

FEDERAL RESERVE BOARD

MINUTES OF MEETING

OF THE
FEDERAL ADVISORY COUNCIL

May 20, 1918

A regular statutory meeting of the Federal Advisory

Council was held in the Federal Reserve Board room, Metropolitan Bank building, Washington, D.C., on Monday, May

20, 1918.

Present: James B. Forgan, President, in the chair, L L Rue, Vice-President, Messrs. D. G. Wing, J P Morgan, W S Rowe, C A Lysterly, F O Watts, E F Swinney, E P Wilmet, J R Mitchell and Herbert Fleishhacker, and Merritt H Grim, Secretary.

Absent: Mr. J W Norwood, because of illness.

The chair announcing that Mr. Norwood telegraphed his inability to be present because of illness on motion Mr Forgan was authorized to send him a telegram expressing the regret of the members at his illness and their hope for his speedy recovery.

Minutes of the Council meetings, held February 18th and 19th, and those of the Executive Committee on same dates, copies of which had been sent to members by the secretary, were on motion approved.

The president presented a letter from Governor Harding, submitting for the Council's consideration certain topics suggested by the Federal Reserve Board. He also stated that Governor Harding and the members of the Federal Reserve Board would be present at eleven o'clock when the governor would probably announce some additional topics for discussion. Governor Harding's

letter is as follows:

FEDERAL RESERVE BOARD

WASHINGTON

Office of the Governor

U. S. G. May 20, 1918, Cont.

April 29, 1918.

My dear Mr. Forgan:-

Referring again to your letter of the 24th instant, I would suggest, after consultation with members of the Board, that the Advisory Council discuss the following:

- (1) Curtailment of unnecessary credits.

The Board's views on this subject, as far as matured, can be found on page 260, et seq, of the Bulletin for April 1918.

- (2) The proper means of extending banking operations in foreign countries.

This should involve a discussion of foreign branches of national banks having a million dollars or more of capital and surplus, and banks organized to do a foreign banking business in which national banks are stockholders to an amount not exceeding 10% of their capital and surplus.

- (3) Foreign agencies of Federal Reserve banks and the proposition to establish a Government Foreign exchange bank.

On this subject an interesting report has been submitted by a committee of the Chamber of Commerce of the United States, of which I presume you have a copy.

- (4) Senate Bill No. 4426, which the Board understands has been favorably reported by the Senate Committee on Banking and Currency.

This bill provides for the levy and collection each year from each national bank of a tax not in excess of one-tenth of one per centum of the aggregate of all deposits averaging \$5,000 or less, and a tax not in excess of one-tenth of one per centum on \$5,000 of the aggregate of each of the other deposits averaging more than \$5,000, in order to provide a fund for the payment on not more than \$5,000 to each depositor in a bank for which a receiver has been appointed, whose claim has been established. A copy of this bill is enclosed herewith.

There will no doubt be other matters of interest which will come up for discussion before the Council, but the foregoing embodies everything that the Board has to suggest at the present time.

Very truly yours,

(Signed) W. P. G. Harding,
Governor

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

Joint session, May 20, 1918.

F A C May 20, 1918, Cont.

after which some informal discussion was had by those present. The topics were then informally discussed until 11 o'clock, when members of the Federal Reserve Board arrived for a joint session.

Secretary

Secretary

Joint meeting of the of Federal Reserve banks
Federal Reserve Board and the
Federal Advisory Council

May 20, 1918

The joint session then adjourned.

Present: Governor W P G Harding, Messrs. P M Warburg, F A Delano, A C Miller, John S Williams, C S Hamlin and H Parker Willis, Secretary of the Federal Reserve Board; and Messrs. J B Fergan, L L Rue, D G Wing, J P Morgan, W S Rowe, C A Lyerly, F O Watts, J R Mitchell, E F Swinney, E P Wilmot, Herbert Fleishhacker and Merritt H Grim, secretary, of the Federal Advisory Council.

Governor Harding addressed the meeting, explaining to some extent the Board's views on the topics submitted in his letter and also suggested the following as additional topics:

Trade Acceptances

Bankers Acceptances.

He also asked that the Council meet informally with the Directors of the War Finance Corporation at a convenient time tomorrow. At the request of Mr. Lyerly, Mr. Williams, the Comptroller of the Currency, addressed the meeting on the subject of the Guaranty of National Bank Deposits, his proposed bill for which, S 4426, is submitted by the Board in the fourth topic. Mr. Williams then spoke in favor of the

F. A. C. May 20, 1928, Cont.

measure, after which some informal discussion was had by those present, regarding this and all the other topics submitted.

Governor Harding having to leave the meeting he asked Vice-Governor Warburg to take the chair.

Mr Warburg spoke briefly on the necessity of restrictly unessential credits and suggested that the Council in this connection should make a recommendation as to whether Discount rates of Federal Reserve banks should at this time be raised.

The joint session then adjourned.

Secretary

Thereafter the Federal Advisory Council resumed its meeting and proceeded to discuss the topics submitted by the Federal Reserve Board, with the idea that the Executive Committee would formulate the views expressed into suitable recommendations on all the topics.

Mr. Forgan because of his recent illness asked to be excused from meeting with the Executive Committee after adjournment of the Council meeting, and on motion of Mr. Fleishhacker, Mr. F. O. Watts was requested to act with the Executive Committee in formulating its report for this session.

On motion of Mr. L. L. Rue, duly seconded, the following recommendation was unanimously adopted on Topic No. 1. "Curtailement of unnecessary credits.":

F A C May 20, 1918, Cont.

" The Federal Advisory Council concurs in the principle laid down and the recommendations made by the Federal Reserve Board in regard to the conservation of credits and we urge upon the bankers of the Country the great importance of their hearty cooperation in the adoption of the policy as outlined by the Federal Reserve Bank in its April bulletin. "

In regard to Topic No. 4, S. Bill 4426, the Guaranty of National Bank deposits, on motion of Mr F O Watts, duly seconded, the following recommendation was approved by the Council, Mr. C. A. Lyerly voting in the negative:

" We are opposed to the principle of the guaranty of bank deposits, under whatever guise it may appear, and with the loss to depositors of national banks reduced as set out in the report of the Comptroller of the Currency to three-one thousandths of one per cent and with the Government offering the highest possible security to induce the use of hoarded funds the necessity of such legislation is not apparent. The Council reaffirms its declaration of April 18, 1917, which said :

" ' A plan might however be devised by the Federal Reserve Board which would provide for prompt relief to be given depositors of failed member banks. ' "

(This however was changed by the Executive Committee and appears later in the printed recommendations as modified.)

Minutes of a meeting

It was decided that the Council should not at this time make any recommendation on the subject of "Trade Acceptances."

After discussion of the other topics they were referred to the Executive Committee to formulate recommendations in accordance with the views expressed and to report at next meeting of the Council.

May 20, 1918

The Chair was requested to make arrangements with the Federal Reserve Board for a joint session tomorrow to receive the Council's recommendations and also with the Directors of the War Finance Corporation. On motion of Mr. Swinney, the Council adjourned until ten o'clock tomorrow morning, May 21st.

Mr. Rus was authorized to present the Committee's report to the meeting tomorrow if Mr. Fergus was not present.

See recommendations as finally adopted at Council meeting May 21st.

Secretary.

Secretary.

Minutes of meeting

Minutes of a meeting
of the
Executive Committee

of

The Federal Advisory Council.

May 21, 1918.

May 20, 1918

Present: Messrs. James B. Fergan, President, in the chair, L. B. ...
Vice-President, D. C. Wang, J. P. Morgan, W. B. Ross, G. A. Myers,

The Executive Committee met after adjournment of the Council meeting and proceeded to formulate tentative recommendations on the topics submitted based on the views expressed by Council members at its meeting. Mr. Rue was authorized to present the Committee's report to the meeting tomorrow if Mr Fergan was not present. See recommendations as finally adopted at Council meeting May 21st.

Secretary.

See printed recommendations hereto attached.

The Council then adjourned pending the arrival of the Federal

Secretary.

RECOMMENDATION OF THE FEDERAL ADVISORY
COUNCIL TO THE FEDERAL
RESERVE BOARD

Minutes of meeting

of May 21, 1918

The Federal Advisory Council

Recommendation:

The Federal Advisory Council concurs in the recommendations made by the Federal Reserve Board in regard to the conservation of credit and we urge upon the bankers of the country the great importance of their hearty co-operation in the adoption of the policy recommended by the Board.

The Council met at ten o'clock in the Federal Reserve Board room as arranged.

TOPIC NO. 2—The proper means of extending banking operations in the United States to include branches of Federal Reserve Banks having a million dollars or more of capital and surplus, and to authorize Federal Reserve Banks to acquire stock in member banks to an amount not exceeding ten per cent of their capital.

Present: Messrs. James B. Forgan, President, in the chair, L. L. Rue, Vice-President, D. G. Wing, J. P. Morgan, W. S. Rowe, C. A. Lyerly, F. O. Watts, E. F. Swinney, E. P. Wilmet, J. R. Mitchell, Herbert Fleishhacker, and Merritt H. Grim, Secretary.

Absent. Mr. J. W. Norwood, because of illness.

The chair laid before the Council the Executive Committee's report which was carefully considered, after which the following recommendations were finally approved by the Council and ordered submitted to the Federal Reserve Board at the joint meeting arranged for eleven o'clock:

See printed recommendations hereto attached.

TOPIC NO. 3—Foreign agencies of Federal Reserve Banks and the Reserve Board.

Recommendation:

The Council is of the opinion that it would be desirable under present conditions to establish a government foreign exchange bank or for the Federal Reserve Board to undertake to regulate foreign exchange operations hereafter it is now being in connection with the Treasury Department. We

RECOMMENDATION OF THE FEDERAL ADVISORY
COUNCIL TO THE FEDERAL
RESERVE BOARD

May 21, 1918

TOPIC NO. 1—Curtailement of unnecessary credits.

Recommendation:

The Federal Advisory Council concurs in the principle laid down and the recommendations made by the Federal Reserve Board in regard to the conservation of credits and we urge upon the bankers of the country the great importance of their hearty co-operation in the adoption of the policy as outlined by the Federal Reserve Board in its April Bulletin.



TOPIC NO. 2—The proper means of extending banking operations in foreign countries. This should involve a discussion of foreign branches of national banks having a million dollars or more of capital and surplus, and banks organized to do a foreign banking business in which national banks are stockholders to an amount not exceeding ten per cent of their capital and surplus.

Recommendation:

The Council believes that member banks and banks authorized to do a foreign business in which member banks are stockholders should be encouraged to take care of the foreign business of the country during the continuance of the war.

The Council reaffirms its statement made on February 19, 1917, as follows:

“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—Foreign agencies of Federal Reserve Banks and the proposition to establish a government foreign exchange bank. On this subject an interesting report has been submitted by a committee of the Chamber of Commerce of the United States, of which I presume you have a copy.

Recommendation:

The Council is of the opinion that it would be unwise under present conditions to establish a government foreign exchange bank or for the Federal Reserve Board to undertake to regulate foreign exchange operations further than it is now doing in connection with the Treasury Department. We

unanimously endorse the recommendations of the Federal Reserve Board that Federal charters be granted to banks which are now engaged in foreign banking business, the stock of which is owned by member banks.



TOPIC NO. 4—Senate Bill No. 4426 which the Board understands has been favorably reported by the Senate Committee on Banking and Currency.

65th Congress, 2d Session.

Calendar No. 368

S. 4426

(Report No. 407.)

IN THE SENATE OF THE UNITED STATES.
April 23, 1918.

Mr. Shafroth introduced the following bill; which was read twice and referred to the Committee on Banking and Currency.
April 24, 1918.

Reported by Mr. Owen, without amendment.

A BILL

To amend and reenact section fifty-two hundred and thirty-five and fifty-two hundred and thirty-six of the Revised Statutes of the United States by providing for a guaranty fund for payment of certain deposits, and for other purposes.

1 Be it enacted by the Senate and House of Representatives of the United States
2 of America in Congress assembled, That section fifty-two hundred and thirty-five and
3 fifty-two hundred and thirty-six of the Revised Statutes of the United States be, and
4 they are hereby, amended and reenacted to read as follows:

5 "Sec. 5235. That the comptroller shall, upon appointing a receiver, cause notice
6 to be given, by advertisement in such newspapers as he may direct, for three consecu-
7 tive months, calling on all persons who may have claims against such association to
8 present the same and to make legal proof thereof. At the expiration of thirty days
9 after such notice has been first published the comptroller shall pay in full the claim
10 of each depositor which has been proven to his satisfaction, or which has been adjudi-
11 cated in a court of competent jurisdiction and which does not exceed the sum of \$5,000,
12 and shall pay the sum of \$5,000 to each depositor whose claim has been established
13 as herein provided and which is in excess of that amount. Such payments shall be
14 made by the comptroller out of moneys deposited to his credit by the receiver and by
15 the Secretary of the Treasury as hereinafter provided. The Secretary of the Treasury
16 shall advance to the comptroller, out of funds in the Treasury not otherwise appro-
17 priated, such sum or sums as may be necessary to enable him to make the payments
18 herein provided for:

19 "Sec. 5236. From time to time, after full provision has been first made for re-
20 funding to the United States any deficiency in redeeming the notes of such association,
21 the comptroller shall make a ratable dividend of the money paid over to him by such
22 receiver on all such claims as may have been proved to his satisfaction or adjudicated
23 in a court of competent jurisdiction, which have not been paid in full as provided in
24 section fifty-two hundred and thirty-five of the Revised Statutes as herein amended,
25 and as the proceeds of the assets of such association are paid over to him he shall
26 make further dividends on all unpaid claims previously proved or adjudicated, and the
27 remainder of the proceeds, if any, after all claims against the estate of the bank have
28 been paid or satisfied, shall be used to reimburse the Treasury for advances made as
29 provided in said section fifty-two hundred and thirty-five as herein amended, and the
30 balance, if any, shall be paid over to the shareholders of such shares, or their legal
31 representatives, in proportion to the stock by them, respectively, held. In order to
32 indemnify the United States against loss on account of advances made as herein pro-
33 vided and to provide funds for the purpose of making such advances, there shall be
34 levied and collected yearly from each national bank a tax not in excess of one-tenth
35 of one per centum of the aggregate of all deposits averaging \$5,000 or less, and a tax
36 not in excess of one-tenth of one per centum on \$5,000 of the aggregate of each of the
37 other deposits averaging more than \$5,000.

38 "No deposit bearing over four per centum interest per annum shall be the bene-
39 ficiary of this Act."

Recommendation:

We are opposed to the guaranty of bank deposits in any form believing it to be wrong in principle. In as much as the official report of the Comptroller of the Currency shows the loss to depositors in failed national banks to be less than three one-thousandths of one per cent. during the last three years and with the Government offering the highest possible security to induce the use of hoarded funds the necessity of such legislation is not apparent. The Council reaffirms its declaration of April 18th, 1917, which said: "A plan might however be devised by the Federal Reserve Board which would provide for prompt relief to be given depositors of failed member banks."

(Passed with one dissenting vote.)



TOPIC NO. 5—Bankers Acceptances.

Recommendation:

This Council is of opinion that the use of bankers acceptances should be encouraged and developed as it will be of great service to the country in meeting its necessary financial requirements particularly during the period of the war. In order to accomplish this legislation may be necessary granting the banks greater accepting power. Every effort should be made to encourage and develop a broad open discount market for these acceptances.



TOPIC NO. 6—Discount rates.

Recommendation:

It is the opinion of the Council that in view of the large payments for taxes and government bonds which will be made shortly it is undesirable at this time to change the discount rates at the Federal Reserve Banks.



The following members of the Federal Advisory Council were present at this meeting: President, James B. Forgan, in the chair; Vice-President, L. L. Rue; D. G. Wing, J. P. Morgan, W. S. Rowe, C. A. Lyerly, F. O. Watts, J. R. Mitchell, E. F. Swinney, E. P. Wilmot, Herbert Fleishhacker, and Merritt H. Grim, Secretary.

Minutes of Joint Meeting

of

The Federal Reserve Board

and

The Federal Advisory Council.

May 21, 1918

May 21, 1918

As arranged a joint meeting of the directors of the War Finance

As arranged a joint session of the Federal Reserve Board and the

Federal Advisory Council was held in the Board room at eleven A M
May 21, 1918.

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

Mr Warburg asked Mr. Forgan to make the report of the Federal Ad-
visory Council. Accordingly Mr. Forgan read the Council's recommenda-
tions as adopted, after which the members of both boards freely dis-
cussed them. Comptroller Williams again addressed the meeting in favor
of the guaranty of bank deposits.

At the request of Mr. Warburg the members of the Council indi-
vidually reported on conditions obtaining in their various Federal Re-
serve Districts, after which Mr. Forgan announced that the Council
would meet with the Directors of the War Finance Corporation in the
Board room at Two P M for an informal conference. The meeting then
adjourned.

Secretary.

Minutes of Joint Meeting
with the
Directors of the War Finance Corporation
and the Federal Advisory Council.

May 21, 1918

As arranged a joint meeting of the directors of the War Finance Corporation and the Federal Advisory Council was held in the Federal Reserve Board room at 2 P M. May 21, 1918

Present: W P G Harding, Vice-President and General Manager, Messrs. Eugene Meyer, Jr., C M Leonard, and McLain, directors of the War Finance Corporation; and Messrs. D G Wing, J P Morgan, L L Rue, W S Rowe, C A Lyerly, J B Forgan, F O Watts, J R Mitchell, E P Wilmot, Herbert Fleishhacker, and Merritt H Grim, Secretary, of the Federal Advisory Council.

Mr. J B Forgan called the meeting to order and asked Mr. Harding if he would outline anything he had in mind for discussion. Mr. Harding addressed the meeting and the other directors also made statements and propounded some questions for discussion, on which the advice of the members of the Council would be welcome. Members of the two bodies then freely expressed their individual views in regard to the problems confronting the War Finance Corporation in performing its functions in accordance with the Act of Congress under which it was created.

The meeting adjourned at four P M.

Secretary.