

At a joint session of the Federal Reserve Board with the Federal Advisory Council at 4 p. m. on Monday, February 19,

PRESENT:

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

Present also members of the Advisory Council as follows: Mr. Forgan, Mr. Morgan, Mr. Record, Mr. Watts, Mr. Fleishhacker, Mr. Swinney, Mr. Rowe, Mr. Rue, Mr. Wing, Mr. Mitchell, Mr. Lyerly, Mr. Norwood.

President Forgan read the report of the Advisory Council to the Board as follows:

Topic No. 1.

Domestic Branches of Federal Reserve Banks as required by Section 3 of the Federal Reserve Act. In this connection the attention of the Council is called to the report of the Committee of the Governors of Federal Reserve Banks, which advises that agencies rather than branches be established.

Recommendation:

The Federal Advisory Council approves the amendment proposed to Section 3 of the Federal Reserve Act contained in Section 7 of H.R. 20661 and would recommend that further legislation should be enacted giving the Federal reserve banks the right with the approval of the Federal Reserve Board to establish agencies rather than branches where they would afford all the facilities necessary.

Topic No. 2.

Foreign agencies or branches of Federal Reserve Banks. Should their establishment at this time be encouraged?

Recommendation:

The Council recommends that the foreign business of the Federal reserve banks should for the present be conducted through correspondents and that neither agencies nor branches should be established in foreign countries by any Federal reserve bank until world conditions are more settled and until the efficiency of the service rendered by correspondents be thoroughly tested.

Topic No. 3.

Reserve position of member banks. What changes are anticipated in the present situation?

Recommendation:

The position of member banks in relation to their lawful reserves continues to be one of considerable surplus. The further continuance of this position depends on the continuance or discontinuance of gold importations. There seems to be in prospect further foreign loans of considerable size as well as a loan of large proportions to our own government. Considerable dislocation will inevitably result from these issues, bank deposits will no doubt be largely drawn upon. Then the proposed changes in regard to the legal reserves of the member banks including the discontinuance of having balances with legal reserve agents counted as part of such reserves will more or less upset the position of the member banks in regard to their legal reserves as they now calculate them. In view of these prospective features of the situation we look for a shrinkage in surplus legal reserves and for higher rates for money than have prevailed during 1916.

Topic No. 4.

Sub-Treasuries. (See letter of Secretary of the Treasury in February Bulletin, page 110).

To what extent is it practicable or advisable that their functions be performed in the Federal Reserve Banks?

Recommendation:

We agree with the Secretary of the Treasury that the gold coin and bullion held against gold certificates and the gold reserve held against U.S. notes and Treasury notes of 1890 and the silver dollars held against silver certificates should all be kept in the physical control of the government so long as the government's obligations are outstanding against them. The government cannot properly transfer its trusteeship to the Federal reserve banks or any other agency. In our opinion however it may be possible with the cooperation of the government under legislation providing for it to gradually retire the government gold certificates and allow Federal reserve notes in suitable denominations to take their place in the circulating media of the country. The government now merely acts as warehouseman for the gold whereas in the hands of the Federal reserve banks it could be more economically and scientifically and quite safely used as the principal basis for the issue of Federal reserve notes and would thus materially contribute to the strength and efficiency of the Federal reserve system; the ultimate object being the replacement of the government gold certificates by Federal reserve notes.

By cooperation between the Treasury Department and the Federal reserve banks the latter might be kept well supplied with U. S. notes, Treasury notes and silver certificates in denominations to suit the convenience of the member banks. We see no reason why practically all the current funds of the government should not be deposited with the Federal reserve banks and the government disbursements as far as practicable made by checks on these banks. The Federal reserve banks should become the Government depository banks and should be used by the Treasury Department as such on an equitable basis as to the cost of handling the business and the profits to be derived therefrom.

The question of interest on government deposits need not be considered as whatever profit there is in the business of the Federal reserve banks beyond 6% to their stockholders reverts to the government.

It is quite evident that there are many functions performed by the sub-treasuries which the Federal reserve banks are not equipped and could not probably be efficiently equipped to perform. We are not sufficiently familiar with the operation of these functions to give specific advice as to which of them it would be practicable or advisable to turn over to the Federal reserve banks. We agree with the Secretary of the Treasury, that this is an important matter and should be considered deliberately. It would seem to be one which can best be worked out between the Treasury officials and your Board cooperating together towards establishing the most efficient and most economical method of handling the public business in the interest of the public. The benefits to be derived from any changes afford the best if not the only reason for making them.

Topic No. 5.

Should the Federal Reserve Board employ a competent man to make a thorough study and investigation of foreign exchange and its bearing on the efforts being made to establish dollar exchange in this country?

Recommendation:

The value of such a study or investigation would entirely depend on the practical knowledge, experience, efficiency and breadth of view of the student or investigator. A foreign exchange department manager whose training and experience has led him to gather in under the keenest of competition all the business he could control for the profit in it might find difficulty in grasping from a broader point of view the use that should be made of such a department in a Federal reserve bank. At the same time no one could satisfactorily make such an investigation who has had no practical experience and who does not thoroughly understand the business in practice as well as in principle. Such an investigator should be very carefully selected and may be difficult to find, but when found we have no doubt that his investigation and report would prove of sufficient value to the Board and all connected with the Federal reserve system as to warrant his appointment. The Board should,

however, tentatively settle in advance just what attitude the Federal reserve banks will assume towards the foreign exchange business and the investigator should be given to understand that his investigation is to be made on the broad basis of how best Federal reserve banks can cooperate with their member banks in an effort to develop the foreign exchange business and to establish dollar exchange in this country. The investigation should be made broad enough to include the elements other than banking facilities which contribute to the development of foreign business such as transportation, insurance, consular service, etc.

Would the Council recommend a plan providing for rotation in its membership?

Recommendation:

As the Federal Reserve Act provides that such members of the Federal Advisory Council shall be elected annually by the directors of the Federal reserve banks we doubt the propriety of either the Federal Reserve Board or this Council taking any action or making any recommendation in the matter.

ADDITIONAL RECOMMENDATION:

"RESOLVED That in the opinion of this Council the last clause of Section 3 of Senate bill 8259 (dated Feb. 14, 1917) reading as follows:

"Provided further, That in no event shall a bank accept for any one person, company, firm, or corporation to an amount equal at any time in the aggregate to more than twenty per centum of its paid up and unimpaired capital stock and surplus," should be stricken out."

ADDITIONAL RECOMMENDATION:

Our attention has been directed to the proposed plan whereby a draft drawn by a member bank upon its Federal reserve bank could be made receivable at par by another

designated Federal reserve bank.

In order that such a plan should be made practically safe and effective in its operation drafts drawn under it should be made "payable upon advice" instead of "receivable for immediate availability" at the designated Federal reserve bank.

In connection with all new plans inaugurated in the Federal reserve system for the transfer of funds or the collection of checks "safety first" should be the watchword; otherwise such unfortunate complications accompanied with probable loss as have lately arisen in connection with the collection of checks through the Federal Reserve Bank of San Francisco on three State banks in Seattle which recently failed are likely to be repeated to the discredit of the system.

Mr. Morgan stated that all of the recommendations made were unanimous except the last, which had reference to exchange conditions. On this matter Mr. Record differed, believing that the attitude of the Advisory Council was too conservative. On this recommendation, Mr. Record submitted the following minority report:

WHEREAS The services rendered by the federal reserve banks will be extended and made more helpful both to the member banks and to the general public when exchange written by a member bank on the reserve bank of its district is made immediately available at a Federal Reserve Bank of another district, designated in the face of the draft.

THEREFORE We approve the recommendation made on this question by the governors of the Federal Reserve Banks at their meeting held January 22, 1917,

We desire to state that the system will be further improved when exchange written by a member bank on the Federal Reserve Bank of its District is immediately available at any other Federal reserve bank.

Brief general discussion of the exchange situation followed.

Mr. Forgan then read the following resolution which had been passed by the Council, with reference to the issue of Federal reserve notes:

RESOLVED That the Federal Advisory Council reiterates its previous expression upon the issue of Federal reserve notes directly against the deposit of 100% gold or 100% of paper, or both, and for the counting of gold held by the Federal Reserve agents as security for notes as part of the gold reserve required to be held by the banks against such Federal reserve notes. In the opinion of the Council, no more important recommendation has been presented by the Federal Reserve Board. We, therefore, strongly urge the enactment of the principle into law.

RESOLVED FURTHER, that the President of the Council is instructed to at once convey to the Federal Reserve Board this expression from the entire Federal Advisory Council.

The resolution was discussed, and on motion, it was agreed to modify it to the extent of authorizing the Federal Reserve Board to use its discretion as to transmitting the

resolution to Congress.

Mr. Forgan then read a copy of a letter sent to Mr. Swinney by a member bank in his district, protesting against the kind of publicity that has been given in some districts to preparations for the possible issue of Federal reserve notes in case of emergency.

Governor Harding then called upon a representative of each Federal reserve district for a statement of conditions therein. The call resulted as follows:

No. 1. Mr. Wing.- Conditions are about as heretofore in the Boston District except that the transportation situation is making money rather scarcer as merchants have to be carried for a longer time. Some rediscounting and higher rates are to be expected in the near future. In the event of the declaration of war, foreigners in various industrial centers might withdraw funds rather heavily. The reserve bank, however, is well equipped for emergencies.

No. 2. Mr. Morgan.- Considerable surplus reserves now exist in New York. The banks are not unduly "loaned up." The fall in prices of stocks has enabled the banks

to free their funds and to take care of merchandise loans on a better basis. All business, however, is being more or less held up until better information can be had as to the future. There has been a reduction of foreign business for a variety of reasons. When the international situation clears, conditions can be well taken care of. The Federal reserve bank is in satisfactory condition.

No. 3. Mr. Rue.- The situation in Philadelphia is similar to that in Boston. Merchandise is piling up for lack of transportation. There is some strain on the banks. Importers are buying heavily and have to be "carried." The banks, however, are well able to take care of the situation. The reserve bank is in good condition.

No. 4. Mr. Rowe.- Conditions in Cleveland, Pittsburgh, Cincinnati and other places are disturbed and held up by lack of transportation, so that it becomes necessary to carry borrowers there. Otherwise conditions are favorable and the outlook hopeful.

No. 5. Mr. Norwood.- Business in the Richmond District is active, and the recent shrinkage in cotton has not proved particularly injurious. Speculative holdings are

small, and farmers are making every effort to get in a large crop.

No. 6. Mr. Lyerly.- Conditions in the Atlanta District are as good as could be expected. Industries are doing well, especially the textile mills. Woodworking establishments have been somewhat injured. Scarcity of coal has been a hardship. The freight embargo has proved very injurious. The banks have plenty of money, and rates are somewhat higher, although the demand for loans is not strong. The outlook for the year is very good. The Atlanta Bank is in excellent condition, and is making a fresh effort to get State institutions into the system.

No. 7. Mr. Forgan.- The status in Chicago is like that in Boston and Philadelphia. There is a hesitation and a slowing down, due to poor export facilities. The banks, however, are taking care of their customers. There is a good demand for money. It is not necessary to buy much from brokers. Rediscounting is likely in the near future, although of late the rediscounts have been running off at the reserve bank.

No. 8. Mr. Watts.- There is probably more confidence in St. Louis than in Chicago and elsewhere. In spite of the large percentage of Germans in St. Louis, conditions there are very normal. Shipments of currency have been small, and there have been practically no withdrawals from banks. The deposits in St. Louis banks are at high water mark, and reserves are high.

No. 9. Mr. Mitchell.- Conditions in the Minneapolis District are normal. The international situation has made no impression. Withdrawals of funds have almost zero. Profits have been large in all branches of business except banking.

No. 10. Mr. Swinney.- Up to the time of the imposition of the freight embargo, business in Kansas City was very active. Since that time there has been some shutting down. Grain shipments, however, have gone South instead of East and this helps conditions a little. The wheat crop outlook for the coming year is very bad, and the yield may be only half. Money is easy, the allies spending about \$500,000 a week for horses. The oil business is good. No complaints have been heard in any quarter.

No. 11. Mr. Record.- The banks are confident and strong in the Dallas District. Crops are good, the farmers making large deposits and being able to pay cash much longer than usual. Retailers are carrying small stocks only. The outlook for the future is excellent. The Federal reserve bank is not much drawn upon, but business is beginning to increase.

No. 12. Mr. Fleishhacker.- Except for the flurry in Seattle, conditions in the San Francisco District have been normal. Two small State banks failed in Seattle, but they have been weak for a long time. Some anxiety was spreading in the community, when the reserve bank made a reassuring announcement which quieted the situation. There was a certain amount of trouble in getting notes out of the Treasury, which caused a delay of 27 hours. Outside of Seattle conditions are good and deposits growing. The lack of rain has caused anxiety about the crops, but there is still time to save the situation, if the weather is good, for another year.

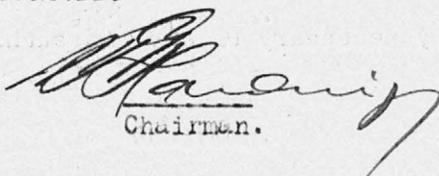
- At the conclusion of the reports from the several districts, Governor Harding called for expressions from members of the Council as to some points of policy that might occur to them. Mr. Morgan expressed the thought

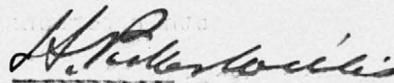
that the right plan was to go ahead as at present, and wait for voluntary accessions to the system. Mr. Record thought that while the system should be friendly to State banks, it should not defer to them too much. Mr. Norwood called attention to the fact that the small national banks in the Fifth District were now depending on the Federal reserve bank instead of on the larger national banks. The State banks, he thought, would gradually come to do likewise..

Governor Harding called attention to the Senate bill's provision with reference to acceptances in foreign trade, pointing out that the amount of any one acceptance was therein limited to 20% of capital. Mr. Fleishhacker moved that the Board be authorized to state that the Advisory Council recommended that no limitation be placed on the amount of any one acceptance, but that the use of the 100% power, and its division among different names be left entirely to the discretion of the accepting bank. The motion prevailed.

At 5.40 p.m. the joint session adjourned..

APPROVED:


Chairman.


Secretary.