

At a joint meeting of the Federal Reserve Board with Federal Reserve Agents held in the office of the Board at 10:30 a. m., on Saturday, November 6,

PRESENT:

Mr. Hamlin, presiding	Mr. Warburg
Mr. Delano	Mr. Harding
Mr. Williams	Mr. Miller
Mr. Willis, Secretary.	

PRESENT ALSO, the following agents:

Mr. Curtiss	Mr. Bosworth
Mr. Jay	Mr. Martin
Mr. Austin	Mr. Rich
Mr. Wills	Mr. Miller
Mr. Ingle	Mr. Tenison
Mr. Wellborn	Mr. Ferrin

Mr. Ferrin being called upon by the Governor of the Board, informed the meeting that the Federal reserve agents had voted to favor the establishment in foreign countries of banks jointly owned by groups of member banks, an amendment, if

necessary, to be secured from Congress for that purpose. The Federal reserve agents further concurred in the Board's recent report relating to the establishment of foreign agencies of Federal reserve banks. They were further of the opinion that Federal reserve banks in operating abroad should be limited to the appointment of correspondents, or the establishment of agencies in the chief financial markets of Europe. A fuller report would be formulated and later submitted.

Mr. Rich was asked to read to the Board a paper he had prepared relating to the general conduct of Federal reserve banks in certain important particulars. The paper was read by Mr. Rich as follows:

STATEMENT BY MR. JOHN H. RICH.

Conference of Federal Reserve Agents.

November 6, 1915.

There are two points of contact between the government as a supervising agency and the member banks in the Federal reserve system which

it seems to me are worthy of serious consideration. You are all familiar with the criticism of the reserve banks except in the south, because they are not making money. In some districts, such as the one I represent, the member banks have even been fearful that we would assess them to make up our year's expenses. You are also familiar with the expressions of bankers who are afraid of competition from the Reserve banks. Upon the one hand our members fear we will not make money, and upon the other, they are greatly afraid we will, and make it in such a way that their own interests will suffer. Whether these criticisms are groundless or not does not seem to me to be important. At least the member banks think there is something in both points, and as long as they think so, the Reserve banks will be under embarrassment. Upon either point the thing criticism swings upon is the dividend upon the capital stock outstanding. The reserve banks, I think, are all making expenses. Some have not had opportunity to make substantial progress toward the payment of the 6% that is guaranteed on their outstanding stock. To make the dividend they must increase the volume of re-discounts or the total of their investments, or accept the remaining alternative of going into the open market and engaging in operations permitted by the Act. The volume of re-discounts is fixed by conditions no reserve bank can control. The opportunities for investment are controlled by the offerings on the market and these have not been as great as some of us would wish. To engage in open market transactions is to immediately provoke the criticism of the member banks for invading a field which they consider their own. It does not look very promising from the dividend standpoint, when some of us consider these conditions, and observe the limited opportunities

our district affords to do a larger business.

My first suggestion is that the necessity of putting an undue strain upon our earning capacity, to pay a dividend, be wholly done away with. I would suggest that this be done:

First. Either by returning to the member banks the full amount of their paid-in capital and replacing the capital through deposits of the government at 2% in equal amount; or

Second. By returning the paid-in capital and replacing it with an equal sum derived from the proceeds of 3% government bonds.

Under the first suggestion, the demand upon the reserve bank would be reduced two-thirds, the interest paid the government being only one-third the dividend rate fixed by the act. Under the second suggestion, the bonds would carry a rate only one-half that fixed as the dividend rate, and one-half the annual dividend would be saved.

In either case, the total original subscription to capital stock by member banks should stand subject to call and as a liability. Either of these suggestions would accomplish the purpose of eliminating the pressure on the banks to make heavy earnings to provide for dividends, without at the same time impairing the resources of the system through cancelling a large amount of capital without provision to replace it.

Upon October 13 I spoke before a gathering of bankers in Northern Michigan and gave

them the ideas here expressed. I was much interested later to find that on the following day Chairman Bosworth also went into this subject in an address at Indianapolis, and suggested a substantial reduction of reserve bank capital paid-in. I do not express a preference between his suggestions and mine, except to agree fully with him that some such action is necessary, and to say, that if the capital is reduced instead of cancelled some provision should be made to replace it in some form. The total resources of the reserve system should not be impaired to the extent of from \$25,000,000 to \$40,000,000 until a compensating advantage can be arranged for. Perhaps government deposits might accomplish this, but they would have to be apportioned in accordance with the cancellations of stock in each bank.

I personally prefer the wiping out of all of the paid-in capital. This is objected to on the theory that reserve banks would then be government banks. I had supposed that they are now, and have always been government banks. I can not see that the shares of stock perform any useful function. If wiped out, the subscription would still stand, and each member bank would be liable on call, not only for what it now has in, but twice that sum if necessary. The wiping out of these shares would wholly remove all basis of criticism. There would be no further point in any banking argument about what the reserve banks are making or whether they are making more or less than their expenses. Nor do I see that it would necessarily alter the degree of representation of member banks in the management of the reserve banks, or that there would necessarily be any change whatever in the present method of voting for and electing officers, except that the method should be simplified.

That suggests my second point, which has reference to the cumbersome and unnecessarily involved method of electing reserve bank directors.

The district I represent covers six states in whole or in part. It has three groups of voting member banks. Each of these three groups is divided between the six states. It is wholly impossible for Groups 1, 2 or 3 to confer or create any common understanding by discussion. Neither can they have independent action because they are not organized, and organized effort is impossible because there is a distance of 1,500 miles in some cases between banks in the same group. More than this, these banks have no common interests by groups, or no purpose in organizing and getting together except to nominate directors, and this is not important enough in their minds to justify the trouble.

Now, then, is it possible to expect that the representative government of reserve banks can become an actual fact?

The Act provides for the election by member banks of two different classes of directors; those representing banks as such, and those chosen from the non-banking field to represent agriculture, commerce and industry.

The non-banking director is picked and elected by banks. I think most of you will agree that the provision is weak and ineffective, and can hardly result in the creation of a vigorous element representing business, on these boards of directors. My observation is that the Class B directors might just as well be Class A directors. Naturally banks will lean first toward men of banking views.

No method is provided through which any man can become a Class B director except through the favor of member banks. Class B is therefore a good deal of a fiction. The men occupying Class B directorships are of the same general type and characteristics as the Class A directors. How true this is is shown in the fact that in some cases these Class B directors have had to resign banking connections in order to qualify. I would therefore suggest the advisability of amending the act by striking out these unnecessary and purposeless distinctions.

I would suggest as a substitute method that member banks be permitted to elect as a whole, and not by groups, five directors, but not until after they have made their own nominations through a committee of their own selection. Such a committee can easily be selected by states or by divisions of a district. It can be compelled by law to submit a list containing a selection of names. The member banks then would vote with some assurance that they are making actual choices of men to represent them. We would not see what I have recently observed, and that is nomination blanks coming in with every mail, and every blank repeating the name of a nominee selected not by group members, but by an unofficial clearing house steering committee.

The result of such a process as that is that you have boards of directors who have the power through unofficial organization not contemplated or authorized by the act, of becoming self-perpetuating; and I see no way in which this can be prevented so long as the election provisions of the Act are left

unchanged.

I would suggest that the remaining four members of each board of directors be appointed by the Federal Reserve Board. My observation is that three men do not constitute a proper government minority on these boards. I think it is proper and reasonable that the control of these boards should be in the hands of the member banks. For this purpose, a majority of one is entirely sufficient. The Federal Reserve Board, having the authority to name a minority of four, would never be at a loss to secure in each reserve bank board the highly desirable and healthful influence that can and should be exerted by a live minority. It should also be considered that the Governor of a reserve bank, although not a director, exerts an influence. In one bank, at least, he sits in board meetings and is to all intents and purposes a director. He is the appointee of a majority of the board, and consequently his influence is with the majority. The Federal Reserve Agent, as chairman, and pursuing the impartial attitude which a chairman should hold, is hardly in a position to have the same influence, especially on any question where there is a division of opinion between the banking and the governmental interests.

Some day we are going to be asked what real participation or influence agriculture, commerce and industry have in these banks, except as such influences may be interpreted through the medium of member banks. It is with a thought of the criticism that may ultimately come that I suggest and strongly favor a simpler, more direct and more easily understandable system of election. The public will readily recognize and probably not

criticise a banking majority when accompanied by an active government minority. As at present constituted, these boards are not understood by the public and as a matter of fact they do not seem to me to be working out as the act originally contemplated, that is to say, in such a way that the government, the business of the country and the member banks have at all times an equal and evenly balanced power and influence.

I do not make these suggestions as a final opinion. Both these subjects are so important that quick conclusions should be avoided. I believe, however, that the suggestions I have made will form a basis upon which they can be discussed, and may serve as an entering wedge toward two important improvements in the working of the reserve system.

Mr. Perrin informed the joint meeting that the reserve agents had taken up for consideration the question of the increased cost of bank examinations. Mr. Delano reviewed the inquiries that had been made into this subject, and discussion participated in by Messrs. Jay, Ingle and Wills, ensued.

Mr. Perrin stated that the reserve agents had briefly discussed the question of transfers between the gold settlement fund and the Treasurer

of the United States. An important question involved related to the expense of conducting such transfers. Mr. Miller called attention to the fact in this connection, that he had in his possession \$7,000,000 in gold, which was more than should be held from the standpoint of safety in the vaults of the Federal Reserve Bank of Kansas City. Further extending the discussion on the subject of exchange, Mr. Miller said that exchange in Kansas City was at a premium eight months in the year, that it was the practice of the reserve bank to buy all it could get at par or at a small premium, but that it habitually stopped buying when the rate went higher than ten cents per thousand. Mr. Tenison offered some remarks further elaborating the same subject.

Mr. Perrin stated briefly the substance of the report of the committee appointed for the purpose of standardizing the reports on business conditions, and the annual reports. He then referred to the question of bond given by Federal

reserve agents, saying that it was the opinion of the reserve agents that the amount now required was too large, and that the cost of these bonds should be borne by the bank to which the reserve agent is accredited. He further referred to the pending election of directors, and stated some of the problems arising in connection therewith, expressing the hope that the Board would pass upon these as soon as convenient.

Mr. Delano described to the meeting what it was desired to do with the maps and charts of each district which had been called for by the Board, pointing out that these materials have a statistical value, and were not intended to satisfy mere curiosity, or to supply purely general information. He asked for suggestions with reference to the data to be accumulated by this means.

Mr. Hamlin directed that the question of settling details relating to the election of directors be made an order for consideration by the Board at the meeting of Monday, November 8.

Mr. Bosworth stated to the conference the result of a discussion carried on among Mr. Warburg, Mr. Jay and himself respecting the issue of notes by Federal reserve banks against deposits of gold and lawful money, saying that a common ground with reference to the matter had been found. He was of the opinion that the practice followed in New York was wise, but that it did not materially add to the lending power of the bank. He further criticised the present situation with respect to the personal responsibility of Federal reserve agents for gold placed in subtreasuries without counting, and otherwise held.

On motion at 12 noon, the joint meeting adjourned.

H. Parker Willis
Secretary.

APPROVED:

Stamler
Chairman.