

MINUTES OF MEETING OF
THE FEDERAL ADVISORY COUNCIL

February 19, 1917

A statutory meeting of the Federal Advisory Council was held in the Federal Reserve Board room, in the Treasury Building, Washington, D.C., on Monday, February 19, 1917, at 10 A. M.

Present:

Daniel G. Wing,	Federal Reserve District No. 1.
J. P. Morgan,	Federal Reserve District No. 2.
L. L. Rue,	Federal Reserve District No. 3.
W. S. Rowe,	Federal Reserve District No. 4.
J. W. Norwood,	Federal Reserve District No. 5.
Charles A. Lylerly,	Federal Reserve District No. 6.
James B. Forgan,	Federal Reserve District No. 7.
F. O. Watts,	Federal Reserve District No. 8.
John R. Mitchell,	Federal Reserve District No. 9.
E. F. Swinney,	Federal Reserve District No. 10.
T. J. Record,	Federal Reserve District No. 11.
H. Fleishhacker,	Federal Reserve District No. 12.
Merritt H. Grim,	Secretary.

The credentials of all the members were on file with the secretary.

The President stated the first business in order would be the election of officers of the Council and the elective members of the Executive Committee for the ensuing year.

Mr. Fleishhacker nominated Mr. James B. Forgan as President. There being no other nomination on motion of Mr. Fleishhacker, seconded by Mr. J. P. Morgan, the secretary was instructed to cast the unanimous ballot for Mr. Forgan, Mr. Morgan putting the motion. Mr. James B. Forgan was declared re-elected as President for the ensuing year.

Mr. Rowe nominated Mr. L. L. Rue as Vice-President. There being no other nomination on motion of Mr. Rowe, seconded by Mr. Watts, the secretary was instructed to cast the unanimous ballot for Mr. Rue. Mr. Rue was declared re-elected as Vice-President for the ensuing year.

Mr. Fleishhacker nominated Mr. J. P. Morgan, Mr. Daniel G. Wing, and Mr. W. S. Rowe as members of the Executive Committee. On motion of Mr. Watts, duly seconded, the secretary was instructed to cast the unanimous ballot for these gentlemen. They were declared re-elected.

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for the ensuing year.

On motion of Mr. Watts, seconded by Mr. Morgan, Mr. Merritt H. Grim was reappointed secretary of the Council for the ensuing year at the same salary, viz. \$1,200 a year.

The report of the Secretary covering his expenses for the year 1916 was then read. On motion it was approved and ordered placed on file. (See copy of statement hereto attached.)

On motion of Mr. Fleishhacker, seconded by Mr. Morgan, the first paragraph of Article VI of the By-laws was amended to read as follows:

"Regular meetings of the Federal Advisory Council shall be held in the City of Washington on the third Monday of the months of February, May, September and November of each year."

Mr. Rue then moved that the old by-laws as amended be adopted as the by-laws of this Council. Motion carried.

On motion the minutes of meetings of the Federal Advisory Council and its Executive Committee held on November 20th and 21st, 1916, copies of which had been sent to members, were approved.

On motion of Mr. Swinney, duly seconded, the minutes of meeting of the Executive Committee held in New York on January 17th, 1917, copies of which had been sent to members, were approved and the action taken by the Executive Committee was made the action of this Council.

On motion of Mr. Fleishhacker, seconded by Mr. Mitchell, the following resolution was passed:

"Resolved that the President be and he is hereby authorized to ask each Federal Reserve Bank to contribute \$150 towards the Secretarial and incidental expenses of the Secretary of the Federal Advisory Council for the year 1917 and to draw on them for that purpose as heretofore."

Mr. Fergan suggested that it might be well to have the recommendations of the Council for the past two years as well as succeeding recommendations printed and indexed. On motion the Secretary was instructed to have this done.

The Council then adjourned, pending the arrival of members of the Federal Reserve Board, a joint session having been arranged for 10:30 o'clock.

REPORT OF SECRETARY FEDERAL ADVISORY COUNCIL

FOR THE YEAR 1916

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December 31, 1915	Balance forward	\$ 169.94	
Feb. 25, 1916,	Annual assessment 12 Federal reserve banks \$150 each.	<u>1,800.00</u>	\$1,969.94

Disbursements:

Expenses attending four meetings of the Federal Advisory Council and of the Executive Committee in Washington as follows:

Date 1916	R R fare Berths	Hotel Meals	Mcls	Total
Feb. 14-15	\$51.	\$27.40	\$3.05	\$81.45
May 15-16	51	27.40	4.42	82.82
Sep. 18-19	45	29.95	3.46	78.41
Nov. 20-21	<u>47.10</u>	<u>22.95</u>	<u>5.45</u>	<u>75.50</u>
Total	\$194. 10	\$107.70	\$16.38	318. 18

Total traveling expenses	\$318.18	
Stenographers, stationery, etc.	15.15	
Telegrams	11.46	
Salary 12 months	1,200.	
Balance in First National Bank, Chicago, December 31, 1916	<u>425.15</u>	<u>\$1,969.94</u>

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

February 19, 1917

As arranged a joint conference with the Federal Reserve Board was held in the Board room at 10:30 A.M. February 19, 1917.

Present: Governor W.P.G.Harding, Vice-Governor P. M. Warburg, A. C. Millar, C. S. Hamlin and H. Parker Willis, Secretary, of the Federal Reserve Board; President James B. Forgan, Vice-President L. L. Rue, Messrs. Daniel G. Wing, J. P. Morgan, W. S. Rowe, J. W. Norwood, Charles A. Lyerly, F. O. Watts, John R. Mitchell, E. F. Swinney, T. J. Record, Herbert Fleishhacker and Merritt H. Grim, Secretary, of the Federal Advisory Council.

Governor Harding called the meeting to order and suggested an additional topic for the Council's consideration, as follows: "Would the Council recommend a plan providing for rotation in its membership?" The Governor then briefly reviewed the topics submitted by the Federal Reserve Board in his letter of February 5th and telegram of February 6th, after which the joint conference adjourned.

Secretary.

The Governor's letter and telegram follow:

MINUTES OF MEETING OF THE
FEDERAL ADVISORY COUNCIL

February 19, 1917

At 11:15 A.M. the Council reconvened, all members being present.

The topics submitted for the Council's consideration by the Federal Reserve Board (see minutes of Joint Conference this date for topics) were then laid before the meeting for informal consideration, it being understood that the Executive Committee would later formulate formal recommendations expressing the views of members in regard to them.

Recommendations were unanimously approved on Topics 3, 4 and 5 and the Executive Committee were requested to make them part of their report (see minutes of Executive Committee this date); also the following additional recommendation was likewise approved:

"Our attention has been directed to the proposed plan whereby a draft drawn by a member bank upon its Federal Reserve Bank could be made receivable at par by another designated Federal Reserve Bank.

"In order that such a plan should be made practically safe and effective in its operation drafts drawn under it should be made "payable upon advice" instead of "receivable for immediate availability" at the designated Federal Reserve Bank.

"In connection with all new plans inaugurated in the Federal Reserve system for the transfer of funds or the collection of checks "safety first" should be the watchword; otherwise such unfortunate complications accompanied with probable loss as have lately arisen in connection with the collection of checks through the Federal Reserve Bank of San Francisco on three State banks in Seattle which recently failed, are likely to be repeated to the discredit of the system." (Mr. Record voted in the negative and asked to be allowed to file a minority report on this subject, for which permission was granted.)

After some further informal discussion the Council adjourned until 3:30 P. M. to receive the report of the Executive Committee.

A Secretary.

MINUTES OF MEETING OF THE
EXECUTIVE COMMITTEE
OF THE FEDERAL ADVISORY COUNCIL

February 19, 1917.

A meeting of the Executive Committee of the Federal Advisory Council was held in the Board room at 2:15.

Present: James B. Forgan, L. L. Rue, Daniel G. Wing, W. S. Rowe, and Merritt H. Grim, Secretary. Absent: Mr. J. P. Morgan.

The topics submitted to the Federal Advisory Council by the Federal Reserve Board which were referred to the Executive Committee to prepare formal recommendations thereon were fully discussed and the following recommendations were formulated and the President was requested to present same to the Council for ratification, after which the Executive Committee adjourned.

(See three following printed pages.)

Secretary.

RECOMMENDATIONS OF THE FEDERAL ADVISORY
COUNCIL TO THE FEDERAL RESERVE BOARD

February 19, 1917

TOPIC NO. 1.—Domestic Branches of Federal Reserve Banks as required by Section 3 of the Federal Reserve Act. In this connection the attention of the Council is called to the report of the Committee of the Governors of Federal Reserve Banks, which advises that agencies rather than branches be established.

Recommendation:—

The Federal Advisory Council approves the amendment proposed to Section 3 of the Federal Reserve Act contained in Section 7 of H R 20661 and would recommend that further legislation should be enacted giving the Federal Reserve Banks the right with the approval of the Federal Reserve Board, to establish agencies rather than branches where they would afford all the facilities necessary.



TOPIC NO. 2.—Foreign agencies or branches of Federal Reserve Banks. Should their establishment at this time be encouraged?

Recommendation:—

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.—Reserve position of member banks. What changes are anticipated in the present situation?

Recommendation:—

The position of member banks in relation to their lawful reserves continues to be one of considerable surplus. The further continuance of this position depends on the continuance or discontinuance of gold importations. There seems to be in prospect further foreign loans of considerable size as well as a loan of large proportions to our own government. Considerable dislocation will inevitably result from these issues, bank deposits will no doubt be largely drawn upon. Then the proposed changes in regard to the legal reserves of the member banks including the discontinuance of having balances with legal reserve agents counted as part of such reserves will more or less upset the position of the member banks in regard to their legal reserves as they now calculate them. In view of these prospective features of the situation we look for a shrinkage in surplus legal reserves and for higher rates for money than have prevailed during 1916.



TOPIC NO. 4.—Sub-Treasuries. (See letter of Secretary of the Treasury in February Bulletin, page 110).

To what extent is it practicable or advisable that their functions be performed by the Federal Reserve Banks?

Recommendation:—

We agree with the Secretary of the Treasury that the gold coin and bullion held against gold certificates and the gold reserve held against U. S. notes and Treasury notes of 1890 and the silver dollars held against silver certificates should all be kept in the physical control of the government so long as the government's obligations are outstanding against them. The government cannot properly transfer its trusteeship to the Federal Reserve Banks or any other agency. In our opinion however it may be possible with the co-operation of the government under legislation providing for it to gradually retire the government gold certificates and allow Federal reserve notes in suitable denominations to take their place in the circulating media of the country. The government now merely acts as warehouseman for the gold whereas in the hands of the Federal Reserve Banks it could be more economically and scientifically and quite safely used as the principal basis for the issue of Federal reserve notes and would thus materially contribute to the strength and efficiency of the Federal Reserve system; the ultimate object being the replacement of the government gold certificates by Federal Reserve notes.

By co-operation between the Treasury department and the Federal Reserve Banks the latter might be kept well supplied with U. S. notes, Treasury notes and silver certificates in denominations to suit the convenience of the member banks. We see no reason why practically all the current funds of the government should not be deposited with the Federal Reserve Banks and the government disbursements as far as practicable made by checks on these banks. The Federal Reserve Banks should become the government depository banks and should be used by the Treasury department as such on an equitable basis as to the cost of handling the business and the profits to be derived therefrom.

The question of interest on government deposits need not be considered as whatever profit there is in the business of the Federal Reserve Banks beyond 6% to their stockholders reverts to the government.

It is quite evident that there are many functions performed by the sub-treasuries which the Federal Reserve Banks are not equipped and could not probably be efficiently equipped to perform. We are not sufficiently familiar with the operation of these functions to give specific advice as to which of them it would be practicable or advisable to turn over to the Federal Reserve Banks. We agree with the Secretary of the Treasury that this is an important matter and should be considered deliberately. It would seem to be one which can best be worked out between the Treasury officials and your Board co-operating together towards establishing the most efficient and most economical method of handling the public business in the interest of the public. The benefits to be derived from any changes afford the best if not the only reason for making them.



TOPIC NO. 5.—Should the Federal Reserve Board employ a competent man to make a thorough study and investigation of foreign exchange and its bearing on the efforts being made to establish dollar exchange in this country?

Recommendation:—

The value of such a study or investigation would entirely depend on the practical knowledge, experience, efficiency and breadth of view of the student or investigator. A foreign exchange department manager whose training and experience has led him to gather in under the keenest of competition all the business he could control for the profit in it, might find difficulty in grasping from a broader point of view the use that should be made of such a department in a Federal Reserve Bank. At the same time no one could satisfactorily make such an investigation who has had no practical experience and who does not thoroughly understand the business in practice as well as in principle. Such an investigator should be very carefully selected and may be difficult to find, but when found we have no doubt that his investigation and report would prove of sufficient value to the Board and all connected with the Federal Reserve system, to warrant his appointment. The Board should, however, tentatively settle in advance just what attitude the Federal Reserve Banks will assume towards the foreign exchange business and the investigator should be given to understand that his investigation is to be made on the broad basis of how best Federal Reserve Banks can co-operate with their member banks in an effort to develop the foreign exchange business and to establish dollar exchange in this country. The investigation should be made broad enough to include the elements other than banking facilities which contribute to the development of foreign business, such as transportation, insurance, consular service, etc.



TOPIC No. 6 (submitted verbally by Governor Harding at joint conference.) Would the Council recommend a plan providing for rotation in its membership?

Recommendation:—

As the Federal Reserve Act provides that members of the Federal Advisory Council shall be elected annually by the directors of the Federal Reserve Banks we doubt the propriety of either the Federal Reserve Board or this Council taking any action or making any recommendation in the matter.



Additional recommendation:—

Our attention has been directed to the proposed plan whereby a draft drawn by a member bank upon its Federal Reserve Bank could be made receivable at par by another designated Federal Reserve Bank.

In order that such a plan should be made practically safe and effective in its operation drafts drawn under it should be made "payable upon advice" instead of "receivable for immediate availability" at the designated Federal Reserve Bank.

In connection with all new plans inaugurated in the Federal Reserve system for the transfer of funds or the collection of checks "safety first" should be the watchword; otherwise such unfortunate complications accompanied with probable loss as have lately arisen in connection with the collection of checks through the Federal Reserve Bank of San Francisco on three State banks in Seattle which recently failed, are likely to be repeated to the discredit of the system.

MINUTES OF MEETING OF
THE FEDERAL ADVISORY COUNCIL

February 19, 1917

The Federal Advisory Council reconvened at 3:30 P. M. as arranged. the entire membership of the Council was present.

Mr. Forgan on behalf of the Executive Committee laid before the meeting its report. The Council considered each recommendation as presented. The report of the Executive Committee was adopted and the recommendations therein contained were made the recommendations of the Council and the President was requested to present them to the Federal Reserve Board. (See minutes of Executive Committee this date.)

In connection with the additional recommendation Mr. Record voted against its adoption and submitted his minority report, as follows:

"WHEREAS, The services rendered by the Federal Reserve Banks will be extended and made more helpful both to the member banks and to the general public when exchange written by a member bank on the reserve bank of its district is made immediately available at a Federal Reserve Bank of another district, designated in the face of the draft.

"THEREFORE, We approve the recommendation made on this question by the governors of the Federal Reserve Banks at their meeting held January 22, 1917.

"We desire to state that the system will be further improved when exchange written by a member bank on the Federal Reserve Bank of its District is immediately available at any other Federal Reserve Bank."

On motion of Mr. Watts, duly seconded, the following additional recommendation was unanimously adopted and ordered placed before the Federal Reserve Board.

"RESOLVED, That the Federal Advisory Council reiterates its previous expression upon the issue of Federal Reserve notes directly against the deposit of 100% gold or 100% of paper, or both, and for the counting of gold held by the Federal Reserve Agents as security for notes as part of the gold reserve required to be held by the banks against such Federal Reserve notes. In the opinion of the Council, no more important recommendation has been presented by the Federal Reserve Board. We, therefore, strongly urge the enactment of the principle into law.

"RESOLVED FURTHER, That the President of the Council is instructed to at once convey to the Federal Reserve Board this unanimous expression of the entire Federal Advisory Council."

The Council then adjourned to go into joint session with the Federal Reserve Board as arranged.

Secretary.

MINUTES OF JOINT SESSION OF
FEDERAL RESERVE BOARD AND
FEDERAL ADVISORY COUNCIL

February 19, 1917

A joint session of the Federal Reserve Board and the Federal Advisory Council was held as arranged in the Board room at 4 P. M. February 19, 1917.

Present: Governor W.P.G.Harding, Messrs. A. C. Millar, P. M. Warburg, C. S. Hamlin, J. S. Williams, and H. Parker Willis, Secretary, of the Federal Reserve Board. The entire Council was also present.

Governor Harding called the meeting to order. Mr. Forgan read the report of the Federal Advisory Council, including the minority report submitted by Mr. T. J. Record. (See minutes of 3:30 P.M. meeting of the Federal Advisory Council of this date.)

Governor Harding called on the members of the Council to make reports on general business conditions in their districts with special reference to the condition of the member banks in regard to their cash reserves and as to present and anticipated rates for money, to which each member of the Council verbally responded.

On motion of Mr. Rue, duly seconded and carried it was resolved that in the opinion of this Council the last clause of Section 3 of Senate bill 8259 (dated Feb. 14, 1917) reading as follows:

"Provided Further, That in no event shall a bank accept for any one person, company, firm, or corporation to an amount equal at any time in the aggregate to more than twenty per centum of its paid-up and unimpaired capital stock and surplus." should be stricken out.

There being no further business the joint session adjourned.

Secretary.