

At a joint session of the Federal Reserve Board and the Federal Advisory Council, held in the Assembly Room of the Board, Metropolitan Bank Building, Seventh Floor, on Monday, May 20, at 11 A. M.,

PRESENT:

Mr. Harding, presiding,	Mr. Delano,
Mr. Warburg,	Mr. Willis, Secretary.
Mr. Miller,	<i>Mr. Williams</i>

Present also: Mr. Forgan, Mr. Lyerly, Mr. Rue, Mr. Wing, Mr. Rowe, Mr. Fleishhacker, Mr. Swinney, Mr. Morgan, Mr. Watts, Mr. Mitchell, and Mr. Wilmot.

Governor Harding sketched the general reserve situation of the country and called attention to the principal topics which he thought should receive the attention of the Council, as follows:

1. The curtailment of unnecessary credit.

On this point the Board's position had been fully stated in the April issue of the "Federal Reserve Bulletin", and was, in brief, that every reasonable effort should be made to curtail the less essential credits of the country. Methods to be pursued in carrying out this plan might well be outlined.

2. The development of banking in foreign

countries. The Board's gold licensing policy was sketched, it being called to the attention of the members present that in every case where gold was exported the Board desired to obtain more than a mere "quid pro quo". Mr. Harding gave special attention to the gold exportation situation as affecting Mexico. He then called attention to the fact that the House had not yet adopted the bill providing for the Federal incorporation of foreign banks, indicating that the adoption of this bill was considered very desirable.

3. A government foreign exchange bank.

Mr. Harding spoke of a Bill now pending before Congress designed to create a bank to be owned and controlled by the government, but stated that the Board does not think the present an opportune time for the proposal.

4. Guaranty of bank deposits. A bill, S. 4426, was now pending and was the outcome of recommendations made in the Annual Report of the Comptroller of the Currency. The Board felt that this bill tended to standardize the interest rate on deposits at 4%. This was in conflict with the

Board's effort to keep interest rates on deposits down so far as possible. He sketched the efforts of the Board in the latter direction.

5. Financing the cotton crop. This matter had been before the American Cotton Manufacturers Association of late. Mr. Harding thought that the present plan of financing cotton was inadequate. The export cotton was sold on the basis of prime bankers bills and he thought that a similar plan might be introduced in domestic shipments of cotton. The Trade acceptance, which had been suggested, was not well adapted to the purpose and could be introduced only very slowly. Mr. Harding described the method of marketing and financing cotton and noted that the present acceptance facilities of bankers were probably inadequate. He thought a start could be made during this season.

6. Trade acceptances. The Board's position on the trade acceptance had been clearly brought out and was that the trade acceptance was a desirable instrument with proper use, but also subject to abuse. There was some ground for objecting to it if it was intended to do away with cash payment. The Board was not in favor of the trade acceptance as a general sub-

stitute for the cash settlement plan. It favored only the use of the acceptance in those cases where the purchaser expected to defer payment beyond a thirty-day period. A letter from W. H. Wetherill on the subject was presented for the study of the Council.

7. Capital Issues problems. The old Capital Issues Committee had been dissolved and its place had been taken by the new body, while the War Finance Corporation had also been organized. The two bodies must work closely together with the Federal Reserve Board, and the War Finance Corporation was likely to be especially closely affiliated with the member banks of the Federal Reserve System. The directors of the Finance Corporation would therefore appreciate an unofficial conference with the Federal Advisory Council.

In reply, Mr. Forgan said that he would proceed to take up the topics suggested and would arrange for a meeting between the Council and the directors of the War Finance Corporation, probably on Tuesday afternoon.

Mr. Lyerly said that he would like to hear from Comptroller Williams with reference to the guaranty

of bank deposits.

Mr. Williams said that the bill now pending in Congress differed from his own original plan. He had at first suggested that the guaranty apply to deposits bearing not over 3%, but there was much misunderstanding as to the purpose of the bill. If enacted, it would impose only a very small tax of one-thirtieth to one-tenth of one per cent. It would protect some 16,000,000 depositors, would call forth large boards, and would work no injustice.

At this point Mr. Warburg took the chair, Mr. Harding withdrawing from the room.

Mr. Fleishhacker asked why the government should not pay the guaranty, and Mr. Williams replied that it was more appropriate that stockholders should pay the cost than that the government should. Mr. Forgan inquired whether it was equitable that old and well managed institutions should pay insurance on deposits in rotten banks. He thought the Comptroller's plan for shifting officers from one desk to another in the banks was impracticable.

Mr. Williams replied that he did not propose the shifting of officers but only employees, and inquired what Mr. Forgan would think if any bank were

allowed to subscribe to the guaranty or not, as it saw fit. Mr. Forgan replied that this would be a little less bad than the original scheme.

Mr. Morgan stated that the real question at issue was whether bank deposits were or were not fit subjects for mutual insurance. After some more discussion the subject was dropped.

Mr. Warburg said that the Board would like to have the views of the Council on rediscount rates. The present situation was anomalous because Federal Reserve rates were below market rates and it was necessary just now to keep them so in order to help the government get funds to carry on the war. At the same time it was necessary to look after the question of economy, while the government would soon again have to place certificates. It must try to contract unessential credits through voluntary action. The Board would like to have the views of the Council on this subject.

Mr. Rue inquired whether the Board had seen signs of inflation.

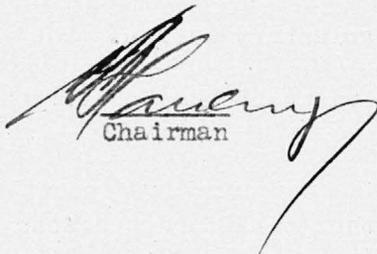
Mr. Williams replied that it was difficult to trace inflation in rediscounts because he thought in-

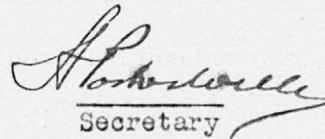
flation did not show itself in that way. The reduction in reserve percentages, however, was obvious and apparently could not be avoided.

Mr. Lyerly said that he would like to recur to the question of the guaranty of bank deposits. Such bank guaranty plans had been successful in Texas and in some other states, and he thought that still other states would follow suit. The state banks were not joining the Federal Reserve System but he thought they would do so if they could take advantage of a guaranty plan. Mr. Williams said that evidence in his possession showed that the small banks generally wanted the guaranty plan introduced.

On motion, at 12:20 P. M., the conference adjourned.

APPROVED:

  
Chairman

  
Secretary