

# BY-LAWS OF THE FEDERAL ADVISORY COUNCIL

## ARTICLE I. OFFICERS

Officers of this Council shall be a President, Vice-President and Secretary.

## ARTICLE II. PRESIDENT AND VICE-PRESIDENT

The duties of the President shall be such as usually pertain to the office; and in his absence the Vice-President shall serve.

## ARTICLE III. SECRETARY

The Secretary shall be a salaried officer of the Council and his duties and compensation shall be fixed by the Executive Committee.

## ARTICLE IV. EXECUTIVE COMMITTEE

There shall be an Executive Committee of six (6) members of the Council, of which the President and Vice-President of the Council shall be ex-officio members.

## ARTICLE V. DUTIES OF EXECUTIVE COMMITTEE

It shall be the duty of the Executive Committee to keep in close touch with the Federal Reserve Board and with their regulations and promulgations, and communicate the same to the members of the Council, and to suggest to the Council from time to time special matters for consideration.

The Executive Committee shall have power to fix the time and place of holding their regular and special meetings and methods of giving notice thereof.

Minutes of all meetings of the Executive Committee shall be kept and such minutes or digest thereof shall be immediately forwarded to each member of the Council.

A majority of the Executive Committee shall constitute a quorum and action of the Committee shall be by a majority of those present at any meeting.

## ARTICLE VI. MEETINGS

Regular meetings of the Federal Advisory Council shall be held in the City of Washington on the third Monday of the months of February, May, September and November of each year.

Special meetings may be called at any time and place by the President or the Executive Committee, and shall be called by the President upon written request of any three members of the Council.

## ARTICLE VII. AMENDMENTS

These By-laws may be changed or amended at any regular meeting by a vote of a majority of the members of the Federal Advisory Council.

MINUTES OF MEETING  
OF THE  
FEDERAL ADVISORY COUNCIL.

February 21, 1921.

A regular statutory meeting of the Federal Advisory Council was held in the Federal Reserve Board room, Metropolitan bank building, Washington, D C at 10:30 A M Monday, February 21, 1921.

Present: Messrs. P M Warburg, C E Sullivan, E W Lane, J J Mitchell, F O Watts, C T Jaffray, E F Swinney, R L Ball, A L Mills and Merritt H Grim, Secretary.

Mr E F Swinney called the meeting to order at 10:30 o'clock, and nominated Mr F O Watts as temporary Chairman. Mr Watts was unanimously elected and he took the chair.

The Chair appointed Mr Merritt H Grim secretary for this meeting.

The Secretary reported the credentials of the members of the Federal Advisory Council for the year 1921 as certified to him by the twelve Federal Reserve banks as follows:

Federal Reserve Bank of Boston	Mr Philip Stockton
Federal Reserve Bank of New York	Mr Paul M. Warburg
Federal Reserve Bank of Philadelphia	Mr. L. L. Rue
Federal Reserve Bank of Cleveland	Mr. C. E. Sullivan
Federal Reserve Bank of Richmond	Mr. J. G. Brown
Federal Reserve Bank of Atlanta	Mr E W Lane
Federal Reserve Bank of Chicago	Mr John J. Mitchell
Federal Reserve Bank of St Louis	Mr F O Watts
Federal Reserve Bank of Minneapolis	Mr C T Jaffray
Federal Reserve Bank of Kansas City	Mr E F Swinney
Federal Reserve Bank of Dallas	Mr R L Ball
Federal Reserve Bank of San Francisco	Mr A L Mills

The Roll Call showed the following members present: Messrs. P M Warburg, C E Sullivan, E W Lane, J J Mitchell, F O Watts, C T Jaffray, E F Swinney, R L Ball, and A L Mills.

Absent: Messrs Philip Stockton, L L Rue and J G Brown.

Mr Rue and Mr Brown being detained by illness the Chairman was requested to telegraph them the Council's regret and best wishes for a speedy recovery.

The following telegrams were dispatched:

"Mr L L Rue, c/o Philadelphia National Bank, Philadelphia.

"I am very sorry to hear of your illness and am glad to hear that you are recovering. I am sure you will be able to attend the meeting of the Federal Reserve Bank of St. Louis which greatly regret illness prevents you attending this meeting.

Best Wishes for speedy recovery.

P. M. Warburg, Vice-President."

"Mr J G Brown, c/o Citizens National Bank, Raleigh, N C.

"The members of the Federal Advisory Council greatly regret you are prevented from attending this meeting by illness. Hope for your speedy recovery.

P. M. Warburg, Vice-President."

The Chair stated the next business was the election of officers of the Council.

Mr Swinney nominated Mr L L Rue for President. There being no other nominations he was unanimously elected.

Mr Mills nominated Mr Warburg for Vice-President, and there being no other nominations he was on motion unanimously elected.

Mr Watts then relinquished the Chair to Mr Warburg, Vice-President.

The Vice-President asked for nominations for members of the Executive Committee to consist of four members besides the President and Vice-President who are ex-officio members.

Mr Stockton, Mr Mitchell, Mr Watts and Mr Swinney were nominated and unanimously elected.

The officers and members of the Executive Committee there fore are:

President, Mr L L Rue

Vice-President, Mr P. M. Warburg

Executive Committee, Messrs. L L Rue, P M Warburg, Philip Stockton, John J. Mitchell, F O Watts and E F Swinney.

The Secretary reported that he had the Recommendations of the Council for the past year indexed and bound and had sent copies to the members of the Council, the various Federal Reserve Banks, the members of the Federal Reserve Board, and that the Council's Recommendations for the year 1920 would be included in the Federal Reserve Board's annual report about to be published.

He also reported his secretarial and incidental expenses for the year ending Dec. 31, 1920. A copy of the report is hereto attached and made a part of these minutes. On motion his report was approved.

Mr Watts moved that the President be authorized to appoint a permanent secretary of the Council and fix his salary subject to the approval of the Executive Committee. Motion duly seconded and carried.

The following resolution was unanimously passed:

"Resolved that the President be and he is hereby authorized to ask each Federal Reserve Bank to contribute \$200. towards the secretarial and incidental expenses of the Federal Advisory Council for the year 1921 and to draw on them for that purpose."

Mr Swinney moved that Mr Watts be requested to draft a resolution expressing the Council's appreciation of Mr James B Forgan's six years' service as President of the Federal Advisory Council and its regret at his retirement. Motion seconded and carried.

Mr Swinney moved that Mr Watts be also requested to draft a resolution in connection with Mr Merritt H Grim's retirement as Secretary of the Council which motion was also seconded and carried.

Mr Mills moved the adoption of the following:

"Resolved that the by-laws of the Council for the past year be adopted as the by-laws of the Council for the ensuing year."

Motion duly seconded and carried.

Mr Watts moved that the Council approve the minutes of the previous meeting held Nov. 15, 1920, copies of which had been sent to the members by the Secretary. Motion duly carried.

The Chair laid before the Council the formal topics presented by the Federal Reserve Board for the Council's consideration at this meeting. See copy hereto attached and made a part of these minutes.

The Council then took up the consideration of them informally until the arrival of the members of the Federal Reserve Board at 11:15 A M.

S E C R E T A R Y.



# BY-LAWS OF THE FEDERAL ADVISORY COUNCIL

Feb 21, 1921,

## REPORT OF SECRETARY, FEDERAL ADVISORY COUNCIL, FOR YEAR 1920

### ARTICLE II. PRESIDENT AND VICE PRESIDENT

Balance on Hand Dec 31, 1919, according to last report \$114.11  
**RECEIPTS:**

February 24, 1920, Annual Assessments on 12 Federal Reserve  
 Banks of \$200. each, total

2400.00  
\$2514.11

TOTAL

The Secretary shall be a salaried officer of the Council and his duties and compensation shall be fixed by the Executive Committee.

### DISBURSEMENTS:

Expenses attending four meetings of the Federal  
 Advisory Council in Washington as follows:

1920	R R Fare	Hotel	Meals	Mcls	Total
Feb.	\$67.55	\$39.55	\$3.26		\$110.46
May	64.35	42.30	2.91		109.56
Sept.	89.70	38.50	6.33		134.53
Nov.	88.72	32.50	2.33		123.55
	<u>\$310.42</u>	<u>\$152.85</u>	<u>\$14.83</u>		<u>\$478.10</u>

Total traveling expenses as above 478.10  
 Stenography, Stationery 46.50  
 Printing 151.05  
 Telegrams, Postage 28.53  
 Salary Secretary 1920 1200.00  
 Balance in First National Bank  
 Chicago, Dec 31, 1920 609.93

\$2514.11

### ARTICLE VI. MEETINGS

Respect fully,

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JOINT CONFERENCE  
FEDERAL ADVISORY COUNCIL  
AND THE  
FEDERAL RESERVE BOARD.

Feb. 21, 1921.

At 11:15 a joint conference with the Federal Reserve Board was held as arranged.

Present: Members of the Federal Reserve Board: Governor W P G Harding, Vice-Governor Edmund Platt, Messrs A C Miller, J S Williams, C S Hamlin, D C Wills, and Mr W W Hoxton, Secretary.

Present: Members of the Federal Advisory Council: Messrs. P M Warburg, C E Sullivan, E W Lane, J J Mitchell, F O Watts, C T Jaffray, E F Winney, R L Ball, A L Mills, and Merritt H. Grim, Secretary.

Mr Warburg called the meeting to order and after explaining the official organization of the Council and Mr Rue's absence he asked Governor Harding to address the conference.

Governor Harding invited the members of the Council to lunch at the Metropolitan Club at 1:15, and said the Secretary of the Treasury having to appear before a congressional committee at the Capital had sent his regrets that he could not meet with the Council, but would join the members at lunch.

Governor Harding reviewed the present situation as it affects the Federal Reserve system, and the topics the Board had submitted for the Council's consideration.

Governor Harding asked the Council to make a recommendation in regard to Rediscount rates.

While the members of the Council were presenting their reports on commercial and financial conditions in their districts, the time set for luncheon arrived and the members of both boards proceeded to the Metropolitan Club. After lunch the reading of members' reports was concluded. Six of the reports were in writing and are hereto attached and made a part of these minutes. After some time spent in general discussion the joint session ended and at 3:45 the members of the Council returned to the Board room.

S E C R E T A R Y.

MINUTES OF  
FEDERAL ADVISORY COUNCIL.

At 4:00 P. M. the Federal Advisory Council resumed its session in the Federal Reserve Board room.

The unfinished business from the November meeting of the Council relative to an amendment to the Federal Reserve Act to provide for a greater distribution of the profits of the Federal Reserve banks by paying interest on the reserve deposits of members banks was taken up and discussed. On motion of Mr Watts the matter was referred to the Executive Committee to incorporate a negative report on it with the recommendation on the first of the formal topics submitted by the Board.

Mr Mills moved that the matter of recommending the abolishment of the office of Comptroller of the Currency on which the Council had previously expressed itself should be again taken up by the Council, and that the Executive Committee be requested to prepare a recommendation of the subject. Motion duly carried.

The formal topics submitted by the Federal Reserve Board were then fully discussed and referred to the Executive Committee to prepare tentative recommendations embodying the views expressed.

Mr Mills moved that the Executive Committee be requested also to prepare a recommendation stating the views of the Council in regard to rediscount rates, as requested by Governor Harding.

At five o'clock the Council adjourned until ten A M Tuesday, February 22, 1921.

SECRETARY.



EXECUTIVE COMMITTEE  
FEDERAL ADVISORY COUNCIL.

Feb. 21, 1921.

A meeting of the Executive Committee of the Federal Advisory Council was held in the Federal Reserve Board room after adjournment of the Council, at five o'clock, Feb. 21, 1921.

Present: Messrs. P M Warburg, J J Mitchell, F O Watts and E F Swinney, and Merritt H. Grim, Secretary.

The Executive Committee discussed and carefully considered the various matters that had been referred to it.

The Executive Committee considered additional matters on which it was thought advisable to suggest that the Council make recommendations to the Federal Reserve Board.

At six o'clock the Committee adjourned its sitting until 8:30 A M Tuesday at the New Willard Hotel.

SECRETARY.

Feb. 22, 1921.

The Executive Committee met at 8:30 A M February 22, 1921 at the New Willard Hotel as arranged.

The Committee concluded its work and requested the chairman to present its report to the Council at the meeting scheduled for ten o'clock.

SECRETARY.

7.  
Minutes of Meeting  
of  
Federal Advisory Council.

Feb 22, 1921.

The Federal Advisory Council met at 10 A M Tuesday, February 22, 1921, in the Federal Reserve Board room.

Present: Messrs P M Warburg, Vice-President, C E Sullivan, E W Lane, J J Mitchell, F O Watts, C T Jaffray, E F Swinney, R L Ball, A L Mills, and Merritt H. Grim, Secretary.

The Vice-President called the meeting to order and laid before the Council the report of the Executive Committee, which was fully considered and approved for presentation to the Federal Reserve Board. The Committee's report included recommendations on the five topics submitted by the Federal Reserve Board on Discount rates and on four other topics. See printed copy hereto attached and made a part of these minutes.

It was understood that the same sub-committee to be appointed in connection with Topic No. 7 should look after the matter mentioned in Topic No 10.

Mr Warburg reported that Governor Harding had agreed that the Council members need not prepare a written report of conditions in their districts for the next meeting of the Council in May.

Mr Watts reported to the Council the two resolutions he was authorized to draft, both of which were unanimously agreed to by the Council. They are as follows:

From the organization in 1915 Mr James B Forgan he has served as the President of the Federal Advisory Council. During that period of six years his service and advice have been so able and constructive that the Council wish to make this recorded acknowledgement of his great value to the Council, to the Federal Reserve System and to the Country. The presiding officer is requested to convey this expression to Mr Forgan and further the personal wish of the members for his good health and prosperity through future years.

The Federal Advisory Council is advised by Mr Merritt H Grim of his inability to continue service to the Council in the capacity of Secretary. In view his satisfactory service since the organization covering a period of six years the Council hereby expresses its appreciation and its regret at the necessity for his retirement from the position. No body could have had a more efficient, courteous and capable officer.

The Chairman was authorized to prepare a statement for the Press submitting it for approval to the Governor of the Federal Reserve Board before giving it out.

At 11 O'clock the members of the Federal Reserve Board arrived and the Council went into joint conference.

S E C R E T A R Y.

MINUTES OF JOINT MEETING  
FEDERAL RESERVE BOARD  
AND THE  
FEDERAL ADVISORY COUNCIL.

Feb 22, 1921.

As arranged a joint conference with the Federal Reserve Board was held at 11:15 o'clock.

Present: Members of the Federal Advisory Council: Messrs P M Warburg, C E Sullivan, E W Lane, J J Mitchell, F O Watts, C T Jaffray, E F Swinney, R L Ball, A L Mills, and Merritt H. Grim, Secretary.

Present: Members of the Federal Reserve Board: Governor W B G Harding, Vice-Governor Edmund Platt, Messrs. A C Miller, J S Williams, C S Hamlin, D C Wills and Mr W W Hoxton, Secretary.

The Vice-President of the Council, Mr Warburg called the meeting to order asking Governor Harding to take the Chair.

Governor Harding then called for the Recommendations of the Council which Mr Warburg read to the conference. (See printed copy of them in minutes of the Council this date.)

Then followed a general discussion of the topics.

Mr Warburg suggested that the Council make a recommendation at the next meeting revising section 16 of the Federal Reserve Act which provides for charging Federal Reserve banks interest on the amount of their Federal Reserve notes outstanding which suggestion was approved both by the Federal Reserve Board and by the Council.

Governor Harding said that the Board had requested the Federal Reserve banks not to give out for publication on Saturdays their weekly statements in order that they do not appear before the Consolidated weekly statement of all the Federal Reserve Banks prepared by the Board for publication on Sundays, and he asked the Council's approval of the change. The Council unanimously approved it.

At one o'clock the joint conference adjourned concluding the session of the Council.

SECRETARY.

TOPICS SUGGESTED BY THE FEDERAL RESERVE BOARD FOR  
DISCUSSION AT THE MEETING OF THE  
FEDERAL ADVISORY COUNCIL  
FEBRUARY 21, 1921.

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1. Should the Board exercise the authority given it in Section 16 of the Federal Reserve Act and impose an interest charge against Federal reserve banks on the amount of their Federal reserve notes outstanding, less the amount of gold or gold certificates held by the Federal Reserve Agent as collateral security, and if so, what should the rate of interest be?
2. Should the Board establish for the year 1920 a tentative limit for each Federal reserve bank on the amount which it may rediscount with other Federal reserve banks?
3. Should existing preferential rates on notes secured by Liberty Bonds and Victory Notes be continued?
  - (a) With respect to customers paper rediscounted?
  - (b) With respect to member banks' 15 day collateral notes?
4. Section 14 permits any Federal Reserve Bank under rules and regulations to be prescribed by the Federal Reserve Board "to purchase and sell in the open market \*\*\* cable transfers and bankers acceptances and bills of exchange of the kinds and maturities by this Act made eligible for rediscount, with or without the endorsement of a member bank." Section 13 provides that "any Federal reserve bank may discount acceptances of the kinds hereinafter described, which may have a maturity at the time of discount of not more than six months, exclusive of days of grace, which are endorsed by at least one member bank." Counsel is of the opinion that the words "of the kinds and maturities by this Act made eligible for rediscount" apply only to bills of exchange which therefore cannot be bought where they have a maturity of more than three months, but that they do not apply to bankers' acceptances and that consequently the Federal Reserve Board might legally issue regulations permitting the purchase by Federal reserve banks of bankers' acceptances of six months maturity. As a matter of sound banking policy does the Council advise the Board to issue such a regulation?
5. Under authority given in Section 13 of the Federal Reserve Act the Board has authorized member banks



to accept drafts or bills of exchange having not more than three months sight to run, drawn by banks or bankers in Central American and South American Countries for the purpose of furnishing dollar exchange as required by the "usages of trade" in those countries. Within the past few days the Board has authorized member banks to accept drafts in the same manner for banks or bankers in Australia, New Zealand and other Australasian dependencies, having received assurances that there is now a "usage of trade" in these dependencies which requires dollar exchange. Will the "usages of trade" in European countries likely lead to requests for the extension of this privilege to those countries, and if so, what should the policy of the Board be regarding such applications?

Statement for the press.

For release in the morning papers of February 23, 1921.

The following statement is issued by the Federal Advisory Council at the conclusion of its statutory meeting with the Federal Reserve Board in Washington, February 21 and 22, 1921:

"A statutory meeting of the Federal Advisory Council was held Monday and Tuesday, February 21st and 22nd in conference with the Federal Reserve Board.

"This being the first meeting of the year the organization of the Council was as follows:

President, Mr. L. L. Rue, President Philadelphia National Bank, Philadelphia.

Vice President, Mr. P. M. Warburg of New York.

Executive Committee: Messrs. L. L. Rue, P. M. Warburg, Philip Stockton, J. J. Mitchell, F. O. Watts and E. F. Swinney.

"Mr. Rue has been Vice President of the Council since its inception in 1914. Mr. James B. Forgan of Chicago has been its President until this year when he declined reelection to the Council and Mr. Mitchell of Chicago was chosen as his successor on the Council by the Federal Reserve Bank of Chicago.

"The personnel of the Council is as follows:

- \*Federal Reserve Bank of Boston - Mr. Philip Stockton
- Federal Reserve Bank of New York - Mr. P. M. Warburg
- \*Federal Reserve Bank of Philadelphia - Mr. L. L. Rue
- Federal Reserve Bank of Cleveland - Mr. C. E. Sullivan
- \*Federal Reserve Bank of Richmond - Mr. J. G. Brown
- Federal Reserve Bank of Atlanta - Mr. E. W. Lane
- Federal Reserve Bank of Chicago - Mr. J. J. Mitchell
- Federal Reserve Bank of St. Louis - Mr. F. O. Watts
- Federal Reserve Bank of Minneapolis - Mr. C. T. Jaffray
- Federal Reserve Bank of Kansas City - Mr. E. F. Swinney
- Federal Reserve Bank of Dallas - Mr. R. L. Ball
- Federal Reserve Bank of San Francisco - Mr. A. L. Mills

\*Not present at this meeting.

"The Council had two extended sessions with the Federal Reserve Board at which general business and financial conditions were fully discussed, the Secretary of the Treasury taking part in the discussion.

"The Council passed recommendations on the several topics submitted by the Federal Reserve Board and discussed other topics that were suggested.

"The Council gave it as its view that the situation does not warrant any reduction of the discount rates at this time.

"In addition to its recommendations to the Board, the Council again went on record as favoring the abolishment of the office of the Comptroller of the Currency and the transfer of its functions to the Federal Reserve Board. The Council expressed itself also as favoring the creation of the office of under-secretary of the treasury to be in charge of fiscal matters and to take the place of the Secretary of the Treasury on the Federal Reserve Board, the Governor of the Board to be the chairman of the Board and to be elected by the appointive members.

"Mr. Paul M. Warburg, the newly elected Vice President, presided over the Council at its sessions, Mr. Rue, the President, having been detained in Philadelphia by illness."

February 22, 1921.

RECOMMENDATIONS OF THE FEDERAL ADVISORY  
COUNCIL TO THE FEDERAL  
RESERVE BOARD

February 22, 1921

TOPIC NO. 1—Should the Board exercise the authority given it in Section 16 of the Federal Reserve Act and impose an interest charge against Federal Reserve Banks on the amount of their Federal Reserve notes outstanding, less the amount of gold or gold certificates held by the Federal Reserve Agents as collateral security, and if so, what should the rate of interest be?

Recommendation:

The Council voted unanimously in the negative. The Council is of opinion that the argument of excessive earnings should not impel the Board to exercise its authority to impose an interest charge against Federal Reserve Banks on the amount of Federal Reserve notes outstanding. The Council believes that if an educational campaign is carried on stating that the earnings of the Federal Reserve Banks are used for the purpose of reducing the amount of government bonds outstanding, particularly the Liberty Loan and Victory notes, it would dissipate any unwarranted criticism concerning excessive earnings made by Federal Reserve Banks, and that it would not be difficult to convince the people that the earnings of the banks could not be used to any better purpose.

In this connection, and with the same point in view, the Council expressed itself unanimously against the proposition to permit the payment of interest on member banks' reserve balances with Federal Reserve Banks. The high profits of the Federal Reserve Banks should not, in the opinion of the Council, lead to the payment of interest on balances which in the best interest of the system should be kept uninvested as far as may be practicable. If interest were paid it would act as a stimulant towards keeping the funds of the Federal Reserve Banks invested and it might therefore interfere with the proper conception on the part of those in charge of the Federal Reserve Banks, concerning their first duty to keep the Federal Reserve Banks in a condition of maximum strength.



TOPIC NO. 2—Should the Board establish for the year 1921 a tentative limit for each Federal Reserve Bank on the amount which it may rediscount with other Federal Reserve Banks?

Recommendation:

The vote of the Council was unanimously in the negative. The Council's opinion is that no limit should be placed on the amount which one Federal Reserve Bank may rediscount with other Federal Reserve Banks. The Federal Reserve System is one and indivisible and not twelve inde-



pendent districts. The Council holds the view that the Board should exercise its own discretion and should not limit its own power of action by binding itself to definite rules, which, with conditions varying in the several districts and strongly fluctuating at this time, might fit one condition and one period but might prove embarrassing in others. The Council believes, however, that where Federal Reserve Banks are fairly regular rediscounters with other Federal Reserve Banks their discount rates should not be permitted to be lower than those prevailing with the Federal Reserve Banks granting the rediscounts.



TOPIC NO. 3—Should existing preferential rates on notes secured by Liberty Bonds and Victory notes be continued?

- (a) With respect to customers' paper rediscounted?
- (b) With respect to member banks' 15 day collateral notes?

Recommendation:

The Council is of opinion that for the time being it may be opportune to continue preferential rates on notes secured by Liberty Bonds and Victory notes, both (a) in respect to customers' paper discounted, and (b) in respect to member banks' 15 day collateral notes, but such preferential rates should be discontinued as soon as it can be done advantageously and without injustice.



TOPIC NO. 4—Section 14 permits any Federal Reserve Bank under rules and regulations to be prescribed by the Federal Reserve Board to purchase and sell in the open market cable transfers and bankers' acceptances and bills of exchange of the kinds and maturities by this Act made eligible for rediscount with or without the endorsement of a member bank. Section 13 provides that "any Federal reserve bank may discount acceptances of the kinds hereinafter described, which have a maturity at the time of discount of not more than three months' sight, exclusive of days of grace, and which are indorsed by at least one member bank."

Counsel is of opinion that the words "of the kinds and maturities by this Act made eligible for rediscount," in Section 14, apply only to bills of exchange which therefore cannot be bought where they have a maturity of more than three months, but that they do not apply to bankers' acceptances and that consequently the Federal Reserve Board might legally issue regulations permitting the purchase by Federal Reserve Banks of bankers' acceptances of six months' maturity. As a matter of sound banking policy does the Council advise the Board to issue such a regulation?

Recommendation:

The Council voted unanimously to advise the Board that in its opinion it should permit Federal Reserve Banks to purchase bankers' acceptances drawn for the purpose of financing the importation and exportation of goods

having a maturity up to six months. The Council understands that the Board has expressed its preference by ruling to have accepting banks, in cases where the transactions extend over a period in excess of three months, grant acceptance credits in the form of acceptances running as nearly as may be possible over the whole period involved in the liquidation of such transactions not to exceed six months, rather than favoring the granting of acceptance credits extending over ninety days with the privilege of one renewal. This ruling will force the accepting banks to issue their acceptances for periods in excess of three months, and it is most important that these acceptances when offered in foreign markets or in the United States should find a ready market and should not be penalized by being offered as ineligible bills. It is claimed that the open market might absorb these bills, but the rate for them in that case would be so unfavorable, and moreover the confidence in their ready salability would be so much weakened by the mere fact that the Federal Reserve Banks would not be regular purchasers of this class of paper, that it would seriously impair the ability of American Banks to establish themselves in foreign markets as acceptance bankers able to compete with England. In our opinion it is no more than logical and right for the Board to follow up its ruling with the granting of the power to Federal Reserve Banks to purchase eligible acceptances financing the importation and exportation of goods and having a maturity of from three to six months.



TOPIC NO. 5—Under authority given in Section 13 of the Federal Reserve Act the Board has authorized member banks to accept drafts or bills of exchange having not more than three months' sight to run, drawn by banks or bankers in Central American and South American countries for the purpose of furnishing dollar exchange as required by the "usages of trade" in those countries. Within the past few days the Board has authorized member banks to accept drafts in the same manner for banks or bankers in Australia, New Zealand and other Australasian dependencies, having received assurance that there is now a "usage of trade" in these dependencies which requires dollar exchange. Will the "usages of trade" in European countries likely lead to requests for the extension of these privileges to those countries, and if so, what should the policy of the Board be in regarding such applications?

#### Recommendation:

The Council expressed itself unanimously in favor of endorsing the Board's action in authorizing member banks to accept dollar exchange drafts for banks in Australasia in addition to the authority already granted them to accept in like manner for banks in Central and South American countries. With respect to the question asked by the Board whether such power should be extended to banks in European countries the Council is of opinion that this should not be done. The Council does not favor the granting of this power to countries where there exists a system of a large number of highly developed banks of great financial strength which could easily issue drafts for

the purpose of furnishing exchange to an extent which might become embarrassing to the Federal Reserve System, and moreover it would appear impossible in these countries, where stock exchange and financial transactions are highly developed, to provide for safeguards which would prevent the abuse of facilities so offered by financing stock exchange loans and other financial transactions not directly involved in export or import operations; nor does it appear that in the exportations of Europe to the United States there are regular seasonal movements which would warrant the drawing of finance drafts in anticipation of exportations such as exist in the United States with respect to cotton or similar crops. The Council feels that the power to accept for the furnishing of dollar exchange should be restricted to such Colonial countries and dependencies and countries on this hemisphere as, after proper investigation, may seem entitled to the granting of the privilege.



## ADDITIONAL RECOMMENDATIONS

### TOPIC NO. 6.

#### Recommendation:

Resolved that in view of the grave economic conditions abroad and the influence they will exercise upon the future trend of American commerce and trade, it is the sense of this Council that it might be advisable for the Federal Reserve Board to appoint a suitable representative to visit European countries for the purpose of making a thorough first-hand investigation and report of the social, economic and financial situation of those countries.



### TOPIC NO. 7.

The Council wishes to go on record again that in their opinion the office of the Comptroller of the Currency should be abolished and the duties pertaining to this office should be taken over by the Federal Reserve Board and that the number of appointive members of the Board be increased from five to six.

The Council favors the creation of the office of an Under-Secretary of the Treasury in charge of financial matters who would take the place of the Secretary of the Treasury as an ex-officio member of the Federal Reserve Board, the Governor of the Federal Reserve Board, who would act as its chairman, to be chosen by the Board itself from its appointive members.

Resolved that the Executive Committee, or a subcommittee, not exceeding four, of which the President and Vice President shall be members, to be appointed by the President, communicate these views of the Council to the incoming Secretary of the Treasury and to the chairmen of the proper

committees of Congress and that it point out the importance, pending the proposed legislation, of appointing a comptroller of the currency who could qualify as a member of the Board in case amendments on lines as proposed should be enacted.

Resolved further that the Executive Committee or said subcommittee be hereby authorized and instructed to take such further steps to aid in the attainment of the aims above outlined as it may deem proper.



#### TOPIC NO. 8.

With respect to discount rates it was resolved that the Council does not favor at this time the reduction of any discount rates.



#### TOPIC NO. 9.

The Council suggested to the Board the cancellation of the rediscount rate for bankers' acceptances. Rediscount rates for bankers' acceptances now in force appear inoperative and anomalous in their relation to one another and to the open market rates for bankers' acceptances. A rediscount rate for bankers' acceptances, if established at all, should logically be higher than the open market rate for such paper.



#### TOPIC NO. 10.

The Council urges upon Congress the necessity of the immediate enactment of legislation authorizing the Treasury to pay over to the railroads the sums due them, obviating the delay in those payments which at present seriously hampers the entire banking situation.



The following members of the Federal Advisory Council were present at this meeting:

Messrs. Paul M. Warburg, Vice-President, in the Chair; C. E. Sullivan, Edward W. Lane, J. J. Mitchell, F. O. Watts, C. T. Jaffray, E. F. Swinney, R. L. Ball, A. L. Mills and Merritt H. Grim, Secretary.



X-3053

REPORTS OF MEMBERS  
of  
FEDERAL ADVISORY COUNCIL

at the

STATUTORY MEETING

held at

Washington, D. C.  
February 21 and 22, 1921.

District No. 2 (New York)

The Federal Reserve Banks' monthly, and in some cases even weekly, reports concerning financial and economic conditions in their districts have been so admirably perfected during the last two years that it would seem impossible for individual members of the Federal Advisory Council to prepare any statement that could match these very complete reports or could add to the material furnished by them. In complying with the Board's request to submit a report, I presume that it is the object of the the Board to secure the individual expression of the members concerning the general situation, rather than to have them attempt to give a detailed statistical report. Approaching the matter from this angle, I beg to submit my thoughts as follows:

Business currents in the Second District have followed very much the same course in the last three months as in the country at large. There has been a continuous decline in speculative activity and a very marked curtailment of production in the factories; but, on the other hand, retail trade has continued at a high level and the purchasing power of the public seems to be fairly unimpaired.

Our foreign trade statistics for October, November and December do ~~not~~ show any notable decline; (The figures being as follows:

	<u>Exports</u>	<u>Imports</u>	<u>Exports over Imports</u> <u>Balance</u>
OCTOBER	751,728,570	334,263,803	417,464,767
NOVEMBER	676,706,011	321,181,080	355,524,931
DECEMBER	720,493,266	266,105,972	454,387,294 )

the reduced volume of forward dealings in foreign exchange might presage, however, a considerable decline in our exports and imports during the

first quarter of the current year.

Retail domestic trade is generally reported as good; especially by the large department stores, both in the metropolitan district and outside. And this is true equally of the holiday trade and of trade since the first of the year. I am informed that careful inquiry among the department stores of New York, a comparison of reports in Boston and elsewhere, indicate that the retail drygoods dealers intend to standardize their spring sales as far as possible on a basis of 16 per cent. below that of the same season last year. This is in the face of cuts in cottons, woolens, knit goods, men's clothing, and the great variety of other merchandise at wholesale, that have reached a full 40 to 50 per cent. The fact that the retailers do not intend further to reduce is fairly good proof that they take a rather hopeful view of the situation.

Wholesale trade, on the other hand, has been almost at a standstill, so far as large forward buying is concerned. And the trade is largely of a hand to mouth character, as in the past six months. Even at the present extraordinarily low level of prices, there still appears to be little disposition on the part of large buyers to make any heavy commitments.

This is readily understood when one bears in mind that a large number of important corporations and firms, caught with a very heavy load of accumulated and unsold raw materials or finished articles, have been practically taken over by their creditors. The holdings of these concerns, and others that have still managed to keep above water, will be liquidated as soon as a demand will arise, at prices that will enable the creditors to collect their debts without sacrifice, or even at a loss. It is only

when these large accumulations will begin actually to move that the new level of prices will be established and that the real condition of the debtors will definitely be ascertained. This may ultimately lead to quite a number of failures, but it is generally believed that the large profits made by the banks in the past have enabled them to provide for impending losses in this regard.

Up to February 15th the index of the great basic commodities compiled by the Federal Reserve Bank of New York showed a decline of 47 per cent. from the peak of last May. The curtailment in manufacturing has run very high in some lines, and in the textiles as high as 40 to 50 per cent. Imports of basic commodities, like tin, silk and rubber, have fallen to very low levels, and if the volume of bank clearings be any index of general volume of trade, this curtailment, if continued, would lead us to expect a marked shortage of goods in some lines by the summer or early fall.

While the fall in wholesale prices is said to go beyond any precedent known in a century, which might lead us to assume that they have gone to a level below the line that we might envisage as our future normal, it is impossible to foretell how much further down they may go, or when and how far they may rise until we know what the European settlement will involve with regard to the future standard of living of the world, and with that, with regard to the volume of its foreign trade.

We cannot at this time assess with any degree of confidence when and how far the crippled buying power of Europe may be restored. As far as our own home consumption is concerned, we may not overlook the fact that the purchasing power of the farming community has been very drastically reduced and that at present it is little more than one-half what it was last year.



Striking a balance in trying to weigh the many puzzling factors at play, one would hardly be inclined to reach the conclusion that there is a strong probability of an early business boom.

Foreign exchanges have generally shown greater strength during this last month. The reduced volume of our exports and the shrinkage of prices of our goods are likely to have played an important part in the development of this trend. It is probably safe, however, to say that in addition psychology has exercised an important influence in this regard. Hopes that the indemnity question will be settled and that after such a settlement, countries may be able to find ways and means to balance their budgets and also adjust their indebtedness to us, are no doubt at the root of the present rise. Stating this fact is pointing out the unsafe ground on which the movement is bottomed. A settlement of the indemnity alone will not avail unless it is a settlement that will result in a balanced Europe; unless it will result in creating conditions in which budgets can be met without further increase in national debts and in which exchanges can be stabilized. The next weeks will show whether our hopes for a satisfactory settlement in the near future may be fulfilled, or whether the business world must adjust its gait once more to a prolonged period of uncertainty and disorganization.

Rates for commercial paper have remained practically unchanged, though the volume of borrowing has been materially decreased owing to shrinkage of prices and business stagnation. However, with the banks so heavily indebted to the Federal Reserve System, a liquidation

of commercial borrowing should involve liquidation of bank borrowings with Federal Reserve Banks, but should not result in easier money rates. Commercial liquidation would also mean a greater supply of idle funds for investment. The investment market has shown a good deal of life recently; large volumes of securities have been offered and placed. While the first and most attractive issues have been actively absorbed, the weaker offerings and the recent issues have shown a greater tendency to stick in the hands of the dealers, so that a good deal of secondary distribution remains to be done. On the whole, it is reasonable to expect that the investment market will take this course from time to time. As long as the banks remain so heavily indebted to the Federal Reserve Banks, and as long as the desire must naturally prevail on the part of both the Federal Reserve Banks and the member banks to liquidate these loans, waves of plentiful money supply will be comparatively short-lived and available funds are likely to be fairly rapidly exhausted from time to time.

Large foreign loans are reported in prospect and awaiting only a somewhat more favorable turn of the market.

Brokers report that their loans are at a very low level, and some of them at the lowest levels known in years. The street loans of the larger New York banks reflect this great decrease in brokerage commitments and show a decline of about 50 per cent. from the high level of October and November 1919.

The liquidation in stocks has probably been as complete this last year as that following any of our recent and most severe financial crises. If our own situation were not so closely intertwined with the

European tangle, one might be inclined to say that, judging from the analogies of the aftermaths following the panics and crises of the past, that conditions should now indicate a gradual upward tendency. In present conditions, however, he would be a bold man who would judge the present situation from past analogies.

Summing it up, one might say that in the second Federal Reserve District conditions, financial and commercial, have been greatly consolidated. Given a favorable development in Europe, all factors would point towards a marked improvement. Failing a real settlement in Europe, recuperation, in so far as it would have to rest inclusively on the awakening of our own local buying power, would seem likely to prove slow. Decidedly unfavorable developments in Europe might indeed have in store for us a period of renewed liquidation with consequent further recession in prices.

P. M. WARBURG.

District No. 4 (Cleveland)

Business generally in the Fourth Federal Reserve District is facing the problems of deflation with courage and a sincere desire to get back to a stable basis as rapidly as possible. Inventories generally have been taken at the first of the year on the basis of wishing to know the worst, and with a desire to get a fresh start from a point as low in value as could be substantiated, even by bankrupt values.

The result has been that many of the statements which are now coming into the banks show large losses as the result of 1920 operations, to such an extent that the paper of many of our generally considered strong corporations will not be eligible under present rulings of our Federal Reserve Bank.

While the business situation is so marked by cross currents and contradictory movements that a general characterization is impossible, still the preponderance of opinion certainly is that in a vast majority of lines, values can not go much lower, and the belief is that as the public gradually realizes this fact, the future will show a gradual increase in volume. The recent paralysis of trade has partially resulted from the mere fact of rapidly changing values, and stability of prices - even at lower levels - would be a matter of importance to all markets.

While there is some unemployment there is no problem as yet of taking care of <sup>any</sup> large number of people to avoid suffering. Wages have not been reduced in any big way, but in spots where the subject has been considered, labor has shown a disposition to take its share of the burden of reducing <sup>and</sup> prices /has of course shown greatly increased efficiency.

Manufacturing, iron and steel and the coal industries are all operating at not more than half time. All manufacturers are beginning to eat into their accumulation of inventories, and orders - even back to raw materials are in prospect for the immediate future. This general situation is better than



The movement of freight, principally ore and coal on the Great Lakes which normally starts in April will begin on a very low basis.

The farmers are much inclined to hold their products, with the result that there is considerable borrowing by country state banks (not members of the Federal Reserve System) from the city banks. They are, however, going ahead with preparations for planting the usual sized crops.

While the tobacco situation in our District is not what we would like to have it, nevertheless, it is by no means as bad as it has been pictured. It is true that there have been night riders' threats against placing the leaf on the market, and also threats to intimidate the planters against planting full new crops, yet this action is naturally of the kind which receives the most publicity. While the price of tobacco is very low, nevertheless the farmers are marketing it very rapidly, and while in many cases the prices are causing distress, at the same time the money coming in is giving relief to the money market and is helping materially to pay off debts owed by the farmers .

The retail trade appears to be holding up well in volume at, of course, considerably reduced prices, but the desire to reduce inventories has not progressed far enough and the conviction that we have reached a stabilization of prices has not become sufficiently settled to encourage buying in volume from the wholesalers.

Considerable interest has been manifested in the Foreign Trade Financing Corporation. This has not, and will not carry through, however, to a point where many of our people will purchase stock without a great deal more education, especially in the volume necessary to complete the District's normal share of the contemplated capitalization.

## District No. 4 (Cleveland)

It is hoped that the impending legislation permitting the Government to settle with the railroads, in part at least, for the balances due them as the result of Government Administration will be passed quickly, as this will enable them to take care of their much delayed obligations, and may permit of increased buying of iron and steel, and thus allow them to play their part in the increased operation of these basic industries.

The market for new issues of securities appears to be surprisingly good. The sale of foreign government bonds is considerably better than we had any reason to expect. The very high rates are attracting capital to a degree which was not considered possible by us.

Commercial deposits in 89 selected banks in the cities in the District have remained stationary during the past thirty days, while savings deposits have increased slightly.

Member banks were on January 10th borrowing from the Federal Reserve Bank - \$122,561,440.40; on February 16th, their borrowings had decreased - \$8,799,225.53. The highest point of borrowing during 1921 - \$128,122,233.80. Bank clearings have decreased slightly.

The feeling of the business and bank people toward the Federal Reserve Bank and System is one of great respect and admiration. A spirit of desiring to cooperate with what is recognized as the first real banking system which the country has had, prevails very generally.

It would appear that liquidation in our District started rather early. Many of our important industries control their own raw material and are engaged in a line, which, because of its very nature, is

calculated to suffer less than most others in any depression. Declines in business activity affect industries using raw material which does not grow but is merely produced by the activities of men in a way that differs widely from that in which it affects industries using raw materials which do grow. The production of iron ore and coal can be shut off over-night, but it takes some time to slow down the production of cotton, wool, leather, and kindred things.

We realize that the only permanent cure for ills of the kind we are now suffering is in the healing power of natural forces and comes slowly.

Business generally is on the upgrade but with a rather long pull ahead, and we can not expect immunity from some further business casualties, as the sins of over-extended credit and over-expansion will exact their toll.

In conclusion I would say that the general feeling is hopeful, and conservatively optimistic.

C. E. SULLIVAN

District No. 6 (Atlanta)

The sum and substance of recent developments is that there is a more cheerful feeling in the Sixth Federal Reserve District, but without much actual increase in business. The holiday trade was much better than was expected but since then the buyers seem to have gone on a strike again. The commodity markets are in a narrow, reactionary groove, and retail merchants are gradually lowering prices. Buyers are holding off pending further reductions as there is more or less distrust of the stability of present prices. Meanwhile unemployment is still very large throughout the District incident to decreased production, resulting in a lowering of wages. In the lumber and naval stores industries wages have been reduced from 25% to 40%. Reports coming in from different sections of the District as to general conditions are about the same in tone, with the exception of Florida which seems to be in a more enviable position.

The demand for money is steady but it does not seem to be as great as it was a few months ago. There is a slight falling off in loans, and on an average about 75% of those maturing are being renewed. The average rate with the larger banks is about  $7\frac{1}{2}\%$ .

General deposits show a falling off in the entire District of about 30%, with the exception of Savings Deposits which seem to be on the increase. In this connection, the writer knows of one large national bank in the Sixth District whose savings deposits increased 25% during the past year, which indicates that the small depositor is heeding the abundant advice put out on this subject. Of course, at some points where business conditions are particularly bad savings deposits have decreased, but this is the exception to the rule.



In the upland cotton belt it is reported that about 41% of the crop is being held by the producers and 38% by the factors. In order to present to your minds a composite picture of the Georgia situation I have only to say that in 1919-20 that State produced 1,678,758 bales of cotton which netted about \$335,000,000, and in addition thereto the seed sold for about \$75,000,000, whereas, in 1920-21 the crop was only 1,387,000 bales, which at present prices will net only about \$85,000,000, or just a little more than the amount received for the seed last season.

Ginning reports for the year 1920-21 show less than 2,000 bales of sea island cotton. This is used principally in the manufacture of automobile tires, and since the extreme depression in that industry the price of staple ranges from 25¢ to 40¢ per pound, and it is doubtful if it could be sold for even that price, while last season the best grades sold as high as \$1.00 per pound. The boll weevil has practically put an end to this industry, therefore, it is hardly worth discussing. This cotton is grown in Florida and Mississippi in this District.

Tennessee is carrying large quantities of cotton, tobacco and other commodities and their condition is not altogether unlike that of the other States in the Sixth District.

The naval stores situation in Georgia and Florida is about on a par with the cotton situation and the indications are that there will be no improvement within the next twelve months. The banks in France have called their loans on rosin and such concerns as Colgate & Co., soap manufacturers, are importing rosin from France paying about \$4.75 per barrel f. o. b. American ports, which is much below the lowest grades of rosin held in America.

The market on this commodity has been closed since November 12, 1920, at which time the average grades were quoted at \$11.30 per barrel.

The lumber industry is about the same in all sections of the Sixth District. Present prices average about \$25.00 per 1,000 feet against approximately \$50.00 at the same a year ago. The principal demand is coming from railroads and home builders. About 50% of the mills are closed and the others are operating at about 75% of their capacity.

It is reported that the coal industry in Alabama has been very active during the past few months, however, the demand for steam coal has dropped heavily during the past thirty days. A number of the furnaces are closing on account of repairs and a lack of orders.

Rice is one of Louisiana's principal crops and it is reported that 85% of the crop is still held by the producers. Warehouses are filled to capacity.

Even the tourist business in Florida has suffered in sympathy with the depression in other lines, however, under the circumstances, as a whole the result is satisfactory. The decline in travel has been mainly among the richer class which has never been of any great value to this State. The citrus fruit crop has been the largest in the history of Florida, but prices have receded in proportion to the increased production.

The Federal International Banking Company of New Orleans, which was recently organized by the member banks in this District is ready to function, indeed it is reported that the first transaction of this company involved the shipment of 15,000 bales of Mississippi cotton to Europe.

The Directors of the Federal Reserve Bank of Atlanta, including the Branches at New Orleans, Birmingham, Nashville and the Savannah Agency, met with the Directors of the Jacksonville Branch, February 11th and 12th, at which time an opportunity was given each representative to express his views regarding the situation in his immediate territory. Their reports as a whole were pessimistic, but with one accord they predicted a brighter future.

E. W. LANE.

District No. 7 (Chicago)

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The general condition of business in the Seventh Federal Reserve District may be reported as fairly satisfactory. Considerable grain has been shipped from the north-west for export, and this has proved a great relief to the banks in the north-west and particularly in Iowa, which state has been more sorely pressed for funds than any other in our District. This is evidenced by the steady reduction of Iowa bank borrowings of the Federal Reserve Bank of Chicago. The peak of this item was attained early in December, when these borrowings stood at \$98,636,000. At the end of the year they had declined a little more than \$3,000,000, and on February 16th they had been reduced to \$77,772,000, showing liquidation of \$20,864,000 of the borrowings at the Federal Reserve Bank. This liquidation of loans from the agricultural sections, is also reflected in the statement of the correspondent banks in reserve and central reserve cities of this District. At the present time the reduction of loans by commercial and industrial borrowers has slowed up somewhat. The marketing of live stock and grain apparently is affording relief to the banks, but taking the District as a whole, this relief is not as great as had been hoped for.

At the present time there is generally a strong demand for extension of loans, although in some localities there is a slight easing of the demand. Speculative tendency is no longer very noticeable. Bankers prominent in their localities, generally report that people seem to have finally reached the conclusion that economy is highly desirable. The more progressive merchants report a very considerable reduction in stocks of merchandise compared with a few months ago, and manufacturers are making persistent effort to reduce inventories. While there has been liquidation of inventories by manufacturers, many are still carrying considerable quantities of raw material, partly finished goods, and products ready for

shipment, This accounts, to some extent at least, for the slowness in the liquidation of loans in commercial and industrial centers. There is a large amount of agricultural loans, both direct and indirect, yet to be liquidated, and bankers report from many sections that it will take the proceeds of a new crop to repay these borrowings. In Wisconsin there has been quite a liquidation of country bank loans, especially in the tobacco growing sections. In one section this reduction has reached ten per cent in the last thirty days. The condition of the country roads is also a feature accounting for the slow movement of corn, and quite an old supply of same remains in the country. While there has been some disposition of farmers in the southwest to move their wheat in considerable quantities, going to gulf ports for export, it is not so marked in this District, yet it has a bearing on the bank situation here because of loans by larger banks to correspondent banks in other districts. The material decline in market values has also been a factor of retarding liquidation of loans, as borrowers are finding it difficult to realize sufficient cash from grain and live stock to meet obligations incurred when prices were inflated. Land values are beginning to recede from the high levels attained. Farm mortgage bankers report they are making considerable loans, almost entirely to the best class of farmers, the money being used to pay debts already contracted and now carried by banks. They report little or no liquidation of mortgage loans on farms this season.

The labor situation remains practically unchanged since last month. The best that can be said of it is that a slight improvement is noticeable. This is confirmed by answers to labor questionnaires from thirty prominent manufacturing concerns in Chicago, which give the number of employed as compared with December, 6.8% increase, and as compared



with the same month a year ago, a decrease of 22.8%. The amount of pay roll for December shows 7.1% decrease, and as compared with the same month a year ago, 23% decrease. The percentage of capacity of these plants operating in January 1920 was 87.4%; in December 62.2%, and in January 1921, 61.8%. The Employers Association of Detroit states that the number of men employed by the seventy-nine firms reporting to them, was 51,745 on February 8th. This is about 25% of a year ago. Three weeks previous the report was 36,000 men. At the end of December less than 14% of the 176,000 employed in the latter part of September, were working, while 29% were working on February 8th. There were forty-one shops working on reduced schedule, an average of thirty-six hours per man per week. In many instances where the production has been curtailed and men laid off, there are signs of increased efficiency on the part of those remaining. Some of these report a reduction in wages and a shortening of hours. The coal mines, while operating at fifty per cent capacity, made no change in the mine workers wage scale or hours. The lumber mills report a reduction in wages, but not in hours. The building trades of Chicago show the greatest amount of unemployment, and they are followed closely by metal and machinery workers. It is estimated there are about one hundred thousand unemployed in Chicago at the present time. While building operations are being widely discussed because of the housing problem, nothing so far has been done in an organized way for starting work in the spring. The plans are held in abeyance by high costs. Rentals are again being increased in Chicago. Compared with the peak price of 1920, most of the building materials have come down. Lumber has had a big decline; stocks on hand at most of the mills are below normal. Manufacturing operations have been curtailed and all logging operations this

winter have been below normal.

The Federal Reserve Bank of Chicago gives the following report by States of borrowings and their percentage above their basic line, which may prove of interest.

<u>State of</u>	<u>Borrowings</u>	<u>Basic Line</u>	<u>Per Cent</u>
Illinois	\$157,375,000	\$253,593,000	62.0
Indiana	27,020,000	28,143,000	96.0
Iowa	78,317,000	34,039,000	230.0
Michigan	82,282,000	73,190,000	112.4
Wisconsin	<u>26,056,000</u>	<u>32,015,000</u>	<u>81.1</u>
	<u>\$371,050,000</u>	<u>\$420,980,000</u>	88.1

It also may be of interest to know the number of Member Banks and number of banks borrowing, which follows:

<u>Number of Member Banks in State</u>	<u>Number of Banks Borrowing</u>	<u>Number of Banks Bor- rowing in Excess of Basic Discount Line for the 10 day period</u>
Illinois	391	103
Indiana	215	62
Iowa	461	326
Michigan	106	20
Chicago Branch		
Michigan	120	34
Detroit Branch		
Wisconsin	<u>133</u>	<u>29</u>
	<u>1,426</u>	<u>574</u>

J. J. MITCHELL.

## District No. 8 (St. Louis)

Our present banking and credit structure continues to show its value over the old one. Longer time liquidation, under our present system, replaces short time bankruptcy under the old system. While actual business has not decidedly improved during the last three months as measured by volume of business and net profits, yet there is a better underlying tone. It is a time of "watchful waiting" but not with the anxiety of three months ago. Even in normal years, the first three months of a new year are, in this district, rather dull. There is now more of a disposition to be patient, to expect no great industrial activities soon but to work gradually back to normal conditions.

While unemployment has increased, it does not appear to be accompanied by any marked distress. The movement for readjustment of wages, especially for unskilled workers, is progressing. For unionized labor, conferences between employers and employees are in progress without promise, at the present, of any serious strikes or labor troubles.

Frozen credits are only very slowly thawing out and there is prospect that this will, under our present banking system, be a gradual process. Bank deposits do not show their accustomed tendency to increase markedly and reach a high point at this time of the year. There will be from March to March of the past twelve months less difference between the low and high points in deposits than that which usually occurs. Taking July 1st of last year as a basis of 100% for St. Louis Clearing House Banks, deposits reached a high point of 106% in the week of July 16th, then fluctuated around 100% until the week of September

24th; then began to decrease, reaching the lowest point of 91% the week of November 12th, and then began to increase and reached the highest point of 112% the week of January 14th. In all this time from July 1, 1920 to January 14, 1921, there was only a difference of 21%, which represents \$24,500,000.00 difference in deposits.

Likewise in the Bills Payable at the Federal Reserve Bank there was a general tendency to increase during July and August, reaching 121% the week of September 3rd, then suddenly decreasing for a few weeks, and then suddenly increasing to the high point of 131% the week of October 8th. A decrease then began and continued to the low point of 39% the week of January 14th.

Spring demands for funds will soon begin to come in. This will tend to retard the decrease in Federal Reserve Discounts for Member Banks.

The quiescence in the wholesale and jobbers' field, which characterized the period preceding the holidays, is somewhat improved, due to the receipt of more orders and the improved prospect for spring, summer and autumn trade. The holiday retail trade was, on the whole, satisfactory. In a number of cases the sales exceeded those of last year. The last sixty days has seen a marked reduction in the stock of goods on the shelves of wholesalers, jobbers and retailers. Further liquidation will be necessary in some lines, as for example, furniture, but it is likely that this will come about in a relatively short period, and that by the close of the spring season there will be a more normal relation between the existing supply and the promised demand for goods. In many

lines there is a feeling tending to be supported by good reasoning, that prices have reached their lowest level. The consuming public is yet, and properly so, buying carefully. Consumers are still inclined to resist any marked tendency to increase prices. While their potential buying power remains great, yet due to their acquired and forced ability to economize, resulting from the war, as well as the unemployment and reduced wages, prices must continue on an appealing level to bring and keep them in the market.

On the farms there has been somewhat of an increased disposition to move produce but farm loans will be liquidated gradually and the prevailing and promised low prices will not make the farmer an active buyer of other products in the spring.

In general, it would seem that:-

- (a) There is a greater confidence in the fundamental soundness of the business and banking situation.
- (b) A disposition to resume business enterprises cautiously and not to expect "Boom times" this year but to be satisfied with moderate returns, with little or no net profit if the business and its organization can be held intact.
- (c) A general feeling that particular prices and cost of living must be readjusted and equalized and this, perhaps, on a lower basis than that which now prevails. Some reductions may have gone too far, others not far enough, and some about far enough.
- (d) Labor in many cases may accept a readjustment of wages as living costs are readjusted and in general will be disposed to render more efficient service.

F. O. WATTS



District No. 12 (San Francisco).

This report on business and financial conditions in the Twelfth District is based on letters received from twenty-six banks located in different parts of the district:

DEMAND FOR MONEY:

Generally the larger cities report the demand for money as "active," "strong" or "excessive." One or two banks in Southern Oregon state the demand has "moderated" or is "about as usual."

PREVAILING INTEREST RATES:

In most of the large centers, rates of interest are from 6 to 8 per cent, with the ruling rate averaging 7 per cent; except in Ogden, Salt Lake and Boise the minimum is quoted at 8 per cent. In country districts the rate is from 8 to 12 per cent.

LOANS:

Throughout the district loans are liquidating slowly, except in Los Angeles where "Loans are said to be the highest in the history of the city;" and in Arizona "There is no liquidation as yet." Ogden reports loans as having been "materially liquidated;" whereas at Salt Lake it is stated "There is a marked shortage of loaning funds, but general reduction is being accomplished through pressure exerted by the banks." Boise reports loans increasing.

DEPOSITS:

Deposits are decreasing everywhere except in Los Angeles where they are "maintaining a high level;" in Ogden "They are holding their own;" whereas at Salt Lake "Deposits have decreased on an average during the year 20 to 25%."

LUMBER:

The lumber industry is in an unsatisfactory condition. Most of the mills are shut down and there are but few logging camps operating. Many lumbermen believe the industry will show some improvement within the next ninety days, but this improvement will not be marked until: first, there is an adjustment of freight rates that will permit the Fir of the Northwest to compete in the Middle West with the Yellow Pine of the South: second, until the cost of production is lowered by a material reduction of wages; third, until there is more money in the country available for building construction.

LIVESTOCK:

This industry at present is in a deplorable state due, to the long Winter of 1919-1920 when it was necessary to purchase large amounts of feed at high prices (in Montana it was necessary to feed cattle six months); to the marked decline in prices which has caused many herds to be sacrificed in an effort to satisfy the holders of mortgage loans; and to the increased freight charges. However, livestock went into this Winter fat and in excellent condition, with cheap feed, \$6. to \$8. a ton for Alfalfa and even as low as \$3. a ton in some sections, as against \$20. to \$40. last year. These conditions, together with ideal Winter weather give promise to the sheep men of a lamb crop of one hundred per cent as compared to an average lamb crop last year of fifty per cent. Should there be a market for wool at fair prices those sheep men

who have not had to sell their breeding stock in order to pay their debts will be able to recoup themselves on their heavy losses in the next two or three years, even though prices for wool, lambs and wethers remain at the present low level. Both cattle and sheep men report that wages of herders have fallen from a maximum of \$125. to as low as \$30. and \$40. per month, with a considerable reduction in the cost of supplies; and they state further that the efficiency of labor has increased in a marked degree.

#### CROPS:

Crop prospects throughout the District generally are reported as "good." There is evidence however of discouragement on the part of the farmers due to their inability to move last year's crops even at prevailing low prices. This probably will result in a reduced acreage. In Arizona it is stated that many farmers will give up raising cotton and return to diversified farming. In the Northwest there will be about the same acreage in wheat. There is more than the usual amount of moisture in the soil and Fall sown wheat never looked better.

#### TRADE:

Wholesale trade was good throughout the district until late in the Fall when there was a decided falling off in volume; in January there has been an even more marked decrease. Inventories taken at the close of the year reflect the marked decline in prices of most commodities. Wholesalers, fearing further declines, are still buying sparingly except in cases where they feel that goods are well

below the cost of production.

Retailers everywhere report an excellent year in 1920, and although there is considerable price cutting, nevertheless retailers are prospering (at least for the present); but like the wholesalers they are buying sparingly.

Until the late Fall collections were good with both wholesalers and retailers but for the last two months they are reported as "fair", "slow" and "poor." In the livestock districts much stress is laid on the fact that collections are "very slow."

#### LABOR:

Unemployment is increasing throughout the entire district but esp ecially in the Northwest due to the closing down of the mills and logging camps. There has been no great amount of suffering as yet from this cause.

#### WAGES:

Throughout the District wages are falling although as yet there has been no material reduction in the building trades. It is expected when the logging camps open up that there will be a reduction in wages of about 15 to 20 per cent. In the agricultural districts wages for farm hands have been reduced in many cases as much as 50 per cent and in some cases even more. No city reports any reduction in wages paid for clerical help.

#### REMARKS:

Although conditions today in the Twelfth District generally are unsatisfactory, nevertheless there is a feeling of optimism on the

part of all correspondents. It is thought that by April or May conditions will be fairly well stabilized and that the products of the fields, forest and rivers will move faster with a resultant liquidation of existing heavy indebtedness. It is very generally believed that the worst has passed, but that there may be a number of business failures as the outcome of present unsettled conditions. In almost every part of the District banks are over-loaned, and the country banks are not only using the Federal Reserve Bank freely, but also are leaning heavily on their city correspondents. As an illustration The Portland Branch of the Federal Reserve Bank advises that its total loans to member banks are \$9,490,000 whereas four banks alone in Portland report a total of loans to country banks of \$7,978,646.49.

If our basic products move freely in the Spring the present situation will improve materially. Should however the market for cotton, rice, wool, livestock, salmon, lumber, canned goods and our other products not be better than it is today, there will be difficulty in financing the farmers and producers during the coming Summer and Fall.

A. L. MILLS.



FEDERAL  
ADVISORY COUNCIL

MINUTES  
AND  
RECOMMENDATIONS

1921-1930

MINUTES OF MEETING  
of the  
FEDERAL ADVISORY COUNCIL

February 21, 22, 1921

# OFFICERS AND MEMBERS OF THE FEDERAL ADVISORY COUNCIL

For the Year 1921

## OFFICERS:

President, L. L. Rue  
Vice President, Paul M. Warburg  
Secretary, Harry L. Hilyard

## EXECUTIVE COMMITTEE:

L. L. Rue  
Paul M. Warburg  
Philip Stockton  
J. J. Mitchell  
F. O. Watts  
E. F. Swinney

## MEMBERS:

Philip Stockton	Federal Reserve District No. 1
Paul M. Warburg	Federal Reserve District No. 2
L. L. Rue	Federal Reserve District No. 3
C. E. Sullivan	Federal Reserve District No. 4
J. G. Brown	Federal Reserve District No. 5
E. W. Lane	Federal Reserve District No. 6
J. J. Mitchell	Federal Reserve District No. 7
F. O. Watts	Federal Reserve District No. 8
C. T. Jaffray	Federal Reserve District No. 9
E. F. Swinney	Federal Reserve District No. 10
R. L. Ball	Federal Reserve District No. 11
A. L. Mills	Federal Reserve District No. 12

## BY-LAWS OF THE FEDERAL ADVISORY COUNCIL

### ARTICLE I. OFFICERS

Officers of this Council shall be a President, Vice-President and Secretary.

### ARTICLE II. PRESIDENT AND VICE-PRESIDENT

The duties of the President shall be such as usually pertain to the office; and in his absence the Vice-President shall serve.

### ARTICLE III. SECRETARY

The Secretary shall be a salaried officer of the Council and his duties and compensation shall be fixed by the Executive Committee.

### ARTICLE IV. EXECUTIVE COMMITTEE

There shall be an Executive Committee of six (6) members of the Council, of which the President and Vice-President of the Council shall be ex-officio members.

### ARTICLE V. DUTIES OF EXECUTIVE COMMITTEE

It shall be the duty of the Executive Committee to keep in close touch with the Federal Reserve Board and with their regulations and promulgations, and communicate the same to the members of the Council, and to suggest to the Council from time to time special matters for consideration.

The Executive Committee shall have power to fix the time and place of holding their regular and special meetings and methods of giving notice thereof.

Minutes of all meetings of the Executive Committee shall be kept and such minutes or digest thereof shall be immediately forwarded to each member of the Council.

A majority of the Executive Committee shall constitute a quorum and action of the Committee shall be by a majority of those present at any meeting.

### ARTICLE VI. MEETINGS

Regular meetings of the Federal Advisory Council shall be held in the City of Washington on the third Monday of the months of February, May, September and November of each year.

Special meetings may be called at any time and place by the President or the Executive Committee, and shall be called by the President upon written request of any three members of the Council.

### ARTICLE VII. AMENDMENTS

These By-laws may be changed or amended at any regular meeting by a vote of a majority of the members of the Federal Advisory Council.

## MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

February 21, 1921

A regular statutory meeting of the Federal Advisory Council was held in the Federal Reserve Board room, Metropolitan Bank Building, Washington, D. C., at 10.30 A. M., Monday, February 21, 1921.

Present: Messrs. P. M. Warburg, C. E. Sullivan, E. W. Lane, J. J. Mitchell, F. O. Watts, C. T. Jaffray, E. F. Swinney, R. L. Ball, A. L. Mills and Merritt H. Grim, Secretary.

Mr. E. F. Swinney called the meeting to order at 10.30 o'clock and nominated Mr. F. O. Watts as temporary Chairman. Mr. Watts was unanimously elected and he took the chair.

The Chair appointed Mr. Merritt H. Grim, Secretary for this meeting.

The Secretary reported the credentials of the members of the Federal Advisory Council for the year 1921 as certified to him by the twelve Federal Reserve Banks as follows:

Federal Reserve Bank of Boston	Mr. Philip Stockton
Federal Reserve Bank of New York	Mr. Paul M. Warburg
Federal Reserve Bank of Philadelphia	Mr. L. L. Rue
Federal Reserve Bank of Cleveland	Mr. C. E. Sullivan
Federal Reserve Bank of Richmond	Mr. J. G. Brown
Federal Reserve Bank of Atlanta	Mr. E. W. Lane
Federal Reserve Bank of Chicago	Mr. John J. Mitchell
Federal Reserve Bank of St. Louis	Mr. F. O. Watts
Federal Reserve Bank of Minneapolis	Mr. C. T. Jaffray
Federal Reserve Bank of Kansas City	Mr. E. F. Swinney
Federal Reserve Bank of Dallas	Mr. R. L. Ball
Federal Reserve Bank of San Francisco	Mr. A. L. Mills

The Roll Call showed the following members present:

Messrs. P. M. Warburg, C. E. Sullivan, E. W. Lane, J. J. Mitchell, F. O. Watts, C. T. Jaffray, E. F. Swinney, R. L. Ball and A. L. Mills.

Absent: Messrs. Philip Stockton, L. L. Rue and J. G. Brown.

Mr. Rue and Mr. Brown being detained by illness the Chairman was requested to telegraph them the Council's regret and best wishes for a speedy recovery.



The following telegrams were dispatched:

"Mr. L. L. Rue, c/o Philadelphia National Bank, Philadelphia. You were unanimously elected President of the Federal Advisory Council, the members of which greatly regret illness prevents your attending this meeting. Best wishes for speedy recovery.

P. M. WARBURG,  
*Vice President.*"

"Mr. J. G. Brown, c/o Citizens National Bank, Raleigh, N. C. The members of the Federal Advisory Council greatly regret you are prevented from attending this meeting by illness. Hope for your speedy recovery.

P. M. WARBURG,  
*Vice President.*"

The Chair stated the next business was the election of officers of the Council.

Mr. Swinney nominated Mr. L. L. Rue for President. There being no other nominations he was unanimously elected.

Mr. Mills nominated Mr. Warburg for Vice President and there being no other nominations he was on motion unanimously elected.

Mr. Watts then relinquished the Chair to Mr. Warburg, Vice President.

The Vice President asked for nominations for members of the Executive Committee to consist of four members besides the President and Vice President who are ex-officio members.

Mr. Stockton, Mr. Mitchell, Mr. Watts and Mr. Swinney were nominated and unanimously elected.

The officers and members of the Executive Committee therefore are:

President, Mr. L. L. Rue.

Vice President, Mr. P. M. Warburg.

Executive Committee, Messrs. L. L. Rue, P. M. Warburg, Philip Stockton, John J. Mitchell, F. O. Watts and E. F. Swinney.

The Secretary reported that he had the Recommendations of the Council for the past year indexed and bound and had sent copies to the members of the Council, the various Federal Reserve Banks, the members of the Federal Reserve Board, and that the Council's Recommendations for the year 1920 would be included in the Federal Reserve Board's annual report about to be published.

He also reported his secretarial and incidental expenses for the year ending December 31, 1920. A copy of the report is hereto attached and made a part of these minutes. On motion his report was approved.

Mr. Watts moved that the President be authorized to appoint a permanent secretary of the Council and fix his salary subject to the approval of the Executive Committee. Motion duly seconded and carried.

The following resolution was unanimously passed:

"Resolved that the President be and he is hereby authorized to ask each Federal Reserve Bank to contribute \$200. toward the secretarial and incidental expenses of the Federal Advisory Council for the year 1921 and to draw on them for that purpose."

Mr. Swinney moved that Mr. Watts be requested to draft a resolution expressing the Council's appreciation of Mr. James B. Forgan's six years' service as President of the Federal Advisory Council and its regret at his retirement. Motion seconded and carried.

Mr. Swinney moved that Mr. Watts be also requested to draft a resolution in connection with Mr. Merritt H. Grim's retirement as Secretary of the Council which motion was also seconded and carried.

Mr. Mills moved the adoption of the following:

"Resolved that the By-laws of the Council for the past year be adopted as the By-laws of the Council for the ensuing year."

Motion duly seconded and carried.

Mr. Watts moved that the Council approve the Minutes of the previous meeting held November 15, 1920, copies of which had been sent to the members by the Secretary. Motion duly carried.

The Chair laid before the Council the formal topics presented by the Federal Reserve Board for the Council's consideration at this meeting. See copy hereto attached and made a part of these minutes.

The Council then took up the consideration of them informally until the arrival of the members of the Federal Reserve Board at 11.15 A. M.

MERRITT H. GRIM,  
*Secretary.*

# REPORT OF SECRETARY, FEDERAL ADVISORY COUNCIL

For the Year 1920

February 21, 1921

Balance on Hand December 31, 1919, according to last report ..... \$114.11

## RECEIPTS

February 24, 1920, Annual Assessment on 12 Federal Reserve Banks of  
\$200 each ..... 2,400.00

TOTAL ..... \$2,514.11

## DISBURSEMENTS

Expenses attending four meetings of the Federal Advisory Council in  
Washington as follows:

1920	R.R. Fare	Hotel Meals	Mcls.	Total
Feb. ....	\$67.65	\$39.55	\$3.26	\$110.46
May ....	64.35	42.30	2.91	109.56
Sept. ....	89.70	38.50	6.33	134.53
Nov. ....	88.72	32.50	2.33	123.55
	<hr/>	<hr/>	<hr/>	<hr/>
	\$310.42	\$152.85	\$14.83	\$478.10

Total Traveling Expenses, as above.....	\$478.10
Stenography, Stationery .....	46.50
Printing .....	151.05
Telegrams, Postage .....	28.53
Salary, Secretary 1920 .....	1,200.00
Balance in First National Bank, Chicago.....	609.93
	<hr/>
	\$2,514.11

Respectfully,

MERRITT H. GRIM,

*Secretary.*

MINUTES OF JOINT CONFERENCE OF THE FEDERAL ADVISORY  
COUNCIL AND THE FEDERAL RESERVE BOARD

February 21, 1921

At 11.15 a joint conference with the Federal Reserve Board was held as arranged.

Present: Members of the Federal Reserve Board:

Governor W. P. G. Harding, Vice-Governor Edmund Platt, Messrs. A. C. Miller, J. S. Williams, C. S. Hamlin, D. C. Wills, and Mr. W. W. Hoxton, Secretary.

Present: Members of the Federal Advisory Council:

Messrs. P. M. Warburg, C. E. Sullivan, E. W. Lane, J. J. Mitchell, F. O. Watts, C. T. Jaffray, E. F. Swinney, R. L. Ball, A. L. Mills, and Merritt H. Grim, Secretary.

Mr. Warburg called the meeting to order and after explaining the official organization of the Council and Mr. Rue's absence, he asked Governor Harding to address the conference.

Governor Harding invited the members of the Council to lunch at the Metropolitan Club at 1.15, and said the Secretary of the Treasury having to appear before a congressional committee at the Capitol had sent his regrets that he could not meet with the Council, but would join the members at lunch.

Governor Harding reviewed the present situation as it affects the Federal Reserve system and the topics the Board had submitted for the Council's consideration.

Governor Harding asked the Council to make a recommendation in regard to Rediscount Rates.

While the members of the Council were presenting their reports on commercial and financial conditions in their districts, the time set for luncheon arrived and the members of both Boards proceeded to the Metropolitan Club. After lunch the reading of members' reports was concluded. Six of the reports were in writing and are hereto attached and made a part of these minutes. After some time spent in general discussion the joint session ended and at 3.45 the members of the Council returned to the Board room.

MERRITT H. GRIM,  
*Secretary.*

## MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

February 21, 1921

At 4 P. M., the Federal Advisory Council resumed its session in the Federal Reserve Board room.

The unfinished business from the November meeting of the Council relative to an amendment to the Federal Reserve Act to provide for a greater distribution of the profits of the Federal Reserve Banks by paying interest on the reserve deposits of member banks was taken up and discussed. On motion of Mr. Watts, the matter was referred to the Executive Committee to incorporate a negative report on it with the recommendation on the first of the formal topics submitted by the Board.

Mr. Mills moved that the matter of recommending the abolishment of the office of Comptroller of the Currency on which the Council had previously expressed itself should be again taken up by the Council, and that the Executive Committee be requested to prepare a recommendation of the subject. Motion duly carried.

The formal topics submitted by the Federal Reserve Board were then fully discussed and referred to the Executive Committee to prepare tentative recommendations embodying the views expressed.

Mr. Mills moved that the Executive Committee be requested also to prepare a recommendation stating the views of the Council in regard to rediscount rates, as requested by Governor Harding.

At five o'clock the Council adjourned until ten A. M., Tuesday, February 22, 1921.

MERRITT H. GRIM,  
*Secretary.*

## MINUTES OF MEETING OF EXECUTIVE COMMITTEE OF THE FEDERAL ADVISORY COUNCIL

February 21, 1921

A meeting of the Executive Committee of the Federal Advisory Council was held in the Federal Reserve Board room after adjournment of the Council, at five o'clock, February 21, 1921.



Present: Messrs. P. M. Warburg, J. J. Mitchell, F. O. Watts, E. F. Swinney, and Merritt H. Grim, Secretary.

The Executive Committee discussed and carefully considered the various matters that had been referred to it.

The Executive Committee considered several additional matters on which it was thought advisable to suggest that the Council make recommendations to the Federal Reserve Board.

At six o'clock the Committee adjourned its sitting until 8.30 A. M. Tuesday at the New Willard Hotel.

MERRITT H. GRIM,  
*Secretary.*

February 22, 1921

The Executive Committee met at 8.30 A. M. February 22, 1921, at the New Willard Hotel as arranged.

The Committee concluded its work and requested the Chairman to present its report to the Council at the meeting scheduled for ten o'clock.

MERRITT H. GRIM,  
*Secretary.*

#### MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

February 22, 1921

The Federal Advisory Council met at 10 A. M. Tuesday, February 22, 1921, in the Federal Reserve Board room.

Present: Messrs. P. M. Warburg, Vice President, C. E. Sullivan, E. W. Lane, J. J. Mitchell, F. O. Watts, C. T. Jaffray, E. F. Swinney, R. L. Ball, A. L. Mills, and Merritt H. Grim, Secretary.

The Vice President called the meeting to order and laid before the Council the report of the Executive Committee, which was fully considered and approved for presentation to the Federal Reserve Board. The Committee's report included recommendations on the five topics submitted by the Federal Reserve Board on Discount rates and on four other topics. See printed copy hereto attached and made a part of these minutes.

It was understood that the same sub-committee to be appointed in connection with Topic No. 7 should look after the matter mentioned in Topic No. 10.

Mr. Warburg reported that Governor Harding had agreed that the Council members need not prepare a written report of conditions in their districts for the next meeting of the Council in May.

Mr. Watts reported to the Council the two resolutions he was authorized to draft, both of which were unanimously agreed to by the Council. They are as follows:

"From the organization in 1915, Mr. James B. Forgan has served as the President of the Federal Advisory Council. During that period of six years his service and advice have been so able and constructive that the Council wishes to make this recorded acknowledgment of his great value to the Council, to the Federal Reserve System, and to the Country. The presiding officer is requested to convey this expression to Mr. Forgan and further the personal wish of the members for his good health and prosperity through future years."

"The Federal Advisory Council is advised by Mr. Merritt H. Grim of his inability to continue service to the Council in the capacity of Secretary. In view of his satisfactory service since the organization covering a period of six years the Council hereby expresses its appreciation and its regret at the necessity for his retirement from the position. No body could have had a more efficient, courteous and capable officer."

The Chairman was authorized to prepare a statement for the Press submitting it for approval to the Governor of the Federal Reserve Board before giving it out.

At 11 o'clock the members of the Federal Reserve Board arrived and the Council went into joint conference.

MERRITT H. GRIM,  
*Secretary.*

#### MINUTES OF JOINT CONFERENCE OF THE FEDERAL ADVISORY COUNCIL AND THE FEDERAL RESERVE BOARD

February 22, 1921

As arranged a joint conference with the Federal Reserve Board was held at 11.15 o'clock.

Present: Members of the Federal Advisory Council:

Messrs. P. M. Warburg, C. E. Sullivan, E. W. Lane, J. J. Mitchell, F. O. Watts, C. T. Jaffray, E. F. Swinney, R. L. Ball, A. L. Mills and Merritt H. Grim, Secretary.

Present: Members of the Federal Reserve Board:

Governor W. P. G. Harding, Vice Governor Edmund Platt, Messrs. A. C. Miller, J. S. Williams, C. S. Hamlin, D. C. Wills and Mr. W. W. Hoxton, Secretary.

The Vice President of the Council, Mr. Warburg, called the meeting to order, asking Governor Harding to take the Chair.

Governor Harding then called for the Recommendations of the Council which Mr. Warburg read to the conference. (See printed copy of them in minutes of the Council this date.)

Then followed a general discussion of the topics.

Mr. Warburg suggested that the Council make a recommendation at the next meeting revising Section 16 of the Federal Reserve Act which provides for charging Federal Reserve Banks interest on the amount of their Federal Reserve Notes outstanding which suggestion was approved both by the Federal Reserve Board and by the Council.

Governor Harding said that the Board had requested the Federal Reserve Banks not to give out for publication on Saturdays their weekly statements in order that they do not appear before the consolidated weekly statement of all the Federal Reserve Banks prepared by the Board for publication on Sundays, and he asked the Council's approval of the change. The Council unanimously approved it.

At one o'clock the joint conference adjourned concluding the session of the Council.

MERRITT H. GRIM,

*Secretary.*

RECOMMENDATIONS OF THE FEDERAL ADVISORY  
COUNCIL TO THE FEDERAL  
RESERVE BOARD

February 22, 1921

TOPIC NO. 1—Should the Board exercise the authority given it in Section 16 of the Federal Reserve Act and impose an interest charge against Federal Reserve Banks on the amount of their Federal Reserve notes outstanding, less the amount of gold or gold certificates held by the Federal Reserve Agents as collateral security, and if so, what should the rate of interest be?

Recommendation:

The Council voted unanimously in the negative. The Council is of opinion that the argument of excessive earnings should not impel the Board to exercise its authority to impose an interest charge against Federal Reserve Banks on the amount of Federal Reserve notes outstanding. The Council believes that if an educational campaign is carried on stating that the earnings of the Federal Reserve Banks are used for the purpose of reducing the amount of government bonds outstanding, particularly the Liberty Loan and Victory notes, it would dissipate any unwarranted criticism concerning excessive earnings made by Federal Reserve Banks, and that it would not be difficult to convince the people that the earnings of the banks could not be used to any better purpose.

In this connection, and with the same point in view, the Council expressed itself unanimously against the proposition to permit the payment of interest on member banks' reserve balances with Federal Reserve Banks. The high profits of the Federal Reserve Banks should not, in the opinion of the Council, lead to the payment of interest on balances which in the best interest of the system should be kept uninvested as far as may be practicable. If interest were paid it would act as a stimulant towards keeping the funds of the Federal Reserve Banks invested and it might therefore interfere with the proper conception on the part of those in charge of the Federal Reserve Banks, concerning their first duty to keep the Federal Reserve Banks in a condition of maximum strength.



TOPIC NO. 2—Should the Board establish for the year 1921 a tentative limit for each Federal Reserve Bank on the amount which it may rediscount with other Federal Reserve Banks?

Recommendation:

The vote of the Council was unanimously in the negative. The Council's opinion is that no limit should be placed on the amount which one Federal Reserve Bank may rediscount with other Federal Reserve Banks. The Federal Reserve System is one and indivisible, and not twelve inde-

pendent districts. The Council holds the view that the Board should exercise its own discretion and should not limit its own power of action by binding itself to definite rules, which, with conditions varying in the several districts and strongly fluctuating at this time, might fit one condition and one period but might prove embarrassing in others. The Council believes, however, that where Federal Reserve Banks are fairly regular rediscounters with other Federal Reserve Banks their discount rates should not be permitted to be lower than those prevailing with the Federal Reserve Banks granting the rediscounts.



TOPIC NO. 3—Should existing preferential rates on notes secured by Liberty Bonds and Victory notes be continued?

- (a) With respect to customers' paper rediscounted?
- (b) With respect to member banks' 15 day collateral notes?

Recommendation:

The Council is of opinion that for the time being it may be opportune to continue preferential rates on notes secured by Liberty Bonds and Victory notes, both (a) in respect to customers' paper discounted, and (b) in respect to member banks' 15 day collateral notes, but such preferential rates should be discontinued as soon as it can be done advantageously and without injustice.



TOPIC NO. 4—Section 14 permits any Federal Reserve Bank under rules and regulations to be prescribed by the Federal Reserve Board to purchase and sell in the open market cable transfers and bankers' acceptances and bills of exchange of the kinds and maturities by this Act made eligible for rediscount with or without the endorsement of a member bank. Section 13 provides that "any Federal reserve bank may discount acceptances of the kinds hereinafter described, which have a maturity at the time of discount of not more than three months' sight, exclusive of days of grace, and which are indorsed by at least one member bank."

Counsel is of opinion that the words "of the kinds and maturities by this Act made eligible for rediscount," in Section 14, apply only to bills of exchange which therefore cannot be bought where they have a maturity of more than three months, but that they do not apply to bankers' acceptances and that consequently the Federal Reserve Board might legally issue regulations permitting the purchase by Federal Reserve Banks of bankers' acceptances of six months' maturity. As a matter of sound banking policy does the Council advise the Board to issue such a regulation?

Recommendation:

The Council voted unanimously to advise the Board that in its opinion it should permit Federal Reserve Banks to purchase bankers' acceptances drawn for the purpose of financing the importation and exportation of goods



having a maturity up to six months. The Council understands that the Board has expressed its preference by ruling to have accepting banks, in cases where the transactions extend over a period in excess of three months, grant acceptance credits in the form of acceptances running as nearly as may be possible over the whole period involved in the liquidation of such transactions not to exceed six months, rather than favoring the granting of acceptance credits extending over ninety days with the privilege of one renewal. This ruling will force the accepting banks to issue their acceptances for periods in excess of three months, and it is most important that these acceptances when offered in foreign markets or in the United States should find a ready market and should not be penalized by being offered as ineligible bills. It is claimed that the open market might absorb these bills, but the rate for them in that case would be so unfavorable, and moreover the confidence in their ready salability would be so much weakened by the mere fact that the Federal Reserve Banks would not be regular purchasers of this class of paper, that it would seriously impair the ability of American Banks to establish themselves in foreign markets as acceptance bankers able to compete with England. In our opinion it is no more than logical and right for the Board to follow up its ruling with the granting of the power to Federal Reserve Banks to purchase eligible acceptances financing the importation and exportation of goods and having a maturity of from three to six months.



TOPIC NO. 5—Under authority given in Section 13 of the Federal Reserve Act the Board has authorized member banks to accept drafts or bills of exchange having not more than three months' sight to run, drawn by banks or bankers in Central American and South American countries for the purpose of furnishing dollar exchange as required by the "usages of trade" in those countries. Within the past few days the Board has authorized member banks to accept drafts in the same manner for banks or bankers in Australia, New Zealand and other Australasian dependencies, having received assurance that there is now a "usage of trade" in these dependencies which requires dollar exchange. Will the "usages of trade" in European countries likely lead to requests for the extension of these privileges to those countries, and if so, what should the policy of the Board be in regarding such applications?

#### Recommendation:

The Council expressed itself unanimously in favor of endorsing the Board's action in authorizing member banks to accept dollar exchange drafts for banks in Australasia in addition to the authority already granted them to accept in like manner for banks in Central and South American countries. With respect to the question asked by the Board whether such power should be extended to banks in European countries the Council is of opinion that this should not be done. The Council does not favor the granting of this power to countries where there exists a system of a large number of highly developed banks of great financial strength which could easily issue drafts for

the purpose of furnishing exchange to an extent which might become embarrassing to the Federal Reserve System, and moreover it would appear impossible in these countries, where stock exchange and financial transactions are highly developed, to provide for safeguards which would prevent the abuse of facilities so offered by financing stock exchange loans and other financial transactions not directly involved in export or import operations; nor does it appear that in the exportations of Europe to the United States there are regular seasonal movements which would warrant the drawing of finance drafts in anticipation of exportations such as exist in the United States with respect to cotton or similar crops. The Council feels that the power to accept for the furnishing of dollar exchange should be restricted to such Colonial countries and dependencies and countries on this hemisphere as, after proper investigation, may seem entitled to the granting of the privilege.



## ADDITIONAL RECOMMENDATIONS

### TOPIC NO. 6.

#### Recommendation:

Resolved that in view of the grave economic conditions abroad and the influence they will exercise upon the future trend of American commerce and trade, it is the sense of this Council that it might be advisable for the Federal Reserve Board to appoint a suitable representative to visit European countries for the purpose of making a thorough first-hand investigation and report of the social, economic and financial situation of those countries.



### TOPIC NO. 7.

The Council wishes to go on record again that in their opinion the office of the Comptroller of the Currency should be abolished and the duties pertaining to this office should be taken over by the Federal Reserve Board and that the number of appointive members of the Board be increased from five to six.

The Council favors the creation of the office of an Under-Secretary of the Treasury in charge of financial matters who would take the place of the Secretary of the Treasury as an ex-officio member of the Federal Reserve Board, the Governor of the Federal Reserve Board, who would act as its chairman, to be chosen by the Board itself from its appointive members.

Resolved that the Executive Committee, or a subcommittee, not exceeding four, of which the President and Vice President shall be members, to be appointed by the President, communicate these views of the Council to the incoming Secretary of the Treasury and to the chairmen of the proper

committees of Congress and that it point out the importance, pending the proposed legislation, of appointing a comptroller of the currency who could qualify as a member of the Board in case amendments on lines as proposed should be enacted.

Resolved further that the Executive Committee or said subcommittee be hereby authorized and instructed to take such further steps to aid in the attainment of the aims above outlined as it may deem proper.



#### TOPIC NO. 8.

With respect to discount rates it was resolved that the Council does not favor at this time the reduction of any discount rates.



#### TOPIC NO. 9.

The Council suggested to the Board the cancellation of the rediscount rate for bankers' acceptances. Rediscount rates for bankers' acceptances now in force appear inoperative and anomalous in their relation to one another and to the open market rates for bankers' acceptances. A rediscount rate for bankers' acceptances, if established at all, should logically be higher than the open market rate for such paper.



#### TOPIC NO. 10.

The Council urges upon Congress the necessity of the immediate enactment of legislation authorizing the Treasury to pay over to the railroads the sums due them, obviating the delay in those payments which at present seriously hampers the entire banking situation.



The following members of the Federal Advisory Council were present at this meeting:

Messrs. Paul M. Warburg, Vice-President, in the Chair; C. E. Sullivan, Edward W. Lane, J. J. Mitchell, F. O. Watts, C. T. Jaffray, E. F. Swinney, R. L. Ball, A. L. Mills and Merritt H. Grim, Secretary.