At a joint session of the Federal Reserve Board and the Advisory Council held in the office of the Board on Wednesday, April 16, at 11:30 a.m.,

PRESENT:

Mr. Harding, Mr. Miller,
Mr. Warburg, Mr. Williams,
Mr. Delano, Mr. Willis, Secretary.

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

Mr. Rue opened the meeting by presenting to the Board expressions of opinion adopted by the Advisory Council, as follows:

"In the matter of the taxation as suggested by the Secretary of the Treasury the sense of this Council is --

1st. That the proportion of war cost for the first year to be provided by taxes, viz., 30%, would impose too great a strain upon industry and the investable surplus of the country; the proportion should not exceed 25% for the first year.

2nd. That to impose a surplus profits tax and an additional income tax on the incomes of the calendar year 1916 would, besides being unjust, put an excessive burden upon corporations and upon individuals, who having provided for the taxes of that year and having thereby discharged their tax obligation to the government have disposed of the balance of their profits by placing them either in permanent improvements or fixed investments.
3d. That since the government is about to make huge demands upon the investable surplus of the country it would be most advisable so to frame the tax measures that large incomes from which is derived the greater part of that fund should not be taxed in an undue proportion. In this way industry may continue to finance itself and at the same time the government obtain the needed funds with the least possible disturbance of business.

4th. It is most desirable that the taxes to be levied should be upon luxuries and as little as possible upon thrift, enterprise and savings.

"B"

The Council believes that the first offering of long time bonds should be $2,000,000,000 if that amount should be adequate to meet the immediate necessities of the government, in order that, first, a successful flotation may be assured, and, second, the amount may not be materially in excess of short certificates which may be issued in anticipation of such issue, thus avoiding the tying up of either money or bank credits for any length of time. If handled in this manner, successive offerings being made as required by the government, the entire bond financing could be done through the Federal Reserve banks as fiscal agents for the Treasury and serious disturbance of bank balances avoided. This method coupled with a careful use of short certificates would in our opinion obviate the necessity for a general deposit of government funds in the banks of the country.

In our opinion the bonds should be payable in thirty years, callable after five years.

"C"

The Council is of opinion that the Hayes' bill ought not at the present time be pressed as it seems to it inopportune to introduce any measure of a coercive character, when the cooperation of all the state banks and trust companies is so much needed to assist in carrying out the financial program of the government.
Mr. Rue stated that the Council had not yet been able to consider the proposed amendments to the Federal Reserve Act. With reference to the question of a tax on circulation designed to provide a fund to take care of the liabilities of failed banks, the proposal might be so framed as to be sound, but the general guarantee of deposits proposed in pending bills was believed to be absolutely unsound.

Governor Harding then called for an expression of opinion from the several members of the Board with reference to the proposed Government loan.

Mr. Williams said he did not care to speak of the amount of the loan at this time.

Mr. Miller said he thought there should be no extravagant commitment one way or the other, but the amount of the issue should be governed by circumstances.

Mr. Delano said he had been favorably impressed with an indeterminate issue suggested by the Governors of the Federal Reserve Banks, but that if this was deemed undesirable he thought it was best to keep the first offering low, say $1,000,000,000 or $1,500,000,000. Presumably, the bonds would be offered at par and interest. In case the loan was oversubscribed, more could then be offered to the public in order
to take up all the subscriptions. It was important that
means be found for letting the money remain in the com-
munity through the agency of the Federal Reserve Banks.

Mr. Warburg said that, simply from the point of
view of effectively placing the loan, he would prefer if
only one billion dollars was offered. While in the ab-
sence of more knowledge as to the requirements it was dif-
ficult to do more than to give a vague estimate as to the
monthly requirements he thought that even if we figured
on only $300,000,000 per month, which probably would be
too low, a one billion dollar loan would take care only
of three months, and if the requirements would be larger,
for an even shorter period. As a consequence, the Gov-
ernment would have to come back into the market with a
new loan every three months, and this would throw a blight
upon the business situation because, in that case, the
Government financing would be a constant shadow over the
market and other financings would hardly get a chance.
It appeared to him, therefore, that even though
$2,000,000,000 was a very large sum to place, we probably
ought to tackle the proposition on that basis. The im-
mediate requirements and those of the months intervening
between now and the first payment on the loan should be met by the sale of short term certificates. Until the payments would be made, probably a billion dollars or more of such certificates would be outstanding and could be used for the purpose of being handed in in payment of the new long term loan. It might possibly then be practicable to issue one billion dollars to be paid in full immediately and the other to be sold in instalments to provide for the Government's requirements after the issue. He urged the bankers to take courage and discuss the problem on the basis of a two billion dollar issue, which, to his mind, could be handled without disturbing the money market.

Mr. Morgan said that one difficulty with the installment plan was that every one would have to borrow in order to take up the subscriptions, while the proposed taxes would leave little for anyone to pay anything with.

Mr. Williams suggested the plan should require a payment of $5 down with each subscription, the bonds to be issued only after the installments had been paid up.

Mr. Morgan said that the bonds in his opinion would not sell permanently at par. They might be issued at par, but they might subsequently go as low as 95.
Mr. Rowe said that if the scheme of taxation at first was placed at an exaggerated figure, it would be very hard to sell the bonds, and there would be a grave danger of disturbance to the whole financial fabric. There would also be danger of locking up money. Withdrawals from banks were going on even now.

At this point Governor Harding interposed with the remark that a Senator, whose name he did not mention, had suggested to him that it might be well not to impose any taxation now, but to let the Ways and Means Committee work steadily until next December and then bring in a well-considered bill. He then read from the Congressional Record the substance of a debate in the Senate on April 17 with reference to the granting of power to the Secretary of the Treasury to place deposits of public funds in banks. He then resumed the call for expressions of opinion.

Mr. Wing said the financing must be done in the first place on a short term basis with plans for subsequent reimbursement. The money must not be kept long idle in banks.

Mr. Morgan said he thought $2,000,000,000 might be
then resumed the call for expressions of opinion.

Mr. Wing said the financing must be done in the first place on a short term basis with plans for subsequent reimbursement. The money must not be kept long idle in banks.

Mr. Morgan said he thought $2,000,000,000 might be sold if the financial public were well treated and were not "extravagantly hammered" with taxation. In answer to a question from Governor Harding as to what the public would think if the legislation contained a provision making the new taxation applicable to last year's income, except in those cases where the individual subscribed an equal amount to the bond issue, Mr. Morgan said that if the tax were made applicable to last year's income it would injure the whole enterprise.

Mr. Miller said he thought there was no use to try to borrow more than was really available as the result of production over the period in which the loan was offered. Great Britain was feeling the results of a policy of that kind today in the form of inflated bank credits and excessive prices. The war was likely to reach a point where the
matter of supporting it was not a financial problem but an industrial problem. He thought that what was needed was high taxation in order to discourage wasteful consumption.

Mr. Morgan said the trouble was that taxation not only discouraged consumption but also production.

Governor Harding then asked each member of the Council what he thought of the amount of the loan that could be floated at 3\(\frac{1}{2}\)% and what he thought of the idea of making the income and excess taxes retroactive.

Mr. Watts: $1,000,000,000 feasible; $2,000,000,000 possible if handled in the right way. The retroactive income tax would be wrong and would hurt the chances of the loan.

Mr. Norwood: $1,000,000,000 certain; $2,000,000,000 might or might not be taken. The retroactive income tax was a subject on which he had not thought much, but felt sure that the people would resent the idea.

Mr. Morgan: $1,000,000,000 certain; $2,000,000,000 possible, the latter amount only in case good feeling is cultivated. The retroactive income tax would not be considered fair, hence the men who would otherwise subscribe largely would not do so.

Mr. Record: $1,000,000,000 certain; $2,000,000,000
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Governor Harding then asked each member of the Council what he thought of the amount of the loan that could be
floated at $2; and what he thought of the idea of making the income and excess taxes retroactive.

Mr. Watts: $1,000,000,000 feasible; $2,000,000,000 possible if handled in the right way. The retroactive income tax would be wrong and would hurt the chances of the loan.

Mr. Norwood: $1,000,000,000 certain; $2,000,000,000 might or might not be taken. The retroactive income tax was not a subject on which he had thought much, but felt sure that the people would resent the idea.

Mr. Morgan: $1,000,000,000 certain; $2,000,000,000 possible, the latter amount only in case good feeling is cultivated. The retroactive income tax would not be considered fair, hence the men who would otherwise subscribe largely would not do so.

Mr. Record: $1,000,000,000 certainly; $2,000,000,000 possible, but the latter amount not desirable. The retroactive income tax would not help matters.

Mr. Swinney: $1,000,000,000 certain, $2,000,000,000 possible. The retroactive income tax would take away all enthusiasm.
Mr. Wing: Either amount might be placed. Is yet the matter was all guess work. The effect of leaving the taxes to be dealt with later would be helpful psychologically.

Mr. Mitchell: $1,000,000,000 would be easy and $2,000,000,000 probably could be floated if rightly handled. Success would call for the use of all available machinery. The retroactive income tax would have a bad effect.

Mr. Rowe: $1,000,000,000, $1,500,000,000 and $2,000,000,000 were the desirable amounts in descending order of preference. The retroactive tax would have a bad effect.

Mr. Fleishhacker: Mr. Wing's opinion was the correct one. The matter of taxation was largely one of education. If the taxes should be deferred until later, perhaps two or three billions could be obtained without trouble.

Mr. Rae: Mr. Wing's opinion was the correct one. The Ways and Means Committee should make a statement as to its policy.

Governor Harding then asked for an expression of opinion as to whether $2,000,000,000 would be the maximum possible amount of the loan, or whether more could be sold (the sale to be distributed over a year or a year and a half).
This inquiry brought forward the following views:

Mr. Watts: $2,000,000,000 is the maximum.

Mr. Norwood: The Ways and Means Committee should assure the people that all unnecessary officials would be cut off and excessive salaries avoided. The people suffer more from unnecessary officials and wasteful expenditures than from war.

Mr. Morgan: More than $2,000,000,000 might be sold. The whole question was one of the method of handling the loan. General taxation would help if the retroactive idea were entirely abandoned.

Mr. Ney: $3,000,000,000 would be the maximum amount.

At 12.30 p.m. the joint session adjourned to meet upon call of Governor Harding.

APPROVED:

Chairman.

Secretary.