A joint conference of the Federal Reserve Board with the Advisory Council was held at eleven A. M., on Tuesday, November 20 in the Assembly Room of the Board in the Metropolitan Bank Building:

PRESENT:

Mr. Harding, presiding,
Mr. Warburg,
Mr. Hamlin,
Mr. Williams,
Mr. Delano,
Mr. Allen, Assistant Secretary

Present also, the following members of the Advisory Council:

President Forgan, Mr. Rowe, Mr. Rue, Mr. Fleishhacker, Mr. Wing, Mr. Watts, Mr. Morgan, Mr. Swinney, Mr. Lyerly, Mr. Norwood, Mr. Mitchell, and Mr. Grim, Secretary.

Mr. Forgan read the recommendations of the Council to the Board 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 of 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.

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 means of rediscounting commercial paper, to establish a more effective superbision 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, publich 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 theresshould 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.

GOLD EMBARGO:

(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 enoughrto 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 stabliization 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 cortivicates 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.

There was discussion as to the distribution of indebtedness among member banks, and Mr. Warburg suggested that it was desirable that the loans be so spread over the country that both member and State banks should take approximately 10% of their resources in the certificates. This, he said, would create a better situation for the Government and relieve the large centers.

It was suggested by Mr. Swinney that the result outlined could be better attained by having the banks in large cities take the matter up with their corres - pondent banks.

Question was raised by Mr. Morgan as to whether it was yet time to adopt a plan of percentage apportionment, to which Mr. Warburg replied that he did not think it was time, but that the plan should be worked out before the need for it arose.

Mr. Morgan suggested an increase in the rate of interest on certificates as probably a better method than the use of "strong arm" tactics. This led Mr. Warburg to ask what the effect of increasing rate on certificates would be upon the next Liberty Loan, to which Mr. Morgan replied that to push the banks too far in connection with certificates would make them feel that they were being driven, and that it was important that the banks and the Government be kept together. Mr. Warburg asked if 10% was too high an apportionment of the certificated, and the opinion was expressed that it was high enough, although some of the banks would take 15%, and others 7% of their resources. Replying to an inquiry from Mr. Swinney, who asked if there had been any trouble in placing the certificates, Mr. Warburg replied that it had been necessary to push the banks rather hard, and that ultimately the heavy part of the burden came back to the same institutions. It was the opinion of Mr. Rue that if the country banks should respond as heavily as was indicated, it would mean that they would either take cash from their vaults, or withdraw from city depositories, thus weakening the latter, Mr. Warburg stating in reply that the large city banks would not be so heavily drawn upon in case of the distribution proposed, and calling attention to the fact that the smaller country banks had not, like the city banks, cut down upon their purchases of commercial paper.

It was pointed out by Mr. Fleishhacker that the banks, especially in the San Francisco District, showed the need of education as to the facilities offered by the Federal Reserve Act. He said that the country banks still come to the large city banks in San Francisco and borrow money, when they might get it from the Federal Reserve bank. This led Mr. Williams to suggest that this lack of education was not confined to country banks, he having recently found a New York bank which apparently did not know that it could borrow from the Federal Reserve bank. Mr. Watts expressed the opinion that the country was not yet prepared for the 10% plan of distribution, and said that the country banks which had taken certificates under the plan would, he feared, think that it had performed its full duty, and decline to take bonds. New York, Mr. Morgan said, was ready to go on and do all it could but it was anxious not to be forced. The present plan seemed to be operating successfully, and he doubted the wisdom of interfering with it. Complaint was made by Mr. Lyerly that the country banks in the Atlanta District were not doing their bit, and that the large banks were having to carry all the load. Mr. Wing asked if increasing the rate on the certificates to 5% would not have an important effect.

Mr. Harding called attention to the impression has become current in some quarters that the Government was about to commandeer funds of depositors in banks, or that the money might be indefinitely tied up in banks, and that paper money was not as good as gold. He asked the opinion of the Council as to the results if Federal Reserve banks were to ask member banks to take the names of depositors requesting gold payments in withdrawals, and should keep such a record with the amounts with drawn. He said that he suggested this in view of the fact that a drastic remedy might have to be applied to this situation later on. The opinion that this would do harm was expressed by Mr. Fleishhacker, and Mr. Forgan stated that a speech by Secretary Daniels in Chicago in connection with the Liberty Loan had had the effect of driving some of the depositors in his bank to asking for the payment of their funds.

Suggestion by Mr. Williams that there was no reason for inequality of reserves required to be held in reserve and central reserve cities, led to a discussion of this question, the result of which was the appointment by by President Forgan, after a vote of the Council, of a special committee made up of the Executive Committee of the Council, and Mr. Watts of St. Louis, to consider and report upon the whole question of reserves in reserve and central reserve cities. It was suggested that this committee examine into the local situation, consulting with the clearing house committee, and then place itself in touch with a committee having the same purpose in view to be appointed from the Federal Reserve Board.

Mr. Harding stated that the Board would be glad to appoint a committee of its members to cooperate with the work of the Council. Mr. Rowe suggested that the proportion of float should be considered by the committee, and Mr. Rue of Philadelphia raised question as to whether this was a desirable time to make the change contemplated.

Reports as to business and other conditions in Federal Reserve districts having been called for, the following were given:

Mr. Wing, Boston, - There is slackening of business not directly connected with the war, and an increase in war work. The Liberty Loan payments passed more easily than was expected, and there is an easier condition of money in the Boston District, with a flow of funds back to Boston. There had been considerable loss in savings bank deposits, and war savings will undoubtedly decrease these, if not create withdrawals. The condition as to savings banks is one that should be looked after immediately. Maine and New Hampshire have large savings banks with no quick assets, and no large member banks to which they could appeal in time of trouble. Difficulty at one bank would lead to trouble in other places. There should be immediate action for the protection of savings banks.

Mr. Morgan, New York, - There has not been much change in the money situation at New York. The condition of the stock market has annoyed more than it has hurt people. The payments of the Liberty Loan were very well handled, and the market had accepted the conditions with remarkable strength. General corporation financing is at a standstill, and some who need money are worried. Corporations are left in a difficult position and may need Government help for those manufacturing things necessary for the war. So far as he was advised, there have not been heavy withdrawals from savings banks. The sales of Liberty Bonds on the market are the result of oversubscription. There is no sign of any effort on the part of enemy aliens to depress the quotations. Replying to an inquiry from Mr. Harding as to whether the Government should get into the market following the next issue of Liberty Bonds to support the price for them, Mr. Morgan said that this had worked very well, but that the public would probably know what was being done.

Mr. Rue, Philadelphia, - Business, outside of Government work, has reached or passed the peak. There is activity in war work, and the disturbing factors are those of raw material, cost and labor. Philadelphia passed easily over the Liberty Loan payments, one country bank having attempted to borrow from his bank in excess of the limitation in connection with such purchases. Deposits are high, and business concerns are still borrowing, and have not liquidated to any great extent. The flow of Government money back to the district is satisfactory. The savings banks in the Philadelphia District are in good conditions, but feeling the depression, and there have been some withdrawals.

Mr. Rowe, Cincinnati, - Reported a shortage of labor in the Cleveland District with manufacturing and labor difficulties. There has been a falling off in manufacturing which is not for war purposes. Some savings banks showed withdrawals running from three to eight per cent of deposits. These banks have been borrowers.

Mr. Norwood, Richmond, - Said that money was more plentiful in the Richmond District than ever before, due to high prices for tobacco, cotton and cotton seed. Money rates are as low or lower than in the large money centers. He favored encouraging depositors to withdraw savings funds to purchase Liberty Bonds, and said that his own bank and a savings bank in which he was interested had lost approximately 10% of savings from the last loan.

Mr. Lyerly, Chattanooga, - Said that there was a spirit of saving in his district which extended even to the negro, deposits of this race in his bank having reached $250,000. They have not discouraged investment of money from savings banks in Government bonds. The frost had done much damage to cotton, but it was selling at a very high price.

Mr. Forgan, Chicago, - Stated that business was good, banks loaned up on a basis of increased deposits, their profits about double those of last year, and a strong demand for money. The Federal Reserve Bank is averaging over 100 loans per day, and is making exceptional profits. The Liberty Loan payments demonstrated the value of the Federal Reserve system. There was very little borrowing, and withdrawals from savings banks were small and not discouraged. Of the $7,500,000 of Liberty Bonds purchased by the two banks in which he is intesested, only $500,000 is left.

Mr. Watts, St. Louis, - Said the Federal Reserve Bank would not be called upon for rediscounts much greater than at present. The peak in that district was before the Liberty Bond issue. Savings banks will lose in their increase of deposits rather than in existing balances.

Mr. Mitchell, Minneapolis, - Reported deposits in banks high, and these institutions well loaned up. The danger confronting his district was that of car shortage, which might yet interfere seriously with the flour milling industry. The movement of wheat is satisfactory, but it may be necessary to commandeer cars to keep the mills supplied.

Mr. Swinney, Kansas City, - Stated the mercantile situation to be first class. Loans in that district went down instead of up, last week. Many are paying for their Liberty Bonds in cash, the amount estimated by him being two thirds of the total.

Mr. Fleishhacker, San Francisco, - Said that farming was very prosperous in that district, but that the lack of shipping facilities to the Orient, and of railroad facilities to the East, were very serious handicaps. There were 5000 cars of merchandise in warehouses waiting to be shipped to the Orient. Manufacturing had slowed down somewhat, and the savings bank situation was about the same as reported by him at the last meeting of the Council. He referred to a serious condition in connection with some of the public utility companies on the Pacific Coast, and said that some of those which were not well managed might be in difficulties soon.

At 12:55 P. M., the meeting adjourned without date.

APPROVED:

Asst. Secretary.

Chairman.