MINUTES OF
FEDERAL ADVISORY COUNCIL.

WASHINGTON, D.C.
SEPTEMBER 20, 1920.

A statutory meeting of the Federal Advisory Council was held in the Federal Reserve Board room, Metropolitan Bank building, Washington, D. C., Monday, September 20th, 1920, at 10:30 A M.

Present: Messrs. James B. Forgan, President, L. L. Rue, Vice-President, Philip Stockton, A. B. Hepburn, W. S. Rowe, J. G. Brown, Oscar Wells, F. O. Watts, C. T. Jaffray, E. F. Swinney, R. L. Ball, A. L. Mills, and Merritt H. Grim, secretary.

Mr. Forgan stated that Governor Harding and members of the Federal Reserve Board would meet with the Council at 11 o'clock.

The minutes of the previous meetings of the Federal Advisory Council held May 17th and 18th and of its Executive Committee held May 17th, 1920, copies of which had been sent to members by the secretary, were on motion approved.

Mr. Forgan informed the Council that Governor Harding had told him that a comittee representing the live stock interests were in Washington today and desired to meet in joint conference thev Federal Advisory Council and the Federal Reserve Board at three o'clock. Mr. Rue moved that the Council comply with request of the live stock committee to meet with them at the time named. Motion duly carried.

At 11 o'clock members of the Federal Reserve Board arrived for the conference as arranged.

JOINT MEETING,
FEDERAL RESERVE BOARD AND
FEDERAL ADVISORY COUNCIL.

September 20, 1920.

Present: Hon. W. P. G. Harding, Governor, Messrs. Edmund Platt, Vice-Governor, A. C. Miller, J. S. Williams, members of the Federal Reserve Board.

Messrs. James B. Forgan, L. L. Rue, Vice-President, Philip Stockton, A B Hepburn, W S Rowe, J G Brown, Oscar Wells, F O Watts, C. T. Jaffray, E. F. Swinney, R. L. Ball, and A. L. Mills, members of the Federal Advisory Council, and Merritt H. Grim, Secretary.

Governor Harding addressed the meeting in regard to the topics which the Federal Reserve Board had submitted to the Council for its consideration, copy of which is hereto attached and made a part of these minutes.

There was also a general discussion pertaining to the topics and other general subjects relating to the Federal Reserve System, after which the Federal Reserve Board withdrew.

TOPICS SUGGESTED BY THE FEDERAL RESERVE BOARD FOR DISCUSSION AT THE MEETING OF THE FEDERAL ADVISORY COUNCIL SEPTEMBER 20, 1920.

I. CREDIT CONTROL

1. What are the objects sought to be attained by the policy of credit control in the existing circumstances?

   Is the object

   (a) To maintain or to strengthen reserves?

   (b) To stabilize the existing situation by prevention of further expansion?

   (c) To bring about a discriminating deflation by reducing the total volume of credit?

2. Can a substantial reduction in the volume of credit be effected without injury to the legitimate business of the country and without curtailment of essential production?

3. To what extent has one or more of these objects been attained in each District and in the country at large?

4. To what extent is it necessary to distinguish between the immediate objective of the policy of credit control and the remoter objective, such as reduction in the cost of living?

   What is the proper conception of the "normal credit condition" which the Federal Reserve Banks should seek to bring about?

   Note: Obviously if "liquidation" or "stabilization" of the existing credit situation are to be regarded as the objectives of the Federal Reserve policy of credit control, a condition which can be regarded as "normal" will be attained very much more quickly than if the objective is a reduction in considerable amount of the total volume of credit.

5. Methods of credit control. Consideration of the efficacy of different methods of credit control.

   (a) Horizontal increase of rates, especially of commercial rates; a canvass of the experience of banks which have put into effect a 7% commercial rate, to wit, New York, Boston, Chicago, and Minneapolis.

(b) Progressive rate schedules starting with 6% as a basic rate; a canvass of the experience of Federal Reserve Banks of Kansas City, Dallas, St. Louis, and Atlanta.

(c) Other methods of dealing with the situation, such as the implication that increased offerings by member banks will force higher rates or recourse to the progressive rate; a canvass of the experience of the Federal Reserve Banks of Cleveland, Philadelphia, Richmond, and San Francisco.

(d) Restricting issues of Federal Reserve notes to Federal Reserve Banks as a potential means of enforcing credit control; canvass of English experience and views.

6. Inter-Reserve Bank rediscounts as related to the problem of credit control. Is the existing policy and practice with respect to such rediscounts satisfactory and sound?

(a) To effect an approximate equalization of reserves?

(b) At the same rate fixed for its member banks by the bank granting the accommodation?

Note: When recourse was first had to inter-bank rediscounts it was thought that the value of a Federal Reserve Bank's endorsement was entitled to recognition in the form of a reduced discount rate. More recently this idea has been abandoned and rediscount transactions between Federal Reserve Banks are made at the rates established for member banks by the Federal Reserve Bank extending the accommodation. The question now arises, however, whether a Federal Reserve Bank which has been able to maintain high reserves by reducing the demands for accommodations from its own member banks, which are its depositors, should be required to extend accommodations to member banks in other Districts through the medium of their Federal Reserve Banks at the same rates as are established for their own members.

II. LOANS SECURED BY LIBERTY BONDS AND VICTORY NOTES.

1. Is there any moral obligation resting upon any of the Federal Reserve Banks to establish rates lower than commercial rates for paper of this classification?

2. Would liquidation of loans of this class be retarded or promoted by the establishment of lower rates?

3. If lower rates are deemed desirable, would it be equitable and practicable to have such rates apply to original subscribers only?

4. Should member banks' collateral notes be fully secured, taking market value instead of face value as a basis?

5. If so, how and when could the new policy be put into effect with a minimum of friction?

III. FEDERAL RESERVE NOTE ISSUES.

1. Is the note-issue policy of the Federal Reserve System subject to legitimate criticism?

2. What connection is there between changes in the volume of credit and the volume of currency?

3. Is there any difference in trelation to effect upon prices between the volume of credit and the volume of currency?

4. Can the note-issue policy of the Federal Reserve System be properly charged with any important responsibility for inflated prices, if so, what has been the responsibility and in what way does the issue of Federal Reserve notes promote or assist inflation?

5. Can the accepted principles of bank-note-currency regulation, applicable in normal circumstances when the commerce of the world is conducted on a gold standard, be safely taken as a guide in the abnormal circumstances now existing, when the gold standard is virtually suspended, except in the United States and Japan?

6. In connection with the policy of credit control should the present note-issue policy of the Federal Reserve System be changed and restrictions be thrown around the issue of Federal Reserve notes?

7. If the issue of Federal Reserve notes should be restricted, what form should the restriction take and what effect would different methods of restriction have?

   (a) Imposition of charges against Federal Reserve notes upon the uncovered part of circulation issued to them at a given rate, for example, a fixed rate of 5% or a rate varying with the commercial rate.

   (b) Would it be practicable to establish for each member bank a so-called normal currency limit and to impose charges upon member banks calling for notes in excess of their limit?

   (c) Would it be advisable while continuing to have the Federal Reserve Banks pay all transportation charges on incoming currency, to have shipments of outgoing currency made at the expense of the consignees?

   (d) Restrictions by definition of the character of the paper acceptable as collateral by the Federal Reserve Agent against the issue of Federal Reserve notes. Should member banks' collateral notes or customers' notes secured by Government obligations be taken as collateral for Federal Reserve notes?

(e) Limitation of the total volume of Federal Reserve notes by the Federal Reserve Board, the maximum amount being fixed pro rata for each Federal Reserve Bank. (The Federal Reserve Board has statutory power to accept in part or to reject entirely all applications for Federal Reserve notes.)

Would restriction of note issues in any of the above mentioned ways operate to promote a better control of credit, and if so, what would be the effect upon the commerce and business of the country?

It is respectfully suggested that the President of the Federal Advisory Council assign to each member of the Council a part of the foregoing program for his special study and consideration in order that each member may come prepared to discuss the particular topics assigned to him. At the conclusion of the individual discussions a general discussion should follow.

#3.

FEDERAL ADVISORY COUNCIL

September 20, 1920.

After the members of the Federal Reserve Board withdrew the Council resumed its session.

The topics submitted by the Federal Reserve Board for consideration at this meeting was laid before the meeting.

The President stated that he had requested each of the members of the Executive Committee, as suggested by the Governor in his statement accompanying the topics, to prepare a report on certain of the topics.

These reports were then read and discussed at length and referred to the Executive Committee to revise them in accordance with the opinions of the Council as brought out in the discussion.

Mr. Watts to whom the topic in regard to " Methods of Credit Control" had been referred made the following suggestion: Inasmuch as some Federal Reserve Banks had adopted a method of progressive discount rates, some a horizontal 7% rate, while some had no definite plan applicable to all borrowers and as he represented one of those banks having adopted the method of a progressive rate he suggested that two other members of the Council representing those Federal Reserve Banks employing the other two methods of credit control should help him prepare a report on this topic. After discussion Mr Wells moved that it be referred to the Executive Committee and that Mr. Watts be requested to prepare an advance statement for the benefit of the Executive Committee, Motion duly carried.

At one o'clock the Council adjourned for lunch, to meet again at 2:15 P. M.

S E C R E T A R Y.

The Federal Advisory Council

September 20,1920

At 2:15 P.M. The Federal Advisory Council resumed its session, continuing the informal discussion on the topics submitted by the Federal Reserve Board.

In connection with the topic as to whether there is any moral obligation resting upon any of the Federal Reserve Banks to establish lower rates for paper secured by Liberty and Victory Loan Bonds than for Commercial paper, a pole of the members was taken with the result that the Council was evenly divided on the proposition, the vote being as follows:

Mr. Stockton		No
Mr. Hepburn		No
Mr. Rue	Yes	
Mr. Rowe		No
Mr. Brown	Yes	
Mr. Wells	Yes	
Mr. Forgan		No
Mr. Wats	Yes	
Mr. Jaffray		No
Mr. Swinney	Yes	
Mr. Ball	Yes	
Mr. Mills		No

At 3 P. M. the Council adjourned to receive the members of the Federal Reserve Board and the Committee representing the Live Stock interests.

JOINT MEETING
FEDERAL ADVISORY COUNCIL
FEDERAL RESERVEBOARD
COMMITTEE REPRESENTING LIVE STOCK INTERESTS

September 20, 1920.

As arranged at three o'clock a joint conference of members of the Federal Advisory Council, the Federal Reserve Board and representatives of the Live Stock interests, was held in the Federal Reserve Board room:

Present: Hon W P G Harding, Governor, Messrs. A. C. Miller, Edmund Platt, J. S. Williams, members of the Federal Reserve Board:
Messrs. James B. Forgan, President, L. L. Rue, Vice President, Philip Stockton, A. B. Hepburn, W. S. Rowe, J. G. Brown, Oscar Wells, F. O. Watts, C. T. Jaffray, E. F. Swinney, R. L. Ball, A. L. Mills, and Merritt H. Grim, Secretary, members of the Federal Advisory Council.

The live stock interests were represented by Frank J. Hagenbarth, President, National Wool Growers Ass'n, Salt Lake City, Utah, Dr. J. M. Williams, President Wyoming Wool Growers Ass'n, McKinley, Wyo., Chas. E. Collins, representing American National Livestock Ass'n, Kit Carson, Wyo., I. A. Vant, President St. Joseph Cattle Loan Co., St. Joseph, Mo., John Fletcher, Vice President, Fort Dearborn National Bank, Chicago, Senator Jones and several others.

Governor Harding asked Senator Jones to open the discussion and introduce the representatives of the Live Stock interests.

Mr. Frank J. Hagenbarth, Chairman of the delegation, stated that his committee was appointed at a meeting in Chicago of bankers, livestock producers, packers, etc., held on Sept. 10th, and instructed to come to Washington to confer with the Federal Reserve Board regarding the necessity of financing this important industry at reasonable rates. Learning that the Federal Advisory Council was in session his committee desired to meet with it at the same time. He then presented the following statement signed by the committee which he requested both Boards to consider and take such action as they thought necessary to aid in financing the live stock business.

After considerable discussion of the conditions affecting this industry the members of the Committee and the Federal Reserve Board withdrew.

The statement referred to is as follows:

The Committee appearing before you was appointed at a meeting of bankers, livestock producers, packers, railway officials and others, held in Chicago on Friday, September 10, 1920.

This meeting definitely developed the fact that the livestock industry was in danger of such curtailment as to constitute a grave menace to the food supply of the nation. The chief cause was the lack of credit, or the proper application of such credit as is available. The livestock industry is dependent on credit to a large extent. The factors in furnishing this credit, to which we desire to call your specific attention, are the banks and cattle loan companies located at the various markets of the country. These companies operate similarly to note brokers, with the important exception that they endorse all paper sold. They have outstanding at the present time conservatively in excess of $100,000,000, secured entirely by chattel mortgages on cattle and sheep. Such companies are usually strongly capitalized and have perfected organizations capable of determining in the highest degree the granting of credit to the livestock producer.

These companies depend upon banks to purchase the notes of the producer and for many years have enjoyed the confidence of banks in the large money centers, as well as the smallest banks in the country districts and most banks have, when deposits were normal, freely purchased this class of loans, considering them as excellent secondary reserve. Such loans have been made, so that they are eligible for rediscount at the Federal Reserve banks. During the past Summer months there has been a large falling off in the funds available through these sources, so that many of the banks at the livestock centers and many cattle loan companies have been forced to require borrowers to ship livestock to market, regardless of sex, age or condition. This has resulted in their being slaughtered --many thousand head of cows, calves and your stock -- which has reduced production in an alarming degree and if permitted to continue will have an effect that it will take from five to ten years to correct and during that time the supply of livestock for human consumption will be far short of the requirements of the country.

The figures issued by the Department of Agriculture on July 1st emphasize emphatically the trend of the situation. On July 1, 1920, the number of hogs in the United States was 16.6 % less than on July 1, 1919. The number of cattle 7.7 % less and the number of sheep 3.3 % less.

The banks in the large money centers that have heretofore taken this class of paper in liberal quantities are now, by reason of the general credit situation, demanding liquidation. This means that at least the $100,000,000 mentioned above, which has always heretofore been available, is being withdrawn, with the result that large herds of breeding cattle and sheep are being forced to market.

This Committee desires to impress upon the members of the Federal Reserve Board and the Advisory Council the great danger to the livestock industry now existing and to enlist your earnest and sustained help in overcoming, as far as possible, the disabilities now existing. There is no new problem in the livestock industry. The cirsis arises solely from the withdrawal of sources of credit which have always heretofore been available.

The granting of credits for movement of livestock into feedlots or for the purpose of carrying producing herds on the range is in no sense speculative. Feeding for market is an orderly step in the progress to market of a legitimate crop. Owing to the uncontrollable agencies of weather conditions, high costs and low markets -- the latter largely caused by liquidation -- the producing interests must have the usual financial help that they have heretofore enjoyed.

It is our suggestion, therefore, that your organization promulgate in such a manner as may seem best, the facts regarding the situation and urge upon the officials of Federal Reserve banks in all districts that they fully enlighten all members of their districts of the situation and to urge upon member banks the necessity of such use of their credit facilities as will give all possible relief.

Frank J. Hagenbarth, Salt Lake City, Utah
President National Wool Growers Assn.

Dr. J. M. Wilson, McKinley, Wyo.
President Wyoming Wool Growers Assn.

Chas. E. Collins, Kit Carson, Wyo.
Rep. Am. Natl. Livestock Assn.

I. A. Vant, St. Joseph, Mo.
Pres. Stock Yards Bank.
Pres. St Joseph Cattle Loan Co.

Jno. Fletcher, Chicago,
Vice Pres. Ft. Dearborn Natl. Bank.

FEDERAL ADVISORY COUNCIL

SEPTEMBER 20, 1920

The Federal Advisory Council resumed its session at 5:30 o'clock and concluded its informal consideration of the Federal Reserve Board topics.

The Council then considered what action should be taken in regard to the statement presented by the Committee representing the Live stock interests, and it was unanimously decided that each member should lay a copy of the statement of the Committee before the directors of the Federal Reserve bank in his district with the request that they take the necessary steps to inform the member banks of the situation as to the livestock industry and to urge upon them the necessity of such use of their credit facilities as will give all possible relief.

The Council then adjourned until Tuesday, September 21st, at 11:30 A.M.

Secretary

MINUTES OF MEETING
EXECUTIVE COMMITTEE OF THE
FEDERAL ADVISORY COUNCIL.

September 21, 1920.

As arranged the Executive Committee of the Federal Advisory Council met at 9 A M. in the Federal Reserve Board room to prepare tentative recommendations on the Federal Reserve Board topics submitted to it.

Present: Messrs. James B. Forgan, L L Rue. W. S. Rowe, A. B. Hepburn, and F. O. Watts.

The Committee revised the individual reports prepared by its members in line with the opinions expressed by the Council during the informal consideration of the topics and prepared a report covering all the topics for submission to the meeting of the Council to be held at 11:30 o'clock.

The Committee then adjourned.

S E C R E T A R Y.

MINUTES OF
FEDERAL ADVISORY COUNCIL.

SEPTEMBER 21, 1920.

The Federal Advisory Council met at 11;30 A.M., September 21, 1920, in the Federal Reserve Board room.

Present: Messrs. James B. Forgan, L. L. Rue, W. S. Rowe, J. G. Brown, Oscar Wells, E. F. Swinney, C. T. Jaffray, R. L. Ball and A. L. Mills, also Merritt H. Grim, Secretary.

The President called the meeting to order.

The President laid before the Council the report of the Executive Committee for its consideration.

The Council revised the Committee's report and adopted Recommendations on the Federal Reserve Board's topics.

A printed copy of the recommendations as adopted is hereto attached and made a part of these minutes.

The President was requested to present the Council's recommendations to the Federal Reserve Board.

At 1:00 P. M. the Council adjourned.

Secretary.

RECOMMENDATIONS OF THE FEDERAL ADVISORY COUNCIL TO THE FEDERAL RESERVE BOARD

September 21, 1920

TOPIC NO. 1—CREDIT CONTROL.—1. What are the objects sought to be attained by the policy of credit control in the existing circumstances?

Is the object

(a) To maintain or to strengthen reserves?

(b) To stabilize the existing situation by prevention of further expansion?

(c) To bring about a discriminating deflation by reducing the total volume of credit?

Recommendation:

From the statistics compiled by Professor Kemmerer of Princeton, bank deposits increased from $12,678,000,000 in 1913 to $27,928,000,000 in 1919. At the same time the ratio of cash reserves to total deposits diminished from 11.7 in 1913 to 6.6 in 1919.

"Taking the index numbers of the United States Bureau of Labor Statistics as the most comprehensive and most scientifically prepared of the index numbers covering the entire period 1913 to 1919 inclusive, we may say that the wholesale price level increased from 1913 to April, 1920, 165%; in other words, if one calls the dollar of 1913 a 100% dollar in its purchasing power over commodities at wholesale, the dollar of today is approximately a 38% dollar."

This was the condition of affairs when the Federal Reserve Board undertook to exercise its power over credit for the purpose of protecting personal and commercial interests. All experienced business men knew that prices would seek a lower level, by gradual process if good judgment and conservatism prevailed, or by a commercial debacle if the illogical, ill-considered and extravagant methods brought about by the war were permitted to continue. Under these circumstances, and none too soon, the Federal Reserve Board exercised its power over credit in order to constrain bankers and business men to exercise conservatism and help strengthen commercial and financial conditions. The Board in so doing have accomplished a great work and have demonstrated one of the powers for good which the Federal Reserve System possesses. Naturally their first move was in the direction of strengthening the bank's reserves. That means strengthening the bank and putting it in a liquid position—in the position in which a well managed bank should always be, to respond to the demands of its clientele. Strengthening he reserves meant curtailing credit and *ipso facto* would prevent "further expansion." No one wishes to "Stabilize" existing conditions, but to get away from them to a safer and more conservative level. This would naturally bring about a "Discriminating deflation" by extending credit to such industries as were essential and needed support in order to preserve the general business welfare, and by restraining credit to activities which though perfectly legitimate were nevertheless non-essential to the general welfare and should be promoted by the funds of their owners and managers, and not be allowed to absorb commercial resources needed for the financing of business closely connected with the public welfare.

2. Can a substantial reduction in the volume of credit be effected without injury to the legitimate business of the country and without curtailment of essential production?

Recommendation:

A substantial reduction of the volume of credit can be effected without injury to the legitimate industry of the country and without curtailing of essential production. Not only this but such reduction in volume of credit may be made to materially strengthen the credit fabric of the country as a whole.

The first and most beneficent effect of the act of the Federal Reserve Board in controlling credit was to arrest the attention of the whole country and to incur high commendation from conservative forces and incur criticism ranging from mild to violent from certain sections or interests. It made everybody stop and think and the discussion which ensued showed plainly that the Board was right. The psychological attitude of the country toward business immediately began to change and from wild extravagance and a disposition to enter into new and ill-considered business, there came about a feeling of conservatism. People began to ask themselves just where they stood, how much they were really worth, and how they would fare if called upon to liquidate their outstanding obligations. Drafts drawn against goods shipped abroad were not always paid and sometimes returned. People began to repudiate their contracts to receive goods, especially in cases where the price had receded. Competition in business has brought about a most unfortunate practice—people order goods and then if it does not suit their convenience, they refuse to receive and pay for the same. This has continued so long and is so much the custom that manufacturers and wholesalers, hardly expect to hold their customers to rigid fulfillment of their contracts, if a change in the market or a change in business conditions makes it desirable for them to repudiate. Such repudiation of purchases began to happen generally and manufacturers and wholesalers found themselves possessed of large volumes of very high-priced goods which they could not market without loss. That is the condition of the mercantile industry in our country today. They have for years dictated the price of their goods and they are now endeavoring to dispose of them to the public without material abatement in prices. It is generally realized that they cannot accomplish such results; recessions in price have already set in and are bound to be more pronounced. Business people will have to liquidate their goods in order to liquidate financial obligations. This will bring about competition in selling throughout the country, something that has not existed for several years and this competition in its normal and natural course will clarify the situation and bring about normal conditions.

3. To what extent has one or more of these objects been attained in each District and in the country at large?

Recommendation:

The object sought to be accomplished by the Federal Reserve Board has been and is being accomplished in all Districts.

4. To what extent is it necessary to distinguish between the immediate objective of the policy of credit control and the remoter objective, such as reduction in the cost of living?

Recommendation:

The immediate effect of credit control is to safeguard the situation, to enable all business to function normally and the Board should at all times make this clear. Although a logical result may be lower prices and lower cost of living, it should distinctly appear that the Board does not seek to control or regulate prices, but leaves the price level to competition under the law of supply and demand.

5. What is the proper conception of the "normal credit condition" which the Federal Reserve Banks should seek to bring about?

> *Note*: Obviously if "liquidation" or "stabilization" of the existing credit situation are to be regarded as the objectives of the Federal Reserve policy of credit control, a condition which can be regarded as "normal" will be attained very much more quickly than if the objective is a reduction in considerable amount of the total volume of credit.

Recommendation:

The proper concept of "a normal credit condition" is something that varies with the years, with the crops, with commerce, involving domestic and foreign exchange, and with all the varying influences that make up the activity of a commercial nation. The making of crops has to be financed. While we are greatly indebted to nature for her annual contribution to the prosperity and happiness of mankind, the volume of that contribution depends very largely upon mankind's activities. The latent resources so abundant and so valuable nevertheless must be exhumed and that costs time and money and is a regular business in itself. A normal credit condition would seem to be one in which funds were obtainable in sufficient volume to enable the individual, the corporation, the great transportation systems of the country, the municipality and the state to obtain funds at reasonable rates with which to prosecute their respective enterprises. This is not a static world; there should also be funds available for new and enlarged enterprise, for installation of new and improved methods and processes, which the inventive genius of mankind is constantly producing.

6. Methods of credit control. Consideration of the efficacy of different methods of credit control.

(a) Horizontal increase of rates, especially of commercial rates; a canvass of the experience of banks which have put into effect a 7% commercial rate, to wit, New York, Boston, Chicago and Minneapolis.

(b) Progressive rate schedules starting with 6% as a basic rate; a canvass of the experience of Federal Reserve Banks of Kansas City, Dallas, St. Louis, and Atlanta.

(c) Other methods of dealing with the situation, such as the implication that increased offerings by member banks will force higher rates or recourse to the progressive rate; a canvass of the experience of Federal Reserve Banks of Cleveland, Philadelphia, Richmond, and San Francisco.

(d) Restricting issues of Federal Reserve notes to Federal Reserve Banks as a potential means of enforcing credit control; canvass of English experience and views.

Recommendation:

The different methods of credit control have not had a sufficient test period for the experience of the banks to be conclusive. It is found that each class of banks holds its own method to be most satisfactory and in such a situation there should be further experience before we could give to the Board any conclusion as between the three methods in use or advise any present attempt at uniformity in method.

7. Inter-Reserve Bank rediscounts as related to the problem of credit control. Is the existing policy and practice with respect to such rediscounts satisfactory and sound?

(a) To effect an approximate equalization of reserves?

Recommendation:

The existing policy with respect to Inter-Reserve Bank rediscounts is sound and the Board is to be highly commended for the manner in which they have made it effective.

(b) At the same rate fixed for its member banks by the bank granting the accommodation?

Note: When recourse was first had to inter-bank rediscounts it was thought that the value of a Federal Reserve Bank's endorsement was entitled to recognition in the form of a reduced discount rate. More recently this idea has been abandoned and rediscount transactions between Federal Reserve Banks are made at the rates established for member banks by the Federal Reserve Bank extending the accommodation. The question now arises, however, whether a Federal Reserve Bank which has been able to maintain high reserves by reducing the demands for accommodation from its own member banks, which are its depositors, should be required to extend accommodations to member banks in other Districts through the medium of their Federal Reserve Bank at the same rates as are established for their own members.

Recommendation:

The rate of such rediscounts should be variable and fixed by the Board from time to time as the situation may appear to require and without any special regard either for the profit or loss to the contracting banks. In the present situation we approve the action of the Board in fixing the rate of such rediscounts at seven per cent.

TOPIC No. 2.—LOANS SECURED BY LIBERTY BONDS AND VICTORY NOTES.

1. Is there any moral obligation resting upon any of the Federal Reserve banks to establish rates lower than commercial rates for paper of this classification?

Recommendation:

It is difficult for this Council to determine whether any moral obligation exists in *any* of the Federal Reserve Districts.

On the general proposition of moral obligation arising out of the methods adopted in the various Liberty Bond campaigns the Council is equally divided, voting 6 to 6.

2. Would liquidation of loans of this class be retarded or promoted by the establishment of lower rates?

Recommendation:

The establishment of lower rates doubtless would retard the liquidation of loans by Liberty Bonds and Victory Notes.

3. If lower rates are deemed desirable, would it be equitable and practicable to have such rates apply to original subscribers only?

Recommendation:

It might be equitable to confine preferential rates to original subscribers only, but we are informed that you have been advised that it would not be legal, and in our opinion it would not be practicable.

4. Should member banks' collateral notes be fully secured, taking market value instead of face value as a basis?

5. If so, how and when could the new policy be put into effect with a minimum of friction?

Recommendation:

Yes. We understand this is the practice in some districts and should be made general.

TOPIC NO. 3.—FEDERAL RESERVE NOTE ISSUES.

1. Is the note-issue policy of the Federal Reserve System subject to legitimate criticism?

Recommendation:

We regard the note-issue policy under the Federal Reserve System as sound and therefore not subject to legitimate criticism.

2. What connection is there between changes in the volume of credit and the volume of currency?

3. Is there any difference in relation to effect upon prices between the volume of credit and the volume of currency?

Answer:

It is not clear to the Council just what is meant by these questions. They are too involved to admit of their being satisfactorily answered in the time at the Council's disposal.

4. Can the note-issue policy of the Federal Reserve System be properly charged with any important responsibility for inflated prices, if so, what has been the responsibility and in what way does the issue of Federal Reserve notes promote or assist inflation.

Recommendation:

An increase of the Federal Reserve note issue was made necessary by war conditions and doubtless had some influence in inflating prices, but in the opinion of the Council there has been no undue issue of these notes.

5. Can the accepted principles of bank-note-currency regulation, applicable in normal circumstances when the commerce of the world is conducted on a gold standard, be safely taken as a guide in the abnormal circumstances now existing, when the gold standard is virtually suspended, except in the United States and Japan?

6. In connection with the policy of credit control should the present note-issue policy of the Federal Reserve System be changed and restrictions be thrown around the issue of Federal Reserve notes?

7. If the issue of Federal Reserve notes should be restricted, what form should the restriction take and what effect would different methods of restrictions have?

(a Imposition of charges against Federal Reserve notes upon the uncovered part of circulation issued to them at a given rate, for example, a fixed rate of 5% or a rate varying with the commercial rate.

(b) Would it be practicable to establish for each member bank a so-called normal currency limit and to impose charges upon member banks calling for notes in excess of their limit?

(c) Would it be advisable while continuing to have the Federal Reserve Banks pay all transportation charges on incoming currency, to have shipments of outgoing currency made at the expense of the consignees?

(d) Restrictions by definition of the character of the paper acceptable as collateral by the Federal Reserve Agent against the issue of Federal Reserve notes. Should member banks' collateral notes or customers' notes secured by Government obligations be taken as collateral for Federal Reserve notes?

(e) Limitation of the total volume of Federal Reserve notes by the Federal Reserve Board, the maximum amount being fixed pro rata for each Federal Reserve Bank. (The Federal Reserve Board has statutory power to accept in part or to reject entirely all applications for Federal Reserve notes).

Would restriction of note issues in any of the above mentioned ways operate to promote a better control of credit, and if so, what would be the effect upon the commerce and business of the country?

Recommendation:

We know of no reason why the principles under which bank note currency as issued under the Federal Reserve system should be changed as sufficient time has not elapsed to test its flexibility in response to business conditions. The Council is of the opinion that no alteration should be made in the regulations governing the currency issued which would impair its elasticity.

The following members of the Federal Advisory Council were present at this meeting: Messrs. James B. Forgan, President; L. L. Rue, Vice-President; Philip Stockton, A. B. Hepburn, W. S. Rowe, J. G. Brown, Oscar Wells, F. O. Watts, C. T. Jaffray, E. F. Swinney, R. L. Ball, A. L. Mills, and Merritt H. Grim, Secretary.