

At a joint session of the Federal Reserve Board and the Federal Advisory Council held in the office of the Board on Tuesday, April 17, at 10.30 a.m.,

PRESENT:

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

Present also, Vice President Rue, Mr. Rowe, Mr. Fleishhacker, Mr. Lyerly, Mr. Wing, Mr. Swinney, Mr. Mitchell, Mr. Watts, Mr. Record, Mr. Horwood, Mr. Morgan.

Governor Harding opened the meeting, expressing regret at the absence of President Forgan, and stated that the Board had no special list of subjects to present for discussion. He said that the predominant subject of thought at the present time relates to the great Government loan now in prospect. The policy of the Secretary of the Treasury had been that of keeping his own counsel up to such time as the new bond act should be passed, hence he (Mr. Harding) was unable to give any special information as to the situation. It was undoubtedly the desire of all to aid in the successful flotation

of the bonds. Secretary of the Treasury McAdoo had sent word that he would be glad to meet the Council in his office at noon this day.

Governor Harding then suggested the consideration of the loan from the standpoint of methods to be followed in depositing the proceeds, and also from that of issuance of the loan, whether in installments or not, and, if so, of what size.

Mr. Morgan interposed with an inquiry as to whether it was true, as stated in the newspapers, that it was now proposed to authorize the Secretary of the Treasury to deposit the funds in State banks and trust companies.

In reply Governor Harding said that a committee of the Board had yesterday, April 16, waited on the Secretary of the Treasury, and had asked him about this point. The Secretary had replied that he had asked for power to deposit the funds in State banks and trust companies, but had added that it was not true that he favored giving the circulating privilege to the new bonds.

Governor Harding then discussed the Senate bill No. 8 embodying the Board's proposed amendments to the Federal Reserve Act, saying that it was substantially in line with what

the Council had approved in the past. Nevertheless, it would be well to have the Council reaffirm its endorsement of the measure. One new phase of the bill was that which provided for taking better care of the gold and paper held by reserve agents. Governor Harding then sketched out the provisions of the bill introduced during the last session, with which they were already familiar, and then called attention to the provisions in the new bill governing the admission of State banks and their withdrawal from the System. He then called attention to the Hayes amendment, providing for a tax on checks of State banks, and suggested study of that portion of the measure, although he expressed the opinion that the taxation provision might have to be sent to the Ways and Means Committee rather than to that on Banking and Currency.

Vice President Rue, as presiding officer, replied that the Council was glad to have the opportunity of discussing these important questions with the Board. Informal discussion already held among members had shown that the question of taxation of wealth was regarded as of the utmost importance, and was closely allied to the success of the new bond issue. The status of State bank members was

also important, for he believed that under the Board's suggested changes a State bank could be permitted to "over-loan" without being subject to the control of the Federal Reserve System, and would thus enjoy a distinct advantage over a national member bank.

As to the details relating to the Government loan, he felt that they could not be very thoroughly considered because the bill was not yet law. If the Council should remain in session tomorrow, and if the bill should be acted upon in the meantime, as generally assumed, more definite discussion would be possible.

General discussion of the Board's proposed amendments ensued, and particular reference was made to the plan proposed by Senator Owen for guaranteeing deposits of national banks, as well as to the plan for the taxation of interstate checks of State banks, already described by Governor Harding.

Mr. Morgan then said that he wished to inquire about the new bond issue and specifically asked whether the Secretary of the Treasury did not want suggestions. If he did not, he asked, would it not be well if the Council should hold back its views for the present.

Governor Harding and Mr. Warburg assured Mr. Morgan

assured Mr. Morgan that in their opinion the Secretary of the Treasury did want suggestions, but said that it was probably better to let them wait until the bill had been passed. Mr. Morgan said the bill ought to embody the power for the Secretary of the Treasury to raise the rate of interest above $3\frac{1}{2}\%$, because in his opinion it was not possible to sell \$5,000,000,000 of bonds at $3\frac{1}{2}\%$.

At this point Governor Harding left the room and Mr. Warburg took the chair. Mr. Warburg then asked whether Mr. Morgan thought the minimum rate on the bonds ought to be fixed at 4% , and received an affirmative reply. Mr. Warburg said that considering the exemption from taxation, such a rate would be equivalent to a 5% bond without the exemption, and that this would hurt the savings banks very seriously as well as all corporate securities. Mr. Morgan rejoined that the truth was that the borrowing now proposed would result in taking future savings from the community and that the old bonds could not be sold because there was no one to sell them to. The current and future savings of all would be required to float the proposed issue.

Governor Harding at this point returned to the room and resumed the chair.

Mr. Rue said that he thought the Secretary of the Treasury should have power to raise the rate of interest. It would be disquieting to the country if it should later be found that he had to go back to Congress for authority to place a higher rate on later issues.

A colloquy between the members of the Council and of the Board with reference to the probable amount of investable wealth in the country ensued. Governor Harding then suggested that the Council discuss the status of 3% conversion bonds now held by Federal reserve banks in view of the plans for the new issue.

Mr. Fleishhacker inquired about the status of abraded gold, asking whether there was anything contained in the amendments that related thereto. On being answered in the negative, he said he thought there was about \$50,000,000 in gold on the Pacific Coast that could be drawn in if the Federal reserve bank were willing to absorb a loss of 1 or 2%, or if this loss could otherwise be provided for.

Mr. Morgan inquired whether the Board desired any discussion of the recent operations involving the borrowing from the Federal reserve banks of \$50,000,000 in 2% securities, and

of the effect of the repetition of such an operation. Governor Harding answered in the negative saying that the operation was not likely to be repeated.

Mr. Warburg remarked that nobody intended to use the Federal Reserve Banks as heavy investors in long term securities.

To this Mr. Morgan replied that the Federal reserve banks had been in fact practically ordered to buy these notes.

Mr. Warburg responded that this was by no means the truth. The banks had not been required to buy them, but had been left to make their own subscriptions or not as they chose.

Mr. Rue said that the mere amount involved was not important, the real question was that of principle. The banks had, in fact, been obliged to buy the bonds.

Mr. Miller expressed the opinion that the Council would do well to state what part the Federal reserve banks ought to take in financing the new loan.

Mr. Williams said that he desired to make a statement, lest by his silence he should seem to agree to statements made by the Governor of the Board. He believed that Mr. Harding had said the Board was opposed to having the pro-

ceeds of the loan deposited with national banks. Mr. Williams said he thought the proceeds should be left on deposit with member banks. He considered that it would be a very serious situation if the bonds should be disposed of, say, monthly, over a period of years. In such a case there would be a serious draft upon the resources of the banks, while if the funds were left on deposit with them, it would be possible to equalize the demand throughout different parts of the country. Mr. Wing inquired whether special security protecting the deposits should be required, and Mr. Williams replied in the affirmative, saying that the new bonds should be used as security. He thought, however, that the non-member banks ought not to be placed on a parity with the members. Thereupon a colloquy ensued between Messrs. Williams and Warburg with reference to the question of using the member banks as depositories and the details which should govern the operation.

Mr. Fleishacker inquired what would be the Board's policy with respect to foreign revolving credits, and Governor Harding replied that he saw no reason to believe that these would need to be continued. The fact that \$3,000,000,000 of new money was to be made available would obviate the need which had existed for such credits.

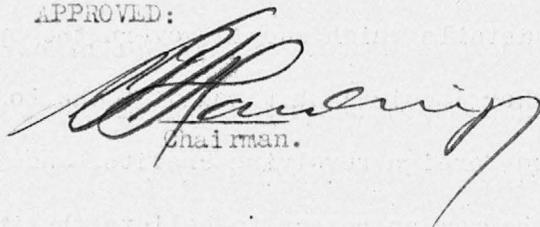
Mr. Williams said that he supposed it was desired to know whether the Allies would use the proceeds of the bonds to take up existing or outstanding loans, and Mr. Fleishhacker responded that he did intend to put that question, whereupon Mr. Williams said that he believed nothing had been decided regarding that point.

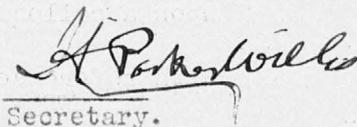
Governor Harding said the Secretary of the Treasury had altered the time of the proposed conference to 12.15 instead of 12 o'clock, and suggested that the meeting now adjourn.

Thereupon it was informally agreed to resume the session tomorrow, Wednesday, April 16, at 10.30.

At 12.10 p.m. the joint conference adjourned.

APPROVED:


Chairman.


Secretary.