A meeting of the Federal Reserve Board, at which members of the Advisory Council in Washington were present, was held at 3:35 p. m. Tuesday, November 16, in the Board Room.

PRESENT:

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

Mr. Willis, Secretary.

PRESENT ALSO; the following members of the Advisory Council:

Mr. D. G. Wing, Boston

Mr. W. S. Rowe, Cleveland

Mr. George J. Seay, Richmond

Mr. Charles A. Lyerly, Atlanta

Mr. J. B. Forgan, Chicago

Mr. C. T. Jaffray, Minneapolis

Mr. E. F. Swinney, Kansas City

Mr. J. Howard Ardrey, Dallas

Mr. Archibald Kains, San Francisco

Mr. J. B. Forgan, President of the Council, presented the following report taking up by topics the suggestions made by the Federal Reserve Board to the Council for their consideration:

TOPIC NO. 1.

Assuming that only a very small number of amendments to the Federal Reserve Act or the National Banking Act can be suggested at this session of Congress - say three to five at the most - what amendments, if any, do the Advisory Council consider the most vital and important?

The Federal Advisory Council would suggest the following amendments to the Federal Reserve Act without reference to their relative importance:

1. We would recommend that the functions of the office of the Comptroller of the Currency should be absorbed and administered by the Federal Reserve Board.

This would remove one of the principal reasons why the State banks object to joining the system, viz: the multiplicity of supervision which should be reduced to that of the Federal Reserve Board and the State banking departments under which the State banks are organized. The department of examination should be operated under the direction of the Federal Reserve Board.

2. Federal Reserve Agents should be authorized to issue Federal reserve notes to the Federal reserve banks against deposits

of gold coin, or gold certificates and Federal reserve notes should be made available as reserve money in vaults of member banks. The cost of printing Federal reserve notes should be borne by the government. (See answer to Topic #3).

(The vote of the Council was 6 to 3 in favor of this question.)

3. For that part of Section 24 of the Federal Reserve Act relating to loans on farm lands, reading as follows:

"Any national banking association not situated in a central reserve city may make loans secured by improved and unencumbered farm land situated within its Federal reserve district,"

there should be substituted the following:

"Any national banking association not situated in a central reserve city may make loans secured by improved and unencumbered farm land situated within its Federal reserve district, or in an adjoining district provided the land on which the loan is made is within one hundred miles from the office of the bank making the loan."

4. We would suggest a reduction by two-thirds of the present paid-in capital of the Federal reserve banks, leaving the subscribed capital and the double liability thereon to stand as it is.

(The vote of the Council was 6 to 3 in favor of this question.)

5. The Council would reiterate its recommendation that the Federal Reserve Board should

recommend to Congress an amendment to the Federal Anti-Trust Act so that the second paragraph of Section 8 shall read as follows:

"No bank, banking association or trust company, organized or operating under the laws of the United States in any city or incorporated town or village of more than two hundred thouand inhabitants, as shown by the last preceding decennial census of the United States, shall have as a director or other officer of employee any person who may be connected in either of these official capacities with more than one other bank, banking association or trust company located in the same place: Provided, That nothing in this section shall apply to mutual savings banks not having a capital stock represented by shares: Provided further, That a director or other officer or employee of such bank, banking association, or trust company may besides being an officer or director in one other bank be a director or other officer or employee of not more than one additional bank or trust company organized under the laws of the United States or any State where the entire capital stock of one is owned by stockholders in the other: And provided further, That nothing contained in this section shall forbid a director of Class A of a Federal reserve bank, as defined in the Federal Reserve Act, from being an officer or director or both an officer and director in one member bank."

6. The Council would recommend that the law should be amended so as to permit joint stock ownership by national banks of banks organized to do business in foreign countries through branches established therein.

7. The Council would recommend that the National bank Ace should be amended so as to permit the establishment by national banks having an unimpaired capital of not less than $1,000,000 of branches, provided that no branches are placed outside of the limits of the city where the parent bank is located.

TOPIC NO. 2.

Is it desirable that the Federal Reserve Board or the Federal reserve banks should take some especial precautions - and if so what precautions - to guard against a possible serious reaction in business which may come when the European War is over?

Answer:

It is unsless to attempt to prognosticate as to the business conditions that may prevail in this country after the European War is over. During the period of reconstruction in Europe it is not unlikely that a broad demand may exist for our exportable surplus of cotton, steel, copper, lumber, grain, provisions and manufactured merchandise. This would cause general activity in business especially in the basic lines of agriculture, mining, and lumbering, which in turn would stimulate the business of our railroads and make an active demand for money. On the other hand the terrible destruction of property, the waste of capital and the enormous increase of public debts by the belligerent European countries may so seriously cripple them as to prevent them for sometime from entering into the work of reconstruction. Their financial situation may become so bad as to seriously affect the condition of the rest of the world. It is quite possible that reaction from the business activity created in this country by the demand for war supplies may take place. The future is forebodingly uncertain and whether after the war we are to face business expansion or business construction, a condition of preparedness by the Federal reserve banks will be the part of wisdom. We would therefore advise that the Federal reserve banks should be induced and encouraged by the Federal Reserve Board to keep themselves strong in reserves and liquid in investments.

TOPIC NO. 3.

Is it desirable to have Federal reserve notes in denominations of five to twenty dollars take the place of gold certificates carried in the pockets of the people. Is not the accumulation of gold by Federal reserve banks by the substitution of this circulation, a valuable protection in case of gold withdrawals; and is not this procedure advisable in spite of the considerable expense involved?"

Answer:

The accumulation of gold in the Federal reserve banks would in our opinion be a valuable protection in case of gold withdrawals. We therefore deem it most desirable that gold should be accumulated in the Federal reserve banks in large volume and that Federal reserve notes in denominations of five to twenty dollars should take the place of gold certificates carried in the pockets of the people. To this end the Federal Reserve Act should be amended so as to enable the Federal reserve banks to take out Federal reserve notes against the deposit of gold with the Federal Reserve Agent with the object in view of having the Federal reserve notes ultimately take the place of the government gold certificates in general circulation. To accomplish this they should be made available for the legal reserves of member banks.

The expense of furnishing Federal reserve notes for general circulation should be paid by the government, the same as it now pays the expense of furnishing gold certificates. Federal reserve notes are government obligations, the same as are the gold certificates. There is no possible profit to the government in the circulation of gold certificates, other than that on notes destroyed, while through its interest in the earnings of the Federal reserve banks - its circulating agents - its profit on the circulation of the Federal reserve notes will ultimately be largely in excess of the cost of furnishing them, besides which it will have the profit connected with their destruction. The government will thus be the ultimate gainer by the substitution of its Federal reserve notes for its gold certificates.

(The vote of the Council was 6 to 3 on this question.)

Mr. George J. Seay's argument in favor of putting into immediate operation the complete provisions of the Federal Reserve Act, the consideration of which was postponed from last meeting, was then considered.

Mr. Danial G. Wing, moved the adoption of the following resolution:

"That the Council believe that the Federal Reserve Board should take no action on this matter at the present time." Motion seconded by Mr. E. F. Swinney and carried by a vote of 6 to 3.

On motion of Mr. George J. Seay, the following resolution was passed:

"That this Council is unalterably opposed to any provision whereby farm loan bonds described in the Hollis bill may become security for loans from Federal reserve banks and to their being made a basis for acceptances by member banks."

TOPIC NO. 4.

Can Federal reserve banks do anything with their member banks to discourage or put a stop to the present high rates of interest on demand deposits? We hear that rates from three to seven per cent are common in Northwest, South and Southwest.

Answer:

The rate of interest on deposits paid to the public is regulated by the accumulation or lack of accumulation of wealth in the communities in which the banks do business. In small pioneer communities with little or no accumulated wealth, with a demand for money but with no local supply, the rate of interest is naturally high, but it is gradually reduced as the communities enlarge and accumulate wealth. It might be more of a hardship than a benefit to unduly restrict the rate of interest that a bank in a pioneer community can either pay or receive. The economic law of supply and demand, with State laws against usury, will sufficiently regulate rates and protect the borrower.

As to rates paid on savings deposits, the savers should be encouraged. Their deposits form the foundation of the business and credit structure of the country. Bank depositors outnumber bank borrowers twenty to one and the majority of them are wage earners, small dealers and people not engaged in business for themselves. While the borrowers are often our richest people engaged in business enterprises, who borrow to make more money. Every effort should therefore be made to maintain through the country such rates of interest on savings deposits as will induce and encourage the people in saving and thrift. We do not believe that there is anything that the Federal reserve banks should or could do to regulate rates of interest paid on deposits by their member banks beyond offering them, as they now do, the privilege of rediscounting at such reasonable rates as are likely to reduce the current rates for loans in communities having little or no accumulated wealth, which will in turn reduce the rates paid in such communities on deposits. Such matters in time work themselves out naturally and it is difficult if not impossible to regulate them artificially.

When the reading of the report was completed there was discussion of the topics in their order.

1. On the recommendation that the functions of the Comptroller of the Currency be made subordinate to the Federal Reserve Board, President Forgan stated that no reference to the present Board or the present

Comptroller was intended. The action of the Council was unanimous and it was believed that direct control over examinations on the part of the Federal Reserve Board would bring better results, separate organizations being regarded as unnecessary.

Mr. Kains stated that he agreed heartily with the statement of President Forgan as to dual authority over examinations.

2. President Forgan stated that on the recommendation, should Federal reserve agents issue notes against gold coin, the Council was unanimous.

3. On the second division of this topic, should Federal reserve notes be counted as reserve by member banks, there was discussion in which Mr. Miller, President Forgan, Governor Seay, Mr. Wing, Mr. Rowe, Mr. Ardrey, Mr. Jaffray, Mr. Swinney, Mr. Lyerly and Mr. Kains participated.

Mr. Wing stated that he opposed this recommendation because he preferred a metallic reserve until the Federal reserve system had further progressed.

Mr. Rowe held that if Federal reserve notes were counted as reserve they would be held by the banks in their vaults and that the Federal reserve banks would get more gold if they kept such notes out.

Mr. Ardrey stated that he held the Federal reserve note to be no better than a bank note and that bank notes had never been counted as reserve.

4. On the question of the reduction of capital, President Forgan stated that it was difficult for the twelve Federal reserve banks to now make dividends and that the necessity for making dividends is driving Federal reserve banks into competition with member banks, or to expand credits when there should be contraction.

Mr. Wing stated that he personally was not yet ready to recommend a reduction of capital thinking that it was wiser to work out the problems now before the Federal reserve system without undertaking such a reduction. He favored giving the system three years of operation before taking up the question of lessening its capital.

Mr. Seay held the view that Federal reserve banks should be released from the necessity of making money.

5. Mr. Warburg asked whether the Council had considered whether clearing houses could be induced to take any steps toward the strengthening of reserves. In reply Mr. Forgan stated that he thought there was little use for such precautions. There were already surplus reserves, and this had been a continuous condition. In Chicago the reserves had never gone down to 18 per cent but had been running at 26 per cent, 27 per cent and 28 per cent.

6. Governor Hamlin asked for comment on Governor Seay's plan for the immediate transfer of reserves. Governor Seay said he found himself in a hopeless minority.

President Forgan expressed the opinion

that the Seay plan was desirable but inexpedient at this time.

7. Mr. Williams made inquiry as to the rates of interest paid by national banks on deposits and there was limited discussion on this question.

8. Inquiry was made as to whether the Council had considered credit statements of private banks and President Forgan said that the Council would hold a short session and make suggestions to the Board on this subject.

Subsequently the Council transmitted the following extract from minutes:

"The Council at the request of the Federal Reserve Board considered the question of what officers of the Federal reserve banks should have access to statements of assets and liabilities made by private bankers whose acceptance may be purchased by Federal reserve banks.

"It was unanimously resolved that the Federal Reserve Board should be advised that the Council has not changed its opinion formerly given to the Federal Reserve Board to the effect that such acceptances should only be purchased by Federal reserve banks when they are endorsed by member banks.

"The Council is however of opinion that statements made by private bankers as to their affairs for the purpose of establishing their credit and to secure the handling of their acceptances by the Federal reserve banks may by regulation of the Board be placed in the custody of the governors of the Federal reserve banks, and that only the governors and Federal reserve agents of the banks should have access to them."

At 5:20 p. m. the joint session adjourned.

H Parker Willis
Secretary.

APPROVED:

C S Hamlin
Chairman.