

M I N U T E S

EXECUTIVE COMMITTEE
of the
FEDERAL ADVISORY COUNCIL

Nov. 15, 1915

A meeting of the Executive Committee of the Federal Advisory Council, called by the President, was held in the Federal Reserve Board Room, Treasury Building, Washington, D. C. November 15, 1915, at 10:30 A. M.

Present: Messrs. James B. Forgan, in the chair, and Mr. W.S. Rowe, and Merritt H. Grim, Secretary.

Absent: Messrs. L. L. Rue, on account of serious illness in his family, J. P. Morgan, on account of illness, and D. G. Wing, who was unable to reach Washington until the following day.

There not being a quorum present, Mr. Forgan and Mr. Rowe took up informally the questions submitted by the Federal Reserve Board and prepared tentative suggestions of answers to be submitted to the Federal Advisory Council tomorrow:

The meeting adjourned.

Secretary.

MINUTES

Federal Advisory Council

Nov. 16, 1915

A statutory meeting of the Federal Advisory Council was held in the Federal Reserve Board Room, in the Treasury Building, Washington, D.C. November 15, 1915, at 10 A. M.

Present: Messrs. James B. Forgan, President, in the Chair, Daniel G. Wing, W. S. Rowe, George J. Seay, Charles A. Lyerly, C. T. Jaffray, E.F. Swinney, J. Howard Ardrey, Archibald Kains, and Merritt H. Grim, Secretary.

Absent: Messrs. L. L. Rue on account of serious illness in his family, J. P. Morgan, on account of illness, and Rolla Wells who was detained in St. Louis.

The President read letters from these gentlemen stating the reasons for their absence.

On motion of Mr. George J. Seay the minutes of meetings of the Executive Committee, Sept. 20th, and of the Council on Sept. 21st, copies of which had been sent members by the secretary, were approved without reading.

The President laid before the Council a letter from Governor C. S. Hamlin of the Federal Reserve Board, dated Oct. 20, 1915, in regard to furnishing each bank with a copy of the National bank examiner's report on it, and asking that copies of the Comptroller's circular with blanks attached, enclosed therein, be forwarded to the members of the Council for an expression of their individual views on the subject. Mr. Forgan stated this had been done and replies received from nearly all of the members of the Council, which had been transmitted to Governor Hamlin, copies of which were handed to the members by the secretary for their files.

The President also laid before the Council a letter from Vice-Governor F. A. Delano of the Federal Reserve Board, dated Nov. 9th, 1915, enclosing four subjects submitted by the Board for consideration by the Council at this meeting, as follows:

First: Assuming that only a very small number of amendments to the Federal Reserve Act or the National Banking Act, can be suggested at this session of Congress - say three to five at the most - what amendments, if any, do the Advisory Council consider the most vital and important?

Second: Is it desirable that the Federal Reserve Board or the Federal Reserve Banks should take some special precautions - and if so, what precautions - to guard against a possible serious reaction in business which may come when the European War is over?

Third: Is it desirable to have Federal Reserve notes in denominations of five to twenty dollars take the place of gold certificates carried in the pockets of the people? Is not the accumulation of gold by Federal Reserve Banks, by the substitution of this circulation, a valuable protection in case of gold withdrawals; and is not this procedure advisable in spite of the considerable expense involved?

Fourth: Can Federal Reserve Banks do anything with their member banks to discourage or put a stop to the present high rates of interest on demand deposits. We hear that rates from three to seven per cent are common in Northwest, South and Southwest.

Mr. Forgan stated that there was not a quorum of the Executive Committee present at its meeting called to consider the topics offered for the Councils' consideration by the Federal Reserve Board but that he and Mr. Rowe had met and informally prepared tentative suggestions in regard to these topics for the use of this meeting.

The following statements were then prepared by the Council on the topics submitted by the Federal Reserve Board:

No. 1.

Assuming that only a very small number of amendments to the Federal Reserve Act or the National Banking Act can be suggested at this session of Congress - say three to five at the most - what amendments, if any, do the Advisory Council consider the most vital and important?

Answer:

The Federal Advisory Council would suggest the following amendments to the Federal Reserve Act without reference to their relative importance:

1. We would recommend that the functions of the office of the Comptroller of the Currency should be absorbed and administered by the Federal Reserve Board.

This would remove one of the principal reasons why the State banks object to joining the system, viz. the multiplicity of supervision which should be reduced to that of the Federal Reserve Board and the State Banking departments under which the State banks are organized. The department of examination should be operated under the direction of the Federal Reserve Board.

Number

2. Federal Reserve Agents should be authorized to issue Federal reserve notes to the Federal reserve banks against deposits of gold coin, or gold certificates and Federal reserve notes should be made available as reserve money in the vaults of member banks. The cost of printing Federal reserve notes should be borne by the government.

(see answer to Topic #3.) The vote of the council was 6 to 3 in favor of this recommendation)

TOPIC NO 1.

Assuming that only a very small number of amendments to the Federal Reserve Act or the National Bank Act can be suggested at this session of Congress -- say three to five at the most -- what amendments, if any, do the Advisory Council consider the most vital and important?

ANSWER: The Federal Advisory Council would suggest the following amendments to the Federal Reserve Act without reference to their relative importance:

Number 1. We would recommend that the functions of the office of the Comptroller of the Currency should be absorbed and administered by the Federal Reserve Board.

This would remove one of the principal reasons why the State banks object to joining the system, viz., the multiplicity of supervision which should be reduced to that of the Federal Reserve Board and the State banking departments under which the State banks are organized. The department of examination should be operated under the direction of the Federal Reserve Board.

Number 2. Federal reserve agents should be authorized to issue Federal reserve notes to the Federal reserve banks against deposits of gold coin, or gold certificates and Federal reserve notes should be made available as reserve money in the vaults of member banks. The cost of printing Federal reserve notes should be borne by the government. (See answer to Topic No 3.) The vote of the Council was 6 to 3 in favor of this recommendation, Messrs. Wing, Ardrey and Howe voting in the negative.

Number 3. For that part of Section 24 of the Federal Reserve Act relating to loans on farm lands, reading as follows:

"Any national banking association not situated in a central reserve city may make loans secured by improved and unencumbered farm land situated within its Federal reserve district," there

should be substituted the following:

"Any national banking association not situated in a central reserve city may make loans secured by improved and unencumbered farm land situated within its Federal Reserve district, or in an adjoining district, provided the land on which the loan is made is within one hundred miles from the office of the bank making the loan."

ber 4. We would suggest a reduction by two-thirds of the present paid-in capital of the Federal reserve banks, leaving the subscribed capital and the double liability thereon to stand as it is. (The vote of the Council was 6 to 3 in favor of this question, Messrs. King, Ardrey and Rowe voting in the negative.)

ber 5. The Council would reiterate its recommendation that the Federal Reserve Board should recommend to Congress an amendment to the Federal Anti-Trust Act so that the second paragraph of Section 8 shall read as follows:

... banking association or trust company, organized or under the laws of the United States in any city, or in town or village of more than two hundred thousand inhabitants, as shown by the last preceding decennial census of the United States, shall have as a director or other officer or employee any person who may be connected in either of these official capacities with more than one other bank, banking association or trust company located in the same place: Provided, That nothing in this section shall apply to mutual savings banks not having a capital stock represented by shares; Provided further, That a director or other officer or employee of such bank, banking association, or trust company may besides being an officer or director in one other bank be a director or other officer or employee of not more than one additional bank or trust company organized under the laws of the United States or any State where the entire capital stock of the one is owned by stockholders in the other; And provided further, That nothing contained in this section shall forbid a director of Class A of a Federal reserve bank, as defined in the Federal Reserve Act, from being an officer or director or an officer and director in one member bank.

ber 6. The Council would recommend that the law should be amended so as to permit joint stock ownership by national banks of banks organized to do business in foreign countries through branches established therein.

ber 7. The Council would recommend that the National Bank Act should be amended so as to permit the establishment by National banks having an unimpaired capital of not less than \$1,000,000 of branches, provided that no branches are placed outside of the limits of or of the city where the parent bank is located.

ber 8. On a motion of George J. Seay, the following resolution was passed: That the Council is unalterably opposed to any provision whereby national bonds described in the Hollis bill may be taken as security for loans from Federal Reserve banks and to any amendment for acceptances by member banks. This motion was seconded by Ardrey and unanimously carried.

Class A of a Federal Reserve bank, as defined in the Federal Reserve Act, from being an officer or director or an officer and director in one member bank.

ber 6. The Council would recommend that the law should be amended so as to permit joint stock ownership by national banks of banks organized to do business in foreign countries through branches established therein.

Number 3. For that part of Section 24 of the Federal Reserve Act relating to loans on farm lands, reading as follows:

"Any national banking association not situated in a central reserve city may make loans secured by improved and unencumbered farm land situated within its Federal reserve district",

there should be substituted the following:

"Any national banking association not situated in a central reserve city may make loans secured by improved and unencumbered farm land situated within its Federal reserve district, or in an adjoining district provided the land on which the loan is made is within one hundred miles from the office of the bank making the loan".

Number 4. We would suggest a reduction by two-thirds of the present paid in capital of the Federal reserve banks, leaving the subscribed capital and the double liability thereon to stand as it is.

(The vote of the Council was 6 to 3 in favor of this question)

Number 5. The Council would reiterate its recommendation that the Federal Reserve Board should recommend to congress an amendment to the Federal Anti-Trust Act so that the second paragraph of Section 8 shall read as follows:

"No bank, banking association or trust company, organized or operating under the laws of the United States in any city or incorporated town or village of more than two hundred thousand inhabitants, as shown by the last preceding decennial census of the United States, shall have as a director or other officer or employee any person who may be connected in either of these official capacities with more than one other bank, banking association or trust company located in the same place; Provided, That nothing in this section shall apply to mutual savings banks not having a capital stock represented by shares; Provided further That a director or other officer or employee of such bank, banking association, or trust company may besides being an officer or DIRECTOR in one other bank be a director or other officer or employee of not more than one additional bank or trust company organized under the laws of the United States or any State where the entire capital stock of the one is owned by stockholders in the other; And provided further; That nothing contained in this section shall forbid a director of Class A of a Federal reserve bank, as defined in the Federal Reserve Act, from being an officer or director or both an officer and director in one member bank".

Number 6. The Council would recommend that the law should be amended so as to permit joint stock ownership by national banks of banks organized to do business in foreign countries through branches established therein.

- Number 7. The Council would recommend that the National Bank Act should be amended so as to permit the establishment by National Banks having an unimpaired capital of not less than \$1,000,000 of branches, provided that no branches are placed outside of the limits of the city where the parent bank is located.
- Number 8. On motion of Mr. Geo. J. Seay, the following resolution was passed: "That this Council is unalterably opposed to any provision whereby farm loan bonds described in the Hollis Bill may become security for loans from Federal Reserve banks and to their being made a basis for acceptances by member banks." Motion was seconded by Mr. Ardrey and unanimously carried.
- Number 9. Mr. Wing Moved that the Council recommend that, Section 15 of the Federal reserve Act be amended by inserting in the first paragraph after the words, "Upon the direction of the Secretary of the Treasury", the words "With the approval of the Federal Reserve Board". The motion was seconded. Mr. Rowe then moved as a substitute motion, seconded by Mr. Ardrey, that the Council make no recommendation at the present time on this subject. The question was on the amendment and the vote stood 4 to 4, whereupon the chair cast his vote in favor of the amendment, which was carried.
- Number 10. Mr. George J. Seay moved that the Council recommend that the Federal Reserve Act be so amended as to permit member banks to make acceptances in connection with domestic business under proper safeguards and restrictions. Motion was duly seconded but was lost, the vote being 3 to 5.
- Number 11. Mr. George J. Seay's argument in favor of putting into immediate operation the complete reserve provisions of the Federal Reserve Act, the consideration of which was postponed from last meeting, was then considered. Mr. Daniel G. Wing moved the adoption of the following resolution: "That the Council believes that the Federal Reserve Board should take no action on this matter at the present time". Motion seconded by Mr. E. F. Swinney and carried by vote of 6 to 3.

TOPIC NO. 2

Is it desirable that the Federal Reserve Board or the Federal Reserve banks should take some special precautions - and if so, what precautions - to guard against a possible serious reaction in business which may come when the European War is over?

Answer:

It is useless to attempt to prognosticate as to the business conditions that may prevail in this country after the European War is over. During the period of reconstruction in Europe it is not unlikely that a broad demand may exist for our exportable surplus of cotton, steel, copper, lumber, grain, provisions and manufactured merchandise. This would cause general activity in business, especially in the basic lines of agriculture, mining, and lumbering, which in turn would stimulate the business of our railroads and make an active demand for money. On the other hand the terrible destruction of property, the waste of capital and the enormous increase of public debts by the belligerent European countries may so seriously cripple them as to prevent them for sometime from entering into the work of reconstruction. Their financial situation may become so bad as to seriously affect the condition of the rest of the world. It is quite possible that reaction from the business activity created in this country by the demand for war supplies may take place. The future is forebodingly uncertain and whether after the war we are to face business expansion or business contraction, a condition of preparedness by the Federal reserve banks will be the part of wisdom. We would therefore, advise that the Federal reserve banks should be induced and encouraged by the Federal Reserve Board to keep themselves strong in reserves and liquid in investments.

TOPIC NO. 3

Is it desirable to have Federal Reserve notes in denominations of five to twenty dollars take the place of gold certificates carried in the pockets of the people. Is not the accumulation of gold by Federal Reserve banks by the substitution of this circulation, a valuable protection in case of gold withdrawals; and is not this procedure advisable in spite of the considerable expense involved?

Answer:

The accumulation of gold in the Federal reserve banks would in our opinion be a valuable protection in case of gold withdrawals. We therefore deem it most desirable that gold should be accumulated in the Federal reserve banks in large volume and that Federal reserve notes in denominations of five to twenty dollars should take the place of gold certificates carried in the pockets of the people. To this end the Federal Reserve Act should be

amended so as to enable the Federal reserve banks to take out Federal Reserve notes against the deposit of gold with the Federal Reserve Agent, with the object in view of having the Federal Reserve notes ultimately take the place of the government gold certificates in general circulation. To accomplish this they should be made available for the legal reserves of member banks.

The expense of furnishing Federal reserve notes for general circulation should be paid by the government, the same as it now pays the expenses of furnishing gold certificates. Federal reserve notes are government obligations, the same as are the gold certificates. There is no possible profit to the government in the circulation of gold certificates, other than that on notes destroyed, while through its interest in the earnings of the Federal reserve banks - its circulating agents - its profit on the circulation of the Federal reserve notes will ultimately be largely in excess of the cost of furnishing them, besides which it will have the profit connected with their destruction. The government will thus be the ultimate gainer by the substitution of its Federal reserve notes for its gold certificates. (The vote of the Council was 6 to 3 on this question)?

TOPIC NO. 4

Can Federal reserve banks do anything with their member banks to discourage or put a stop to the present high rates of interest on demand deposits? We hear that rates from three to seven per cent are common in Northwest, South and Southwest.

Answer:

The rate of interest on deposits paid to the public is regulated by the accumulation or lack of accumulation of wealth in the communities in which the banks do business. In small pioneer communities with little or no accumulated wealth, with a demand for money but with no local supply, the rate of interest is naturally high, but it is gradually reduced as the communities enlarge and accumulate wealth. It might be more of a hardship than a benefit to unduly restrict the rate of interest that a bank in a pioneer community can either pay or receive. The economic law of supply and demand, with State laws against usury, will sufficiently regulate rates and protect the borrower.

As to rates paid on savings deposits, the savers should be encouraged. Their deposits form the foundation of the business and credit structure of the country. Bank depositors outnumber bank borrowers twenty to one and the majority of them are wage earners, small dealers and people not engaged in business for themselves. While the borrowers are often

our richest people engaged in business enterprises, who borrow to make more money. Every effort should therefore be made to maintain through the country such rates of interest on savings deposits as will induce and encourage the people in saving and thrift. We do not believe that there is anything that the Federal reserve banks should or could do to regulate rates of interest paid on deposits by their member banks beyond offering them, as they now do, the privilege of rediscounting at such reasonable rates as are likely to reduce the current rates for loans in communities having little or no accumulated wealth, which will in turn reduce the rates paid in such communities on deposits. Such matters in time work themselves out naturally and it is difficult if not impossible, to regulate them artificially.

Mr. C. T. Jaffray moved that the secretary be requested to prepare the recommendations of the Council as they have been made for its meeting this afternoon. Motion duly carried.

The President then read to the meeting a letter addressed to him as President of the council by Mr. E. L. Johnson, of Waterloo, Iowa, a Director in the Federal Reserve Bank of Chicago, dated Oct. 30, 1915, giving his views against the reduction of the minimum rediscount rate of the Federal reserve banks. On motion the letter was ordered filed.

The President reminded the members of the Council that their terms expire on December 31st, 1915. On motion of Mr. Seay the secretary was instructed to notify the governors of the Federal reserve banks that the terms of the members of the Council would expire and that elections should be held in due course to choose their successors.

Mr. Lyerly then moved that the Council adjourn until 3 P.M. this afternoon and that the president be requested to ask the Federal Reserve Board to meet in joint conference with the Council at 3:30 P.M. Motion carried.

The meeting thereupon adjourned.

MINUTES OF THE
ADJOURNED MEETING
OF THE FEDERAL ADVISORY COUNCIL

Nov. 16, 1915

The federal Advisory Council reconvened at 3 P.M.

The secretary's report of the recommendations of the Council were then read to the meeting. J. Howard Ardrey moved that the statements as read be adopted as a record of the council's action in regard to the topics submitted by the Federal Reserve Board, and that the President be requested to present them to the Federal Reserve Board at the joint conference.

Motion carried unanimously.

Mr. Ardrey then informed the Council that he would shortly move out of the Dallas district and would not therefore be eligible for re-election as a member of the Federal Advisory Council and expressed his appreciation of his past year's service on the Council.

Mr. Charles A. Lyerly moved that the council extend to Mr. James B. Forgan a hearty vote of thanks for his courteous consideration as presiding officer during the past year.

Mr. Lyerly put the motion which was unanimously carried.

Mr. Forgan responded with a few words of appreciation and thanks to the members for their courtesy and consideration of him.

The time having arrived for the joint conference with the Federal Reserve Board and there being no further business the Council adjourned.

Secretary.

MINUTES OF JOINT CONFERENCE
BETWEEN THE
FEDERAL RESERVE BOARD and THE FEDERAL ADVISORY
COUNCIL.

November 16, 1915.

The Federal Reserve Board and the Federal Advisory Council met in joint conference in the Board room at 3:30 P.M. Nov. 16, 1915.

Present: Messrs. Charles S. Hamlin, Governor presiding, F. A. Delano, Vice Governor, P. M. Warburg, W. P. G. Harding, J. S. Williams, A. C. Miller and secretaries, H. Parker Willis and S. P. Allen of the Federal Reserve Board; and Messrs. James B. Forgan, President; Daniel G. Wing, W. S. Rowe, George J. Seay, Charles A. Lyerly, C. T. Jaffray, E. F. Swinney, J. Howard Ardrey, Archibald Kains and Merritt H. Grim, Secretary, of the Federal Advisory Council.

Mr. Forgan was invited to submit to the Board the Council's recommendations on the topics which had been suggested for its consideration and accordingly read the statements prepared by the Council.

Then followed an informal discussion of the Council's recommendation in which the members of the Council and the Federal Reserve Board freely participated.

Mr. Miller asked President Forgan to have the Council put itself on record at each of its regular meetings, by making recommendations in regard to the rediscount rate of the Federal reserve banks for the ensuing quarter.

Mr. Warburg also asked Mr. Forgan to have the Council consider before adjournment the question of what officers of Federal reserve banks should have access to statements of assets and liabilities made

Minutes of Joint Conference
Continued

by private bankers whose acceptances may be purchased by Federal reserve banks.

The members of the Federal Reserve Board then withdrew and the Joint Conference adjourned.

FRASER
2010

MINUTES OF
FEDERAL ADVISORY COUNCIL
AFTER ADJOURNMENT OF THE JOINT CONFERENCE
WITH THE FEDERAL RESERVE BOARD

Nov. 16, 1915

The Council continued in session after the adjournment of the joint conference with the Federal Reserve Board.

The Council at the request of the Federal Reserve Board considered the question of what officers of the Federal reserve banks should have access to statements of assets and liabilities made by private bankers whose acceptances may be purchased by Federal reserve banks.

It was unanimously resolved that the Federal Reserve Board should be advised that the Council has not changed its opinion formerly given to the Federal Reserve Board to the effect that such acceptances should only be purchased by Federal reserve banks when they are endorsed by member banks.

The Council is however of opinion that statements made by private bankers as to their affairs for the purpose of establishing their credit and to secure the handling of their acceptances by the Federal reserve banks may by regulation of the Board be placed in the custody of the governors of the Federal reserve banks, and that only the governors and Federal reserve agents of the bank should have access to them.

The Secretary was instructed to send a copy of this resolution to the Secretary of the Federal Reserve Board.

The Council then adjourned.

Secretary.