

MINUTES OF MEETING
of the
FEDERAL ADVISORY COUNCIL

May 16, 17, 1921

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

May 16, 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, May 16, 1921.

All the members of the Council were present as follows:

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

The President, Mr. Rue, called the meeting to order at 10.30 A. M.

On motion, duly seconded, the minutes of the February meeting of the Council and the Executive Committee, copies of which had previously been sent to the members, were approved.

Mr. Rue, after thanking the members for the honor conferred upon him in electing him as President, advised the Council of the appointment of Mr. Harry L. Hilyard, Secretary, at a salary of \$1500 per annum, which appointment was on motion, duly seconded, approved.

The President further advised the Council of the opening of an account with the Philadelphia National Bank to be drawn against jointly by the President and the Secretary, which arrangement was on motion, duly seconded, approved.

The President presented the final financial report of Mr. Merritt H. Grim, former Secretary, showing a balance of \$7.21 turned over to the new Secretary as of March 1, 1921, together with certification of the auditor as to the correctness of Mr. Grim's report, both of which, on motion duly seconded, were approved, and copies thereof made a part of these minutes.

On motion, duly seconded and carried, the Secretary was requested hereafter to send to each member of the Council five copies of the Recommendations adopted at each meeting.

REPORT OF SECRETARY OF FEDERAL ADVISORY COUNCIL

From December 31, 1920, to Date

March 31, 1921.

Balance on hand December 31, 1920, according to last report \$609.93

DISBURSEMENTS

Expenses attending meeting of the Federal Advisory Council in Washington, February 21 and 22, 1921 (including two days to New York)	\$201.63
Expenses to Philadelphia, March 22, 1921.....	113.26
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Total traveling expenses	\$314.89
Printing	\$73.80
Stenography and Stationery	10.80
Postage	3.23
Salary, Secretary, two months, January and February	200.00
H. L. Hilyard, Secretary, Balance to close my account	7.21
	<hr/>
	\$609.93

Respectfully submitted,

MERRITT H. GRIM,

Secretary.

To the Federal Advisory Council:

We have examined the above account and find the balance of \$7.21 turned over to Mr. H. L. Hilyard, Secretary, to be correct.

Respectfully,

JAMES A. DUFFY,

Assistant Cashier.

THE PHILADELPHIA NATIONAL BANK.

The President reported that in accordance with the Resolution contained in Topic No. 7 of the Recommendations of the February meeting, he and Mr. Warburg, Vice President, had called upon the Secretary of the Treasury and the Chairmen of the Finance Committee of the Senate and the Banking and Currency Committee of the House, giving the Council's endorsement to the McFadden Bill, which contemplates abolishing the office of the Comptroller of the Currency, the appointing of an Undersecretary of the Treasury, and the taking over of the functions of the office of the Comptroller of the Currency by the Federal Reserve Board. The President reported that no opposition to the Bill had been encountered in any quarter, and that, in his opinion, it was unnecessary at this time to pursue the matter further. The Council, however, requested the same Committee, consisting of the President and the Vice President, to continue to watch the progress of the Bill and endeavor to secure its passage through both houses of Congress. With the approval of the Council, the President directed the Secretary to forward to each member of the Council a list of the members of the Banking and Currency Committee of the House of Representatives so that the members of the Council may communicate with the members of the Committee in order to assist in securing the passage of the Bill.

At 11.15 A. M. the Council adjourned to convene in joint session with the members of the Federal Reserve Board.

H. L. HILYARD,
Secretary.

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

May 16, 1921.

At 11.15 A. M. a joint conference of the Federal Advisory Council and 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. Charles S. Hamlin, A. C. Miller, John R. Mitchell and D. R. Crissinger, Comptroller of the Currency.

Present: Members of the Federal Advisory Council:

L. L. Rue, President; P. M. Warburg, Vice President; Messrs. Stockton, Sullivan, Brown, Lane, Mitchell, Watts, Jaffray, Swinney, Ball, Mills, and H. L. Hilyard, Secretary.

The President of the Council, Mr. Rue, called the meeting to order and invited Governor Harding to address the conference.

Governor Harding discussed the topics, list of which had been sent to each member of the Council. He laid particular emphasis upon the rate policy of the Federal Reserve System and the agricultural situation. He requested the Council also to consider the following:

(a) What suggestion should be made in connection with the following Bills: S. 579, S. 831, H.R. 242, which contemplate an amendment of Section 9 of the Federal Reserve Act? (See Recommendation No. 14).

(b) What action should be taken in regard to the discrimination by Federal Reserve Banks against the paper of certain industries? (Federal Reserve Bank of Kansas City—Rubber paper.) (See Recommendation No. 9.)

The Council discussed the serious situation of the livestock industries and believed they should be assisted if possible, but was of the opinion that it would not be good policy to make a recommendation concerning any particular industry, and Governor Harding was so advised.

The joint meeting adjourned at 12 o'clock noon.

H. L. HILYARD,
Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

May 16, 1921.

The Council reconvened at 12 o'clock noon, the President in the Chair.

The ten topics submitted by the Federal Reserve Board were brought up for discussion, as were the additional topics suggested by Governor Harding orally at the joint meeting. In addition, the President submitted for consideration a copy of form 8-H-231, entitled "Bankers' Acceptance Questionnaire," which is being sent to accepting banks by Federal Reserve Banks of other districts. (See Additional Recommendation No. 11.)

In regard to Topic No. 3, the Council discussed fully the question of whether the present differential in rates in favor of loans secured by Government collateral should be continued. On the question whether the Federal Reserve Banks were under any moral obligation to name lower rates on Government collateral than on other classes of paper, the vote of the Council was eight in the affirmative and four in the negative, the vote being as follows:

Yes	No
Mr. L. L. Rue	Mr. Philip Stockton
Mr. J. G. Brown	Mr. P. M. Warburg
Mr. E. W. Lane	Mr. C. E. Sullivan
Mr. J. J. Mitchell	Mr. A. L. Mills
Mr. F. O. Watts	
Mr. C. T. Jaffray	
Mr. E. F. Swinney	
Mr. R. L. Ball	

The President suggested that Recommendation No. 3 of the February, 1921, meeting should again be adopted with the addition thereto of the words "to original subscribers." On motion, duly seconded and carried, the suggestion was adopted (See Recommendation No. 3 of these minutes), the vote being nine in the affirmative and three in the negative, as follows:

Yes	No
Mr. L. L. Rue	Mr. P. M. Warburg
Mr. Philip Stockton	Mr. C. E. Sullivan
Mr. J. G. Brown	Mr. A. L. Mills
Mr. E. W. Lane	
Mr. J. J. Mitchell	
Mr. F. O. Watts	
Mr. C. T. Jaffray	
Mr. E. F. Swinney	
Mr. R. L. Ball	

At 1.15 P. M. the Council adjourned to the Metropolitan Club, where various matters were discussed informally with the members of the Federal Reserve Board until 4 P. M.

At 4 P. M. the Council reconvened in the Federal Reserve Board Room, the President in the Chair, and continued its discussion of the topics mentioned above, together with additional topics suggested by the members and contained in Additional Recommendations No. 13 and No. 15.

The topics were referred to the Executive Committee, with instructions for the latter to prepare recommendations embodying the Council's views on the various subjects under discussion.

At 6 P. M. the Council adjourned until 10.30 A. M. Tuesday, May 17, 1921.

H. L. HILYARD,
Secretary.

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

May 16, 1921.

A meeting of the Executive Committee of the Federal Advisory Council was held in the Federal Reserve Board Room after adjournment of the Federal Advisory Council, at 6 P. M., May 16, 1921.

Present: Mr. L. L. Rue, Chairman; Messrs. P. M. Warburg, Philip Stockton, J. J. Mitchell, F. O. Watts, E. F. Swinney, and H. L. Hilyard, Secretary.

The Committee prepared Recommendations in regard to the ten topics originally submitted by the Board, together with the five subsequent topics.

At 7 P. M. the Committee adjourned, reconvening at 9 P. M. in the New Willard Hotel, the entire Committee being present as above with the exception of Mr. Stockton.

At 11 P. M. the Committee adjourned until 10 A. M. Tuesday, May 17, 1921.

H. L. HILYARD,
Secretary.

May 17, 1921.

The Executive Committee reconvened at 10 A. M. in the Federal Reserve Board Room on Tuesday, May 17, 1921, as arranged.

Present: Mr. L. L. Rue, Chairman; Messrs. P. M. Warburg, J. J. Mitchell, and H. L. Hilyard, Secretary.

The Committee concluded its work and requested the Chairman to present its report to the Council at the meeting scheduled for 10.30 A. M.

H. L. HILYARD,
Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

May 17, 1921.

The Federal Advisory Council reconvened as arranged in the Federal Reserve Board Room, May 17, 1921, at 10.30 A. M.

Present: Mr. L. L. Rue, President; Mr. P. M. Warburg, Vice President, Messrs. C. E. Sullivan, J. G. Brown, E. W. Lane, J. J. Mitchell, R. L. Ball, A. L. Mills, and H. L. Hilyard, Secretary.

Mr. Rue, Chairman of the Executive Committee, presented the Committee's Recommendations, which were fully considered and approved for presentation to the Federal Reserve Board. Copy of Recommendations is attached hereto and made part of these minutes.

The Council adjourned at 11.30 A. M. to convene in joint session with the members of the Federal Reserve Board.

H. L. HILYARD,
Secretary.

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

May 17, 1921.

The Federal Reserve Board and the Federal Advisory Council met in joint session in the Federal Reserve Board Room, May 17, 1921, at 11.30 A. M., as arranged.

Present: Members of the Federal Reserve Board:

Governor W. P. G. Harding, Vice Governor Edmund Platt, Messrs. Charles S. Hamlin, A. C. Miller, J. R. Mitchell, and Mr. D. R. Crissinger, Comptroller of the Currency.

Present: Members of the Federal Advisory Council:

Mr. L. L. Rue, President; Mr. P. M. Warburg, Vice President; Messrs. C. E. Sullivan, J. G. Brown, E. W. Lane, J. J. Mitchell, R. L. Ball, A. L. Mills, and H. L. Hilyard, Secretary.

The President submitted the Council's report and the various recommendations were discussed informally by the members of the Board and the Council.

Mr. Warburg presented for discussion the question of recommending to the Board that it take a sympathetic attitude towards Federal legislation now being prepared for the purpose of properly checking the issue of fraudulent securities. He suggested that the plan, as now contemplated, would provide that local committees should be organized in the twelve Federal Reserve Banks, and possibly in Federal reserve branch cities, where, under the presidency of the Chairman of the Federal Reserve Bank, who should be authorized to engage the services of competent men, they would watch the offerings of securities in their districts and report to the Attorney General as soon as they would have reason to suspect that the public might be facing the danger of being defrauded. The Governor expressed the view that the Board would probably be disinclined to take on any additional burdens, but would probably not object to the Chairmen of the Federal Reserve Banks co-operating in the manner suggested. Members of the Council freely expressed the view that effective checking of the issue of fraudulent securities was most important and that regulation under the auspices of the Federal Reserve Banks would render a great service, inasmuch as it would keep out the danger of over-legislation or political influence in case the matter were placed in the care of political departments, be they State or Federal.

At 1 P. M. the joint conference adjourned, concluding the session of the Council.

H. L. HILYARD,
Secretary.

RECOMMENDATIONS OF THE FEDERAL ADVISORY COUNCIL TO THE
FEDERAL RESERVE BOARD

May 17, 1921

TOPIC No. 1—What considerations should be taken into account in formulating the rate policy of the Federal Reserve System?

RECOMMENDATION:

The following should be taken into consideration:

1. The reserves of the Federal Reserve System as a whole.
2. The reserve position of the Federal Reserve Bank whose rate it is contemplated to change.
3. The condition of all the banks of the country as a whole, and of the several Federal Reserve districts.
4. The economic and financial condition of this country.
5. World conditions, both economic and political.
6. The eventual establishment of a credit rate policy for the Federal Reserve Banks by which the re-discount rate to member banks is higher than the prevailing commercial rate, taking due consideration of the prevailing open market rates for various classes of loans both in this country and abroad.
7. Uniformity of rates, while at times practicable and desirable, should not be adopted as a fixed policy, the System being predicated upon the principle that varying conditions might exist in different sections of the country.

TOPIC No. 2—Do conditions warrant any modification of existing policy at present time and should any changes of rates be made in any districts?

RECOMMENDATION:

Since the question was submitted to the Council, changes in rates have already been inaugurated. The Council does not feel it can give intelligent advice for future action until the international situation is clarified. The Council feels that the far-reaching liquidation of loans, the contraction of circulation, and the strengthening of the reserve position of the Federal Reserve Banks are most important steps in the healing process through which the country has been going. The Federal Reserve Board is to be congratulated on the leading part it has played in this connection. The recession of prices has gone far towards the re-establishment of a sound business basis. It still remains a matter of doubt, however, whether this readjustment has completed its course. The real turning point, in the Council's view, can not be expected to be at hand until the European situation is further cleared up. Until the European purchaser returns as an important factor into our markets, easy money rates alone can not bring effectual relief in moving our goods. The Council believes, therefore, that a future discount policy can not yet be suggested.

The Council respectfully suggests that under the law it has the power, which involves an obligation, to keep itself informed concerning the operation of the Federal Reserve system, and to advise with the Board concerning the same. In the exercise of these duties it may convene whenever it deems advisable. In order to be able to act promptly, the Council has organized an Executive Committee, a majority of which can be called together at the shortest possible notice. The Council realizes, of course, where requests for action upon changes of discount rates emanate from individual Federal Reserve Banks, that the Federal Reserve Board must act promptly. But where the direction for a change of policy with respect to discount rates emanates from the Federal Reserve Board, or where there is ample time for consultation, the Council stands always ready to convene, or have its Executive Committee act in its behalf, in order to keep itself advised and to express its views with respect to the questions in hand; and it will be pleased to have the Federal Reserve Board avail itself freely of its services.

TOPIC No. 3—Should the present differential in favor of loans secured by Government collateral be continued? If not, should rates on such loans be uniform in all districts?

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 to original subscribers.

TOPIC No. 4—Should there be progressive rates? Should they be discontinued in the two districts in which they are now in effect, and if continued, should a maximum rate be established beyond which there shall be no progression?

RECOMMENDATION:

It seems no longer desirable to continue the policy of progressive rates, but if any of the Federal Reserve Banks find it desirable to use progressive rates, it would be well to establish a maximum rate.

TOPIC No. 5—Should Federal Reserve Banks pay out gold certificates in order to prevent undue increase in reserves?

RECOMMENDATION:

Conditions do not justify Federal Reserve Banks paying out gold certificates in order to prevent an increase in reserves. The Council is of the opinion that high gold reserves do not constitute any danger, provided the Federal Reserve Board and the various Federal Reserve Banks continue a conservative policy in regard to granting loans and bear in mind that the present plethora of gold may be only of a temporary nature, and that before the war, central banks abroad did not consider a gold

reserve of sixty or seventy per cent as abnormal or excessive. It is apt to be forgotten that the forty per cent limit fixed by the Federal Reserve Act was put into the law as a minimum of reserve to be maintained. Education of the public in these respects is desirable and recommended by the Council.

TOPIC No. 6—Should a policy be established for the entire System in regard to the kinds of money to be paid out by Federal Reserve Banks in response to demands of member banks for currency?

RECOMMENDATION:

A policy as nearly uniform as practicable in regard to the kind of money to be paid out by the Federal Reserve Banks should be established for the entire system.

TOPIC No. 7—Should steps be taken to discontinue entirely paying out Federal Reserve Bank Notes?

RECOMMENDATION:

Federal Reserve Bank Notes have been issued in substitution of the silver certificates which have been previously withdrawn, and as the issue of silver certificates increases, because of the purchase of silver under the provisions of the Pittman Act, there will be an automatic decrease of the issue of Federal Reserve Bank Notes, and this latter issue should eventually be retired.

TOPIC No. 8—Should reserves of Federal Reserve Banks be based, as far as possible, upon holdings of gold coin and gold certificates, eliminating silver certificates and legal tenders by paying them out in lieu of Federal Reserve notes?

RECOMMENDATION:

The reserves of the Federal Reserve Banks should be based on gold, gold certificates, and legal tender notes, eliminating silver certificates as rapidly as this may safely be done, and bearing in mind that ultimately excess earnings of Federal Reserve Banks may possibly be applied for the purpose of placing the legal tender notes on a 100% gold basis.

TOPIC No. 9—Discussion of policy of Federal Reserve Banks as to rediscounting paper, the eligibility of which may be doubtful on account of condition statements of makers and discussion of feasibility of adopting a uniform policy for all Federal Reserve Banks.

RECOMMENDATION:

In normal times the policy of the Federal Reserve Board, the Federal Reserve Banks, and their regulations should tend towards establishing a high standard of paper which the Federal Reserve Banks may accept. Under existing circumstances the

policy of the Federal Reserve Banks should be to avoid the application of technical rules in determining the eligibility of paper. The present tendency should be to accept paper tendered for relief of a real situation, even though the paper in some respects does not conform fully to previous standard requirements. In no case, however, should Federal Reserve Banks be permitted to discriminate against paper of a legitimate industry as a class.

TOPIC No. 10.—Discussion of so-called “direct action,” that is, policy of applying pressure upon borrowing member banks to compel their customers to liquidate.

RECOMMENDATION:

Liquidation has progressed to the point where it is no longer necessary merely for the purpose of improving the reserve position of the Federal Reserve System. “Direct action” should be pursued only in unusual cases and for specific reasons.

ADDITIONAL RECOMMENDATIONS

RECOMMENDATION No. 11.

It has been called to the Council's attention that form 8-H-231, entitled “Bankers' Acceptance Questionnaire,” is being sent to accepting banks by Federal Reserve Banks of other districts. This is one of the illustrations of procedure that is helping to make the acceptance business cumbersome. The Council reiterates the recommendation made at its last meeting to the effect that the Federal Reserve Board should engage the services of one or more experts in the acceptance business, in districts where acceptances originate, whose duty it should be to keep in touch with accepting bankers, and by personally conducting investigations from time to time, acquaint themselves with the methods observed by accepting banks. In this manner these officers could be trained to use discrimination and discretion in dealing with individual cases, instead of obligating the Board to issue rigid and comprehensive regulations, which may interfere with and make unduly cumbersome legitimate business. Moreover, it is impossible for the American bankers' acceptance to establish itself in competition with the British Sterling acceptance in world markets if the foreign drawer is bewildered by a mass of regulations which he has to understand fully if he is to be certain that he is issuing an eligible bill which will find a ready market in the United States. The simpler the regulations the better the opportunity for the American bankers' acceptance to become a credit instrument in world markets. If there are competent men whose discretion may be relied upon in charge of the supervision of American acceptors, there is no need for attempting to control by detailed regulations the practice of American accepting banks and bankers.

RECOMMENDATION No. 12.

It is important, if we are to have a free discount market in the United States, that national banks should be encouraged to endorse bankers' acceptances as freely as they would long bills on London, which they may indorse under Section 5202

without the liability incurred under such indorsement being counted within the 100 per cent limit. The Council recommends that Section 5202 be amended by striking out the words "payable abroad" in clause 7 of this Section, making it to read as follows:

"Seventh, liabilities created by the indorsement of accepted bills of exchange actually owned by the indorsing bank and discounted at home or abroad."

RECOMMENDATION No. 13.

The Council furthermore suggests an amendment to Section 13 of the Federal Reserve Act so as to permit member banks to guarantee letters of credit up to an aggregate amount of 50 per cent of their unimpaired capital and surplus. The Council feels strongly that the guarantee of letters of credit is a power that should be given to member banks as fully as is exercised by them under the acceptance privilege.

RECOMMENDATION No. 14.

The Council would respectfully advise that it has examined the following bills: S. 579, S. 831, H. R. 242, contemplating an amendment of Section 9 of the Federal Reserve Act, and is of the opinion that no injustice is done to State member banks by the existing law, which should therefore not be changed.

RECOMMENDATION No. 15.

At the meeting of the Council in February the Federal Reserve Board requested the Council to submit suggestions for the amendment of Section 11-C of the Federal Reserve Act dealing with the tax applicable in case of reserve deficiencies.

The Council recommends that the Federal Reserve Board prepare and submit to Congress an amendment to Section 11-C of the Federal Reserve Act providing that the Board shall be empowered to levy a graduated tax upon the amounts by which the Reserve requirements of the Act, for both notes and deposits, shall fall below 40 per cent. Such tax to be paid by the Federal Reserve Banks to the Government, but the Federal Reserve banks shall not be required, as under the present law, "to add an amount equal to the said tax to the rates of interest and discount fixed by the Federal Reserve Board." The Council would prefer to see the imposition of the tax contained in clause "C" entirely eliminated, inasmuch as a contraction of the re-discount operations of member banks with the Federal Reserve Banks can best be brought about by a proper increase in rediscount rates. For psychological reasons, however, it may be advisable to provide for the imposition of a tax, even though it will have to be borne by the Federal Reserve Banks, which in turn would recoup themselves by a corresponding increase in rediscount rates. The section as at present drawn is entirely impracticable, inasmuch as it taxes the note issue, but does not provide for a like penalty with respect to deposits. The tax should, however, affect rediscount operations, irrespective of whether they result in a check drawn against deposits or in a withdrawal of Federal Reserve notes. It is the loaning operation upon which the brakes should be applied, and it is from this point of view that the amendment here proposed has been devised, affecting with equal force note issue and deposits.

RECOMMENDATION OF THE FEDERAL ADVISORY COUNCIL TO THE
FEDERAL RESERVE BOARD

June 21, 1921

AMENDMENT TO RECOMMENDATION NO. 14 OF THE MAY 17, 1921 MEETING.

Referring to Recommendation No. 14 made by the Federal Advisory Council to the Federal Reserve Board on May 17, 1921, wherein the Council expressed itself as being opposed to the enactment into law of Bills S. 579, S. 831 and H. R. 242, on further consideration of the provisions of Senate Bill 831, the Council is now in favor of the enactment of this Bill into law.