

MINUTES OF MEETING
of the
EXECUTIVE COMMITTEE OF THE FEDERAL ADVISORY COUNCIL
January 6, 1922

and
MINUTES OF MEETING
of the
FEDERAL ADVISORY COUNCIL
January 13, 1922

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, unless otherwise directed by the Executive Committee.

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 or special meeting by a vote of a majority of the members of the Federal Advisory Council.

January 13, 1922

OFFICERS AND MEMBERS OF THE FEDERAL ADVISORY COUNCIL

For the Year 1922

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. L. 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
G. H. Prince	Federal Reserve District No. 9
E. F. Swinney	Federal Reserve District No. 10
R. L. Ball	Federal Reserve District No. 11
D. W. Twohy	Federal Reserve District No. 12

MINUTES OF MEETING OF EXECUTIVE COMMITTEE OF THE FEDERAL
ADVISORY COUNCIL

January 6, 1922.

A Special Meeting of the Executive Committee of the Federal Advisory Council was held in Washington, D. C., Friday, January 6, 1922.

Present :

Mr. L. L. Rue, Chairman	District No. 3
Mr. P. M. Warburg	District No. 2
Mr. J. J. Mitchell	District No. 7

(Absent, Mr. Philip Stockton, District No. 1; Mr. F. O. Watts, District No. 8; Mr. E. F. Swinney, District No. 10.)

At 4.30 P. M., Mr. Rue, Mr. Warburg and Mr. Mitchell called upon the President of the United States and discussed with him the provisions of Senate Bill 2263 and an amendment to said bill which makes it obligatory upon the President to fill the next vacancy on the Federal Reserve Board by the appointment of a farmer. The Committee pointed out to the President the dangers attending the enactment into law of this legislation, as well as certain other Bills offered in the Senate amending the Federal Reserve Act.

Mr. Rue read to the President a memorial which had been prepared by the Executive Committee of the Federal Advisory Council and the President authorized its publication in the press, it being understood that the memorial would first be submitted to the Council for its approval at a special meeting to be held January 13, 1922.

H. L. HILYARD,

Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

January 13, 1922.

The organization meeting of the Federal Advisory Council for the year 1922 was held in the Federal Reserve Board room, Metropolitan Bank Building, Washington, D. C., at 10 A. M., Friday, January 13, 1922.

Present :

Mr. P. M. Warburg	District No. 2
Mr. L. L. Rue	District No. 3
Mr. C. E. Sullivan	District No. 4
Mr. J. G. Brown	District No. 5
Mr. E. W. Lane	District No. 6
Mr. F. O. Watts	District No. 8
Mr. G. H. Prince	District No. 9
Mr. E. F. Swinney	District No. 10
Mr. H. L. Hilyard	Secretary.

Absent :

Mr. Philip Stockton	District No. 1
Mr. J. J. Mitchell	District No. 7
Mr. R. L. Ball	District No. 11
Mr. D. W. Twohy	District No. 12

Upon motion, Mr. Swinney was called to the Chair.

The Secretary reported that he had received certificates of the election of all members of the Council for the year 1922 with the exception of Districts No. 5 and No. 6, which had not yet held their elections, but had authorized their present representatives to attend this meeting.

Mr. Swinney, the temporary Chairman, called for nominations for the office of President of the Council for 1922, and Mr. L. L. Rue was nominated. On motion, duly seconded, the nominations were closed, and the Secretary was instructed to cast one ballot for Mr. Rue, who was thereupon declared elected President of the Council for the year 1922.

The President, Mr. Rue, took the Chair and called for nominations for Vice-President. Mr. Paul M. Warburg was nominated, and on motion, duly seconded, the nominations were closed. The Secretary was instructed to cast one ballot for Mr. Warburg, who was thereupon declared elected Vice-President of the Council for the year 1922.

The President called for nominations for the four appointive members of the Executive Committee, and Messrs. Phillip Stockton, J. J. Mitchell, F. O. Watts and E. F. Swinney were nominated. On motion, duly seconded, the Secretary was instructed to cast one ballot for Messrs. Stockton, Mitchell, Watts and Swinney, who, together with the President and Vice-President, ex officio, were thereupon declared elected members of the Executive Committee for the year 1922.

The President called for the financial report of the Secretary for the year 1921, which had been audited by the Auditor of The Philadelphia National Bank, and which was on motion, duly seconded, approved. The report is attached hereto and made a part of these minutes.

The President called for nominations for Secretary, and on motion, duly seconded, Mr. H. L. Hilyard was nominated. The Secretary was instructed to cast one ballot for Mr. H. L. Hilyard, who was thereupon declared elected Secretary of the Council for the year 1922. On motion, duly seconded, the Secretary's salary was fixed at \$1,500. for the year 1922.

On motion, duly seconded, the following resolution was unanimously adopted:

“Resolved, that the President be and he is hereby authorized to ask each Federal Reserve Bank to contribute \$250. toward the secretarial and incidental expenses of the Federal Advisory Council for the year 1922 and to draw on them for that purpose.”

On motion, duly seconded, the Council adopted By-laws for the year 1922, copy of which is attached hereto and forms a part of these minutes.

By unanimous vote, the Council decided that this meeting should take the place of the regular statutory meeting scheduled for February.

On motion, duly seconded, the minutes of the November 21, 1921, meeting of the Council, copies of which had previously been sent to the members, were approved.

Mr. Rue, the President, reported that a meeting of the Executive Committee of the Council was held in Washington on January 6, 1922, at which time the members called upon the President of the United States and discussed with him the provisions of Senate Bill 2263 and proposed amendments thereto. The action taken by the Executive Committee as shown by the minutes was approved by the Council.

The President, Mr. Rue, presented for the Council's approval a memorial addressed to the President of the United States relative to Senate Bill 2263 and proposed amendments thereto, which memorial was unanimously approved by the Council for formal presentation to the President of the United States at 3 P. M. Copy of the memorial is attached hereto and made a part of these minutes. The memorial was signed by the individual members of the Council present, and the names of three of the absent members, Messrs. Stockton, Mitchell and Twohy, were also appended in accordance with authority received from them.

At 11.30 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

January 13, 1922.

At 11.30 A. M. a joint conference of the Federal Reserve Board and the Federal Advisory Council was held as arranged.

Present: Members of the Federal Reserve Board:

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

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, F. O. Watts, G. H. Prince, E. F. Swinney, 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 stated that considerable confusion had arisen in the minds of the public relative to the percentage of reserve carried by the Federal Reserve Banks against Federal Reserve notes, in view of which he thought it desirable in the future to omit the publication in Federal Reserve Bank statements, both individual and combined, of the item "ratio of gold reserves to Federal Reserve notes in circulation after setting aside 35% against deposit liabilities." The Federal Advisory Council by unanimous vote recommended that this be done.

Governor Harding discussed a Bill pending in Congress which seeks to provide for a uniform rate of discount in all Federal Reserve Banks. The Advisory Council unanimously expressed its opposition to this Bill.

At 1.15 P. M., the joint conference adjourned.

H. L. HILYARD,

Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

January 13, 1922.

At 3 P. M., the Federal Advisory Council called upon the President of the United States.

Present: Mr. L. L. Rue, President, Mr. P. M. Warburg, Vice President, Messrs. C. E. Sullivan, J. G. Brown, E. W. Lane, F. O. Watts, G. H. Prince and E. F. Swinney.

Mr. Rue, as President of the Council, formally presented to the President of the United States the memorial relative to Senate Bill 2263 and proposed amendments thereto. Copy of the memorial, as previously stated, is attached hereto and forms a part of these minutes.

Copies of the memorial were handed to the members of the press for publication throughout the country in accordance with permission given by the President of the United States to the Executive Committee at the time of its conference with him on January 6th.

The Council instructed the Secretary to send a copy of the memorial to each member of the Senate and House of Representatives.

At 4.30 P. M., the Council adjourned, concluding its session.

H. L. HILYARD,

Secretary.

REPORT OF SECRETARY OF THE FEDERAL ADVISORY COUNCIL

For the year ending December 31, 1921

Balance on hand December 31, 1920	\$ 609.93	New Binders.....	\$86.50
Annual assessment for 1921 on Twelve Federal Reserve Banks	2,400.00	Federal Res. Act Service	35.00
		Miscellaneous items....	13.78
			—————\$ 135.28
		Telegrams	159.31
		Postage	18.72
		Salary	1,450.00
		Printing, stationery, etc.....	280.10
		Traveling Expenses.....	531.78
		Balance on hand 12/31/21....	434.74
	<hr/>		<hr/>
	\$3,009.93		\$3,009.93

Philadelphia, January 6, 1922.

To the Federal Advisory Council:

We have audited the books, vouchers and accounts of the Secretary of the Federal Advisory Council for the year ending December 31, 1921, and certify that the above statement agrees therewith.

Respectfully,

(Signed) J. A. DUFFY,

Assistant Cashier The Philadelphia National Bank.

January 12, 1922.

*Honorable Warren G. Harding,
President of the United States.*

SIR:

It is with great reluctance that the Federal Advisory Council asks for the privilege of an audience at a time when so many pressing problems of national and international importance are occupying your mind.

A grave situation has developed, however, which endangers the safety of the Federal Reserve System and, in our opinion, seriously menaces the future of the entire country. The Council views these circumstances with profound disquiet and feels that it would be neglectful of its duty if it did not seek an opportunity of bringing them to your attention.

There is before the Senate at this time a bill (S. 2263) to amend the Federal Reserve Act. The bill as reported by the Committee on Banking and Currency was not merely an unobjectionable but a desirable amendment, providing that in selecting the members of the Federal Reserve Board the President should "have due regard to a fair representation of the different commercial, industrial, *agricultural*, and geographical divisions" of the country (the word "*agricultural*" being added to the present provisions of the law to conform to the basic requirement of the Act that paper eligible for rediscount must have arisen out of agricultural, industrial or commercial transactions). An amendment or substitute bill, however, was proposed on the floor of the Senate which provides in part that "the first vacancy existing * * * from the death, resignation, removal, or expiration of the term of office of such a member shall be filled by the appointment * * * of a person whose business and occupation is farming."

This proposal the Council believes to be objectionable class legislation, and in the interest of the country as a whole, when it comes up for consideration on January 17, as at present arranged by the Senate's unanimous consent, it should either be withdrawn or defeated.

If the law should be amended so as to oblige you to put a farmer on the Board, one might ask in that case why should not labor insist that it as a class should also be represented, and why should not similar claims be made by merchants, manufacturers, exporters or any other special interest or group. Indeed two other bills of this nature have already been introduced. That it might or might not be desirable to put a farmer on the Board is not the question—the wrong is in requiring, as a matter of law, that one special interest shall always be represented on the Board.

Furthermore, such a bill, if enacted, would seem to endorse the unwarranted assertion that the present plight of the farmer is due to the alleged maladministration of the Federal Reserve System. This dangerous slander has been spread so persistently and unscrupulously that a large percentage of our agricultural population have accepted it as true and the Council fears that even by a substantial number of members of Congress the real facts of the case are not sufficiently well understood. The Council begs of you, therefore, to use your great influence with leading Senators to oppose this proposed bill and the principles which it embodies. The future success of the operation of the Federal Reserve System and the welfare of the country demands that the Federal Reserve Board shall be a judicial and non-partisan body acting in the interest of the country as a whole, not a body influenced by political pressure and expediency in furtherance of the claims of special interests.

What is causing this agitation against the Federal Reserve Board amongst the agriculturists?

There is no doubt that the farmer has been, and is still, passing through a period of great hardship, nor is there much doubt that he believes the Federal Reserve System responsible for his present plight.

But what are the facts?

The Joint Commission of Agricultural Inquiry, in Part I of its report, summarizes the causes of the present depression as follows:

"The crisis was not confined to this country. The avalanche of declining prices and its attending hardships, sacrifices, and losses involved the whole world. It began in distant Japan with the break in the silk market and the Chinese boycott of Japanese goods. It traveled the circle in the Far East, Australia, India, Java, England, France, Italy, the whole of Europe, South America, Canada, and the United States. It embraced all countries and all industries, though not to the same extent or in the same way.

"As the failing purchasing power of the world began to make itself felt in the lessening of export demand for farm products, the prices of agricultural products began to decline. As prices of agricultural products declined, the purchasing power of the agricultural population representing nearly 40 per cent. of the total purchasing power of the country, began to diminish. As the purchasing power of the American farmer diminished, the production of industries that produced the commodities of commerce began to decline, and unemployment, resulting in diminishing consumption, gave further impulse to the avalanche of prices."

The Council is in fullest accord with this striking analysis of the situation by the Joint Commission of Agricultural Inquiry, and without quoting further from this very excellent report wishes to emphasize the fact that the suffering of the farmer has been peculiarly acute because, while factories and mines can be shut down and the output reduced, voluntary curtailment of production already begun is well nigh impossible for the millions of individual farmers scattered all over the world. Unless nature intervenes or the funds give out, a new crop will be made irrespective of whether or not the previous one has been marketed.

It is significant that when prices rose, apparently without end, it was the consumer who suffered and threatened to investigate the Federal Reserve System. In fact, the Senate, on May 17, 1920, passed a resolution asking the Federal Reserve Board what steps it was taking or proposing to meet the then existing "inflation and consequent high prices." When prices finally fell towards their pre-war levels, it was the producer who groaned and blamed the System. Similar freaks of mass psychology could be observed in other countries where people attributed the inevitable results of an economic law to alleged mishandling of banking credits. But it was not discount rates that were determining the ultimate courses and level of commodity prices in this or any country. World phenomena, far more powerful than central banks in general or the Federal Reserve Board in particular, were at play.

To tamper with the natural laws of demand and supply has proven a costly and sometimes fatal experiment for many a Government which attempted to "valorize" its staples. If Congress wished the country to indulge in such a scheme it should have

taken the responsibility of enacting legislation to that effect. By no stretch of imagination, however, could the Federal Reserve Banks be assumed to have been created to exercise functions of this character.

The world is not suffering today because of high money rates, but because of the crippling of its power of consumption. It is because hundreds of millions of people, individually and collectively, have lost their pre-war purchasing power that the commodities can not find their markets. Better markets for our products will be found, and the lowered standards of living abroad will cease to menace American standards when, the world over, wasteful Government expenditures for armaments are cut down, budgets balanced and practical methods found to establish actual economic peace and order in Europe. In that direction you, Mr. President, have inaugurated a most auspicious movement, for which the world will ever owe you a deep debt of gratitude. It is by aiding your noble efforts towards that end that Congress will bring genuine relief to America's agriculture, rather than by putting a farmer on the Federal Reserve Board. In fact the Council finds it difficult to summarize the whole situation in any more striking manner than to quote from your own admirable statement which has been acclaimed throughout the country in which you said:

"The slump which is now upon us is an inevitable part of the war's aftermath. It has followed in the wake of war since the world began. There was the unavoidable readjustment, the inevitable charge-off, the unflinching attendance of losses in the wake of high prices, the inexorable deflation which inflation had preceded. It has been wholly proper to seek to apply Government relief to minimize the hardships and the Government has aided wherever possible, and is aiding now, but all the special acts ever dreamed of, all the particular favors ever conceived will not avoid all the distresses nor ward off all the losses."

But, while the great majority of the ills from which agriculture suffers today are in the main world-wide, both in cause and scope, nevertheless it cannot be denied that some of the incidents to this suffering might have been avoided, or at least mitigated.

It would lead too far to elaborate upon the extent to which organic defects in the System, such as the conformation of the districts, played a part, or how far the war finance policy adopted by the Treasury and Congress were directly responsible for this suffering. It is said with some justification that the Board condoned inflation too long and that it should have raised discount rates sooner, but in fairness one must admit that in the circumstances that prevailed it would have been very difficult for it to assert its views and establish higher rates as long as Congress and the Treasury insisted on financing the Government's requirements on an artificially low basis. Finally, as a consequence, inflation of credit became so excessive as to require the brakes to be firmly applied—an ungrateful undertaking but carried through, on the whole, with ability and discretion, in spite of errors here and there in the administration of the rate policy in certain districts.

One need only visualize what would have happened without the assistance of the Federal Reserve Banks in order properly to judge the value of the work done. Hundreds of banks and thousands of borrowers have been conserved and are being carried today that otherwise would have gone to the wall. The lack of understanding as to how the Federal Reserve System operates is so general that many bankers in all parts of the country, desiring to reduce or put some limit on the loans which their customers were demanding, shielded themselves by stating that their Federal Reserve Bank had directed such action.

It is most unfortunate that apparently the public does not understand even today, after the Federal Reserve System has been in existence for more than seven years, that the Federal Reserve Board, as such, does not make any loans, and has no money to lend; that all extensions of Federal Reserve credit are carried out exclusively by the Federal Reserve Banks, and that they, in turn, are restricted to transactions with their own member banks and have no power whatsoever to direct member banks as to what individual customers they should make loans.

It has also been generally stated that the Federal Reserve Banks curtailed credit to the farmer in the autumn of 1920, whereas exactly the reverse is true. The loans of the Federal Reserve System reached their highest point in November, 1920, at which time the reserve banks in industrial sections were lending to reserve banks in agricultural sections \$267,000,000. The testimony before the Joint Commission of Agricultural Inquiry showed that between May 4, 1920, and April 28, 1921, the loans of the Federal Reserve System to member banks in *non-agricultural* counties decreased 28.5 per cent., and those to member banks in semi-agricultural counties decreased 0.2 per cent., while loans to member banks in *agricultural* counties actually increased 56.6 per cent. During the same period the loans by the 9,500 member banks to their own customers decreased \$882,000,000. Ninety-four (94) per cent. of this decrease took place in the loans made by banks situated in non-agricultural counties and only 6 per cent. in banks situated in agricultural and semi-agricultural counties.

Nevertheless the events of the past two years convince the Council that the machinery of agricultural credit is not complete. In two respects especially it needs strengthening:

In the first place there are about twenty thousand state banks and trust companies, nearly two-thirds of the total number of the banks of the country, which through their unwillingness, or through inability because of their insufficient capital, are not members of the Federal Reserve System. Unfortunately the agricultural sections are largely served by the small member banks whose operating power is quickly exhausted and by non-member state banks. The resources of the System, through no fault of its own, are, therefore not as directly or readily available to agriculture as they might be, since these many nonmember banks in the agricultural sections are able to tap those resources only through the other member banks. There are scores of agricultural counties in which there is not a single member bank. It may, therefore, be desirable to devise ways and means by which the vast resources of the Federal Reserve Banks may become available for assistance to the large number of small state banks now nonmembers of the System.

In the second place there is no medium through which the farmer or live stock man may secure adequate loans for periods of from six months to three years.

The Advisory Council has learned with great satisfaction of the plan under consideration by the Joint Commission of Agricultural Inquiry, the outline of which was recently sketched by its Chairman, Mr. Anderson. This plan contemplates strengthening the Federal Land Banks and extending their powers so as to permit them to discount agricultural or live stock paper with maturities running from six months to three years, and to permit them to rediscount this paper with Federal Reserve Banks when its maturity falls below six months and when it conforms to the requirements of the Federal Reserve Act, or to pledge the loans having the longer maturities as collateral for debentures which it is contemplated they should have power to issue to the investment public. A plan of this character would place at the disposal of the agricultural sections vast sums in a sound and businesslike manner, would open the Federal Reserve

Banks to their credits at the appropriate period, and would fill a serious gap in our present credit machinery.

To perfect in these two respects the credit machinery available to the farmer would be a great constructive accomplishment. But merely to compel the President to appoint a farmer to the Federal Reserve Board would, in the end, only prove an illusion and a disappointment to the farmers themselves. It should be observed that none of the Acts creating The Interstate Commerce Commission, the Federal Trade Commission, or even the Federal Farm Loan Board, in any way restricts the President's power of appointment by requiring him to appoint to these boards a representative of agriculture or any other special interest.

The appointment of a farmer to the Federal Reserve Board by special Act of Congress would not, as we have shown, improve or add to present agricultural credit facilities. It would, however, be fateful notice to the entire country that the Federal Reserve System had come under the domination of a powerful political group designed to secure special privileges for a single class, of which the approximately thirty bills already introduced into Congress serve as a sufficient and significant illustration.

The menace of the inclusion of politics in a banking system of the vast powers of the Federal Reserve System, which reaches into the remotest corners of the country, is so obvious that the Council does not believe it necessary further to elaborate this point; the more so as it feels certain that these views are fully shared by you, Mr. President. Indeed, they are in entire accord with the 1920 platform of the Republican party which provided that "The Federal Reserve System should be free from political influence, which is quite as important as its independence of domination by financial combinations."

The Council does not deem it its function, or this the appropriate opportunity to refute the utterly false charges that have been made regarding the administration and operation of the System. The Council feels it its duty, however, to point to the great danger to which the country is being exposed when the people, puzzled and harassed by the inevitable vexations of the war's aftermath, are incited by the wilful misstatements of unscrupulous or ambitious demagogues.

A consistent campaign has been carried on in order to make the farmers believe that they are suffering because the Federal Reserve System sucked up the people's gold, and having coralled it, is withholding it in order to make it available to Wall Street and to exact high interest rates. It is significant that the agitators should have been able to maintain this myth in the face of the fact that New York banks have reduced their borrowings from the Federal Reserve System by 70 per cent.,—(from a maximum of \$1,203,364,000 to \$361,575,000) more than banks of any other part of the country. In any event, our past experiences have shown that easy money rates do not necessarily bring relief to agricultural distress, any more than high rates are responsible for it. It may be interesting to recall that pressure for easy money in times adverse to the farmer is not a novel occurrence. Similar pressure was also brought upon the Federal Reserve Board shortly after the Federal Reserve System began to operate, when, in spite of the fact that the country was swamped with easy money due to the release of reserve money which had just taken place, there was a most determined political pressure in order to force the Reserve Banks to reduce rates and to flood the country with loans on top of the already existing plethora of money. If the Federal Reserve Board had not withstood this pressure, it is safe to say that the Federal Reserve System would have squandered its strength before the subsequent demands occasioned by the war began, and it is not difficult to conceive the consequences that might have followed for the country and, indeed, for the successful prosecution of the war.

As to the accumulation of gold, against which some are carrying on so determined a propaganda, it gives us an unused loaning power of many billions of dollars available for our country and the world when the world gets ready to use it. When that time comes nobody will profit more from this vast reserve power than the farmer.

What, however, would have become of him and the rest of us if during the war period that gold had not been accumulated and enabled the Federal Reserve Banks to supply \$1,700,000,000 of additional currency, and the banks of the country \$13,000,000,000 of additional loans, is a serious question at least for those who believe that it is not sound finance to meet the expenditures of our Government by the Bolshevik's method of printing an unlimited supply of paper currency without any consideration of the gold cover.

It is these grave questions that have impelled the Council not to disregard the move involved in the Senate's bill, insignificant as it may appear, and not to disregard the attacks against the Federal Reserve System, no matter how ill-founded they may be.

The Council, therefore, finally wishes to stress with all the emphasis of which it is capable two principles:

1. The Federal Reserve System must be kept inviolate as a reserve system; its assets must remain safe and liquid. It must, therefore, always restrict its investments to those having a reasonably short maturity and it must not be permitted to deal with customers direct and thereby incur the risk of immobilizing its funds in credits that conceivably may become "frozen." Whatever relief Federal Reserve Banks may furnish must, therefore, be granted through the intermediary and under the responsibility of banking channels. If the existing country banking machinery is inadequate in certain sections, it ought to be strengthened and supplemented, but there should always be a "buffer" between the borrower and the Federal Reserve Bank. It is as such that Federal Land Banks, as above recommended, may be developed to render a distinct national service.

2. The independence of the Federal Reserve Board must be strengthened and protected, and every effort made to secure for service on it men of the highest integrity, intelligence and strength. The Board, like a court of supreme standing, must be able to act from an entirely judicial point of view, uninfluenced by the wishes of parties or classes, but seeking to fashion its policies with the sole aim of serving the best advantage of the country as a whole. If political pressure or the interests of a single class,—be it the farmer, laborer, big industry or capital,—are ever permitted to dominate the Federal Reserve System, it will become the gravest menace to the future of the United States. If the Federal Reserve System is surrendered to political domination, history will repeat itself and, from the great blessing that this system is today, it will turn into a curse.

Respectfully submitted,

FEDERAL ADVISORY COUNCIL.