

REPORT OF
COMMITTEE ON ECONOMY AND EFFICIENCY
TO THE
FEDERAL RESERVE BOARD

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X-3890

This Committee was appointed by the Federal Reserve Board on September 20th, 1921, for the purpose of initiating a program for greater economy and efficiency in the operation of the Federal Reserve System.

During the two years of its existence much information has been gathered and a number of definite objectives accomplished.

In this, the first formal report of the Committee, there is presented a history of the work up to this time, together with a number of conclusions that have been reached, and a statement of the problem as it now exists.

Respectfully submitted.

A. C. MILLER

Chairman.

November 12, 1923.

PERSONNEL OF COMMITTEES:

The original Committee as appointed by the Board consisted of:

- Mr. A. C. Miller, Chairman
- Mr. J. R. Mitchell

There was subsequently appointed on November 8, 1921, an Auxiliary Committee representing the banks, as follows:

- Mr. D. C. Wills, Chairman, Federal Reserve Bank of Cleveland.
- Mr. G. W. Norris, Governor, " " " Philadelphia.
- Mr. J. U. Calkins, " " " San Francisco.

Still later an Advisory Committee was named consisting of the following:

- Mr. J. F. Herson, Chief, Federal Reserve Examiner.
- Mr. W. W. Paddock, Deputy Governor, Federal Reserve Bank of Boston.
- Mr. E. L. Smead, Chief, Division of Bank Operations, Federal Reserve Board.

CHANGES IN PERSONNEL OF COMMITTEES:

Mr. J. R. Mitchell resigned as a member of the Federal Reserve Board in May, 1923. He was succeeded by Mr. G. R. James who was appointed to this Committee in June, 1923.

Mr. J. U. Calkins resigned as a member of the Auxiliary Committee early in 1922 as he felt it was not practicable for him to attend meetings of the Committee from so great a distance. He was succeeded by Mr. S. B. Cramer, Deputy Governor, Federal Reserve Bank of Chicago, who was subsequently elected Secretary of the Board's Committee and served in this capacity until March 1, 1923, when he resigned as Deputy Governor of the Chicago Bank.

Mr. A. H. Vogt, Controller of Accounting, Federal Reserve Bank of Chicago succeeded Mr. Cramer on the Auxiliary Committee and also as Secretary on March 1, 1923, resigning one month later.

In January, 1923, Mr. L. R. Rounds, Controller of Accounts, Federal Reserve Bank of New York, was added to the Advisory Committee, and in April, 1923, he was elected Secretary of the Board's Committee and a member of the Auxiliary Committee.

PRESENT PERSONNEL OF COMMITTEES:

The Committees at this time consist of the following:

Board's Committee:

Mr. A. C. Miller, Chairman
Mr. G. R. James

Auxiliary Committee:

Mr. D. C. Wills, Chairman, Federal Reserve Bank of Cleveland.
Mr. G. W. Norris, Governor, " " " Philadelphia.
Mr. L. R. Rounds, Acting General Auditor, Federal Reserve
Bank of New York.

Advisory Committee:

Mr. J. F. Herson, Chief Federal Reserve Examiner.
Mr. W. W. Paddock, Deputy Governor, Federal Reserve bank of
Boston
Mr. E. L. Smead, Chief, Division of Operations, Federal Re-
serve Board.

THE EXPENSES OF THE FEDERAL RESERVE SYSTEM:

The operating expenses of the twelve banks for each full year since their organization have been as follows:

1915	\$1,961,782.
1916	2,459,439.
1917	5,465,656.
1918	12,177,938.
1919	20,341,798.
1920	29,889,307.
1921	36,066,065.
1922	30,347,587.

The expenses increased rapidly from 1915 to and including 1921, when the expenses of the twelve banks had reached a total of more than \$36,000,000. per annum, the providing of which, together with the amount required for dividends and other necessary charges, compelled the constant investment of more than \$1,000,000,000., regardless of credit conditions or other considerations, this amount being approximately one-third of the greatest amount of credit the Federal Reserve System has ever been called upon to provide at one time.

It is at once apparent that a fixed charge of so huge a sum might

easily be a serious handicap to the exercise of the real functions of a reserve banking system.

The Committee has considered itself charged with a responsibility, not only with respect to the economical and efficient operation of the System, but also to study the expenses of the System to determine to what extent they are increased because of policies and the carrying on of work which, while desirable, may not be absolutely necessary.

There is attached a statement (Exhibit C) showing the expenses of the twelve banks classified according to functions, a summary of which is as follows:

(These figures are on an annual basis converted from the actual expenses for the first quarter of 1923 and include a pro rata distribution of overhead.)

	<u>PRESENT ANNUAL EXPENSE</u>	<u>PER CENT OF TOTAL</u>
<u>Expenses of Functions essential to the operation of the System under the Federal Reserve Act.</u>	\$17,757,904.	53.30
<p>(This total includes cost of the following functions: Loans, Rediscounts and Investments Currency and Coin Check Collection Federal Reserve Agent and the expenses of the Federal Reserve Board.)</p>		
<u>Expenses incurred as Fiscal Agent of the U. S. Government.</u>	8,018,676.	24.07
<u>Expenses incurred as a Depository of the U. S. Government.</u>	624,276.	01.87

(This represents the cost of handling Government checks and coupons.)

	<u>PRESENT ANNUAL EXPENSE</u>	<u>PER CENT OF TOTAL</u>
<u>Expenses incurred as a Matter of Policy in Connection with Services Rendered to Member Banks.</u>	\$ 4,426,468.	13.28

(This represents the cost of the following services:
 Securities for safe-keeping.
 Non-cash collections.
 Transfers of Funds.
 Currency and Coin Shipments.
 Shipping Charges on Securities.
 Purchase & Sale of Securities, etc.)

<u>Expenses of Activities Carried on as a Matter of Policy.</u>	2,492,688.	07.43
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(This includes the cost of the following:
 Bank Relations.
 Bank Examinations.
 Statistical & Analytical.
 Publications.
 Employees Group Life Insurance.)

GRAND TOTAL	\$33,320,012.	100.00
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The above figures, which were not available at the time this Committee began its work, are presented at this point as being of special interest.

METHOD OF PROCEDURE:

Following its appointment, the Committee gave serious consideration to the choice of a method of procedure for the accomplishment of its task. While several methods were considered, the final choice rested between the two following:

- (a) The establishment possibly with assistance from without the System, of a standard and uniform practice in all banks with respect to each and every operation, thus permitting of an arbitrary determination of costs more or less in line with commercial practice.

- (b) The assignment to each bank of the task of dealing with its own problem, the Committee giving assistance in the way of providing comparisons of costs of one bank with another and in so far as practicable securing the adoption in all banks of those methods which had proven merit and in generally co-ordinating the effort of all the banks to as nearly as possible the same degree of efficiency in all operations.

After careful consideration it was felt there were objections to the adoption of the first method, among others the following:

- (a) The considerable difference in the size of the bank organizations ranging from about 350 to nearly 3,000 clerks, making it unwise to adopt uniform methods in all banks.
- (b) The probability that in many cases the banks were already following the procedure best suited to their conditions with respect to many operations, although such procedure in the different banks might vary greatly.
- (c) The fact that nothing would be accomplished by insisting upon a change for the sake of uniformity in cases where different banks, although following quite different methods with respect to a given operation, were accomplishing the task with equal efficiency.

It was therefore decided to follow the second plan for the following reasons:

- (a) The belief of the Committee that the real responsibility for the efficient and economical operation of each bank must, in the final analysis, rest upon the Directors of the several banks.
- (b) The opinion of the Committee that it could best accomplish its objective by acting as a clearing house of information, both of methods and costs, of similar operations in the several banks, so that every bank would have an opportunity of comparing its methods and costs with those of the other banks.
- (c) The belief of the Committee that there probably would be found already in operation in one or more of the banks the procedure which would prove most efficient in a majority of the banks with respect to most, if not all, of the functions performed, and that the securing of comparative cost figures would automatically compel the adoption of the most efficient methods in any case where less efficient methods were in use.

- (d) The securing of the competitive effort and cooperation of the officers and department heads in all banks and the utilization of the experience and ability which the Committee believed existed within the organizations of the several banks.

HISTORY OF THE COMMITTEE'S WORK:

Very shortly after its organization the Committee requested the Governor of each bank to designate a local committee for the purpose of making a survey of each department of the respective banks with a view to increasing the efficiency and reducing the expense of operation.

It was requested that the Chairmen of these Committees report to this Committee from time to time with respect to the progress of the work and the results accomplished.

REPORTS:

The Committee was faced at the beginning with a problem in securing what it has considered from the first to be essential, a comparative statement of the expenses of all Reserve Banks and Branches. Without such figures it would be impossible to draw conclusions as to the comparative efficiency of the operation of the several banks.

Prior to the appointment of this Committee, the Federal Reserve Board had received monthly reports in detail of the current expenses of each bank arranged according to the object of expenditure, (Form 96). This report permitted of comparisons between banks only in the most general way, as there was no relation of the expenditures to the work of the bank, and no attempt had been made to secure from the banks reports of expenses along either organization or functional lines.

It was apparent that any figures obtained to be of value would have to reflect the cost in each bank and branch of each of the major operations or functions.

The first attempt to secure any such figures was made in December, 1921, when all banks were requested to report on forms provided for the purpose, the expenses for the year 1921 classified according to certain prescribed operations and departments.

Prior to this time a few of the banks had prepared for their own use departmental classifications of expenses, but in most of the banks this had not been attempted.

A study of the reports received for the year 1921 indicated such apparently wide variations in the expenses of the several banks as to make the reports of very little value. Upon investigation these variations were found to be due very largely to differences in the organizations of the banks, the allocation of the work and also wide differences in the interpretation of the work intended to be covered under the several headings or departments.

There was then appointed in March, 1922 a Sub-Committee consisting of Messrs. Wills and Cramer, with Messrs. Paddock and Herson acting in an advisory capacity, to prepare a uniform form of report for the use of all banks and also to prepare a manual defining the expenses to be included under each head.

SCHEDULE "E":

In the preparation of the new report, known as Schedule E, it was decided to disregard entirely the departmental organizations of the banks and to secure, if possible, accurate cost figures for each complete operation of the system, regardless of whether or not performed in corresponding departments in all banks.

A meeting of the representatives of all banks was called for the purpose of discussing the proposed report and manual. This meeting was held in Chicago, April 24 and 25, 1922, and was attended by Messrs. Miller and Mitchell of the

Board's Committee, Messrs. Wills and Cramer of the Auxiliary Committee, Messrs. Herson and Paddock of the Advisory Committee and also by one representative from each Reserve Bank. At this meeting the proposed form of report and manual was thoroughly discussed and finally adopted, with the understanding that the first report would be prepared by all banks for the month of July, 1922.

Reports were subsequently received on this form from all banks for each month from July to December, 1922, inclusive.

In December, 1922 a second conference of the representatives of the banks with the Board's Committee was held at which a revised form of report and manual was approved which has been in use since January, 1923.

COMPARISON OF METHODS IN PRINCIPAL FUNCTIONS:

At the December, 1922, conference with the representatives of the banks, there was also discussed and approved a proposed plan for a study and comparison of methods and expenses in the four principal functions of the banks, namely:

- Currency and Coin
- Check and Collections
- Loans, Rediscounts and Investments
- Accounting

This plan provided for a study of each function separately through representatives to be designated by each bank for each of the four functions. For the study of each function it was proposed to divide the banks into three groups, each group to include the banks doing most nearly the same volume of business and under most similar conditions.

Each bank through its representative was requested to prepare a statement in detail of its procedure, together with a set of the forms used and a flow chart of the work.

One representative in each group was designated as chairman of the group for the purpose of collecting the data and reporting the progress of the work.

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A conference of the Group Chairmen with the Committee was held in Washington, January 29 and 30, 1923, at which a definite program for the work was approved.

Following the preparation of the data by each bank, there were held between April 5 and 17, 1923, twelve group meetings at which the representatives of each of the four banks in each group met for a study and comparison of detailed methods and expenses. The chairman of each group was requested to prepare a report of his group meeting, to include such recommendations as the group might have agreed upon and to prepare himself generally for a meeting of the group chairmen with the Board's Committee for a discussion of the work of each function separately.

During the weeks of May 7 and 14 the Board's Committee held a series of conferences with the three group chairmen for each of the four functions, at which time the reports of the chairmen were gone over in detail, the problems were discussed and a number of recommendations made which have since been transmitted to the banks for their information and attention.

CONTACT WITH THE BANKS:

The Committee has endeavored to maintain a close contact with the banks through the officer designated by each bank as Chairman of its local Committee on Economy or Procedure. Several communications have also been addressed to the Chairmen and Governors informing them of the progress of the work. Copies of the Comparative Exhibit of the Functional Expenses have been furnished regularly for the information of all banks.

All the banks have manifested interest in the work of the Committee and the promotion of economy within their own organization, and it is apparent that by bringing together in conferences the representatives of the banks, and also by making available the comparative exhibits of the expense figures of all

banks, a great deal has been accomplished in the way of economy. It is believed also that there has been a considerable improvement in methods and in the efficiency of certain operations entirely apart from the economies that have been effected.

RESULTS:

It is difficult to state in figures with any degree of accuracy just what results have been obtained from the Committee's work.

Prior to February, 1923 when the Committee initiated the study and comparison of the work of the four principal functions already referred to, its influence on the expenses of the banks had been almost entirely such as resulted from the distribution of the comparative exhibit of expenses in creating among the officers of the several banks a spirit of competition.

As a result of the study and comparison of the four principal functions of the banks, a number of important changes in procedure have taken place which will result in considerable economy. It was found that several banks were carrying on expensive operations which other banks had been able to eliminate. The economies resulting from voluntary changes in procedure during the course of this study and later will amount to a considerable sum.

There is attached a statement (Exhibit A) showing in comparative form the expenses of all banks combined for the year 1921 and 1922, from which it will be noted that the total current expenses of the banks were reduced from \$36,066,065 in 1921 to \$30,347,587 in 1922 (the last figure including the item of furniture and equipment in order that it may be comparable with 1921), a decrease of \$5,718,478, which is equivalent to 15.86%. More than half of this saving appears in the items representing the cost of currency, but a very substantial amount, \$2,210,674, appears in those items of expense^{over} which the system has direct control.

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There is attached another statement (Exhibit B) in which the total expenses of each bank are shown for the year 1922 in comparison with the year 1921. This statement shows that every one of the twelve banks succeeded in reducing its expenses very materially.

This decrease in expenses has no doubt in part resulted from the more steady volume of work being performed. It is also in no small measure due to the effort which has been made in all of the banks to bring about greater economy in operation.

This result was accomplished in the face of a constantly increasing volume of business, for while the total volume of work at the banks has not increased in the last two years, at anywhere nearly so rapid a rate as the increase which occurred up to about two years ago, there has nevertheless been, and there still continues to be a steady increase in the total work of the banks as represented by volume of currency, cash and collection and other items handled. The decrease in work in the Loan and Fiscal Agency departments is considerably more than offset by the increase in other departments.

During the year beginning with July 1922 the Committee has received regular reports of the expenses of all banks classified along functional lines as already described. This method of classification was an experiment, and, while it is still far from satisfactory as giving a true picture of expenses, it has nevertheless very largely accomplished the results for which it was designed. Large variations in expense and numerous apparent inconsistencies continue to appear for the following reasons:

- (a) Marked differences in the departmental organization of the banks due to the difference in their size, and resulting differences in the allocating of operations.

- (b) The difficulty of securing a comparable unit of measurement as to the volume of actual work performed.

There are marked differences in the departmental organization of the several banks and as a result of this, in the allocation of work to the departments. These differences are no greater than might be reasonably expected in organizations which vary in size from a staff of 350 to a staff of nearly 3,000, for it is at once obvious that methods of doing work in the smaller organization will not prove to be efficient or economical in the larger organization, or vice versa.

While it is possible to measure with reasonable accuracy a considerable proportion of the work in any reserve bank, it is not possible, except in a very few instances, to secure a measure which will be exactly comparable in all banks. To illustrate it might be assumed that the cost of handling 10,000 checks should be substantially the same in all banks, but it is found that there are a number of factors affecting the cost, such as:

- (a) The number of banks that have deposited the items.
- (b) The time the items are received on deposit (which in many cases is a matter of local custom).
- (c) The time items are cleared at the local clearing house.
- (d) The number of banks in the local clearing house.
- (e) The extent of the sort required for branches, etc.

and in the case of country checks, the cost is very greatly affected by -

- (f) The number of banks to which items are routed.
- (g) The proportion of items sent to banks in the same district in comparison with the items sent to the other reserve banks, the items sent to other reserve banks requiring considerably more labor in the listing than those sent to banks in the same district.

There are similar conditions affecting practically all of the operations of the banks, and it is differences of this character which account for many of the apparent inconsistencies in the reported cost figures.

It is necessary to remember, therefore, that the exhibit of the

expenses of all banks as compiled is not an entirely true comparison of the relative efficiency of the several banks.

ANALYSIS OF EXPENSES:

By the use of the functional expense reports, to which reference has already been made, it is now possible for the first time to secure reasonably accurate costs of the several operations carried on by the banks. There is attached a statement (Exhibit C) showing the functional expenses for all twelve banks for the three months ending March 31, 1923. Assuming that the figures for the balance of the year 1923 will be approximately in the same proportion, there have been extended on this statement the annual expenses as estimated for the year 1923 for each function and operation of the banks.

The expenses of the several functions of the banks have been grouped under five heads, after the distribution on a pro rata basis of the "Administrative and General Expenses", as shown in the following summary:

S U M M A R Y

	<u>Direct Expenses Before Dis-</u> <u>tribution of Administrative</u> <u>and General Expenses</u>		<u>After distribution of</u> <u>Administrative and</u> <u>General Expenses</u>	
	<u>Annual Expense</u>	<u>Per Cent</u> <u>of Total</u>	<u>Annual Expense</u>	<u>Per Cent</u> <u>of Total</u>
<u>Administrative & General</u> Including Expenses incident to Provision of Space, Personnel, Service and Overhead	\$11,952,738.	35.86	0	0
<u>Expenses of Functions</u> essen- tial to the operation of the Federal Reserve System under the Federal Reserve Act	11,640,468.	34.94	\$17,757,904.	53.30
<u>Expenses Incurred as Fiscal</u> <u>Agent</u> of the United States Government	4,686,240.	14.06	8,018,676.	24.07
<u>Expenses Incurred as a De-</u> <u>pository</u> of the United States Government	364,900.	01.10	624,276.	01.87
<u>Expenses Incurred as a matter</u> <u>of Policy in connection with</u> <u>Services</u> rendered to Member Banks.	3,173,816.	09.53	4,426,468.	13.28
<u>Expenses of Activities carried</u> on as a matter of Policy	1,501,800.	04.51	2,492,688.	07.48
<u>G R A N D T O T A L</u>	\$33,320,012.	100.	\$33,320,012.	100.

From the above it will be noted that 53% of the present expenses of the System represents the cost of those functions or duties imposed upon the banks by law. Approximately 26% represents the expense of the work performed for the United States Government either as fiscal agent or as depository. The remainder of the expenses, nearly 21%, is controlled almost entirely by policy representing the cost of those services for member banks

which have been voluntarily assumed, and the cost of various activities which have been assumed as a matter of policy.

The expenses grouped together as representing the cost of services performed for member banks amount to a little more than 13% of the total and it is an item which is steadily increasing. It has been observed that certain of these free services have been made available to the member banks in some districts to a much greater extent than in others. This applies particularly to "securities for safekeeping," the handling of "non-cash collections", the furnishing of "wrapped coin" and the "purchase and sale of securities". The use of the transfer privilege and the absorption of the cost of currency and coin shipments appear to be reasonably uniform throughout the System. It is apparent, however, that should all of the banks in the System perform all of these services to the extent that they are now performed in a few of the districts, this expense would be very materially increased.

Particular attention is called to the detailed statements comprising Exhibit C showing an analysis of these expenses; also to Exhibit D showing the expenses of each bank for each of the free services rendered to member banks and for each of the activities carried on as a matter of policy.

PROGRAM

The Committee has referred to the Governors and Agents several matters which in its judgment require their consideration as follows:

1. Recommendation for an operating committee to standardize supplies used and to arrange for joint purchasing where economies can be effected by so doing.
2. Recommendations concerning Employees Group Life Insurance and Automobile Insurance.

3. Recommendation for an investigation of the cost of securing Credit Information.
4. Recommendation concerning cost of free services and other activities carried on as a matter of policy.
5. Recommendation for a survey by the local Committees on Economy and Efficiency of the Agents Departments at each Bank.

The Committee has secured data concerning the cost of express shipments of currency and coin and is petitioning the Interstate Commerce Commission for a reduction in the rates being charged.

The express charges on money shipments were increased throughout the country a year ago by 50% and the System is now paying the Express Companies approximately \$300,000. - per annum. The Committee believes the banks have a good case and hope that a very substantial reduction may be obtained.

The Committee has not as yet made any survey with respect to cost of providing - Space, Personnel, or General Service believing consideration of these functions should be deferred until the banks have moved into their new buildings after which conditions should be reasonably comparable.

The functions which the Committee is proposing to next consider are:

- Fiscal Agency
- Agents Departments
- Auditing
- Custody of Securities

The last mentioned the Committee considers of especial importance as it is apparent that the activities of the banks in this respect are likely to increase greatly as they move into new quarters with ample vault facilities.

It is important that this work be done not only economically but efficiently and with safety to the banks.

BRANCH BANKS

The question of the operation of branch banks is an important one and has a very material effect upon the expenses of the System. There are now being operated 23 branches and one agency at a cost of approximately \$6,000,000. per year, which is about 18% of the total cost of operating the System.

The primary object in the opening of branches has been to extend the service of the Federal Reserve System and there can be no question but that the operation of the branches brings this service much closer to a number of member banks, undoubtedly resulting in advantage to them.

There is a considerable variation in the functions performed by the different branches, some branches performing practically every function that is performed by the parent bank, while in others the operations are restricted to the handling of currency, and checks and in some cases the making of loans. Some branches maintain the accounts of the members in their immediate districts while others do not.

It is apparent that in cases where the branch territory is within approximately 15 hours' mail time from the parent bank, the benefits of the branch bank are practically restricted to those banks located in the same city with it, for if the country banks can reach the parent bank with overnight mail service they can do no better with the branch. Where the branch territory is more than 15 hours' mail service from the parent bank there are also some additional benefits to those member banks located outside the branch city.

The benefits derived by the member banks through the establishment of branches may be stated briefly as follows:

- (a) The banks in the same city with the branch can very materially reduce the amount of their vault cash and in cases where the branch territory is more than overnight mail service from the parent bank, the outside banks can also benefit to a lesser extent in the same way.
- (b) The banks located in the same city with the branch will save a day's time in the handling of transit items on all country points within the same reserve district. This advantage would also be shared by the country banks in the branch territory provided they are more than overnight mail service from the parent bank.
- (c) Such benefits as will result from the closer contact that the member bank can have with the branch bank, and in the case of those branches operating a loan department, some saving in time in the making of loans.

In the operation of branches there is a certain amount of duplication of expense with the parent bank. In many instances probably the entire overhead expenses of the branch including the provision of space and general service, represent an additional cost. A study of the expenses of the branches would seem to indicate that if the work now being done at the branches was performed at the main banks, it could be done at a cost not exceeding two-thirds the cost of operating the branches and possibly for as little as one-half the present branch expense.

The geographic extent of a number of the districts makes the operation of branches a practical necessity. There can be no question, however, but that the total cost of operating the System is very materially affected by the number of branches operated, and that serious consideration should be given to this problem before additional branches are authorized. This Committee intends to make a study of the cost of branch bank operations and will later submit additional data on this subject.

FUTURE COURSE OF EXPENSES

While the Committee believes there are further substantial

economies that can be effected, it is very much doubted if the total expense accounts of the banks will again show a decrease from a preceding year if the banks continue to perform the same functions, for the following reasons:

1. The economies already effected have removed the opportunity for further large savings.
2. The work of the banks is continuing to increase in most departments, which increase will be sufficient to take up whatever economies can be effected in operation.
3. Within another year practically all of the banks will be occupying their own buildings and it is probable that in every case the actual expense of operation will be increased thereby: the items of taxes, building upkeep and operation being considerably in excess of the rent previously paid.

It is of interest to note in this connection that the two banks showing the smallest percentage of reduction in expenses in 1922, as compared with 1921 (Exhibit B), are the two (Boston and Chicago) which moved into new buildings during 1922.

In going into these new buildings the banks will secure many advantages which cannot be measured in dollars, the principal one of which is greatly increased safety of operation and there will probably be obtained some economy in departmental operations, but the total expenses of the banks will be considerably increased.

There will probable be a gradual decrease for some time in the expenses incurred as Fiscal Agent which now amount to about 24% of the total. There is slight possibility of a decrease in any other item, but on the other hand there is bound to be a substantial increase under the present policy in the expenses representing services to member banks, which now amount to about 13% of the total.

RECOMMENDATIONS:

The expenses included under the two heads:

Expenses Incurred as a Matter of Policy in Connection
with Services Rendered to Member Banks.

Expenses of Activities Carried on as a Matter of Policy
amounting in the aggregate to nearly 21% of the total expenses of the
System, are the only expenses susceptible of any considerable reduction.

The policies of the several banks differ greatly with respect to
the expenses coming under both of these heads.

It is therefore RECOMMENDED that consideration be given to the
several items of expense included under these heads for the purpose of -

- (a) formulating a definite policy for all banks with respect
to those items of service now being performed free of
charge for member banks
- (b) determining the value of the activities included under
the second head in relation to their cost and establishing
a definite policy for all banks with respect thereto.

COMPARATIVE EXHIBIT OF CURRENT EXPENSES
TWELVE FEDERAL RESERVE BANKS COMBINED
1921 AND 1922

EXHIBIT -A

Salaries	1921	1922	Increase	Decrease
Bank Officers	\$2,383,994.	\$2,461,323.	\$77,329.	
Clerical staff	15,201,393.	14,222,021.		\$979,372.
Special officers and watchmen	789,879.	818,772.	28,893.	
All other	1,102,984.	1,310,524.	207,540.	
Governors' Conferences	7,751.	5,515.		2,236.
Fed. Res. Agents' Conferences	4,443.	4,029.		414.
Federal Advisory Council	10,522.	9,063.		1,459.
Directors' Meetings	168,556.	146,084.		22,472.
Traveling Expenses	357,962.	293,236.		64,726.
Assessment for F.R. Board Expenses	741,436.	722,545.		18,891.
Legal Fees	48,166.	63,322.	15,156.	
Insurance (Life, fidelity, casualty, workmen's compensation and general liability)	532,307.	433,273.		99,034.
Banking House				
Taxes	178,178.	270,915.	92,737.	
Fire Insurance	20,073.	9,238.		10,835.
Light, heat and power	119,408.	175,908.	56,500.	
Repairs and alterations	163,655.	89,638.		74,017.
All Other	70,231.	33,122.		37,109.
Furniture and Equipment	1,508,923.	788,244.		720,679.
Rent	1,312,799.	1,040,949.		271,850.
Fire. Ins. - Furn. & Equip.	17,492.	11,099.		6,393.
Office and Other Supplies	593,742.	443,193.		150,549.
Printing and Stationery	1,022,540.	739,715.		282,825.
Telephone	201,997.	203,023.	1,026.	
Telegraph	610,763.	573,858.		36,905.
Postage (Other than on money and security shipments)	1,085,206.	1,118,151.	32,945.	
Expressage (Other than on money and security shipments)	46,024.	49,084.	3,060.	
Security Shipments	118,592.	139,392.	20,800.	
Currency and Coin Shipments	928,387.	1,078,518.	150,131.	
All Other Expenses	893,826.	776,801.		117,025.
TOTAL	\$30,241,229.	\$28,030,555.		\$2,210,674.
Federal Reserve Currency:				
Original cost, including shipping charges	4,208,211.	1,578,592.		
Cost of redemption, including shipping charges	924,286.	434,179.		
Tax on Federal Reserve Bank Note Circulation	692,339.	304,261.		
	5,824,836.	2,317,032.		3,507,804
GRAND TOTAL - CURRENT EXPENSES	\$36,066,065.	\$30,347,587.		\$5,718,478.

COMPARATIVE EXHIBIT

CURRENT EXPENSES OF TWELVE FEDERAL RESERVE BANKS

1921 AND 1922.

	<u>1921</u>	<u>1922</u>	<u>Decrease</u>	<u>of Decrease</u>
Boston	\$2,239,007.	\$2,155,506.	\$83,501.	.0373
New York	8,167,780.	6,826,702.	1,341,078.	.1642
Philadelphia	2,766,443.	2,096,850.	669,593.	.2420
Cleveland	2,956,802.	2,504,045.	452,757.	.1531
Richmond	2,127,174.	1,696,066.	431,108.	.2027
Atlanta	1,580,585.	1,310,440.	270,145.	.1709
Chicago	4,852,258.	4,318,980.	533,278.	.1099
St. Louis	1,961,250.	1,667,977.	293,273.	.1495
Minneapolis	1,325,867.	1,109,582.	216,285.	.1631
Kansas City	2,411,079.	2,070,948.	340,131.	.1411
Dallas	1,860,856.	1,548,101.	312,755.	.1681
San Francisco	3,816,964.	3,042,390.	774,574.	.2029
	<hr/>	<hr/>	<hr/>	<hr/>
	\$36,066,065.	\$30,347,587.	\$5,718,478.	.1588
	<hr/>	<hr/>	<hr/>	<hr/>

EXHIBIT OF CURRENT EXPENSES
Classified according to Functions
TWELVE FEDERAL RESERVE BANKS COMBINED
Actual Figures for Quarter Ending March 31, 1923.
(From Schedule E)
Annual Figures Estimated in Proportion

S U M M A R Y

	<u>Direct Expenses Before Dis-</u> <u>tribution of Administrative</u> <u>and General Expenses</u>		<u>After Distribution of</u> <u>Administrative and</u> <u>General Expenses</u>	
	<u>Annual Expense</u>	<u>Per Cent</u> <u>of Total</u>	<u>Annual Expense</u>	<u>Per Cent</u> <u>of Total</u>
<u>Adm. & Gen'l Expenses</u>				
Inc. Expenses incident to Provision of Space, Per- sonnel, Service & Overh'd	\$11,952,738.	35.86	0	0
<u>Expenses of Functions</u>				
essential to the opera- tion of the F.R. System under the F.R. Act.	11,640,468.	34.94	\$17,757,904.	53.30
<u>Exp. Incurred as Fiscal Agt</u> <u>of the U.S. Government</u>	4,636,240.	14.06	8,018,676.	24.07
<u>Exp. Incurred as a Depository</u> <u>of the U.S. Government</u>	364,900.	01.10	624,276.	01.87
<u>Exp. Incurred as a matter of</u> <u>Policy in connection with</u> <u>Services rendered to Member</u> <u>Banks</u>	3,173,816.	09.53	4,426,468.	13.28
<u>Expenses of Activities carried</u> <u>on as a matter of Policy</u>	1,501,800.	04.51	2,492,688.	07.48
<u>G R A N D T O T A L</u>	\$33,320,012.	100.	\$33,320,012.	100.

ADMINISTRATIVE AND GENERAL EXPENSES
Including Expenses incident to Provision of
Space, Personnel, Service & Overhead.

	Actual Expenses First Quarter 1923	Annual Basis	Per Cent of Total Expenses
<u>General Overhead</u>	<u>\$439,813.</u>	<u>\$1,759,252.</u>	.0528
Administration	435,144.	1,740,576.	
Governors' & F. R. Agts. Conferences	497.	1,983.	
Federal Advisory Conferences	4,172.	16,688.	
<u>Provision of Space.</u>	<u>755,236.</u>	<u>3,020,944.</u>	.0906
Administration	16,785.	67,140.	
Banking House	455,603.	1,822,412.	
Rented Property	282,848.	1,131,392.	
<u>Provision of Personnel</u>	<u>131,682.</u>	<u>526,728.</u>	.0158
Administration	16,042.	64,168.	
Hiring Emp. & Emp. Records	43,899.	175,596.	
Education and Training	23,531.	114,124.	
Welfare and Medical	32,619.	130,476.	
Cafeteria	10,591.	42,364.	
<u>General Service</u>	<u>695,921.</u>	<u>2,783,684.</u>	.0835
Administration	18,301.	73,204.	
Purchasing	24,710.	98,840.	
Stock Room	24,974.	99,896.	
Telephone	55,004.	220,016.	
Telegraph	10,695.	42,780.	
Coding	23,147.	92,588.	
Mail	82,546.	330,134.	
Registered Mail & Express	49,003.	196,012.	
Filing & Old Records	75,903.	303,612.	
Duplicating	24,150.	96,600.	
Protection	225,334.	901,336.	
Office boys and pages	31,119.	124,476.	
Automobile	10,849.	43,396.	
Equipment and Repairs	40,186.	160,744.	
<u>Postage</u>	<u>228,697.</u>	<u>914,788.</u>	.0275
<u>Insurance</u>	<u>71,329.</u>	<u>285,316.</u>	.0086
<u>Accounting</u>	<u>410,395.</u>	<u>1,641,580.</u>	.0492
Administration	35,099.	140,396.	
General Books	70,850.	283,400.	
Member Bank Accounts (Including Reserve Deficiencies)	148,224.	592,896.	
Federal Reserve Bank Accounts	86,166.	344,664.	
Expenditures	49,366.	197,464.	
Planning	20,690.	82,760.	
<u>Legal</u>	<u>30,153.</u>	<u>120,612.</u>	.00
<u>Auditing</u>	<u>224,971.</u>	<u>899,384.</u>	.0270
Administration	39,873.	159,492.	
All Other	185,098.	740,392.	
<u>GRAND TOTAL</u>	<u>\$2,983,197.</u>	<u>\$11,952,788.</u>	<u>.3586</u>

EXPENSES OF FUNCTIONS ESSENTIAL TO THE OPERATION
OF THE FEDERAL RESERVE SYSTEM UNDER THE FEDERAL RESERVE ACT.

	Actual Expenses First Quarter 1923	Annual Basis	Per Cent of Total Expenses
<u>Loans, Rediscounts & Inv.</u>	<u>\$353,501.</u>	<u>\$1,414,004.</u>	.0424
Administration	53,761.	235,044.	
Maintaining Cr. Information	74,554	293,216.	(.0090)
Recording Loans & Rediscounts	146,671.	536,634.	
Recording Investments (Proportion Custody of Disc. Collateral (Including provision of Adm))	42,204.	163,816.	
	31,311.	125,244.	
<u>Failed Banks</u>	<u>71,842.</u>	<u>237,363.</u>	.0036
<u>Currency & Coin</u>	<u>1,183,025.</u>	<u>4,732,100.</u>	.1420.
Administration	33,982.	135,923.	
Currency-Rec. & Sorting	359,495.	1,437,930.	
" -All Other	120,320.	463,230.	
Coin	71,775.	237,100.	
Cost of Currency (Incl. all Transportation chgs. except to and from member and non-member banks.)	596,953.	2,337,812.	(.0717)
<u>Check Collection</u>	<u>1,102,456.</u>	<u>4,409,324.</u>	.1324
Administration (Proportion)	36,746.	146,934.	
Receiving & Proving Checks	323,110.	1,312,440.	
City Checks (Clearings)	92,653.	370,612.	
" " (Other than Clearings)	32,427.	129,708.	
Country Checks	531,736.	2,127,144.	
Return Items	30,734.	322,936.	
<u>Federal Reserve Agent</u>	<u>36,521.</u>	<u>146,034.</u>	.0044
Administration	26,533.	106,332.	
Federal Reserve Note Issues	9,933.	39,752.	
<u>Assessment for F.R. Board Expenses</u>	<u>162,772.</u>	<u>651,033.</u>	.0196
TOTAL DIRECT EXPENSES	2,910,117.	11,640,463.	.3494
Add a proportion of Adm. and General Expenses	1,529,359.	6,117,436.	
GRAND TOTAL	\$4,439,476.	\$17,757,904.	.5330

EXPENSES INCURRED AS A MATTER OF POLICY
IN CONNECTION WITH SERVICES RENDERED TO MEMBER BANKS.

	Actual Expenses First Quarter <u>1923</u>	<u>Annual Basis</u>	<u>Total Expenses</u>
Securities for Safekeeping (Incl. proportion of Adm)	<u>\$60,377.</u>	<u>\$241,508.</u>	.0072
<u>Non-Cash Collection</u>	<u>246,643.</u>	<u>986,572.</u>	.0296
Administration (Proportion)	11,989.	47,956.	
Non-Cash City Collection	58,955.	235,820.	
" " Country "	133,034.	432,136.	
Coupon Collections (Except Govt.)	42,665.	170,660.	
<u>Transfers of Funds</u> (Including proportion of Adm.)	<u>108,821.</u>	<u>435,284.</u>	.0131
<u>Cost of Currency & Coin Shipments</u> to and from Member and Non-Member Bks	<u>306,061.</u>	<u>1,224,244.</u>	.0367
<u>Cost of Wrapping Coin</u>	<u>5,999.</u>	<u>23,996.</u>	.0007
<u>Shipping chgs. on Securities</u>	<u>45,626.</u>	<u>132,504.</u>	.0055
<u>Gold Abrasion</u>	<u>1,459.</u>	<u>5,836.</u>	.0002
<u>Supplies furnished to Member Banks</u>	<u>5,417.</u>	<u>21,663.</u>	.0007
<u>Purchase & Sale of Securities and Commer- cial Paper</u>	<u>13,051.</u>	<u>52,204.</u>	.0016
 TOTAL DIRECT EXPENSES	 793,454.	 3,175,816.	 .0953
Add a prop'n of Adm. and General Expenses	<u>313,163.</u>	<u>1,252,652.</u>	
 <u>G R A N D T O T A L</u>	 <u>\$1,106,617.</u>	 <u>\$4,428,468.</u>	 .1328

EXPENSES OF ACTIVITIES CARRIED ON AS A MATTER OF POLICY

	Actual Expenses First Quarter 1923	Annual Basis	Per Cent of Total Expenses
<u>Bank Relations</u>	<u>\$67,031.</u>	<u>\$268,124.</u>	.0079
Administration	20,989.	83,956.	
Office Expense	7,122.	28,488.	
Road Men & Traveling Expenses	38,920.	155,680.	
<u>Bank Examinations</u>	<u>132,510.</u>	<u>530,040.</u>	.0159
Administration	18,467.	73,868.	
All Other	114,043.	456,172.	
<u>Statistical and Analytical</u>	<u>140,581.</u>	<u>562,324.</u>	.0169
Administration	13,022.	52,088.	
Statistical	81,422.	325,688.	
Monthly Letter	22,613.	90,452.	
Library	23,524.	94,096.	
<u>Publications</u>	<u>8,139.</u>	<u>32,556.</u>	.0010
<u>Employees Group Life Insurance</u>	<u>27,189.</u>	<u>108,756.</u>	.0033
TOTAL DIRECT EXPENSES	375,450.	1,501,800.	.0451
Add a proportion of Administrative General Expenses	<u>247,722.</u>	<u>990,888.</u>	
<u>G R A N D T O T A L</u>	<u>\$623,172.</u>	<u>\$2,492,688.</u>	.0748

EXPENSES INCURRED AS FISCAL AGENT OF THE UNITED STATES GOVERNMENT.

	Actual Expenses First Quarter 1923	Annual Basis	Per Cent of Total Ex- penses.
Administration	\$43,197.	\$172,788.	
Government Issues	335,214.	1,340,856.	
Accounting	50,405.	201,620.	
War Finance Corporation	63,278.	253,112.	
Custody of Securities	28,140.	112,560.	
Treasury Savings Securities	587,342.	2,349,368.	
Government Sales Organization	63,984.	255,936.	
TOTAL DIRECT EXPENSES	\$1,171,560.	\$4,686,240.	.1406
Add a proportion of Administrative and General Expenses	833,109.	3,332,436.	
GRAND TOTAL	\$2,004,669.	\$8,018,676.	.2407

EXPENSES INCURRED AS A DEPOSITORY OF THE UNITED STATES GOVERNMENT

Government Checks (Including proportion of Ad- ministrative)	\$ 37,453.	\$ 149,812.	.0045
Government Coupons (Including proportion of Ad- ministrative)	53,772.	215,088.	.0065
TOTAL DIRECT EXPENSES	\$ 91,225.	\$ 364,900.	.0110
Add a proportion of Administrative and General Expenses	64,844.	259,376.	
GRAND TOTAL	\$156,069.	\$ 624,276.	.0187

EXPENSES INCURRED AS A MATTER OF POLICY IN CONNECTION WITH SERVICES
 RENDERED TO MEMBER BANKS - FIRST THREE MONTHS OF 1923 ONLY

X-3890a
 Exhibit D

TOTAL FOR SYSTEM	BOSTON	NEW YORK	PHILADEL- PHIA	CLEVE LAND	RICH- MOND	ATLANTA	CHICAGO	SAINT LOUIS	MINNE- APOLIS	KANSAS CITY	DALLAS	SAN FRAN- CISCO	
<u>Securities for Safekeeping</u>													
(Including proportion of Adm)	\$60,377	\$2,648	\$29,365	\$9,276	\$3,555	\$1,187	\$ 736	\$3,889	\$3,053	\$1,366	\$1,541	\$1,554	\$2,207
<u>Non-Cash Collection</u>	246,643	20,661	80,942	13,507	25,938	10,074	4,000	30,950	10,773	7,605	12,036	7,355	22,802
Administration (Proportion)	11,989	1,005	3,935	657	1,261	489	194	1,505	524	369	585	357	1,108
Non-Cash City Collection	58,955	2,909	10,367	3,603	5,915	1,980	1,692	12,233	3,713	2,934	4,008	2,472	7,129
" " Country "	133,034	12,123	43,600	8,534	15,014	6,984	1,946	13,049	4,964	4,257	7,437	4,520	10,606
Coupon Collec'ns (Except Govt)	42,665	4,624	23,040	713	3,748	621	168	4,163	1,572	45	6	6	3,959
<u>Transfers of Funds</u>													
(Including proportion of Adm)	108,821	1,965	18,258	5,090	6,336	6,123	7,761	18,250	6,997	4,462	11,756	7,174	14,649
<u>Cost of Currency & Coin Shipts.</u>													
to and from Banks	306,061	41,334	61,189	44,232	33,446	19,573	13,472	37,408	11,987	5,365	8,566	13,419	16,070
<u>Cost of Wrapping Coin</u>	5,999	1,185	4,814										
<u>Shipping Chgs. on Securities</u>	45,626	4,094	6,600	2,440	4,396	2,022	805	10,341	3,464	1,400	4,114	846	5,104
<u>Gold Abrasion</u>	1,459	98		70		30	44	558	1			122	536
<u>Supplies furnished to Members</u>	5,417	1,224	1,004	625	672		190	250	449	306	456	143	98
<u>Purchase & Sale Transactions</u>	13,051	275	7,965	2,040	90	45	889	668	452	149	150	278	50
TOTAL DIRECT EXPENSES	\$793,454	\$73,484	\$210,137	\$77,280	\$74,433	\$39,054	\$27,897	\$102,314	\$37,176	\$20,053	\$38,619	\$30,891	\$61,516

EXPENSES OF ACTIVITIES CARRIED ON AS A MATTER OF POLICY
FIRST THREE MONTHS OF 1923 ONLY

X-3809-a
Exhibit D-1

	TOTAL FOR SYSTEM	BOSTON	NEW YORK	PHILADEL- PHIA	CLEVE- LAND	RICH- MOND	ATLANTA	CHICAGO	SAINT LOUIS	MINNE- APOLIS	KANSAS CITY	DALLAS	SANFRAN CISCO
<u>Bank Relations</u>	\$67,031	\$1,135	\$15,484	\$1,366	\$7,590	\$9,458	\$	\$16,756	\$7,213	\$1,492	\$ 639	\$5,624	\$ 274
Administration	20,989		8,399	225	1,753	3,013		3,166	1,394	1,193		1,843	3
Office Expense	7,122	35	1,684	384	25	933		2,105	885	294		777	
Road Men & Traveling	33,920	1,100	5,401	757	5,812	5,512		11,485	4,934	5	639	3,004	271
<u>Bank Examinations</u>	132,510	8,071	17,086	17,756	9,218	8,739	6,265	16,682	6,164	6,416	8,730	8,337	19,046
Administration	13,467	633	1,845	2,627	1,507	908	1,623	3,455	526	1,095	756	605	2,887
All Other	114,043	7,438	15,241	15,129	7,711	7,831	4,642	13,227	5,638	5,321	7,974	7,732	16,159
<u>Statistical & Analytical</u>	140,581	13,445	36,606	19,432	10,790	4,032	3,546	21,951	4,727	3,411	5,022	5,149	12,470
Administration	13,022	676	5,292	179	1,135	217	413	2,046	350	461	559	488	1,206
Statistical	81,422	8,437	23,719	12,585	3,761	2,392	2,078	12,975	2,158	1,466	1,809	3,081	6,911
Monthly Letter	22,613	2,396	8,686	3,044	2,829	740	891	2,538	1,423	727	1,450	678	3,211
Library	23,524	1,886	4,909	3,624	3,065	683	164	4,392	796	757	1,204	902	1,142
<u>Publication</u>	\$1,139	2,459	1,231		259	281		1,929	699	167	1,114		
Employees Group Life Ins.	27,189	2,101	8,387	37*	2,552	1,948	1,597	3,567	1,181*	1,523	1,395	1,357	3,430
TOTAL DIRECT EXPENSES	\$375,450	\$27,211	\$78,794	\$38,517	\$30,409	\$24,458	\$11,408	\$60,835	\$17,622	\$13,009	\$17,400	\$20,467	\$35,270

*Credit

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