

At a joint meeting of the Federal Reserve Board and the Federal Advisory Council held in the Assembly Room in the National Metropolitan Bank Building (7th floor) at 11 A. M., Monday, February 18, 1918:

PRESENT:

Mr. Harding, presiding, Mr. Hamlin,
Mr. Miller, Mr. Willis, Secretary.
Mr. Delano,

Present also:

Mr. Rue (Philadelphia), Mr. Wing (Boston), Mr. Rowe (Cincinnati), Mr. Lyerly (Chicago), Mr. Watts (St. Louis), Mr. Mitchell (Minneapolis), Mr. E. P. Wilmot (Austin), Mr. Fleishhacker (San Francisco), Mr. Norwood (Richmond), Mr. Grim, Secretary.

Mr. Harding addressed the joint meeting. He stated that he had made an appointment for the members of the Advisory Council with the Secretary of the Treasury for 10 o'clock on Tuesday, February 19, and expressed the wish that the members be prepared to discuss the current financial and banking situation fully at that time. He then proceeded to take up the list of topics previously suggested for consideration.

As to the reserve situation, he stated that the

Board would advise further with the Council at a later time.

As to discount rates, he stated it as the opinion of the Board that they should be advanced but that the time of such advance would depend upon the action of the Secretary of the Treasury raising the rate for Government loans. Should the Government make a $4\frac{1}{2}\%$ rate the Board should follow this rate.

As to amendments to the Act, he called attention to the recommendations set forth in the Annual Report and explained each of the principal recommendations there outlined.

As to the control of capital issues, he noted that the Board has named a capital issues committee and an advisory organization under it. This organization was meeting with cordial response and it was believed that the consent of the Committee would be recognized by the financial community as necessary in all large undertakings.

As to the pending War Finance Corporation bill, Mr. Harding sketched its purpose as being that of providing an outlet for securities for which no market now exists. The plan was to have the Government provide \$500,000,000, the Corporation to be administered by the Secretary of the Treasury with four other directors. This Board of Directors

would pass on all applications for loans. Savings Banks could obtain loans up to 12 months time; and loans might in certain cases also be made direct to public utilities corporations and to individuals. The Corporation would be permitted to issue its own obligations running from one to five years. It would have a life of ten years but must cease to operate as soon as peace was declared. Certain changes in the proposed act have been suggested in Congress and might be incorporated in the bill. Discussion then began and Mr. Rue inquired whether the Board has taken action with reference to the Finance Corporation Bill.

Mr. Harding replied that the Board had opposed the so-called Calder Bill but had recommended that relief be furnished by direct Government aid rather than by discount at Federal Reserve banks. The Finance Corporation Bill went further than the Board has recommended and had been submitted to Congress without being presented to the Board. However, having been submitted to Congress it was submitted and considered by the Board. The Board was on record as not opposing it in view of the fact that this is a time of war and that the country is facing a serious situation.

In this connection Mr. Harding called attention to that part of the Board's report regarding the question of letting down the bars to commercial paper, acceptances etc., not heretofore considered eligible. The Board, he said, had sent a letter to all Federal Reserve Banks stating that it was impossible to establish a hard and fast rule with respect to eligibility of paper, but that certain broad principles must be borne in mind.

Mr. Watts inquired whether the Board had gone on record as to whether the new Corporation should obtain such funds as it needed by increasing its capital or by issuing its own obligations; and Mr. Harding said the Board had never considered this question. Mr. Delano called attention to the fact that the "notes" of the new Corporation would not be bank notes or circulating notes.

Mr. Rue then called attention to the fact that Reserve banks could now issue say \$2,000,000,000 more of notes on the basis of their present gold holdings. He further observed that the obligations of the Finance Corporation, if bearing a higher rate of interest than Government bonds, would compete with the latter, and this view was supported by other members. Mr. Harding expressed the view that with Government expenditures and finance on the present basis a partial suspension of reserve requirements

would probably be inevitable before the end of the present year in any case.

At the request of several members, Mr. Harding gave a general sketch of the Government loan situation, and the prospects for the new Finance Corporation, outlining various expedients that had been suggested. He recommended that the Council give the Secretary of the Treasury its carefully matured views on the bond situation and public finance generally.

Mr. Delano expressed a desire for the opinion of the Council regarding the attitude of the banks on the certificates of indebtedness. He had heard it said that banks hesitated, fearing that certificate issues would go to a higher rate but that the old ones would not be convertible. He asked whether it would not be well to give a conversion privilege to the certificates. Mr. Harding expressed the opinion that the Secretary of the Treasury would not be willing to take this step. Discussion of the situation ensued.

Mr. Fleishhacker said that there was general complaint throughout the country because of the quick removal of the Government deposits from depository banks and their transfer to New York. Mr. Harding replied that

he was aware that there was general dissatisfaction because of this transfer, but that there was no help for it. The deposit did not stay anywhere very long.

Mr. Rue inquired whether it was true that the American Trade Acceptance Council has recommended to the Board that single name paper be made ineligible for discount at reserve banks. Mr. Harding replied that the Board had received no such recommendation.

Mr. Mitchell said he would like to be assured that the Board would not favorably consider any such recommendation if made. Mr. Harding stated that the Board could not pre-judge this or any other case, but would suggest that the Council express its opinion on the matter.

Mr. Fleishhacker said with reference to the War Finance Corporation that it would be well for some assurance as to their status to be given to the public utility corporations, which were now very hard pressed. Mr. Harding responded that the President was averse to taking any distinct position on this matter, but that the subject was under advisement and would probably be considered with a committee representing the public utility corporations of the country. Mr. Delano suggested and Mr. Harding concurred

in the suggestion, that the Council might very properly make a definite recommendation on the matter of public utility financing.

Mr. Rue called attention to a bill which he said he understood had been introduced in Congress providing for a foreign exchange bank. Mr. Harding said it was true that Senator R. L. Owen had proposed such a bill. He then outlined the bill and described the propaganda which had been carried on in support of it. He further discussed the exchange situation at large.

Mr. Rue then referred to the former discussion with reference to the policy of discounting bills of member banks abroad, particularly with reference to the limitation of Section 5200 Revised Statutes, saying that there was apparently no legal authority for this action. Mr. Harding suggested that the Council express its opinion on the subject.

Mr. Harding said that the Board has asked Congress for authority to issue large Federal Reserve notes. Mr. Rue replied that he could see no objection to such a grant.

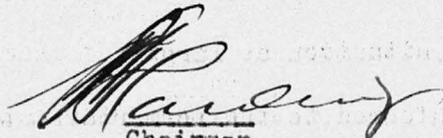
Mr. Harding called attention to the fact that the Comptroller had ruled that loans secured by United States bonds were subject, under certain conditions, to the limit-

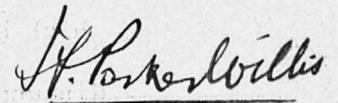
ations of Section 5200, and recommended that the Council consider the matter.

It was informally agreed that there be held a joint meeting of the Board and the Advisory Council on Tuesday, February 19, at 11 A. M., immediately after the close of the interview with the Secretary of the Treasury.

On motion, at 12:25 P. M., the joint meeting adjourned.

APPROVED:


Chairman


Secretary