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From the [unclear] [unclear] [unclear]

FEDERAL RESERVE BOARD
WASHINGTON

February 11, 1916.

Memorandum for the Federal Reserve Board:

The undersigned make free to submit the following observations and recommendations.

There is appended to this memorandum a statement showing the resources of the twelve Federal Reserve Banks, the deposit liabilities, the cash holdings, the funds invested, the gold required as reserve against the present liabilities of the Banks, and the amount available for further investments, a second statement showing the net return received at present by these twelve Federal Reserve Banks from their investments, and a third statement showing the amount necessary for each Federal Reserve Bank to have invested, at different interest rates, in order to earn running expenses and the 6 per cent. dividend.

This permits of three important conclusions:

First, that the expenses of the Banks should be reduced as far as possible. It cannot be said, however, broadly

speaking, that there is extravagance in the present management; but it stands to reason that a structure based upon twelve different banks is in itself an expensive organization, and that by reducing the number of banks expenses may be substantially reduced.

Second, that some districts have practically no local bank borrowing at all, others have probably more than the Federal Reserve Banks of their particular districts, with the small authorized capital and the comparatively small resources of their own, are able to take care of. By combining some of these districts much better results can be secured. While the Board has the power to have one district rediscount for the other, it must not be overlooked that a comparatively small bank, as a matter of conservatism, will not take care as freely of the local requirements, because when it rediscounts it incurs a liability, and the limit up to which a Federal Reserve Bank may act for any member bank is more quickly reached when the total authorized capital and resources are more limited and when a loss incurred is felt as a comparatively larger proportion of all the profit earned, than if they were dealing with the combined resources of two or three districts. Moreover, the member banks of a district will have more faith in a larger bank than in a comparatively small bank, and they will hesitate less in relying for their entire requirements upon such a Federal Reserve Bank, while with a small Reserve Bank,

being frequently overtopped by individual National or State banking institutions of the district, there is a natural strong inclination to continue to look upon correspondent banks to as large a degree as upon the Federal Reserve Bank for any credit facilities that may be required.

Third, it appears very advisable to authorize the Federal Reserve Board to permit, temporarily at least, some of the Federal Reserve Banks to pay back part of the paid-in capital, leaving the authorized capital and liability unchanged. This would seem to be in contradiction to what has been said in the previous paragraph, but it is not so, particularly not if districts were combined so as to have a larger authorized capital; but even without such combination the authorization to pay back part of the paid-in capital is most desirable, because, as above seen, it ^{would be} ~~has been~~ impossible for most of the Federal Reserve Banks, in the present conditions, to earn the 6 per cent. dividend on their stock without exhausting their resources, and without at the same time inflating the general credit situation. If ~~so~~, the Banks would have exhausted their resources in order to secure a sufficient return to pay dividends, and it would ^{have} meant that reserves had been reduced, not from 25 and 15 per cent. to 18, 15 and 12 per cent., but substantially to 13, 10 and 7 per cent.; and this would have been done at a time when there is common agreement that, in view of the great ease of money, reserves should be kept higher than required by

law, and not lower. The total resources of the Federal Reserve System at present are about 514 millions, of which the capital paid-in represents about 10 per cent., being 55 millions. It does not make much difference whether 50 per cent., or even two-thirds, of this capital is returned, leaving the total resources of the System at about 480 or 490 millions, as against 514 millions. The difference in loaning power is only slight, particularly when we consider that a hundred millions of additional cash will have to be paid in, and when, as we hope, the amendment permitting the note issue against deposits of gold will add an additional power of several hundred million dollars. The main strength of the System will always be in its deposits which are fixtures, and the additional gold that can be brought under control by the note issue, which may be considered as a fixture inasmuch as experience will show that the Federal reserve circulation will permanently be carried in the pockets of the people just as at present is done with the gold certificates. The paid-in capital does not add materially to the strength or to the loaning power of the Federal Reserve Banks. It has, however, as has been shown heretofore, a very serious bearing upon the policy of the Bank and upon the safety of the entire banking situation. It has also an important bearing upon the goodwill of the member banks and upon the general situation, because the public will not understand that the Federal Reserve System may be a full success and render ^a the most ✓

important national service to the country, even if it does not earn dividends, ^{a return} which the banks and particularly the country banks will be dissatisfied not to receive and which the public at large will foolishly consider as the standard by which to measure the success. Furthermore, the Government is interested in the situation because it is entitled to the excess earnings beyond 6 per cent., and there is no reason why with a small capitalization they should not before long receive a handsome return. There is also this further consideration, that as long as the ^{F.R.} banks feel crowded in their earnings, they will naturally be loathe to undertake expensive functions, such as check clearing and gold transfers, note issues, etc., and their preference will naturally be more for higher rates than for moderate rates.

The situation at present is aggravated by the fact that Federal Reserve Banks cannot pay for whatever investments they make by Federal reserve notes, but that all investments are being paid for practically ^{by} ~~in~~ loss of gold. The reason for this is easily understood if we consider that under the present law whenever there is a demand for currency it is being filled by the issue of National bank notes, ^{and when there is a demand for reserve money} ~~and that~~ Federal reserve notes ~~are~~ not being counted as reserve, ~~so that where there is a demand for additional circulation and Federal reserve notes cannot be accepted as reserve there is only one way of settling for purchases, which is by loss of gold.~~ It is

readily seen how this affects the loaning power of the banks.

Redist. activity

122.-2

P. M. W.
3/7/16.

Concerning Mr. Broderick's Report on
Federal Reserve Bank of Philadelphia.

Mr. Broderick's report on the Federal Reserve Bank of Philadelphia has been handed to me and I have glanced through it.

Excepting comments upon the vaults and some changes suggested in handling the teller's cash, the report is entirely favorable.

A letter bearing upon the question of the vaults is hereto attached for the consideration of the Board. I suggest that action be delayed in connection with that matter until Mr. Broderick's return. Pending that, I am writing Mr. Rhoads that there cannot be any doubt that, one way or another, Federal Reserve Banks will be charged within a year or two with carrying out the bulk of the check clearings of the country and that in making his plans he should be prepared for this development. The question arises whether, pending such development, a larger amount of cash could not be carried in the sub-treasury or in the gold fund.

(2)

The report of the general operations of the Federal Reserve Bank of Philadelphia permits of some interesting analysis. The total invested funds of the Bank were \$8,500,000 on January 2, 1916, as against about \$4,250,000 on May 8, 1915. The rate of income from this investment is at present 2.17%, as against 2.94% in May, 1915. Of these \$8,500,000 invested, about \$3,000,000 are United States bonds, about \$3,000,000 are warrants, \$2,300,000 are acceptances, and about \$200,000 are rediscounts.

It will be seen from a statement received from New York that New York purchased for Philadelphia during 1915, \$2,800,000 par value of warrants and \$3,400,000 of bankers' acceptances.

The total bank borrowing in the Philadelphia District on November 10th was \$3,100,000; the total rediscounting done by member banks in that district was \$500,000, out of which the Philadelphia bank secured \$145,000.

In order to earn its dividends and expenses at 3%, the Federal Reserve Bank of Philadelphia, according to Mr. Broderick's memorandum, page 5, would have to invest \$21,000,000. The total amount available for investment

(3)

after setting aside the reserve for its deposits, is \$22,270,000 - that is to say, that after a sufficient amount would have been invested at 3% to earn a 6% dividend, all the reserve left in the Bank of Philadelphia would be \$1,270,000. If we take a basis of 3½% the bank would have to invest a total of \$18,000,000 and there would be left a total amount of \$4,250,000 to serve as a reserve for the requirement of the district.

This shows two things: first, that even in a rich district like Philadelphia, where the reserve deposits as compared to the capital are large, present conditions would mean the exhaustion of practically all available funds if a dividend is to be earned at returns which the bank at present can secure. I mention this in order to emphasize the point so frequently made that the paid-in capital in Philadelphia under present conditions is too large. Second, overhead expenses ought to be reduced, which cannot be done with a system of so large a number of banks. In this connection two eventualities may be contemplated: either to look upon Philadelphia as a part of New York (which for many reasons I should not recommend) or to extend the Philadelphia

District down South, so as to include in it a large borrowing section and so as to secure a bank which, with a smaller percentage of capital paid-in, would still have a capital large enough to enable it to operate on a more comprehensive scale and with greater boldness than can at present three comparatively small banks.

Philadelphia, Richmond and Atlanta combined would have an authorized capital of \$32,000,000, and they would together have deposits of \$46,000,000. Their paid-in capital at present is \$11,000,000, being a total of \$57,000,000. These \$57,000,000 are their fixed resources. If half of the capital paid in, \$5,000,000, or even two-thirds of the capital paid in, \$7,500,000, were paid back it would make comparatively little difference in the power of operation of these banks; that is to say, were their resources \$57,000,000 or \$52,000,000 or \$50,000,000 with an authorized capital of \$32,000,000 it would make comparatively little difference. It will make, however, a difference as between night and day in the operation of these banks whether or not they have to earn dividends in times when they practically cannot do it without unduly depleting their funds and at the same time inflating the

general banking situation.

If we looked upon Philadelphia, Richmond and Atlanta (the latter without New Orleans) as three independent units to be administered substantially as they are being administered today by three bank boards, but united by one stock capital instead of three and forming one district as to note issue and basis of operation; we should secure vastly better results, both as to efficiency and economic operation.

It is the duty of this Board to consider how the System may be made a success and I am throwing out these thoughts, not from a point of view of asking for action or expecting immediate results, but for the purpose of having my colleagues ponder about these suggestions when they think of the future development of the System. I know that uniting Philadelphia, Richmond and Atlanta is too radical a thought, because if carried out with respect to other districts, it would lead to a reduction to five or six districts, which is going further than the Act contemplated. (See Memorandum 1 attached.) But even if Philadelphia and Richmond were united and Atlanta and Cleveland thrown together a great improvement might be secured while the minimum number of eight banks could

(6)

be observed (See Memorandum 2 attached). The memoranda represent the roughest kind of sketches without going into the question of adjustments that would become necessary if a consolidation of districts as here outlined were contemplated between the present districts.

There is something radically wrong now and it cannot be cured by adding to a faulty construction a faulty policy of administration. The Federal Reserve principle is sound as long as the number of the banks is kept within reasonable bounds. With twelve banks, and too large a capital paid in, a reaction is bound to come and the longer the friends of the System wait in applying a remedy, the stronger the reaction will be when the defects are cured by its enemies; the longer we wait, the greater the danger will be that the changes in that case will be very drastic and too extreme.

MEMORANDUM NO. 1.

	<u>Capital Authorized.</u>	<u>Paid in.</u>	<u>Deposits.</u>	<u>Total Resources.</u>
Philadelphia)		5.270	26.4	
Richmond)		3.356	11.3	
Atlanta)		<u>2.423</u>	<u>8.1</u>	
	22.000	11.049	45.8	56.8
St. Louis } should inc. N. Orleans		2.800	15.0	
Kansas }		3.000	16.2	
Dallas }		<u>2.700</u>	<u>10.1</u>	
	17.000	8.500	41.3	49.8
Chicago)		6.600	55.8	
Minneapolis)		2.500	14.7	
Cleveland)		<u>6.000</u>	<u>35.7</u>	
	30.2	15.100	96.0	111.1
New York)		11.000	195.6	
Boston)		<u>5.100</u>	<u>28.2</u>	
	32.2	16.100	223.8	239.9
San Francisco	8	3.900	17.5	21.4
	109.8	54.600		479.0
				<u>54.9</u>
				534.0
		With 1/8 paid in		<u>500.0</u>

No adjustments made for
New Orleans & Cleveland, etc.

P.M.W.
2/7/16.

MEMORANDUM NO. 3.

		<u>Capital</u> <u>Authorized.</u>	<u>Paid in.</u>	<u>Deposits.</u>	<u>Total</u> <u>Resources.</u>
Boston	(1)	10.2	5.10	28.2	33.3
New York	(2)	22.0	11.00	195.6	206.6
Philadelphia	(3)		5.27	26.4	
Richmond			<u>3.35</u>	<u>11.3</u>	
		17.2	<u>8.60</u>	<u>37.7</u>	46.3
Cleveland	(4)		6.00	25.7	
Atlanta			<u>2.00</u>	<u>7.1</u>	
		16.0	<u>8.00</u>	<u>32.8</u>	40.8
St. Louis	(5)		2.80	15.0	
New Orleans			<u>0.50</u>	<u>1.4</u>	
		6.8	<u>3.30</u>	<u>16.4</u>	19.7
Chicago	(6)		6.60	55.6	
Minneapolis			<u>2.50</u>	<u>14.7</u>	
		18.2	<u>9.10</u>	<u>70.3</u>	79.4
Kansas City	(7)		3.00	16.2	
Dallas			<u>2.50</u>	<u>10.0</u>	
		11.0	<u>5.50</u>	<u>26.2</u>	31.7
San Francisco	(8)	<u>7.8</u>	<u>3.90</u>	17.5	<u>21.4</u>
		54.9	54.50		479.2.
					<u>54.9</u>
					<u>524.1</u>
			With 1/8 paid in		<u>500.</u>

COPY

122-2

February 4, 1916.

Dear Governor Rhoads :

I have your letter of February first and apologize for not having answered sooner. I had hoped to take the matter up with the Board, but we have been so busy it has not been possible to do so. Meanwhile, let me give you my personal opinion, which is this : sooner or later, and probably sooner, the Federal Reserve System will develop a clearing system which will eventually serve the entire country and in making your plans for the future, I think there can not be any doubt you ought to be prepared for such development.

Would it not be possible, if it proved to be necessary, to extend your gallery so as to cover practically the entire floor, and, furthermore, would your building permit of the addition of a further story, or do you expect that, in case the clearing business would require a great deal of additional space, you would have to remove entirely ?

Mr. Broderick has not yet returned, but I am sure that he has nothing but favorable reports with respect to your bank. I saw from his report the suggestion he made to you concerning the handling of your cash, and I am sure that you will be glad to act upon these suggestions.

Very truly yours,

(Signed)

PAUL M. WARBURG.

C. J. Rhoads, Esq.,
Governor, Federal Reserve Bank,
Philadelphia, Pennsylvania.

FEDERAL RESERVE BANK OF PHILADELPHIA.

Philadelphia, Feb. 1, 1916.

Dear Mr. Warburg :

I have read over with a great deal of interest the report which Mr. Broderick left with us of his examination of this institution, and am rather disappointed that he did not find more to criticize. We are so conscious that we are far from perfect that we are very anxious to improve our methods in every way possible and hope that Mr. Broderick will feel free at any time to make any suggestions to us which he may think are helpful.

With reference to the criticism which he made of our vault, and which, as you know, has claimed our directors' attention from time to time, I think you may be interested in seeing a copy of a letter received by us yesterday from the Hollar Company, giving us an estimate of the cost of a new vault similar to the one which the Franklin National Bank is now installing in its new building, and also of another vault similar to the one built for the Federal Reserve Bank of Minneapolis. I do not know just how our directors would feel today about incurring the expense of a new vault, but think that they would have the courage to undertake the proposition if they could see clearly what our future in this city will be. I doubt if we could handle a very large volume of check collections in our present building even if we extended the gallery beyond what we now have, and therefore, we would hesitate to put in a large vault here if we felt that we would have to move out in a year or two into larger quarters. If you have given any thought to this matter, I should be very glad if you would let me know how you feel about it.

I enclose, herewith, the usual Clearing House statement which you will observe shows a decrease in the excess reserves of national banks of \$7,756,000. The excess reserve, however, of almost \$28,000,000 is sufficient to prevent any improvement in rates, and now that our acceptances are running off rapidly, we are becoming alarmed lest our earnings for the month of February may fall off materially. I succeeded today for the first time in buying from the Franklin National Bank one of its acceptances, which though for a very small amount makes a start and perhaps from now on we will be able to get some of their business.

I am very much obliged to you for sending me a copy of your remarks delivered in New York on January 25, and look forward with pleasure to reading it.

Very truly yours,

(Signed) C. J. RHOADS,

Governor.

PAUL M. WARBURG, Esq.

122-2

THE HOLLAR COMPANY
ENGINEERS AND SUPERINTENDENTS OF BANK VAULT CONSTRUCTION.

Philadelphia, January 31, 1916.

Mr. Charles J. Rhoads, Governor,
Federal Reserve Bank,
Philadelphia, Pa.

My dear Mr. Rhoads :

Referring to relative size and price of vault of the Franklin National Bank and that of the Federal Reserve Bank, Minneapolis, beg to say that we hand you herewith blue prints #3352 and 3452, showing plan and elevation of each of these vaults.

The vault of the Franklin National Bank is being constructed of Harveyized nickel steel armor plate, there being a total of 12 plates in this entire construction. The cost of this vault without foundations or lockers is \$53,000.00

As stated to you verbally, we have recently had a call from parties representing a Bank in Canton, China, and were agreeably surprised when the Bethlehem Steel Company offered to duplicate the vault of the Franklin National Bank at the same price, plus the difference in cost of freight between New York and Canton.

The Franklin vault has a floor area of 433 square feet or it is 66% larger than the vault of the Federal Reserve Bank, Minneapolis.

In reference to the Federal Reserve Bank vault, this vault contains 168 square feet of floor space, is built of laminated or five-ply welded steel and iron or openhearth steel plates, there being a total of 9893 pieces entering into the construction of this work, other than pieces or parts which are common to both types of vault, i. e. hinges, compressor mechanism, boltwork and locks.

The cost of the Federal Reserve Bank vault was \$24,241 exclusive of lockers and foundations.

In reference to the cost of foundation for armor vault, this would approximate \$2,000. As to the cost of the lockers, if the entire capacity of the vault was to be furnished at once, the cost would approximate \$6,000.

The approximate cost of foundation for a laminated vault of the above dimensions would be \$2,200. The approximate cost to equip the

laminated vault with lockers would be \$4,400,00

It may interest you to know that if the armor vault is reduced by eight feet in length it would effect a saving of approximately \$8,000 or practically enough to provide for the foundation and lockers, and at the same time furnish 42% more available storage capacity than is contained in the vault of the Federal Reserve Bank, Minneapolis.

Referring to the price of armor vault, the Bethlehem Steel Company's price was \$62,500, but after considerable negotiations and the statement on our part that the Bank might be satisfied with a laminated vault, they reduced their figure to \$53,000.00 which we, at that time, considered a very reasonable price.

Very truly yours,

(Signed) WM. H. HOLLAR

President.

Enc.

122.-2

January 21, 1916.

Dear Mr. Delano:

As I shall not be here during the next week, I write to you, as Chairman of the Redistricting Committee, that Mr. Harrison has submitted to me draft of a letter to the President and that I approve of the same, and if, as I hope, the Board should act upon the letter before my return, you are hereby authorized to cast my vote, if it should be required, in the affirmative.

Very sincerely yours,

Hon. F. A. Delano,
Vice-Governor.

FEDERAL RESERVE BOARD

122.-2

WASHINGTON

January 7, 1916.

My dear Mr. Warburg:-

I tried to get you on the phone today and finally asked Judge Elliott to see you and tell you that I cannot get to Washington tomorrow. I have long been interested in the Frisco reorganization and a vital situation has arisen in that requiring my presence in St. Louis tomorrow. I am most sorry, as I seem to have been putting you off. Everything is, as you know, particularly busy. This is a matter where these clients feel my presence absolutely indispensable and would not be able to understand my failure to respond to the call. I trust to continue to maintain a share of your regard in spite of this.

This letter is dictated but not signed by me, as I have had to leave suddenly.

Very truly yours,

J. P. Costin.

Paul M. Warburg, Esq.,
Federal Reserve Board,
Washington, D. C.

JPC..B.

Four of the appointive members felt strongly that the great benefits, certain to accrue to the country from the operation of the Federal Reserve System, might yet substantially be increased if, instead of the maximum number of banks, a number more closely approaching the minimum had been decided upon, at least for the beginning. These four members conceive the Federal Reserve System as a combination of centralization and decentralization which will produce the greater results the nearer these two forces balance each other. Both forces carried too far will defeat the purposes of the Act.

The four members believed that, without serious disturbance and without disrupting existing organizations, some districts might have been consolidated ^{and some readjusted} and the strength, scope and efficiency of some of the banks thereby materially enhanced. They believed that in vesting the Board with the duty and power of "reviewing", "readjusting" and "Creating new districts" Congress had given the Board the Power, within the limits of eight and twelve, also to reduce the number of districts if this in the process of readjustment should prove necessary for the best of the system. When, however, acting upon the request of the Secretary of the Treasury and the Governor of the Board, the Attorney General gave it as his opinion that the Board had no power of reducing the number of the districts determined by the Organization Committee, the Board felt, that in a matter of such importance, no step should be taken the legality of which could

be subject to doubt. It was felt that under the circumstances the Board would serve the country best by leaving it to the Congress, if it desired to do so, to remove any doubt as to the meaning of the Act and thus to definitely instruct the Board as to the powers and duties to be exercised by it.

These four members deem it their ^{future} duty to have brought to the Congress' attention the following facts:

First - Under the present law any Secretary of the Treasury, by depositing or withdrawing Government deposits, may, if he wishes to do so, thwart the discount policy of the Board and render illusory its power to regulate interest rates by ^{directly} ~~directing~~ rediscount transactions between Federal Reserve Banks. The law places the Secretary of the Treasury in direct connection with the Federal Reserve Banks and in making or withdrawing deposits he may completely disregard the views of the Federal Reserve Board, though in the final analysis the latter will be held responsible for the safety and efficiency of the system. Whatever consideration in this respect may be shown by a Secretary of the Treasury is an entirely personal matter. His successor may in the exercise of his legal powers disregard the advice and policies of the Board and force upon the system his own policy.

Second - A similar situation exists in connection with the powers vested in and exercised by the office of the Comptroller of the Currency. It is in his power to furnish or withhold from the Board and officers of the Federal Reserve Banks designated by it,

(3)

reports on member banks or other information. He may give rulings, binding upon the National banks, which may be in entire opposition to the policy of the Board. He may ask for statistical material which the Board may consider non-essential and omit asking for facts or figures considered most essential by the Board. He may be too exacting or too lenient. The Board has no power over him and cannot protect the system from any acts undertaken by the Comptroller against the advice or without the knowledge of the Board.

These facts are stated without any reference to present conditions. It is unnecessary to state that there is every desire on the part of the present incumbents harmoniously to cooperate with each other. But it cannot be denied that this dual control is an element of weakness and danger which by many, viewing the future, is looked upon with serious apprehension.

P.M.W.
12/21/15.
*

122-2

December 30, 1915.

Dear Mr. Cotton:

I thank you for your yesterday's letter.

I expect to leave for New York this afternoon but shall return either Sunday afternoon or early Monday so that I hardly expect that I shall have time to meet with you during my very short stay in the country.

May I suggest that you prepare a draft of a letter to be directed to the President for transmission to the Attorney General and then come over here to Washington for a meeting with ^{me and with} Mr. Elliott, and, after that, with the Board, on either Tuesday or Wednesday of the coming week?

With best wishes for a happy New Year, I am

Very sincerely yours,

Joseph P. Cotton, Esq.,
Fourteen Wall Street,
New York.

122-2

FEDERAL RESERVE BOARD
WASHINGTON

December 29, 1915.

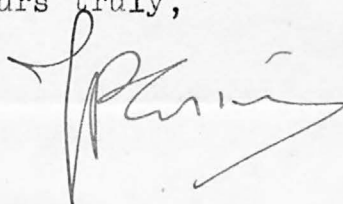
My dear Mr. Warburg:-

Referring to your letter of the 24th, I am clearly of opinion that the Attorney General should have the facts, for three reasons--(1) there is no reason why he should not understand what he has done, (2) there is no telling what lengths he will go if he does not, (3) it is a fine place to make a record.

If you are to be in New York at the end of the week-- why I can fix that. If not, I think I can make Washington. Please keep me informed as to your plans.

I return both reports herewith.

Yours truly,



Paul M. Warburg, Esq.,
Federal Reserve Board,
Washington, D. C.

JPC..B.

Enc.

122.-2
W

FEDERAL RESERVE BOARD
WASHINGTON

December 27, 1915.

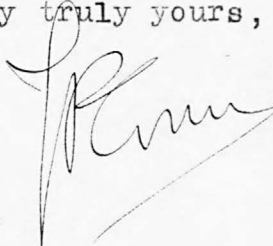
Federal Reserve

My dear Mr. Warburg:-

I enclose herewith confirmation of telegram sent to you today.

I shall be glad to read the second report and advise. I note you suggest a meeting possibly in New York or Washington. If there is any chance of your coming to New York, please let me know.

Very truly yours,



Paul M. Warburg, Esq.,
Federal Reserve Board,
Washington, D. C.

JPC..B.

Enc.

122-2

LAW OFFICES OF
SPOONER & COTTON
14 WALL STREET
NEW YORK

CONFIRMATION OF TELEGRAM

THE FOLLOWING IS A CARBON COPY OF A TELEGRAM SENT TO YOU ON THE DATE STATED THEREIN.

December 27, 1915.

Paul M. Warburg,
Federal Reserve Board,
Washington, D. C.

Your letter twenty-fourth fails to enclose second report
Please send.

J. P. Cotton.

*Sent this special
delivery morning of 27
W.P.C.*

STATION COPY

Spencer & Cotton

December 24, 1915.

Dear Mr. Cotton:

With reference to redistricting, I hand you herewith copy of the first and second reports of the committee for your confidential use. From the latter report, you will see that the committee recommends that the Attorney General be asked now to give his further opinion about the powers of the Board in changing Federal Reserve Cities.

The Board has charged our committee to frame such a letter to the President to be transmitted to the Attorney General, and I should like very much to have your cooperation and advice in the matter.

To my mind, the opinion of the Attorney General, as rendered, if sustained, would destroy the power of the Board to readjust because, if we are to maintain a minimum of twelve districts, it is practically an impossibility to readjust some of the present lines in such a way as to eliminate the existing hardships and incongruities without, at the same time, leaving some districts in too weak a condition to make for effective decentralization and strong units.

I do not know how far it may be advisable or practicable to introduce thoughts of this nature into the request

for a further opinion. I doubt whether there is any hope at all of getting the Attorney General to reconsider his present opinion, but, in any case, we ought to know clearly what he considers are our rights before we go any further and before we bring to the attention of Congress the conditions in which the Board finds itself in connection with this question. Inasmuch as our request to the Attorney General will, no doubt, be published, it is important that it be a document that will bring out as many of the salient facts as can possibly be done. My own belief is that the Attorney General will say that we cannot change cities because if the name has been given, for instance, to the "Federal Reserve Bank of Cleveland, and the charter has been granted in this name, I doubt whether he could get away from his own conclusion that we would be destroying something that by law has been chartered to live for twenty years on the strength of only an implied power.

It may be useful for you to have the case clearly in mind while you are considering the letter that is to be written, and I would, therefore, like to refresh your memory as to the pending points:

There is the question of Pittsburgh or Cleveland. If Cleveland remains the Reserve City, the question arises, should not Pittsburgh be transferred to the Philadelphia Dis-

(3)

trict, where this territory properly belongs. If we do that, we might materially weaken the Cleveland District. That District, on the other hand, should ^{then} be strengthened by including in it Tennessee and that part of Kentucky that is now in the St. Louis District. West Virginia ought also to be included, as well as the northern part of Alabama.

The Louisiana and Mississippi territory ought to go to the St. Louis District. If we did ^{all} that, however, Atlanta would be so weakened that that district could not properly remain as an independent district. If ^{however} we do not take ~~it~~ away from Atlanta, ^{the territory indicated} the Cleveland District will remain an unsatisfactory one.

A satisfactory solution could only be brought about by adjusting the lines as above sketched and leaving whatever would remain of Atlanta as a branch to be appended to the Richmond District.

The same question we meet when dealing with Baltimore and Richmond. As it is, both in Cleveland and in Richmond, the "tail is wagging the dog". If Baltimore and Richmond are to remain in the same district, it has seriously to be considered whether or not Baltimore should be the head office and Richmond the branch. We meet the same condition as in the Cleveland District, that if Virginia and Maryland should be divorced from the Richmond District, Richmond would become a weak district unless the Atlanta branch could be added to

(4)

it. So in both cases - Cleveland and Richmond - readjustment becomes a practical impossibility as long as we are tied down to twelve banks.

Please let these questions go through your mind and let me have the benefit of your advice. It may be that we can meet at the end of the coming week either in New York or in Washington.

With kindest regards and wishing you a very Merry Christmas and a Happy New Year, I am

Very sincerely yours,

Joseph P. Cotton, Esq.,
Fourteen Wall Street,
New York.

P. S. Please return the copies of the reports as I am sending you the only ones I have.

122.2

December 16, 1915.

Dear Mr. Curtiss:

I am very much obliged to you for your letter of
December fourteenth and for the information which you
have so kindly furnished me.

Very truly yours,

Frederic H. Curtiss, Esq.,
Federal Reserve Agent,
Boston, Mass.

ALFRED L. AIKEN
GOVERNOR
FLORRIMON M. HOWE
CASHIER
ERNEST M. LEAVITT
ASST. CASHIER

FEDERAL RESERVE BANK
OF BOSTON

122-2
DIRECTORS
FREDERIC H. CURTISS, CHAIRMAN
AND FEDERAL RESERVE AGENT
WALTER S. HACKNEY, VICE-CHAIRMAN
AND DEPUTY FEDERAL RESERVE AGENT
THOMAS P. BEAL, BOSTON, MASS.
CHARLES G. SANFORD, BRIDGEPORT, CONN.
ARTHUR M. HEARD, MANCHESTER, N. H.
CHARLES A. MORSS, BOSTON, MASS.
EDMUND R. MORSE, PROCTOR, VT.
CHARLES G. WASHBURN, WORCESTER, MASS.
ALLEN HOLLIS, CONCORD, N. H.

Confidential.

Dec. 14, 1915.

Paul M. Warburg, Esq.,
c/o Federal Reserve Board,
Washington, D. C.

Dear Mr. Warburg:

Mr. W. D. Higgins inquired about in your favor of the 10th appeared on his own account before the Organization Committee when it met here in Boston in January 1914. Mr. Higgins, I find, died a month or so after that date. This man was formerly a clerk in one of the Boston banks, later the cashier of the First National Bank, Arlington, Mass. and at the time of his death called himself an accountant.

He had an office at 75 State Street but apparently had little employment. He was about sixty when he died and was a man of very limited means. He was apparently a man who enjoyed a good reputation but had very moderate ability and is said to have been eccentric. As his entire knowledge of banking came from his narrow and extremely limited experience, it could hardly be said that he was an authority on that subject.

Yours very truly,

Francis S. Hamilton

FHC/S

122.-2
12-11-15.

MEMORANDUM

I have read Mr. Elliott's memorandum of December 10th, in which he reaches the conclusion that the Board would not be justified in making any announcement to the effect that the Attorney General has definitely ruled on the question whether or not the Board has power to change the name and location of a Federal reserve bank within the district.

I agree with Mr. Elliott that the Attorney General has made no definite ruling on this question. The only question, to my mind, is whether the opinion which he has rendered does not necessarily negative any such power in the Board. He has ruled that a Federal reserve bank has received a 20 years charter and cannot be abolished without an Act of Congress. To my mind, it would seem clear that removing, e.g., the Federal Reserve Bank of Cleveland to the City of Pittsburgh and changing its name to the "Federal Reserve Bank of Pittsburgh", would be tantamount to abolishing the Federal Reserve Bank of Cleveland and to creating a new Federal Reserve Bank of Pittsburgh.

It should, however, be remembered that Section 2 of the Act prescribes that the Organization Committee shall supervise the organization, in each of the cities designated, of a Federal reserve bank, which shall include in its title the name of the city in which it is situated, as "Federal Reserve Bank of Chicago". This would seem to fix the name and situs of the Federal reserve bank.

Similarly, National banks are obliged to include in their certificate of organization, the name of the bank and place in which situated, and until the Act of May 1, 1896, National banks had no authority either to change their name or their place of business. This right was

finally given them under said Act of May 1, 1866, but they were only allowed to remove their location to some place in the same State within thirty miles of the original location.

Prior to said Act of May 1, 1866, from time to time special statutes were passed by Congress, authorizing change of name and location. These will be found on page 176 of the volume entitled "The National Bank Act, as Amended", published by the Comptroller. The first case of a special statute in this list, is a statute authorizing a bank to change its location from the City of New York to the City of Brooklyn. This was passed July 22, 1868. The second Act on the list is one authorizing the City National Bank of New Orleans to change its name to the Germanic National Bank of New Orleans.

The Enabling Act of 1866, of course, has no application to Federal reserve banks, and I fail to see how any change of name or place could be made by the Federal Reserve Board without an Enabling Act from Congress, as such change would be in derogation of the charter given to the bank for twenty years by Congress.

Furthermore, I can find no power of review in the Federal Reserve Board as to the designation of Federal reserve cities by the Organization Committee. The power of review given by Section 2 is confined to a review of the determination of the Organization Committee, and Section 2 shows clearly that this word "determination" refers only to the districting made by the Organization Committee. There is a clear distinction, throughout the Act, between the act of the Organization Committee in designating Federal reserve cities and in determining Federal reserve districts, and, as I have said, the only power of review in the Board would seem to be that

of reviewing the determination of the Committee as to district lines.

Should, however, the Board feel any doubt as to this matter, I can see no possible objection to requesting an opinion from the Attorney General.

C.S.H.

122.2

December 10, 1915.

(Confidential)

Dear Mr. Curtiss:

Could you tell me something about W. D. Higgins, of 75 State Street, Boston? He testified before the Organization Committee, but I am unable to find from the records ^{of his own accord} whether he is a banker, a lawyer, a merchant, or what, and I would be much obliged to you if you would, in a very quiet way, find out for me who he is and whether he is a man who is likely to speak with authority on the subject of banking.

Thanking you in advance, I am

Very truly yours,

Frederic H. Curtiss, Esq.,
Federal Reserve Agent,
Boston, Mass.

122.-v

Washington, December 10, 1915.

Redistricting.

Memorandum for Members of the Board.

Attached hereto is an abstract of some individual arguments prepared by members of the Redistricting Committee. There is also appended a table showing capitalization under four alternative schemes, together with a table showing, in percentage, the present distribution of capital and net reserve deposits, divided among the twelve existing districts. In addition, there is submitted herewith an analysis of the ballot of the National Banks taken by the Organization Committee, and of a portion of the record of the "choice of number of districts" expressed by witnesses at the various hearings of that committee.

Enclosure.

The three main objects of the Federal Reserve Act were:

- (1) the creation of independent banking centers. Each of these was to centralize a substantial portion of the reserves of its district so as to render them available to serve as the basis of an elastic note issue and so as to create and sustain a reliable market for commercial paper and bankers' acceptances.
- (2) To bring about a greater stabilization of interest rates. This was to be secured by rendering available funds that would temporarily lie idle in one part of the country for active use in the same district or in some other part of the country.
- (3) The establishment of the most economic system of clearing and collecting checks and of transferring funds both within and between the districts.

After a year of actual operation of the Federal Reserve Banks the committee has reached the conclusion that all these aims will be more effectively and more economically achieved by a consolidation of the 12 districts into fewer and larger units.

Decentralization carried too far does not produce independence. The stronger each district, the greater will be its power to act as an independent center, the freer and the more effectual will be the interplay of idle reserve money and the broader its basis of useful service. A larger district will possess a greater power of stabilization and equalization of interest rates within its own border lines, while the rediscount

transactions between districts, carrying out the same process in a larger field, will be simpler and more effective in operation with fewer and larger districts. The smaller number will not only create a basis of greater equality for districts in dealing with each other, but the elimination of Federal Reserve Banks comparatively unimportant in size will generally strengthen the prestige of the Federal Reserve System in dealing with its member banks and it will secure that absolute confidence which is necessary for the fullest development of the system.

The establishment of an economic and effective organization for the clearing and collecting of checks and for transferring funds is a problem beset with great difficulties. In order to facilitate the accomplishment of this task the Board, with the cordial cooperation of the Treasury Department, has established a gold clearing fund which permits each Federal Reserve Bank, at the Treasury or at each subtreasury, to pay in or receive gold for account of any other Federal Reserve Bank or for its own account with the Gold Clearing Fund. The establishment of this fund has rendered unnecessary for the normal routine transactions the shipping of gold or gold certificates between any Federal Reserve Banks situated in districts where the Treasury or subtreasuries are located. It should therefore be possible to undertake the collection at par of checks payable with Federal Reserve Banks of such districts. For districts, however, without such sub-

treasuries there remains to be considered the ultimate charge for shipping to and from the nearest subtreasury or Treasury point. This has proved one of the serious obstacles in the way of developing a satisfactory clearing and collection plan and the committee has therefore reached the conclusion that it will be of the greatest importance to so adjust the districts that each should have within its border lines either the Treasury or a subtreasury.

Reasons of economic operation would also render very desirable reduction of the number of districts. Not only will the overhead charges be reduced to a certain extent, but the cost of printing and redemption of notes, one of the heaviest items of expense, should be materially decreased by simplifying the printing and increasing the field of circulation for each note, thus obviating its too rapid redemption. The Government and the member banks are both interested in the earnings of the Federal Reserve Banks and therefore in seeing the operation of the Federal Reserve Banks carried on upon the lowest basis of expense compatible with safety and efficiency.

The Act seems to have contemplated districts of large area with branches. The Board believes this plan to be a wise one inasmuch as it prevents a sectional spirit from asserting itself in the management of the Federal Reserve Banks.

It will be observed that the proposed readjustment is not out of harmony within the plan of the Organization Committee,

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in that it does not eliminate the original units. It effects, in these three cases, a coordination of two districts into what may be termed twin districts, making the larger districts thus created stronger and better able to serve the territory involved, but leaving undisturbed, except in name, the identity of each of the component units. Each of the original districts joined together will retain its particular tributary territory and its local administration, while securing the additional benefits already indicated. At the same time, these sections, while served by branches or local agencies dealing with the member banks of their immediate neighborhood, will have an equal share in the administration of the entire district.

While the branch has an administration of its own, dealing as heretofore with the member banks of its own district, its constituents have a share in the administration of the entire district equal to that of the constituents of the territory allotted to the main district.

Two plans are submitted herewith:

Plan (1) with 9 districts; and plan (2) with 8 districts; the only difference between them being that in plan (1) the Boston district is maintained, whereas in plan (2) it is combined with the New York district.

From the point of view of securing the most economic and effective operation there cannot be any doubt that plan (2) would be the more advisable one. Your committee is, however,

conscious of the fact that in prescribing the minimum number of

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eight districts Congress had in mind to avoid, if possible, too large a centralization of power in one single district.

It must be conceded, however, that New York also under plan (1) will remain the strongest district and that the addition to its capital of about \$^{5,0}8,500,000, coupled with the obligation to take care of the member banks of district No. 1, which thus would be joined to the New York district, does not add materially to New York's superiority in this respect.

Being mindful, however, of what might generally be considered as the sentiment of the country, the committee does not contemplate uniting districts No. 1 and No. 2, hoping that district No. 1 may succeed in proving its ability to act as an independent and self-supporting center.

As a third alternative, the committee considered a combination of New Orleans and St. Louis, uniting on the other hand, Dallas with Kansas. In such combination, however, the District Kansas-Dallas would have been without a subtreasury, while St. Louis-New Orleans would have had two subtreasuries.

Plan 4 is a variation of plan 3, placing N. Va. in the Richmond District, instead of in Cleveland, under 3.

P. M. W.
12-7-15.

PLAN NO. 1.

Redistribution of Federal Reserve Districts and reduction to 8
of the total number of districts. (A)

<u>DISTRICTS</u>	<u>NO. OF BANKS.</u>	<u>CAPITAL</u> (In 000's dollars)	<u>DEPOSITS</u> (In 000's dollars)	<u>TOTAL CAPITAL AND DEPOSITS</u>	<u>PER CENT</u>
No. 1 Boston & N.Y.	1049	16,121	174,442	190,563	50.1
No. 2 Philadelphia	1027	8,519	28,688	37,207	9.6
No. 3 Cleveland	1013	5,960	16,618	22,578	6.0
No. 4 Rich.&Atlanta	539	3,888	7,654	11,542	3.0
No. 5 Chicago & Minn.	1750	8,888	60,341	69,229	18.2
No. 6 Kans.& Dallas	1320	4,839	11,108	15,947	4.2
No. 7 St. Louis	386	2,375	14,388	16,763	4.4
No. 8 San Francisco	526	3,931	12,403	16,334	4.3
TOTAL.....	7,610	54,521	325,642	380,163	100.0

(A) From data shown in the Comptroller's Report of June 23, and the Federal Reserve Board Bank Statement of October 1, 1915.

PLAN NO. 2.

Same as Plan No. 1, except that the New Orleans District has been included with Dallas instead of with St. Louis, and the Kansas City District has been merged with St. Louis instead of with Dallas. (A)

<u>DISTRICTS</u>	<u>NO. OF BANKS</u>	<u>CAPITAL</u> (In 000's dollars)	<u>DEPOSITS</u> (In 000's dollars)	<u>TOTAL CAPITAL AND DEPOSITS</u>	<u>PER CENT</u>
No. 1 Boston	435	5,134	21,705	26,839	7.0
No. 2 New York	614	10,987	152,737	163,724	43.1
No. 3 Philadelphia	1,027	8,519	28,688	37,207	9.8
No. 4 Cleveland	1,013	5,960	16,618	22,578	6.0
No. 5 Rich. & Atlanta	539	3,888	7,654	11,542	3.0
No. 6 Chicago & Minn.	1,750	8,888	60,341	69,229	18.2
No. 7 Kas.-St. Louis	1,041	4,060	19,299	23,359	6.1
No. 8 Dallas-N. Orleans	665	3,154	6,197	9,351	2.5
No. 9 San Francisco	526	3,931	12,405	16,334	4.3
TOTAL	7,610	54,521	325,642	380,163	100.0

(A) From data shown in the Comptroller's Report of June 23, and the Federal Reserve Board Bank Statement of October 1, 1915.

(A) From data shown in the Comptroller's Report of June 23, and the Federal Reserve Board Bank Statement of October 1, 1915.
PLAN NO. 2.

Same as Plan No. 1, except that the Boston Federal Reserve District is continued as at present constituted, increasing the number of districts to 9. (A)

<u>DISTRICTS</u>	<u>NO. OF BANKS</u>	<u>CAPITAL</u> (In 000's dollars)	<u>DEPOSITS</u> (In 000's dollars)	<u>TOTAL CAPITAL AND DEPOSITS</u>	<u>PER CENT</u>
No. 1 Boston	435	5,134	21,705	26,839	7.0
No. 2 New York	614	10,987	152,737	163,724	43.1
No. 3 Philadelphia	1,027	8,519	28,688	37,207	9.8
No. 4 Cleveland	1,013	5,960	16,618	22,578	6.0
No. 5 Rich., & Atlanta	539	3,888	7,654	11,542	3.0
No. 6 Chicago & Minn.	1,750	8,888	60,341	69,229	18.2
No. 7 Kans., & Dallas	1,320	4,839	11,108	15,947	4.2
No. 8 St. Louis	386	2,375	14,388	16,763	4.4
No. 9 San Fran.	526	3,931	12,403	16,334	4.3
TOTAL	7,610	54,521	325,642	380,163	100.0

(A) From data shown in the Comptroller's Report of June 23, and the Federal Reserve Board Bank Statement of October 1, 1915.

PLAN NO. 4.

Same as Plan No. 1, except that West Virginia has been included in the Richmond-Atlanta District instead of in the Cleveland District. (A)

<u>DISTRICTS</u>	<u>NO. OF BANKS</u>	<u>CAPITAL</u> (In 000's dollars)	<u>DEPOSITS</u> (In 000's dollars)	<u>TOTAL CAPITAL</u> <u>AND DEPOSITS</u>	<u>PER CENT</u>
No. 1 Boston	435	5,134	21,705	26,839	7.0
No. 2 New York	614	10,987	152,737	163,724	43.1
No. 3 Philadelphia	1,027	8,519	28,668	37,207	9.8
No. 4 Cleveland	896	5,449	15,529	20,978	5.5
No. 5 Rich.&Atlanta	656	4,399	8,743	13,142	3.5
No. 6 Chicago & Minn.	1,750	8,898	60,341	69,229	18.2
No. 7 Kans.&Dallas	1,320	4,839	11,108	15,947	4.2
No. 8 St. Louis	386	2,375	14,388	16,763	4.4
No. 9 San Francisco	526	3,931	12,403	16,334	4.3
TOTAL	7,610	54,521	325,603	380,163	100.0

(A) From data shown in the Comptroller's Report of June 23, and the Federal Reserve Board Bank Statement of October 1, 1915.

Statement No. 5.

Ratio of Combined Capital and Net reserve
Deposits of each Federal Reserve Bank to
Total for the System on October 1st, 1915

(In thousands of dollars)

<u>Districts</u>	<u>No. of Member Banks</u>	<u>Capital</u>	<u>Deposits</u>	<u>Capital and Deposits</u>	<u>Per Cent.</u>
No. 1 Boston	437	5,134	21,705	26,839	7.1
No. 2 New York	612	10,987	152,737	163,724	43.3
No. 3 Phila.	637	5,267	21,069	26,335	6.9
No. 4 Cleveland	763	5,944	18,064	24,008	6.3
No. 5 Richmond	507	3,358	7,378	10,736	2.8
No. 6 Atlanta	383	2,417	5,257	7,674	2.0
No. 7 Chicago	981	6,632	51,402	58,034	15.3
No. 8 St. Louis	462	2,782	11,149	13,931	3.7
No. 9 Minn'p's	723	2,489	8,956	11,445	3.0
No. 10 Kans. City	951	3,023	9,144	12,167	3.2
No. 11 Dallas	638	2,764	5,484	8,248	2.2
No. 12 San Fran.	<u>526</u>	<u>3,931</u>	<u>12,403</u>	<u>16,334</u>	<u>4.3</u>
	7,610	54,728	324,747	379,475	100.0

Division of Reports & Statistics
Federal Reserve Board
December 9, 1915.

Ballot of the National Banks.

The Reserve Bank Organization Committee addressed a letter to each National Bank in the United States, asking it to please state its first, second and third choices for the location of a Federal Reserve Bank which would best serve its interests.

An analysis of this vote reveals the following interesting details:

The vote of the banks in the State of Tennessee was as follows:

For Atlanta.....	7
Baltimore.....	1
Chattanooga....	11
Cincinnati.....	14
Louisville.....	8
Memphis.....	8
Nashville.....	25
Richmond.....	3
St. Louis.....	8
Washington.....	1
	<u>85</u>

It is hard to find any justification for including Tennessee in the Atlanta District. The natural tendency for commerce, trade and finance would not be towards Atlanta but would be north, northeast or northwest. That this is so is borne out by an analysis of the votes cast. There were 85 votes cast. Of these, there were 44 of a local character, being 11 for Chattanooga; 8 for Memphis and 25 for Nashville. Of the rest, all except 7 are for cities to the north, northeast or northwest, viz: Baltimore, Cincinnati, St. Louis, Louisville and Washington - a total of 34. Out of these, Cincinnati had 14 and Louisville 8.

Against these 34 votes there are only 7 heading South and these are for Atlanta.

Of course, it would have been interesting to have a second canvass made in order to ascertain how the local 44 votes would have been cast had it been indicated to the voters that no bank was to be located in Tennessee. It is a pretty safe guess to say that an overwhelming majority would have voted for Cincinnati or Louisville rather than for Atlanta. The second choices bear out this assumption.

The vote of the banks in the State of West Virginia was as follows:

For Baltimore.....	21
Cincinnati.....	26
New York.....	1
Pittsburgh....	41
Richmond.....	16
	<u>105</u>

It will be noted that out of 105, only 16 voted for Richmond. For Cincinnati, there were cast 26; for Pittsburgh 41, or a total of 67, so that the "convenience and customary course of business clearly indicated that this State headed for the Cleveland district.

The vote of the banks in the States of Alabama, Louisiana and Mississippi was as follows:

<u>Alabama</u>		<u>Louisiana</u>		<u>Mississippi</u>	
Atlanta	8	New Orleans	24	Birmingham	1
Birmingham	53	St. Louis	3	Memphis	8
Cincinnati	1			New Orleans	19
Montgomery	4			St. Louis	4
New Orleans	3				
Savannah	3				
St. Louis	<u>1</u>				

(3)

It is interesting to note that in Louisiana and Mississippi not one single vote was cast for Atlanta; that in Alabama, out of 73, only 8 were cast for Atlanta. Thus we see that out of the total of 216 votes cast by these three States only 15 votes were cast for Atlanta. The fact remains that, outside of the Georgia vote and the Florida vote of 19, making a total of 109, there remained only 15 votes cast for Atlanta, yet, nevertheless, she was made the reserve city for four states and for a substantial part of two further states. That due regard was given to the convenience and customary course of business in this case is hard to concede.

It is also interesting to note that not one vote was cast in Louisiana for Dallas. Its second choice was St. Louis.

The total number of votes cast for Pittsburgh was 355, as against 299 for Cincinnati and only 110 for Cleveland. If the Board has not the power to change Federal reserve cities, it would appear only fair to allow both Pittsburgh and Baltimore, by a direct canvass, to clearly express their desire to either remain in the districts to which they are now assigned or to designate that district to which they would prefer being assigned.

It is interesting to note that Connecticut's first choice was clearly for New York, which received 64 out of 71 votes.

Maryland voted as follows:

For Baltimore....	95
New York.....	1
Pittsburgh...	1
Washington...	1
	<u>98</u>

Its first choice was, of course, Baltimore, while its second and third choice was Philadelphia. Out of 98 votes, Richmond received, as first choice, none, as second choice, 1, and, as third choice, 3.

Two interesting statements by the Reserve Bank Organization Committee (see pages 17 and 18 of the Committee's decision):

"Thirty-seven cities asked to be chosen. The committee could select at most only 12. Necessarily 25 cities had to be disappointed. * * * With so many conflicting claims, somebody had to judge. Congress constituted the committee a court and gave the Federal Reserve Board the power of review. Disappointed competitors should seek a remedy through the orderly processes the law prescribes."

"Critics of the decision of the committee reveal misunderstanding in these directions, and either do not know, or appear not to know, that the Federal reserve banks are bankers' banks and not ordinary commercial banks."

Ballot of the Hearings.

An analysis of the investigation that was made by the Organization Committee shows that upon the question of number of districts there have been heard 83 individuals. Four of these gave only indefinite replies and did not specify the number of Federal Reserve Banks which they thought should be established. There remained 79 votes, which were cast as follows:

<u>For No. of Banks</u>	<u>No. of Votes:</u>	<u>Percentage</u>
7	5	6%
8	43½	54
9	9	11½
10	10	13½
11	4	5
12	<u>8½</u>	10½
	79	

It is evident, therefore, that,

for 8 or fewer banks, there were voting 60½%
" 9 " " " " " " 71½%
" 10 " " " " " " 84%
while for more than 10 " " " " 15½%
and " " " 11, only 10½%

It is very interesting to analyze the eight and a half votes that were cast for twelve districts and the four votes that were cast for eleven.

There is registered as voting for twelve districts a gentle-

(2)

man, W. D. Higgins, of Boston. The records do not show at all who this man is. Apparently he came uninvited to the hearing and was not taken very seriously because the committee did not even go to the trouble to ask him who he was or what ^{was} his interest in the matter, or what qualified him to speak with authority on the subject. Another vote for twelve is that of Mr. Bartlett, in St. Joseph, Mo., and there are four additional votes originating in the New Orleans hearing, one being from Mr. Barr, President of the Fidelity and Columbia Trust Co., of New Orleans, one being from R. W. Knott, Editor of the Louisville Evening Post, one the Honorable Swager Shirley, member of Congress from Kentucky, and one, the Honorable Ollie M. James, U. S. Senator from Kentucky. Another one is the vote of Mr. Stubbs, of Kansas City. The one-half vote is that of Mr. Gibbs, of Baltimore, who stated that he was uncertain, but made a general guess of eleven or twelve. The last vote to complete the eight and a half is that of Dr. Willis, who has stated that he expressed, not his own vote in the matter, but that of the committee for which he had worked. It is understood that his own personal view, if given in an informal manner today, would rather be in favor of nine districts.

When we come to the four votes that were cast for eleven districts, we find that two came from Cleveland, being from Mr. Sullivan and Mayor Baker. As above stated, the half comes from Mr. Gibbs, of Baltimore, and one came from Mr. Harding, who was recorded as favoring ten or eleven. Mr. Harding's vote would be cast today for eight or nine banks, so that the most casual analysis of

the vote would increase the $47\frac{1}{2}$ votes out of 79 by 2 additional votes and the remaining votes that were cast for 11 or 12 are easily recognized, not as the votes of experts, but as those of men who, for local or political reasons concerning their own bailiwicks, registered their votes for 11 or 12.

It is an interesting feature that we find on the records of the Organization Committee several men who now, after having had a chance to study the matter more closely, and who at the time voted for the larger number, are now agreed on the advisability of having a number of districts closely approaching the minimum.

An analysis of the votes received by the Organization Committee is most conclusive as showing that an overwhelming majority favored the smaller number and that it is safe to say that, from these votes, the Organization Committee would find it difficult to show any direct evidence of the desirability of twelve districts.

This analysis is based upon the hearing. Quite a number of statements were filed upon the request of the Committee by men who appeared and were asked, or asked for the privilege, to file memoranda after more careful consideration, but it appears that the Organization Committee neither consulted nor was guided by the supplemental information submitted in writing by such witnesses.

Minneapolis Argument.

In order to understand fully the problem it is necessary to recognize that if my plan be adopted there will be three kinds of districts: (1) homogeneous districts, which are essentially borrowing sections, particularly at certain periods; (2) homogeneous districts which are essentially lending sections; and (3) mixed or balanced districts which include both essentially borrowing and lending sections.

In using the term "borrowing section" I wish to designate sections where the aggregate local borrowings, periodically or permanently, exceed the lending ability of the member banks of the section. Similarly, the term "lending section" is used to designate sections where the lending ability of the member banks of the section generally exceeds the aggregate local borrowings. To illustrate: the ⁷⁴⁷Minneapolis district, in normal times, will have a good demand for loans during crop moving seasons, but, during the remaining part of the year, it would probably be difficult for the Minneapolis Bank to maintain itself. By merging the two districts, the resources of District 7 would automatically become available for District 9 during the crop moving period, while, during the remainder of the year, the idle funds of District 9 might find employment in the broader field of operations of the Chicago District.

Under the new plan, the districts of Chicago, St. Louis,

Cleveland and San Francisco may be considered as balanced districts. Boston-New York and Philadelphia may be considered as lending districts, while Richmond and Dallas may be considered as borrowing districts.

The task of effectively and fairly directing or regulating rediscount transactions between districts thus becomes a much simpler one for the Board. It is evident that three districts that have not been allotted a borrowing section of their own will be counted upon in the first degree for rediscount transactions for those districts which do not embrace a strong lending section of their own. (Footnote: One large eastern district extending from Maine to Florida might have constituted a balanced district, but it is clear that Maryland alone could not have acted as a sufficient factor to counterbalance the Richmond-Atlanta district, and it was thought more logical and practical to include Maryland in the Philadelphia district, thus making it a component part of a homogeneous lending district.)

In establishing this classification, your committee is fully aware of the fact that so comprehensive a principle can only be applied on broad lines allowing for exceptions from the rule as varying conditions from time to time may require.

There is no doubt that both as to intra and inter-district operations, a vastly simpler, and, therefore, more economical and effective, system will be secured by the reduction of the number of districts.

The Organization Committee, in its first report, states:

"Among the many factors which governed the committee in determining the respective districts and the selection of the cities which have been chosen were:

"First. The ability of the member banks within the district to provide the minimum capital of \$4,000,000 required for the Federal Reserve bank, on the basis of six per cent of the capital stock and surplus of member banks within the district.

"Second. The mercantile, industrial, and financial connections existing in each district and the relations between the various portions of the district and the city selected for the location of the Federal Reserve bank.

"Third. The probable ability of the Federal Reserve bank in each district, after organization and after the provisions of the Federal Reserve Act shall have gone into effect, to meet the legitimate demands of business, whether normal or abnormal, in accordance with the spirit and provisions of the Federal Reserve Act."

NOTE: It is perfectly clear that a district like Atlanta could not meet the abnormal demands of its district. As a matter of fact, even in a time of such great ease of money as the present, and at a time when the cotton crop was moved so promptly, Atlanta has not been in a position to take care of it herself, but has accepted and used a Treasury deposit of \$5,000,000. We do not wish to be understood as considering rediscounts between districts as anything improper - quite the contrary, the Federal Reserve System provides for this as one of the important features of the Act. Atlanta is mentioned in this connection merely because clearly she does not come up to the requirements which the Organization Committee laid down as one of its tests of eligibility.

"Fourth. The fair and equitable division of the available capital for the Federal Reserve banks among the districts created."

NOTE: If Congress had wanted the country to be divided on such a principle, it would have been the easiest matter for it to say so.

It was clear to Congress that an equitable division of capital amongst eight banks was impossible owing to exist^{ing} conditions. Congress was well advised and acted after due deliberation when for the guidance of the Organization Committee and later for the Federal Reserve Board it gave as the only injunction that the districts should be established "with due regard to the convenience and customary course of business." But it is quite clear that banks of more equal strength can be secured by dealing with eight than with twelve.

"Fifth. The general geographical situation of the district, transportation lines, and the facilities for speedy communication between the Federal Reserve bank and all portions of the district."

NOTE: There can be no doubt that the facilities for speedy communication between Baltimore and Philadelphia are superior to those between Richmond and Baltimore.

"Sixth. The population, area, and prevalent business activities of the district, whether agricultural, manufacturing, mining, or commercial, its record of growth and development in the past and its prospects for the future."

NOTE: This leaves entirely open to doubt whether the Committee was trying to cover by one district areas which were homogeneous in business activities or such as included business activities of a varied character. If the equalization of reserves were contemplated, it would have been an advantage if the districts had been so organized as to include varied business activities.

Washington, November 29, 1915.

To the
FEDERAL RESERVE BOARD.

Your Committee on Redistricting has received and noted the copy of the opinion of the Attorney General addressed to the President of the United States, under date of November 22, 1915, to the effect that the Federal Reserve Board has not the power to abolish any one or more of the Federal reserve districts, or any one or more of the Federal reserve banks located in the cities designated by the Reserve Bank Organization Committee.

Your committee feels that there has been considerable misunderstanding, not only of the substance and purpose of its preliminary report filed with the Board on November 15, 1915, but also of the motives which prompted it. Therefore, before referring to any further recommendations, your committee is desirous of recounting briefly the facts which led to its action and on which it based its recommendations with the hope that a better understanding of the facts as they appeared to your committee may promote a common point of view and conduce to a continuation of the harmonious cooperation and mutual good will that has in the past characterized the work of the Board and stamped it with the approval of the public at large.

On March 1, 1915, Mr. Elliott filed with the Board an opinion dealing with the general powers of the Board to review the determination of the Organization Committee, to readjust

the Federal reserve districts, to change the designation of the Federal reserve cities, and to reduce the number of districts formed by the Organization Committee. It is to be noted, however, that, in this opinion, the question of reduction was referred to very briefly, and Mr. Elliott later advised the Board that the consideration of this particular question was merely incidental to the main questions discussed in that opinion and that, should the question of reduction be specifically considered by the Board, he would appreciate an opportunity of reconsidering his earlier opinion on that particular point.

In view of the doubts raised by Mr. Elliott, the Board decided to avail itself of the opportunity of Senator Owen's appearance before it in the hearing of the appeal of certain Oklahoma banks requesting a transfer from the Dallas to the Kansas City district, to ask him for his views concerning the intent of Congress and the meaning of the Federal reserve Act relating to the powers of the Board on this whole subject. The request for Senator Owen's views was not accidental, but intentionally contemplated to instruct and guide the Board in disposing of pending appeals. His answer was that Congress meant to "give to the Board the power of the Government itself in dealing with this System", and that he thought the power of the Board "would extend even to the power of reducing the districts." It is understood, of course, that this statement by Senator Owen was merely his own personal opinion and that it was made at a

time when another though closely related subject was under consideration, but it at least indicates that there was no decided impression in the Senate that this power to reduce was not given the Board.

The Board subsequently published a resolution, which it had passed unanimously on May , 1915, when both Governor Hamlin and Mr. Williams were present, providing in part as follows:

"That action on other pending petitions be deferred until further experience in the actual operation of the several districts, especially in the light of the new clearing system which is about to go into effect, and of the extent to which State banks take membership in the Federal reserve system, shall have provided the Board with the necessary data for a conclusion, it being the opinion of the Board that action on petitions relating to changes in cities designated as the location of Federal reserve banks should be deferred until the Board shall have reached a conclusion from experience as to any further readjustments in the boundaries of the several districts, or in the number of districts, which may be desirable in the operation and development of the Federal Reserve System.

Your committee is not aware of any objection raised at that time by any member of Congress or otherwise, indicating dissent from the proposition that the Board has the right to reduce the number of districts.

On October 19, 1915, the general question of redistricting was referred to this committee. Counsel for the Board were soon thereafter requested to file opinions on the legal right of the Board to reduce the number of districts. Mr. Cotton filed his formal opinion on November 23, 1915, stating unquali-

fiedly that the Federal Reserve Board is fully authorized by the Act to reduce the number of districts. Mr. Elliott, who, in accordance with his own request, was reconsidering his earlier opinion of March 1, 1915, filed his opinion with the Governor on November 23, 1915, and on November 23, 1915, the Attorney General delivered his opinion addressed to the President.

It may be noted, however, that, at the time of making its preliminary report on November 15, 1915, your committee had no reason to believe either that members of Congress might consider the Board without power to reduce the number of districts or that members of the Board would, in view of the unanimous resolution above quoted, adopt that view unless forced to do so by conclusive opinion of counsel.

Your committee began its work by elaborating a report submitting definite alternative plans, but it finally concluded that it would be more advisable to ask the Board first to pass on the question of principle or policy involved. Your committee had reached the profound conviction that the country would be better served by nine banks than by twelve. The reasons on which this conviction was based seemed so striking and conclusive to the committee that it hoped that the Board might adopt unanimously the policy which it outlined. The committee is desirous of emphasizing in the strongest terms its absolute confidence, not only in the underlying principles of the Federal

Reserve Act, but also in the machinery provided for developing such principles into a system which has already brought immeasurable benefits to this country and which, with twelve banks or eight banks, will prove of inestimable value. That the number of banks and districts originally created ^{was} ~~is no~~ ^{than} larger is conducive, in the opinion of your committee, to the most efficient operation of the system and to the safety of the country is not the fault of the Act but is due to the fact that the Organization Committee, which, though acting in the best of faith, could not, in the short time allotted to it, acquire such knowledge and experience as is absolutely necessary to a ^{final} ~~fair~~ determination of such an important and fundamental question.

The Attorney General has since denied the right of the Board to reduce the number of districts determined by the Organization Committee, and your committee is not disposed now to make any further recommendations with such an end in view. It wishes, however, to insist upon emphasizing the facts appearing to it at the time its preliminary report was filed in order that no doubt may exist in the mind of the Board as to the sincere conviction of its committee at that time, not only that a reduction in the number of districts should be made in the immediate future, but also that the Board had the right to make such a reduction.

Your committee is attaching hereto an abstract of some of the arguments that were prepared by it when it considered a de-

tailed report. It is sincerely convinced that the point of view directed by these arguments will assert itself sooner or later, and that the country will not rest satisfied unless the Federal Reserve System, so happily devised, will be developed to render its maximum possible efficiency. Your Committee felt that, if this adjustment is not made at this time, it will be made at some future period with far greater disturbance and possibly in much more drastic form than was contemplated by your committee. It was noted by your committee that, of the eighty-four witnesses who were questioned by the Organization Committee on this point, only nine (a majority of whom were not banking experts) recommended the formation of the maximum number of districts, and this fact seemed to your committee to be a striking indication of what the country might demand later on if no action were taken now.

Your committee felt, therefore, that the greatest protection from future disturbance is the immediate establishment of a system enjoying its maximum degree of service and usefulness. The country would not permit any serious interference with a machinery so perfected, whereas inherent weaknesses, such as those which seemed to your committee to exist now, offer a constant target for reformers. For these reasons, not to mention the many practical advantages incident to carrying out, prior to January 1, 1916, any changes that may have been decided upon by the Board, your committee was sincerely anxious to secure prompt

action upon its recommendations.

As the chairman of the committee repeatedly stated, the desire for haste was not prompted by any intention on the part of your committee to force the Board to take any unconsidered action, and the fact that the request of two members of the Board for another preliminary report in writing as to the reasons for its recommendations was not granted by the committee ~~made it impossible to~~ ^{could not} indicate that intent because the committee stated that they were fully prepared to present orally all their reasons and to reply in the same manner to any questions asked by the Board. Such a course did not seem an unreasonable way of preventing what seemed to it an unnecessary waste of valuable time.

The committee had delayed filing its report for some time, pending the return of Secretary McAdoo from the West, and also waited until after Mr. Harding had called on him informally to apprise him of the views of the committee and to secure any suggestions which he might see fit to give. The Secretary, however, was unable, because of serious illness in his family, to discuss the matter at that time with Mr. Harding, and the committee then filed its report on Monday, November 15, 1915, fixing the following day for discussion of the full Board. This discussion was later postponed until Monday, November 22, 1915, because of the inability of the Secretary of the Treasury to be present until that time.

Though the committee does not want to discuss in this report the propriety of the Governor's action in requesting the President of the United States ^{as Governor of the Board} to obtain an opinion from the Attorney General on the question referred by the Board to the committee for its recommendations, it regrets exceedingly that such action was taken without the knowledge or consent of a majority of the Board and at a time when discussion of the report had been postponed until it could be assured of the presence of the Secretary of the Treasury and before the counsel for the Board had completed their own investigations.

The committee freely admits that, in view of the great importance of the questions involved, it is not improbable that it would have ^{itself} advised such action after further discussion by the Board and after the receipt of the opinions of its own counsel, but in such case it feels that it would have been advisable to give the Attorney General a complete presentation of the facts which, as Mr. Elliott, in his memorandum dated November 15, 1915, to the chairman of the committee, indicated might be of very material help in determining the legal points involved. That such facts might have been of considerable assistance to the Attorney General is indicated by the fact, for instance, that in his letter to the President he put considerable stress upon the closing of existing offices and the termination of long leases, neither of which facts was contemplated by the committee.

Your committee thinks that it would have been only fair to

the President, to the Attorney General and to the Federal Reserve System that, if the case was to be taken to the Attorney General it be fully explained that wherever today there is a Federal Reserve Bank which may have been abolished, the committee expected to see a branch doing the same business with its member banks, with the same building and with the same organization except that there would have been seven directors instead of nine, three of which, in both cases, would have been appointed by the Government, and except that the ^{members} banks would have been stockholders in the larger consolidated concern and would have had the benefit of the larger lending power and the greater prestige of the parent bank and the more efficient equalization of reserves and interest rates.

If your committee is right in the conclusions which it reached as to the advisability of a smaller number of districts, the permanency which the Attorney General and every one else desires for the future of the system would have been best secured by prompt and courageous action now. Even if it is conceded, however, that the Board cannot act now, the power remains with Congress to make changes at any later date, and it is the conviction of your committee that these changes will be made and must be made sooner or later, which so strongly impelled it to recommend action at this time.

Your committee, however, realizing the strong negative power of the opinion of the Attorney General, and accepting the con-

clusions reached therein as practically binding upon the Board, respectfully recommends that the Board abandon any plan of re-districting which involves a reduction of the number of districts below twelve, and that the Board now address itself to the specific appeals pending.

There are now pending before the Board for disposal five applications, viz:

First: The application of certain member banks located in Western Connecticut requesting that the territory in which they are located be transferred from the First to the Second Federal Reserve District. The committee respectfully recommends that a date be fixed for the hearing of oral arguments before the Board relative to this appeal;

Second: The application of certain member banks located in Wisconsin requesting that the territory in which they are located be transferred from the Ninth to the Seventh Federal Reserve District. The committee respectfully recommends that the Board send letters to all member banks of the Minneapolis District involved in this appeal requesting, in the same manner as was done in the case of the Louisiana banks, that a letter be sent direct to the Federal Reserve Board stating whether they wish to be transferred to the Seventh or to remain in the Ninth District,

and stating also whether they feel that their interests are being harmed by remaining in the Ninth District;

Third: The application of certain member banks located in Louisiana requesting that the territory in which they are located be transferred from the Eleventh to the Sixth District. The committee respectfully recommends that, unless the Federal Reserve Bank of Dallas desires to be heard in the matter, the case of the Louisiana banks be decided upon the facts now in the possession of the Board without any further hearing, but if Dallas desires to be heard that a date for the hearing be promptly fixed.

Fourth and Fifth: The application of member banks located in Pittsburgh and Baltimore requesting that those cities be designated as Federal Reserve Cities in place of Cleveland and Richmond, respectively. Your committee wishes to call the Board's attention to the opinion of Mr. Elliott, dated March 1, 1915, which, in answer to the question "Can the Federal Reserve Board, under the terms of the Federal Reserve Act, designate other Federal Reserve Cities in place of those selected by the Organization Committee?", held that the Board has no legal power to change the designation of a Federal Reserve City unless such change is

necessary in order to accommodate the convenience and customary course of business in a readjusted district. Mr. Elliott, in disposing of this point, concluded that:

"If, therefore, the Board concludes that the districts are not apportioned according to the purpose and intent of the Act and determines that it is necessary to readjust such districts, it would seem clear that it possesses an implied power to change the designation of the Federal reserve cities. If, however, the districts are not readjusted, it seems very doubtful whether this power can be implied, and to change the designation of cities without readjusting the districts would necessitate resolving this doubt in favor of the exercise of this power against the apparent intent of Congress."

On the strength of this opinion of its Counsel, the Board might well be justified in undertaking such changes in the designation of Federal Reserve Cities as may be necessarily incident to the readjustment of the districts in which they are located, but, in view of the great importance of this subject and because of the doubt expressed by Mr. Elliott, and also because of the uncertainty in the minds of the committee as to the intent and effect of the opinion of the Attorney General on this particular point, it has concluded that it is advisable to recommend that the Governor be instructed to address a letter to the President of the United States, asking him kindly to request the Attorney General to give his opinion on the following questions:

- (1) Can the Federal Reserve Board legally change the present location of any Federal Reserve Bank
 - (a) In the case where there has been no alteration in the district lines, and
 - (b) In the case where there has been such a readjustment of district lines as in the opinion of the Board necessitates the designation of a new Federal Reserve City in order that the convenience and customary course of business may be accommodated as required by law.
- (2) Must the Board, in exercising its admitted power to readjust, preserve the \$4,000,000 capitalization of each and every Federal Reserve Bank.

Your committee regrets that it is unable to make any specific recommendation relating to the changes in the designation of the cities of Pittsburgh and Richmond as Federal Reserve Cities in the Fourth and Fifth Districts, respectively, but it feels that any attempt to determine those questions should be deferred until the Board is advised finally and definitely, not merely of its power to change the designation of a city, but also, first, whether the power to make such a change is dependent upon further readjustments in the district lines, and, second, whether, if it is dependent upon such readjustments, the \$4,000,000 capital limit must be preserved in making such changes in the district lines.

Your committee also feels that, in presenting this matter to the Attorney General, he should be advised that, while there are distinct features in the present adjustment of districts which do not commend themselves to the best judgment of the committee, and while, in its opinion, the "lines of convenience and customary course of business" have not been observed to the best advantage, your committee can hardly see how the Board could properly adjust these matters as long as it is bound, not only to preserve twelve districts, but also to maintain for each bank a capital large enough to command sufficient prestige and confidence. While the law does not expressly state that districts may not be reduced below an authorized capitalization of \$4,000,000, your committee would be loath to recommend the creation of districts having capitalization of less than that amount. If this is true and if, as assumed, the Board is bound by the injunction of preserving twelve districts, your committee does not see any possibility of adjusting these districts in such a manner as to remove some very serious inequalities that now exist. In several cases it is practically impossible to transfer cities or territory which, in your committee's opinion, properly belong to another district because such transfer would further reduce the resources of certain districts which already appear too weak.

In this connection, the Attorney General asked the question: "Would the power to readjust districts, which is expressly conferred upon the Board, be nullified or rendered impotent if the power to abolish districts and banks is withheld?" Your committee feels strongly that the ruling of the Attorney General practically destroys the Board's power effectively to readjust the districts inasmuch as such readjustment of necessity must be made with a view to preserving an adequate capitalization of each bank.

Respectfully submitted:

.....
.....
.....

Committee.

November 27, 1915.

Memorandum for Mr. Allen:

October 19:

"Mr. Delano called to the attention of the Board the question of the best method of disposing of business now pending before the Board and suggested ~~that~~ the desirability of a review of such business for the purpose of determining what disposition is to be made of pending applications for redistricting and other matters.

After discussion it was on motion voted to refer the question of redistricting to a special committee consisting of Mr. Delano, Mr. Harding and Mr. Warburg, the Secretary of the Board to act as Secretary of the Committee."

D. C. W.

122.-2

December 9, 1915.

Dear Mr. Comptroller:

I have your letter of December 8th with which you return two colored maps which, at his request, I gave to Governor Hamlin about a week ago.

You ask for a memorandum that, according to Mr. Willis's statement, I asked him to prepare, describing district lines. Mr. Willis was correct in saying that I asked him for such a statement, but at the time of our handing in our first report, I believe the statement had not been completed and I, for one, have never seen it. It may be that Mr. Delano has it if it was finished.

I have put together some material from the committee's file which may possibly be of interest to you, but in the absence of Mr. Delano, the chairman of the committee, and my colleague, Mr. Harding, I do not feel free to send it to you at this time. I shall take up the matter with them after their return.

Sincerely yours,

Hon. John Skelton Williams,
Comptroller of the Currency.

*

122-2

THE FIRST NATIONAL BANK
BOSTON, MASS.

DANIEL G. WING, PRESIDENT.
CLIFTON H. DWINNELL, VICE PRESIDENT.
DOWNIE D. MUIR, VICE PRESIDENT.
BERNARD W. TRAFFORD, VICE PRESIDENT.
PALMER E. PRESBRY, VICE PRESIDENT.
FRANCIS A. GOODHUE, VICE PRESIDENT.
OLAF OLSEN, VICE PRESIDENT.

BERTRAM D. BLAISDELL, CASHIER.
GEORGE W. HYDE, ASST CASHIER.
EDWIN R. ROONEY, ASST CASHIER.
WILLIAM F. EDLEFSON, ASST CASHIER.
STANTON D. BULLOCK, AUDITOR.

December 8, 1915.

Pierre Jay, Chairman,
Federal Reserve Bank,
New York City.

Dear Mr. Jay:

We are unable to locate
a Mr. W. D. Higgins of Boston. He
does not appear to be in the telephone
book or the directory, nor is he known
to numerous of our friends in banking
circles where we have inquired. Can
you give us something a little more
definite to work on.

Very truly yours,

Clifton H. Dwinell
Vice President.

H

Dear Mr. Warburg:
Can you give
any further details?
Yr truly
Pierrep

H. C. Marshall

122.-2
12/8/15

FEDERAL RESERVE BOARD
WASHINGTON

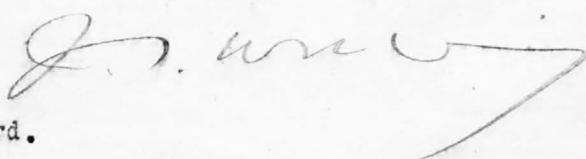
December 8, 1915.

Dear Mr. Warburg:-

I beg leave to return with this two colored map received some days ago from Governor Hamlin (and which he asked me to return to you) which, as I understand it, represent your suggestions relative to the revision of Federal Reserve Districts, etc., in connection with the report submitted by the "Re-districting Committee" on the 15th ultimo.

You will, perhaps, recall that Secretary Willis stated at the Board meeting a few days ago that after the appointment of the committee, of which you were a member, you had asked him to prepare a statement or memorandum, which, as I understood it, related to district lines and matters concerning the work of the committee. If it should be entirely agreeable to you to do so, will you not be so good as to let me see this memorandum, which I understand was considered by one or more members of the committee in connection with the report submitted by the Committee.

Sincerely yours,



Hon. Paul M. Warburg,
Federal Reserve Board.

122.-2

12/7/15

RIDER II

As a third alternative

The committee ~~for many reasons~~ considered ~~favorably~~ a combination of New Orleans and St. Louis, uniting on the other hand, Dallas with Kansas. In such combination, however, the District Kansas-Dallas would have been without a subtreasury, while St. Louis-New Orleans would have had two subtreasuries.

P. M. W.
Dec 7, 1915.

22-2

ALFRED L. AIKEN
GOVERNOR
FLORRIMON M. HOWE
CASHIER
ERNEST M. LEAVITT
ASST. CASHIER

FEDERAL RESERVE BANK
OF BOSTON

DIRECTORS
FREDERIC H. CURTISS, CHAIRMAN
AND FEDERAL RESERVE AGENT
WALTER S. HACKNEY, VICE-CHAIRMAN
AND DEPUTY FEDERAL RESERVE AGENT
THOMAS P. BEAL, BOSTON, MASS.
CHARLES G. SANFORD, BRIDGEPORT, CONN.
ARTHUR M. HEARD, MANCHESTER, N. H.
CHARLES A. MORSS, BOSTON, MASS.
EDMUND R. MORSE, PROCTOR, VT.
CHARLES G. WASHBURN, WORCESTER, MASS.
ALLEN HOLLIS, CONCORD, N. H.

December 6, 1915.

Personal and confidential

Hon. Paul M. Warburg,
c/o Federal Reserve Board,
Washington, D. C.

My dear Mr. Warburg:

I do not quite know how to express to you my appreciation of your personal interest as shown in your letter of December 3, but I greatly appreciate your kindness and the assurance which your letter brought.

I want you to understand that I have never permitted any of the discussions of the changes or consolidations suggested in the Federal reserve organization to give me one moment of personal anxiety, for whenever these matters have come up I have always felt that the matter of the development of the system was a good deal bigger than any individual success or failure, and have been endeavoring to contribute my share to its development without much regard for my personal interests in the matter.

While I am writing in this personal way I want to tell you what an important factor in my interest in this work has been the inspiration that I have gotten from you and Mr. Strong. While I have made some considerable sacrifices of personal comfort and of an assured ~~and~~ modest future in my own city, they amount to nothing compared with the sacrifices that you both have made and it has been a continual inspiration to me to be associated with you both, and I only wish that for my sake we were brought in more fre-

Hon. Paul M. Warburg

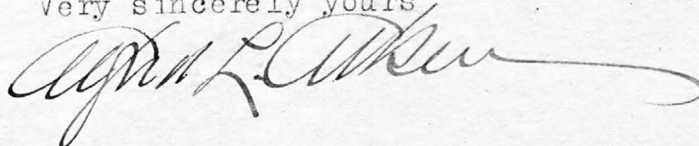
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12/6/15

quent contact. I sometimes feel as though I impose unduly on Mr. Strong in my frequent trips to New York to talk over the questions with which we are all confronted but I find the association with him a great help in meeting the problems which arise here.

Please allow me to express once more my deep appreciation of your consideration in writing me as you did.

Very sincerely yours



ALA
JJC

122.-2

December 4, 1915.

PERSONAL & CONFIDENTIAL

Dear Governor Van Zandt:

I have your letter of December 1st, and thank you very much for your kind remarks concerning my addresses.

I was very much interested in what you said about the rumors that had reached Dallas concerning the abolition of the district. Let me say to you in confidence that the rumors in the papers are not supported by facts. The Board discussed the question of re-districting only upon the basis of principle involved; whether or not the country would be better served by the smaller or larger number of districts. As you know, the Attorney General has given an opinion denying the right of the Board to put into effect any plan which would involve the reduction of the number of Federal Reserve Banks.

Confidentially, I may state to you that the Board in all probability will submit to this ruling.

Confidentially, I should like to add that not one of the members of the Board contemplated anything that would involve the destruction of existing organizations. Even in cases where theoretically the question of consolidating two districts was discussed, members of the Board always had in mind that ^{where} ~~were~~ head offices now are in existence, at least branches would

(2)

continue with substantially the same organization and dealing substantially with the same member banks; so that, as a matter of fact, in such cases the only practical change would have been that member banks would have been stockholders in a larger concern and would have enjoyed in return the benefit of a more efficient interchange of reserves and clearings, and more economic operation; also a larger field for their note circulation.

Whatever would have happened, I am confident that, as I said, no change would have involved the loss of valuable men or the destruction of existing organizations.

Please consider this as an entirely personal note and consider it as confidential, except, of course, I should wish that you would have Mr. Tenzison read it.

With kind regards for you both, I am

Very truly yours,

Sgt P. M. Harkins

R. L. Van Zandt, Esq.,
Governor, Federal Reserve Bank,
Dallas, Texas.

(Confidential)

December 3, 1915.

Dear Governor Aiken:

I am writing these confidential lines only for your own and Mr. Curtiss' information.

The papers have published all kinds of rumors about the proposed reduction of the number of Federal Reserve Districts. I want you to know that the Board has dealt with this question only on the very broad question of principle and powers of the Board involved. The committee has not made any report or recommendation presenting a definite plan. The problem has only been discussed on the broad basis of the principles involved, and, of course, you have seen that, for the time being at least, any further progress has probably been blocked by the Attorney General's opinion.

What I would like to have you know, however, is that in all the plans of the committee nothing was contemplated that would have disrupted existing organizations. The consolidation of districts would have meant the continuation of two distinct units, one a branch and one the head office, combined to work as a single ^{district} unit and thus secure the advantages of an easier exchange of reserve and circulation and other incidental advantages, concerning clearing, etc. While I may say with confidence that the Boston District would probably have remained entirely untouched even though the Attorney

(2)

General had not blocked our powers, I am writing these lines only for the purpose of letting you know that, no matter what would eventually have been contemplated, the Board would have taken good care not to disrupt existing organizations or to lose the services of valuable men.

Please consider this as an entirely personal and confidential message which, however, I have felt I should be free to send to you.

Very sincerely yours,

Alfred L. Aiken, Esq.,
Governor, Federal Reserve Bank,
Boston, Massachusetts.

122.-2

(Confidential)

December 3, 1915.

Dear Governor Fancher:

I have your letter of December first, attaching a newspaper clipping concerning the mooted plans of the Federal Reserve Board concerning redistricting.

It is very regrettable that the newspapers published these statements, which are entirely unsupported by facts. For your own confidential information, ^{and that of Mr. Wille} I may state that no definite plan has been submitted by the committee on redistricting and that only the broad question was discussed whether the Board had the power to redistrict and whether it would favor a reduction of districts. But even in these tentative discussions I may assure you that nothing was considered that would disrupt valuable existing organizations. Even in cases where theoretical consolidations of districts were contemplated, the idea was that existing organizations would be continued either unchanged or practically unchanged as a branch.

The question of the controversy between Cleveland and Pittsburgh has, up to this time, not been discussed by the Board, and, as a matter of fact - and as you have seen - legal objections have been raised by the Attorney General as to the powers of the Board in the question of the reduction of the number of districts and possibly even as to the change

(2)

of Federal Reserve Cities. The Board will probably ask for some more definite expressions of opinion of the Attorney General covering the latter problem, and only after it has secured the fullest light on the subject may it be expected to act.

I am sorry that it is impossible for me to say more to you at this time for reasons which you will readily understand, but do not let your employees worry. We are not likely to lose good men in the shuffle - provided that any shuffle should occur at all!

I believe I expressed to you at the time of my Cleveland visit how well I was impressed by your organization.

Yours truly,

E. R. Fancher, Esq.,
Governor, Federal Reserve Bank,
Cleveland, Ohio.

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FEDERAL RESERVE BOARD
WASHINGTON.

December 2, 1915.

To the
Federal Reserve Board.

Your Committee on Redistricting has received and noted the copy of the opinion of the Attorney General addressed to The President of the United States, under date of November 22, 1915, to the effect that the Federal Reserve Board has not the power to abolish any one or more of the Federal Reserve districts, or any one or more of the Federal Reserve Banks located in the cities designated by the Reserve Bank Organization Committee.

Your Committee feels that there has been a serious misunderstanding, not only of the substance and purpose of its preliminary report filed with the Board on November 13, 1915, but also of the motives which prompted it. Therefore, before making any further recommendations, your Committee is desirous of recounting briefly the facts which led to its action and on which it based its recommendations, with the hope that a better understanding of the facts as they appeared to your Committee may promote a common point of view and conduce to a continuation of the harmonious cooperation and mutual good will that has in the past char-

acterized the work of the Board and stamped it with the approval of the public at large.

On March 1, 1915, Mr. Elliott filed with the Board an opinion dealing with the general powers of the Board to review the determination of the Organization Committee, to readjust the Federal Reserve districts, to change the designation of the Federal Reserve cities, and to reduce the number of districts formed by the Organization Committee. It is to be noted, however, that, in this opinion, the question of reduction was referred to very briefly, and Mr. Elliott later advised the Board that the consideration of this particular question was merely incidental to the main questions discussed in that opinion and that, should the question of reduction be specifically considered by the Board, he would appreciate an opportunity of reconsidering his earlier opinion on that particular point.

In view of the doubts raised by Mr. Elliott, ^{Members of} the Board ~~reconsidered~~ ~~to avail themselves~~ ~~of the opportunity~~ of the opportunity of Senator Owen's appearance before it in the hearing of the appeal of certain Oklahoma banks requesting a transfer from the Dallas to the Kansas City District, to ask for his views concerning the intent of Congress and the meaning of the Federal Reserve Act relating to the powers of the Board on this whole subject. The request for Senator Owen's views was not accidental, but intentionally contemplated to instruct and guide the Board in disposing of pending appeals. His answer was that Congress meant to "give to the Board the power of the Government itself in dealing with this system"

and that he thought the power of the Board "would extend even to the power of reducing the districts".

It is understood, of course, that this statement by Senator Owen was merely his own personal opinion and that it was made at a time when another though closely related subject was under consideration, but it at least indicates that there was no decided impression in Senator Owen's mind that this power to reduce was not given the Board.

The Board subsequently published in the June 1, 1915, Bulletin a resolution, which was passed unanimously on May 4, 1915, when both Governor Hamlin and Mr. Williams were present, providing, among other things, as follows:

"That action on other pending petitions be deferred until further experience in the actual operation of the several districts, especially in the light of the new clearing system which is about to go into effect, and of the extent to which State banks take membership in the Federal Reserve System, shall have provided the Board with the necessary data for a conclusion, it being the opinion of the Board that action on petitions relating to changes in cities designated as the location of Federal reserve banks should be deferred until the Board shall have reached a conclusion from experience as to any further readjustments in the boundaries of the several districts, or in the number of districts, which may be desirable in the operation and development of the Federal Reserve System." (The italics are ours)

Your Committee is positive that no objection was raised at that time by any member of the Board or by any Member of Congress, indicating dissent from the proposition that the Board had the right to reduce

the number of districts. Indeed, such an argument was never raised in the briefs of counsel on the various appeals heard by the Board.

On October 19, 1915, the following vote was passed, "to refer the question of redistricting to a special Committee consisting of Mr. Delano, Mr. Harding and Mr. Warburg". Counsel for the Board were soon thereafter requested to prepare opinions as to the legal right of the Board to reduce the number of districts. Mr. Cotton filed his formal opinion on November 22, 1915, stating unqualifiedly that the Federal Reserve Board is fully authorized by the Act to reduce the number of districts. Mr. Elliott, who, in accordance with his own request, was re-considering his earlier opinion of March 1, 1915, filed his opinion with the Governor on November 23, 1915, and on November 22, 1915, the Attorney General delivered his opinion addressed to The President.

It may be noted, therefore, that at the time of making its preliminary report on November 13, 1915, your committee did not believe either that members of Congress would take the position that the Board was without power to reduce the number of districts or that members of the Board would, in view of the unanimous resolution above quoted take that view unless forced to adopt it by the conclusive opinion of Counsel.

Your committee began its work by elaborating a report submitting definite alternative plans, but finally concluded that it would be preferable to ask the Board first to pass upon the question of policy and the principle involved. Your committee had, however, reached a conviction that the country would be better served by a reduction in the number of

districts to eight or nine. The reasons on which this conviction was based seemed so convincing and conclusive to the committee that it hoped the Board might adopt unanimously the recommendation which it outlined. The committee is desirous of emphasizing in the strongest terms its absolute confidence, not only in the underlying principles of the Federal Reserve Act, but also in the machinery provided for developing such principles into a system which has already brought immeasurable benefits to this country and which, whether with twelve banks or eight, will prove of inestimable value. That the number of banks and districts originally created was larger than is conducive, in the opinion of your committee, to the most efficient operation of the system and to the greatest safety of the country is not the fault of the Act, but is due to the fact that the Organization Committee, which, though acting in the best of faith, could not, in the short time allotted to it, acquire such knowledge and experience as is absolutely necessary to a final determination of such an important question.

The Attorney General has since denied the right of the Board to reduce the number of districts determined by the Organization Committee, and in view of that your committee is not desirous of making any further recommendations at this time. It wishes, however, to emphasize the fact that at the time of filing its preliminary report, no doubt existed in its mind as to the wisdom of reducing the number of districts in the near future, but also the right of the Board to make such a reduction.

Your committee is ready to submit an abstract of the arguments

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that were prepared by it when it supposed that the subject was to be discussed on its merits, and it is of the opinion still that these arguments will assert themselves sooner or later, and that the country will not rest satisfied until the Federal Reserve System shall have been developed to render its maximum possible efficiency. Furthermore, your committee feels that, if the adjustment is not made at this time, it is more than likely to be made at some future time, but with far greater difficulty and disturbance.

In reviewing the evidence before the Organization Committee it was noted that, of the eighty-four witnesses, only nine recommended the formation of twelve districts; a large majority favoring not to exceed nine districts.

Your committee concluded, as a result of its study of the question, that the greatest protection from future disturbance was the immediate establishment of a system enjoying its maximum degree of usefulness and service. The country would not permit any subsequent interference with a machinery once perfected, whereas, weaknesses, such as those which seemed to your committee to exist now, offer a constant target for critics. For these reasons, not to mention the many practical advantages incident to carrying out, prior to January 1, 1916, any changes that might have been decided upon by the Board, your committee was sincerely anxious to secure prompt discussion and full consideration of its recommendations.

As the chairman of the committee repeatedly stated, the desire for immediate consideration of the question was not prompted by any inten-

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tion on the part of your committee to force the Board to take any un-
considered action, and the fact that the request of two members of the
Board for another preliminary report in writing as to the reasons for
its recommendations was opposed by the committee was, as explained by
the committee, solely because it desired to have the report discussed
without delay
on its merits/and at that time lay before the Board all the facts and
figures it had collected. Such a course was in consonance with our usual
practice.

The committee had postponed filing its report on account of
Secretary McAdoo's absence in the west, and later waited until Mr. Hard-
ing had called on him at his house to apprise him informally of the views
of the committee and secure any suggestions which he might see fit to
make. The Secretary, however, was unable, because of his own illness,
and later by illness in his family, to discuss the matter with Mr. Hard-
ing, and the committee then filed its report on Saturday, November 13,
1915, fixing the following Monday for discussion by the full Board, the
Secretary of the Treasury having stated to members that he would be en-
gaged on his report to Congress until the 15th, which the committee as-
sumed would leave him free after that date. However, consideration of
the report was postponed until Monday, November 22, 1915, because of the
inability of the Secretary of the Treasury to be present until that date.

At the meeting of November 22d, the opinion of the Attorney Gen-
eral, already referred to, was presented; also, the letters of two United

State Senators. Your Committee desired to repeat that at no time had there been a discussion of the Committee's original report of November 13th or of the revised report of November 17th. The Committee therefore regrets that before it had the opportunity which it desired to make an oral presentation of facts and arguments, and various data, in its possession, the Attorney General's opinion was sought without its knowledge.

Your committee believes that it would have been fairer to The President, to the Attorney General, and to the Federal Reserve System, if the case had been submitted to the Attorney General with a full presentation of arguments on both sides of the question. If the Attorney General, for example, had understood that no closing of banking offices was contemplated but that in every city where a Reserve Bank was abandoned a branch bank would be established, he would not have been led to believe that the Committee's recommendation "would profoundly affect the currents of trade and alter the whole face of business throughout vast sections of the country," etc.

If your committee was right in its conclusions as to the advisability of a smaller number of districts, the permanency which the Attorney General and every one of us desires for the future of the system would have been best secured by prompt and courageous action now.

Your Committee, however, fully appreciates the authority of the Attorney General's opinion and, submitting to the conclusions reached therein recommends that the Board abandon, at least for the present any plan of redistricting which involves the consolidation of any districts and that the Board now address itself to the specific appeals pending and to such readjustments as may be permissible and practicable under the Attorney General's opinion.

There are now pending before the Board for disposal five applications, viz.:

First: The application of certain member banks located in Western Connecticut requesting that the territory in which they are located be transferred from the First to the Second Federal Reserve District. The Committee respectfully recommends that a date be fixed for the hearing of oral arguments before the Board relative to this appeal;

Second: The application of certain member banks located in Wisconsin requesting that the territory in which they are located be transferred from the Ninth to the Seventh Federal Reserve District. The Committee respectfully recommends that the Board send a letter ballot to all member banks of the Minneapolis District involved in this appeal, requesting that they reply promptly to the Federal Reserve

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Board, stating whether they wish to be transferred to the Seventh or to remain in the Ninth District, and stating also whether they feel that their interests are being harmed by remaining in the Ninth District;

Third: The application of certain member banks located in Louisiana requesting that the territory in which they are located be transferred from the Eleventh to the Sixth District. The committee respectfully recommends that, unless the Federal Reserve Bank of Dallas desires to be heard in the matter, the case of the Louisiana banks be decided upon the facts now in the possession of the Board without any further hearing, but if Dallas desires to be heard that a date for the hearing be promptly fixed.

Fourth: The application of member banks located in
and

Fifth Pittsburgh and Baltimore requesting that those cities be designated as Federal Reserve Cities in place of Cleveland and Richmond, respectively.

Your committee wishes to call the Board's attention to the opinion of Mr. Elliott, dated March 1, 1915, which, in answer to the question "Can the Federal Reserve Board, under the terms of the Federal Reserve Act, designate other Federal Reserve Cities in place of

those selected by the Organization Committee?", held that the Board has no legal power to change the designation of a Federal Reserve City unless such change is necessary in order to accommodate the convenience and customary course of business in a readjusted district. Mr. Elliott, in disposing of this point, stated:

"If, therefore, the Board concludes that the districts are not apportioned according to the purpose and intent of the Act and determines that it is necessary to readjust such district, it would seem clear that it possesses an implied power to change the designation of the Federal reserve cities. If, however, the districts are not readjusted, it seems very doubtful whether this power can be implied, and to change the designation of cities without readjusting the districts would necessitate resolving this doubt in favor of the exercise of this power against the apparent intent of Congress. "

On the strength of this opinion of its Counsel, the Board might well be justified in undertaking such changes in the designation of Federal Reserve Cities as may be necessarily incident to the readjustment of the districts in which they are located. On the other hand, in view of the great importance of the subject, and because of the doubt expressed by Mr. Elliott, and also because of the uncertainty in the minds of the committee as to the intent and effect of the opinion of the Attorney General on this particular point, it submits for consideration of the Board the suggestion that the Governor be in-

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structed to address a letter to The President, asking him kindly to request the Attorney General to give his opinion on the following questions:

- (1) Can the Federal Reserve Board legally change the present location of any Federal Reserve Bank?
 - (a) In the case where there has been no alteration in the district lines? and
 - (b) In the case where there has been such a readjustment of district lines as in the opinion of the Board necessitates the designation of a new Federal Reserve City in order that the convenience and customary course of business may be accommodated as required by law?
- (2) Must the Board, in exercising its admitted power to readjust, preserve the \$4,000,000 minimum capitalization of each and every Federal Reserve Bank.

Your committee finds itself unable to make any specific recommendation relating to the changes in the designation of the cities of Cleveland and Richmond as Federal Reserve Cities in the Fourth and Fifth Districts, respectively, but it feels that any attempt to determine those questions should be deferred until the Board is advised finally and definitely, not merely of its power to change the designation of a city, but also, first, whether the power to make such a change is dependent upon further readjustments in the district lines, and, second, whether, if it is dependent upon such readjustments, the \$4,000,000 capital limit must be preserved in making such changes in the district lines.

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Your committee also feels that if this matter is put up to the Attorney General, he should be advised that, while there are distinct features in the present adjustment of districts which do not commend themselves to the best judgment of the committee, and do not in its opinion comply strictly with the injunction that due regard must be had to the convenience and customary course of business, we recognize the difficulty of adjusting these matters so long as the Board is bound to preserve twelve districts, and at the same time maintain for each bank a capital large enough to command sufficient prestige and confidence.

In his opinion the Attorney General formulated the query, "Would the power to readjust districts, which is expressly conferred upon the Board, be nullified or rendered impotent if the power to abolish districts and banks is withheld?" Your committee's response to this is that the ruling of the Attorney General, as a practical matter, nullifies the Board's power to readjust the districts inasmuch as such readjustment of necessity must be made with a view to preserving an adequate capitalization for each bank, several of which are now close to the limit prescribed for the Organization Committee and of smaller size than is conducive, in the opinion of your committee, to the best interests of the system.

Respectfully submitted:

F. A. DELANO

Committee P. M. WARBURG

W. P. G. HARDING

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FEDERAL RESERVE BANK
OF DALLAS

RICHARD L. VAN ZANDT
GOVERNOR

December 1, 1915.

My dear Mr. Warburg:

I have just received the copy of the remarks made by you at the dinner given you in Charlotte, North Carolina, on the 23rd ultimo, and appreciate your compliment in giving me an opportunity to read same.

I notice that, in all of your addresses, you have shown that wonderful gift of being able to make your points so clear that the ordinary layman can immediately grasp your meaning, and, for that reason, I think it would be very beneficial to the Federal Reserve System for you to spend more time than you now do in writing articles for the financial journals.

In connection with my expression of "benefits to the System," we are hearing, on every hand, unfavorable comments about the uncertainty of the permanency of the Federal Reserve Bank, owing to the fact that the newspapers in this section recently published a report, which was claimed to be authentic, to the effect that the Federal Reserve Board was considering the abolishment of the Eleventh District, and that this was the occasion for the opinion recently rendered by the Attorney General.

In my humble opinion the banks and the people at large must be impressed with the stability of these Federal Reserve Banks and not be kept in a constant state of unrest. The banks which are located near district lines should be assured that they are to permanently remain in

Mr. Warburg--2.

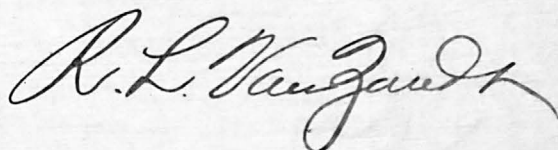
the district to which they now belong; otherwise, their time is spent, not in looking at the advantages to be gained by being a member of the Federal Reserve Bank to which they now belong, but at the advantages which might be gained should they be able to get a transfer to another district.

This feeling of unrest has already shown its effect in our District by a reduction in the number of applications for loans from this bank and an increase in the loans made by ~~our~~ reserve city banks to our members.

I will appreciate it if, at your earliest convenience, you will give me your personal views in this connection.

Again thanking you for the copy of your speech, and with kind personal regards, I am,

Yours very truly,



Hon. Paul M. Warburg,
Federal Reserve Board,
Washington, D. C.

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FEDERAL RESERVE BANK OF CLEVELAND

OFFICE OF THE GOVERNOR

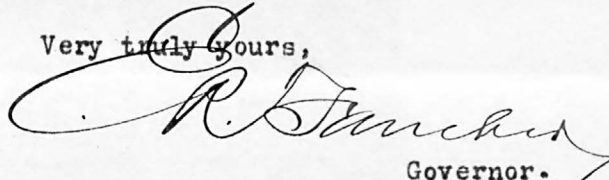
December 1, 1915.

Dear Mr. Warburg:

By reason of the controversy between Pittsburgh and Cleveland as to the location of the Federal Reserve Bank of this district, numerous articles have appeared from time to time in the leading papers of the several important cities in this district, the effect of which has been to raise the query in the minds of some of our employees, particularly those whose homes are in Cleveland, as to the permanency of their positions and the desirability of continuing with the bank. I enclose clipping from the Cincinnati Enquirer of November 30, which is the latest article published on this subject that has come to my attention. I imagine the other banks mentioned in this article are as deeply concerned as to the future of their banks as I am about this bank.

Of course, I understand that this article is probably not based on any official information from the Federal Reserve Board and, therefore, I may appear unduly concerned, but in view of the fact that some of these controversies have existed from a period even prior to the organization of the banks, it would appear that for the benefit of the system as a whole, these controversies should be definitely settled if possible at an early date.

Very truly yours,



Governor.

Mr. Paul M. Warburg,

c/o Federal Reserve Board,

Washington, D. C.

ERF-B
Encl.

CHANGES

Of the District Banks,

Planned By Reserve Board, Checked
By Quick Action of Adminis-
tration Officials.

SPECIAL DISPATCH TO THE ENQUIRER.

Washington, November 29. — An order for the transfer of the Reserve Bank of the Fourth District from Cleveland to Pittsburg would have been issued by the Federal Reserve Board had not the Administration made known through an opinion written by Attorney-General Gregory its opposition to changing the system as it now stands.

Prior to the issuance of this opinion, presented to the Reserve Board last Monday, the Reserve Board had practically completed plans to wipe out the Boston Bank, including that area in the New York District; to abolish the Atlanta Bank and incorporate part of its territory with a regional bank at New Orleans, to which city the Dallas Bank was to be transferred; to do away with the Reserve Bank at Kansas City, dividing that district between St. Louis and Chicago, and to eliminate the Minneapolis Bank, placing that region in the Chicago District. The plan also included the transfer of the Cleveland Bank to Pittsburg.

The Richmond Bank would have been retained, but would have been augmented by the division of part of the territory now included in the Atlanta Bank.

In the abolishing of the Kansas City Bank the States of Nebraska and Wyoming would have been added to the Chicago Bank, and the balance to the St. Louis institution.

Under the opinion of the Attorney-General these changes, other than the transfer of reserve banks from one city to another, can be made only by direct authority from Congress, and the Reserve Board, it is understood, will not seek this authority.

The plans of the board were communicated to congressional leaders in sympathy with the Administration and were, of course, known to the Administration. Attorney-General Gregory's opinion, which put a stop to the board's plans, was sent to the White House and reached the Reserve Board by way of the White House. Several of its members expressed surprise when they learned that an opinion had been asked and delivered.

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File not sent.

FEDERAL RESERVE BOARD

WASHINGTON

November 26, 1915.

Sir:

The Board begs to acknowledge receipt of your letter of November 20th, to which it has given careful consideration.

In reply I am instructed to say that the Board regrets that whoever informed you concerning the report contemplated by the sub-committee of the Board has, ~~either from malice or ignorance,~~ misinformed you.

I am authorized and instructed to say to you that the sub-committee had not agreed on any definite plan of redistricting but that there had been under consideration several alternate plans. The sub-committee had, ~~however,~~ merely asked the Board whether it should make its report and recommendation ~~mainly~~ upon the five cases pending before the Board or, in dealing with these, it should consider the larger question of redistricting.

The committee in its report stated that it was well aware of legal objections that might be raised and other important considerations, and it was just for this reason that it wished a full discussion and unequivocal instructions ^{and if possible unanimous action} ~~upon the many points,~~ before submitting any definite plan. The committee had all reasons to believe that the Board was not of the opinion that it had no right to change the location of Federal Reserve Banks or to reduce the number of districts. The Board's opinion was expressed in a resolution passed on May 4th, 1915 ~~and~~ given to the press on that day ~~a~~ copy of which ~~is~~ attached, in which it was stated that "action

on petitions relating to changes in cities designated as the location of Federal Reserve Banks should be deferred until the Board shall have reached a conclusion from experience as to any further readjustments in the boundaries of the several districts, or in the number of districts, which may be desirable in the operation and development of the Federal Reserve System."

All members of the Federal Reserve Board are animated by the desire to administer conscientiously the Federal Reserve System according to the law and spirit of the Act. There is no intention on the part of the Board to arrogate to itself governmental functions, ~~except where they are~~ ^{not} conferred upon it by law. It was for the ~~the~~ ^{purpose of} very ~~purpose of~~ ^{ascertaining} what was the spirit of the law, that the Federal Reserve Board asked of you when you appeared before it in connection with the Oklahoma petition for transfer, an expression of views as to the power which Congress ~~desired to~~ ^{has} confer upon the Federal Reserve Board in this connection. A copy of your statement ~~is appended~~ ^{is appended} from which you will see that upon the question asked you whether the power of the Board would extend to reducing the number of districts, your answer was taken down as "~~The law gives twelve districts~~, I think it would extend even to the power of reducing the districts. I am speaking now merely of the power."

The committee had not been advised after the resolution of the Board had been published on May 4th, that anybody raised any doubt with respect to the Board's power of redistricting and it did not receive from you any advice that you had changed your own views in the matter. This is stated, not for the reason of

criticising your change of view in the matter, but simply for pointing out to you that the committee thought that it was only proceeding on lines which had been ~~generally recognized~~ ^{considered} as being well within the powers of the Board. The committee did not contemplate to act in the matter except after the most careful investigation and deliberation, and as a matter of fact, informally the committee had agreed before receiving your letter and before going to the meeting on Monday morning, that if there should be any serious doubt as to the power of the Board and if ~~serious~~ confusion or embarrassment might result, that it might be better to state frankly ~~to Congress~~ that, ~~the Board had doubts~~ ^{having been raised} as to its power in the matter, ~~and that~~ ^{if} if Congress wished the Board to exercise this power that it might be desirable to amend the law so as to make this point entirely clear - so clear that decisions of the Board in the matter should not be subject to contest in the courts.

It is most unfortunate that those who informed you about the contemplated report of the committee should have created an impression as if, to quote your words, "an attempt to discredit the system" ~~would~~ ^{might} be involved in the report. Quite to the contrary, the committee feared that the creation of twelve districts had been an unfortunate step which in the long run ~~would~~ ^{will} prove a serious obstacle in attaining the highest degree of successful operation of the Federal Reserve Banks. The committee is profoundly convinced that a smaller number will produce better results ^{and will remove factors that might work to the discredit of the system.}

There is no criticism of the Act involved in this conclusion. The Act provided that no less than eight, but no more than twelve banks should be created. The criticism, if any, would be on the Organization Committee, whose acts were considered as subject to the review of the Federal Reserve Board. If the Board had the power, ~~as you stated to the Board that it had~~, the committee would have been remiss in its duty if it had not acted according to its sincere convictions.

The committee has since stated to the Board that while it was a unit in feeling that the number of districts should be reduced, no definite conclusions had been reached as to the number, and as a matter of fact, that probably ~~the~~ ^{its} recommendation would have been nine districts. The majority of the committee had practically agreed that they would not recommend a consolidation of the New York and Boston districts. No conclusions had been reached at all as to whether or not Dallas should remain a Federal Reserve Bank, etc. The general thoughts of the committee were that where a consolidation of two districts was contemplated, a branch would take the place of the Federal Reserve Bank of one of the ~~two cities~~ ^{districts} consolidated, and that substantially the same territory would be allotted to the branch as belonged to it as a Federal Reserve Bank. There would not have been any radical disorganization or wiping out of districts. The most noticeable change to which member banks would have been subjected would have been that they would have ^{had} stock in the ^{bank of the} combined district, whereas their relations with their bank would have remained

to Grand Bank

the same; with that difference, however, that the consolidated Federal Reserve Bank, having the larger capital and the larger reserve, would have ^{enjoy} greater prestige ^{and lending power} in both districts, and that the general object of the law of stabilizing and equalizing interest rates would have been of easier attainment in the larger districts.

Inasmuch as the Act as passed by the Senate contemplated ^{a maximum of} only eight Banks, the committee did not expect that in this branch of Congress any step of reducing the number of districts to nine would be considered as unsound or objectionable.

The committee felt that sectional spirit and control by cliques could more effectively be avoided in a larger district, while it will not have escaped your mind that in the administration of branches the power exercised by the government is a greater one than that in the Federal Reserve Banks, the government appointing three branch directors out of seven, as against three ^{directors} out of nine in the Federal Reserve Banks.

The Board is in fullest accord with you as to the beneficial effects which the opening of the Federal Reserve Banks has had upon interest rates in the country and upon the resulting stimulation of trade. The Board, however, is mindful of its responsibility not now to over-stimulate the ease of money, so that ^{healthy} well-founded prosperity shall not be destroyed by an over-stimulation of speculation. It is this feeling of responsibility which makes it difficult, if not impossible, for the Federal Reserve Banks at this time aggressively to employ their funds, which, after all, must be considered as reserve money.

The Board has, however, on October 8, '15, informed the banks that if they wished to undertake open market operations in bills of exchange that they have this power and that the Board did not wish to restrict this power for the time being by the issuing of any regulation.

As to the clearing operations of the banks to which you refer in your letter, the banks have faithfully tried to put into force a successful system of clearings; avoiding, however, a system by which the Federal Reserve Banks would be carrying the so-called "float", hundreds of millions of dollars, which under the present system of carrying reserves with correspondent banks with reserves in reserve cities, is figured as part of the reserves of the banks.

The Board is confident that you are in full accord with the policy adopted by the banks of not permitting their available reserves to be absorbed by the carrying of checks in the mails, which policy, if pursued would cripple the loaning power of the Federal Reserve Banks.

The Board ^{as advised by Council} does not find in the Act any power of Federal Reserve Banks to make a clearing plan mandatory upon their member banks. The voluntary plan, however, cannot be brought to its fullest development until that time when all the reserves will have been paid in and balances with banks in reserve and central reserve cities will have ceased to draw interest and will be counted as reserves.

The plan of the Sub Committee had planned to remove one substantial obstacle in the way of par clearing by providing districts each of which should include a Treasury or Sub Treasury point.

Meanwhile, It is worthy of note, however, that just in the

same way as the discount rates of the Federal Reserve Banks were substantial in having ^{the} ~~the most~~ far-reaching effect upon the general rates of the country, so the clearing plan adopted by the Federal Reserve Banks has brought about very tangible results in the reduction of the exchange charges made by the member banks.

The Board will be glad to furnish you with data in this connection.

Yours very respectfully,

Governor.

Honorable Robert L. Owen,
United States Senate.

November 22, 1915.

My dear Governor: -

On March 1st, 1915, this office filed with the Board an opinion dealing generally with the subject of the right of the Federal Reserve Board to review the determination of the Organization Committee, to adjust from time to time the Federal reserve districts created by that Committee, and to establish new districts. In that opinion the question was incidentally considered whether or not the Federal Reserve Board, under its power to review, or under its power to readjust the districts created, could legally reduce the number of districts by consolidation or otherwise.

The Board has requested that this subject be further considered but it is understood that it desires at this time to have counsel reconsider only that part of the opinion of March 1, 1915, which deals with the following question:

"Can the Federal Reserve Board, by the consolidation of two or more districts, reduce the number of Federal reserve districts?"

The powers of the Board relating to the modification of Federal reserve districts are contained in Section 2 of the Federal Reserve Act. This section provides

in part as follows:

"As soon as practicable, the Secretary of the Treasury, the Secretary of Agriculture and the Comptroller of the Currency, acting as 'The Reserve Bank Organization Committee', shall designate not less than eight nor more than twelve cities to be known as Federal reserve cities, and shall divide the continental United States, excluding Alaska, into districts, each district to contain only one of such Federal reserve cities. The determination of said organization committee shall not be subject to review except by the Federal Reserve Board when organized; PROVIDED, That the districts shall be apportioned with due regard to the convenience and customary course of business and shall not necessarily be co-terminous with any State or States. The districts thus created may be readjusted and new districts may from time to time be created by the Federal Reserve Board, not to exceed twelve in all. Such districts shall be known as Federal reserve districts and may be designated by number. A majority of the organization committee shall constitute a quorum with authority to act".

It will be observed that the organization committee is empowered -

- (a) To designate not less than eight nor more than twelve cities to be known as Federal reserve cities.
- (b) To divide the continental United States into districts, each district to contain only one of such Federal reserve cities.

Section 2 further provides that -

"Said organization committee shall be authorized to employ counsel and expert aid, to take testimony, to send for persons and papers, to administer oaths, and to make such investigation as may be deemed necessary by the said committee in determining the reserve districts and in designating the cities within such districts where such Federal reserve banks shall be severally located. The said committee shall supervise the organization in each of the cities designated of a Federal reserve bank, which shall include in its title the name of the city in which it is situated, as 'Federal Reserve Bank of Chicago'".

The Federal Reserve Board is authorized -

- (a) To review the determination of the organization committee,
- (b) To readjust the districts created, and
- (c) To create from time to time new districts, not to exceed twelve in all.

Whatever power the Board has in the matter of redistricting the continental United States must, therefore, rest upon the interpretation to be given to the language -

"The determination of said organization committee shall not be subject to review except by the Federal Reserve Board The districts thus created may be readjusted and new districts may from time to time be created by the Federal Reserve Board not to exceed twelve in all".

The question under consideration is - can this language be reasonably construed to give the Board power to reduce the number of Federal reserve districts and to liquidate or dissolve one or more of the Federal reserve banks organized by the organization committee?

If we consider the language above quoted without reference to any other part of the Act and attempt merely to give the usual or ordinary meaning to the words used it becomes immediately obvious that at least two different interpretations are possible and it is, therefore, not free from ambiguity. It is accordingly necessary to consider both possible interpretations in order to determine which one is consistent with other parts of the Act and is in accord with the intent of Congress.

On the one hand it may be argued that the power vested in the Board to "readjust the districts created" gives the Board the power not merely to change the lines of each and every district (preserving, however, the entity of each individual district) but that it may in its discretion consider the whole subject de novo and may divide the continental United States into an entirely new set of districts.

This interpretation is based upon the assumption that when Congress provided that "the districts thus created may be readjusted" it meant that the complete whole might be readjusted and not merely that each individual district was subject to change. If this be true, the certificate showing the Federal reserve cities and the geographical limits of each Federal reserve district which the organization committee is required to file with the Comptroller may be modified at any time by the Federal Reserve Board in any way that it deems necessary or advisable.

In this view it may be contended that the language which follows, namely, "and new districts may from time to time be created by the Federal Reserve Board, not to exceed twelve in all", was not intended to mean that additional districts may be created but merely that districts with new lines and new territorial extent may be created without reference to the entity of those districts created by the organization committee.

Construing this general language to mean that the Board has an expressed power to alter at will the entire plan of districts created by the organization committee, it may then be argued that this expressed power carries with it such incidental powers as may be necessary to carry out the intent of Congress in the matter. That is to say, if it becomes necessary as an incident of any readjustment made by the Board to change or cancel the designation of a Federal reserve city or to dissolve or liquidate a Federal reserve bank, the Board has an implied power to do these things as incidents of the expressed power to readjust the districts.

If, therefore, this interpretation can be sustained under the usual rules of construction of statutes the question submitted -- has the Board the power to reduce the number of Federal reserve districts, may be answered in the affirmative.

Before applying the usual rules of construction to this interpretation (which, for convenience, will be referred to as interpretation No. 1) attention is called to an alternative interpretation which is equally possible when the language in question is considered without reference to other parts of the Act.

Under this second interpretation it may be argued that the power to readjust the districts created vests in the Board the power only to readjust or to change the lines of each district created by the organization committee. That the power to create new districts not to exceed twelve in all was intended to give the Board the right to increase the number of districts if the organization committee had created less than twelve; that Congress did not intend that the districts created by the Organization committee should have merely a temporary or experimental status as districts but while subject to modification as to size and shape were nevertheless intended to have a permanent status as entities.

If this view can be supported by the application of the usual rules of construction the question under consideration - whether the Federal Reserve Board may reduce the number of districts - may be answered in the negative.

It will be observed that to make effective the power vested in the Board under interpretation No. 1, it is necessary to imply that it has power as an incident of "readjustment" to change or cancel the designation of Federal reserve cities and to liquidate Federal reserve banks.

It is, therefore, necessary to consider whether these implied or incidental powers are in conflict with any expressed provisions of the Act.

Upon an examination of the statute we find that the organization committee is expressly authorized to designate not less than eight nor more than twelve Federal reserve cities. Let us assume that the power in the Board to create new districts is equivalent to an expressed power to designate Federal reserve cities.

In support of this assumption the Act provides that "the districts thus created may be readjusted" and when we turn to the context to learn how the districts were "thus created" we find that the organization committee is required to first designate a Federal reserve city and then to define the geographical limits of the district to be served. It is, therefore, clearly necessary in order to create a district to designate a city and to define the limits of the district.

Accordingly if the power in the Board to create new districts is construed to mean to create additional districts or districts other than those previously created by the organization committee, it is clear that the Board has an expressed power to designate Federal reserve cities for such districts and that this power to designate cities in those districts created by the Board does

not conflict with the power of the committee to designate cities in districts which it has created.

On the other hand, if we construe this power to mean that the Federal Reserve Board may create new districts out of two or more districts created by the organization committee, we must assume that the Board has the power to nullify the designation of Federal reserve cities made by the committee.

It is significant in this connection that in defining the power of the Board to create new districts the Board is limited to a maximum number of twelve but is not limited to any minimum.

The organization committee is required to create in the manner above shown not less than eight nor more than twelve Federal reserve districts.

Under the power vested in the Board "new districts may be created from time to time not to exceed twelve in all." If, therefore, this power to create new districts is to be interpreted as giving the Board the right to reduce and to eliminate there would seem to be no limitation on the Board's power to reduce and it might create a number less than eight. It is hardly reasonable to say that the power to create new districts gives the Board the power to create such districts without reference to the action of the organization committee since in this event they might abolish all but one or two banks.

On the other hand, the fact that a maximum is placed on the new districts to be created by the Board but no minimum is expressed in the provision which deals with this power of the Board, indicates very strongly that Congress intended the number of districts created by the organization committee to have a fixed and permanent status and to constitute the minimum number to be established. That it merely intended to give the Board the power to increase the number to the maximum. This view appears to be sustained by the history of this legislation which will be dealt with later.

Considering the second implied power under the interpretation No. 1, we are here confronted with a conflict with an expressed power which is even more clear.

As above shown, if we assume that the Board may make an entirely new map of the districts and may reduce the number, we must assume that it has, as an incidental power, the right to liquidate one or more Federal reserve banks. Upon referring to Section 4, however, we find that when the necessary formalities have been complied with and a certificate of organization has been filed each bank becomes a corporation with certain specified powers, including the power -

" To have succession for a period of twenty years from its organization unless it is sooner dissolved by an Act of Congress, or unless its franchise becomes forfeited by some violation of law."

To adopt interpretation No. 1, therefore, we must assume that the implied power in the Board to liquidate these banks as an incident of readjustment is sufficient to overcome this expressed power in the bank to have succession for a period of twenty years: " unless sooner dissolved by an Act of Congress, or unless its franchise is forfeited by some violation of law." Such an assumption is clearly contrary to the established rules of construction laid down by our courts. For example, in the case of In re Rouse, Hazard & Co., 91 Fed. Rep. 100, the court in quoting with approval the decision in the case of State v. Inhabitants of Trenton, 38 N. J., Law 67, says :

" The legislature must be presumed to have intended what it expressly stated, rather than that which might be inferred from the use of general terms. "

It may be said to be a cardinal rule of construction that when two interpretations are possible, one of which is in harmony with other provisions of the Act, and the other repugnant to other provisions, that which is in harmony must be adopted. Inasmuch, therefore, as interpretation No. 1 involves the necessity of vesting implied or incidental powers in the Board which are repugnant to other expressed provisions in the Act, while interpretation No. 2 is in harmony with these provisions, the second interpretation should be adopted..

While this rule is so uniform it needs little citation of authority to sustain it, the language of the court used in a few cases in which this question arose is called to the Board's attention,

In the case of Montclair v. Ramsdell, 107 U.S. 152, the court said :

" It is the duty of the court to give effect if possible, to every clause and word of a statute, avoiding, if it may be, any construction which implies that the legislature was ignorant of the meaning of the language it employed."

Following this decision of the Supreme Court of the United States, it is, of course, necessary to give effect to the provision which gives banks a period of twenty years succession as well as to other provisions which are inconsistent with interpretation No. 1.

Again in the case of United States v. Baltimore & O S W R Co., 159 Fed. Rep., 37, the court says -

" The maxims and rules adopted for the purpose of interpreting the meaning of a statute require that we attend to all its provisions, and, if possible, attribute to the language in which each is expressed a meaning which will permit other provisions to have their due effect."

In the case of Bate Refrigerating Co. v Sulzberger, 157 U. S., 37, the court says :

" Where the language of the act is explicit, this court has said, there is great danger in departing from the words used, to give an effect to the law which may be supposed to have been designed by the legislature. It is not for the court to say, where the language of the statute is clear, that it shall be ^{so} construed

as to embrace cases, because no good reason can be assigned why they were excluded from its provisions. Scott v. Reid, 10 Pet. 524, 527."

Applying this doctrine to the present case, if it is clear under interpretation No. 2 that the Board may modify the districts but can not reduce the number, it would seem to be inconsistent with the rules of construction to extend this power to include the right to reduce the number if such a construction is inconsistent with other parts of the Act. As said in the case of In re Matthews, 109 Fed. Rep. 615,

" It is the cardinal rule of interpretation that a statute should be construed not only so that every part of it should stand, but so as to give force, meaning, and effect to every part of it."

In United States v. Jackson, 143 Fed. Rep. 785, the court said -

" Another canon of construction is that every part of a statute must be viewed in connection with the whole, so as to make all the parts harmonious, if practicable, and to give a sensible and intelligible effect to each; nor should it ever be presumed that the Legislature meant that any part of a statute should be without meaning or without force and effect. "

Many other cases to the same effect might be cited but in view of the uniformity of decisions on this subject this is considered unnecessary.

Inasmuch, therefore, as it will be necessary to fail to give effect to other provisions of the Act if interpretation No. 1 is adopted, it remains only to be considered whether interpretation No. 2 is consistent with the context and with other parts of the Act.

From an examination of the hearings held by the House and Senate Committees while the bill was pending it will be found that the question of the number of districts to be established was the subject of much discussion and of deliberate consideration. There were many who advocated a very small number of banks and others who contended for a large number. It was finally determined to fix a maximum and a minimum and to vest the power in a committee to be known as the Organization Committee, to establish not less than eight nor more than twelve districts with the power in the Federal Reserve Board to create new districts not to exceed twelve in all.

The House bill provided that the organization committee should designate "from among the reserve and central reserve cities " a number of Federal reserve cities , the total number so designated not to be less than twelve.

The House bill further provided that -

" The districts thus created may be readjusted and new districts may from time to time be created by the Federal Reserve Board hereinafter established, acting upon a joint application made by not less than ten member banks desiring to be organized into a new district. "

Later in the same Section the bill provided that -

" **No** Federal reserve district, shall be abolished nor the location of a Federal reserve bank changed, except upon the application of three-fourths of the member banks. "

From this it appears that according to the House bill the Federal Reserve Board might alter the limits of any given district, upon the application of ten member banks, or it might abolish a district and change the location of a Federal reserve bank upon the application of three-fourths of the member banks in such district.

When the bill reached the Senate it modified the power vested in the Board to alter the lines of a given district by striking out the provision that such alterations should be made only upon the application of ten member banks. The effect of this amendment in the Senate was clearly to vest ~~in the~~ Board the power to alter the lines of a given district on its own motion.

The power, however, to abolish districts and to change the location of Federal reserve banks upon the application of three-fourths of the member banks was eliminated in toto by the Senate and this elimination was agreed to in conference.

If any inference may be drawn from the history of these amendments, therefore, it seems clear that the

conferees agreed that no district should be abolished, even upon the application of three-fourths of the member banks.

Interpretation No. 2, therefore, seems to be consistent with the intent of Congress as indicated by the history of the bill and since a modification of the individual districts does not involve the elimination of a district nor of a Federal reserve city, and does not necessitate the liquidation of a Federal reserve bank, it is possible, under this interpretation, to give effect to all other provisions of the Act in accordance with the accepted rules of construction in such cases.

In considering the question submitted, I am conscious of the great public importance of the Board's decision in this matter and realize that the question is one upon which counsel may, and in fact do, differ. I have endeavored, therefore, to call the Board's attention to the two possible view-points and to explain at some length the reasons for conclusions reached.

Briefly summarized, it appears to me that any interpretation which vests in the Board the power to reduce the number of districts makes it necessary to also vest in the Board implied or incidental powers which are repugnant to other expressed provisions of the Act.

That, on the other hand, the provisions in question are susceptible of another equally reasonable interpretation which is in harmony with the spirit and purpose of the Act and which will give effect to all other provisions.

I am, therefore, of the opinion that this second interpretation must be given effect and that following the usual rules of construction in such cases the Board is without power to reduce the number of districts by consolidation, or otherwise, and that each Federal reserve bank now organized is entitled to have succession for a period of twenty years unless sooner dissolved by an Act of Congress or unless its franchise is forfeited by some violation of law.

Respectfully,

M. C. ELLIOTT

Counsel.

Hon. Charles S. Hanlin,
G o v e r n o r .

11/29/15

122-2
 upon the ^{question of} number of districts
 11/19/15

An analysis of the investigation that was made by the Organization Committee shows that there have been heard 83 individuals. Four of these gave only indefinite replies and did not specify the number of Federal Reserve Banks which they thought should be established. There remained 79 votes, which were cast as follows:

<u>No. of Banks</u>	<u>No. of Votes</u>	<u>Percentage</u>
7	5	6%
8	42½	54
9	9	11½
10	9	11½
11	4	5
12	9½	11½
	79	

It is evident, therefore, that,

	for 8 or fewer banks,	there were voting	60½%
"	9 "	" "	71½%
"	10 "	" "	83%
while for more than 10	"	"	16%
and "	" "	" 11 only	11½%

P. M. W.
 11-19-15.

122-2
11/19/15

FEDERAL RESERVE BOARD
WASHINGTON

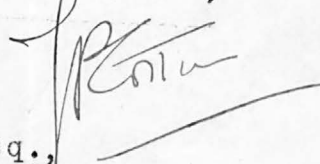
122-2

November 19, 1915

My dear Mr. Warburg:-

I have sent the original of this opinion to Mr. Delano by the same mail, and I have advised Judge Elliott that I am giving such an opinion, though I have not sent him a copy. It does not differ in any substantial way from my letter to him. It is only a little more vehement.

Very truly yours,



Paul M. Warburg, Esq.,
Federal Reserve Board,
Washington, D. C.

JPC..B.

Same to Messrs. McAdoo, Williams, Haml
Miller.

122.

November 17, 1915.

My dear Mr. Comptroller:

On behalf of the Committee on Redistricting, I enclose herewith an amended, or revised, report which is submitted by the Committee as a substitute for the report dated November 13th. You will find that some five pages of the old report have been omitted, for the reason that the Committee thought that thereby they would make clear the true purpose of the Committee in presenting this report of progress at this time, and asking for instructions.

Kindly accept this as a substitute for ~~the~~ was previously submitted.

Yours very truly,

Hon. J. S. Williams,
Comptroller of the Currency.

122.-2
11-16-15

Ration of Combined Capital & Net Deposits
of each Federal Reserve Bank to Total for
the System as at present organized.

<u>District</u>	Total Capital & Net Reserve Deposits	Per Cent. to Total Capital & Net Member Bank Reserve Deposits.
Boston	\$27,389,000	6.61
New York	192,769,000	46.54
Philadelphia	25,206,000	6.09
Cleveland	24,501,000	5.92
Richmond	11,512,000	2.78
Atlanta	8,685,000	2.10
Chicago	56,628,000	13.67
St. Louis	13,982,000	3.38
Minneapolis	12,920,000	3.12
Kansas City	12,853,000	3.10
Dallas	9,745,000	2.35
San Francisco	<u>17,973,000</u>	<u>4.34.</u>
Total.....	\$414,163,000	100.00

M.J.
11-16-15

*

November 15th, 1915.

My dear Governor:

I have read with great interest the preliminary report of your Committee which you were kind enough to hand me on Saturday. As stated in this report "the problem is pre-eminently one for the exercise of general judgment as to what will make for the most effective organization of the Federal reserve banking system." In solving this problem it is, of course, necessary to determine to what extent, if any, Congress has restricted the power of the Board in the matter of readjusting the districts created.

Viewing the matter from the comprehensive standpoint suggested, we may assume that when Congress vested in the Board the power to review the determination of the Organization Committee, to readjust the districts created and to create new districts, it intended to authorize the Board to ultimately arrange the several districts in any manner that seemed best after the system has had the test of experience.

In so far as the number of districts is concerned, however, the question is not quite so free from difficulty. The Act in terms gives the Board the right to increase the districts to a maximum of twelve if the Organization Committee creates less than this number. The right to decrease the number of districts, if it exists, must be said to be implied. That is to say, it must be based upon the assumption that since the Organization Committee was empowered in its discretion to create twelve, the maximum number of districts, the power to decrease the number is a necessary incident of the power to review the Committee's determination to readjust the districts created and to create new districts.

The difficulty in sustaining this view lies in the fact that this implied or incidental power in the Board to reduce the number of banks by liquidation or consolidation, as a necessary consequence of the reduction of the number of districts, is in conflict with an expressed power vested in each bank when chartered, - this expressed power being "to have succession for a period of twenty years from its organization unless it is sooner dissolved by an Act of Congress or unless its franchise becomes forfeited by some violation of law."

To overcome this difficulty and to sustain any action taken by the Board which involves the liquidation of any of the banks, we should be in a position to show, if the matter is tested in the courts, that the reduction of the number of districts and the consequent liquidation of some of the banks created, is of such importance to the successful operation of the Federal Reserve System as a whole it must be assumed that Congress did not intend to vest in the banks any right of succession which would defeat or restrict the power of the Board to bring about this reduction either upon its review of the determination of the Organization Committee or in the exercise of its power to readjust the districts created and to create new districts. In other words, we will, I think, be compelled to rely to some extent upon the importance of this action to the best interest of the system as an element to be considered in the interpretation of the Act.

There will necessarily exist a difference of opinion on this subject and if the case comes up in court we must be prepared to meet the argument that Congress vested in the Organization Committee the power to designate not less than eight nor more than twelve Federal reserve cities and that upon the incorporation of Federal reserve banks in these cities Congress intended, as the Act states in terms, to vest in these banks succession for a period of twenty years unless sooner dissolved by an Act of Congress or unless the franchise becomes forfeited by some violation of law. That it gave the Board wide latitude in the matter of the readjustment of the geographical limits of the districts but purposely withheld the right to liquidate any of the banks except for violation of law.

I fully realize that it would be almost fatal to the successful operation of the system for the Board to be restricted in its power by a narrow and technical construction of the provisions of the Act. We must assume that it was the intention of Congress to provide for an effective banking system and that to do this it was necessary to vest a broad discretion in the administrative body charged with the execution of the laws since Congress could not foresee and specifically provide for every situation that is likely to arise. In the present instance, however, we must as stated be prepared to sustain the proposition that an implied power in the Board is not to be defeated by an inconsistent expressed power in the banks and to do this it must be shown that the exercise of this implied power is of very great importance and that the reduction of the number of banks is necessary for the successful operation of the system as a whole.

While I am not sure that I have made clear the situation from a purely legal standpoint, I am taking the liberty of suggesting that when the matter is referred to this office for reconsideration of the legal question, if the Board has determined at that time that a reduction is necessary, it will be helpful to us if we can assume as a matter of fact that in the opinion of the Board this reduction is so necessary that we are justified in assuming that Congress must have foreseen the necessity for a possible reduction and, therefore, could not have intended to deprive the Board of this power when it vested the power of succession in the Federal reserve bank.

I am handing you this memorandum informally simply to put in concrete form the suggestions we discussed verbally on Saturday.

Very sincerely,

(Signed) M. C. Elliott,

Hon. F. A. Delano,
Vice-Governor.

(Copy)

122.2

HOUSE OF REPRESENTATIVES

Washington, November 13, 1915.

My dear Mr. Delano;

On reaching my hotel tonight I find your confidential note, with inclosure of report of your committee, for which I thank you. I had read in the Washington Star of yesterday a paragraph to the effect that the Federal Reserve Board contemplated some such action as that proposed by your committee; but, being somewhat incredulous, I called Dr. Willis over the 'phone last night to ascertain, if I properly might, whether the publication had a real basis in fact. Being assured that it had, I today prepared a statement for the newspapers in which I challenge the right of the Board to do what is suggested and comment on the reason assigned by the Star for the mediated proceeding. However, aside from my utter distaste for newspaper disputation, I am otherwise dissuaded from public discussion of the matter just at this moment.

You have been so consistently courteous and cordial to me, my dear Mr. Delano, and so considerate also, that it pains me to have to disagree radically with any view that you express concerning the administration of the Federal Reserve System. Yet, the very fact that I have felt so strongly drawn to you and have been so confidently impressed by your

earnest devotion to the work of the Reserve Board, prompts me to write very plainly with respect to the committee report which you have done me the kindness to transmit.

I was among the few members of the House Banking and Currency Committee who hoped that the Reserve Board Organization Committee would start the system with the minimum number of regional banks. I was among the very few members of either branch of Congress who felt that there was much exaggeration of the real peril in Mr. Warburg's "piping" system which received such scant consideration; so what I say now may not be related to any preconceived prejudice against a reasonable concentration of reserves or liking for a large number of reserve banks. I simply question outright the power of the Federal Reserve Board to reduce the number of banks and, apart from every other consideration, I think such action would be a usurpation of authority for which no defense can be found in the text of the act itself and I know it would be a perversion of the intent of those who drafted the bill and managed the legislation.

The currency bill, as originally drawn, contained

no reference to the question of abolishing reserve banks beyond that involved in the paragraph relating to the charter-life of a bank, which could be terminated only by act of Congress or by forfeiture for violation of law. This was held by most of us to be sufficient. But there were members of the Committee so bitterly opposed to the centralization of reserves and so fearful of control by a few banks, in subjection to "special interests," that an amendment was made which provided that "no Federal Reserve District shall be abolished nor the location of a Federal Reserve Bank changed except upon the application of three-fourths of the member banks of such district." In vain some of us pointed out that this was in conflict with the "charter-life" provision of the bill: those fearful of a system of few banks prevailed in the House Committee. But the Senate Committee, noting the conflict, eliminated the amendment cited; and the House conferees on disagreeing votes, of which I was one of two, concurred in the alteration, for the reason indicated. Thus we gave the Federal Reserve Board authority to "create new districts," distinctly modifying the term by immediately and clearly indicating that the modus was to be by multiplication, "not to exceed twelve in all." To "create" doesn't mean to "destroy". We distinctly did not give, even by implication, nor intend to give, the Board power to reduce

the number of banks first created. There is not, in my belief, a vestige of sanction in the act for any different assumption. Certainly there is no warrant of authority to "abolish" districts in the power conferred on the Board to "readjust" district lines. Readjustment of lines cannot mean extinction of districts, nor can the power to "review," upon appeal, the work of the Organization Committee in locating reserve banks be reasonably interpreted into authority to "abolish" banks. No such interpretation of the phrase, standing alone, would be tenable; read in connection with Section 4, expressly reserving to Congress alone the right to dissolve banks, such interpretation, as it seems to me, is impossible. But this strained construction of the phrase, if ever admissible, could not be applied now without coming in plain and sharp conflict with the charter-life provision of the act or without involving the Federal Reserve System in disastrous litigation. Such action to be regarded, in any sense, a "review" of the work of the Organization Committee as to chartering banks, should have been taken (1) before the Secretary of the Treasury, as required by the act itself, "officially announced the establishment of a Federal Reserve Bank" in a specified district and (2) before the bank proposed to be abolished had been, as provided by the law, "authorized by the Comptroller of the Currency to commence

business under the provisions of this act."

But, as I have said, it was never intended that these terms should bear any such construction as that which I fear your Committee placed on them, albeit you do not explicitly say upon what sanction of the law the Federal Reserve Board would rely for the extraordinary action proposed. I am not a lawyer nor an adept in the interpretation of law; but I do know what the proponents of the Federal Reserve Act and the managers of the legislation intended to write on the statute book.

Moreover, assuming that you have the power, I find myself unable to agree with your Committee's argument for the proposed action, and I totally dissent from the printed reason ascribed to the Board for its contemplated abolition of certain reserve banks. Congress did not act carelessly nor in ignorance in fixing the maximum number of reserve banks. I am writing hastily at my hotel, where documents are not available; but in the archives of my committee-room is abundant evidence of the painstaking care with which expert compilations were applied to this question, and not one of the existing reserve banks falls one dollar under the computation of probable resources made by our actuaries, so there has been no decentralization of reserves beyond that which Congress deliberately sanctioned. Of course I do not know with what evidence your Committee can fortify its

suggestion that Congress did wrong in authorizing, and the Organization Committee in establishing, twelve reserve banks; but I cannot imagine that it relates to lack of resources, because the chief officer of one of the reserve banks proposed to be abolished has recommended to the Board that it shall include in its suggestions to Congress an amendment to the Federal Reserve Act authorizing a return to member banks of 45 percent of the normally available capital subscribed, thus radically reducing the capital resources of the banks! Furthermore, it is in the power of the Board to make the resources of strong banks available to aid weaker banks in time of stress. It is a complete, not a fragmentary system.

I cannot think, either, that your evidence relates to the reason given in the Washington Star for the abolition of certain banks, to the effect that "four of the banks lost money for the quarter ending September 30." You know and I know that some of the administrators of Federal Reserve Banks have not tried to earn expenses. Quite the contrary, they have tried not to earn expenses; to my knowledge they have intrigued to this end. And this to me is not astonishing, for a member of the Board and of your Committee, our mutual friend Mr. Warburg, has publicly proclaimed that he would have been "ashamed of these banks" had

they earned their expenses. While I do not agree with Mr. Warburg as to the economics of this view, I am cheerfully willing to concede that there was nothing sinister in his declaration; but there are those who will misunderstand his remark and ascribe it to a desire to wreck the Federal Reserve System and build upon its ruins his eagerly desired central bank of banks. And if the Federal Reserve Board, either through usurpation of power or by exercise of authority which the Federal Reserve Act may be thought to confer, should at this time try to abolish certain Reserve Banks because all the banks have not earned expenses, Mr. Warburg's avowed wish that they shall not be self-sustaining will be plausibly imputed to him and to the Board as undisguised hostility to the System and part of a scheme to discredit it. And, unhappily, this belief would be accentuated by the incontrovertible fact that the Board itself, under the persistent leadership of Mr. Warburg, has failed to put into operation mandatory provisions of the Federal Reserve Act which were intended to enable the Federal Reserve Banks to earn expenses, and which no member of the Board, I must assume, will deny would enable these Banks to earn expenses. It is my deliberate judgment that the action proposed by your Committee, if taken at this time, would

arouse a spirit of ferment and of bitter resentment in the country, especially in the large sections affected, which would speedily be reflected in action by Congress.

I have frankly admonished Mr. Warburg in the kindest spirit of sincere friendship that his conception of the Federal Reserve System as a purely "emergency" institution is wholly foreign to the view of the administration which recommended and the Congress that brought the system into being. It was never intended by anybody who had any effective part in the inception and passage of this legislative act that these banks should be practically moribund for nine out of every ten years of their existence and only be put into action to "save a situation" or to retrieve a financial disaster.

If we want a system of that kind, we can return to the hybrid Vreeland-Aldrich scheme, which would enable us to abolish the Federal Reserve Board, as well as the Federal Reserve Banks, and conduct the enterprise from a corner bureau of the Treasury building. I have supposed that in the Federal Reserve Act we had instituted a great and vital banking system, not merely to correct or cure periodical financial debauches, not simply,

indeed, to aid the banking community alone; but to give vision and scope and security to commerce and to amplify the opportunities, as well as to increase the capabilities of our industrial life at home and among foreign nations. I am not willing yet to think that I have misconceived the thing.

I have written ten times more than I purposed to say, Mr. Delano, when I started to acknowledge the courtesy of your note; and, what is worse, have written with my own hand, which is distinctly against my physician's advice. But I cannot conclude without taking the very great liberty to suggest that you should long and carefully consider the astounding intimation of your Committee that the Federal Reserve System, which at the very weakest period of its existence --- in its infancy, so to speak --- has withstood the shock and upheaval of the greatest war in the history of the earth, will, in its growth and strength, be gravely endangered when the readjustments of peace ensue. To me this is startling. I believe such a forecast of deficiency seriously made public by the Federal Reserve Board would alarm the country to the point of panic, and do it instantly. I believe it would put a check to enterprise and a rein upon endeavor that would result in immediate doubt and ultimate disaster. I do not at all participate in your fears.

I think we have a great banking system, which will continue to prove itself in larger measure as those who administer it give it a fair chance and operate it with confidence. I know you want to do this, and I could wish for you no greater distinction, nor for our country any greater blessing, than would be involved in the actual achievement.

I hope to be able to have this letter typewritten before I leave for New York Monday morning and to subscribe myself, with cordial regards,

Faithfully yours,

(Signed) Carter Glass.

Hon. F. A. Delano,
Federal Reserve Board,
Washington, D. C.

C OF Y

122-2

November 3, 1915.

Dear Mr. Cotton:

I was glad to hear from you over the telephone today that, after carefully examining the paragraphs involved, you felt convinced that the Board had the power to readjust districts, no matter whether or not such readjustment would result in a reduction of the number of districts created by the Organization Committee. ?

I do not know whether you ever saw the opinion given by Mr. Elliott on March 1, 1915, at the request of the chairman of a committee appointed to deal with the question of redistricting. I hand to you herewith, for your confidential use, a copy of this opinion, and I would thank you to give it your careful study. It may be that we shall suggest to our counsel that he invite you to come here to discuss with him the points involved. Therefore, it might be advisable for you to familiarize yourself fully with his point of view as expressed in the opinion.

I shall be glad to be advised further in this matter, and am, thanking you for giving it your careful consideration,

Very truly yours,

Joseph P. Cotton, Esq.,
Bankers Trust Building,
New York.

Enc.

122.
11/1/15

Footnote 2.

To illustrate: gold accumulating with the Federal Reserve Bank of Kansas for account of the St. Louis Federal reserve Bank may not now be counted as reserve for St. Louis. In order to be so counted, it must be shipped to St. Louis or to some subtreasury point for account of the Gold Settlement Fund. When Kansas will become a branch of St. Louis, all gold at Kansas will form part of St. Louis' reserve and St. Louis may transfer gold from its own vaults to the Gold Settlement Fund and thereagainst accumulate gold at Kansas and, of course, conversely, St. Louis may pay out at Kansas and accumulate at St. Louis or in the Gold Settlement Fund. Currency in the form of Federal Reserve Notes may, in the future, of course, be issued in St. Louis or Kansas, no matter whether the gold is kept in St. Louis, Kansas City or the Gold Settlement Fund.

P. M. W.
11-1-15.

2(a) A more complete organization of the country into its natural and complementary banking and business units.

with the F.R. Res.

To illustrate: gold accumulating ~~at~~ ^{the} Kansas for account of St. Louis ~~Bank~~ ^{Bank} may not ^{now} be counted as reserve for St. Louis; ⁱⁿ order to be so counted it must be shipped ^{to St. Louis} ~~there~~ or to any sub-treasury point for ^{when} ~~it~~ of the gold clearing fund. ~~of~~ Kansas will become a branch of St. Louis' ^{and} reserve ~~the matter~~ ^{will form} ~~is~~ part of St. Louis' reserve ~~the matter~~ ^{and} whether it be ^{all} gold at Kansas, ^{or} whether it be ^{transferred} from its own vaults gold to the gold clearing fund ^{and} ^{there against} accumulate gold at Kansas and, of course, conversely St. Louis may pay out at Kansas and accumulate at St. Louis or in the gold clearing fund. ~~The bank of the province~~ ^{in the future} ~~may be issued~~ ^{of course} ~~of course~~ be issued in St. Louis or Kansas no matter whether the gold is kept in St. Louis, Kansas or the gold clearing fund.

Minneapolis Argument.

In order to understand fully the problem it is necessary to recognize that there will be now three kinds of districts: (1) homogeneous districts, which are essentially borrowing sections, particularly at certain periods; (2) homogeneous districts which are essentially lending sections, and (3) mixed or balanced districts which include both essentially borrowing and lending sections.

In using the term "borrowing section", your committee wishes to designate sections where the aggregate local borrowing, periodically or permanently, exceeds the lending ability of the member banks of the section. Similarly, the term "lending section" is used to designate sections where the lending ability of the member banks of the section generally exceeds the aggregate local borrowing. To illustrate: the Minneapolis district, in normal times, will have a good demand for loans during crop moving seasons, but, during the remaining part of the year, it would probably be difficult for the Minneapolis Bank to maintain itself. By merging the two districts, the resources of District 7 would automatically become available for District 9 during the crop moving period, while, during the remainder of the year, the idle funds of District 9 might find employment in the broader field of operations of the Chicago District.

Under the new plan, the districts of Chicago, St. Louis,

Cleveland and San Francisco may be considered as balanced districts. Boston-New York and Philadelphia may be considered as lending districts, while Richmond and Dallas may be considered as borrowing districts.

The task of effectively and fairly directing or regulating rediscount transactions between districts thus becomes a much simpler one for the Board. It is evident that three districts that have not been allotted a borrowing section of their own will be counted upon in the first degree for rediscount transactions for those districts which do not embrace a strong lending section of their own. (Footnote: One large eastern district extending from Maine to Florida might have constituted a balanced district, but it is clear that Maryland alone could not have acted as a sufficient factor to counter-balance the Richmond-Atlanta district, and it was thought more logical and practical to include Maryland in the Philadelphia district, thus making it a component part of a homogeneous lending district.)

In establishing this classification, your committee is fully aware of the fact that so comprehensive a plan can only be applied on broad lines allowing for exceptions from the rule as varying conditions from time to time may require.

There is no doubt that both as to intra and inter-district operations, a vastly simpler, and, therefore, more economical and effective, system will be secured by the reduction of the number of districts.

In order to fully understand
 In dealing with this problem your committee has to
 recognize that it is necessary to recognize that there are three ^{will now be three}
 kinds of districts. 1) ^{agricultural districts} Homogeneous sections which are essentially
 borrowing sections, particularly at certain periods. 2) Homogeneous
 districts which are essentially lending sections. 3) ^{mixed or balanced} districts
 of a diversified which includes both lending and essentially
 lending and borrowing sections. ^{Under I} Under the new plan
 it may be said that the districts of Chicago, St. Louis,
 Cleveland and San Francisco may be considered as
 balanced districts. Boston-New York and Philadelphia
 may be considered as lending districts, while Richmond
 and Dallas may be considered as borrowing districts.
 One large eastern district from ~~Maryland~~ to Florida might have constituted a balanced district
 but it is clear that Maryland alone could not have acted as
 a sufficient factor to balance the Richmond-Atlanta district
 and it was thought more logical and practical to include
 Maryland in the Pha district thus making it ^{a component} part of a
 homogeneous lending district. Under the old plan
 there was 5 or 6 borrowing districts a multiplicity of borrowing
 and lending sections which would render the task of directing
 or regulating rediscount transactions between districts ^{steps} becomes
 a much simpler one for the Board. It is evident that there three

Districts that have not been allotted a borrowing section of their
own will be favored upon in the first degree for rediscount trans-
actions for those districts which ^{do} ~~have~~ ^{embrace as loans} ~~not~~ ^a lending
section of their own. * Footnote of page I

Order II

2-10-1916

Rider I

In using the term ~~Lending~~ or ~~Borrowing~~ sections your committee wishes to designate sections where the aggregate ^{periodically or permanently} borrowing ^{exceeds} the lending ability of the member banks of the section. ^(local) Similarly the term "Lending Section" is used to designate sections where the lending ability of the member banks of the section ^{generally} exceeds the aggregate ^{local} borrowing.

~~Rider I~~
~~of the fact~~
Rider II. In establishing this classification your committee is ^{fully} aware that it has to be applied on broad lines and that ~~there is~~ ⁱⁿ ~~dealing~~ ^{dealing} with so comprehensive a plan allowing for exceptions from the rule as varying conditions from time to time may require.

There is no doubt, ~~however~~, that both as to intra- and inter-district operations ^{rather simpler and therefore} ~~and~~ ^{more} economical and ~~more~~ ^{more} effective system ~~in short~~ ~~and~~ will be secured by the reduction of the number of districts.

Fellows

122. ✓

Washington, October 30, 1915.

Dear Mr. Delano:

As I expect to leave on Monday noon for New York in order to vote as a good citizen, I am writing these lines to you so that, upon your return on Tuesday, you may have all the facts before you when you - as I suppose you will want to - put the final touches on the committee report.

Dr. Miller went through the report and I noted on your copy the various changes which he suggested and handed the same to De La Mater, asking him to have a clean copy ready for you when you returned. I expect to get Dr. Miller's changes for the last three pages on Monday morning, and, as the time may be short, I have done some little work on page 8 and give you herewith a redraft of the same, hoping that I may be able to get Dr. Miller's suggestions embodied before asking De La Mater to finally retype it for you.

I have not done much to this page except that I have tried to define the districts a little bit more definitely. ~~In Minneapolis, I have left out the argument.~~ *a new paragraph which* I have tried to formulate ~~their argument~~ *page ...* and you will find it ~~on a separate sheet marked "Argument-Minneapolis".~~ *which now contains a general argument* While I think we can make a good argument for Minneapolis, I doubt whether it is advisable to put too much argumentative matter into these descriptions ~~of~~ ^{of} our changes. The difficulty is that if we put in a strong argument for one change, we ought to put it in in each case, and if we do that I think we subject ourselves to attacks more readily than by simply giving our decision and keeping our reasons for ourselves.

*Miller struck out the particular Minneapolis stuff; + I think he is
You find all his changes in the reprint*

(3)

You will remember that we decided to do the same thing when publishing our counsel's opinions. It may, however, well be that the table that you prepared, showing the comparative insignificance of the Federal Reserve Banks in some districts, would be excellent material, and I think it would have the best effect if it would be simply appended as a table.

I have added a paragraph after the St. Louis description, stating at this point why we did not combine New Orleans and St. Louis and Kansas City and Dallas. I believe that that will have a good effect in placating our Kansas friends.

I have furthermore dictated a paragraph which you will find on a separate sheet, marked "End", in which I have expressed the thought that the Board realizes that it has not the power of establishing branches; that this power is vested in the Federal Reserve Banks, but that it has no doubt the banks will act upon the suggestion, and I have indicated in a very mild form that, of course, if they did not, we might change the Federal Reserve Banks. I think that something to this effect ought to be said; otherwise, some people will raise the point that we had no right at all to arrogate for ourselves the power of opening branches. I leave it to you whether or not to insert a paragraph of this kind at the end or before you recapitulate the reasons.

I looked at the Connecticut appeal, and find that only the banks west of the Connecticut River have applied, and I believe that we would better make our redistricting on this basis. I have asked Dr. Willis to prepare a descriptive page of the new districts so that we need not be too particular how we describe them in our report.

(3)

As to Boston, before you left you made a point which I think is excellent and which I believe ought to go into the Boston argument; that is, that also in Boston the local member banks are much stronger than the Federal Reserve Bank and if the Federal Reserve System is to be the rock foundation upon which the member banks - and particularly the smaller banks - are expected to crystalize, the stronger we make our New York Bank the stronger will it be in counterbalancing the power of the few very large banks in New York. We might also make the point that, under the original division into 12 districts, New York's relative power as compared with the other districts is no larger than it would be under the new arrangement even if we combined New York and Boston. No matter what we may decide with respect to the two alternative plans - 1 or 2 - I think it is advisable to make the case as strong as possible.

Very truly yours,

(Signed) Paul M. Warburg.

I added one new argument, which both Harding & Miller think well of & I hope it will please you, too.

Hon. F. A. Delano,
Vice-Governor.

Enc.

and retaining the existing bank of Atlanta as a branch. The New Orleans Branch, with its territory, however, has been allotted to Dallas, and Maryland and the western part of West Virginia have been allotted to districts 3 and 4, respectively. This makes a district with a capital of \$8,926,000, ranking sixth in point of importance.

The Chicago District is enlarged so as to combine with it the Minneapolis District and include the States of Wyoming and Nebraska, which makes a large district, though much of it is sparsely settled, second in importance to New York, and having a capital of \$19,840,000. The committee expects the Federal Reserve Bank at Minneapolis to continue as a branch and believes that, as such, it will be in a stronger position to serve its territory than as an independent institution inferior in resources to several of the member banks of its district. (Argument 3)

The St. Louis District is enlarged by embracing the Kansas City District with the exception of the States of Wyoming and Nebraska; that is, the western edge of Missouri, the States of Kansas and Colorado and parts of Oklahoma and New Mexico. The central portion of Kentucky and southern Indiana are subtracted from this district. The district, as a whole, is almost doubled, having a capital of \$9,102,000 and ranking fifth in point of importance. Heretofore, both the St. Louis and Kansas City Federal Reserve Banks have been weak ones, and, for reasons already explained, this section of the country will be better served by one strong bank than two of comparative insignificance. The rank of St. Louis as a banking center (central reserve city heretofore) justifies a different treatment. Moreover, Missouri is the only State now having two Federal Reserve cities,

(-8a)

but one of the compelling reasons for uniting the Kansas District with that of St. Louis is the importance of securing for District 10 the advantage of being included in a district having a subtreasury point.

It ought to be stated that your committee, in many respects, would have preferred to join to one another Districts 10 and 11 and add the New Orleans Branch to District 8. But such a combination would have resulted in joining together two subtreasury districts (St. Louis and New Orleans) leaving both the Kansas City and the Dallas Districts without subtreasury points.

The New Orleans branch with its territory has been ~~however~~ allotted to Dallas and Maryland and the western part of West Virginia have been allotted to districts 3 and 4 respectively.

~~part of the Atlanta District with it,~~ ^{and} ~~retaining~~ ^{the existing bank of} Atlanta as a branch. This makes a District with a capital of \$8,926,000, ranking sixth in point of importance.

The Chicago District is enlarged so as to combine with it the Minneapolis District and include the States of Wyoming and Nebraska, which makes a large District, though much of it is sparsely settled, second in importance to New York, and having a capital of \$19,840,000.

committee expects the F.R. Bk. at Minneapolis to continue as a branch and believes that as such it will be in a stronger position to serve its territory than as an independent institution inferior in resources to several of the banks of its district. The Minneapolis District has had a rather hard time in earning expenses and the character of the business in this territory is not such as to justify us in recommending a continuance of this as a separate district. (Argument 8)

The St. Louis District, ~~now a very weak district,~~

with the exception of the states of Wyo. and Neb., that is: is enlarged by embracing a large share of the Kansas City District, - the western edge of Missouri, the States of Kansas and

Colorado and parts of Oklahoma and New Mexico. The central portion of Kentucky ^{and southern Indiana} ~~is~~ subtracted from this District. The District as a whole is ^{almost doubled} a good deal enlarged, having ^a capital of \$9,102,000 and ranking fifth in point of importance. Here-

tofore, both the St. Louis and Kansas City ^{F.R. banks} Districts have been weak ones. ^{and} The rank of St. Louis as a banking center (central reserve city heretofore) justifies a different treatment.

Moreover Missouri is the only State now having two ^{F.R.} reserve cities, but ^{under 8}

for reasons already explained this section of the country will be better served by one strong ^{bank} than two ~~weak banks~~ of comparative insignificance.

Under 8

Rider 8.

one of the compelling reasons for annexing the Kansas District with that of St Louis is the importance of securing for district to the advantage of being included in a district having a subtreasury point.

It ought to be stated ~~that~~ that ~~some~~ committee in many respects would have preferred to ~~consolidate~~ ^{join to one another} districts 10 and 11 and add the New Orleans branch to district 8.

But, as stated, such combination would have resulted in joining ^{together} two subtreasury districts (St Louis & New Orleans) leaving both the Kansas and the Dallas districts without subtreasury points.

Agreement 9
The case of districts 8 and 10 requires ~~attention~~ ^{attention} to that of districts 7 and 9.
many reports

The committee realizes that the act confers upon the F. R. Banks the power to ^{establish} ~~offer~~ branches and that ~~for~~ ~~that~~ ~~in~~ the carrying out ~~effect~~ of this plan the Board will ~~therefore~~ have to rely upon the cooperation of the Board of directors of the F. R. Banks. Your committee has no doubt that the soundness of the plan will ~~comment~~ ~~itself~~ to the judgement of the directors of the F. R. Banks all the more so as in ~~every~~ ~~case~~ the cities ^{now} suggested for branches are of such importance as to enable them to become ~~I~~ ~~render~~ ~~it~~ ~~difficult~~ ~~in~~ ~~some~~ ~~cases~~ to choose give preference to one ~~city~~ ^{in choosing the F. R. City} as against the other. ~~In choosing~~ ~~between~~ St. Louis & Kansas City, Richmond and Atlanta, and particularly ~~as~~ between Cleveland and Cincinnati and Dallas and New Orleans, ^{the Board will ultimately be guided} only actual ~~experience~~ ^{to be gained from} ~~the~~ ~~face~~ of the further development of the system and the ^{future} ~~growth~~ ^{of} ~~each~~ ~~section~~.

The ^{present} designation of these Fed. Res. Cities cannot ~~never~~ be considered as a final one at this early stage

than as an independent institution in ^{its} own right or resources
to several of the member banks of its district and ~~embarrassed~~ at
the same time unable to find ^{an} adequate ^{local} field of operation ~~to~~

Argument 8

The Minneapolis district ^{in normal times will probably} ~~will~~ have a good demand for loans during
crop moving seasons but during the remaining part of the year
it ^{would probably} ~~may~~ be difficult for the Minneapolis bank to maintain itself. By
regarding ~~the~~ districts ~~with~~ 7 ^{of} the resources of District 7 would au-
^{tomatically} ~~become~~ available for district 9 while ^{during the crop moving period} ~~the~~ remainder of the year
the idle funds of district 9 might find employment in the broader
field of operations of the Chicago district.

~~General laws covering for adding some~~

Argument 8.

The Minneapolis district, in normal times, will have a good demand for loans during crop moving seasons, but, during the remaining part of the year, it would probably be difficult for the Minneapolis Bank to maintain itself. By merging the two districts, the resources of District 7 would automatically become available for District 9 during the crop moving period, while, during the remainder of the year, the idle funds of District 9 might find employment in the broader field of operations of the Chicago District.

P. M. W.
10-30-15

"End"

The committee realizes that the Act confers upon the Federal Reserve Banks the power to establish branches and that, for the carrying out of this plan, the Board will, therefore, have to rely upon the cooperation of the Federal Reserve Banks. Your committee has no doubt that the soundness of the plan will commend itself to the judgment of the directors of the Federal Reserve Banks all the more as the cities now suggested for branches are of such importance as to render it difficult, in choosing the Federal Reserve city, to give preference to one as against another. At this early stage, the present designation of these Federal Reserve cities cannot be considered as a final one.

In choosing between St. Louis and Kansas City, Richmond and Atlanta, and particularly between Cleveland and Cincinnati and Dallas and New Orleans, the Board will ultimately be guided only by actual experience to be gained from the further development of the system and the future growth and activities of each section.

Kindly feel strongly that we should indicate that between New Orleans & Dallas etc. we have not said to final word.

P.M.W.
10-30-15.

Rider I

(B)

122.2
10/30/15

Argument 8.

To illustrate:

The Minneapolis district, in normal times, will have a good demand for loans during crop moving seasons, but, during the remaining part of the year, it would probably be difficult for the Minneapolis Bank to maintain itself. By merging the two districts, the resources of District 7 would automatically become available for District 9 during the crop moving period, while, during the remainder of the year, the idle funds of District 9 might find employment in the broader field of operations of the Chicago District.

P. M. W.
10-30-15

THIRD DRAFT:

*Confidential for
Mr. Warburg*

122.1-1
10/29/15

To The Federal Reserve Board:

There are now pending for consideration by the Board the following cases in connection with the determination of ^{Reserve} Reserve Cities and changes in District lines:

First:

The appeal of Baltimore that it be selected in preference to Richmond as the Federal Reserve City of the Fifth District;

Second:

The appeal of Pittsburgh that it be selected in preference to Cleveland as the Federal Reserve City of the Fourth District;

Third:

The appeal of a group of banks in certain counties of Wisconsin that they be taken out of the Minneapolis District and added to the Chicago District;

Fourth:

The appeal of certain banks in the western half of Connecticut that they be taken out of the Boston District and added to the New York District; (The Board has not fixed the time for hearing this appeal).

Fifth:

The appeal of certain banks of Louisiana that they be included in the Atlanta District and operate through the New Orleans Branch, in preference to being included in the Dallas District. (This appeal has not been heard by the Board, but the facts of the case are being investigated).

Your Committee ^{has concluded} ~~suggests~~ that these five cases ~~might~~ ^{will} best be dealt with in a comprehensive way by considering the whole question of redistricting.

We may assume that among the important objects which Congress desired to achieve, in enacting the Federal Reserve Act, were:

- (1) The creation of several independent banking centers, each of which was to centralize a substantial portion of the reserves of its district so as to render them available as the basis of an elastic note issue and so create and sustain a reliable market for commercial paper and bankers' acceptances;
- (2) The steadying of interest rates within reasonable limits by rendering available for active use in some parts of the country funds which might otherwise lie idle;
- (3) The establishment of the most economic system of clearing and collecting checks and of transfer ^{of} funds within districts or between them.

The result of a year's actual operation convinces us that all these aims will be more effectively and economically achieved by a consolidation of the twelve districts into eight or nine, and at the same time more fully carry out the spirit of the Act, which seems to contemplate that, as our population and wealth increases, there will be a necessity for the creation of more districts. Decentralization carried too far does not produce effective results and makes for weakness rather than independence. The stronger each district, the greater will be its powers to act as an independent center, freer and the more effectual will be the interplay of idle reserve money and the broader its basis of useful service. A larger district will possess a greater power of stabilization and equalization of interest rates within its own widened field of

operation, while the rediscount-transactions between districts will be simpler and more easily effected. The smaller number will not only create a basis of greater equality for districts dealing with each other, but the elimination of Federal Reserve Banks comparatively unimportant in size will generally strengthen the prestige of the Federal Reserve System in dealing with its member banks and ~~it~~ will secure that absolute confidence which is necessary for the fullest development of the system. For example, in several ~~of~~ the districts at present the total capital and deposits of the Reserve Bank ~~does~~ not compare favorably with ^{that} of large National and State banks in the district, and hence falls short of its proper place in the public estimation.

The establishment of an economic and effective organization for the clearing and collection of checks and for the transfer funds is a problem beset with real difficulties. In order to facilitate the accomplishment of this task the Board, with the cordial cooperation of the Treasury Department, has established a gold clearing fund which permits each Federal Reserve Bank, at the Treasury or at each sub-treasury, to pay in or receive gold for its own account with the Gold Clearing Fund, or for account of any other Federal Reserve Bank. The establishment of this fund has rendered unnecessary in ordinary routine transactions the shipping of gold or gold certificates between any Federal Reserve Banks situated in districts where

the Treasury or sub-treasuries are located. But in districts without sub-treasuries there must be an adjustment of the cost of shipping to and from the nearest sub-treasury or Treasury point. This has proved an obstacle in the way of developing a satisfactory clearing and collection plan and your Committee has, therefore, reached the conclusion that it is ^{imperative} ~~very desirable~~ to so adjust the districts that each will have within its border lines either the Treasury or a sub-treasury.

^a The more economic operation will be ~~greatly~~ facilitated by a reduction of the number of districts; for example, by the reduction of overhead charges, by reduction in the cost of printing and redemption of notes, increasing the field of circulation for each note, thus obviating its too frequent redemption. Furthermore, a smaller number of districts will diminish the number of examination districts and, therefore, the number of chief examiners. The Government, even more than the member banks ^{is} are interested in the earnings of the Federal Reserve Banks, because the Government only receives earnings in excess of 6% on the capital; hence the operation of the Federal Reserve Banks upon the lowest basis of expense compatible with safety and efficiency is ^{an important} ~~a prime~~ duty of this Board.

The Act seems to have contemplated districts of large area with branches. The Board believes this plan to be a wise one inasmuch as it obviates the risk of a narrow sectional spirit in the management of the Federal Reserve Banks.

Companize

Practically unbalanced
but bear up each of the component
units.

It will be observed that the proposed readjustment is not out of harmony with ~~the~~ the plan of the Organization Committee. In three cases it effects a combination of ^{coordination} districts into what may be ^{formed} ~~determined~~ a double district, making ^{such} the new district, ~~thus created~~, stronger and better able to ^{serve} ~~represent~~ its section of the country. Each will retain its own territory and administration, but secure the benefit accruing by reason of its larger resources and the advantage of the more economic and effective operation. At the same time branches and local agencies with an administration of their own, dealing with the member banks of their immediate neighborhood will *have an equal share in the administration of the entire district.* ~~care for local needs at a minimum of expense.~~

Two plans are submitted herewith: Plan 1, with nine districts, and Plan 2, with eight districts. The only difference between them is that in Plan 1, the Boston District is maintained; whereas, in Plan 2, it is combined with the New York district.

In order to explain how these plans meet the issues ^{submitted} which are before us, ~~we will make~~ the following brief statement:

First:

In the matter of the appeal of the City of Baltimore, it would propose to deal with it by denying the appeal, but adding the State of Maryland to the Philadelphia District.

Second:

In the case of the appeal of the City of Pittsburgh, it is proposed to deny it, but to change the boundary of the Philadelphia District so as to include the entire State of Pennsylvania, as well as the southern

might be
half of New Jersey, and the States of Delaware and Maryland. Under this plan, Pittsburgh and Baltimore would naturally become branches or agencies of the Philadelphia Bank. *in due course*

Third:

In the case of the appeal of the Wisconsin banks, it is proposed to dispose of that by combining the Minneapolis and the Chicago District.

Fourth:

The appeal of the banks in the western half of Connecticut is disposed of, in Plan 1, by including western Massachusetts and western Connecticut in the New York District, and in Plan 2, by combining the New York and Boston Districts into one district.

Fifth:

The appeal of certain banks in Louisiana that they be included in the Atlanta District and in direct communication with the New Orleans branch is disposed of by the change in the line of the Dallas District, which is altered so as to include all of the State of Louisiana, the southern half of the State of Mississippi and the corner of the State of Alabama, in which Mobile is situated.

As between Plan 1 and Plan 2, there is not a great deal of difference. The Boston District would still be a fairly strong one, ranking seventh in point of capital, with 363 member banks and a total capital of \$8,468,000, one-half of which has been paid in. If an amendment to the Reserve Act were passed permitting the mutual savings banks of Massachusetts to enter the System as special or associate members, a considerable increase in membership and capital of the Boston Bank might be expected. On the other hand, Boston does much of its business, especially its foreign exchange ~~and accounts~~, through New York. The fact that the Boston Bank will always find it

difficult to meet its expenses and charges, and that there will be much unnecessary and expensive return shipments of Federal Reserve notes between the two districts, may be cited as a reason in favor of combining it with the New York District. Prominent Boston bankers have urged that there were too many Districts and that it would be better if Boston were included in the New York District. Under either plan New York is the strongest district in point of capital, \$23,878,000, in one case, and \$32,336,000 in the other, one-half of which has been paid in. New York Bank clearing operations reach over a considerable portion of New England.

In respect to the third District, the principal change has been to include the western ^{part} half of Pennsylvania, i.e., Pittsburgh, etc., and all of Maryland. This makes a District with \$15,898,000 capital, ranking third in point of importance.

The Cleveland District is considerably altered, western Pennsylvania being subtracted and ^{the} part of West Virginia ^{added} ~~central~~ Kentucky, western Tennessee and the northern half of Alabama added. A branch is suggested for Cincinnati, that city being a sub-treasury city and central to much of the District. ^{as the southwestern part of Indiana now included in the St. Louis district.} This District will have a capital of \$9,230,000 and rank fourth in point of importance.

The Richmond District, while deprived of Maryland, is considerably enlarged by practically combining the greater

part of the Atlanta District with it, retaining Atlanta as a branch. This makes a District with a capital of \$8,926,000, ranking sixth in point of importance.

The Chicago District is enlarged so as to combine with it the Minneapolis District and include the States of Wyoming and Nebraska, which makes a large District, though much of it is sparsely settled, second in importance to New York, and having a capital of \$19,840,000. The Minneapolis District has had a rather hard time in earning expenses and the character of the business in this territory is not such as to justify us in recommending a continuance of this as a separate district.

The St. Louis District, now a very weak district, is enlarged by embracing a large share of the Kansas City District - the western edge of Missouri, the States of Kansas and Colorado and parts of Oklahoma and New Mexico. The central portion of Kentucky is subtracted from this District. The District as a whole is a good deal enlarged, having capital of \$9,102,000 and ranking fifth in point of importance. Heretofore, both the St. Louis and Kansas City Districts have been weak ones. The rank of St. Louis as a banking center (central reserve city heretofore) justifies a different treatment. Missouri is the only State now having two ^{Reserve} Reserve cities, but for reasons already explained this section of the country will be better served by one strong than two weak banks.

The Dallas District is not much altered, the only change being the addition of the remainder of Louisiana, the southern half of Mississippi and a small corner of Alabama. The capital of the Dallas District will be \$6,310,000; and even though very substantially enlarged, will be the smallest in point of capital of all the banks.

The San Francisco District remains entirely unchanged and ranks eighth under Plan 1 and seventh under Plan 2, in point of importance.

Grant,

In brief terms, the arguments in favor of larger districts may be stated as follows:

1. Diminished overhead expenses account of rent, salaries, etc.
2. A reduction in the number of Districts to eight or nine is in consonance with the spirit of the law which could not have contemplated beginning with the maximum number of Banks and having no opportunity for expansion.
3. The law seems to have contemplated Districts of large area with branches and local agencies.
4. The requirement that District Reserve Banks receiving the notes of another District shall return them to the issuing District, throws a ^{unnecessary} burden upon the Reserve Banks which is especially heavy in the case of banks relatively near each other. This will be considerably diminished by making fewer districts.
5. Under the proposed plan all the Districts will have a sub-treasury within the District, except the Richmond District.

which can avail itself of the main Treasury in Washington. All but two of the Districts will have a sub-treasury at the headquarters of the Reserve Bank. ?

6. The enlarging of the Districts will facilitate clearing operations by reducing overhead expenses, by strengthening the status of the Reserve Bank, and through creation of branch banks and local agencies securing the co-operation of more banks and bankers. ?

7. At present, some of the Banks, besides being weak, are sectional in character. The proposed redistricting makes them more National in character and yet follows State lines more generally than the old plan.

8. Among the incidental economies to be realized by ^{reducing} ~~diminish-~~ing the number of Districts is that of diminishing the number of examination Districts and, therefore, the number of Chief Examiners.

9. As the Government is interested only in profits in excess of 6%, the Federal Reserve Board is concerned in reducing the costs of operation of the Banks in every reasonable way to a minimum.

10. At the present time in a number of the Federal Reserve Districts the Federal Reserve Banks do not measure up in capital and deposits to some of the large National or State banks. It is a matter of great importance that the Federal Reserve Banks shall take their true place in the public estimation as Central

Banks, that they measure up in prestige with the largest commercial banks of their respective Districts.

Respectfully submitted,

Committee

(_____

((_____

Washington,
Oct. 29-14B.

MEMORANDUM FOR MR. WARBURG



122.2

October 29, 1915.

The percentages of cash reserve to net deposit liability for the Dallas bank in the attached statement I am glad to state, have been found to be correctly stated. The reason of the great difference in the percentages shown in the last column from those shown in the first two columns for both the Richmond and Dallas banks is to be found in the large proportion which the note liability of these two banks bear to their combined note and deposit liability. This proportion is 31.5% for Richmond and 33% for Dallas and only 28.6% for Atlanta.

The Dallas Oct. 22 percentage in the third column was arrived at in the following manner: From the combined net note and deposit liability of \$14,383,000 for the calculations in the first two columns, we deducted the note liability of \$4,743,000. The remainder \$9,640,000 was divided by the total reserve \$10,708,000, including the 5 millions of gold representing the Government deposits, less 40% of the note liability of \$1,897,000. The quotient of $\frac{8612}{9640}$ is 91.4 as stated. When the reserve was figured against net reserve deposits only, exclusive of Government deposits, we deducted 5 millions both from the divisor and dividend -

$$\frac{8,812 - 5,000}{9,640 - 5,000} = \frac{3,812}{4,640} = 82.2\%$$

In case of the Atlanta bank the percentage of reserve against total deposit liability (including Government deposits) differs much less from the percentages given in the first two columns, because the proportion of note liability to combined note and deposit liability is smaller than in the case of the other two banks. When the percentage of reserve is calculated only against net reserve deposits, less Government deposits, the percentage differs much less from those in the first two columns for the reason that the proportion of the 5 million dollars (representing the Government deposits), which is taken out from both the divisor and dividend, decreases the dividend i. e. the reserve figures relatively much more than the divisor i. e. the amount of net deposits:

$$\frac{8,949 - 5,000 - 1,505}{10,671 - 5,000 - 1,270} = \frac{2,444}{4,401} = 55.5\%$$

Respectfully,

M. Jacobson

PERCENTAGE OF GOLD AND TOTAL RESERVE CARRIED BY EACH
FEDERAL RESERVE BANK AGAINST NET LIABILITIES.

Banks	Percentages of Gold Reserve		Percentages of Total Reserve		Percentage of Cash Reserve to net deposit liability (a)	
	Oct. 15	Oct. 22	Oct. 15	Oct. 22	Oct. 15	Oct. 22
BOSTON	81.3	82.2	81.5	84.4	81.3	84.4
NEW YORK	85.1	77.9	93.5	94.1	93.5	94.1
PHILA.	80.3	75.2	94.5	93.0	94.5	93.0
CLEVELAND	93.0	94.0	99.2	99.9	99.2	99.9
RICHMOND	77.7	76.8	78.2	77.3	96.8	94.5
	(b)68.7	(b)66.5	(b)69.4	(b)67.2	(b)94.4	(b)90.0
ATLANTA	64.6	66.8	65.9	68.0	73.4	79.2
	(b)40.0	(b)46.5	(b)42.1	(b)48.4	(b)43.4	(b)55.5
CHICAGO	84.5	85.0	87.9	87.1	87.9	87.1
ST. LOUIS	80.8	84.1	82.4	85.7	82.4	85.8
MINN'P'S	75.0	76.1	75.1	76.2	75.1	76.2
KANS. CITY	69.5	68.9	72.2	71.5	76.9	75.7
	71.8	72.3	74.7	74.5	94.0	91.4
DALLAS	(b)56.5	(b)57.6	(b)61.0	(b)60.8	(b)86.8	(b)82.8
SAN FRAN.	80.6	81.8	80.6	81.9	80.6	81.9
TOTAL FOR SYSTEM	82.3	79.3	88.0	88.9	90.1	91.1

(a) After setting aside 40% gold against net amount of F. R. notes in circulation.

(b) Percentages of reserve against net liability exclusive of Government deposits.

DIVISION OF REPORTS & STATISTICS
FEDERAL RESERVE BOARD
Oct. 26, 1915.

NAME OF DISTRICT	DESIG- NATION NUMBER	NUMBER OF BANKS IN DISTRICT			TOTAL CAPITAL OF BANKS ($\frac{1}{2}$ of which is paid in)			RANK		
		At present	Proposed		At present	Proposed		Present	Proposed	
		(Aug. 31)	Plan 1	Plan 2	(Oct. 15)	Plan 1	Plan 2		Plan 1	Plan 2
					(000 omitted)					
Boston	1	437	363	----	\$ 10,362	\$6,468	----	5	7	----
New York	2	612	686	1049	21,974	23,868	\$32,336	1	1	1
Philadelphia	3	627	928	928	10,534	15,898	15,898	4	3	3
Cleveland (Cincinnati)	4	763	700	700	11,888	9,230	9,230	3	4	4
Richmond	5	507	686	688	6,698	8,926	8,926	7	6	6
Atlanta	6	383	---	---	4,836	---	---	12	---	---
Chicago	7	961	1951	1951	13,266	19,840	19,840	2	2	2
St. Louis	8	462	1098	1098	5,564	9,102	9,102	9	5	5
Minneapolis	9	723	---	---	4,982	---	---	11	---	---
Kansas City	10	951	---	---	6,050	---	---	9	---	---
Dallas	11	638	665	665	5,530	6,310	6,310	10	9	8
San Francisco	12	526	526	526	7,866	7,866	7,866	6	8	7
TOTAL		7610	7605	7605	109,550	109,508	109,508			

Note: 000 omitted.

Oct. 26, 1915.

122.-2

10/28/15

Two plans are submitted herewith:

Plan (1) with 9 districts; and plan (2) with 8 districts; The only difference between them being that in plan (1) the Boston district is maintained, whereas in plan (2) it is combined with the New York district.

From the point of view of securing the most economic and effective operation there cannot be any doubt that plan (2) would be the more advisable one. Your committee is, however, conscious of the fact that in prescribing the minimum number of 8 districts Congress had in mind to avoid, if possible, two large a centralization of power in one single district.

It must be conceded, however, that New York also under plan (1) will remain the strongest district and that the addition to its capital of about \$8,500,000, coupled with the obligation to take care of the member banks of district No. 1, which thus would be joined to the New York district, does not add materially to New York's superiority in this respect.

Being mindful, however, of what might generally be considered as the sentiment of the country, the ^{Committee} ~~Board, for the time being at least~~, does not contemplate to unite districts No. 1 and No. 2, hoping that district No. 1 may succeed in proving its ability to act as an independent and self-supporting center.

P. M. W.
10/28/15.

Prider II.

PLAN NO. 1.

Redistribution of Federal Reserve Districts and reduction to 8
of the total number of districts. (A)

<u>DISTRICTS</u>	<u>NO. OF BANKS</u>	<u>CAPITAL</u> (In 000's dollars)	<u>DEPOSITS</u> (In 000's dollars)	<u>TOTAL CAPITAL AND DEPOSITS</u>	<u>PER CENT</u>
No. 1 Boston & N.Y.	1049	16,121	174,442	190,563	50.1
No. 2 Philadelphia	1027	8,519	28,688	37,207	9.8
No. 3 Cleveland	1013	5,960	16,618	22,578	6.0
No. 4 Rich.& Atlanta	539	3,888	7,654	11,542	3.0
No. 5 Chicago & Minn	1750	8,888	60,341	69,229	18.2
No. 6 Kans.& Dallas	1320	4,839	11,108	15,947	4.2
No. 7 St. Louis	386	2,375	14,388	16,763	4.4
No. 8 San Francisco	526	3,931	12,403	16,334	4.3
TOTAL	7,610	54,521	325,642	380,163	100.0

(A) From data shown in the Comptroller's Report of June 23, and the Federal Reserve Board Bank Statement of October 1, 1915.

W²
PLAN NO. 3.

Same as Plan No. 1, except that the New Orleans District has been included with Dallas instead of with St. Louis, and the Kansas City District has been merged with St. Louis instead of with Dallas. (A)

<u>DISTRICTS</u>	<u>NO. OF BANKS</u>	<u>CAPITAL</u> (In 000's dollars)	<u>DEPOSITS</u> (In 000's dollars)	<u>TOTAL CAPITAL AND DEPOSITS</u>	<u>PER CENT</u>
No. 1 Boston & N.Y. <i>W² my</i>	1,049	16,121	174,442	190,563	50.1
No. 2 Philadelphia	1,027	8,519	28,688	37,207	9.8
No. 3 Cleveland	1,013	5,960	16,618	22,578	6.0
No. 4 Rich. & Atlanta	539	3,888	7,654	11,542	3.0
No. 5 Chicago & Minn	1,750	8,888	60,341	69,229	18.2
No. 6 Kans-St. Louis	1,041	4,060	19,299	23,359	6.1
No. 7 Dallas-N. Orleans	665	3,154	6,197	9,351	2.5
No. 8 San Francisco	526	3,931	12,403	16,334	4.3
TOTAL	7,610	54,521	325,642	380,163	100.0

(A) From data shown in the Comptroller's Report of June 23, and the Federal Reserve Board Bank Statement of October 1, 1915.

PLAN NO. 2.

Same as Plan No. 1, except that the Boston Federal Reserve District is continued as at present constituted, increasing the number of districts to 9. (A)

<u>DISTRICTS</u>	<u>NO. OF BANKS</u>	<u>CAPITAL</u> (In 000's dollars)	<u>DEPOSITS</u> (In 000's dollars)	<u>TOTAL CAPITAL AND DEPOSITS</u>	<u>PER CENT</u>
No.1 Boston	435	5,134	21,705	26,839	7.0
No.2 New York	614	10,987	152,737	163,724	43.1
No.3 Philadelphia	1,027	8,519	28,688	37,207	9.8
No.4 Cleveland	1,013	5,960	16,618	22,578	6.0
No.5 Rich. & Atlanta	539	3,888	7,654	11,542	3.0
No.6 Chicago & Minn.	1,750	8,888	60,341	69,229	18.2
No.7 Kans. & Dallas	1,320	4,839	11,108	15,947	4.2
No.8 St. Louis	386	2,375	14,388	16,763	4.4
No.9 San Fran.	526	3,931	12,403	16,334	4.3
<hr/>					
TOTAL	7,610	54,521	325,642	380,163	100.0

(A) From data shown in the Comptroller's Report of June 23, and the Federal Reserve Board Bank Statement of October 1, 1915.

PLAN NO. 4.

Same as Plan No. 1, except that West Virginia has been included in the Richmond-Atlanta District instead of in the Cleveland District. (A)

<u>DISTRICTS</u>	<u>NO. OF BANKS</u>	<u>CAPITAL</u> (In 000's dollars)	<u>DEPOSITS</u> (In 000's dollars)	<u>TOTAL CAPITAL AND DEPOSITS</u>	<u>PER CENT</u>
No.1 Boston & N.Y.	1,049	16,121	174,442	190,563	50.1
No.2 Philadelphia	1,027	8,519	28,688	37,207	9.8
No.4 Cleveland	896	5,449	15,529	20,978	5.5
No.4 Rich & Atlanta	656	4,399	8,743	13,142	3.5
No.5 Chicago & Minn	1,750	8,888	60,341	69,229	18.2
No.7 Kans. & Dallas	1,320	4,839	11,108	15,947	4.2
No.8 St. Louis	386	2,375	14,388	16,763	4.4
No.9 San Francisco	526	3,931	12,403	16,334	4.3
TOTAL	7,610	54,521	325,642	380,163	100.0

(A) From data shown in the Comptroller's Report of June 23, and the Federal Reserve Board Bank Statement of October 1, 1915.

122.-2
10/28/15
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Redistribution

The three main objects of the Federal Reserve Act were:

- (1) the creation of independent banking centers. Each of these was to centralize a substantial portion of the reserves of its district so as to render them available to serve as the basis of an elastic note issue and so as to create and sustain a reliable market for commercial paper and bankers' acceptances.
- (2) To bring about a greater stabilization of interest rates. This was to be secured by rendering available funds that would temporarily lie idle in one part of the country for active use in the same district or in some other part of the country.
- (3) The establishment of the most economic system of ~~the~~ clearing and collecting checks and of transferring funds both within and between the districts.

After a year of actual operation of the Federal Reserve Banks the ^{*Committee*} ~~Federal Reserve Board~~ has reached the conclusion that all these aims will be more effectively and more economically achieved by a consolidation of the 12 districts into fewer and larger units.

Decentralization carried too far does not produce independence. The stronger each district, the greater will be its power to act as an independent center, the freer and the more effectual will be the interplay of idle reserve money and the broader its basis of useful service. A larger district will possess a greater power of stabilization and equalization of interest rates within its own border lines, while the rediscount transactions between districts, carrying out the same process in a larger field, will be simpler and more effective in operation with fewer and larger districts. The smaller number will not only create a basis of greater equality for districts in dealing with each other, but the elimination of Federal Reserve Banks comparatively unimportant in size will generally strengthen the prestige of the Federal Reserve System in dealing with its member banks and it will secure that absolute confidence which is necessary for the fullest development of the system.

The establishment of an economic and effective organization for the clearing and collecting of checks and for transferring funds is a problem beset with great difficulties. In order to facilitate the accomplishment of this task the Board, with the cordial cooperation of the Treasury Department, has established a gold clearing fund which permits each Federal Reserve Bank, at the Treasury or at each subtreasury, to pay in or receive gold for account of any other Federal Reserve Bank or for its own account with the Gold Clearing Fund. The establishment of this fund has rendered unnecessary for the normal routine transactions the shipping of gold or gold certificates between any Federal Reserve Banks situated in districts where the Treasury or subtreasuries are located. It ~~will~~^{should} therefore be possible to undertake the collection at par of checks payable with Federal Reserve Banks of such districts. For districts, however, without such subtreasuries there remains to be considered the ^{ultimate} charge for shipping to and from the nearest subtreasury or Treasury point. This has proved one of the serious obstacles in the way of develop-

ing a satisfactory clearing and collection plan and the ^{Committee} Board has therefore reached the conclusion that it will be ^{of the greatest importance} necessary to so adjust the districts that each should have within its border lines either the Treasury or a subtreasury.

Reasons of economic operation would also render very desirable reduction of the number of districts. Not only will the overhead charges be reduced, ^{to a certain extent} but the cost of printing and redemption of notes, one of the heaviest items of expense, should be materially decreased by simplifying the printing and increasing the field of circulation for each note, thus obviating its too rapid redemption ~~(No. 8 of Beland)~~ The Government and the member banks are both interested in the earnings of the Federal Reserve Banks and therefore in seeing the operation of the Federal Reserve Banks carried on upon the lowest basis of expense compatible with safety and efficiency.

The Act seems to have contemplated Districts of large area with branches. The Board believes this plan to be a wise one inasmuch as it prevents a sectional spirit from asserting itself in

the management of the Federal Reserve Banks.

By creating larger Districts and Federal Reserve Banks with a larger responsibility and greater resources it may be possible to urge Congress to permit the reduction of the capital actually paid in of the Federal Reserve Banks. This would enable the banks to adopt a liberal policy in dealing with the important and non-producing fields of operation, such as clearings and note issue, without being forced at the same time to employ an unreasonably large amount of their resources, being largely reserve money, for the purpose of earning the substantial sums necessary for the payment of their dividends. It may be added that the Government receiving an excess after the payment of dividends, etc., would be benefitted by this plan.

It will be observed that this readjustment does not eliminate the units as they were created by the Organization Committee. It is rather a coordination of several districts into *twin* district, but leaving the districts to be united practically unchanged. Each will retain its own territory and administration,

insert A

It will be observed that the proposed readjustment is not out of harmony within the plan of the Organization Committee, in that it does not eliminate the original units. It effects, in these three cases, a coordination of two districts into what may be termed twin districts, making the larger districts thus created stronger and better able to serve the territory involved, but leaving undisturbed, except in name, the identity of each of the component units. Each of the original districts joined together will retain its particular tributary territory and its local administration, while securing the additional benefits already indicated. At the same time these sections, while served by branches or local agencies dealing with the member banks of their immediate neighborhood, will have an equal share in the administration of the entire district.

but secure the benefit accruing from the larger resources of
the united district and the advantage of the more economic and
effective operation. *insert A*

While the branch has an administration of its own, dealing
as heretofore with the member banks of its own district, its
constituents have a share in the administration of the entire
district equal to that of the constituents of the territory al-
lotted to the main district.

P.M.W.
10/28/15.

10/19/15

It is very interesting to analyze the $9\frac{1}{2}$ votes that were cast for 12 districts and the 4 votes that were cast for 11.

There are registered as voting for 12 districts a gentleman, W. D. Higgins, of Boston and a lawyer in New York, Herbert C. Marshall. ^{It is not known} ~~I do not know~~ who these authorities are, but they are the only ones in those two cities as against an overwhelming vote for 8 in those two districts. Another vote for 12 is that of Mr. Bartlett in St. Joseph, Mo., and there are four additional votes originating in the New Orleans hearing, one being from Mr. Barr, President of the Fidelity and Columbia Trust Co. of New Orleans, one being from R. W. Knott, Editor of the Louisville Evening Post, one the Honorable Swager Shirley, member of Congress from Kentucky, and one, the Honorable Ollie James, U. S. Senator from Kentucky. Another one is the vote of Mr. Stubbs from Kansas City. The one-half vote is that of Mr. Gibbs, of Baltimore, who stated that he ^{was} ~~is~~ uncertain, but made a general guess of 11 or 12. The last vote to complete the $9\frac{1}{2}$, is that of Dr. Willis, who has stated that he expressed not his own vote in the matter but that of the Committee for which he had worked. ^{It is} I understand that his own personal view, if given in an informal manner today, would rather be in favor of 9 districts.

When we come to the 4 votes that were cast for 11 districts, we find that 2 came from Cleveland, being from Mr. Sullivan and Mayor Baker; as above stated, the $\frac{1}{2}$ came from Mr. Gibbs of Baltimore and one came from Mr. Harding, who was voted as favoring 10 or 11.

It is furthermore interesting to note that Mr. Swinney is

registered as being in favor of 9 or 10 and Mr. Rowe, of Cincinnati, as indefinite. If we take into consideration the fact that the Advisory Council, as Mr. Harding was confidently informed, reached the conclusion amongst themselves that they wished to suggest a reduction to 8 districts - which vote for several reasons they did not announce at their last meeting - we would find that both Mr. Swinney and Mr. Rowe would now have to be recorded for 8.

8 or nine banks, Mr. Harding's vote would ~~probably~~ be cast in that direction today;

so that the most casual analysis of the vote would increase the 47½ votes out of 79 by 4 additional votes and the remaining votes that were cast for 11 or 12, are easily recognized, not as the votes of experts, but as those of men who, for local or political reasons concerning their own bailiwicks, registered their votes for 11 or 12.

This is

(we find on the records of the Org. Committee Board that

now, after

The most interesting feature ~~is~~ that ~~these on the list who~~ have had a chance to study the matter more closely, and who at the time voted for the larger number, are ~~all~~ now agreed on the advisability of having a number of districts closely approaching the minimum.

An analysis of the votes received by the Organization Committee is most conclusive as showing that an overwhelming majority favored the smaller number and that ~~of the few who voted for larger number, for other than purely local reasons, we have evidences without even looking for them that their vote for the larger number could not be counted upon today; and that it is safe to say that~~

~~that from the individual advice received,~~ *from these votes* the Organization Committee ~~could hardly show any proof at all for adoption of 12 districts.~~ *would find it difficult to direct evidence showing the desirability of*

P.M.W.
10/19/15

122
10/19/15

Whereas, a committee was duly appointed by the Federal Reserve Board on October 19, 1915, to examine and report on pending petitions for redistricting and redetermination of Federal reserve cities upon which hearings have been held, and

Whereas, said committee has reported asking instructions as to whether to report upon said petitions, including others on which no hearings have yet been held, or, in lieu thereof, to report a plan for redistricting the entire United States, incidentally abolishing several Federal reserve banks, and

Whereas, said committee in its request for instructions has incorporated a general report in favor of such redistricting and abolishing of Federal reserve banks, and

Whereas, said committee in said report has based its conclusions

(a) Upon observations which it has made of the workings of the Federal Reserve Act, but has failed to report what such observations have been,

(b) Upon certain experiences which it has had under the Federal Reserve Act, but has failed to specify what such experiences were,

(c) Upon the admission that up to date no conclusion could be justified by the experiences already observed, but fails to state any reason for such conclusion,

(d) Upon alleged savings in overhead expenses, but has failed to state any figures or to give any facts to sustain such statement,

(e) Upon saving in the cost of redemption and issue of Federal reserve notes, but has failed to give any figures to justify such conclusion,

(f) Upon the necessity of balancing the banking situation and making weak banks strong, without citing a single instance of such weakness or lack of balance,

(g) Upon the necessity of removing sectionalism, without detailing any instance where such sectionalism now exists,

(h) Upon the benefits which would accrue to the clearing system by such redistricting, without explaining in any way how creating further delay in collection of checks by enlarging the area of districts would facilitate either collection or clearing,

(i) Upon the benefits to be derived from limiting Federal reserve cities to cities where Subtreasuries exist, without suggesting what said benefits would be;

Whereas, said committee in said report states that it is of opinion that the Federal Reserve System as at present constituted is inadequate to meet difficulties which may arise after the conclusion of the present European War, that its present apparent adequacy rests only upon the fact that it has not been put to the test, the same being susceptible of the interpretation that the Federal Reserve System as at present constituted is a failure, and

Whereas, said committee has recommended that Federal reserve cities should be made Central reserve cities thus increasing their required reserves to a minimum of 18 per cent, in order to deter cities without banking status from seeking to become Federal reserve cities, as well as to increase their reserve deposits,

Whereas, said committee has pointed out that every real and imagined difference of opinion of the Board will be taken advantage of by

the critics and enemies of the Federal Reserve System, and that, therefore, unanimity of action is desirable, - without disclosing the facts upon which the unanimity of the committee is based, and,

Whereas, said committee fails to point out the reasons which have weighed with its individual members in reaching its conclusions reported, but contents itself merely with the statement that each member of the committee has reached his conclusions in his own way; now, therefore, be it resolved:

(1) That said committee report in detail what the observations and experiences are under the Federal Reserve Act which have impelled the members to the conclusions reached in said report.

(2) What, if any, statistical information the committee has prepared to justify its conclusions as to the desirability and as to the possibility of bringing about the diminished expenses in overhead charges and cost of issue and redemption of Federal reserve notes.

(3) Whether or not said committee has prepared any concrete plan of redistricting and abolishing Federal reserve banks, any such plan to be submitted to the Federal Reserve Board for its consideration, to enable it more intelligently to give to said committee the instructions it now asks.

(4) Whether said committee in reaching its conclusions had in mind the opinion of counsel of the Federal Reserve Board that said Board had no lawful authority to reduce the existing number of Federal reserve banks or districts, and whether any legal opinion has been asked or secured from other counsel of the Board, annexing a copy of any such opinion.

October 14, 1915.

CONFIDENTIAL.

Dear Mr. Delano:

I hereby append two maps showing some suggested regroupings of districts into eight districts.

No. 1 - showing the grouping that I suggested to you the other day; No. 2 - showing a different treatment as suggested by Mr. Jacobson. His ideas are in accord with yours, inasmuch as he puts together St. Louis and Kansas City, and Dallas and New Orleans, which I believe is in accord with your plan.

The great advantage of the latter plan is that in that case every single district contains a sub-treasury except the Richmond district, which, however, will include Washington and therefore the Treasury. That would enable all districts, through the gold fund, to clear absolutely at par amongst each other, while the plan as proposed by me under No. 1 would have the disadvantage of bothining Dallas and Kansas City, both districts being without sub-treasuries. If we could expect that a sub-treasury office might be opened at either of these points, I think that the No. 1 plan would be better, ^{in some respects} because there appears to be a very close interchange between the Kansas City and Dallas districts, and because the surplus earnings of Dallas would benefit Dallas, while the surplus earnings of New Orleans would accrue to St. Louis.

In other words, from an operating point of view, leaving aside the Treasury question, I think No. 1 is better. From the point of view of taking the disposition of sub-treasuries as they exist, No. 2 is better. No. 2 has also the advantage that we would have two Southern districts, which from the political point of view would appear more equitable. If Dallas and Kansas City were combined, Kansas City would probably be the center, which would bring about the somewhat anomalous condition that out of eight Federal Reserve centers, two would be in Missouri.

If, as we hope, the law may be amended so as to permit us to pay back some of the paid-in capital while leaving the authorized capital unchanged, the question of earning dividends would become less acute and that would be another point in favor of the No. 2 plan - that is, your plan.

I append also some figures which Mr. Jacobson prepared for me and which show the capitalization as it would work out under No. 1 and No. 2, both as to capital and deposits.

I asked Mr. Jacobson not to have this thing typewritten for fear of getting any talk going about redistricting, which would be premature.

Will you please return to me the maps and the figures as soon as you are through with them. I only send them to you to start you thinking on this proposition.

Sincerely yours,

Hon. F. A. Delano,
Vice Governor.

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FEDERAL RESERVE BANK OF CLEVELAND

E. R. FANCHER, GOVERNOR
EDWIN BAXTER, SECRETARY
ACTING CASHIER

DIRECTORS
D. C. WILLS, CHAIRMAN
FEDERAL RESERVE AGENT
LYMAN H. TREADWAY, DEPUTY CHAIRMAN
DEPUTY FEDERAL RESERVE AGENT
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THOS. A. COMBS W. S. ROWE
A. B. PATRICK ROBERT WARDROP
H. P. WOLFE

W. M. U

October 11, 1915.

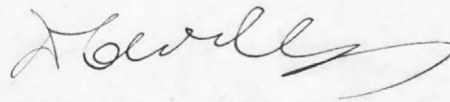
CONFIDENTIAL

Hon. Paul M. Warburg,
c/o Federal Reserve Board,
Washington, D. C.

My dear Mr. Warburg:-

The enclosed is in answer to a query made of me when I was in your office a few weeks ago. It represents the collaboration of the officers of the bank, the matter not having been discussed with or referred to our Board of Directors. At your convenience your opinion would be appreciated.

Respectfully,



Chairman of the Board.

W:J
Encl.

The question has been asked whether the present earnings of the Federal Reserve Bank of Cleveland justify the location of a Federal Reserve Bank at this point. A suggestion has also been invited as to what might be done with District No. 4 to improve the situation.

The primary service of a Federal Reserve Bank, aside from custody of reserves, is rediscounting for member banks. Presumably, the relation of rediscount demand to supply of reserves should determine the delimitation of districts and the location of Federal Reserve Banks.

Three of the eastern Federal Reserve Banks show less rediscounts for member banks than the Federal Reserve Bank of Cleveland. Two other western Federal Reserve Banks besides Cleveland show less than one-third of their capital invested in rediscounts for member banks. The three eastern banks in question are located in districts which can probably never produce enough demand for rediscounts for member banks to pay dividends, because those districts are, like District No. 4, ordinarily self-contained and lending rather than borrowing districts. It is manifestly impossible so to district the northeastern part of our country as to provide a sufficient amount of borrowing territory to utilize for rediscounts, the great resources of Federal Reserve Banks established therein, except insofar as those districts may utilize their surplus resources for the benefit of other districts less fortunately situated, as contemplated in the Federal Reserve Act.

The three eastern banks referred to all have a considerable volume of bankers acceptances based on exports or imports. This is a

great and needed service which the new system can render to American commerce; but the volume of these acceptances handled at Reserve Banks located on the seaboard represents not only the foreign commerce of those seaboard districts, but the foreign commerce of the entire country, which must be handled at the seaboard. The fact of the Federal Reserve Banks of those cities purchasing and distributing among other Federal Reserve Banks these bankers acceptances, is due merely to the accident of their location next door to the accepting banks, and it is manifestly impossible for interior banks to do any great amount of accepting as against the seaboard banks; for example, it is drafts on London that are current the world over, and not drafts on interior English cities; and we are now engaged in the effort to make New York acceptances as acceptable and as current as London acceptances. The volume of business, therefore, that Federal Reserve Banks may do in bankers acceptances based on exports and imports, does not furnish any conclusive reason for the existence of Federal Reserve Banks at any other places than New York and perhaps two or three other seaboard cities.

Investments in municipal warrants, which are shown in large volume by the three eastern banks, do not reflect a business need for a Federal Reserve Bank in those districts. They result from the fact that cities and other political sub-divisions in those districts have been forced to the method of anticipating their revenues, without any referenceto the amount of commerce or industry that is transacted in or about those municipalities. The volume of business and the volume of commercial paper circulating throughout the country has no possible effect on the amount of borrowings by municipalities and other political sub-divisions; so that the amount of investments other than rediscounts furnishes no reason for or against the location of a Federal Reserve

Bank or the delimitation of any Federal Reserve district.

District No. 4 is so situated that even in normal times, when its rediscount demand will undoubtedly be much greater than at present, its Federal Reserve Bank will probably not have a sufficient demand from its own district to produce net earnings through rediscounts. It is a district in which there are likely to be very few banks issuing acceptances based on exports and imports, for obvious reasons. It will be able to make some earnings upon investments in municipal warrants, but that is not a sufficient reason for the continuance of a Federal Reserve Bank in this district. Through the purchase of United States bonds as contemplated in the Act, it will ultimately make good earnings; in times of brisker business, it will have some additional rediscounts, and of course in times of crisis, if any such appear; it will usually be a reservoir from which additional funds can be supplied to other districts. It can be depended upon even in such times as we have been passing through, to earn its current expenses, and to be able to declare some dividends. It cannot be expected to show the large profits of Federal Reserve Banks in districts where banking resources have always been wholly inadequate to meet the demands of commerce and agriculture.

But if it be assumed that the relatively low earnings of the Cleveland bank create a situation that demands some action, two possible courses naturally suggest themselves at first thought, as follows:

1: Abolish District No. 4 and divide the territory between Federal Reserve Banks to the east and to the west, However, this would not add any appreciable amount of borrowing territory to the banks between which the territory might be distributed, while it would embarrass them by demanding greater earnings to meet the dividends on the additional capital; and it would also add so largely to the resources of those banks as to make them distinctly overshadow all the other banks in the system.

2: Add borrowing territory to District No. 4; not from the east nor the west, because any possible adjacent territory in those directions is exactly like the territory already in the district, and would not produce any considerable volume of rediscounts or acceptances. The only possibility would be to add territory to the south. That part of Kentucky which is not included in this district, produces a very small volume of rediscounts for the St. Louis bank. The State of Tennessee produces a considerable volume for the Atlanta bank, and produces more than all of District No. 4 by about 50%, according to recent statements. However, the total volume produced by Tennessee, would not increase the total rediscounts of the Cleveland bank to more than one-third of its capital at this time. It would seem to be inadvisable to add territory south of Tennessee, since that would involve a considerable amount of unsatisfactory realignment of the southern districts. Of course, if a radical operation is contemplated, it might be possible, and worthy of consideration, to abolish District No. 6 and divide its territory between Districts No. 3 and No. 4, making the division-line run approximately north and south from Lake Erie to the Gulf of Mexico, and locating the bank of District No. 4 at a more southerly point.

However, having made this redistricting, we would still have the situation of banks in the east with resources far in excess of their demands, and banks in the south and west with resources likely at any time to be less than the demands. And any such abolition of districts would admit by inference the logical conclusion of one Central Bank.

Two other possibilities suggest themselves therefore as getting to the root of the trouble, better than any redistricting:

1: The Federal Reserve Act might be amended to permit refunding

to the member banks of District No. 4, and of the other districts whose situation differs from that of this district only in degree, a large part of their payments on account of the capital stock of their Federal Reserve banks; requiring for the present perhaps as little as one-sixth to be paid in, in this District, but permitting the subscription to stand at 6% of the capital and surplus of member banks.

2: The earnings and expenses of all the Federal Reserve Banks might be placed in a common account and divided among all of the member banks in proportion to their investment. This, of course, would leave possibilities of inequity, in that the administration of some of the Federal Reserve Banks might not be as economical as that of others, or perhaps not as shrewd in the matter of earnings. However, it would be a much less injustice than will obtain when the member banks of some districts receive full dividends, and the member banks of other districts must console themselves with hope deferred, or even be called upon to meet an assessment for deficits. We do not see that there is any reason why a bank in Tennessee is more entitled to a dividend under the present arrangement than a bank in Ohio. By pooling the earnings and expenses, it would be possible to arrive at essential justice, without incurring the difficulties and dangers which might attend the establishment of a Central bank, or the reduction of the number of districts.

Red's backing file

Harding's draft

WHEREAS, Any opinion rendered by the Attorney General of the United States, the highest law officer of the Government, regarding the status or powers of the Federal Reserve Board, or regarding any question which may at any time be pending before the Board, is in effect conclusive as negating any contemplated action by the Board, while it does not definitely protect it in any action taken as a result of an affirmative opinion, for which reason on at least two occasions the Board after some discussion has decided to refrain from taking steps to secure the opinion of the Attorney General, and

WHEREAS, the Board is informed that the Attorney General is not required by law, and that it is not his practice as a matter of courtesy to give opinions to Government boards such as the Federal Reserve Board, but furnishes such opinions only to the President of the United States and to the Cabinet Officers who are the heads of the various departments of the Government, and

WHEREAS, the Governor of the Federal Reserve Board, who under Section 10 of the Federal Reserve Act exercises his duties under the supervision of the Federal Reserve Board, did on the day of November 1915, address a communication in writing to the President of the United States without authority from the Federal Reserve Board, and without the knowledge of a majority of its members, requesting the President to secure the opinion of the Attorney General of the United States on a certain matter at that time pending before the Board;

THEREFORE, BE IT RESOLVED, That the Board hereby reiterates its opinion, previously expressed, that a request to have the Attorney General of the United States give an opinion which may affect the operations of the Board is a serious step, and should be made only after a full discussion on the part of the Board and by its express authority as shown by a majority vote.

RESOLVED, That the Board hereby directs its Governor, Vice Governor and each member thereof, to make no requests, either oral or in writing, and to take no action of any kind that would lead to the rendering of an opinion on matters affecting the Board by the Attorney General, without express authority of the Board granted at a legal meeting thereof.

RESOLVED, That it is the sense of the Board that no officer or member of the Board should confer with committees of the House, Senate or any member thereof on matters pending before the Board not yet made public, except when specially authorized so to do by the Board.

RESOLVED, That the Secretary of the Treasury, who, as the head of a department of the Government, is authorized to ask opinions of the Attorney General, and who is also under the Federal Reserve Act ex-officio chairman of the Federal Reserve Board, be respectfully requested to advise the Board as to his willingness to regard the wishes of the Board as outlined in the foregoing resolutions.

Appropriate to be officio

