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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

May 27, 1918.

X-968

Dear Sir:

Now that the third Liberty Loan campaign is over, it seems that we have, during the next two months, a favorable opportunity of making an organized and determined effort in each Federal Reserve district to secure State bank members.

The fact is not overlooked that your time and that of other officers of your bank is fully occupied with the constantly increasing duties which are being placed upon the Federal Reserve banks, and it is suggested, therefore, that it may be advisable for all Federal Reserve banks to engage one or more men to devote their entire time in organizing and prosecuting a systematic campaign for bringing in the member banks. Possibly competent men may be found who would give their time to this work as a voluntary contribution, but if necessary they could be given adequate compensation.

To secure the best results it may be found advisable that the districts be organized in groups as has been done in the Liberty Loan campaigns. The organization should be carefully planned and much thorough follow-up work done. The military situation in France and the heavy financial burdens which are ahead of us should make the present an opportune time for driving home the argument that it is the duty of every

eligible bank to do its share in protecting the finances of the country.

There is enclosed herewith a copy of a letter which has been addressed to the Board by Mr. Pierre Jay, Chairman of the Board of Directors of the Federal Reserve Bank of New York. This letter describes fully the methods which have been adopted in the second district to stimulate the State bank membership campaign. It seems to the Board that these methods ought to be very effective, and while it may not be possible to adopt them without variation in all districts, the letter offers most valuable suggestions and is sent you for the careful consideration of yourself and of your directors.

I would request that you keep me informed of the steps that your Board of Directors may take regarding this matter, and that you do not hesitate to call upon the Board for any assistance it can give you in promoting this work in your district.

Very truly yours,

Governor.

Enclosures:

F E D E R A L   R E S E R V E   B A N K  
O F   N E W   Y O R K

May 21, 1918.

Dear Mr. Warburg:

In accordance with your request I am submitting to you a rather full memorandum of the new plan we tried last week for accelerating applications for membership of State banks.

We have felt for some weeks that immediately after the close of the Liberty Loan campaign we should make a determined effort to get a real movement among the State banks towards membership in the System. We have been disappointed in the lack of results along this line obtained from the New York State Bankers Association committee, due somewhat to the fact that the president of the association, although a State banker, is not a member and does not wish to become one. Consequently the committee gets no encouragement from him to work for State bank membership. There seemed to remain only the old plan of personal appeal on the part of the officers of the bank. As the officers could not possibly spend the time required to travel around and visit the bankers locally Mr. Treman suggested that we should invite them to come in to call on us in groups, and we have been pursuing this plan during the past week, having had four groups of from ten to fifteen each on four separate days of last week. I attach copy of the letter of invitation, from which you will note that we paid their expenses.

The method proved to be a great economy of the time of the officers, and gave the visiting bankers an opportunity of visualizing the work of the bank and of discussing the matter with one another, two elements which would have been lacking if we had called on them locally.

We thought it advisable to make each of the groups representative of the entire State so that we should not run up against any local prejudices which might have occurred were the groups made more local. We began to invite them about two weeks in advance and found this very necessary because many were unable to come and it took much telegraphing at the last to keep the groups filled up. In each group we included one or two officers of State banks which had become members and this proved most valuable as it gave the nonmembers a chance to ask questions and gave the members a chance to bear witness as to their experience in dealing with us and the effect of membership on their profits. In fact, we all felt that this feature is absolutely essential to the success of the plan. We also in some cases asked the bank officer to bring in a director who was particularly in need of education. There is often a single influential director who keeps a bank from joining.

At each of the conferences the programme has been about as follows:

- 10:00 to 10:15    Assembly, introduction, welcome and assurance that we did not intend to embarrass our guests by asking them to join the System, although we hoped before the end of the day to show them strong reasons why they should do so.
- 10:15 to 11:15    Visit to all the departments of the bank.
- 11:15 to 12:45    Discussion of conditions of membership.
- 12:45 to 2:00     Lunch.
- 2:00 to about 3:30    Continuation of discussion and presentation of the argument of national necessity as a reason for State bank membership.

The topics discussed were as follows:

1. CONDITIONS OF MEMBERSHIP:

- (a) Capital stock subscription
- (b) Amount of deposit required.

- (c) Retention of charter powers.
- (d) Lending powers not curtailed.
- (e) Examinations.
- (f) Reports.
- (g) Withdrawals.

2. TRANSACTIONS WITH FEDERAL RESERVE BANK:

- (a) Rediscounting.
- (b) Collections.
- (c) Offsets to loss of interest on reserve deposits:
  - (1) Where State law permits many banks can establish part of their balance with Federal reserve bank out of their vault cash.
  - (2) Many banks accustomed to carry excess reserves, largely against emergencies, feel that when they become members the facilities of the System make excess emergency reserves unnecessary, and can invest the former excess reserves in paper yielding a much higher rate.
  - (3) Use of collection facilities will enable most banks to consolidate or abandon collection balances and invest the money at higher rates at home.
  - (4) Use of the rediscount facilities of the Federal reserve bank will usually save the country bank money, as the Federal reserve bank rates are usually lower than those of the city correspondents.

Many banks ask this question: "We have bought certificates of indebtedness, helped to sell Liberty bonds, and turned in our gold. Is not this sufficient cooperation with the Government"? To answer this we had printed and distributed to those who attended the conferences the attached report of the United States Trust Company which answers this question very clearly.

We have handed to each of those who attended a list of the State member banks in the district in order that they may write to them if they so desire.

Having taken up all of the topics on the programme in the order above given, a point usually reached by the end of lunch, and having corrected as far as possible all of the many misapprehensions State banks/ have about membership in the System, ending with that which is uppermost in the minds of all of them; namely, the cost of membership (in dispelling which the officers of State institutions which have already become members did splendid work) we proceeded to the real object of the meeting. This was to present to them the necessity of joining in order to bring the System up to its full strength and keep it strong, this being the only ground which we have found effective in securing members. We carefully avoid using the word "patriotic" or "patriotism" in this connection as the State bankers are very sensitive on this point. We emphasize their patriotic cooperation in buying certificates, selling bonds and turning in gold. We stated that we did not consider membership in the System as an essential test of patriotism because the converse of that proposition is that a State bank which is not a member is unpatriotic - a proposition which we would not for a moment admit. We stated that the reason for their entrance was purely one of national necessity. An outline of the argument used is attached hereto. (X-968a.)

Usually after this appeal, lasting fifteen or twenty minutes, had been made, two or three banks would stand up and say they intended to join. This usually led to further discussion with the burden of proof thrown on those who wished to explain why they did not join.

At the close of the last of these conferences the State bankers present asked an opportunity to consider the matter by themselves, including the officer present from the State bank member. This was a good idea and we shall always suggest it hereafter.

Our impression is that from 30% to 50% of those who attended will join the System in the near future, although many of them were outspoken opponents of membership when they came to our conferences, a number of them being those on whom we are having to collect checks by express. We intend to continue these conferences during the first week in June until we have gotten practically every nonmember State institution in New York State to attend one of the conferences. Subsequent expressions from those who attended have been of the most friendly nature, and we are satisfied that these conferences are very well worth the time, energy and money they consumed.

Our belief is strong that the necessities arising from our participation in the war are about the only argument which will lead to any general movement toward membership. We believe that the present time, while the military situation is so uncertain, is by far the most favorable to press this argument home, and we therefore intend to continue these conferences throughout the remainder of May and the month of June, using also every outside influence we can bring to bear upon individual institutions in a determined effort to increase very greatly our State bank membership. We believe that somewhat the same psychology which obtains in Liberty Loan campaigns can be developed in a drive on the State banks, and we trust we shall not be disappointed.

Very truly yours,

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

PIERRE JAY  
Chairman.

OUTLINE OF APPEAL TO STATE BANKS TO JOIN FEDERAL RESERVE SYSTEM  
ON THE GROUND OF NATIONAL NECESSITY.

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1. Development of America's ideas in regard to participation in the war.

(a) MILITARY

When the German Ambassador was given passports in early February, 1917, it was thought that this action would satisfy our national honor and self respect. A month later, as submarines continued to sink our vessels, the idea of armed neutrality was brought forward. When on April 6, President Wilson declared war, it was generally understood that our destroyers would escort convoys of merchant ships and attempt to beat off any German submarines which might attack. Toward the end of April the French and English missions came over and told us that in addition to American material they must have American men to fight with them. The impression prevailed that an army would be raised and sent over under its own general to cooperate with the armies of England and France. Today, after a year has elapsed, we find our soldiers fighting under a generalissimo and our regiments and battalions brigaded with those of England and France, eating French and English rations and fighting under French and English generals.

(b) FINANCIAL

A year ago our war budget for the fiscal year beginning July 1, 1917, had not been formed, but it seemed likely to be reasonably moderate. Finally it proved to be in the neighborhood of \$20,000,000,000. The war budget for next year now seems likely to approximate \$30,000,000,000. A year ago the Treasury was selling \$200,000,000. of Treasury certificates every three weeks. Recently it has been selling \$500,000,000. certificates every two weeks.



(c) CREDIT.

The Federal Reserve System, which is the credit making power of the country, has increased proportionately. A year ago its deposits were about \$700,000,000. Last August, after the required reserves had been increased by Congress, its deposits rose to \$1,100,000,000. Now, after the entrance of the larger State institutions, the deposits are \$1,500,000,000. The demands on the credit power have been heavy. The Federal Reserve Bank of New York was called upon for \$212,000,000. of additional credit in the first nineteen days of last June. During the second Liberty Loan period it was called upon for about \$450,000,000 of additional credit. We can not say what amount of credit it will be asked to furnish in the Third Liberty Loan period, but it will undoubtedly be large. In a year its reserves have fallen from 85% to below 60%.

It is of vital importance to the member banks, the nonmember banks, to the business of the country, and above all to our successful prosecution of the war, that the Federal Reserve System should be able to provide all the credit needed during the war and still continue strong. I think nothing would be a greater calamity to the banks and business of the country and would hinder our participation in the war more than to have the Federal Reserve System not continue strong. Yet, although it has to furnish 100% of the credit needed, only 70% of the banking resources of the country are contributing their share to it. This is an unsound and unsafe situation for the country in war time, at least, when it is essential that it should have its maximum strength.

2. The Military Situation Abroad.

So much for our situation at home. On the other side, all during the winter months the people of France and England were assured that their line would hold. Yet, in a little over a week, when the German drive opened, the allied line had suffered a great disaster. Under the stress of this disaster the British Government accepted General Foch as Commander-in-Chief of the Allied Armies, and introduced a bill raising the draft age in England to 50. This is typical of the whole conduct of the war on the part of the Allies. They have fought the war with hindsight whereas the Germans have been fighting with foresight. The Allies were willing to make every sacrifice, but not in advance; only after events had shown the necessity for it. The demand of the Allies for more and more American troops with the utmost speed is a clear indication that the burden of the war from now on will fall increasingly on America and her only hope of winning it is to get away from the hindsight programme and make her preparations and above all her sacrifices in advance. This is the real task to which America's brains and energy must be devoted.

All through the past two months we have been wondering where Foch's reserves were. While, of course, there is no information available on this point, it seems reasonably clear to me that Foch's reserves were the Americans, and the Americans simply were not there, and because they were not there the war will be much longer, our suffering much bitterer, and the sacrifices we must make much greater.

If the American troops were Foch's military reserves, Foch's financial reserve is the Federal Reserve System. In order to maintain our full fighting strength and unity in France we must have our full

fighting strength at home as well, and we can not have this unless our credit making power is given such strength and such unity and given it immediately, as will enable it to respond instantly and unhesitatingly to any demands made upon it, however great they may be. There seems to be just as distinct a financial service for banks to enlist in as there is a military service for our boys to enlist in. On the average there is a soldier in every family in this country. There is also a soldier in every bank in this country, and this soldier is its reserves. But, just as the human soldier can fight no battles if he stays at home but must put on the uniform and get into the organization and go where he is needed, so the banking soldier can fight no battles unless it too puts on the uniform and gets into the organization, at least for the period of the war. But why do the State institutions hesitate to respond to the call for mobilization which is just as urgent to them as is the call of General Foch to President Wilson for the utmost speed in sending our soldiers over to France? Solely, I believe because of the cost which they feel they may incur, although I think that those who have been here today are pretty well convinced that this cost, if any, is negligible. But does not the spirit in which America entered the war give us a safe basis upon which we may decide many of the war questions which perplex us in our corporate and private lives? America did not count the cost in entering the war. Nor did America enter the war for any gain or advantage, for dollars or territory. She entered the war to give every man and every dollar she has to achieve victory for a principle. So her people in every part of the land are asking one another and are asking the Government not what profits they can reap out of the war, but only what they can do, what sacrifice they can make, how they can help to

win the war. And the reason we feel perfectly satisfied that the State institutions are going to join the Federal Reserve System, at least for the period of the war, is because these same people who in their private capacity are offering to make every sacrifice for the war are the officers, directors and stockholders and depositors of the State institutions, and when once they understand how vital, how necessary it is for their institutions to join the System, those institutions will step forward in a body, eager to respond to <sup>The</sup> President's call for a complete mobilization of the banking reserves of the United States, and eager for the burden and the privilege which The President said must be shared by every banking institution in the country.

C O P Y

X-968b

W. S. Augsbury, Esq.,  
President, Bank of Antwerp,  
Antwerp, New York.

Dear Mr. Augsbury:

We are asking officers of a few State banks in different parts of New York State outside of New York City to come to New York on May 16, to discuss with us the general question of membership of State institutions in the Federal Reserve System, and we should be very glad if you could confer with us at ten o'clock on that day and take lunch with some of the officers of the bank.

We do not know what your attitude is toward membership in the Federal Reserve System, but we feel very strongly that, whether you do or do not intend to become a member, the great financial requirements of the Government make it desirable that the workings of the System should be understood by all the banks in the district and that we in turn should know and understand their point of view. We trust that you will understand that this conference called is for a mutual exchange of views and that attendance will entail no further obligations whatever.

As in the case of conferences of out-of-town bankers heretofore called by the Federal reserve bank to discuss the collection system, the sale of Treasury certificates of indebtedness and other matters, we should, of course, expect to reimburse you for any expense incurred in responding to our invitation.

Trusting that we may have the pleasure of seeing you on May 16,  
I am,

Yours very truly,

Chairman, Board of Directors.

REPORT OF THE EXECUTIVE COMMITTEE OF THE  
UNITED STATES TRUST COMPANY  
OF NEW YORK CITY.

November 13, 1917.

To the Board of Trustees:

At the regular meeting of the Board of Trustees of the United States Trust Company of New York, held November 1, 1917, the following resolutions were unanimously adopted:

"RESOLVED, That the Federal Reserve Bank of New York be designated as a depository of the funds of this corporation, and that it continue as such depository until the further order of this Board."

"RESOLVED, That the Executive Committee be requested to consider and report to this Board on the subject of the relation of this company to the Federal Reserve Bank System and to the administration of the national finances during the present war."

The selection of the Federal Reserve Bank as a depository of our funds was, on the same day, communicated to the State Superintendent of Banks. The deposit with the Reserve Bank of this district of such portion of our gold reserve as is not needed in the transaction of our business has thus become possible.

The subject of the second resolution of the Board; namely, the relation of this Company to the Federal Reserve Bank System and to the administration of the national finances during the present war, has been carefully considered by the Executive Committee. Since war was declared last April this company has constantly sought to cooperate with the Government in meeting the financial needs of the nation. We have subscribed to, and actively solicited subscriptions for, the two issues of Liberty bonds. We have also subscribed to every issue of temporary certificates of indebtedness put out by the Government and have participated in the general effort made in this city

during the last few months to stabilize money conditions and to facilitate Government borrowing. In all this we have simply fulfilled the traditions of the company in time of war and of other national stress. The recent action of our Board permits the deposit with the New York Reserve Bank of the bulk of our gold reserve. The question now presented is whether we shall go one step further and become a formal and complete, as well as an independently cooperating part, of the federated/<sup>banking</sup> forces of the country.

While this question was already in all our minds, the President of the United States, on October 16, issued a statement setting forth the prospective financial needs of the country, and urging all State banks and trust companies in the fulfilment of what he described as their solemn obligation, to join the Federal Reserve System. During this company's entire corporate existence we have steadfastly adhered, in theory and practice, to what we believed to be the fundamental distinction between a trust company and a bank. This distinction has heretofore rendered direct membership in the admirable Federal Reserve System neither necessary nor helpful to us. Our designated depository banks have fully represented us in that system, and our business being strictly confined to that of a trust company as distinguished from the general banking business, we have heretofore considered only our own interest in determining the question of membership in the system.

The situation is now, however, radically changed. The appeal of President Wilson and the urgent money needs of the country make it the duty of every financial institution to come forward with all the moral, as well as financial aid which it can lawfully furnish. Whether the facilities

afforded by membership in the reserve bank are useful to us or not, whether the conditions of membership would, having in view the restricted character of our business, in fact result in a slight pecuniary loss to us or not - such considerations are in our opinion as of no weight whatever, in view of the vital importance to the country under existing conditions of omitting no act which can, either directly or morally, either by the furnishing of resources or the exhibition of a spirit of hearty cooperation, tend to strengthen the financial system of the nation.

For these reasons the Executive Committee recommends, as promoting the highest interests of the company, an early application for admission to membership in the Federal Reserve Bank of New York. In taking this step the committee feels confident that the essential character of the business of the company will not be changed nor its corporate traditions modified.

For the Executive Committee,

EDWARD W, SHELDON

President.



C O P Y

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"1. The chairman of the committee on State bank membership should appoint some individual, who will have nothing else to do, to work up a programme for making a real drive for State bank membership beginning immediately and lasting, say, until the middle of July. The reason for undertaking it immediately is because the Liberty Loan drive is now over and the next six weeks seem a good time to make real headway, first, because of the present nature of the military situation abroad, and second, because we can catch people before they go away on their summer vacations. This individual, let us call him secretary, would study the situation in each State and prepare letters to the Federal Reserve banks regarding conditions in each State to be signed by the chairman, and in general keep in active correspondence with the proper officers of each Federal Reserve bank as to ways and methods of bringing about prompt results. He would also attempt to stimulate rivalry between the different districts as to the number of applications secured by advising districts weekly of how each of the other districts were doing. The same thing might be carried on in respect to the States and reports made to banking conventions or group meetings of the bankers in those States.

2. In each Federal Reserve bank some one officer should be designated to take charge of the drive and if he has not enough assistance in the bank to enable him to carry the work on vigorously no doubt some volunteers could be drafted in for six or eight weeks from member banks. It is of vital importance that there should be some one in each Federal Reserve bank who is thinking of nothing else but State bank membership,

studying each prospect in detail, and planning how best it can be reached. Practically nothing, I believe, can be done by circular letters, and relatively little by correspondence. I believe that there must be the opportunity of personal contact with the prospects. This may be had at bankers' association meetings, which are unsatisfactory because it is difficult to focus a man's attention; by calling on bankers in their own towns, which is very costly of the Federal Reserve bank officers' time, or by getting the bankers into the Federal Reserve bank. This is also somewhat costly of time, unless they are gotten in by groups. The group plan has the advantage of enabling them to discuss it with one another and of the workings of group psychology. Sometimes bank superintendents will help; sometimes bankers associations will help; sometimes local bankers will help. The conditions differ in each State and one can not generalize; one can only use every available method. But the fundamental thing, as I see it from the point of view of both the Federal Reserve Board and the Federal Reserve bank, is to have one or more men in each place who have nothing else whatever on their minds but getting State bank members. With the pressure of business upon us all the matter is sure to be side-tracked unless we turn it over to one who will specialize exclusively."

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