

FEDERAL RESERVE BANK OF PHILADELPHIA

925 Chestnut Street

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To Mr. J. H. Case

Jan 8, 1923

The third question was the subject of funds which should be employed. We decided that we might properly purchase government securities to an amount not exceeding the June 8th, 1923. and surplus. At the present time this amount represents only about 60% of our deposits and surplus and is already invested in building.

Mr. J. H. Case, Chairman, Open Market Investment Committee of the Federal Reserve System, Federal Reserve Bank, New York City.

My dear Mr. Case:-

Governor Crissinger's letter to you under date of May 31st, which, in accordance with his expressed desire, you have brought to the attention of the Federal Reserve Bank of Philadelphia, was carefully considered at the semi-monthly meeting of our Board of Directors on Wednesday, the 6th instant, and I am directed to reply as follows:

Governor Crissinger's letter may properly be considered in two aspects - first, as it affects the Federal Reserve Bank of Philadelphia directly and exclusively, and secondly, in its broader or national aspect.

To take up the former aspect first. About a year ago the discounts of this Bank had fallen to a point which left us with very considerable funds temporarily unemployed. The volume of discounts was constantly shrinking. It was the judgment of the Board that this shrinkage was likely to continue for some time, and that the 65% of our deposits which we are at liberty to use would enable us, from that source alone, to meet any demands which our member banks might make upon us within a period of two or three years. This judgment, I may add, has thus far been verified. The low point in discounts was not reached until August, 1922, and there has never since been a time when our discounts amounted to 65% of our deposits.

This judgment having been reached, the next question for decision was whether all the rest of our resources should remain idle and unproductive, or whether we were charged with a duty to employ them. It would unduly prolong this letter to recite the considerations which led us to the latter conclusion. Suffice it to say that we did reach it, and that we have never regretted it, nor seen any reason to think that we made any mistake.

June 8, 1923

The third question was the amount of funds which should be employed. We decided that we might properly purchase government securities to an amount not exceeding our free capital and surplus. At the present time this investment represents only about 80% of our capital and surplus not already invested in building.

The last question was the manner of employment. Bankers' acceptances were then selling at 3%, and believing that this rate was unjustifiably low we were more disposed to curtail our purchases than to increase them. This left us only government securities. We deemed it better Reserve Banking policy to buy short-term notes than long-term bonds. As between short-term Treasury Certificates and longer term Treasury Notes, we chose the latter for three reasons - (1) because they paid a better rate, (2) because their purchase did not involve competition with member banks, and (3) because we thus avoided the necessity of re-investing the proceeds of frequently maturing Certificates. Our purchases were made slowly, without advancing the price of the Notes. We only bought part of what was offered to us by member banks or dealers. At no time did we make any bid, or place any open-market order.

Having exercised our best judgment in making these purchases; having seen our judgment thus far verified; and observing no injury that has resulted either to the Treasury Department or to the business and commerce of the Nation, we are reluctant to dispose of these securities, or any of them, particularly at a heavy loss, which loss can be avoided by simply holding them to maturity. I may add that our Board consented to the sale of our proportion of \$50,000,000 only out of a desire to meet, as far as possible, the desires of the Treasury Department, and respect for the unanimous recommendation of the Committee. I was directed to advise you that the Board reserves full liberty and discretion to dissent from any future recommendation which the Committee may make.

As to the broader aspect of the question. The Board noted with some surprise the references in Governor Crissinger's letter to "the policy of the (Reserve) Board," "the Board's determination," and the desire that you should call the matter to the attention of the Banks "in order that the policy of the Board may be carried out in its entirety." While the Federal Reserve Act does provide that purchases of government securities made by the Banks shall be subject to such rules or regulations as the Reserve Board may prescribe, we are not aware of any rules or regulations which the Board has ever prescribed on this subject, nor do we find in the Act any power given to the Board to prescribe any rules as to the sales of such securities, or any power to impose upon the Directors of the several Banks a policy on this subject which is at variance with their own judgment. Such a power, on the contrary, would seem to us to be utterly inconsistent with all the

AT 23, 1923
\$1,000,000; ALSO THE
ALTO IN REPLACEMENT

10,000	-0-	1,475,800	68,400	-0-	2,000
5,000	-0-	500	955,000	-0-	100
500	-0-	500	500	-0-	500
500	-0-	500	500	-0-	500
500	-0-	500	500	-0-	500
500	-0-	500	500	-0-	500
500	-0-	500	500	-0-	500
500	-0-	500	500	-0-	500
500	-0-	500	500	-0-	500
500	-0-	500	500	-0-	500

other provisions of the Act, and would create an impossible situation, inasmuch as it would vest responsibility in one group and power in another group. There can be no doubt that the Federal Reserve System is a Regional and not a Central banking system, and the Act expressly provides that each Bank shall be conducted under the "control" of a Board of Directors, which shall "perform the duties usually appertaining to the office of directors of banking associations".

It has been and is the wish and policy of the Board of this Bank to do everything possible to meet the views of the Treasury Department and of the Federal Reserve Board on all matters, but it is felt that attention should be called to the fact that this willingness must not be construed as a willingness to surrender the powers expressly conferred by the Act, and naturally attaching to the degree of responsibility which Directors of Reserve Banks accept for the management of their several institutions.

I am,

Very truly yours,

(Signed) Geo. W. Norris

Governor.

	Quota	Actually Sold	Allegation of Bankers as to purchase from N.Y. Portfolio in Replacement
1,000,000	1,000,000	1,000,000	-0-
253,300	253,300	253,300	-0-
1,124,400	1,124,400	1,124,400	on 6/15/23
281,200	281,200	281,200	-0-
905,200	905,200	905,200	-0-
253,300	253,300	253,300	-0-
962,150	962,150	962,150	-0-
8,551,500	8,551,500	8,551,500	-0-
858,196,400	858,196,400	858,196,400	-0-