A D V I S O R Y   C O U N C I L

September 21

to

November 16

At a conference between the Federal Reserve Board and the Federal Advisory Council, held in the office of the Board at 3.15 p. m. on Tuesday, September 21, 1915

PRESENT:

Mr. Hamlin, presiding,	Mr. Warburg
Mr. Williams	Mr. Harding

Mr. Willis, Secretary.

PRESENT ALSO:

Mr. Forgan, Chairman,	Mr. Kains
Mr. Rue	Mr. Seay
Mr. Rowe	Mr. Ardrey
Mr. Lyerly	Mr. Wing
Mr. Jaffray	Mr. Grim, Secretary.

Governor Hamlin stated that the Board would be happy to hear a report from Chairman Forgan concerning the deliberations of the Advisory Council with reference to the programme of subjects laid before it by the Board.

In reply Mr. Forgan said that he would first submit the conclusions arrived at by the Council in brief, concrete form, and would then discuss the points raised at greater length as might be desired.

Mr. Forgan thereupon read the following list of questions submitted by the Federal Reserve Board, and the answers thereto, formally prepared by the Council:

1. Question of a larger differential in rates for trade acceptances to be extended to all maturities.

It is the opinion of this Council that a larger differential in rates for trade acceptances to be extended to all maturities is not advisable.

2. Special rates for "Commodity paper."

We do not approve of granting special rates for "Commodity paper."

3. Suggestions and recommendations as to the probable course to be taken in the coming months with reference to discount rates at Federal Reserve Banks.

In our opinion suggestions and recommendations as to the discount rates at Federal Reserve Banks should be initiated by the directors of these banks as provided in the Federal Reserve Act.

4. What steps can and should be taken to encourage the entrance of State banks to the Federal Reserve System?

The terms already provided under which State banks may become members of the Federal Reserve system appear to be fair and liberal and we have no further suggestions to make at this time.

5. To what extent should the officers of the Federal Reserve Banks have access to National bank examiners' reports?

In the opinion of this Council the arrangement made by the Comptroller of the Currency as indicated in his circular letter of August 23, 1915, to the chief National bank examiners provides for the situation as it exists at present.

6. The establishment of joint foreign agencies by Federal Reserve Banks. To what extent are such agencies thought likely to be of value in meeting the financial requirements of trade between the United States and South America?

In our opinion it is not advisable at this time for the Federal Reserve banks to establish joint agencies in foreign countries. As the custodians of the reserves of the member banks their resources should be kept for the protection of the member banks and not become involved in the financial or trade transactions in foreign countries. The financing of foreign trade transactions belongs legitimately to the member banks, state banks and private bankers and should not be a function of the Federal Reserve Banks.

7. Should the National Bank Act be amended so as to permit joint ownership by National banks of foreign branches?

In the opinion of this Council the National Bank Act should be amended so as to permit joint ownership by National banks of foreign branches.

8. Liberalization of the National Bank Act with a view of putting National banks more nearly on a footing of equality with State banks.

The National Bank Act should be amended so as to permit of the establishment of branches by National banks having an unimpaired capital and surplus of not less than $1,000,000 in central reserve and reserve cities, provided that no branches are placed outside of the limits of the City where the head office of the parent bank is located. Amend the Clayton Act making an officer or director of a National bank eligible as a director in one State bank or Trust Company and a private banker eligible as a Director in one National bank and a State bank or Trust company.

9. Should intra-district clearings be made mandatory?

The Council's answer to this question is No.

10. Policy to be followed by Federal Reserve Board in establishing rates at which Federal Reserve Banks shall be permitted or required to rediscount for one another.

The views of the Council on this question were expressed in the President's letter to Mr. F. A. Delano, Vice-Governor of the Federal Reserve Board, dated March 7, 1915, which views we reaffirm.

After concluding his presentation of the report aforesaid, Mr. Forgan said that the views expressed were practically unanimous. In one instance, the question relating to a mandatory collection system, Mr. Wells of St. Louis, had not voted. There had also been some difference of opinion on Commodity Paper, but on the final vote the outcome was unanimously as indicated.

Mr. Williams inquired what was meant by the statement that the Comptroller's circular letter of August 23 "provides for" the situation as to access of Federal Reserve Officers to national bank examiners reports. Mr. Forgan said the meaning was that the letter in question provides sufficiently or satisfactorily for such access.

Mr. Forgan turned to the question of rates at Federal reserve banks, and expressed the general opinion that the rates at the present time were, if anything, decidedly too low. He thought there was nothing to be gained by making a still further cut in the rates. No new business would be developed in that way, but the tendency would be to reduce the level of rates all around to member banks.

Mr. Williams called attention to the various instances of high interest rates at member banks, and the opinion was expressed by various members of the Council that these were due to the presence of an abnormally high element of risk in the loans on which these high rates were exacted. Mr. Hamlin called the attention of the meeting to a printed argument by Mr. Seay relating to immediate transfer of reserves to reserve banks. In answer Mr. Forgan said this subject had not been more than tentatively considered. There had been a passing reference to it, and it had been determined to assign it for the next meeting.

Mr. Warburg said the Board would like to know how it could successfully deal with cases of exorbitant discount rate charges by member banks in country districts. The problem had been found an extremely difficult one. Mr. Wing expressed the view that the Board had no authority to attempt to regulate rates at member banks. It had no power whatever to attempt to establish a 6% rate on Commodity Paper. Such efforts amounted to discrimination between member banks. It might easily turn out that paper presented by two banks was of exactly the same class, yet subject to different rates of interest, in which case the Federal reserve banks would be placed in the position of making an unfair discrimination. Mr. Warburg and Mr. Hamlin said in reply that the opinion of Counsel had been favorable to the Commodity Circular. The Board was of the opinion that there was in reality no such real discrimination as Mr. Wing suggested. Mr. Forgan said the real remedy for high rates was simply that of providing better banking facilities.

Mr. Williams inquired whether there would be any objection, so far as could be perceived, in requiring member banks to state in their published statements the maximum and minimum rates charged by them.

No definite answer to this inquiry was made.

Mr. Forgan, referring further to the commodity rate question, told of his early experience in lending on wheat paper. He thought there should properly be a marked difference between loans made on different classes or kinds of commodities. It was not possible to lump all together with a general commodity rate applicable to each.

In reply Mr. Warburg noted that the Commodity Rate Circular simply applied to staple and agricultural commodities, which were substantially of the same general class and kind of protection.

Mr. Wing said it was his opinion that the carrying of cotton was no part of the function of a Federal reserve bank. The plan of the Board was doing no good in any event. Money was abundant for carrying the cotton crop. At best the policy of the Board would result simply in "boosting" cotton.

Mr. Williams in answer said that it would be a source of satisfaction to him if he could think that the Board had in fact raised the price of cotton. The work done in raising the price of cotton was in no sense speculative, but had resulted merely in cutting the cost of production to the farmer. Reasonable efforts directed to the object of enabling the farmer to cut the cost of production, were not subject to criticism.

Mr. Forgan said it was his opinion that the plan of sending free money to the South was a plain interference with the business of the country. It meant that the banks were forced to compete with the Government, and this was a severe hardship to them.

Mr. Jaffray said that about three-fourths of the wheat was bought for country elevator storage. The buyers got the money for this purpose from city banks. A country elevator usually had a capacity of about 25,000 bushels. The farmer, therefore, could not keep his wheat there. It must keep moving out as fast as it moved in. The country elevator companies and the grain commission houses now did this work on the strength of their own resources. The crops moved into the elevators in the course of about 90 days, and paper based thereon always sold about ½% to 1% below the regular rate. This was an example of a normal, satisfactory method of moving a crop. There was never the slightest question about getting money cheaply and in abundance.

Mr. Harding explained that there was a peculiar situation in the southern cotton raising region, some tenant farmers there being practically serfs. Other members expressed the view that the whole situation would take care of itself within a short time.

Mr. Lyerly thought the commodity rate ought to have been 4% instead of 3%, but expressed the conviction that not much 3% money would be used so that comparatively little harm would be done.

The question how many bales of cotton could be safely warehoused in the South coming up, Mr. Harding expressed the opinion that there was safe storage for about 6,000,000 bales. The mills could store and take care of 1,330,000 bales. If an owner was willing to pay 2% or 3% insurance, it was probable that about 10,-350,000 could be warehoused in the South as a whole.

Mr. Seay said that the most trouble with the cotton situation was that grading was lax, and other requirements were not satisfactory.

Mr. Harding stated that this was the reason why the paper needed the endorsement of the member bank, which meant that each loan had been investigated.

Mr. Hamlin then asked what would be thought by the several banks of an assessment on member banks to make up any deficit in running expenses.

Mr. Wing said it would be an excellent thing, and emphatically the right way to proceed, as it would enable the banks to "clean up."

Mr. Hamlin asked Mr. Wing what he would think of consolidating some of the banks. Mr. Wing replied that he did not think consolidation would do much good, as there were eleven banks too many at the present time. A reduction to eight would be of very little service. If all could be consolidated into one, the case would be different, but the law would not permit this.

Mr. Forgan thought that there was no serious criticism now of the expenses of the reserve banks. There had recently been a meeting of bankers representing reserve cities, in Chicago, and at that time there had been considerable complaint concerning the breaking of rates on warrants, etc. Mr. Forgan said he had then suggested to these bankers that it was best they should not worry about the breaking of rates in relatively unimportant fields. The Chicago Bank only needed about $15,000,000 in loans in order to pay its expenses and dividends. This was not as much as the total loans of a single small bank in Chicago. It was the cheapest thing the banks could do to let the Chicago Bank get enough business to provide for expenses and dividends. The banks would then be reckoning on a success, and there would be no further cause of complaint.

Mr. Hamlin asked whether the Board ought not to issue regulations authorizing the reserve banks to buy commercial paper in the open market.

Mr. Rue said that he was convinced there would be a "loud howl" if any such policy were adopted. The State banks would never come into the system in that case.

Mr. Forgan and others expressed the opinion that there was no necessity for any such steps as there would undoubtedly in the near future be an increase of business in reserve banks.

Mr. Forgan asked whether the present method of issuing notes at New York, particularly in exchange for gold, was considered satisfactory by the Board. Mr. Warburg answered in the affirmative, and general discussion of the exchange of gold for Federal reserve notes ensued.

Mr. Hamlin asked whether there would be any objection to an amendment to the Act permitting the direct issue of Federal reserve notes for gold, but no definite answer was given. Mr. Harding inquired whether it would be wise at this time to arrange to retire small gold certificates.

Mr. Forgan returned an affirmative answer.

Mr. Hamlin inquired whether in the Weekly Report it would or would not be well to give details of the money held, as, for example, gold, greenbacks, silver, etc.

Mr. Forgan and others expressed the opinion that such items would be either of no value, or of no interest one way or the other.

//Mr. Warburg inquired about the liberalization of the National Bank Act, and noted that Council had said in its written report nothing as to real estate loans or domestic acceptances.

Mr. Hamlin stated that the Board was unanimously of the opinion that domestic acceptances should be allowed if documentary.//

Several members of the Council expressed the opinion that these two points should certainly be included in any programme for the liberalization of the National Bank Act. The question of domestic acceptances was deferred for discussion at the next meeting.

Mr. Lyerly said he thought the Board should give the utmost latitude to Federal reserve banks in their business, and should insist on their making money. Such a policy would popularize the system immensely. He also referred to the favorable impression made by the recent address of Mr. Delano at San Francisco.

Mr. Williams read a letter addressed by a college professor, a resident of the Northwest, to Secretary of the Treasury McAdoo, stating that rates of interest in South Dakota were about 12%.

Several members of the Council expressed the opinion that the rates complained of by the college professor were high, probably because the risk was great or the security poor. Others expressed the opinion that they were due to a lack of banking capital.

Mr. Hamlin said that he would ask each member present his opinion with regard to an assessment on member banks to make up for deficiencies in expenses. The inquiry resulted as follows:

Mr. Seay - Disastrous.

Mr. Ardrey - Dallas District not concerned, but elsewhere bad policy. Best to carry deficit for a time.

Mr. Wing - Favorable to assessment, but the matter of small importance. An assessment would produce criticism.

Mr. Kains - The big banks would not complain, but the small ones would be badly affected.

Mr. Jaffray - Strongly opposed to the proposal

Mr. Forgan - Assessment not needed in Chicago. Banks would object to it.

Mr. Rowe - Same view as Mr. Kains.

Mr. Lyerly - Very unfortunate.

On the request of other members of the Board Mr. Hamlin inquired which would be preferable, the resort to open market purchases, or an assessment. In answer to this inquiry, Messrs. Forgan, Rowe, Seay, Kains and Wing expressed the opinion that an assessment would be preferable. Messrs. Lyerly and Ardrey favored resorting to open market purchases. Mr. Jaffray was in doubt, but thought that open market purchases would be unfortunate.

Mr. Hamlin inquired the situation as to business conditions in each of the districts, and received the following replies:

Mr. Forgan - Business poor in Chicago district.

Mr. Rowe - Money piling up, payrolls larger, business improving, and purchasing power better.

Mr. Lyerly - Business improving and crops good.

Mr. Jaffray - Business very good, but increased loans.

Mr. Kains - Great prosperity, deposits on the increase.

Mr. Seay - Business improving. Some interests not as prosperous as they might be. Increase in the price of cotton creating optimism.

Mr. Ardrey - Crops good. Cotton prices good. Yield of cotton small and business brisk.

Mr. Wing - Except for development due to war orders, very little improvement. Business in textiles decidedly spotty.

General discussion ensued, and Mr. Forgan enlarged on the evils of the commercial note broker system.

On motion at 5.15 the joint session adjourned.

H. Parker Willis

Secretary.

APPROVED:

C S Hamlin

Chairman.