

At a meeting of the Federal Reserve Board held in the office of the Board on Thursday, September 4, 1919, at 11 A.M.,

PRESENT: The Governor
Mr. Strauss
Mr. Miller
Mr. Hamlin
Mr. Chapman, Acting Secretary.

PRESENT ALSO BY INVITATION:
Mr. R. C. Leffingwell,
Assistant Secretary of the Treasury.

The minutes of the meeting of the Board held on Wednesday, September 3d were read, and on motion approved.

Morning business was presented and disposed of as follows:

Letter dated September 3d from the Guaranty Trust Company of New York, requesting an expression of the Board's opinion as to the eligibility of acceptances drawn under a certain arrangement for the extension of a credit of \$6,300,000 to Czecho-Slovakia.

Referred to Governor for negative reply.

The Governor read to the meeting a letter addressed to him under date of August 17th by Governor Strong of the Federal Reserve Bank of New York, who is at present abroad, making a brief report of his observations of financial conditions in Europe.

The Governor made a statement reviewing the con-

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ditions under which the Federal Reserve System had been operating since the entrance of the United States into the world war, which conditions had made it impossible for the System to function independently of the Treasury, particularly with respect to the determination of discount rates, adding that at the time the Fourth Liberty Loan was being placed, agreements were made with subscribers thereto that they would be carried for twelve months at the coupon rate, but that when the victory Loan notes were about to be floated, the Board instructed Federal Reserve banks to advise their members to make no commitments as to carrying subscribers beyond six months, so as to leave the Board free to review in November of this year the question of discount rates. The Governor added that it was the view of the Board that the differential now existing in favor of paper secured by Government obligations, other than certificates of indebtedness, should be removed, the belief being that there was no obligation, either moral or legal, whereby the holders of a Government obligation should have a permanent call for money at a preferential rate, and stated that the question for determination was as to when normal conditions might be restored.

On invitation of the Governor, Mr. Leffingwell made a statement reviewing the work accomplished by the

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Treasury with the cooperation of the Federal Reserve System, and as to what might be expected of the Treasury Department in the future. He pointed out that the Treasury would have reduced on September 15th its floating debt by over one-half. He felt, therefore, that a program so successfully carried out thus far and with such little further work to do should not be embarrassed now by the raising of discount rates of the Federal Reserve banks, which he felt would be tantamount to forcing a refunding of the public debt on a very large scale and at higher prices. He expressed himself as being entirely willing that, if necessary, the rates on commercial paper be reduced to the level of rates on paper secured by government obligations. He felt, however, that the rate of 4% on paper secured by certificates, thus affording a differential on such paper, should be maintained, as such differential was a most potent factor in the successful sale of the certificates. He added that in view of the reduction of the floating debt of the Government and the liquidation that reasonably might be expected to take place in January, he would ask that the Board give him until then to develop some plan that would remove the Treasury operations as a factor for the consideration of the Board in determining the discount policy of the Federal Reserve System.

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(A verbatim report of the statements by Governor Harding and Mr. Leffingwell will be found in the auxiliary minute book as of this date - Sec. 2-(d): Miscellaneous).

(At this point Mr. Leffingwell withdrew from the meeting).

Opinion of Consulting Counsel dated August 29th, bearing on the status of reciprocal balances and balances due from foreign banks in calculating reserves.

Approved.

The Governor reported the purchase of special 2% certificates of indebtedness of the United States for deposit with the Comptroller of the Currency as collateral for Federal Reserve bank notes, as follows:

<u>For Federal Reserve Bank of:</u>	<u>Date</u>	<u>Amount</u>
Kansas City,	Aug. 3d	\$500,000
Minneapolis	"	500,000

Approved.

Report of discount rates at Federal Reserve banks; no changes recommended.

Noted.

REPORTS OF COMMITTEE NO. 1:

Dated September 4th, recommending admission of State institutions as set forth in the auxiliary minute book as of this date, subject to the conditions stated in the individual reports attached to each application.

Approved.

Dated September 3d, recommending changes in stock at Federal Reserve banks as set forth in the auxiliary minute book as of this date.

Approved.

Dated September 4th, recommending increases in salaries of employees of War Savings Division, Federal Reserve Bank of Boston, effective September 1st, as follows:

<u>Name</u>	<u>From</u>	<u>To</u>
Francis H. Ahern	\$780	\$1,080
Frank C. Ayres	2,400	3,000
Eleanor Greenwood	1,020	1,380
Arthur A. Keefe	900	1,300

Approved.

Dated August 30th, recommending appointment of E. F. Slade as an Examiner of the Federal Reserve Bank of San Francisco at \$2,400 per annum, effective September 1st.

Approved.

Other business was presented and disposed of as follows:

Letters dated August 20th to The President and the Attorney General from Mr. J. B. Strock, Reading, Pennsylvania, charging the Federal Reserve System with "profiteering", and approved draft of reply by the Governor, dated August 26, 1919.

Referred to Bulletin Committee.

The Vice-governor submitted for approval, formal statement to be made in connection with the initial showing in the weekly statement of the gold received from Germany in payment for food supplied.

Approved.

Mr. Hamlin submitted Index Digest of Part III, Volume V

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of the Annual Report for 1918, containing recommendation of the Federal Advisory Council.

Ordered mimeographed.

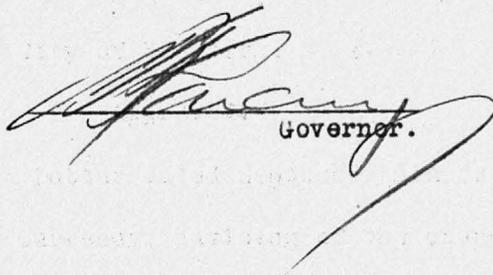
Mr. Hamlin requested approval of the purchase of three additional bookcases for his office.

Approved.

At 1-20 P.M., the meeting adjourned.


Acting Secretary.

Approved:


Governor.