At a meeting of the Federal Reserve Board with the members of the Advisory Council held in the office of the Board at 3:15 p. m., on Tuesday, February 15,

PRESENT:

Mr. McAdoo, presiding	Mr. Warburg
Mr. Hamlin	Mr. Harding
Mr. Delano	Mr. Willis, Secretary

Mr. Allen, Assistant Secretary.

PRESENT ALSO, Members of the Advisory Council:

Mr. Forgan	Mr. Swinney
Mr. Wing	Mr. Rue
Mr. Rowe	Mr. Lyerly
Mr. Jaffray	Mr. Norwood
Mr. Fleishacker	Mr. Record

The Chairman made a short address stating his pleasure that the Advisory Council could meet in Washington and consider the matter upon which the law directs it to make suggestions to the Federal Reserve Board. The Chairman then withdrew, and Mr. Forgan read a statement of the view of the Council on the subjects which had been suggested to it by the Board for consideration, and in addition the matter of amendments to the Clayton Act. This statement was filed with the Board.

It was stated by Mr. Forgan that on the question of reduction of capital stock of Federal reserve banks the Council has changed its opinion since the last meeting, partly because of changes in membership, and that it now stands seven to three against any such reduction. A minority report was presented for the minority who were the Chairmen, Mr. Forgan, Mr. Swinney and Mr. Jaffray.

It was also stated that Mr. Record voted no on answer "B" to the matter submitted in connection with the establishment of foreign branches.

On answer "E" the Council divided six to four.

When the reading of the statement was

complete, Governor Hamlin asked for comment of the members of the Council as to conditions in their respective districts, and such other matters as they desired to bring to the attention of the Board.

Mr. Forgan stated that he believed the rates now in effect at Federal reserve banks were far enough beyond the market to prevent inflation. Large banks in the Chicago district, he said, were carrying large surplus reserves, and New York correspondents refuse to take them and pay interest. Smaller banks, those of from $30,000 to $60,000 capital are loaned up at from 3% to something below that. He anticipated that in March, due to the seasonal demand, and the maturity of farm loans some additional banks would be rediscounting with the Federal Reserve Bank of Chicago, but after that he saw nothing in sight to change rates or increase the demand for money.

Mr. Wing of Boston stated there was

nothing in New England to increase the demand for money or change the rates. Banks are carrying a large surplus. Reserve bank rates seem to be as they should remain.

Mr. Rue of Philadelphia said that only the small banks were loaned up, and that there was practically no commercial demand for money. He saw no prospect of an early change. Business was active in the Philadelphia district, because of war orders. The banks are buying bonds, and country banks are now buying securities with a limited market, because of their high returns.

Mr. Rowe of Cincinnati said the demand in the Cleveland district was small, but that payrolls were large and labor scarce. There was practically no commercial demand for money.

Mr. Norwood of Richmond reported conditions to be normal, with small banks going outside the district and reducing rates.

Mr. Lyerly of Atlanta stated conditions as very good, with 95% of the business of the district being financed at home for the first time in fifty years they have plenty of money. Rates were holding at 5% and 6%, the latter rate being paid by the smaller country banks to the larger city banks. He saw no probable change in the near future, and found liquidation good with less overdue paper than he had ever before known.

Mr. Jaffray of Minneapolis stated that money was easy, business good, and no indication of any change for two or three months. Country banks are carrying money rather than loan it at 3% .

Mr. Swinney of Kansas City stated the business in that district to be good, with practically all concerns making money. Banks are accepting investments, and his own bank is about to begin taking on real estate loans. He had recently loaned $400,000 to meat packers at 3½%

and declined to loan to others at 3%.

Mr. Record of Dallas said that 95% of the cotton had left the producer, and 90% had been shipped. Sixty days from now he thought that the banks would probably be rediscounting with the Federal reserve bank.

Mr. Fleishhacker of San Francisco said that prosperity had been slow in reaching the Pacific Coast, but that the city banks there, like those in the East, were carrying heavy deposits. He saw danger through the fact that note brokers had discounted at from $2\frac{1}{2}\%$ to $3\frac{1}{2}\%$, and would promptly call the loans when rates were higher. This, he anticipated, would result in the banks being called upon to finance their borrowers should there be a change of conditions in the East. He stated that they had to call loans in San Francisco, and that there was nothing for them to fear except the effect of sharp changes in the money market in the East.

Mr. Hamlin asked for an expression of opinion as to dividends at reserve banks. Mr. Wing said that the Boston bank would not earn dividends this year, and expressed the opinion that it made no difference whether they did or not. No conditions short of panic would bring about a sufficient volume of rediscounts to enable it to earn dividends.

Mr. Rue said that he did not expect a dividend at the Philadelphia Bank,, but was confident that later on enough rediscounts would be had from the country banks to provide such dividends.

Mr. Rowe expressed the opinion that the Cleveland Bank would not earn a dividend.

Mr. Norwood stated that the Richmond Bank would probably earn more this year than last. It had paid 5% last year, and had something left.

Mr. Lyerly thought a dividend would

be earned at Atlanta.

Mr. Jaffray saw no indication of dividends at Minneapolis.

Mr. Swinney thought conditions at Kansas City were similar to those at Minneapolis, but the local bankers were satisfied nevertheless.

Mr. Record said that Dallas is now earning a dividend, and he expected it would continue to do so.

Mr. Fleishacker thought that San Francisco could clear its expenses, both current and organization, by the end of the year, but that no dividend was to be expected.

Mr. Forgan believed that Chicago would make satisfactory earnings this year, and do better than last year. It was now making about $2\frac{3}{4}\%$ on capital. He was not greedy for dividends, but thought it would be bad for the whole system were the banks unable to cover their expenses and dividends. They could accomplish this object without burdening the member banks at all by keeping a very moderate amount of their resources invested. Such a policy would produce no more effect on the local banks of the district than would the starting of a $2,000,000 bank. So small a proportion of the funds of the district would have to be kept invested that it would not amount to a "hill of beans".

Mr. Lyerly said the system would never be popular and would never draw in the State banks until it was on a dividend-paying basis.

Mr. Swinney called attention to the similarity of conditions between the banks of Minneapolis and Kansas City. Had the banks been organized three years ago, they would now show a surplus of earnings. The best policy was to keep them in good condition to aid in time of need.

Mr. Wing expressed the opinion that

the member banks in the Boston district were not critical of the situation, although it was true that when some banker was looking for ground for complaint he usually mentioned the lack of dividends. As a matter of fact, the lack of dividends was the least trouble the bankers had to contend with. The non-payment of interest on reserve deposits being a more serious matter.

Mr. Hamlin inquired whether, if the member banks were to have returned to them their capital stock investments in reserve banks, they could today earn dividends on this return capital. Mr. Wing answered in the negative.

Mr. Rue said he had not heard a criticism of the lack of dividends from a single country banker.

Mr. Jaffray said he had heard little or nothing said about dividends.

Mr. Record stated that at a recent meeting of the Dallas board of directors it was recommended that a 3% to 5% rate on open market transactions be fixed, but that the opinion was expressed that it was not proper to compete with other Federal reserve banks, because the Dallas bank was already earning its dividends.

Mr. Forgan said he had been asked by the Council to present a matter which was not recorded in their minutes. This referred to a circular recently sent out by the Comptroller of the Currency as to treatment of foreign letters of credit by national banks. In reply Mr. Harding stated that he had recently had a conversation with the Comptroller and that the matter referred to by Mr. Forgan would shortly be arranged.

Mr. Jaffray said that he wished to inform the Board that Minneapolis bankers would regret to see Minneapolis made a central reserve city. Such action would be a great hardship. They would simply like to be let alone for a while. In fact, the let-alone policy was the essential thing at this time. The trouble experienced in getting State banks into the system was due to the interference with national banks.

Mr. Swinney said that Kansas City bankers felt much the same as did the Minneapolis bankers. They did not want to see Kansas City a central reserve city.

Mr. Rue and others expressed themselves as to the desirability and prospect of getting bankers to express themselves with reference to the proposals of the Board for amendments to the Act.

Mr. Forgan presented an argument for an amendment to the Clayton Act in its relation to bank directors.

On motion at 5:15 p. m., the conference adjourned.

A. Porter Willis

Secretary.

APPROVED:

Chairman.