

At a special meeting of the Federal Reserve Board held in the Assembly Room of the Board in the Metropolitan Bank Building, Fifteenth Street, Washington, D. C. at 10.30 A. M., on Thursday, November 8, 1917.

PRESENT

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

Present also, Governors of F. R. Banks as follows:
 Mr. Aiken, Boston, Mr. Treman (Deputy Governor of the F. R. B. of New York), Mr. Rhoads, Philadelphia, Mr. Fancher, Cleveland, Mr. Seay, Richmond, Mr. McCord, Atlanta, Mr. McDougal, Chicago, Mr. Wells, St. Louis, Mr. Wold, Minneapolis, Mr. Miller, Kansas City, Mr. Van Zandt, Dallas, Mr. Lynch, San Francisco.

Governor Harding opened the meeting with introductory remarks regarding the general situation and the strain imposed upon the banking resources of the country. In order to equalize reserves he proposed a redistribution of bills among the Federal reserve banks, whereby various banks would take from the F. R. B. of New York, specified amounts of bills with corresponding changes in their reserve percentages, as indicated in the following table:

	Takings from New York	Reserve Nov. 5-6	Percentage New percentage
Boston	\$ 5,000,000	74.6	70.7
Philadelphia	110,000,000	81.1	73.5
Cleveland	10,000,000	71.8	65.8
Richmond	5,000,000	80.4	74.9
Chicago			
St. Louis	5,000,000	70.3	64.3
Minneapolis	5,000,000	70.3	64.1
Dallas	5,000,000	73.8	67.6
San Francisco	10,000,000	86.1	76.7

All the Governors affected by the proposed transfer concurring, the Secretary was directed to prepare the necessary telegrams for transmission to the several banks in order to carry out the proposed arrangement; whereupon he so prepared them, submitted them for approval and transmitted them.

Governor Harding stated that the Board would be pleased to have the governors of the Federal Reserve banks attend an informal smoker at eight-thirty this evening in a private room at the Metropolitan Club, where various topics under discussion could further be considered.

Topics were then taken up and discussed in their order as follows:

1. Relations with Treasury and fiscal agency matters.

General discussion ensued as to whether or not Treasury certificates of indebtedness could be floated in the future at 4%.

Governor McDougal of Chicago, stated that the situation in Chicago during the last two issues of certificates of indebtedness was that the Chicago, banks were running very close on their reserves, a number of them borrowing. "We found it very difficult," he said, to place these certificates as we would like to have done, but we followed a plan whereby every incorporated bank in the district was communicated with at once, and followed that up with a circular letter a day or two later. We only succeeded in selling about one hundred and forty million dollars. The interest rate was not attractive and there is no question but what a half percent more would have stimulated the sale."

Governor Harding: "What do you think would be the proper differential as between the Treasury certificate and commercial paper offered through a note broker?"

Mr. McDougal: "That is a hard question to answer. I think a half percent more on certificates would be attractive."

Mr. Warburg: "On the whole, Chicago, has not taken enough of these certificates."

Mr. McDougal: "That is what I feel."

Governor Harding: "What has been your commercial paper rate for the last sixty days?"

Mr. McDougal: "Five and one-half percent." Governor McDougal further stated that the banks in his district were actuated more by patriotism in subscribing to the certificates of indebtedness.

Mr. Warburg: "The trouble is in your district that you did not go far enough with your patriotism. New York has taken more than 50% of the whole thing; if you include the last one, nearer 60 or 70%. That is a thing which is not satisfactory. We have got to distribute those certificates on a basis which will spread the burden over the country. Unless we find a basis which will produce a more satisfactory distribution we cannot do the business well."

Governor Harding: "How about Boston?"

Mr. Aiken: "I think they would have to have a higher rate to secure a more satisfactory amount. We have been pretty poor and have exercised a great deal of pressure upon the banks."

Governor Harding: "Do you think that there is any particular relation between the short time Treasury bill and a long time bond?"

Mr. Aiken: "I do not think they are related."

Governor Harding: "How is it in the Richmond district?"

Mr. Seay: "Our district is not as much disposed to take the certificates as I would like to see. One consideration which keeps banks from buying the certificates is after they have all bought them and after they have come along and subscribed for the loan they have invested in the certificates what they were going to put into the loan."

They put out their money in advance, whereas if they had not done it they could subscribe for the loan and pay for it by credit upon their books. I do not know whether other districts have met with that."

Mr. McCord: "What Governor Seay says is about true with us. There is a possibility however, of selling more Treasury certificates in the future than in the past."

Mr. Williams: "How many have you placed heretofore?"

Governor McCord: "Between nine and ten millions."

Mr. McCord thought that it made no difference what preferential rate there was in his district, and Mr. Treman thought that it made little or no difference in the New York District, although he said that in his opinion after the fifteenth of November the New York district would have a stiffening of rates beyond what now exists, and that there is a feeling on the part of his board that the rate on the next issue of certificates ought to be $4\frac{1}{2}\%$.

Mr. Miller stated that the banks in the Kansas City district are overloaded and will be until the fifteenth of January. "We have a peculiar situation in our district. In Kansas City alone \$300,000,000 of cattle paper originates., which sells all over the country, north, east, south and west and the local banks in Kansas and Nebraska.

Since conditions have changed, the banks which have been buying that paper as secondary reserve, are declining to take renewals of paper in place of it and it is putting a pressure on banks in that territory that is simply terrific. At a recent clearing house meeting the sentiment was expressed that that industry should receive some consideration at the hands of the government.

Mr. Wold stated that he did not think the rate has had any bearing upon the sale of Treasury certificates so far in his district, as it has been entirely a matter of patriotism. Rates are firm at 6%.

Mr. Rhoads stated that more certificates could be sold in his district at $4\frac{1}{2}\%$ than at 4%.

Mr. Van Zandt stated that in his district about as many certificates could be sold at 4% as at $4\frac{1}{2}\%$ at the present time. Money conditions are very easy, generally speaking.

The question of war savings certificates (Subdivision C of Subsection 2, under Section 1) coming up, at the request of the chairman, Mr. Delano made a brief Statement of the meeting and of the plans of the War Savings Committee, and he distributed to the Governors, a draft of a letter of explanation issued to the Federal reserve banks under date of November 12, X-489). Samples of war savings

certificates and stamps were also passed around for inspection.

Mr. Miller inquired whether the certificates would be sold as such or as stamped, and Mr. Delano replied that the certificates would be of no value until stamps had been placed on them.

Under Section II, Subsection 1 (Cooperation by Subtreasuries in the Concentration of Gold,) Governor Harding submitted to the Conference the following letter recently sent by Secretary of Treasury Leffingwell to the Treasurer of the United States.

CONFIDENTIAL.

November 7, 1917.

My dear Governor Burke:

Please cause the following instructions to be issued to all subtreasuries and mints:

FIRST: Require the Treasury offices to discontinue the use of gold certificates to meet current disbursements except when absolutely no other paper currency is available.

SECOND: Require Federal Reserve Banks to transfer to the various Treasury offices, as directed by the Treasurer from time to time, such sums in paper currency (other than gold certificates) as may be required to take care of the excess payments of such offices. Such transfers will be charged as a transfer of funds against the Treasurer's general account, and may consist of United States notes, silver certificates, national bank notes, Federal Reserve bank notes or Federal Reserve notes.

Such notes, in all cases, must be fit for circulation, and of the denominations required.

THIRD: Gold certificates, Series of 1900, and Gold certificates, Department series, would still be issued for deposits of gold as required by law. Gold certificates would still be redeemed in gold as heretofore if gold is asked for and the payments for unfit United States currency presented for redemption would still be made in like kind as far as possible, but the use of gold certificates to meet current disbursements (representing the greater part of the Treasury payments) would be practically discontinued.

These, of course, are confidential instructions for the Treasury, subtreasuries and mints.

Very truly yours,

(Signed) R. C. LEFFINGWELL

ASSISTANT SECRETARY.

Hon. John Burke,
Treasurer of the United States.

Discussion ensued, and the opinion was expressed by members of the Board that it would be well to send out as few open or circular letters with reference to the withholding of gold by banks, as possible.

Under Subsection 2 of Section II, Governor Harding called attention to the Board's recent circular letter on unfit currency.

Under Subsection 3 as to light weight gold coin, Governor Harding called attention to the Board's circular letter of September 22, and thought that there was need of

but little further discussion on the subject.

Individual opinions were called for, and Mr. Lynch expressed the view that the San Francisco Bank was getting in gold coin slowly, encountering some few obstacles due to adverse custom. The loss by abrasion was about \$2 per \$1000.

Mr. McDougal reported that the Federal Reserve Bank of Chicago was getting the gold in by the aid of member banks, and was preparing now to send out a general letter to all banks. He could not say what the net loss was.

Mr. Wold thought that the Minneapolis bank had got in about all the gold of full weight there was to be had. He thought there was about \$10,000,000 of abraded coin, and the loss might run to 1%. The amount thus outstanding, he said, "runs below the limit of tolerance, a loss of about \$10 a thousand."

Mr. McCord stated that there is only a very small proportion of gold abrasion in his district, the majority of the gold coins being full weight.

Governor Harding then suggested that this discussion be passed over for the time being, to be continued at the informal discussion this evening.

The question of the embargo on gold was then taken up and Governor Harding outlined the Board's policy in granting applications for exportations of gold. The Board's recent agreement with the Canadian Bankers' Association for the exportation of monthly amounts of gold was also explained to the governors.

Governor Harding asked to be informed as to what proportion of the exports of gold to Mexico and Canada are likely to come back.

Mr. Van Zandt stated that so far there has been no evidence of any return of gold from Mexico.

Mr. Wold stated that he has seen no evidence of a return of gold from Canada, as did also the Governor of the Cleveland Bank.

Mr. Treman stated "it is pretty hard to tell whether there will be a return movement. Some will naturally drift back."

Governor Harding suggested to the governors that they watch the situation closely and report any apparent violation of the regulations.

It was stated by several of the governors that shipments of Canadian currency were being held up by collectors of customs at the border, and Governor

Harding replied that this should not be the case, but he would take steps to see that the customs authorities were properly advised.

"The topic of Discounts and Investments" was then considered and general discussion ensued as to the importance of Member banks refraining from discounting their own acceptances.

The suspension of commodity rates was then discussed, Governor Harding stating that there seems to be no particular need for commodity rates any longer. After informal discussion, Governor Harding asked for a vote as to whether a special commodity rate was required, but none of the Governors voted in favor of it.

Brief informal discussion with reference to preferential rates on paper secured by Government bonds ensued. Governor Harding raised the question of rates intended to stimulate cattle raising, and there was a brief interchange of ideas with reference to cattle raising conditions in Texas. Mr. Van Zandt reported the loss as serious, but thought there would be no banking losses on cattle paper.

Discussion of Subsection 5(a) of Section III, Advance in Discount Rates, was passed over until subsequent meeting.

Topic No. IV was then considered, and it was agreed

at conclusion that consideration of this topic be postponed until the meeting at three o'clock.

Reports on Existing Branches, Subsection 1, Section IV, were passed over until subsequent meeting.

Governor Harding then discussed the question of branches in general, and read the draft of the proposed by-laws for new branches of the Cincinnati type, which had been worked out by the Board, explaining the same in some detail, Brief informal comment ensued.

At 12:55 P. M., the Board adjourned to meet at 3 P. M this day.

APPROVED:

H. P. ...
Secretary.

chairman.