Minutes of Meeting
of the
Federal Advisory Council.

Sept. 17, 1917

A regular statutory meeting of the Federal Advisory Council was held in the Treasury Department, Washington, D.C., Monday, September 17, 1917, at 10:30 A.M.

The President, Mr. James B Forgan, called the meeting to order.

All members of the Council were present:

The President announced that Governor Harding would soon be present and review in a preliminary way the topics submitted to the Council for consideration by the Federal Reserve Board.

The minutes of meetings of the Federal Advisory Council and the Executive Committee as of April 13, and 17, 1917, copies of which had been sent to Council members by the secretary, were on motion of Mr Morgan, seconded by Mr. Fleishhacker, approved.

The President then read Governor Harding's letter of August 30, 1917, as follows:

"Federal Reserve Board,
Washington,
August 30, 1917.

Mr. James B. Forgan,
President, Federal Advisory Council,
Chicago, Ill.

My dear Mr. Forgan:

The Board finds it difficult, in view of the present incomplete state of the legislation which will so vitally affect our financial situation during the months to come, to suggest a definite list of topics for consideration by the Federal Advisory Council at the approaching meeting.

We understand that the program is for the next bond issue to be announced October 1st, and that the issue will probably be at 4% with limited income tax exemptions. All this however depends entirely upon the outcome of the pending legislation. The offering will probably be from three to five billions, although I do not believe that the Secretary of the Treasury has so far settled the matter in his own mind."
"The Board would suggest that the members of the Council come prepared to discuss the effect of the pending bond issue upon our general financial situation, the policy that the Federal Reserve banks should pursue as to their reserves against deposits and note issues; discount rates; and a general discussion of the foreign exchange situation will no doubt be most helpful. To what extent can this country continue to give credits to the nations with which it is associated in the war which normally send us gold in settlement of trade balances due us, and continue to ship gold to those neutral nations to which we may be indebted? What restrictions, if any, are necessary upon our imports to offset the embargoes on exports?

Very truly yours
(Signed) W. G Harding,
Governor.

Governor Harding having arrived addressed the meeting, submitting in addition to the topics contained in his letter the following for the Council's consideration:

1. The President's order restricting shipments of gold, silver, currency, and bullion from the country, subject to the approval of the Federal Reserve Board.

2. The question of who should stand the loss by abrasion on gold to facilitate its mobilization in the Federal Reserve Banks.

3. Relations of Clearing House member banks to the check clearing system of the Federal Reserve banks in the Federal Reserve cities.

Governor Harding explained that the new Board room in the Metropolitan National Bank building, opposite the Treasury, would be ready for occupancy by the Council tomorrow, and that the Federal Reserve Board would meet with the Council to receive its recommendations when requested to do so.

The President then laid before the Council the topics suggested for the Council's consideration by the Federal Reserve Board, all of which were freely discussed and by unanimous consent referred to the Executive Committee to prepare formal recommendations thereon based on the views of members as expressed.
During the discussion Governor Harding returned and read the following letter in regard to Mexico reuniting American gold, asking the Council to make any recommendations it cared to in regard to it. On motion it was also referred to the Executive Committee. The letter follows:

"August 15, 1917

The Honorable
The Secretary of State
Washington, D C

Dear Mr. Secretary:

The Juarez "La Lucha," of August 15th, just mailed the Department, contains a Mexico City special despatch concerning new Mexican gold coin, known as "Astecas," of twenty peseos denomination. This article announces that the coins are in circulation and are to be used to pay troops.

One of the coins, minted in 1917, which I have purchased from an El Paso banker, is herewith enclosed for the use of the Department in considering the following facts:

It is of the same color as the gold used in American coins, and is distinct from that formerly used in Mexico. It is apparently minted from melted American coins.

This El Paso banker informs me that an agent of the Mexican government presented a check at his bank this morning for seventeen thousand odd dollars and demanded payment in American gold. The bank tendered currency or silver, but refused to make payment in gold. The Mexican government agent in turn refused to accept anything but gold coins. In the conversation, he frankly stated that their desire for American gold was to export it to Mexico City, melt it and recoin it into coins similar to that enclosed, so as to make the profit between the intrinsic value of the gold, 49.44 cts. per peso, and the circulating value of the same, of approximately 54 cents.

This margin of over 4 cts. per peso, or over 3 cts. per dollar, constitutes the gross profit, to the Mexican government, that comes from their undesirable practice of melting American gold and to that extent reducing the volume of American gold coin. It is all based upon an artificial circulating value of the Mexican gold.
This artificial circulating value is accomplished by the Mexican government's system of discounting American money at Mexican custom houses. The payment of tariff duties is based upon the Mexican gold standard of value, 49.44 American cts. per Mexican peso; but the American gold dollar, worth a little more than 200 centavos Mexican gold, is discounted to and only accepted at the rate of 135 centavos Mexican gold. This arbitrary discount of American gold serves to artificially advance the Mexican gold peso, from its intrinsic value of 49.44 cts. to its circulating value of about 54 cts.

In order to furnish an inducement to the public to pay their Mexican duties in American gold, there is a still greater discount placed upon American silver and currency, which are accepted only at the rate of one dollar silver or paper for 175 centavos Mexican gold.

Through this system, American gold has been flowing into Mexico, in perhaps larger quantities elsewhere than at El Paso, has found its way to the Mexican mint, and has reappeared as Mexican coin.

Assuming that this is objectionate to our government, it is suggested that two remedies exist—either to embargo the exportation of American gold to Mexico, or, to require of Mexico a discontinuance of her practice of arbitrarily discounting American gold.

There is a tendency now for the Mexican gold peso to fall from its arbitrary rate of 54 cents towards its intrinsic natural value of 50 cents on the American dollar. If the Mexican government should discontinue its arbitrary system of discounting our coins the gold coinage of the two countries would circulate according to their intrinsic value, and there would be no further profit in the melting of our coin.

Yours sincerely,
(Signed) Zack Cobb. "

Mr. Forgan drew the Council's attention to the following condition contained in Section 4 of H.R. 5901 in connection with the proposed issue of a Second Liberty Loan:

"In any case of the issue of a series of convertible bonds, if a subsequent series of bonds, bearing interest at a higher rate shall, under the authority of this or any other Act, be issued by the United States before the termination of the war between the United States and the Imperial German Government, then the holders of such convertible bonds shall have the privilege, at the option of the several holders, at any time within such period,
after the public offering of bonds of such subsequent series, and under such rules and regulations as the Secretary of the Treasury shall have prescribed, of converting their bonds, at par, into bonds bearing such higher rate of interest at such price not less than par as the Secretary of the Treasury shall have prescribed,"

and suggested that the Council ought to make a recommendation regarding the advisability of the public being definitely advised as to the terms of the new issue, including the price, at which any future issues bearing a higher rate of interest will be exchanged for them. The Council then passed the following resolution in regard thereto:

"Resolved that this Council is of the opinion that prior to the issue of these bonds it is essential that the Secretary of the Treasury should state definitely all the terms connected with them, including the price, at which any future issues bearing a higher rate of interest will be exchanged for them."

Mr. Rue suggested that loans by member banks to the Food Administration Grain Corporation should not be limited by Section 5200 U S R S and that the Council should make a recommendation to this effect to the Federal Reserve Board. On motion the matter was referred to the Executive Committee to prepare such a recommendation.

The Council then adjourned until 2:30 P.M.
Minutes of Meeting  
of the  
Federal Advisory Council  

of the  

Federal Reserve Board  

Sept. 17, 1917

At 2:30 the Council reconvened and resumed its consideration of the topics submitted by the Federal Reserve Board and by Governor Harding at the morning session, in order that the Executive Committee might have the benefit of the views of members in connection therewith.

In regard to Mexico remitting American gold, referred to in letter submitted by Governor Harding, it was decided that the Council should make no specific recommendations thereon.

The following matter was submitted by the secretary as having been postponed from the April meeting of the Council:

"Advisability of having bankers' acceptances as far as possible discounted at institutions other than those accepting them."

The President laid before the meeting the report of the Executive Committee, which was carefully considered and after which the Council however decided that it was unnecessary to make a recommendation on this topic.

There being no further business the Council adjourned until 10 A.M. Tuesday, September 18, 1917.

Minutes of Executive Committee  

Sept. 17, 1917.

The Executive Committee of the Federal Advisory Council, all members being present, met after adjournment of the Council meeting to formulate tentative recommendations regarding the topics referred to it by the Council.

The report, as prepared, amended and finally adopted will be found in the minutes of the Council meeting held Sept. 13, 1917.

Secretary.
Minutes of Meeting
of the
Federal Advisory Council.

Sept. 18, 1917.

The Federal Advisory Council met in the Board room in the Metropolitan National Bank building, as arranged, at 10 A M Tuesday, September 13, 1917.

All members of the Council were present:


Mr. James B Forgan in the chair.

The President laid before the meeting the report of the Executive Committee, which was carefully considered and after sundry amendments was finally adopted as per printed copy attached.

The President was requested to notify the Federal Reserve Board that the Council was ready to meet with them in joint session and submit its recommendations.

There being no other business the Council adjourned pending the arrival of the Federal Reserve Board.

Printed copy of recommendations follows:
RECOMMENDATIONS OF THE FEDERAL ADVISORY COUNCIL TO THE FEDERAL RESERVE BOARD

September 18, 1917.

TOPIC NO. 1. The effect of the pending bond issue upon our general financial situation, the policy that the Federal Reserve Banks should pursue as to reserves against deposits and note issues, discount rates.

Recommendation:

The temporary effect of the pending government bond issue upon the general financial situation will be to dislocate bank deposits. The effort to be made to place the bonds with small investors will also to a considerable extent encroach on savings deposits. As this loan will come on the market at the season when, in connection with the movement of crops, the greatest expansion of bank credit usually takes place the banks, especially at the centers, will need the assistance of the Federal Reserve Banks in the shape of short loans or rediscounts to a greater extent than they did in connection with the former issue.

As the money received by the government for the bonds is redisbursed and returns to the banks through the channels of commerce the financial situation will gradually adjust itself to the new conditions created by the flotation of such a large issue of bonds.

Bank credits will likely be still further expanded, resulting in increased deposits and loans.

In anticipation of these conditions the Federal Reserve Banks should pursue a policy of conservation of their reserves against deposits and note issues. For this purpose, while they should meet liberally the temporary requirements of member banks for the purpose of putting through the government bond issue, any undue expansion thereafter of a more or less permanent nature should be curbed and controlled by the Federal Reserve Banks' discount rates; for the protection of their reserves the Federal Reserve Banks should raise their discount rates whenever occasion calls for such action. These banks should be kept in a strong position not only in the interests of further government financing but to prevent any undue expansion of credit by their member banks through the discount facilities afforded them.

TOPIC NO. 2. General discussion of the Foreign Exchange situation: To what extent can this country continue to give credits to the nations with which it is associated in the war which normally send us gold in settlement of trade balances due us, and continue to ship gold to those neutral nations to which we may be indebted? What restrictions, if any, are necessary upon our imports to offset the embargoes on exports?

Recommendation:

The Council has nothing on which to base a definite opinion as to what extent this country can continue shipments of gold to neutral countries while itself advancing money to meet the requirements of the countries associated with us in the war. It seems to us that the shipments of gold are a part of the
contribution which we are making to these countries, being part of our ad-
vances to them, for the prosecution of the war. To what extent this can be con-
tinued without unduly impairing our resources it is difficult to tell, but there is
no question that if such action tends to shorten the war or to enable the asso-
ciated nations to win it this country should not hesitate even to impair its re-
sources for the purpose of accomplishing that object. As the war may be pro-
longed it may be necessary in conjunction with the other nations associated
with us to endeavor to prevent the arbitrage of exchange as far as possible. In
that connection we have read with great interest the report of the informal com-
mittee made to the Secretary of the Treasury on September 13, 1917, and
heartily approve of their suggestions.

The Council views with great satisfaction the increase of the gold re-
sources of the Federal Reserve system and hopes that no steps will be omitted
to increase and hasten the mobilization of the gold of the country in the Fed-
eral Reserve Banks. Great discretion however must be used in the methods
applied so as not to create alarm which may lead to the hoarding of gold and
its consequent demobilization. We note with satisfaction that the President
by proclamation has placed with your Board the control of gold exports. This
will insure the handling of such transactions with the discretion so necessary
to avoid public alarm.

TO P I C  N O . 3. Loss on Gold Abrasion (Suggested by Governor
Harding).

Recommendation:
Inasmuch as it is of paramount importance that the gold now in circula-
tion should be mobilized in the Federal Reserve Banks which to some extent
is prevented because of the existence of light weight gold in circulation we
think the Federal Reserve Banks would be justified in assuming the loss by
abrasion on such of this gold as is offered to them on deposit within a reason-
able, specified time.

Additional Recommendation:
Whereas under Section Four of H. R. 5901 (In the Senate of the
United States, Calendar No. 121, September 13, 1917, Pages 7 and 8) the
following language occurs:
“In any case of the issue of a series of convertible bonds, if a subsequent
series of bonds (not including United States certificates of indebtedness, war
savings certificates, and other obligations maturing not more than five years
from the issue of such obligations, respectively) bearing interest at a higher
rate shall, under the authority of this or any other Act, be issued by the
United States before the termination of the war between the United States and
the Imperial German Government, then the holders of such convertible bonds
shall have the privilege, at the option of the several holders, at any time within
such period, after the public offering of bonds of such subsequent series, and
under such rules and regulations as the Secretary of the Treasury shall have
prescribed, of converting their bonds, at par, into bonds bearing such higher
rate of interest at such price not less than par as the Secretary of the Treasury
shall have prescribed.”
Resolved, That this Council is of the opinion that prior to the issue of these bonds it is essential that the Secretary of the Treasury should state definitely all the terms connected with them, including the price, at which any future issues bearing a higher rate of interest will be exchanged for them.

Additional Recommendation:
In our opinion it may be necessary for the successful administration of the Food Administration Grain Corporation that the limit placed on loans by National Banks by Section 5200 U. S. R. S. should not apply to loans to this Corporation. This Corporation being owned by the United States Government, loans to it may properly be classified as loans to the United States Government and therefore not subject to the limitation of the law. We would recommend that an early ruling to this effect should be made and promulgated by the proper authorities. If this is not possible under existing law we recommend that the law should be amended.

The following members of the Federal Advisory Council were present at this meeting: Daniel G. Wing, J. P. Morgan, L. L. Rue, W. S. Rowe, J. W. Norwood, Charles A. Lyerly, James B. Forgan, F. O. Watts, John R. Mitchell, E. F. Swinney, T. J. Record, Herbert Fleishhacker and Merritt H. Grim, Secretary.
MEMORANDUM ON INTER-NATIONAL EXCHANGE
FOR INFORMATION OF THE SECRETARY OF THE TREASURY.

The informal committee which met today to discuss the subject of inter-national exchange begs to submit the following memorandum of its views:

The committee consists of the following gentlemen:
Mr. Benjamin Strong
Mr. J. E. Gardin
Mr. J. E. Rovenaky
Mr. Albert Strauss

Mr. D. G. Wing
Mr. James Brown
Mr. J. F. Curtis

GENERAL POLICY.
The committee recommends that an announcement be made by the Secretary of the Treasury to the effect that while there will be no hindrance on the export of gold, silver, or currency for legitimate purposes arising out of commercial transactions, as limited by a proper regard for war conditions, all applications for the export of coin, bullion or currency will be subjected to close scrutiny, to the end that such exports shall be made only when compatible with the public interests.

The committee recommends that upon the passage of the Trading with the Enemy Bill, imports into this country be so regulated as to curtail the importation of luxuries and other articles not essential for the public welfare. Such control forms a necessary step in the proper regulation of exchange, and will automatically reduce the demand for the export of gold; but it can be ultimately effective only if similar control is exercised by our Allies in cooperation with us.

The committee is informed that considerable amounts of gold and gold certificates are being carried from the country by individual travellers and by steamship officials; and it is suggested that due consideration be given to this aspect of the situation.

MACHINERY FOR REGULATION.
The committee recommends that committees be appointed in each Federal reserve district, to serve under the general direction of the Federal Reserve Board.

These committees should examine into all financial transactions between residents of this country and residents of foreign countries, American financial transactions between foreigners, and financial operations that may appear to be incompatible with the public interests.

Under the supervision of such committee only such concerns as shall be licensed shall be permitted to conduct foreign exchange transactions, and they should be required to report daily to the committee all operations for and between all foreign accounts; such reports to include a statement of all credits and debits to such account, with full details.
giving names of individuals affected; also the sale and transfer of
securities for foreign account, and any other information that in the
opinion of the committee may be necessary. All dealers in inter-national
exchange should be required to obtain from their customers full informa-
tion as to the details of all transactions to be reported. Every
resident within each district, (whether or not a licensed dealer in
foreign exchange) should be required to report to the committee the
amounts due from enemies or allies of enemies, and also all property
owed by him in enemy or ally of enemy countries; also all property
held in any way, directly or indirectly, for enemy account or allies
of enemy account.

Every member of a committee should take oath at the time of
qualification to the effect that he will not use for personal advantage,
directly or indirectly, any information acquired as a member of the
committee, nor reveal any information obtained by him in that capacity
except to the proper officials.

The central organization should work in close cooperation with
the export and import commissions, as soon as appointed, and the simi-
lar foreign exchange organizations of our Allies; and should have the
benefit of all information acquired through the Departments of State,
Justice and Commerce; the censorship of the mails, cables, and tele-
graphs, and all other available Governmental agencies.

The appropriation for the expenses of administering this section
of the law should be increased to $350,000.

The propriety of charging nominal fees for licenses to deal in
inter-national exchange should be considered.

**METHOD OF CONTROLLING INTERNATIONAL-EXCHANGE.**

The committee is unanimously of the opinion that the quotation
for the pound Sterling in the United States should not be allowed to
decline, as such a decline, apart from the moral damage to the cause
of the Allies, would, without relieving the United States, place an
additional burden upon its allies in the increased cost to them of
commodities purchased in other markets; but this end must be accom-
plished in cooperation with the Allies and without any material dim-
inution of the gold supply of the United States, which must, in the
interest of the other Allies as well as of the United States, be re-
tained here as a basis for our important credit operations.
The committee is also of the opinion that if demands on the United States for gold for shipment to other countries are not promptly controlled through an agreement with our Allies concerning the trade underlying these transactions, the only effective method of controlling the export of gold will be through restriction or prohibition of arbitrage operations. The effect of such restriction or prohibition will be to limit exchange transactions between the United States and foreign countries to such direct operations as are necessary to liquidate the direct trade between each country and the United States.

Any hardships which may be involved in this procedure would be mitigated if banks in foreign countries which are unfavorably affected by these measures would employ their funds in loans or investments in this country, instead of exacting gold.

In this connection, steps must be taken to prohibit our own banks for the future, from ear-marking gold or taking it into custody. Such ear-marking or custody has in every respect the same effect as exportation and it may be advisable to ask all banks to state, for the confidential use of the Government, what amounts they have ear-marked or held in custody at this time and for whom, and to report any future applications to ear-mark or hold in custody.

**SILVER FOR SUBSIDIARY COINAGE AND FOR EXPORT.**

The Committee recommends that the silver now lying inert in the Treasury for the redemption of silver certificates, be rendered available for use through the redemption of silver certificates and the substitution in their place of Federal Reserve Notes. The silver bullion so released should be used so far as required for subsidiary coinage and the balance will be available for export in place of gold. Silver certificates to the amount of about $456,000,000 are now outstanding.

The result of such steps will be the permanent substitution of gold for silver as the support of a substantial part of our currency and the immediate exportation of silver which is not needed in this country in substitution for gold which is urgently required. Legislation will probably be required to accomplish this. Steps must also be taken to expedite the printing of small bills by the Bureau of Engraving and Printing.

Respectfully,

BENJ. STRONG  
D. G. WING  
JOHN E. ROVENSky  
ALBERT STRAUSS  
JAMES BROWN  
J. F. CURTIS.

A joint session of the Federal Reserve Board and the Federal Advisory Council was held in the Board room in the Metropolitan National Bank building, at 11:15 A.M. Tuesday, September 13, 1917.

The following members of the Federal Reserve Board were present: Governor W F G. Harding, Vice-Governor P M Warburg, F A Delano, C S Hamlin, J S Williams, and Sherman Allen, Secretary.

All members of the Federal Advisory Council were present: Messrs. J J Wing, J P Morgan, L L Rue, W S Rowe, J W Norwood, Chas A Lyerly, J E Forgan, F O Watts, J A Mitchell, E F Swinney, T J Record, Herbert Fleishhacker, and Merritt H Grim, Secretary.

Governor Harding called the meeting to order, and Mr. James B Forgan read the recommendations of the Federal Advisory Council on the topics submitted. (See minutes of Council this date).

A general discussion was then held in which members of both boards freely participated.

Governor Harding asked the members of the Council to report general conditions in their districts, mentioning specially the probable volume of the new government issue of 4½ bonds which would be absorbed, the volume of business being done, and the relations of the Clearing House banks in Federal Reserve cities to the check clearing system of the Federal Reserve Banks, to which each member of the Council responded for his own district;

the joint session adjourned.