

Minutes of Meeting of the

Federal Advisory Council

November 19, 1917.

A statutory meeting of the Federal Advisory Council was held in the Federal Reserve Board room, Washington, D C, Monday, Nov. 19, 1917, at 10:30 A. M.

Present: Daniel G. Wing,
J. P. Morgan,
L. L. Rue,
W. S. Rowe,
J. W. Norwood,
Charles A. Lyarly,
James B. Forgan,
F. O. Watts,
John R. Mitchell,
E. F. Swinney,
Herbert Fleishhacker,
Merritt H. Grim, Secretary,
Absent: T. J. Record

Mr. James B. Forgan, President, called the meeting to order, and read a letter from Mr. Neville Brooks, Cashier, City National Bank, Paris, Texas, dated November 12, 1917, stating that Mr. Record had undergone a severe operation and was not yet able to attend to business.

On motion of Mr. Rue seconded by Mr. J. P. Morgan the chairman was requested to send Mr. Record a telegram expressing sympathy for him and regret that he is not able to be present. Unanimously carried. Mr. Forgan sent the following telegram to Mr. Record: "By resolution Federal Advisory Council has requested me to express to you their sympathy with you in your present illness and their hope that you may have a speedy and complete recovery!"

On motion of Mr. Rue the minutes of the Federal Advisory Council of meetings held September 17th and 18th, 1917, and of the Executive Committee meeting held on September 17, 1917, were unanimously approved.

Mr. Forgan informed the Council that he had arranged with Governor Harding that the Federal Reserve Board would meet with the Council at 11 o'clock to lay before the meeting the topics on which they wish the Council's advice.

The time having arrived the Federal Reserve Board members came in and the Council adjourned.

Secretary.

Minutes of Joint Meeting.

The Council informally discussed all of November 19, 1917.

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

Mr. Forgan called the meeting to order and asked Governor Harding to state to the Council the topics on which the Board desired its advice.

Governor Harding then addressed the session, after which a short general discussion was held. The members of the Board then retired.

Secretary.

A meeting of the Executive Committee of the Federal Advisory Council was held at the Inter-Continental Hotel, Washington, Monday evening, November 19, 1917, at eight o'clock.

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

Minutes of

Federal Advisory Council

November 19, 1917.

The Council resumed its session at 12 o'clock when the Chair laid before the meeting the topics submitted by the Federal Reserve Board as follows:

See minutes of meeting of the Federal Advisory Council of November 10th, 1917, for the recommendations as finally adopted.

Minutes of Council meeting of November 19, 1917, Continued

The Council informally discussed all of the topics and the Executive Committee was requested to formulate the views expressed into a report embodying the opinion of the Council thereon to be submitted to a later meeting.

November 20, 1917.

During the discussion the Council adjourned for lunch, and at five o'clock the Council adjourned until 9:30 Tuesday morning, to receive the report of the Executive Committee.

As arranged the Federal Advisory Council met in the Federal Reserve Board room Tuesday, November 20th, 1917, at 9:30.

Present: D. G. Wing,
J. P. Morgan, Secretary.
L. L. Rue,
W. S. Rowe,
J. E. Harwood,
G. A. Lyster,
James B. Forgan,
F. O. Watts,
John A. Mitchell,
H. F. Swinney,
Harbert Fishbacker,
Merritt H. Grim, Secretary.

Absent: T. J. Record.

The President, Mr. Forgan, called the meeting to order and laid before the Council Minutes of Executive Committee of the Executive Committee on the topic Federal Advisory Council carefully considered.

The following are the recommendations November 19, 1917, by the Federal Advisory Council, which were ordered to be presented to the Federal Reserve Board by the President at the forthcoming meeting.

A meeting of the Executive Committee of the Federal Advisory Council was held at the Metropolitan Club, Washington, Monday evening, November 19, 1917, at eight o'clock.

Present: Messrs. James B. Forgan, L. L. Rue, J. P. Morgan, Federal D. G. Wing, W. S. Rowe, and Merritt H. Grim, Secretary.

The Committee having fully considered the views expressed by the members of the Council at its meeting in regard to the topics submitted by the Federal Reserve Board proceeded to formulate tentative recommendations, all of which the chairman was authorized to lay before the Federal Advisory Council at its meeting Tuesday morning.

See minutes of meeting of the Federal Advisory Council of November 20th, 1917, for the recommendations as finally adopted.

Secretary.

RECOMMENDATIONS OF THE FEDERAL ADVISORY
MINUTES OF MEETING OF THE FEDERAL RESERVE BOARD

November 20, 1917
Federal Advisory Council.

DISCOUNTS AND INVESTMENTS

November 20, 1917.

TOPIC NO. 1.—Should member banks make a practice of discounting their own acceptances?

As arranged the Federal Advisory Council met in the Federal Reserve Board room Tuesday, November 20th, 1917, at 9:45.

- Present: D. G. Wing,
- J. P. Morgan,
- L. L. Rue,
- W. S. Rowe,
- J. W. Norwood,
- C. A. Lysterly,
- Jas. B. Forgan,
- F. O. Watts,
- John R. Mitchell,
- E. F. Swinney,
- Herbert Fleishhacker,
- Merritt H. Grim, Secretary.

Absent: T. J. Record.

TOPIC NO. 3.—Is it desirable and necessary that preferential rates

The President, Mr. Forgan, called the meeting to order and laid before the Council the tentative recommendations of the Executive Committee on the topics submitted, which were carefully considered.

Recommendations:

The following are the recommendations as finally approved by the Federal Advisory Council, which were ordered to be presented to the Federal Reserve Board by the President at the forthcoming joint session to be held for this purpose.

(See printed copy herewith.)

The President was requested to notify the Governor of the Federal Reserve Board that the Council was ready to meet with them and present its recommendations, after which the Council adjourned.

Recommendations:

The present law does not permit any relief by granting loans to savings banks against the security of railroad bonds.

(b) Should the Federal Reserve Act be amended so as to permit the redemption by Federal Reserve banks of notes received by banks of national or industrial corporations?

RECOMMENDATIONS OF THE FEDERAL ADVISORY
COUNCIL TO THE FEDERAL RESERVE BOARD

November 20, 1917

DISCOUNTS AND INVESTMENTS:

TOPIC NO. 1.—Should member banks make a practice of discounting their own acceptances?

Recommendation:

While it may not be considered as being in accord with best banking principles for a bank to purchase its own acceptances and carry them as an investment, nevertheless until a wider discount market is developed, which is most desirable, it may be at times necessary for a bank to purchase its own acceptances for the protection of its customers.



TOPIC NO. 2.—Suspension of commodity rates and reasons therefor.

Recommendation:

The Council does not believe there is any necessity for a preferential rate for the rediscount of so-called commodity paper.



TOPIC NO. 3.—Is it desirable and necessary that preferential rates be established for customers' paper running not longer than ninety days, which is secured entirely by United States bonds or Treasury certificates?

Recommendation:

To facilitate government financing we believe it desirable that there should be a preferential rate established for customers' paper running not longer than ninety days which is secured entirely by United States bonds or Treasury certificates.



TOPIC NO. 4.—General discussion of assistance to banks and savings banks especially in carrying investments in railroad and corporate bonds.

(a) What means, if any, are there of affording adequate relief under the present law?

Recommendation:

The present law does not permit any relief by granting loans to savings banks against the security of railroad and corporate bonds.

(b) Should the Federal Reserve Act be amended so as to permit the rediscount by Federal Reserve banks of notes secured by bonds of railroad or industrial corporations?



Recommendation:

It is our opinion that the Federal Reserve Act should not be amended so as to permit the rediscount of notes secured by bonds of railroads or industrial corporations, as such amendment would be contrary to the spirit and intent of the Act as expressed in its title: "An Act to provide for the establishment of Federal Reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes."

(c) Discussion of an alternative plan.

Recommendation:

It may be desirable to have enabling legislation to provide for the necessary financing of railroads, public utility corporations and savings banks, either directly or indirectly, by the United States government during the duration of the war and under the supervision of a Federal commission.



CAPITAL AND RESERVE REQUIREMENTS:

TOPIC NO. 5.—Should the Federal Reserve Act be amended so as to allow state banks which were in existence on November 16, 1914, to become members of the Federal Reserve system, although their capital be less than national bank requirements?

Recommendation:

We think it inadvisable so to amend the law.



TOPIC NO. 6.—Should the Board be given authority to exempt from the reserve requirements imposed upon banks in reserve and central reserve cities, banks not located in the business centers whose business is largely local, and which do not receive accounts from other banks?

(Note) The Board has received numerous requests that it ask Congress to modify the existing law in the manner above indicated, but so far has reached no conclusion in the matter. What would the Council advise?

Recommendation:

We think it undesirable that there should be any distinction made in regard to reserve requirements of banks located in central reserve or reserve cities simply because some of them are not located in the business centers of these cities. We believe, however, that sooner or later the basis on which reserve requirements are established should be changed and should be determined by the character of deposits carried by the various banks under such classifications as bank deposits, commercial deposits and time deposits. We think, however, it is inadvisable that any legislation looking to this change should be asked for under present conditions.



GOLD EMBARGO:

(Note) The Board has been charged with the duty of advising the Treasury in matters relating to foreign exchange, and to exportations of gold, and it would like to have the opinion of the Council in the following matters:

TOPIC NO. 7.—To what extent, and for what purposes should gold be released for shipment to other countries?

Recommendation:

Gold should not be released for shipment to other countries except in sufficient quantities to settle unfavorable trade balances against us before the dollar exchange in the foreign country falls to a level low enough to increase intolerably the cost to us of the principal commodities imported by us from that country. Imports should be restricted to such as are necessary for carrying on the war and exports should be facilitated in every possible way.



TOPIC NO. 8.—Should the stabilization of sterling exchange by purchases of sterling bills in this country be continued?

Recommendation:

Yes.



TOPIC NO. 9.—Should any attempt be made to stabilize dollar exchange in countries of continental Europe, such as Sweden, Holland, Switzerland and Spain?

Should an effort be made to bring the dollar back to its parity in South American countries?

Recommendation:

It is very desirable to make such arrangements as are possible that do not involve the undue shipment of gold.



TOPIC NO. 10.—Exchange relations with Canada. Should unrestricted shipments of gold to Canada be permitted, or if limited what arrangements can be made to continue normal trade relations with Canada and to facilitate the movement of Canadian crops?

Recommendation:

The Council makes no recommendation as it is informed that exchange relations with Canada are in process of satisfactory adjustment.

TREASURY CERTIFICATES OF INDEBTEDNESS:

TOPIC NO. 11.—What means should be availed of to secure a more general distribution of Treasury Certificates of indebtedness?

Recommendation:

The market for Treasury Certificates is constantly broadening and we think it inadvisable and unnecessary that any special steps be taken to force their distribution among the banks.



Additional Recommendation:

Now that the financing of the Second Liberty Loan is effected it is our opinion that discount rates should be increased and we would recommend that the current rates be increased one-half of one per cent in each of the various classifications of paper discounted or purchased by the Federal Reserve banks.

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, Herbert Fleishhacker and Merritt H. Grim, Secretary.

Minutes of Joint Session
of the
Federal Advisory Council
and the
Federal Reserve Board.

November 20, 1917.

A joint meeting of the Federal Reserve Board and the Federal Advisory Council was held in the Board room, Washington, D C, at 11 A. M.

Present: Governor W.P.G.Harding, in the Chair, Vice-Governor P. M. Warburg, C.S.Hamlin, F.A.Delano, J.S.Williams, and Sherman Allen, Secretary, members of the Federal Reserve Board, and President James B. Forgan, Vice-President L. L. Rue, D. G. Wing, J. P. Morgan, W. S. Rowe, J. W. Norwood, Chas. A. Lyerly, F. O. Watts, John R. Mitchell, E. F. Swinney, Herbert Fleishhacker, and Merritt H. Grim, Secretary, members of the Federal Advisory Council.

Governor Harding asked Mr. Forgan to read the recommendations of the Federal Advisory Council, which was done.

Then followed the usual informal discussion concerning the topics and other matters pertaining to the Federal Reserve system, in which members of both boards freely participated.

During the discussion of the advisability of changing the basis on which reserve requirements are established, Mr. Warburg on behalf of the Board suggested the appointment of a committee to confer with a committee from the Federal Reserve Board in regard to what change is desirable and when same should be effected.

Mr. Morgan moved that the President appoint such a committee to include himself as chairman. Motion seconded by Mr. Fleishhacker and unanimously carried, whereupon Mr. Forgan appointed the members of the Executive Committee and in addition thereto Mr. F. O. Watts, representing the third central reserve city. Governor Harding stated that the Federal Reserve Board would appoint a special committee of the Federal Reserve Board within a short time and have the necessary data tabulated for the use of both committees.

Governor Harding then asked members of the Council to report on conditions in their Federal Reserve districts. Each member of the Council present then reviewed general conditions in his own Federal Reserve District. The joint session then adjourned.

Secretary.