

At a joint session of the Federal Reserve Board and the Federal Advisory Council held in the office of the Board at 11 a. m. on Tuesday, November 21,

PRESENT:

- Mr. Harding, presiding, Mr. Miller,
- Mr. Warburg, Mr. Williams,
- Mr. Hamlin, Mr. Willis, Secretary.
- Mr. Delano,

Present also, Mr. Forgan, Mr. Fleishacker, Mr. Wing, Mr. Rue, Mr. Jaffray, Mr. Lyerly, Mr. Norwood, Mr. Watts, Mr. Rowe, Mr. Record, Mr. Grimm, Secretary.

President Forgan read the replies prepared by the Council with respect to the questions submitted by the Federal Reserve Board, taking up each question, and stating the findings of the Council with respect thereto,

as follows:

Topic No. 1.

In view of the amendment which permits member banks to use their option as to vault reserves provided the excess reserve with the Federal Reserve Bank offsets the diminished reserve in vault, what would it be advisable for the Federal Reserve Banks to do to induce member banks to deposit their excess reserves with them.

Answer. As member banks become more familiar with and

better accustomed to the working of the Federal reserve system they will more fully appreciate the desirability for the strengthening of the system of keeping as much of their legal reserves on deposit in the Federal Reserve Banks as may be found practicable. We know of no special inducements that should be offered to member banks to do so at present, but we would reiterate the suggestion we made at our last meeting that "it would help to make this provision of the law effective if the member banks could feel sure that they could at all times receive from the Federal Reserve Banks gold and currency in the denominations required and if the Federal Reserve Banks could arrange with the Treasury Department to keep on hand a sufficient supply of currency for that purpose." If this could be accomplished it is our belief that the member banks would be inclined to carry a greater proportion of their cash reserves with the Federal Reserve Banks. In this connection, a resolution was passed nine to one in favor of making Federal Reserve notes available as legal reserve for member banks (Mr. W. S. Rowe voting in the negative).

Topic No. 2.

A discussion of the subject of acceptances and acceptance credits in general, and in particular so-called "revolving credits," with a renewal agreement on the part of the accepting banks.

In this connection, your attention is called to an address made recently by the writer in which this subject is discussed (pages 8 to 19). The Board invites comment upon or criticisms of its policy regarding such credits, as well as suggestions as to the course it should adopt in the future.

Answer.

In regard to bank acceptances and particularly in regard to so-called "revolving credits" with a renewal agreement on the part of the accepting banks we are in accord with the arguments and the policy based thereon as set forth in the address recently made by Governor

Harding to which our attention has been directed. Even if such acceptances may, under a legal interpretation of the wording of the Federal Reserve Act, be regarded as eligible for purchase by Federal Reserve Banks they are not in our opinion in accord with the spirit of the law. They are in no sense self-liquidating within the time fixed by law and cannot be regarded as strictly liquid instruments of credit such as are based on commercial transactions which themselves provide for their retirement at maturity. In our opinion therefore the purchase of them by the Federal Reserve Banks in the open market should be discouraged.

Topic No. 3.

The establishment of branches of national banks where state laws are not in contravention of such policy. The proposed amendment allowing this went over by agreement until the short session of Congress this winter, and in view of the resolution adopted at the convention of the American Bankers Association at Kansas City (upon which resolution state bankers were allowed to vote), it is evident that some hard work will be necessary to secure the passage of the proposed amendment.

Answer.

We still adhere to the opinion expressed in our communication to you of September 21, 1915, to the effect "that the National Bank Act should be amended so as to permit 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." We are advised that such a privilege granted to national banks would not be affected by state laws and in our opinion any Federal legislation granting such a privilege should apply to all banks in the national system of adequate capital or to none.

Topic No. 4.

In connection with the clearing system for the collection of country checks, the suggestion has been made that Federal Reserve Banks allow member banks in the smaller cities and towns having no clearing house a moderate fee for the collection of checks drawn on state banks; the theory being that while a bank may be obligated to remit without charge to the reserve bank for checks drawn upon itself, it has no such duty in the case of items which it has first to collect before remitting.

Answer.

The statement published in the Federal Reserve bulletin for October of the operations of the inter-district clearing system indicates that the number of state banks agreeing to remit at par is steadily increasing and that checks on nearly half of the State banks in the country are now being remitted for at par. It would seem therefore that the system is satisfactorily developing and under these conditions we think it inadvisable that any change should be made at present.

INFORMAL SUGGESTION BY GOVERNOR HARDING. ANSWER.

In response to your suggestion that the provisions of the law which require that after Nov. 16, 1917, balances in the hands of legal reserve agents will cease to count as lawful reserve be made effective at an earlier date, in view of present financial conditions we would favor amending the law so as to grant authority to the Federal Reserve Board to make this provision effective at any date prior to Nov. 16, 1917, on giving member banks sixty days' notice.

ADDITIONAL RECOMMENDATION.

The Council recommends that to the exceptions contained in Section 5202 R S as amended by Section 13 of the Federal Reserve Act the following should be added as a sixth exception:

"6th. Liabilities as an endorser on accepted bills of exchange actually owned by the association and rediscounted at home or abroad."

Mr. Harding then called for an expression of opinion from members of the Federal Reserve Board, and Vice Governor Warburg stated his general approval of the report, complimenting the Council on its work.

General discussion of open market operations ensued, Mr. Miller and Mr. Jaffray particularly joining in the statement of their views on the subject.

Mr. Forgan took up the question of refunding bonds, suggesting informally as the opinion of the Council that conversions for the present should be made in 3% bonds and not in the form of one-year notes. In past conversions the banks had found short-term notes unsaleable and of very little use. He thought the Board might very well make some representations to the Secretary of the Treasury to the effect that next year's conversions should be entirely in long-term bonds. General discussion of opinion ensued, Mr. Williams stating the view that it would be dangerous to put the bonds now held by the banks into a form that rendered them permanently ineligible as a basis for circulation.

Discussion of the question of reserve transfers ensued, Mr. Miller asking for more data on that subject. Mr. Fleishacker expressed the opinion that a direct propaganda among the smaller banks favorable to such reserve transfers was necessary. President Forgan said he thought that many banks were sentimentally attached to the idea of a large gold supply in vault. During their active season they were not able to use Federal reserve notes as freely as desirable. The ruling that Federal reserve notes can not be deducted from outstanding deposits in order to determine the liability of member banks on reserve accounts, renders them an undesirable form of currency to have on hand. Such notes when left in the hands of the banks remain "dead" in vault. They were really the least useful kind of currency to be had.

Mr. Watts said that his bank (the Third National of St. Louis) usually had to have on hand about \$2,000,000 in money. It would, however, be just as willing to have this in Federal reserve notes, if such notes were available as reserves.

Mr. Jaffray said he had discussed the matter with the officers of his bank, and found the feeling generally opposed to transfers. The bank prefers to have a substantial entry of gold and greenbacks in its published statements. Further the smaller banks in the country do not as yet appreciate the Federal reserve banks as they should.

Mr. Rue said his experience was very similar to that of Mr. Forgan, his bank (The Philadelphia National) had to accumulate funds for payrolls, and preferred to use for that purpose anything it could get to Federal reserve notes which do not count as reserves.

Mr. Miller inquired whether some alternative reserve requirements would not be preferable to making reserve notes available as reserve. He suggested further that a fixed reserve be required to be carried in Federal reserve banks, the amount to be carried by member banks in vault being left entirely to their discretion. He further asked whether legislation making the transfers compulsory up to a certain point would not be desirable. President Forgan replied that too much compulsion has already been applied to the banks, and that such legislation would be undesirable.

Mr. Rue said the effect of it would be to prevent State banks from entering the system.

Mr. Miller expressed the view that there was very serious objection to the making of Federal reserve notes legal tender or available in the reserves of member banks, and that the proper solution of the problem would have to be found in a revision of the reserve provisions of the Act, by providing for the carrying by member banks of larger cash balances with their Federal Reserve Banks.

Mr. Delano expressed the opinion that there were more ways than one of solving the reserve problem. Federal Reserve notes as reserves, he said, would be one way of doing it, but perhaps not the best way. He did not believe in the idea of making a thing reserve by calling it so. He asked if it would not accomplish the purpose equally well if it were to be specified that a certain amount of gold reserve must be held in Federal Reserve banks and permit member banks to keep the cash necessary for their use in their own vaults. He submitted this suggestion as a possible way of treating the matter and added that he did not think the Board should carry the matter of compulsion too far.

Mr. Forgan said that Mr. Delano's suggestion was well worthy of consideration.

Mr. Warburg called attention to the confusion which existed in the designation of reserves and said that in no other country did a similar system to that in the United States exist, and he disagreed with the view expressed by Mr. Miller.

The possibility of the adoption of a suggestion made in 1914, of making National bank notes reserve, was pointed out by Mr. Delano, who said that under the present system a distinction is drawn between "goodness" of a note and calling a thing reserve.

Governor Harding held that the scientific question of reserve in country banks amounts to practically nothing and said it appealed to him as a question of their having money to pay customers. The country bank, he said, had no reserve problem, that being now the problem of the Federal Reserve Bank. He pronounced Mr. Delano's suggestion a good one and said that in the main it suited him, although it would operate with some inequalities.

Mr. Wing asked if, under the proposed plan, a distinction could be made in connection with reserves, based

upon the kind of business done by the bank, but this did not appear to be approved.

Governor Harding continued his discussion of the reserve problem of the country bank and said it was not a good thing to pass it along to the country banker.

Upon the suggestion that it was growing late the meeting passed to the consideration of reports of business conditions in the several districts.

MR. WING, (Boston) said, business is active, with prices of raw material two or three times higher than a year ago and the manufacturer requiring an equally increased amount to finance his business. Boston and New England banks, he said, are pretty well loaned up. This he regarded as a condition to be held down either by increasing rates or otherwise. New England, he said, was well saturated with foreign securities and this was another element of weakness. There has been some purchasing of Russian roubles for deposit and exchange profit. Mr. Wing said that he was not in favor of the Board's advising member banks as to their business, generally speaking, but he thought that some warning should now go to member banks

at least in connection with reserve

and especially to country banks, from the Board, not to go too far.

Mr. Rue, (Philadelphia) said, the condition in Philadelphia was practically the same as that in Boston. Manufacturers were never so busy and he regarded the situation with some concern. There is difficulty in obtaining labor and the high prices are pinching people of fixed incomes. Trade is being somewhat restricted because of these prices. Mr. Rue regarded this as a time to be very cautious and said the country was inflated. He admitted that it was difficult to tell where to exercise the caution. Holding foreign securities, he said in reply to a question of Governor Harding, were not large on the part of institutions in District No. 3, the distribution having largely been made to the public.

Mr. Rowe, (Cleveland) reported great activity, with business at the top-notch and deposits of banks very high. Banks in the 4th District, he said, were not as well loaned up as those in New England and reserves generally were above normal. Foreign loans have been taken by people with war contracts and probably not distributed to any extent. Country

banks have little demand and loans are being made by them in the cities. They are also buying short term bonds.

Mr. Norwood, (Richmond) indicated unusual prosperity in the southern half of that district, that deposits in banks are large and reserves high. He thought the amount of loans probably less than usual and rates very low.

Mr. Lyerly, (Atlanta) said, conditions in that district were excellent; cotton mills were making much money and that he thought there was an automobile for every quarter section of land.

Mr. Forgan, (Chicago) reported business in the Seventh District good and booming, with banks' customers making money and banks realizing moderate profits. Surplus reserves in the Chicago District have been reduced by purchases of open market paper although during the last two weeks these purchases have been lessened or stopped because of the demand from regular customers. He looked upon this change in condition as showing that the note brokers had lost control of the situation and that reserves of all banks were down to a small excess.

Conditions are similar to those in New England and if they continue, he anticipated, the demand would force rediscounting by member banks with the Federal Reserve Bank.

Mr. Watts, (St. Louis) said conditions were never so good, giving credit largely to the cotton crop and its high prices. Bank deposits, he said, had probably increased 25%. Banks in the St. Louis District are buying paper in the open market and reserves are down close to the legal limit because of these operations. Banks are, however, more liquid than ever before and unlike Chicago are still making open market purchases.

Mr. Jaffray, (Minneapolis) added another report of prosperous and active conditions, with money in good demand. Crops in Montana were good, but in the Dakotas and Minnesota less productive and below the usual quality. He held that business men in the Ninth District were looking forward to Spring as a period of less business activity. Money is easy at 4%.

Mr. Record, (Dallas) said that his District had not participated largely in foreign loans, but that since 1914 it had not prospered as much as could be wished. The crops

this year have operated to relieve this situation. Deposits are large; bills are being paid; and reserves are strong.

Mr. Fleishhacker, (San Francisco) said that there was marked improvement on the Pacific Coast during the last thirty days. Prices are high and business is good, except in the kind of lumber cut in Washington and Oregon. There have been increases in deposits. This district had not taken, he thought, a large amount of foreign securities. Replying to a question he said that there had been no improvement in the feeling of country banks toward the Federal Reserve System and suggested that missionary work should be done by members of the Board and activity on the part of officers and directors of the Bank. This, he stated, was the first time in years that country banks had not been borrowers from city banks.

Mr. Williams suggested that members of the Advisory Council should keep in close touch with the Federal Reserve Bank of the District which they represent and visit them frequently, in response to which Mr. Record said that he

was giving a dinner party on November 27th for officers and directors of the Federal Reserve Bank of Dallas and about fifty representative bankers. This action on his part received approbation.

It was also suggested by Mr. Williams that some of the members of the Council had not asked their banks to pay the expenses of trips to Washington. He thought this expense should be borne by the banks as should those of visits by members of the Council to the banks where the members live outside the Federal Reserve Bank cities.

At 1.25 p. m. the meeting adjourned.

A. Parker Willis
Secretary.

APPROVED:

Chairman.

1164

was given a dinner party on Tuesday, 17th October 1911
and the history of the National Society of Women
about their representative business. This letter on the

letter received appreciation.

It was also suggested by the British that some

of the members of the Council had not asked their names

to get the names of those so designated. It should

this matter should be done by the Council in their own

of value by members of the Council to the date when the

members have decided the National Society was official.

The first of the meeting was on the 17th of October.

The meeting was held at the National Society of Women

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Secretary

of the National Society of Women.

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