

C O P Y

My dear Sir:

The Board has carefully considered the statement which the Committee of Kansas City bankers, headed by yourself, left with the clearing committee on February 13, 1918, and regrets that it can not agree with the suggestion made by your committee.

Members of the Board who heard the presentation of the matter, as well as those who have read your statements, while impressed with your arguments and with the excellent presentation of the case from your standpoint, feel that there are certain facts and circumstances not discussed in your statement which can not be overlooked, and, all things considered, the Board does not see how it can consistently approve the action suggested.

In order to get complete information on this subject and to bring out the various points of view, two copies of your statement were sent to each Federal Reserve bank, with a request for an analysis. It may interest you to know that every Federal Reserve bank opposed the plan suggested. The following is a composite of the objections urged:

(1) The suggestion that checks drawn on Kansas City banks should be classified according to endorsements is not regarded as feasible, nor can it be sustained as a matter of banking practice.

(2) As a check is an order on a bank or banker for the payment of money at the bank's own counter, a check drawn against a Kansas City bank, whatever its source and regardless of endorsements, is an order for the immediate payment of money when presented to the drawee bank, either at its counter or through the Kansas City Clearing House.

(3) The contention is made that in normal times Federal Reserve banks located in the west will buy more eastern exchange than they will sell. This must be true because the balance of trade is normally in favor of the west, as the value of goods moving from west to east is greater than from east to west. Hence cash payments in settlement of balances must be made by the east to the west. Under such conditions New York exchange should normally be at a discount at any western Federal Reserve bank.

(4) Federal Reserve cities west of the Mississippi river should not permit Kansas City to lengthen time schedule on items received from them unless there was a reciprocal lengthening in credits for items received by them, and it is believed that such an arrangement would tend to drive business away from the Federal Reserve banks and reinstate the practice prevailing between national and state banks prior to the establishment of the Federal Reserve banking system.

(5) In comparing the relations between banks in your district and Kansas City banks with relations between banks in other Federal Reserve cities and Kansas City banks, you appear to have overlooked a very important feature, namely, the fact that the twelve Federal Reserve banks and their fourteen branches are connected as if by a pipe line, through a central gold settlement fund in Washington. By means of this fund it is possible to make an instantaneous transfer from one Federal Reserve bank to another by a simple bookkeeping entry. Hence the Federal Reserve Bank of Kansas City can act as collecting agent for the Federal Reserve Bank of New York and present a check drawn on any Kansas City member bank for payment and credit to the account of the Federal Reserve Bank of New York, and can have that credit transferred instantaneously through the gold settlement fund. This facility gives the banks in the Federal Reserve cities an exceedingly important position, as it gives them a great advantage over banks in other cities as the custodians of bank deposits. The policy advocated by the Kansas City Clearing House banks would tend to work to the advantage of the New York banks in the matter of bank deposits and to the detriment of banks in Kansas City and other Federal Reserve cities.

(6) Several of the Federal Reserve banks contend that a check bearing one or more member bank endorsements and collectible within a short space of time, should be taken on the basis of the lowest current rate of interest.

(7) It has been suggested that the fact that Kansas City banks are unable to offset in the Clearing House checks which come from other districts, ^{is} due to their not utilizing fully the facilities offered by the Federal Reserve Bank of Kansas City. The banks could, if they wished, build up their balances with the Federal Reserve bank by depositing out of town balances, including checks and drafts on New York, in addition to items on points in their own district. Apparently their practice is to use the Kansas City Clearing House for collection of items drawn on banks within their own district, and use correspondent banks for collection of items drawn on banks outside of district No. 10.

We would ask whether the banks of Kansas City have adopted the practice of drawing transfer and exchange drafts through the Federal Reserve bank, which would, to a considerable degree, do away with the necessity of maintaining large balances in New York. It is not our purpose to suggest that this be done, but we wish merely to point out that these facilities are available.

Very truly yours,

(Signed) W. P. G. HARDING.

Governor, Federal Reserve Board.

Mr. P. W. Goebel,
Chairman Committee of Bankers,
Tenth Federal Reserve District,
Kansas City, Kansas.