At a joint session between the Federal Reserve Board and the Federal Advisory Council held in the Assembly Room of the Board, Metropolitan Bank Building, on Monday, November 19, at 11 a. m.,

PRESENT:

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

Present also, President Forgan, of the Advisory Council, and Messrs. Mitchell, Fleishhacker, Swinney, Morgan, Wing, Rowe, Rue, Watts, Lyerly and Norwood.

Governor Harding addressed the meeting, calling attention to the list of topics which had been placed with the Advisory Council, as follows:

RECOMMENDATIONS
OF
THE FEDERAL ADVISORY COUNCIL
TO
THE FEDERAL RESERVE BOARD.

* * *

NOVEMBER 20, 1917

DISCOUNTS AND INVESTMENTS:

TOPIC NO. 1. Should member banks make a practice of discounting their own acceptances?

Recommendation:

While it may not be considered as being in accord with best banking principles for a bank to purchase its own acceptances and carry them as an investment, nevertheless until a wider discount market is developed, which is most desirable, it may be at times necessary for a bank to purchase its own acceptances for the protection of its customers.

TOPIC NO. 2. Suspension of commodity rates and reasons therefor.

Recommendation:

The Council does not believe there is any necessity for a preferential rate for the rediscount of so-called commodity paper.

TOPIC NO. 3. Is it desirable and necessary that preferential rates be established for customers' paper running not longer than ninety days, which is secured entirely by United States bonds or Treasury certificates?

Recommendation:

To facilitate government financing we believe it desirable that there should be a preferential rate established for customers' paper running not longer than ninety days which is secured entirely by United States bonds or Treasury certificates.

TOPIC NO. 4. General discussion of assistance to banks and savings banks especially in carrying investments in railroad and corporate bonds.

(a) What means, if any, are there of affording adequate relief under the present law.

Recommendation:

The present law does not permit any relief by granting loans to savings banks against the security of railroad and corporate bonds.

TOPIC NO. 4.

(b) Should the Federal Reserve Act be amended so as to permit the rediscount by Federal Reserve banks of notes secured by bonds of railroad or industrial corporations?

Recommendations:

It is our opinion that the Federal Reserve Act should not be amended so as to permit the rediscount of notes secured by bonds of railroads or industrial corporations, as such amendment would be contrary to the spirit and intent of the Act as expressed in its title: "An Act to provide for the establishment of Federal Reserve banks, to furnish an elastic currency, to afford meansof rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes."

TOPIC NO. 4 (Continued)

(c) Discussion of an alternative plan.

Recommendation:

It may be desirable to have enabling legislation to provide for the necessary financing of railroads, public utility corporations and savings banks either directly or indirectly, by the United States government during the duration of the war and under the supervision of a Federal commission.

CAPITAL AND RESERVE REQUIREMENTS:

TOPIC NO. 5. Should the Federal Reserve Act be amended so as to allow state banks which were in existence on November 16, 1914, to become members of the Federal Reserve system, although their capital be less than national bank requirements?

Recommendation:

We think it inadvisable so to amend the law.

TOPIC NO. 6. Should the Board be given authority to exempt from the reserve requirements imposed upon banks in reserve and central reserve cities, banks not located in the business centers whose business is largely local, and which do not receive accounts from other banks.
(Note) The Board has received numerous requests that it ask Congress to modify the existing law in the manner above indicated, but so far has reached no conclusion in the matter. What would the Council advise?

Recommendation:

We think it undesirable that there should be any distinction made in regard to reserve requirements of banks located in central reserve or reserve cities simply because some of them are not located in the business centers of these cities. We believe however, that sooner or later the basis on which reserve requirements is established should be changed and should be determined by the character of deposits carried by the various banks under such classifications as bank deposits, commercial deposits and time deposits. We think, however, it is inadvisable that any legislation looking to this change should be asked for under present conditions.

<u>GOLD EMBARGO:</u>

(Note) The Board has been charged with the duty of advising the Treasury in matters relating to foreign exchange, and to exportations of gold, and it would like to have the opinion of the Council in the following matters:

TOPIC NO. 7. To what extent, and for what purposes should gold be released for shipment to other countries?

Recommendation:

Gold should not be released for shipment to other countries except in sufficient quantities to settle unfavorable trade balances against us before the dollar exchange in the foreign country falls to a level low enough to increase intollerably the cost to us of the principal commodities imported by us from that country. Imports should be restricted to such as are necessary for carrying on the war and exports should be facilitated in every possible way.

TOPIC NO. 8. Should the stabilization of sterling exchange by purchases of sterling bills in this country be continued?

Recommendation:

Yes.

TOPIC NO. 9. Should any attempt be made to stabilize dollar exchange in countries of continental Europe, such as Sweden, Holland, Switzerland and Spain?

Should an effort be made to bring the dollar back to its parity in South American countries?

Recommendation:

It is very desirable to make such arrangements as are possible that do not involve the undue shipment of gold.

TOPIC NO. 10. Exchange relations with Canada. Should unrestricted shipments of gold to Canada be permitted, or if limited, what arrangements can be made to continue normal trade relations with Canada and to facilitate the movement of Canadian corps?

Recommendations:

The Council makes no recommendations, as it is informed that exchange relations with Canada are in process of adjustment .

TREASURY CERTIFICATES OF INDEBTEDNESS:

TOPIC NO. 11 What means should be availed of to secure a more general distribution of Treasury certificates of indebtedness?

Recommendation:

The market for Treasury Certificates is constantly broadening and we think it inadvisable and unnecessary that any special steps be taken to force their distribution among the banks.

Additional Recommendation:

Now that the financing of the Second Liberty Loan is effected it is our opinion that discount rates should be increased and we would recommend that the current rates be increased one-half of one percent in each of the various classifications of paper discounted or purchased by the Federal Reserve banks.

He said, however, that topics not on this list which might occur to any members of the Council should also be discussed. Government financing, he said, was of more and more importance from day to day and tended to overshadow other phases of banking.

He called attention to the fact that there might be in the near future some demand for financing the needs of corporations by means of acceptances protected by warehoused goods.

He described the method of conducting financing on this basis, and suggested that this be considered by those present.

As to the commodity rate until recently in effect, he placed the matter before the Council, expressing the opinion that there probably could be little doubt that under existing conditions this rate was now obsolete.

As to the rate for customers' paper running 90 days and secured by Government obligations, he called attention to the question whether preferential rates should not be accorded by Federal Reserve banks.

"The same question presented at the last meeting of the Council is also again up for consideration," said Mr. Harding, "namely, the best method of relieving savings banks and other holders of investment securities. The situation is complicated by the fact that large issues of Government bonds have occurred. "What is mainly needed," he said, "is the revival of confidence in the outcome of present conditions." He thought it desirable that the railroads should be granted some increase in rates as the first step toward the relief. The question of doing anything further than this was more difficult. Some had suggested an amendment to the Federal Reserve Act in such a way as to admit to discount paper now regarded as investment paper. This would be a very serious proposition, even in time of war or as a temporary resort. It was the opinion of the Board, he said, that the discount market should not be called upon to carry burdens of a strictly investment nature. It was not inconsistent with this, however, that Federal Reserve banks should be discounting paper secured by Government obligations, because these obligations were today taking the place of commercial paper in financing business enterprises.

Mr. Forgan interposed at this point, suggesting that some incoming state banks that he knew of were possessed of much ineligible paper of short maturity. It was of the kind that Federal Reserve banks could buy in the open market if they chose. Was it not, therefore, right that they should loan on this security ? Governor Harding said that he would take the matter up specifically with Counsel if Mr. Forgan would furnish facts in each case.

Governor Harding then called attention to the question of discounting non-liquid paper, reiterating the fact that the Board was against such a plan.

Governor Harding next presented the question of admitting to the Federal Reserve System state banks whose capitals were too small to permit of their entering under the terms of existing law, but which were possessed of a good surplus and were otherwise desirable members. He also inquired whether in the opinion of the Council the Board ought to be authorized to exempt banks technically located in cities from the reserve requirements enforced there if such banks are really country banks.

Governor Harding then asked that the Council consider the whole question of the gold embargo and decide how far exportation should be permitted as a policy. He outlined the Mexican situation, calling special attention to the frame of mind prevailing among bank depositors on the frontier who thought that there was danger of some kind and who were preferring gold to paper currency. He further described the recent conference between the Board and the Canadian Bankers Association with reference to the gold embargo and sketched the terms of the agreement which had been arrived at.

Governor Harding then raised the question of Treasury certificates of indebtedness and the best method of securing a wide distribution of them. He said the Board thought this was one of the most important questions now open. Bond issues ought to be as infrequent as possible, but this was feasible only if a ready market in the meantime could be found for the certificates as they were issued. The issue of the certificates was less disturbing to financial conditions than frequent bond issues. Was it adviaable, he asked, to suggest to each bank that it undertake to carry a certain percentage of its assets in the form of these certificates, He stated that the question of rates of interest on Government issues should be very carefully discussed and attention also given to methods of keeping the maturity of the issues as short as possible.

Mr. Rue inquired about the Canadian situation, asking whether balances now to the credit of Canadian banks in New York were not really the result of Canadian sales to England and whether Canadian bankers were not thus really putting upon American banks the burden of supplying gold growing out of operations with England.

Mr. Morgan said he thought the question was really in process of settlement and adjustment. To this Governor

Harding assented. Mr. Warburg said that what the Canadians wanted was gold which they might use as a basis for further currency issues. He said he thought they should do something to change the conditions in Canada which made it necessary for them to place 100% gold behind new issues of notes.

Mr. Watts inquired whether there really was any good reason for fixing the reserves on a basis of population, and asked whether it was not better to fix the percentage in accordance with the kind of business done by the banks.

At this point Mr. Forgan described with some detail the reserve situation of Chicago, calling attention to the fact that there were eleven banks in the Chicago city limits all organized prior to the Federal Reserve System and at first located in small places outside of Chicago, but later included within the city limits. These banks had been allowed to keep on with their old capitalization and with country bank reserves until the present time. This raised the question whether a country state bank located in the same territory could afford to enter the Federal Reserve System and place a reserve of 13% with a Federal Reserve Bank. In the case of one particular bank in which he was interested and which had $400,000 capital, the cost of such entry into the system would be about $10,000 a year. He thought the Board should be allowed to exempt this bank from the city reserve requirements.

Several members suggested that the real way to relieve the situation would be to permit the establishment of branches of large national banks.

Mr. Fleishhacker called attention to the need of financing the public utilities of the country on some basis during the next year or so. He thought they could not get any money under present conditions. A critical period was likely to present itself during the coming year, and if their necessities were not disposed of in some way these companies could not go on developing. Nevertheless, the country must have both light and power.

Mr. Hamlin invited the Council to attend a simple luncheon to the Japanese Financial Commission at his house at 1 p. m., on Tuesday, November 20 .

Mr. Fleishhacker spoke of the question of shipping silver to India instead of gold as a means of paying for commodities, and expressed the opinion that Japan could probably be induced to finance the trade on a silver basis, just as India could.

Governor Harding replied that it would be well to have this subject also discussed.

On motion, at 11:55 a. m., the Conference adjourned.

APPROVED:

H. Parker Willis

Secretary.

Chairman.