

At a joint meeting of the Federal Reserve Board and the Federal Advisory Council, held in the Assembly Room of the Board on Tuesday, May 21, 1918, at 11:10 A. M.,

PRESENT:

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

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.

Mr. Forgan reported as follows the recommendations of the Council on the topics agreed upon for discussion:

Topic No. 1.--Curtailement of unnecessary credits.

Recommendation: The Federal Advisory Council concurs in the principle laid down and the recommendations made by the Federal Reserve Board in regard to the conservation of credits, and we urge upon the bankers of the country the great importance of their hearty cooperation in the adoption of the policy as outlined by the Federal Reserve Board in its April Bulletin.

Topic No. 2.--The proper means of extending banking operations in foreign countries. This should involve a discussion of foreign branches of national banks having a million dollars or more of capital and surplus, and banks organized to do a foreign banking business in which national banks are stockholders to an amount not exceeding 10 per cent of their capital and surplus.

Recommendations: The Council believes that member banks and banks authorized to do a foreign business in which member banks are stockholders should be encouraged to take care of the foreign business of the country during the continuance of the war.

The Council reaffirms its statement made on February 19, 1917, as follows: "The Council recommends that the foreign business of the Federal Reserve Banks should for the present be conducted through correspondents, and that neither agencies nor branches should be established in foreign countries by any Federal Reserve Bank until world conditions are more settled and until the efficiency of the service rendered by correspondents be thoroughly tested."

Topic No. 3.--Foreign agencies of Federal Reserve Banks and the proposition to establish a Government foreign exchange bank. On this subject an interesting report has been submitted by a committee of the Chamber of Commerce of the United States, of which I presume you have a copy.

Recommendation: The Council is of the opinion that it would be unwise under present conditions to establish a Government foreign exchange bank or for the Federal Reserve Board to undertake to regulate foreign exchange operations further than it is now doing in connection with the Treasury Department. We unanimously indorse the recommendations of the Federal Reserve Board that Federal charters be granted to banks which are now engaged in foreign banking business the stock of which is owned by member banks.

Topic No. 4.--Senate bill No. 4426 which the Board understands has been favorably reported by the Senate Committee on Banking and Currency.

Recommendation: We are opposed to the guaranty of bank deposits in any form, believing it to be wrong in principle. Inasmuch as the official report of the Comptroller of the Currency shows the

loss to depositors in failed national banks to be less than three one-thousandths of 1 per cent during the last three years and with the Government offering the highest possible security to induce the use of hoarded funds the necessity of such legislation is not apparent. The Council reaffirms its declaration of April 18, which said: "A plan might, however, be devised by the Federal Reserve Board which would provide for prompt relief to be given depositors of failed member banks."

(Passed with one dissenting vote.)

Topic No. 5.--Bankers' acceptances.

Recommendation: This Council is of opinion that the use of bankers' acceptances should be encouraged and developed as it will be of great service to the country in meeting its necessary financial requirements, particularly during the period of the war. In order to accomplish this legislation may be necessary granting the banks greater accepting power. Every effort should be made to encourage and develop a broad open discount market for these acceptances.

Topic No. 6.--Discount rates.

Recommendation: It is the opinion of the Council that in view of the large payments for taxes and Government bonds which will be made shortly it is undesirable at this time to change the discount rates at the Federal Reserve Banks.

Mr. Warburg in reply said that he would take up the recommendations thus made in successive order.

1. With reference to the curtailment of credits, he asked for suggestions as to the best method of attaining this result and expressed the opinion that each of the members should state his views in turn when the time came for informal interchange of views.

2. With reference to the recommendation on question No. 2, Mr. Warburg called attention to the fact that the Council had expressed itself as opposed to agencies of Federal Reserve banks abroad, and he asked whether this related to arrangements such as that which had been concluded with the Bank of England. Mr. Forgan, replying, said that the recommendation had not referred to such arrangements but referred only to the establishment of distinct or independent offices of Federal Reserve banks abroad.

3. On this point Mr. Warburg said that he had no suggestions.

4. With reference to No. 4, Mr. Warburg inquired whether the Comptroller had any views to express, and Mr. Williams replied that he would speak more fully after the other topics had been dealt with.

5. Mr. Warburg asked whether it was the view of the Council that larger power should be granted to banks in giving acceptances on a variety of kinds of transactions or whether the limit of acceptance powers on existing transactions should simply be raised. Mr. Forgan thought that both changes might well be made. Mr. Rue thought that the raising of the limit on exist-

ing transactions was the main thing desired. After commenting on this matter Mr. Warburg stated that in former years the Board had asked Congress for power to widen the acceptance powers of national banks. This had now been done and the Board did not feel that it would be wise to go further. In England certain banks and banking firms had been organized for acceptance business primarily. It would be perfectly practicable here to organize acceptance corporations and the Board had issued regulations for such corporations. This would be sounder than to allow deposit banks to do an unlimited acceptance business. He further called attention to the fact that the open discount market was developing fast at this time; that the Federal Reserve Bank of New York's statement now showed 123 millions of acceptances, all except 8 millions thereof being endorsed, and that the new discount companies established in New York and Boston would further help this development.

6. Mr. Warburg said that he would like to have views expressed by each member with reference to rates of discount and would be pleased to hear rather more than usual regarding discount conditions.

The present status was very satisfactory, The investments of Federal Reserve banks had been reduced in the main, while the liberty loan had been well distributed. The Board hoped to see a reasonable contraction of loans until the time when the Government would appear again as a borrower in the market.

Mr. Williams then addressed the conference with reference to the guaranty of bank deposits. He said the report of the Council on that question furnished no argument. He regretted that there had not been some statement of principle. The truth was that the guaranty plan was opposed only by the large banks. Individuals all over the country were in favor of the plan, since it would save them anxiety with reference to the safety of their deposits. There was no argument against it except that of self interest. The statement that such a guaranty would diminish the incentive to sound banking was an unwarranted reflection on the good faith and good conduct of bank officers.

Reports of districts were then called for and furnished as follows:

1. Mr. Wing. In the first district manufacturing was exceptionally active, especially in shoes, woolens, cottons, machine tools, and the like. The limit of activity was only that set by the amount of labor and coal available. Rediscounting at the Reserve bank was decreasing. There were abundant funds in the banks without much rediscounting. No stringency need be expected until after the withdrawal of tax money. Some 30 million dollars of tax paying certificates had been sold in the district. The large corporations were well taken care of. As for the curtailment of credits, not much could be expected beyond what the banks were now doing unless there should be distinct government action designed to bring it about. Labor was receiving higher wages than ever before and was indisposed to curtail. As to the discount rate, he thought that an effective remedy would be afforded by raising the rate on domestic bankers' acceptances.

2. Mr. Morgan. General business was satisfactory. There was no objection to curtailment of credit. Increase of discount rates would do no

good except to alarm the public. The discount market was founded upon the general belief that existing rates had been rairly well stabilized. A true discount corporation to deal in acceptances had been formed and he believed it would be soundly conducted. Radical credit curtailment could be effected only by government action. The banks were opposed to a revival of stock exchange activity at this time.

3. Mr. Rue. Business in Philadelphia is active. War industries, ship-building, and the like, are running at full capacity. Labor is scarce. Industries are competing with one another for employees, who are somewhat restless. The banks are comfortable. The banks are not rediscounting heavily but will do so later. It was difficult to curtail credit in Philadelphia. The Federal Reserve Bank is discouraging member banks who have a tendency to "scalp the market". The rich are reducing their purchases but laborers are enlarging their outlay.

4. Mr. Rowe. The crop outlook is excellent. The rainfall has been good. The wheat will move about July 1. Prices are wonderful. Balances of

Kentucky banks are good but the whiskey market is excitable. Manufacturers are endeavoring to get into the field of war essentials so far as possible.

5. Member not present.

6. Mr. Lyerly. Agricultural conditions are good. The crops are late but will be large. The acreage is greater than last year. The price of cotton is exceptionally high. Cotton mills are very prosperous. The general outlook is satisfactory. Tax payments are not giving much trouble. The liberty loan has been over-subscribed. The banks are not heavily involved in advances on bonds.

7. Mr. Forgan. Banks, at the outset of the Third Liberty Loan, made a rate of $4\frac{1}{2}\%$ and have distributed the loan very well. There has been a great number of small borrowers and buyers. Rates on bank balances are about stable, being 2% . The banks are, however, of the opinion that the rate should be based on the value of money and should vary with it. The larger banks are trying to curtail non-essential credits. Tax payments are likely to go smoothly, owing to the wide purchase of tax certificates.

8. Mr. Watts. There are only three "sore spots" in the St. Louis district,--the situation of public utilities, which, however, has been helped by the granting of higher fares; the cotton situation in Memphis, where there is a great quantity of cotton stored and being carried at high prices; and the labor problem in St. Louis, where a strike occurred last February. Liberty loan operations have been successful. The question of interest on bank deposits has been troublesome, but it is hoped to settle it soon, Mr. Harding has been invited to visit St. Louis and cooperate with the bankers.

9. Mr. Mitchell. The outcome of the Liberty loan shows the state of things, there being a subscription of 172% of the allotment, while 50% of the subscription had already been paid for. Public utilities were in a serious situation. Deposits were holding up very well. The normal level of deposits had been maintained. The crop outlook was good. Acreage had increased. There was no occasion for higher rates. The banks would have to borrow freely.

10. Mr. Swimney. The general outlook is

good, Missouri and Kansas having almost record crops in sight. In Oklahoma also the crop is good. There would probably be a good yield of oats, while corn had been fully planted. The tax situation was still somewhat obscure. His own bank had purchased \$1,200,000 of tax paying certificates and most of them had been disposed of. He expected some increase of loans, but within about thirty days the grass cattle funds would begin to come in. A serious question was what would become of the wheat when it was marketed, from the storage and transportation standpoint. He thought rates should not be advanced now as banks were trying to get borrowers to ask loans for productive purposes only.

No. 11. Mr. Wilmot. The district was prosperous considering the two years' drought. Some 154 counties had been seriously affected. Cattle had declined from 6,000,000 to 4,000,000 head in Texas. Large shipments had been made to dispose of cattle which could not be fed. The drought had now been relieved. The cotton prospects were good, but cotton itself was hard to ship when harvested. Subscriptions to the loan had been large. Small taxpayers had al-

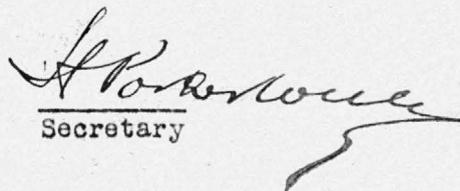
ready liquidated. Large taxpayers would probably have to be carried. The Federal Reserve Bank of Dallas had had to rediscount but was in good condition.

12. Mr. Fleishhacker. Commercial conditions were good. Power situation, however, was serious. Oil was scarce. Governmental aid to public utilities would be necessary, as well as to the oil industry. Consumption of oil was increasing rapidly. As to the rate on bank deposits, there was some disposition to raise the level, but with the aid of the Board he believed it would be possible to hold it down to a normal figure. In Central California, owing to the scarcity of rain, there was some trouble with the cattle raising industry. There was practically no curtailment of credit anywhere, but on the other hand, little or no evidence of inflation.

On motion, at 1:15 p. m., the conference adjourned.

APPROVED:

Chairman



Secretary