

EXECUTIVE COMMITTEE
FEDERAL ADVISORY COUNCIL

June 20, 1919

The Executive Committee of the Federal Advisory Council met in conference with the Federal Reserve Board at Washington, D.C., (in Governor Harding's office in the Treasury Department), on Friday June 20th, 1919, at 11 A.M. in response to the following letter from Governor Harding received by Mr. James B. Forgan, President.

"Federal Reserve Board,
Washington, D.C.
"Office of Governor

June 12, 1919

"Dear Mr. Forgan:

The Board is now engaged in a comprehensive study of European conditions with a view of formulating a sound policy to govern in our foreign trade relations. It may safely be assumed that there will be no legislation looking to further loans by the government of the United States and our foreign trade must henceforth be financed through private channels.

It seems impossible, and in fact, undesirable that the volume of our exports as expressed in dollars should continue on the basis which has prevailed during the past three years and the Board concurs in Mr. Hoover's view as stated in the newspapers yesterday that the American people should not be expected to feed indefinitely an idle population in Europe. The Board's view is so far as it may be necessary to finance our foreign trade through the purchase of foreign securities or by means of long time loans that care should be taken that European purchases should be confined to machinery and raw materials necessary for putting back the populations of Europe on a productive basis in order that they may be enabled to restore the material wealth which has been destroyed or consumed and eventually to produce a surplus of goods for sale.

The Board is unanimous in the view that care should be taken not to deceive ourselves and that credits nominally of short term but which are subject to be renewed indefinitely should be avoided as it is most important not to encumber the member banks or the Federal Reserve Banks with unliquid assets. We should face the situation frankly and recognize at the beginning that long credits belong to the field of investment banking rather than to that of commercial banking.

The Board has in view the calling at an early date of a conference here in Washington of leading international bankers and exporters but before issuing the call would like very much having an opportunity of discussing the situation with the Executive Committee of the Federal Advisory Council. Owing to engagements of some of the members of the Board it seems desirable that we should have this preliminary discussion sometime next week, with a view of calling the larger conference early in July. Will Friday, June 20th, be a convenient date for you?

Yours very truly

(Signed) W P G Harding,
Governor "

Present: Members of the Executive Committee: Messrs. James B Forgan, President; L L Rue, Vice-President; D G Wing, W S Rowe and Merritt H Grim, Secretary.

Absent: A B Hepburn and F O Watts.

Present: Members of the Federal Reserve Board: Messrs. W P G Harding, Governor; Albert Straus, Vice-Governor; A C Miller, C S Hamlin, J S Williams and J A Broderick, Secretary.

Governor Harding called the meeting to order and said the Conference would be purely informal. A number of matters were thus discussed on which no action was taken.

Governor Harding presented to the meeting the following proposed amendment to Section 25 of the Federal Reserve Act, which the Board intended to have introduced in Congress:

"Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled:

"That Section 25 of the Act approved December 23, 1913, known as the Federal Reserve Act, as amended by the Act approved September 7, 1916, be further amended by striking out the period at the end of the third paragraph thereof and adding in lieu thereof the following:

"', or, until January 1st, 1921, any national banking association, without regard to the amount of its capital and surplus may upon approval by the Federal Reserve Board invest an amount not exceeding in the aggregate five per centum of its paid-in capital and surplus in the stock of one or more corporations chartered or incorporated under the laws of the United States or of any State thereof and regardless of its location, principally engaged in such phases of international or foreign financial operations as may be necessary to facilitate the export of goods, wares or merchandise from the United States or any of its dependencies or insular possessions to any foreign country; provided that in no case shall the total investment by a national bank in stock of banks or corporations engaged principally in international or foreign banking of any kind or description exceed ten per centum of its capital and surplus. '"

The proposed amendment was fully considered and received the unanimous approval of the Executive Committee as well as of the entire conference.

The subject for which the Conference was primarily called, as indicated in Governor Harding's letter, above referred to, was fully considered, after which the conference unanimously decided that this matter should be left to the bankers interested, a committee of which had already been appointed in New York, and that therefore the proposed larger conference of bankers and exporters was not necessary.

The Conference adjourned at 4 P M.

Secretary