

MINUTES OF MEETING OF
THE FEDERAL ADVISORY COUNCIL

Office of the Treasurer

May 19, 1919.

A regular statutory meeting of the Federal Advisory Council was held in the Federal Reserve Board room, Washington, D C., Monday, May 19th, 1919, at 11 A M.

Present: Messrs. James B. Forgan, President, L L Rue, Vice-President, D. G. Wing, A B Hepburn, W S Rowe, J C Brown, C A Lyerly, E F Swinney, E P Wilmet, A L Mills, and Merritt H. Grim, Secretary.

Absent: Messrs. F. O. Watts and C. T. Jaffray.

Mr. James B. Forgan, President, called the meeting to order at 11 A M. He stated that the Governor and other members of the Federal Reserve Board would come in at 11:15, when Governor Harding would speak upon the topics already submitted by the Board, in his letter of April 25, 1919, and perhaps present additional topics for the Council's consideration.

On motion the minutes of the Council meetings held February 17th and 18th and of the Executive Committee held February 18th, 1919, copies of which had been sent to members by the secretary, were approved.

The report of a special meeting of the Executive Committee held in Washington at the instance of the Federal Reserve Board, March 20th, 1919, to confer with the Governors of the Federal Reserve Banks, copies of which had been sent to Council members by the secretary, was on motion accepted and filed. Mr. Forgan also reported that the secretary had sent Council members a stenographic copy of the proceedings of the Conference referred to and a copy of the Comments and Rulings of the Federal Reserve Board with respect to recommendations made by the Governors at said conference.

Mr. Lyerly suggested that the chair ask the Federal Reserve Board if they recommended to Congress any amendments to the Federal Reserve Act. On motion the President was requested to take the matter up with the Governor of the Federal Reserve Board.

The President laid before the Council Governor Harding's letter of April 25, 1919, submitting certain topics to the Council for consideration at this meeting, also certain topics suggested by Mr. A. L. Mills. Copies hereto attached and made a part of these minutes.

The Governor and members of the Federal Reserve Board having arrived the Council adjourned for joint session.

Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

Office of the Governor

April 25, 1919.

Dear Mr. Forgan:-

In reply to your request that the Board send you a list of topics which it would like to have discussed at the next meeting of the Federal Advisory Council, it is suggested that the Council give consideration to the following:

- I. Investment power of the United States
 - (a) Demands for capital at home and abroad.
 - (b) Division of investment power between home and foreign needs.
- II. Maintenance of Exports.
 - (a) Intensity and duration of foreign demand.
 - (b) Best method of financing exports.
 - (c) What would constitute satisfactory security for foreign credits?
- III. Investment Trusts.
- IV. Foreign Exchange situation.
 - (a) To what extent does depreciation tend to reduce buying power abroad?
 - (b) Adjustment of trade to new basis of supply and demand on altered level of quotations.
- V. War Finance Corporation.
 - (a) How can it best cooperate with commercial banks in extending credit based on export transactions?
- VI. Use of acceptances.
 - (a) Can trade acceptances payable at a member bank be remitted for upon collection without charge?
 - (b) Domestic Acceptances - Definition of the words "readily marketable staples" which appear in that paragraph of Section 13 of the ~~Act~~ reading, as follows: "or which are secured ~~at~~ the time of acceptance by a warehouse receipt

or other such document conveying or securing title covering readily marketable staples."

- VII. Limitation of total volume of outstanding acceptances of foreign banking corporations organized under the provisions of Section 25 of the Federal Reserve Act to a specified multiple of the foreign banking corporation's capital.

NOTE: The practice of the Board has been to authorize new foreign banking corporations to accept up to six times their capital stock, but as this limit has been reached the proportion has been increased so that in one instance, at least, a foreign banking corporation was authorized to accept up to twelve times its capital stock.

A recommendation as to a final limitation is requested.

Very truly yours,

W. P. G. Harding,

Governor.

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

Topics Suggested by Mr. A. L. Mills

1. Have 5% redemption fund transferred to Federal Reserve Bank of district so national bank notes may be redeemed without sending to Washington.
2. Altogether too many statistics are required of member banks. The work entailed together with the Liberty Loan work make it almost impossible to keep up the bank work; for instance, the last two or three years there have been six statement calls a year. Five are plenty. The request for interest accrued but not collected, etc. increases a bank's misery without adding to the security of the depositors.
3. Have Branches own their own building.
4. Have member banks examined by Federal Reserve Bank at expense of Federal Reserve Bank.
5. Permit to join the Federal Reserve System state banks in cities of 50,000 population or over and having \$100,000 capital and who were doing business prior to Nov. 1, 1914, provided such banks set aside 10% of their net earnings in surplus until their capital and surplus equal \$200,000.
6. The Federal Reserve Bank and its branches should maintain a credit bureau for the benefit of the member banks and to which they can apply for information concerning commercial paper and double borrowings.
7. Have branch banks supply silver and fractional coin to member banks without cost. Should be free from sub-treasury.
8. Put Representative in the field to explain thoroughly to state banks the advantages of the Federal Reserve Bank System.
9. Is it desirable in each Federal Reserve District to appoint an Alternate or Proxy who may represent the District Member at meetings of the Federal Advisory Council?
10. As the Recommendation of the Council at its last meeting reading as follows: "The Council recommends that the Federal Reserve Board as a matter of additional service to member banks request the Federal Reserve banks to receive on deposit for immediate credit from member banks national bank notes unfit for circulation", has been opposed by the governors of the Federal Reserve banks and has not been acted on by the Federal Reserve Board, should the recommendation be further urged by the Council.

JOINT SESSION OF
THE FEDERAL ADVISORY COUNCIL
AND
THE FEDERAL RESERVE BOARD.

Present: President, James B. Forgan, Vice-President, L. L. Rue, Dr. G. Wing, A. B. Hepburn, W. S. Rowe, J. G. Brown, C. A. Lyerly, E. F. Swinney, E. P. Wilmot, A. L. Mills, and Merritt H. Grim, Secretary.

Secretary Harding was also present. Before leaving as indicated an additional topic for the Council's consideration May 19, 1919.

General address by Governor Harding.

The Council then took up the matter suggested by Governor Harding and as arranged a joint session with the Federal Reserve Board was held at 11:15 A. M.

Present---The following members of the Federal Reserve Board: Governor W. F. G. Harding, Messrs. A. C. Miller, J. S. Williams, C. S. Hamlin, and J. A. Broderick, Secretary; and the following members of the Federal Advisory Council: President, James B. Forgan, Vice-President, L. L. Rue, Dr. G. Wing, A. B. Hepburn, W. S. Rowe, J. G. Brown, C. A. Lyerly, E. F. Swinney, E. P. Wilmot, A. L. Mills, and Merritt H. Grim, Secretary.

Mr. Forgan called the meeting to order and asked Governor Harding to address the meeting.

Governor Harding talked on most of the topics in a general way, explaining the Board's attitude in regard to them. He also referred to the condition of the Dallas Federal Reserve Bank, which having exhausted its reserve by subscribing for U. S. Treasury Certificates of Indebtedness had been rediscounting heavily with other Federal Reserve banks and in this connection suggested that the Council make a recommendation on the general subject of what should be done when a Federal Reserve bank's reserve is practically exhausted or is maintained by borrowing from other Federal Reserve Banks.

After a general discussion of some length the Council voted to adjourn, until 2:30 P. M.

Secretary.

The Council met at 2:30 P.M.

Present: President, James E. Forgan, Vice-President, L. L. Rue,
D. G. Wing, A. B. Hepburn, W. S. Rowe, J. G. Brown, C. A. Lysterly, E. F. Swinney,
E. P. Wilmet, A. L. Mills, and Merritt H. Grim, Secretary.

Governor Harding was also present. Before leaving he suggested as an additional topic for the Council's consideration the following

Removal of the Embargo of Gold exports.

The Council then took up the topics submitted by Governor Harding and formulated recommendations on them. The topics suggested by Mr. Mills were also considered and formal recommendations prepared on such of them as was thought advisable.

During the afternoon the Hon. Carter Glass, Secretary of the Treasury, came in with Governor Harding to meet the Council members in an informal manner. Secretary Glass left the meeting.

Before Governor Harding left Mr. Forgan asked him if the Federal Reserve Board had recommended any amendments to the Federal Reserve Act to the present session of Congress. Governor Harding replied that the Board had not made any such recommendations to Congress but that he had in mind a change in the law providing for eleven directors four of whom to be class C Directors appointed by the Federal Reserve Board, and the Governors to be elected by the Boards to be also ex-officio members of the Boards. He asked the Council to consider this topic and make a recommendation thereon.

The Council then resumed its work. The Council again postponed consideration until the next meeting of the subject considered at previous meeting, of basing the reserves of member banks on the character of the deposits held rather than on present classification by reserve and central reserve cities. The attached printed copy of recommendation having been formally approved by the Council were ordered submitted to the Federal Reserve Board.

At five thirty o'clock members of the Federal Reserve Board having arrived for the joint session the meeting adjourned.

The Council's recommendations are as follows:

It is not likely, however, that many of the European countries will consent to need our goods, especially our raw products and machinery. It is probably not even desirable that we should seek to control our exports and, hence, otherwise our Allies, if prevented to any great extent from making goods in their own territory might find it impossible to readjust

RECOMMENDATIONS OF THE FEDERAL ADVISORY
COUNCIL TO THE FEDERAL RESERVE BOARD

May 19, 1919.

TOPIC NO. 1.—Investment power of the United States.

- (a) Demands for capital at home and abroad.
- (b) Division of investment power between home and foreign needs.

Recommendation :

The investment power of the United States depends primarily upon the amount of the country's savings and the portion of such savings available for new investment, of both of which it is difficult to secure a reliable estimate. Since we entered the war the demand for capital at home for municipal and corporation needs has been restricted by government mandates and surplus savings have been more than absorbed by government issues, for war purposes, including large loans to our Allies. Not only have current savings been thus absorbed but future accumulations have been largely drawn upon. The ordinary requirements of municipalities and corporations relieved from government restrictions will doubtless, from now on, be largely increased, while the demands of the Federal government, although likely to continue an important factor for some years to come, should gradually be diminished. The demands for capital at home will and should receive our first attention. The railroad requirements, especially when they are returned to their owners by the government, will have to be met. Railroad securities will have to be protected and the market for them stabilized. This should have the effect of reestablishing a better market for all our domestic securities and of preparing the way for a market for foreign investments. It would seem that with the large international balances likely to continue in our favor we should have a large surplus of capital available for investment in the securities of our debtor countries. In the interest of our foreign trade it will be necessary that such investments should be made, otherwise the means of settling balances due us by foreign countries will not be available to them.



TOPIC NO. 2.—Maintenance of Exports.

- (a) Intensity and duration of foreign demand.

Recommendation :

Undoubtedly the undeveloped portions of the world, such as South America, and the East, will continue to need our goods, especially our raw products and certain kinds of machinery. It is not likely, however, that many of the European countries will continue indefinitely to require our manufactured goods in large quantity. It is probably not even desirable that we should seek to control European markets indefinitely, otherwise our Allies, if prevented to any great extent from selling goods in their own territory might find it impossible to readjust

their own finances. Moreover leaving out of account all question of wages and the like it is very doubtful if we could compete with the European countries in many lines of manufactured goods on an even basis in view of the cost of their transportation. The sale of agricultural implements will doubtless continue to Russia and similar countries when reliable governments are again established in them.

(b) Best method of financing exports.

Recommendation :

The best method of financing exports is for the foreign purchaser to arrange through his bank open dollar credits with American institutions. In some countries such as Finland it is impossible to obtain dollar credits and it is still necessary to arbitrage through London. The burden and exchange risk in such transactions should be thrown upon the purchaser who in making his estimates must take into account the fluctuations that may take place in the relation of value of his currency to Sterling and the relation of the value of Sterling to the Dollar. He is in a better position to do this, however, than the American exporter.

(c) What would constitute satisfactory security for foreign credits?

Recommendation :

In countries whose financial condition has not been too seriously inflated or otherwise impaired their government, municipal, or public utility obligations deposited in this country would constitute satisfactory security for foreign credits. In the case of undeveloped countries such as some of the South American states it may be necessary for the country to mortgage its customs revenues or in some such way to secure the payment of its debts. This may be the only way in which such countries can get the credit they require and without which they would find it difficult to make progress.

The obligations of the foreign corporations, firms, or individuals, who purchase our raw materials or manufactured goods, endorsed or guaranteed by their banks or bankers and (or) by their governments, would probably in some cases form the best obtainable security.



TOPIC NO. 3—Investment Trusts.

Recommendation:

This seems to be a very feasible method of floating foreign bonds in this country. It has already been adopted by the organization in New York of the Foreign Bond and Share Corporation, with an authorized capital of \$10,000,000, the initial payment of which is being made today, and will doubtless be followed by other similar concerns as the necessity for them arises. The people of this country have not heretofore invested in foreign securities to any great extent and

in order to accustom them to do so it will undoubtedly be necessary to have the foreign securities thoroughly investigated and held by corporations organized for that purpose in this country, which, in turn will issue their own stock, bonds or debentures, based upon the foreign investments they make.



TOPIC NO. 4.—Foreign Exchange situation.

- (a) To what extent does depreciation tend to reduce buying power abroad?
- (b) Adjustment of trade to new basis of supply and demand on altered level of quotations.

Recommendation:

It would seem that the depreciation of the currency in any given foreign country will tend to reduce the purchasing power of that country by practically the amount of such existing depreciation on the aggregate amount it has to spend in other countries. If, for illustration, Great Britain has a certain amount of money wherewith to buy goods in this country and if Sterling has depreciated, say, 10%, in relation to the Dollar, it is obvious Great Britain will be able by just that much less to purchase goods in this country. If however, the Sterling has depreciated 10% in relation to our dollar and only, say, 5% in its relation to the Argentine peso, then likely such raw materials as can be had from either country would be bought in the Argentine rather than here. This however, does not change the fundamental fact that in every instance the depreciation will affect the purchasing power of Sterling by just the amount of its depreciation in relation to the currency of other countries. If the depreciation of Sterling becomes very great it may in time prevent Great Britain or other countries from purchasing anything in this country except such raw materials as cannot be obtained elsewhere in sufficient quantity and which are essential for the maintenance of industry or life. It is therefore to our interest to see to it, that the depreciation of the currency of any country with which we have trade or financial relations does not become so heavy as to hamper the proper development of such relations. Depreciation of international exchange is a deterrent to actual purchasing and will reduce the total amount of a country's purchases considerably below its purchasing power.



TOPIC NO 5.—War Finance Corporation. How can it best co-operate with commercial banks in extending credit based on export transactions?

Recommendation:

By independently financing the longer time credits based on export transactions.

TOPIC NO. 6.—Use of acceptances.

- (a) Can trade acceptances payable at a member bank be remitted for upon collection without charge?

Recommendation:

In our opinion trade acceptances, provided they are payable at banks which are members of the Federal Reserve Bank clearing system, should be treated like checks. We understand that at least some of the Federal Reserve Banks are now treating them on the same basis as checks, but in some cases they meet with charges made by the collecting banks, which they of course in turn charge to the depositing bank. A uniform method in regard to the collection of such items would be desirable.

- (b) Domestic Acceptances—Definition of the words “Readily marketable staples” which appear in that paragraph of Section 13 of the Act reading as follows: “Or which are secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering readily marketable staples.”

Recommendation:

“Readily marketable staples” should be construed to mean all raw products, such as cotton, grain and other foodstuffs, ores and common chemicals enjoying a broad market, thoroughly standardized and fairly non-perishable. There may be some lines of manufactured goods sufficiently standardized as to methods of production, styles, uses, customs and other factors and for which there exists a broad enough market to warrant their inclusion in a list of “readily marketable staples” and it would be desirable if the Federal Reserve Board after full investigation, were to issue a list of staples which it considers readily marketable at all times and under all conditions.



TOPIC NO. 7—Limitation of total volume of outstanding acceptances of foreign banking corporations organized under the provisions of Section 25 of the Federal Reserve Act to a specified multiple of the foreign banking corporation's capital.

(Note) The practice of the Board has been to authorize new foreign banking corporations to accept up to six times their capital stock, but as this limit has been reached the proportion has been increased so that in one instance, at least, a foreign banking corporation, was authorized to accept up to twelve times its capital stock.

A recommendation as to a final limitation is requested.

Recommendation :

We doubt if a specific multiple of the capital of a foreign banking corporation operating under the Federal Reserve Act forms the proper limitation of the total volume of its outstanding acceptances. It is self-evident that a much larger acceptance business may be safely done where the acceptances are satisfactorily secured by a great diversity of merchandise shipped to many different firms in different parts of the world, than where such acceptances are secured by relatively large shipments of one line of merchandise to a comparatively few consignees in more or less the same part of the world. The strength of the acceptance business lies in the wide distribution and the diversity of the merchandise against which acceptances are made, the staple quality of the merchandise drawn against and the strength of the shippers and consignees. We are therefore inclined to advise that the Federal Reserve Board should not lay down very specific rules, but should leave the foreign banking corporations some latitude in doing this business, always making careful investigation as to the nature and quality of the business done and the risks assumed by such corporations in granting too large individual lines of credit against any single kind of merchandise.

ADDITIONAL TOPICS SUGGESTED BY GOVERNOR HARDING.

TOPIC NO. 8—What should be done when a Federal Reserve Bank's reserve is practically exhausted or is maintained by borrowing from other Federal Reserve Banks?

Recommendation :

Where any Federal Reserve Bank is in an overloaned condition resulting in a too prolonged deficiency in reserve, the corrective measure to be applied in our opinion would be an increase in the rate on loans whether secured by government securities or otherwise,



TOPIC NO. 9—Amendment to Federal Reserve Act to provide for increasing the Boards of Directors of Federal Reserve Banks to eleven members, four of whom should be Class C directors appointed by the Federal Reserve Board, and the Governors to be elected by the Boards to be also ex-officio members of the Boards.

Recommendation :

The Council approves of the suggestion of Governor Harding that the Boards of Directors of the Federal Reserve Banks should be increased to eleven members, four of whom should be Class C directors appointed by the Federal Reserve Board, and that the Governors elected by the Boards of Directors should also be ex-officio directors.

TOPIC NO. 10.—Embargo on Gold exports.

Recommendation:

In the opinion of the Council the time has arrived when the embargo on the export of gold can safely be lifted.

TOPICS SUGGESTED BY MEMBERS OF THE COUNCIL
(Mr. Mills)

TOPIC NO. 11—Have 5% redemption fund transferred to Federal Reserve Bank of district so national bank notes may be redeemed without sending them to Washington.

Recommendation:

In view of the fact that the gold formerly carried by the National banks in their vaults is now concentrated in the Federal Reserve banks, we would suggest for the consideration of the Federal Reserve Board whether it would not be logical and at the same time improve the service to member banks if the 5% redemption fund were transferred to the Federal Reserve banks and have them redeem national bank notes without sending them to Washington.



TOPIC NO. 12—Have Federal Reserve banks supply silver and fractional coin to member banks without cost.

Recommendation:

The Council recommends to the Federal Reserve Board that they should consider the advisability of having Federal Reserve banks, as an additional service to member banks, supply them with silver and fractional coin without cost.



TOPIC NO. 13—It is desirable in each Federal Reserve District to appoint an Alternate or proxy who may represent the District member at meetings of the Federal Advisory Council?

Recommendation:

The Council refers this matter to the Federal Reserve Board with the request that they submit it for the opinion of their legal counsel and report his finding as to the legality of such procedure to the President of this council before its next statutory meeting.



The following members of the Federal Advisory Council were present at this meeting: James B. Forgan, President. L. L. Rue, Vice-President. D. G. Wing, A. B. Hepburn, W. S. Rowe, J. G. Brown, C. A. Lyerly, E. F. Swinney, E. P. Wilmot, A. L. Mills and Merritt H. Grim, Secretary.

4.

The Executive Committee of the Federal Advisory Council met in conference with the Federal Reserve Board at Washington, D.C., (the conference being held in the Board's office on Friday June 7th, 1919) at 11 A.M. in response to an invitation from Governor Harding, extended by Mr. James B. Forgan, President of the Board.

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

Office of Governor

Washington, D.C.
June 10, 1919
May 19, 1919.

Dear Mr. Forgan:

The Board is now engaged in a comprehensive study of European conditions. A joint session with the Federal Reserve Board was held in the Federal Reserve Board room at five thirty P.M.

Present, the following members of the Board: Governor Harding, A C Miller, J S Williams, and J A Broderick, Secretary.

Present: Messrs. James B. Forgan, President, L L Rue, Vice-President D C Wing, A B Hepburn, W S Rowe, J S Brown, C A Lyerly, E F Swinney, E P Hiltet, A L Mills, and Merritt H. Grim, Secretary.

Absent: Messrs. F O Watts and C T Jaffray.

Governor Harding called the meeting to order and asked for the Council's report, which Mr. James B. Forgan then read to the meeting.

The topics were then discussed to some extent in a general way, as well as other matters relating to the Federal Reserve system.

Comptroller Williams suggested that members of the Council report conditions as to housing facilities, including stores, etc., in the various Federal Reserve districts. All present indicated a shortage of houses of all kinds especially in the large cities.

At 6:45 P.M. the meeting adjourned.

The Board has a very early date of a conference here in Washington. I am sure that the bankers and reporters but before leaving the call would like very much having an opportunity of discussing the situation with the Executive Committee of the Federal Advisory Council. Being to engagements of some of the members of the Board it seems desirable that we should have this preliminary discussion at an early date. Will you please call the larger conference early in July. Will you please give me a convenient date for you!

Secretary.

Yours very truly
Signed: E P S Harding,
Governor