange, and to regulate and control gold movements. The banks were given power to fix discount rates subject to review and determination by the Federal Reserve Board, and it was explained that the power to review discount rates was vested in the Federal Reserve Board in order to provide against the possibility that a Federal reserve bank might establish a dangerously low rate which the Federal Reserve Board, in view of general credit conditions throughout the country, might consider inadvisable.

Having the power to review and determine rediscount rates it would seem necessary that the Federal Reserve Board should also have power to review, regulate, and restrict any transactions which might have a bearing on the effectiveness of the rediscount rate.

Obviously, the investment of Federal reserve funds abroad would have a bearing on the effectiveness of the rediscount rate and the Federal Reserve Board was given specific power to regulate, limit and restrict the purchase and sale of bills of exchange. While no specific power to control gold movements was given to the Federal Reserve Board, it would seem clear that the Federal Reserve Board was intended, in the exercise

of its general supervisory power, to have some control over gold transactions which might have a bearing on the effectiveness of the rediscount rate or which might affect general credit conditions in this country. This is entirely consistent with the theory that the Boards of Directors of the Federal reserve banks are intended to manage the local transactions of the Federal reserve banks, but that the Federal Reserve Board is given power to control any transactions which might have a bearing on general credit conditions in this country, or in the position of this country in the international money market.

RELATIONS BETWEEN OPEN MARKET TRANSACTIONS, REDISCOUNT
RATES AND GOLD RESERVES.

The intimate relation between open market transactions, the rediscount rate and international gold movements is further illustrated by a report submitted to the Federal Reserve Board under date of October 12, 1915, by Messrs. Warburg and Delano. The Board at that time had been giving very careful study to a proposal made by Mr. McAdoo, Secretary of the Treasury, to have the Federal reserve banks establish branches or agencies in Latin-American countries; and the above mentioned report discussed the open market powers of the Federal reserve banks in great detail, pointed out the proper scope and purpose of such transactions, and the disadvantage of having too large a proportion of the Federal reserve banks' funds invested in foreign countries. This entire report is very illuminating and the following passage is of especial interest in this connection:

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"The Federal Reserve Banks have been organized as custodians and conservators of the reserve money of the member banks. The law permits member banks to count as part of their reserve the balances kept by them with these Federal Reserve Banks, and it is the first duty of the Federal Reserve Banks to maintain their funds in a condition so liquid that their member banks may confidently rely upon the ability of the Reserve Banks to provide gold and credit when required. This function of the Federal Reserve Banks is at no time to be considered lightly, and in times of stress involves grave responsibilities and difficulties. It is from this point of view that the law has imposed very distinct restrictions as to the character of the investments which may be made by the Federal Reserve Banks, permitting only a certain proportion of their funds to be normally invested and requiring that such investments as are made be essentially of a self-liquidating character, and of a short maturity. It would be unsafe and would shake the foundations of confidence on the part of the member banks as well as of other nations should Federal Reserve Banks use a substantial portion of their resources for investment in Latin American credits.

"Such procedure would run counter to all banking practice in those countries where banks of the character of the Federal Reserve Banks have been in successful operation for generations. Neither the Bank of England, the German Reichsbank, the Banque of France, nor any other of the government banks of the less important countries has ever adopted such a policy. The operations of those banks are primarily confined to transactions at home, and foreign exchange transactions are engaged in only as far as they may be considered necessary for the protection of the gold holdings of these government banks. The leading government banks normally maintain a substantial holding of ninety-day bills on such foreign countries as are apt to become important creditor nations from time to time, but these bills are drawn only on such countries as have a well-established gold standard, well-developed discount facilities, and a broad market where these bills can be promptly resold. The object of these foreign holdings can best be illustrated by a concrete case, e.g., should the Bank of the Netherlands find that exchange on London advanced to a point where gold began to move from Holland to England, it would offer for sale drafts on London in order to counteract this movement. When its English cash balance had been exhausted, the Bank of the Netherlands would rediscount in London the long bills that it might previously have accumulated and thus create new balances with which to stop the outflow of gold.

"Such foreign bills are taken only on the few foremost financial powers. It is to be expected that American bankers' acceptances will in the future, when peace shall have been restored, become one of the privileged investments of these government banks. In order to maintain their 'position' in the foreign exchange market, it is necessary for government banks to renew from time to time their foreign paper as it matures, and it is for this purpose that they use accounts with correspondents in those few countries, none but the strongest firms being selected to act in this capacity. These firms or banks are permitted to buy only first class banking paper, and they endorse this paper to the government banks so that such government banks do not run any risk of loss of capital in the transactions and so that the government banks hold only paper which can at any time be resold in the open market or to the foreign government banks if need be.

"It was this function of foreign correspondents or agents that the writers of the Federal Reserve Act had in mind when they provided that Federal Reserve Banks should have the right, with the consent of the Federal Reserve Board,

" 'to open and maintain banking accounts in foreign countries, appoint correspondents, and establish agencies in such countries wheresoever it may deem best for the purpose of purchasing, selling, and collecting bills of exchange, and to buy and sell with or without its indorsement, through such correspondents or agencies, bills of exchange arising out of actual commercial transactions which have not more than ninety days to run and which bear the signature of two or more responsible parties.'

"For operations as above described the powers granted by the Act will no doubt be availed of to good advantage, when normal conditions shall have been restored in the important foreign exchange markets.

"Your committee wishes to emphasize the fact that the purpose of this paragraph was to give to the Federal Reserve Banks a greater strength and additional liquidity by enabling them to maintain a secondary gold reserve and to possess themselves of assets upon which the Federal Reserve Banks could realize in case of need without being forced to contract the credit facilities granted at home - the liquid element of these foreign investments and the additional protection that they would give to the Federal Reserve System being the essential ground for permitting Federal Reserve Banks to enter a foreign field."

The following passage from a preliminary report on this subject prepared by Mr. Warburg under date of October 4, 1915, also throws much light on the history and purpose of Section 14 of the Federal Reserve Act:

"When dealing with interpretations of the Act, a great deal has often been said concerning the 'intention of the writers of the law'. Inasmuch as paragraph (e) of Section 14 has been bodily taken over from the Aldrich Plan, we have to go beyond the writers of the Federal Reserve Act in order to find the true intent of this paragraph, and inasmuch as Senator Aldrich consulted me concerning this particular phase of the intended act, and inasmuch as I suggested to Senator Aldrich the insertion of this very paragraph, I may be pardoned for venturing to explain what its original intention was.

"The two paragraphs read as follows:

Section 14(e) of the Federal Reserve Act provides that every Federal Reserve Bank shall have power:

"with the consent of the Federal Reserve Board, to open and maintain banking accounts in foreign countries, appoint correspondents, and establish agencies in such countries wheresoever it may deem best.

for the purpose of purchasing, selling, and collecting bills of exchange, and to buy and sell, with or without its indorsement, through such correspondents or agencies, bills of exchange arising out of actual commercial transactions which have not more than ninety days to run and which bear the signature of two or more responsible parties.'

Section 36 of the Aldrich Plan reads:

"National Reserve Association to have power

to open and maintain banking accounts in foreign countries; to establish agencies in foreign countries for the purpose of purchasing, selling and collecting foreign bills of exchange; to buy and sell, with or without its indorsement, through such correspondents or agencies, checks or prime foreign bills arising out of commercial transactions having not exceeding 90 days to run and bearing the signature of two or more responsible parties.'

"It will be seen that the only substantial change was the insertion of the words 'bill of exchange' where the Aldrich Plan read 'foreign bills of exchange' and 'prime foreign bills'.

"From actual operation (having been active in several banks

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"in foreign countries acting as correspondents or agents for government banks in other countries) I was in a position to appreciate from my own experience the importance of the functions of foreign correspondents or agents, and was anxious to secure the advantages of such connections for our future financial system. The operations of these foreign agents for their government banks are substantially as follows:

"Let me choose the Bank of the Netherlands as an illustration, though practically all important government banks have been operating on similar lines.

"There will be certain times when, for economic reasons, through the movement of products from or to the Netherlands into or from other countries, or for extraordinary reasons, exchange on Holland will move up to the gold exporting point or down to the gold importing point. When the point is reached where gold may leave the country, the Bank of the Netherlands has two main means of protecting itself; one is by increasing the discount rate, which measure will result in higher interest rates apt to attract foreign money into Holland and thereby to counteract the flow of money from the country. The other is to sell from its portfolio bills on foreign countries in order to create balances in those countries and thereby provide means of payment without shipping the yellow metal. It, therefore, has been the policy of foreign government banks to acquire foreign bills of exchange on such countries as are apt to be creditor nations from time to time and such countries only as have safe gold standards and enjoy first class banking credit. These purchases of foreign exchange on such countries are being carried on whenever exchange is low or when interest rates in the home country are so low that it would seem prudent for the government bank to withdraw its funds from active employment at home and invest the funds thus withdrawn in foreign countries, whence they can be called back whenever rates become active at home and whenever the influence of the government bank may be used to advantage in preventing home rates from becoming burdensome to the borrowing community.

"When acquiring a ninety day draft on a British bank, the Bank of the Netherlands will draw interest on this bill at the discount rate; but when the bill matures or if the Bank of the Netherlands acquires checks on London, it creates a balance which needs to be converted into an interest bearing investment. These balances will then be employed by the correspondents or agencies (whichever name we may give to them) for the purchase of other ninety day drafts on London. According to its requirements, the Bank of the Netherlands will renew from time to time its foreign investments. The Bank

of the Netherlands considers these foreign holdings as a secondary gold reserve and continues them almost perpetually, with such casual interruptions as may become necessary for the protection of its own gold holdings.

"It was the consideration of these conditions that led to the insertion in the Aldrich draft of the clause above quoted, and it will now become apparent what was meant when it was provided that the National Reserve Association - or the Federal Reserve Banks - should have power to 'open and maintain banking accounts in foreign countries * * *, establish agencies in such countries * * * for the purpose of purchasing, selling and collecting bills of exchange' and that they should be able to 'buy and sell with or without its indorsement, through such correspondents or agencies, bills of exchange * * *'. In case of a 'pinch', the Bank of the Netherlands was to be in a position of ordering its correspondent to rediscount with the Bank of England or in the open market millions of its holdings of British acceptances so as to enable the Bank of the Netherlands to draw a check against the balance so produced and so to protect its gold. That is why it was stipulated that the bills to be purchased by these agents should be 'prime bills' and should not run beyond ninety days and should bear the signature of two or more responsible parties, so that these bills should be current bills that the correspondents should be able to sell freely at all times and bills on which a loss should practically be excluded.

"It ought to be stated that the foreign governments select the strongest possible firms in foreign countries to act for them as agents; and that they invariably buy these bills with the indorsement of their agent (or correspondent) so that they could lose only in case, not only the foreign correspondent or agent should fail, but also the two additional signatures on the bill.

"I am well aware of the fact that these banking habits have developed as a protection in times of peace but that in times of war these large foreign balances may be a source of some anxiety. It must be borne in mind, however, that government banks normally work in times of peace and that these methods of protecting their country against acute gold withdrawals or against the tendency of too low rates of interest have effectually met many an acute emergency, and furthermore that even in times of war these balances have eventually been paid. I might draw attention to the fact that a year ago, when we were called upon to meet our large debts abroad, it would have been a great protection for us if at that time balances could have been made available in London to meet this first onrush.

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"My object in reviewing the origin and original intent of this paragraph is to show that this clause was inserted for the sole purpose of providing an additional piece of machinery for the protection of the Federal Reserve System. Clearly, no other intention was underlying this section!"

The question whether the Federal reserve banks should establish branches or agencies in Latin American countries was submitted to the Governors' Conference, the Conference of Federal Reserve Agents and the Federal Advisory Council, and, after obtaining the views of these three different bodies, a further report was submitted to the Federal Reserve Board under date of January 8, 1916, by a committee consisting of Governor Harding and Messrs. Delano and Warburg. This final report reads in part as follows:

"Your Committee is happy to report that complete agreement was found to exist in all three bodies with the principles expressed by the Board at its meeting on October 27th, the substance of which was published on that day in a notice (Mimeograph 385) of which a copy is appended hereto. * * * It is the first duty of the Federal reserve banks to maintain their funds in a condition so liquid that their member banks may confidently rely upon the ability of the Federal reserve banks to provide gold and credit when required. This function of the Federal reserve banks is at no time to be considered lightly and in times of stress involves grave responsibilities and difficulties. * * * It would be unsafe and would shake the foundation of confidence on the part of the member banks as well as of other nations, should Federal reserve banks use a substantial portion of their resources for investment in Latin-American credit. Such procedure would run counter to all banking practices in those countries where banks of the character of the Federal reserve banks have been successfully operated for generations * * *. The operations of these banks are primarily confined to transactions at home, and foreign exchange transactions are engaged in only as far as they may be considered necessary for the protection of the gold holdings of these Government banks. * * * (Discussion of operations of European Central banks). In order to maintain their 'position' in the foreign exchange market, it will be necessary for Government banks to renew from time to time their foreign paper as it matures, and it is for this purpose

that they use accounts with correspondents in those foreign countries, none but the strongest firms being selected to act in this capacity. * * * It was this function of foreign correspondents or agencies that your committee is confident the writers of the Federal Reserve Act had in mind when they provided that the Federal reserve banks should have the right, with the consent of the Federal Reserve Board, to exercise the powers conferred under Section 14 (e) * * * . Your committee has no doubt that the purpose of this paragraph was to give to the Federal reserve banks greater strength and additional liquidity by enabling them to maintain a secondary gold reserve and to possess themselves of assets upon which the Federal reserve banks could realize in case of need without being forced to contract the credit facilities granted at home - the liquid element of these foreign investments and the additional protection that they would give to the Federal Reserve System being the essential ground for permitting Federal reserve banks to enter a foreign field. * * * Should Federal reserve banks be empowered to lend to foreign Governments notwithstanding the law distinctly provides that Federal reserve banks can now purchase only United States Government securities and warrants of United States municipalities, carefully circumscribed and having a maturity of not exceeding six months ? * * * Should Federal reserve banks be allowed to embarrass the Government by being themselves important creditors of foreign Governments in case of war with, or revolution in, such countries? Your committee is very positive in its view that such enlarged powers should not be granted; * * * "

While these reports arose out of a controversy entirely different from, and extraneous to, the question now under consideration, they serve to show the intimate connection between the open market powers of the Federal reserve banks, the effectiveness of the rediscount rate, and the protection of the gold reserves of the Federal Reserve System.

They show clearly that one of the most important purposes of the rediscount rate and the open market purchase of bills of exchange is to protect the gold reserves of the Federal Reserve System. Over the rediscount rates and the open market transactions the Federal Reserve

Board is given a great measure of control. To say that the Federal Reserve Board could exercise this control over rediscount rates and open market transactions with a view of protecting the gold reserves of the Federal Reserve System but that it could do nothing to prevent the Federal reserve banks from engaging in international transactions in gold in such a way as to impair the gold reserves would be to give the Federal Reserve Act an interpretation which clearly would defeat the will of Congress.

Respectfully,

Walter Wyatt
General Counsel

WW-WLM-OMC-SAD

Office Correspondence

FEDERAL RESERVE
BOARD

Date Oct. 16, 1930.

To Governor Meyer

Subject: _____

From Mr. Hanlin

2-8495

Dear Governor Meyer:

You will remember there was some talk in the Board the other day as to the effect of the easy money policy of 1927, and the purchase during that period of large amounts of Government securities.

I take pleasure in enclosing a memorandum I prepared in September, 1928, on this subject, which perhaps you will lay aside for Sunday reading.

Sincerely yours,

CS Hanlin

September 28, 1928.

The Effect of Government Security Operations on Member Bank
Reserves During the Period of the $3\frac{1}{2}\%$ Rate, Namely,
from August 4, 1927, to February 3, 1928:

The claim is often made that the reduction in the discount rate from 4 to $3\frac{1}{2}\%$, and the accompanying purchases of Government securities during the period in which this rate was in force, - August 4, 1927 to February 3, 1928, - caused "easy" or "Cheap" credit which was responsible for the speculative craze on the New York Stock Exchange.

For example, the New York Commercial Chronicle of August 4, 1928, stated:

"Who is responsible for the speculative folly, the ill effects of which are now visible on every side? Not the banks, no matter how their course is to be deprecated, but the Federal Reserve, every move of which during the last twelve months has been fraught with latent mischief. Did not the Federal Reserve banks last summer reduce their rates of rediscount to $3\frac{1}{2}\%$, even compelling one obstreperous Reserve bank in the west to make the reduction against its emphatic objection and protest? At that time, the member banks were not borrowing, as they are today, over \$1,000,000,000 at the reserve banks, but barely half that amount, and could not be induced to increase their borrowings even at the low rate of $3\frac{1}{2}\%$, since they had no use for the money. Did not the Reserve banks then undertake to thrust out Reserve credit on unwilling banks by purchasing several hundred million dollars of Government bonds, thereby flooding the market with Reserve funds to a corresponding amount?"

The $3\frac{1}{2}\%$ discount rate was in force, at least at New York, from August 4, 1927, to February 3, 1928, and it will be interesting to consider just what was the course of Federal Reserve credit in the whole System during this period, and examine as to how far the above criticism of "cheap"

money through lower discount rates and Government security operations, is justified.

The essential figures are as follows:

August 4, 1927 - February 3, 1928:

Member bank reserve balances increased	107,000,000
Gold stock decreased	203,000,000
Discounts increased	61,000,000
Acceptances increased	205,000,000
United States securities decreased	2,000,000
All other Federal Reserve credit decreased	60,000,000
Total Federal Reserve credit increased	204,000,000
Treasury credit increased	8,000,000
Money in circulation decreased	105,000,000
Foreign bank deposits, etc. decreased	6,000,000

Taking this period as a whole, it is clear that, comparing the beginning and end of this period, neither discounts nor Government securities were having any inflationary effect, for discounts had increased only 61 millions, a normal seasonal increase, at the end of the period, while Government securities had actually declined 2 millions. Furthermore, the total increase of Federal Reserve credit during the period, - 204 millions, - just offset the gold exports which were 203 millions, while the decline in money in circulation, - 105 millions, - practically accounts for the increase in member bank reserves, - 107 millions - during the period.

The above figures show that the hundreds of millions of Government bonds, the purchase of which by the Federal Reserve System "flooded the market" - as claimed in the above quoted editorial, - had been neutralized by the sale of even larger amounts of these bonds, there being at the end of the period 2 million dollars less of such holdings than at the beginning, - and all this under the $3\frac{1}{2}\%$ rate!

It may be claimed, however, that these figures do not give a clear

picture of what took place, because during the month of January, 1928, the tide turned, Federal Reserve credit declining 373 millions and member bank reserve balances declining 113 millions. Let us then consider the period from August 4, 1927, to December 31, 1927, excluding the month of January 1928 when credit conditions were reversed. The following table shows the situation:

August 4, 1927 to December 31, 1927:

Member bank reserve balances increased	220,000,000
Gold stock decreased	200,000,000
Discounts increased	173,000,000
Acceptances increased	222,000,000
United States securities increased	205,000,000
All other Federal Reserve credit decreased	23,000,000
Total Federal Reserve credit increased	577,000,000
Treasury credit increased	20,000,000
Money in circulation increased	175,000,000
Foreign bank deposits decreased	3,000,000
Other items increased	5,000,000

The above figures show that during that period there were gold exports to the amount of \$200,000,000, while the purchase of Government securities increased \$205,000,000. It would seem to me fair to set off the one against the other. So also the increase in money in circulation was \$175,000,000, and this was practically offset by the increase in discounts of \$173,000,000.

It would seem clear that the gold exports of \$200,000,000 during this period, if not offset in some manner, would have forced a deflation of member bank deposits amounting to at least ten times the amount, or about 2 billions of dollars, and the worst that can be said as to Government security operations during this period is that they prevented a radical deflation caused by gold exports. They certainly, taking the period as a

whole, brought about no inflation of deposits.

It may be claimed, however, that while these figures are correct, taking the whole period, yet that there were particular times during this period when the purchase of Government securities placed money in the market which went directly into member bank reserves, thus making additional deposits growing out of loans, possible. Let us then consider the two quarterly periods of the latter part of 1927, during which the $3\frac{1}{2}\%$ rate was in force.

Let us take the quarter beginning in July and ending in September, during all of which period, except July, the $3\frac{1}{2}\%$ rate was in effect.

The figures for this period are as follows:

Member bank reserve balances increased	44,000,000
Gold stock decreased	16,000,000
Discounts decreased	6,000,000
Acceptances increased	39,000,000
Government securities increased	136,000,000
All other Federal Reserve credit decreased	20,000,000
Total Federal Reserve credit increased	149,000,000
Treasury credit increased	9,000,000
Money in circulation increased	97,000,000
Foreign bank deposits decreased	5,000,000

The increase in member bank reserves during this period was very moderate, - only 44 millions, - and taking the quarter as a whole could be covered by acceptances, - 39 millions, - and foreign bank deposits, - 5 millions, while the Government security operations, - showing an increase of 136 millions, - would, as to all but 17 millions, have offset the gold exports 16 millions, the decline in discounts, 6 millions, and money in circulation, which latter increased 97 millions.

Let us now consider the quarter, October through December, 1927.

The figures for this quarter are as follows:

Member bank reserve deposits increased	194,000,000
Gold stock decreased	192,000,000
Discounts increased	145,000,000
Acceptances increased	142,000,000
United States securities increased	111,000,000
All other Federal Reserve credit increased	26,000,000
Total Federal Reserve credit increased	424,000,000
Treasury credit increased	13,000,000
Money in circulation increased	55,000,000
Foreign bank deposits decreased	3,000,000
Other items decreased	1,000,000

From the above figures, it appears that gold exports had increased 192 millions, and money in circulation had increased 55 millions, which was offset by Government security purchases, - 111 millions, and discounts, - 145 millions. On the other hand, the member bank reserves at the end of this period had increased 194 millions, which increase was practically furnished from the increase in acceptances, - 142 millions, other Federal Reserve credit - 26 millions, and Treasury credit, - 13 millions.

An examination of the above table seems to show that neither the discounts under the $3\frac{1}{2}\%$ rate, nor the Government security operations were, on the whole, primarily or necessarily responsible for the increase in member banks reserves upon which the pending speculation on the New York Stock Exchange rests.

While it is often claimed, as shown above, that the lowering of the discount rate to $3\frac{1}{2}\%$ produced "easy" or "cheap" credit, it should not be forgotten that credit was easy or cheap, if you so wish to call it, before the rate reduction of August 4, 1927, from 4 to $3\frac{1}{2}\%$.

For example, on March 31, 1927, as compared with the previous

December 31, 1926, gold imports had increased 105 millions, money in circulation had decreased 233 millions, discounts had decreased 186 millions, and acceptances had decreased 142 millions, the total Federal Reserve credit decrease being 308 millions.

Similarly, comparing June 30, 1927, with March 31, 1927, we find that discounts had decreased 8 millions, acceptances decreased 28 millions, money in circulation decreased 11 millions, and that while Government securities increased 22 millions, the total Federal Reserve credit increase was only 9 millions.

The above gives a fair picture of the easy money conditions existing before the rate was reduced from 4 to $3\frac{1}{2}\%$.

The purpose of the reduction of the rate from 4 to $3\frac{1}{2}\%$ was primarily to prevent a continuance of gold imports into the United States, which, in the absence of any large volume of discounts which could have been paid off, would certainly have tended to inflate the credit structure. Another reason was to give, if possible, some relief to business, commerce, and agriculture, which had been in a state of recession but was just beginning to improve. It is fair to state that this lowering of the rate did accomplish both of the above purposes in more or less degree.

The conclusion I reach from these figures is that while psychologically an easier feeling was created, the increase in member bank reserves can be explained without reference to lower discount rates or Government security operations.

Turning now to the so-called brokers' loans, a study of the charts will fail to reveal any material difference in the increase of such loans, either

prior to, during, or subsequent to the $3\frac{1}{2}\%$ discount rate, except that the New York banks have shown a tendency to reduce these loans, more or less overcome by an increase on the part of out-of-town banks, while the loans made "for others" have steadily increased from the middle of 1926 to date, this increase being practically the same, whether during low rate or high rate periods.

As regards Government security operations, I am inclined to believe that Federal Reserve credit conditions would have been substantially the same had there been no such operations during the $3\frac{1}{2}\%$ period, as discounts would have taken their place.

In conclusion, it seems to me that the claim that the $3\frac{1}{2}\%$ discount rate and Government security operations during the period running from August 4, 1927, to February 3, 1928, created cheap money, and flooded the member bank reserve account, thus exciting speculation on the New York Stock Exchange, is a myth which has no foundation in reality.

Office Correspondence

FEDERAL RESERVE
BOARDDate October 23, 1930To Governor Meyer

Subject: _____

From Mr. Goldenweiser

••• 2-8405

In accordance with your recent request, I have prepared two tables dealing with the general banking structure of the United States. In the first table are shown the total number of banks in the United States, the number of member banks, national and state, and the number of nonmember banks, also the loans and investments of all banks and of member banks, and the percentage that the resources of members constitute of total bank resources.

The table shows that the number of banks in the United States increased materially until 1921 and then began to decline, the decline by the middle of 1930 being about 7,000. A larger part of the decline was in nonmember banks but member banks also diminished by about 1,400. The largest single factor in this decrease were bank failures. Loans and investments of member banks, in contrast to their number, showed an uninterrupted increase for the entire period, excepting in the last year, and the percentage of total loans and investments that is held by member banks has remained practically constant at about 60 since 1919. Prior to that time it was increasing as state banks joined the system, particularly after the outbreak of the war and the special appeal issued by President Wilson.

The second table analyzes in some detail the character of the changes in the membership of the Federal reserve system. It shows that the principal two factors in diminishing the number of member banks have been suspensions and mergers, including mergers between two member banks which would reduce their number and absorptions of member banks by nonmember banks, which would have the same effect. You will note that in recent years mergers have been the

Governor Meyer, - #2

October 23, 1930

principal single factor in the situation. There has also lately been a large number of withdrawals. In no case, however, were the withdrawals larger in number than newly created memberships, either through the granting of charters to national banks or through admission to membership of state banks.

BANKS IN THE UNITED STATES: MEMBER AND NON-MEMBER OF THE FEDERAL RESERVE SYSTEM: 1915-1930
(AS OF JUNE CALL)

	NUMBER OF BANKS					LOANS AND INVESTMENTS (In millions of dollars)		
	Total in U. S.	MEMBER			Non- member	All banks	MEMBER BANKS	
		National	State	Total			Amount	Percentage of total
1915	27,062	7,605*	17	7,615	19,447	21,466	8,764	41
1916	27,513	7,579*	34	7,606	19,907	24,587	10,315	42
1917	27,923	7,604*	53	7,653	20,270	28,287	12,453	44
1918	28,880	7,705*	513	8,213	20,667	31,813	13,507	58
1919	29,123	7,785*	1,042	8,822	20,301	36,570	22,242	61
1920	30,139	8,030*	1,374	9,399	20,740	41,685	25,559	61
1921	30,812	8,154*	1,595	9,745	21,067	39,999	24,121	60
1922	30,389	8,249*	1,648	9,892	20,497	39,956	24,182	61
1923	30,178	8,241*	1,620	9,856	20,322	43,738	26,507	61
1924	29,348	8,085*	1,570	9,650	19,698	45,180	27,167	60
1925	28,841	8,072*	1,472	9,538	19,303	48,830	29,518	60
1926	28,146	7,972	1,403	9,375	18,771	51,562	31,184	60
1927	27,061	7,790	1,309	9,099	17,962	53,750	32,756	61
1928	26,213	7,685	1,244	8,929	17,284	57,265	35,061	61
1929	25,330	7,530	1,177	8,707	16,623	58,474	35,711	61
1930	23,852	7,247	1,068	8,315	15,537	58,018	35,656	61

* Includes nonmember national banks in Alaska and Hawaii

Changes in Membership of Federal Reserve System: 1915-1929

Year	Active at beginning of year	Additions during year ^{1/}	Losses during year				Voluntary liquidation etc.
			Total	Withdrawals	Mergers ^{2/}	Suspensions ^{3/}	
(Number of banks)							
1915	7,582	157	108	21	55	15	17
1916	7,631	126	143	63	56	6	18
1917	7,614	393	97	40	35	2	20
1918	7,910	845	63	12	36	3	12
1919	8,692	517	143	47	78	2	16
1920	9,066	676	136	28	77	17	14
1921	9,606	373	200	25	104	59	12
1922	9,779	281	201	22	125	28	26
1923	9,859	215	300	43	120	112	25
1924	9,774	150	337	41	118	146	32
1925	9,587	229	327	61	113	140	13
1926	9,489	166	395	84	151	147	13
1927	9,260	144	370	46	201	114	9
1928	9,034	110	307	64	167	67	9
1929	8,837	112	437	91	266	77	3

^{1/} Not including suspended banks reopened

^{2/} Absorption of a member either by another member or by a non-member

^{3/} Suspensions less suspended banks reopened

Office Correspondence

FEDERAL RESERVE
BOARDDate October 31, 1930To Governor Meyer,Subject: Unfinished business.From Mr. McClelland.

2-8495

As requested by you this morning, I am giving below a brief statement regarding each item now carried on the Board's docket of unfinished business.

1. Proposed regulation on purchases and sales of bills of exchange and acceptances abroad.

A separate memorandum regarding this item was addressed to you under date of October 15.

2. Capital requirements of national banks granted permission to exercise trust powers.

4. Question of granting trust powers to national banks, stock of which is owned by a holding company or investment trust.

14. Letter from Governor Harrison re basis for recommendations of directors on applications for fiduciary powers.

The consolidated file on these three questions affecting the granting of trust powers is quite voluminous and will be submitted to you at your convenience.

3. Letter from Mr. Mitchell re public statement of March 27, 1929.

This letter, referring to Mr. Mitchell's public statement regarding call loans, does not seem to call for any action at this late date and probably should be removed from the docket.

5. Revision of procedure in effect with regard to changes in bill rates.

This is a suggestion made by Dr. Miller that no change in bill rates shall be effective until after approval by the Board. The last Board action was to authorize the executive officer to approve effective buying rates within maximum and minimum limits approved by the Board. The procedure with regard to bill rates has been under discussion between the Board and the New York bank for a long period, the New York bank maintaining that some leeway in the fixing of bill rates is necessary for effective operation on its part.

6. Whether deposits of certain public funds in Richmond and San Francisco districts are subject to reserves.

The Secretary of the Treasury must rule on this question. It was submitted to him in November, 1929, but to date we have been unable to secure a ruling.

7. Special rates on seasonal agricultural and livestock paper.

This question has been on the docket for sometime. At the meeting of the Board with the Governors and Chairmen of the southern Federal reserve banks on September 23, however, it was the sense of the meeting that with the existing low level of discount rates, a differential in favor of commodity paper would not be effective, although should discount rates tend to rise, the establishment of special rates on commodity paper should be considered. In view of this fact it would seem that the question should be removed from the docket of unfinished business and re-introduced as a new matter whenever in the opinion of a member of the Board it should be again considered.

8. Memorandum from the Chief Examiner on the question of simultaneous examinations.

This question has also been before the Board for a long time, dating back to the period when the large branch bank systems, particularly in California, were State members. It has not been actively considered recently due to the fact that the larger systems have converted into national institutions and the Comptroller of the Currency does not make simultaneous examinations.

9. Reply to letter from the New York Bank accepting participation in the Open Market Policy Conference.

Governor Young was requested to prepare a reply to a qualification made by the New York Bank that whereas the volume of purchases or sales of Governments may be determined directly, the holdings of bankers acceptances are subject largely to a rate control which must be adjusted promptly from time to time to changing market conditions, and therefore does not subject itself to determination in advance by an Open Market Policy Conference. Governor Young held this matter without action up to the time of his resignation.

10. Letter from the Agent at Philadelphia re form of condition report of State member banks.

Governor Young personally submitted this matter to the Board because of his objection to the language used by Mr. Austin in a letter to Mr. Smead that "when

you require a bank to include in its resources items such as mortgages with the ownership of which it has absolutely parted, though it guarantees their payment, and which mortgages have become the property of others, you are requiring the bank to make a false statement, and when you ask officers to swear to such statements, you are compelling them to commit perjury. If I were a bank officer, I would refuse to sign such a statement. In fostering false statements you are inflating the resources of the banks, something that is inexcusable." No action having been taken on this matter to date, it would seem it could properly be removed from the unfinished business docket.

11. Activities of the Board which should be subject to periodic audits.

Governor Young felt that possibly some of the activities of the Board, such as the Gold Settlement Fund and the office of the Fiscal Agent, should be audited. In checking up various matters referred to him following his departure, it was discovered he had secured a memorandum on the question from Mr. Smead and had sent it to the files apparently satisfied that the activities mentioned are being sufficiently checked.

12. Application of Peoples-Pittsburgh Trust Company for approval of purchase of 597 shares of stock in First National Bank of Wilkinsburg, Pa.

This question involves a violation of a condition of membership by the applicant bank and requires action by the Board. The file on the matter will be submitted to you for your information at your convenience.

13. Application of the National Capital Bank of Washington D. C. for fiduciary powers.

The question involved here is whether the capital of the bank is sufficient. The District code requires a capital of \$1,000,000 for banks exercising trust powers. Under a ruling made by the Board early in its history that the District is not a state within the meaning of the Federal Reserve Act, fiduciary powers have been granted to ten national banks in the district, only three of which had a capital as large as \$1,000,000. The capital of the applicant bank is \$200,000. This matter requires action by the Board and will be brought up at

your pleasure.

15. Question whether a note evidencing a loan by an intermediate credit bank to a livestock loan company or agricultural credit corporation is eligible for rediscount at a Federal reserve bank.

This matter is already receiving your attention.

16. Question of Mercantile Commerce Bank and Trust Company of St. Louis holding stock of Mercantile Commerce National Bank of St. Louis.

At the time of the formation of the Mercantile Commerce Bank & Trust Company of St. Louis, the charter of the National Bank of Commerce was continued, with a reduced capital, with the understanding that it would be retained only until the trust business of the national bank was terminated or turned over to the new institution. With this understanding, the Board approved the holding by the Mercantile Commerce Bank & Trust Company of the stock of the national bank. It now appears that it will take sometime to dispose of the trusts, that the title of the national bank has been changed to the Mercantile Commerce National Bank, and that it has resumed an active banking business as a neighborhood bank at a new location. The question of whether the Mercantile Commerce Bank & Trust Company will be permitted to continue to hold the stock of the national bank requires action by the Board and will be presented at your pleasure.

The other items on the docket of unfinished business arose more recently and are being held pending reports which have been requested by the Board.

D. Goldenweiser

November 3, 1930

Mr. Pole
Mr. Goldenweiser

Condition report of
national banks

Comparisons of the condition of national banks between June 30 and September 24 are not significant, because it is not possible to determine what proportion of the change is due to seasonal factors and what proportion represents actual banking developments. Figures for June 30, the date when the fiscal year comes to an end, are always seriously distorted by the large volume of dividend, interest, and other payments which result in an exceptionally heavy float. For this reason, the comparison which I have made in this memorandum is confined to the condition of the national banks on September 24, 1930 and October 4, 1929, the dates of the call reports in the autumn of this year and last year.

Loans and investments of national banks during the period showed an increase of \$365,000,000, this increase being the result of an increase of \$1,079,000,000 in the banks' open-market portfolio, offset by a decrease of \$712,000,000 in their loans to customers. (The figures are in millions, and the discrepancy of \$2,000,000 is the result of rounding the figures.) Broadly speaking, this represents a liquidation in bank loans to customers, owing to the decreased demand for credit by trade and industry caused by the depression. It will be noted that customer loans other than loans to banks, on securities, and on real estate, declined by \$871,000,000 for the year. This decline of about 11 per cent is not surprising in view of the decrease of 25 per cent in industrial production; of 26 per cent in payrolls; and 14 per cent in prices. That the liquidation of bank loans in/aggregate was not the result in any way of the scarcity of funds, except possibly at country banks, is shown by the fact that the banks during this period increased their

November 3, 1930

open-market investments by considerably more than \$1,000,000,000. In other words, not finding sufficient employment for their funds among their customers, they bought \$678,000,000 of securities and also increased their holdings of acceptances, of commercial paper, and of brokers loans. Other indications of ~~the~~ financial ease are the decrease of \$438,000,000 in the banks' liability on bills payable and rediscounts and the drastic decline in money rates, both in the open market and in over-the-counter loans. Deposits increased during the year - demand by \$282,000,000 - and time deposits by \$496,000,000. The larger increase in deposits than in loans and investments is accounted for by the fact that there was an inflow of about \$130,000,000 of gold from abroad and a decrease of about \$300,000,000 in money in circulation. Both of these factors tend to increase deposits without a corresponding increase in loans and investments.

This brief statement has dealt with changes in the aggregate for all national banks. There have been important differences between the different classes of banks. The banks in New York City showed an increase in loans and investments more than twice as large as that for all national banks as a whole. This growth has been largely in loans on securities, and has represented the taking over by New York banks of a portion of the loans which last year were being made by out-of-town banks and nonbanking lenders. In other words, corporations and others have withdrawn funds from New York owing largely to the low rate on call money and the New York banks were obliged to take over a small portion of these loans. That the proportion taken over by the New York banks is small is indicated by the fact that the decrease in loans by nonbanking

Mr. Pole, - #3

November 3, 1930

lenders was about \$4,000,000,000, while the increase in New York ^{bank} lendings was about \$240,000,000. The banks in other reserve cities show a larger increase in investments and in commercial paper and a smaller growth in security loans. They also show a considerable liquidation of commercial loans and an aggregate increase in loans and investments of about \$238,000,000. In the country banks, there has been liquidation all along the line. They have had a decrease in the customer demand for loans amounting to about \$425,000,000 and have also diminished their open-market loans and investments by \$221,000,000. This open-market decrease reflects a withdrawal of funds from the New York market which is similar in character to the withdrawal by nonbanking lenders. The liquidation at country banks reflects in part the loss of funds by agricultural districts, owing to diminished value of their products. Investment holdings of country banks showed a slight increase of about \$17,000,000. Corresponding to the decrease in loans and investments, the country banks also show a decrease in deposits, chiefly in demand deposits; their time deposits show little change for the year. These banks, as well as the other two classes of banks, show a reduction in their indebtedness.

In general, the picture shown by these figures is one that is usual for a period of economic depression. A decline in commercial demand for loans; an increase in open-market operations by the banks which seek employment for their funds; a reduction of bank indebtedness, and a decline in the loan-to-deposit ratio. Similar changes in the condition of banks have occurred in other periods of business inactivity.

NATIONAL BANKS*

CHANGE IN CONDITION OCTOBER 4, 1929 - SEPTEMBER 24, 1930

(In millions of dollars)

	All National Banks*	New York City (central re- serve city banks)	Other reserve city banks (including Chicago central re- serve city)	Country banks
Loans and investments, total**	+ 365	+ 773	+ 238	- 646
Loans to customers, total	- 712	+ 185	- 471	- 425
To banks	- 43	- 24	- 36	+ 16
On securities***	+ 131	+ 237	- 39	- 67
On real estate	+ 71	- 5	+ 37	+ 39
Other**	- 871	- 23	- 433	- 413
Open-market loans and investments, total	+1,079	+ 591	+ 708	- 221
Acceptances	+ 38	+ 28	+ 33	- 24
Commercial paper	+ 214	+ 6	+ 198	+ 9
Security loans to New York brokers	+ 149	+ 236	+ 137	- 223
Investments, total	+ 678	+ 321	+ 340	+ 17
Net demand deposits	+ 282	+ 520	+ 235	- 473
Time deposits	+ 496	+ 129	+ 383	- 15
Capital funds****	+ 204	+ 148	+ 57	- 1
Bills payable and rediscounts	- 438	- 9	- 313	- 115

* Including national banks in Alaska and Hawaii

** Including overdrafts

*** Other than to banks

**** Total of capital, surplus, undivided profits, and reserves for dividends, contingencies, etc.

NATIONAL BANKS*

(In millions of dollars)

	All National banks*		New York City (central reserve city banks)		Other reserve city banks (including Chicago central reserve city)		Country banks	
	Sept. 24, 1930	Oct. 4, 1929	Sept. 24, 1930	Oct. 4, 1929	Sept. 24, 1930	Oct. 4, 1929	Sep. 24, 1930	Oct. 4, 1929
Loans and investments, total**	21,788	21,423	3,852	3,079	8,062	7,824	9,874	10,520
Loans to customers, total	13,028	13,740	2,015	1,830	5,024	5,495	5,989	6,414
To banks	297	340	96	120	148	184	53	37
On securities***	4,358	4,227	954	717	1,835	1,874	1,569	1,636
On real estate	1,487	1,416	15	20	617	580	855	816
Other**	6,886	7,757	950	973	2,424	2,857	3,512	3,925
Open-market loans and investments, total	8,760	7,681	1,838	1,247	3,038	2,330	3,885	4,106
Acceptances	155	117	86	58	62	29	7	31
Commercial paper	399	185	8	2	254	56	137	128
Security loans to New York brokers	1,082	933	635	399	376	239	72	295
Investments, total	7,124	6,446	1,109	788	2,346	2,006	3,669	3,652
Net demand deposits	11,445	11,163	2,704	2,184	4,589	4,354	4,152	4,625
Time deposits	8,798	8,302	637	508	3,063	2,680	5,098	5,113
Capital funds****	4,008	3,804	936	788	1,309	1,252	1,763	1,764
Bills payable and rediscounts	220	658	32	41	32	345	156	271

* Including national banks in Alaska and Hawaii

** Including overdrafts

*** Other than to banks

**** Total of capital, surplus, undivided profits, and reserves for dividends, contingencies, etc.

Office Correspondence

FEDERAL RESERVE
BOARDDate November 17, 1930To Governor MeyerSubject: Estimates of UnemploymentFrom Mr. Goldenweiser

••• 2-8495

Unemployment Com.

I am sending you a copy of a confidential memorandum giving the latest estimates of the number of unemployed. According to this estimate those out of work in September numbered 3,360,000, an increase of 2,900,000 over last year.

These figures were prepared for the confidential use of the Secretary of Commerce and of Colonel Woods by Mr. Dewhurst of the Department of Commerce, with the collaboration of some of the members of our staff. They are apparently as accurate as available statistics permit. It should be emphasized, however, that they are estimates and that any errors are probably in the direction of under-statement, which may amount to 500,000 or more. The estimates are subject to revision on the basis of more complete data from the Census of Unemployment.

Changes in employment in manufacturing, coal mining, and on the railroads, tabulated each month in this Division, show an increase in the number of jobless of 1,800,000 since September, 1929 in these three industries alone. The detailed figures are shown in the attached table.

Number of Workers Employed by
Factories, Coal Mines, and Railroads
1929 and 1930

	Factories 1/	Coal mines		Railroads	Total	Change from preceding year (Total)
		Anthracite	Bituminous			
1929						
January	9,185	160	535	1,595	11,475	
February	9,391	161	542	1,606	11,699	
March	9,523	148	537	1,628	11,837	
April	9,565	153	504	1,666	11,887	
May	9,548	157	486	1,714	11,905	
June	9,550	141	476	1,736	11,904	
July	9,550	126	473	1,745	11,895	
August	9,726	138	481	1,760	12,105	
September	9,846	154	489	1,748	12,237	
October	9,651	161	497	1,750	12,059	
November	9,265	158	508	1,681	11,612	
December	8,963	162	510	1,605	11,240	
1930						
January	8,809	155	516	1,561	11,041	- 434
February	8,835	162	515	1,545	11,057	- 643
March	8,824	125	496	1,548	10,993	- 844
April	8,786	127	475	1,573	10,960	- 927
May	8,639	142	455	1,601	10,838	-1,068
June	8,466	138	445	1,564	10,612	-1,292
July	8,196	139	443	1,532	10,309	-1,585
August	8,187	122	449	1,514	10,271	-1,833
September	8,323	142	455	1,486	10,406	-1,832
October	8,141	150	462	p 1,486	p 10,239	-1,820

1/ Exclusive of car repair shops.
p Preliminary

C O P Y

November 11, 1930.

CONFIDENTIAL

To: The Secretary.
From: J. F. Dewhurst.
Subject: Unemployment.

1. Interpretation of available employment statistics in terms of the results of the April Census of Unemployment indicates that the number of unemployed persons in September was at least 3,360,000 and may have been considerably larger. This total, compared with an estimated minimum of 3,480,000 for August, indicates that some improvement, chiefly of a seasonal nature, occurred in September. Calculated estimates of the minimum number of unemployed by months for 1929 and 1930 are shown below:

	<u>1929</u>	<u>1930</u>
Jan.	2,460,000	2,970,000
Feb.	2,400,000	3,170,000
Mar.	2,040,000	3,170,000
Apr.	1,760,000	3,000,000 (Census)
May	1,450,000	2,860,000
June	1,120,000	2,800,000
July	980,000	3,200,000
Aug.	850,000	3,480,000
Sept.	460,000	3,360,000
Oct.	780,000	
Nov.	1,680,000	
Dec.	1,900,000	

2. No information is yet available upon which to base estimates for October and November. Assuming that unemployment will increase seasonally from September to December, and without taking into account the improvement which will result from nation-wide efforts to increase employment, the minimum of unemployed during the last quarter may be

somewhat as follows:

Oct. 3,500,000 Nov. 4,200,000 Dec. 4,200,000

3. I cannot emphasize too strongly that these estimates are at best but the roughest approximations indicating the probable minimum number of unemployed in each month. The April total of 3,000,000 is based upon the Census report of approximately 2,500,000 jobless to which has been added an estimated 500,000 persons who had "jobs" but were laid off and not receiving pay at that time. This latter estimate of 500,000 was calculated from the ratio of "laid-off" employees to "jobless" in Arkansas, Delaware, New Hampshire, Buffalo, Rochester, Philadelphia, and Washington, D. C. These areas are the only ones for which this information is now available and the ratio may be changed considerably as new returns become available. This would have the effect of changing the April "base-point" of 3,000,000, and hence the figures for each of the other months by an equal amount.

Totals for other months were estimated on the basis of changes in employment reported to the Bureau of Labor Statistics and other official agencies by establishments in the following industries and occupations: agriculture (hired farm labor), manufacturing, construction (estimated from contract awards), anthracite, bituminous and metalliferous mining, quarrying, public utilities, railroads, wholesale and retail trade, and hotels.

4. An indication of the severity of unemployment in various occupations can be gained by comparing the number employed in September with the number employed in the month of maximum employment (during 1929 and 1930). The difference between the number employed in the maximum month and the number employed in September of course does not measure the actual number unemployed in each of the designated industries, as there is a considerable shift between occupations. Moreover in the case of highly seasonal occupations there are large seasonal declines which are not accompanied by actual unemployment of the workers affected since they are not usually occupied in slack periods. This is particularly true of agriculture and retail trade; many of these workers return to their homes or to other occupations during the periods of seasonal decline.

	<u>Maximum month</u>	<u>Sept. 1930</u>	<u>Decrease</u>	<u>Per cent of Maximum</u>
<u>Mining:</u>	968,051	803,192	164,859	17
Anthracite	162,258	142,108	20,150	12
Bituminous	541,723	455,209	86,514	16
Metalliferous	160,686	120,901	39,785	25
Quarrying	103,384	84,974	18,410	18
<u>Manufacturing</u>	9,846,307	8,322,583	1,523,724	15
<u>Railroads</u>	1,759,553	1,514,366	245,187	14
<u>Public Utilities:</u>	1,020,017	961,720	58,297	6
Tel. and tel.	411,689	384,296	27,393	7
Power, light, and water	342,608	338,744	3,864	1
Electric R.R.	265,720	238,680	27,040	10
<u>Trade:</u>	4,319,900	3,446,000	873,900	20
Wholesale	1,543,500	1,422,000	121,500	8
Retail	2,776,400	2,024,000	752,400	27
<u>Hotels</u>	1,285,000	1,251,250	33,750	3
<u>Agriculture</u>	2,316,670	2,016,660	300,010	13
<u>Construction</u>	1,364,029	996,334	367,695	27

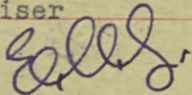
5. An estimate of the occupational distribution of the 3,360,000 persons unemployed in September is given below. In this table also the percentages for agriculture and retail trade probably may overstate the real unemployment in these occupations since many of these workers are not usually employed in slack periods.

	Number Unemployed	Per cent of Total
<u>Mining:</u>	136,416	4.1
Anthracite	16,800	.5
Bituminous	71,568	2.1
Metalliferous	32,928	1.0
Quarrying	15,120	.5
<u>Manufacturing</u>	1,258,656	37.5
<u>Railroads, steam</u>	202,608	6.0
<u>Public Utilities:</u>	47,712	1.5
Tel. & Tel.	22,512	.7
Power, light & water	3,024	.1
Electric railroads	22,176	.7
<u>Construction</u>	303,744	9.0
<u>Trade:</u>	722,064	21.5
Wholesale	100,464	3.0
Retail	621,600	18.5
<u>Hotels</u>	27,888	.8
<u>Agriculture</u>	247,968	7.4
<u>All other occupations</u>	412,944	12.3
Total	3,360,000	

6. In view of the seasonal employment characteristics of retail trade and agriculture the following table is presented to show the probably minimum monthly number of unemployed calculated on the basis of employment changes in all occupations except agriculture and retail trade, i.e., the employment fluctuations in these two occupations are assumed to have had no effect upon the monthly unemployment totals. This results in somewhat increasing the estimated totals for recent months and also has the effect of greatly reducing the apparent seasonal fluctuations in unemployment totals.

	1929	1930
Jan.	2,250,000	2,830,000
Feb.	2,090,000	2,910,000
Mar.	1,980,000	2,990,000
Apr.	1,870,000	3,000,000
May	1,740,000	3,070,000
June	1,600,000	3,190,000
July	1,470,000	3,430,000
Aug.	1,200,000	3,490,000
Sept.	1,100,000	3,480,000
Oct.	1,390,000	
Nov.	1,950,000	
Dec.	2,490,000	

Office Correspondence

FEDERAL RESERVE
BOARDDate November 18, 1930To Governor Meyer ✓Subject: Public debtsFrom Mr. Goldenweiser

... 2-8495

The accompanying table shows public debts of certain foreign countries, and the part held in the United States, for the years 1921, 1925, and 1930.

All figures are exclusive of intergovernmental debts, such as the inter-allied debts, or any of Germany's commitments under the Young Plan--except the mobilization loan of which about \$100,000,000 was issued in this country and \$250,000,000 in other countries.

The figures shown for the total government debt are exclusive of the debts of provinces and municipalities, for which satisfactory figures are not available, but figures are available for the provincial and municipal securities held in the United States and are given in the table.

For all countries except the United Kingdom and Italy the figures shown for the national debt include both internal and external debt. For the United Kingdom and Italy, however, only figures of the internal debt are given, as satisfactory figures for the external debt (exclusive of intergovernmental) are not available.

In converting the debts into dollars the internal debt has been converted at the average rate of exchange for the year. Conversion of the external debt has involved the use of various methods. Changes in the figures from time to time reflect in part fluctuations in the rate of exchange, especially in the period 1921-1925.

The figures given for total national debt for 1930 are in general those of 1929. The figures for the part held in the United States are as of the third quarter of 1930; the basic records of these figures are those of public flotations in this country, with allowance for redemption and sinking

November 18, 1930

fund operations. No allowance, however, has been made for the private purchase by Americans of foreign internal issues or for the resale to foreigners of issues originally floated in the American market.

Because of the character of the available data and the amount of research required to put figures on a comparable basis, the figures given are to be considered as subject to revision.

GOVERNMENT DEBT OF VARIOUS FOREIGN COUNTRIES

(In millions of dollars)

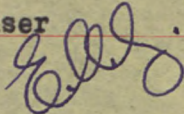
Country	National debt	Held in United States		
		National	Provincial and Municipal	Total
United Kingdom				
1921	24,994	450	0	450
1925	31,602	292	0	292
1930	31,742	158	0	158
France				
1921	18,602	216	65	281
1925	14,631	265	71	336
1930	10,661	205	75	280
Germany				
1921	2,986	0	0	0
1925	657	108	74	182
1930	2,646	185	199	384
Italy				
1921	3,710	55	0	55
1925	3,643	45	0	45
1930	4,586	137	52	189
Poland				
1921	*	23	0	23
1925	384	58	0	58
1930	471	102	15	117
Austria				
1921	*	0	0	0
1925	349	25	8	33
1930	333	45	33	79
Argentina				
1921	650	1	3	4
1925	896	185	29	214
1930	1,155	319	168	487
Brazil				
1921	647	25	28	53
1925	836	77	77	154
1930	1,001	142	222	363

*Figures unavailable or unsatisfactory.

Office Correspondence

FEDERAL RESERVE
BOARDDate November 26, 1930To Governor Meyer

Subject: _____

From Mr. Goldenweiser 

GPO 2-8495

I transmit herewith a memorandum from Mr. Gardner giving information on the monetary standards and gold holdings of different countries, as requested in the letter from Senator Pittman. I believe that this memorandum is in such form that you could transmit it to the Senator without modification.

Office Correspondence

FEDERAL RESERVE
BOARDDate November 26, 1930.To Mr. GoldenweiserSubject: Data on monetary standards andFrom Mr. Gardnergold holdings requested by Senator
Pittman.

... 2-8405

Monetary standards. Practically all countries with a fixed metallic standard are today on a gold basis. Below is given a representative list of such countries.

Countries, the currencies of which are fixed
with relation to gold:

Albania	Estonia	Japan
Austria	Finland	Java
Belgium	France	Latvia
Bolivia	Germany	Lithuania
Bulgaria	Great Britain	Netherlands
Canada	Greece	Norway
Chile	Guatemala	Poland
Colombia	Hungary	Rumania
Czechoslovakia	India (British)	South Africa
Danzig	Indo-China	Sweden
Denmark	Irish Free State	Switzerland
Ecuador	Italy	United States

The methods by which currencies in the above countries are fixed with relation to gold differ. In some the currency is redeemable in gold coin; in others it is redeemable in gold bullion; in yet others it is redeemable in foreign currencies which are themselves redeemable in gold coin or gold bullion. Whichever method is employed, the currency can fluctuate from its gold par only within the limits of the gold points as determined by the costs of moving gold from one country to another.

No country today is completely on the silver standard. In fact there is only one country of any importance which is even approximately on the silver standard; and that country is China. Most transactions in China are carried on in terms of silver taels (a weight unit) or of silver dollars. But

small transactions are carried on in terms of copper coin the value of which bears no fixed relation to silver; and large transactions may in certain regions or for certain types of business be settled in terms of gold or banknotes which bear no fixed relation to silver or to copper or to each other. In Hongkong, for instance, the prevailing currency is composed of banknotes which have long stood at a high, though fluctuating, premium with relation to the silver in which they are nominally redeemable. Strictly speaking, therefore, China is on a copper-¹/_{silver-gold-fiduciary paper} standard; but the prevailing medium of exchange in most localities and for most transactions is unquestionably silver. The only other country which might have been classed with China in this respect is Persia; and Persia is now in process of transition to the gold standard.

There are a number of countries the currencies of which are not legally fixed either with relation to gold or silver -- for instance Spain, Portugal, and Turkey. These three countries have, however, signaled their intention of returning to the gold standard in due course. Yugoslavia has actually stabilized its currency de facto with relation to gold; and is now only awaiting a favorable opportunity to establish the necessary credits and complete the process by making the stabilization de jure. Russia is professedly on the gold basis; but, in view of government control of foreign exchange and gold operations, it is questionable just how much this means. Mexico, also, is professedly on the gold standard with a gold peso and a silver peso defined in terms of gold. For some time, however, there has been interference with the free movement of gold out of Mexico; and furthermore the silver peso has gone to a marked discount from its gold parity, though still worth three times its silver content. Argentina returned to the gold standard August 27, 1927 and remained on it till December 16, 1929 when the Government conversion

¹ Perhaps one should say "fiduciary copper coin", as the exchange value of the coin is not necessarily the same as its copper content.

office was closed. The closure was intended to be temporary, but is still in effect; and Argentine currency fluctuates today without reference to its gold parity. Brazil, Uruguay, and Peru are in the same situation. Australia, also, is temporarily off the gold standard as a result of the prohibition of private export of the metal, the Australian pound being now at a discount of 8 1/2 per cent from its gold par.

Legal reserve requirements. In general the maintenance of the monetary standards adopted by the various countries is entrusted to their respective central banks. Not all the countries have such banks, and not all of those having central banks impose specific reserve requirements upon them; but we were able to present a table of the legal reserve requirements of 36 foreign central banks in the Federal Reserve Bulletin for August 1930. A copy of this table is attached.

Gold holdings. Total gold holdings of central banks and governments in 45 countries are published monthly in the Federal Reserve Bulletin. In this monthly gold table the holdings of the 16 most important countries are given individually, the other 29 countries being given as one total. In the table which appears each year in the April Federal Reserve Bulletin, however, figures are given for each country individually on an annual basis from 1913 to date. Copies of the latest monthly and annual gold tables are attached to this memorandum

November 26, 1930.

Honorable Key Pittman,
United States Senate.

My dear Senator:

Referring to your letter of November 21, I take pleasure in enclosing herewith a copy of a memorandum prepared for me by the Division of Research and Statistics of the Federal Reserve Board, which, I believe, covers the points mentioned in your inquiry. If there is anything further on these subjects that you would like to have and which we can obtain, please do not hesitate to call upon me.

I shall be very glad to confer with you with regard to the work of your committee, and if you will write or telephone me I shall be happy to make an appointment with you.

With kind regards, I am

Very truly yours,

Governor.

EM-FLF
Encl.

KEY PITTMAN
UNITED STATES SENATOR
STATE OF NEVADA

COMMITTEES:
FOREIGN RELATIONS
MINES AND MINING
INTERSTATE COMMERCE
PUBLIC LANDS AND SURVEYS
IRRIGATION AND RECLAMATION
TERRITORIES AND INSULAR AFFAIRS

United States Senate

WASHINGTON

November 21, 1930

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

My dear Mr. Meyer:

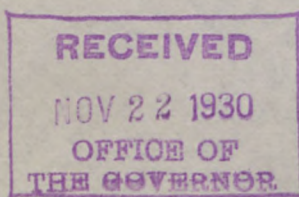
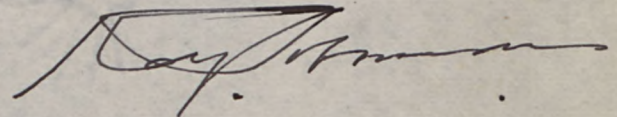
I thank you for sending Mr. J. F. Darling, Director of the Midland Bank of London, to confer with me. I am very much interested in his statement. He is wholly opposed to the British financial policy in India.

I desire to confer with you in the near future with regard to the work of our committee. If you have not in your possession some printed matter relative to the economic and financial standards of the various countries, I wish that you would have a brief synopsis made for me if it is not too much trouble. I would also like to know the amount of gold reserves now maintained in the various gold standard countries.

I had a very delightful visit with your wife on the way to New York on Sunday. Sorry that you were not with us.

With regards, I am,

Sincerely,



Office Correspondence

FEDERAL RESERVE
BOARDDate December 2, 1930To Governor MeyerSubject: Australian IssuesFrom Mr. Goldenweiser

... 2-8495

629

We have found 13 Australian issues that have been floated in the United States since 1921, of which 11 are quoted on the New York Stock Exchange and one on the Curb Exchange. They include issues for the Commonwealth, for the provinces of New South Wales, and Queensland, and for the cities of Brisbane and Sydney. Corporate issues are not included.

These issues amount altogether to \$274,500,000, were issued to the public at prices ranging from 90 to $99\frac{1}{2}$, and are now selling at prices ranging from $66\frac{1}{2}$ to 85.

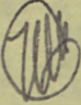
Australian Bond Issues

Issue	Amount	Date offered	Issue price to public	Present quotation
Commonwealth of Australia:				
5%, 1925-55	\$75,000,000	July, 1925	$99\frac{1}{2}$	78
5%, 1927-57	40,000,000	Aug., 1927	98	77 $\frac{7}{8}$
$4\frac{1}{2}$ %, 1928-56	50,000,000	May, 1928	$92\frac{1}{2}$	71
New South Wales:				
5%, 1927-57	25,000,000	Feb., 1927	$96\frac{1}{4}$	$69\frac{1}{4}$
5%, 1927-58	25,000,000	Apr., 1927	$96\frac{1}{4}$	$69\frac{1}{2}$
Queensland:				
7%, 1921-41	12,000,000	Oct., 1921	99	$90\frac{1}{4}$
6%, 1922-47	10,000,000	Feb., 1922	$96\frac{1}{2}$	$83\frac{3}{4}$
City of Brisbane:				
5%, 1927-57	7,500,000	Mar., 1927	96	$66\frac{1}{2}$ bid
5%, 1928-58	7,500,000	Feb., 1928	$94\frac{1}{2}$	68
6%, 1930-50	5,000,000	June, 1930	$96\frac{1}{2}$	85
City of Sydney:				
$5\frac{1}{2}$ %, 1930-55	5,000,000	Mar., 1930	90	74
$5\frac{1}{2}$ %, 1930-55	5,000,000	Mar., 1930	90	74
$5\frac{1}{2}$ %, Metropolitan Water Board, 1930-50	7,500,000	Apr., 1930	$92\frac{1}{2}$...

Office Correspondence

FEDERAL RESERVE
BOARDDate December 27, 1930.To Governor Meyer

Subject: _____

From Mr. McClelland

2-8495

In response to your request for a memorandum relative to inter-Federal reserve bank rediscounting, I respectfully submit the following:

Section 11(b) of the Federal Reserve Act authorizes the Federal Reserve Board -- "to permit, or, on the affirmative vote of at least five members of the Reserve Board to require Federal reserve banks to rediscount the discounted paper of other Federal reserve banks at rates of interest to be fixed by the Federal Reserve Board."

On March 10, 1915, the Federal Reserve Board established a rate of 3-1/2 per cent for paper maturing within 30 days, and 4 per cent for paper maturing after 30 but within 90 days, when rediscounted by one Federal reserve bank with another. These rates were changed on May 29, 1917, to 3 per cent for paper maturing up to 90 days. No rediscount transactions were consummated, however, until December, 1917, at which time rates on paper discounted by Federal Reserve Banks for their own member banks were higher than in the early part of the year, and accordingly rediscounts between Federal Reserve Banks were made at rates fixed when each transaction took place, having in mind the prevailing discount rates both of the bank extending and of the bank receiving accommodation. Effective September 7, 1920, however, the Board fixed a rate of 7 per cent on paper discounted by the Federal Reserve Bank of Cleveland for other reserve banks, and effective September 13, 1920, the same rate was made applicable to all inter-Federal Reserve Bank rediscounts. The rate was changed to 6-1/2 per cent on May 13, 1921; to 6 per cent on June 23, 1921; and to 5-1/2 per cent on November 3, 1921.

With respect to the change made effective on November 3, 1921, the minutes record that Governor Harding stated that in view of the reduction in discount rates at the Federal reserve banks, he would request the Board to consider a reduction from 6% to 5-1/2% in the inter-bank rediscount rate and that upon motion it was so ordered.

It is my impression that the policy of the Board between December, 1917, and September, 1920, or at least during part of that period, was to fix the rediscount rate in individual transactions at the discount rate of the lending bank. I am not able, however, to find any entry in the Board's records to support this recollection.

The Annual Report of the Board for 1921 contains the following discussion of rediscounting which you may find interesting:

"Reserve ratios of Federal Reserve Banks, considered separately, are closely related to the rediscount transactions between Federal Reserve Banks. A Federal Reserve Bank will seek rediscount accommodations from other reserve banks at times when its own reserve is insufficient, without declining to a point below the legal minimum, to supply the credit demands of its member banks. Reserve ratios on the basis of reserves actually owned by a bank are known as 'actual' reserve ratios, while reserve ratios on the basis of reserves before inter-bank borrowing or lending are referred to as 'adjusted' ratios. It is the adjusted ratio, therefore, that is an index of the reserve position of a Federal Reserve Bank from the standpoint of its ability to make rediscounts for other reserve banks or its need to apply for accommodation to other reserve banks.

Two tables are presented below, (*) one showing the actual and adjusted reserve ratios of each Federal Reserve Bank at the end of each month during 1920 and 1921 and the other showing for each Federal Reserve Bank the net amount of accommodation received from or extended to other reserve banks. During the year 1920 inter-district rediscounting assumed large proportions, the amount at the end of October being \$260,440,000. During the year 1921 credit requirements throughout the country were less urgent and banks were better able to meet local demands out of their own resources. The maximum amount of Federal Reserve Bank rediscounts at the end of any month subsequent to the high mark of \$91,365,000 on January 31 was \$68,304,000 at the end of August. Since that time inter-bank borrowings decreased rapidly and from December 15 to the end of the year no Federal Reserve Bank was rediscounting with others.

(*) See pages 44 and 45 of 1921 report.

"The Federal Reserve Banks which have received the largest amount of accommodation from other Federal Reserve Banks during the past two years are those at Richmond, Atlanta, St. Louis, and Dallas, whose districts were affected by the decline in the price of cotton, and the Federal Reserve Banks of Chicago, Minneapolis, and Kansas City, which felt the effect of the decline in the price of grains, wool, and other agricultural products.

The chart in the appendix of the complete report shows the actual and adjusted reserve ratios for each Federal Reserve Bank during the years 1920 and 1921. It is apparent from the chart that the banks in the principal agricultural districts, with the exception at times of Chicago, would not have been able to serve the needs of their communities nearly so well had it not been possible to obtain additional funds from the banks in the North and East which were in a stronger reserve position.

In 1920 the principal lending bank was the Federal Reserve Bank of Cleveland, which extended accommodation to other Federal Reserve Banks up to a maximum amount of \$145,000,000, when it was extending indirectly through its loans to other reserve banks more credit to member banks outside of its own district than to its own members. In 1921 the Federal Reserve Bank of Cleveland was called upon to lend to other Federal Reserve Banks in a much more moderate degree. The Federal Reserve Bank of Boston rediscounted for other Federal Reserve Banks almost continually during the two years, and the Federal Reserve Bank of New York at different times appeared in inter-district transactions, either as borrower or lender. During 1921, however, owing to the constant flow of gold from abroad, and to marked liquidation of advances to its own member banks, the New York Federal Reserve Bank's reserve ratio shows a marked and constant advance, and it has been extending accommodation to other Federal Reserve Banks since April. The Federal Reserve Bank of Philadelphia was borrowing from other Federal Reserve Banks during the early part of the year 1920, but as its reserve position improved the bank became a heavy lender to other Federal Reserve Banks beginning with July. This bank was not called upon during the year 1921 to extend any large amount of accommodation to other Federal Reserve Banks.

As a result of the rediscount transactions between Federal Reserve Banks, the actual reserve ratios of the several banks remained fairly steady throughout the year 1920 at between 40 and 45 per cent. In 1921, chiefly in consequence of the constant influx of gold and the reduction of Federal Reserve note circulation, an upward tendency in reserve ratios was noted at all the banks, the greatest advance being recorded in the case of the Federal Reserve Bank of New York, which had a reserve ratio of 37.9 per cent at the end of January, 1921, of 83.6 per cent at the end of November and 78.8 per cent on December 31."

With regard to the mechanics of rediscounting -- after the Board adopted the policy of establishing a fixed rate of rediscount, the Governor of the Board was authorized to approve inter-bank transactions at that rate, which he currently reported to the Board along with information relative to the

reserve positions of the several Federal reserve banks.

In a letter addressed to the Federal reserve banks under date of October 18, 1920, in order to secure uniformity and eliminate confusion, the Board requested that commencing not later than November 1, 1920, all inter-Reserve Bank transactions through the Gold Settlement Fund, unless otherwise directed by the Board, be made through the daily Clearing, with the following exceptions which should always be made by direct transfer through the Gold Settlement Fund:

1. Payments on account of all inter-Federal Reserve Bank rediscounts*****.
2. All transfers on account of maturing rediscounts and advance payments and rebates of rediscounts.
3. Transfers of funds for account of the Treasurer of the United States.

These exceptions were provided to enable the Board to be promptly advised of the effect of large inter-district movements of gold upon the reserve positions of the Federal reserve banks in connection with the arranging of inter-Reserve Bank rediscounts and also in order that the Board might be advised of changes in the status of rediscounts between Reserve Banks.

With regard to the routine of the individual transactions -- upon receipt of a request from a Federal reserve bank that the Board arrange a rediscount for it, the request was submitted by the Secretary of the Board to the Governor with information which would enable him to select the Federal reserve bank in best position to afford the accommodation. After the transaction had been approved by the Governor, a wire was dispatched to the Bank selected for the lending, requesting it to arrange to make the advance. The lending bank then authorized the Board to make the transfer to the borrowing bank through the Gold Settlement Fund. The borrowing bank was then advised and before the transfer was effected deposited collateral with its Federal Reserve Agent for

account of the lending bank. As pointed out above, all payments, rebates, etc. were currently effected through the Gold Settlement Fund thereby coming to the Board's attention.

In arranging rediscounts, in addition to giving consideration to the reserve position of the banks, close cooperation was maintained between the Board and the Treasury Department regarding pending Treasury transactions in order that transfers of funds and deposits made by the Treasurer and inter-Reserve Bank rediscounting should not conflict. During the period of heavy rediscounts, the Treasurer endeavored wherever practicable, to make his deposits with those banks having a low reserve percentage and to transfer funds from the banks which could afford to lose gold.

With regard to reporting inter-Reserve Bank transactions in the published statements, the Board ruled that the rediscounting or borrowing bank should include the amount of rediscounted bills under the general caption "Bills discounted for member banks," and report the amount thereof against the liability item "Bills rediscounted with other Federal reserve banks." The discounting or lending bank showed the transaction as "Bills discounted for other Federal reserve banks" as distinguished from "Bills discounted for member banks" and "Bills bought in open market."