

MINUTES OF MEETING  
of the  
FEDERAL ADVISORY COUNCIL

April 27, 28, 1922

# MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

April 27, 1922.

A meeting of the Federal Advisory Council was held in the Federal Reserve Board room, Treasury Building, Washington, D. C., Thursday, April 27, 1922.

The President, Mr. Rue, called the meeting to order at 10 A. M.

## Present :

|                                   |                 |
|-----------------------------------|-----------------|
| Mr. L. L. Rue, President          | District No. 3  |
| Mr. P. M. Warburg, Vice President | District No. 2  |
| Mr. Philip Stockton               | District No. 1  |
| Mr. C. E. Sullivan                | District No. 4  |
| Mr. J. G. Brown                   | District No. 5  |
| Mr. E. D. Hulbert                 | District No. 7  |
| Mr. F. O. Watts                   | District No. 8  |
| Mr. G. H. Prince                  | District No. 9  |
| Mr. E. F. Swinney                 | District No. 10 |
| Mr. F. L. Lipman                  | District No. 12 |
| Mr. H. L. Hilyard                 | Secretary       |

## Absent :

|                |                 |
|----------------|-----------------|
| Mr. E. W. Lane | District No. 6  |
| Mr. R. L. Ball | District No. 11 |

The President presented communications from the Federal Reserve Bank of Chicago and the Federal Reserve Bank of San Francisco certifying to the appointment of Messrs. Hulbert and Lipman as temporary representatives of their respective Districts in the absence of Messrs. J. J. Mitchell and D. W. Twohy. The Council invited Messrs. Hulbert and Lipman to take part in the proceedings without the privilege of voting.

On motion, duly seconded, the Minutes of the January 6th and January 13th meetings of the Council and of the Executive Committee, copies of which had previously been sent to the members, were approved.

The President, Mr. Rue, reported that Senate Bill 2263, providing for the appointment of a "Dirt Farmer" to the Federal Reserve Board and otherwise amending the Federal Reserve Act, had been reported to the House by the Banking and Currency Committee with amendments, and is now on the House calendar.

On motion, duly seconded, the Council voted unanimously to have this meeting take the place of the regular meeting scheduled for the third Monday in May, as provided by the By-Laws.

The Council thereupon took up the consideration of the topics submitted by the Federal Reserve Board.

At 10.30 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

April 27, 1922.

At 10.30 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, Messrs. C. S. Hamlin, A. C. Miller, and J. R. Mitchell.

Present: Members of the Federal Advisory Council:

Mr. L. L. Rue, President, Mr. P. M. Warburg, Vice President, Messrs. Philip Stockton, C. E. Sullivan, J. G. Brown, E. D. Hulbert, F. O. Watts, G. H. Prince, E. F. Swinney, F. L. Lipman, 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 political situation and the criticisms of the Board and the Federal Reserve System which have been made throughout the country.

He also discussed business conditions and exhibited a number of charts showing the trend of conditions as reflected by the figures of the Federal Reserve Banks. A statement prepared by the Board indicates that in most of the Federal Reserve Districts certain banks are still borrowing to excess, and the Board asked for suggestions how best to meet this situation. In view of the difficulty of inaugurating a policy of maintaining rediscount rates above open market rates, the Board desired the Council's advice on the subject of how best to handle excessive borrowings and the policy of applying progressive or differential rates, having in mind a maximum differential at all times of not more than 1%. (Recommendation No. 11.)

The Board submitted for the Council's consideration the question of gold payments by the Federal Reserve Banks in their operations as Fiscal Agents for the Treasury, in connection with which the Treasury Department has suggested that the Federal Reserve Banks should adopt with respect to their own transactions also, the policy of paying out gold or gold certificates without reservation. (Recommendation No. 1.)

Governor Harding discussed the question of investments of the Federal Reserve Banks and particularly the letter from the Secretary of the Treasury, dated April 25th, disapproving the investment by the Federal Reserve Banks in Government obligations, which they now carry to the extent of approximately \$450,000,000. (Recommendation No. 9.)

It was reported by the Board that in certain States some of the banks have inaugurated the policy of designating their deposits as time or savings deposits and reserving the right to require notice of withdrawals, but that in practice, as a rule, such notice was not required and the deposits were actually demand deposits, the subterfuge being used to enable the banks to carry only a 3% reserve against time deposits, instead of 7% or 10% against demand deposits. The Federal Reserve Board has been asked to amend their Regulation D, Series 1920, so as to sanction this practice, and requested the Council's opinion in the matter. (Recommendation No. 5.)

The Board presented the question which had previously been submitted to the Council whether a policy should be inaugurated which would tend to force the retirement of National Bank note circulation. (Recommendation No. 2.)

The Board also reported that the Federal Reserve Bank of Richmond had declined to accept National Bank notes for deposit and asked the Council's opinion whether the Federal Reserve Board should exercise its authority to require the Richmond bank to abolish this practice. (Recommendation No. 3.)

The Board asked for the Council's opinion whether the Federal Reserve Board should approve the policy of the Federal Reserve Banks continuing to pay dividends although not currently earned. The question has been submitted to the Attorney General of the United States, who will render an opinion as to the legality of the practice. (Recommendation No. 6.)

The Board submitted for the Council's consideration a copy of Senate Bill 3255, providing for the extension of the charters of national banks. (Recommendation No. 7.)

At 12.30 P. M., the joint conference adjourned.

H. L. HILYARD,  
*Secretary.*

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

April 27, 1922.

The Federal Advisory Council reconvened at 3 P. M., in the Federal Reserve Board room, the President, Mr. Rue, in the Chair.

Present: Mr. L. L. Rue, President, Mr. P. M. Warburg, Vice President, Messrs. Philip Stockton, C. E. Sullivan, J. G. Brown, E. D. Hulbert, F. O. Watts, G. H. Prince, E. F. Swinney, F. L. Lipman, and H. L. Hilyard, Secretary.

The Council discussed the topics which had been previously submitted by the Federal Reserve Board, together with those presented by Governor Harding in his address in the morning, and in addition discussed other recommendations, all of which were referred to the Executive Committee for preparation.

Mr. Warburg submitted for Council's consideration a suggestion that the Federal Reserve Banks establish a special rediscount rate for trade acceptances, say one-half of one per cent below that for ninety day commercial paper, in order to stimulate the use of trade acceptances. The subject was thoroughly discussed, as well as the general proposition whether the use of trade acceptances should be stimulated. The Council was divided in its opinion, whereupon Mr. Warburg withdrew the suggestion and submitted another to the effect that the Federal Reserve Board permit Federal Reserve Banks to purchase in the open market trade acceptances bearing the endorsement of a third name in the same manner as is required by the Board in the purchase of bankers' acceptances under Section 14 of the Federal Reserve Act, which recommendation was unanimously approved by the Council. (Recommendation No. 4.)

Mr. Warburg presented, and the Council unanimously approved, the suggestion that the Federal Reserve Board should pursue a campaign of education of the public regarding the functions and operations of the Federal Reserve System. (Recommendation No. 8.)

The Council, by unanimous vote, appointed Mr. Warburg a Committee of one to prepare a letter to be addressed to Hon. A. W. Mellon, Secretary of the Treasury and Chairman of the Federal Reserve Board, urging the reappointment of Governor Harding, whose term of office will expire August 10th next.

The Council unanimously adopted a Resolution to the effect that the members should endeavor to have the member banks of their respective Districts write to the President of the United States and to their Senators and Representatives in Congress urging the reappointment of Governor Harding.

At 6 P. M., the meeting adjourned.

H. L. HILYARD,  
*Secretary.*

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

April 27, 1922.

At 8 P. M., the Executive Committee of the Federal Advisory Council met in the New Willard Hotel as arranged.

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

The Committee prepared for presentation to the Council recommendations on the topics discussed by the Council in the afternoon.

At 11.30 P. M., the meeting adjourned.

H. L. HILYARD,  
*Secretary.*

## MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

April 28, 1922.

At 10.30 A. M., the Federal Advisory Council reconvened in the Federal Reserve Board room as arranged.

Present: Mr. L. L. Rue, President, Mr. P. M. Warburg, Vice President, Messrs. Philip Stockton, C. E. Sullivan, J. G. Brown, E. D. Hulbert, F. O. Watts, G. H. Prince, E. F. Swinney, and H. L. Hilyard, Secretary.

Mr. Rue, Chairman of the the Executive Committee, presented to the Council the report embodying the Recommendations which had been prepared by the Committee, which were discussed by the Council and unanimously approved for presentation to the Federal Reserve Board. Copy of the report is attached hereto and made part of these minutes.

Mr. Warburg presented the letter which he had prepared addressed to Hon. A. W. Mellon, Secretary of the Treasury and Chairman of the Federal Reserve Board, urging the reappointment of Governor Harding. On motion, duly seconded, the letter was unanimously approved and Mr. Rue was instructed to sign it as President of the Council and to present it personally to Mr. Mellon. The letter is as follows:

FEDERAL ADVISORY COUNCIL

WASHINGTON, D. C.,

April 28, 1922.

*Hon. A. W. Mellon,  
Secretary of the Treasury and  
Chairman of the Federal Reserve Board,  
Washington, D. C.*

DEAR MR. SECRETARY:

At yesterday's meeting the Federal Advisory Council instructed me to express to you, as Chairman of the Federal Reserve Board, the grave apprehension which the Council feels concerning the future of the Board. When the Federal Reserve System was organized, the general hope and expectation of the country was that in the Federal Reserve Board there would be created some sort of a supreme court of finance on which men of importance would be willing to serve and on which these men would, generally, serve permanently in the same manner as the members of the Supreme Court. It has been detrimental to the development of the System, and to the standing of the Board, that there has been a fairly continuous change in the personnel of the Board. In the eight years of the Board's existence four new members have been appointed, and there is genuine apprehension amongst the majority of the leading banks of all parts of the country that, in view of the attacks which unjustly have been made upon Governor Harding, he too may leave his office when his term expires next August.

Governor Harding has served the Federal Reserve System for eight years and has served as Governor for six years. He has seen the System grow from its very beginnings and is familiar with all parts of its intricate machinery. He has served the System loyally and courageously; and with infinite patience, devotion and skill, he has done his share in guiding it through a most difficult period and the hard years of first growth. It would be very difficult, if not an impossible undertaking, to find anyone with equal qualification who would be able or willing to step into his shoes. It would be courting a serious risk to take the tiller from his hands at this time and entrust with it a man who, no matter how gifted, could not possibly be equally familiar with the problems involved in the administration of the System, or enjoy the confidence of the banking and business community to an equal degree.

The members of the Advisory Council have expressed themselves as confident of voicing the sentiments of the leading business men and bankers of the country when stating and instructing me to express to you, that it would be a grave disappointment and, indeed, a genuine loss to the country if Governor Harding were not appointed to continue as a member and governor of the Federal Reserve Board. As individual members of the Council, representing all sections of the country, they venture to ask you, as Chairman of the Federal Reserve Board, to use your great influence with the President towards securing the reappointment of Governor Harding. We feel certain that in doing so you would be rendering a service of great importance to the entire country.

I beg to remain, my dear Mr. Secretary, with assurance of high esteem,

Very faithfully yours,

L. L. RUE,  
*President.*

At 11.30 A. M., the meeting adjourned to convene in joint session with the Federal Reserve Board.

H. L. HILYARD,  
*Secretary.*

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

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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. C. S. Hamlin, A. C. Miller and J. R. Mitchell.

Present: Members of the Federal Advisory Council:

Mr. L. L. Rue, President, Mr. P. M. Warburg, Vice President, Messrs. Philip Stockton, C. E. Sullivan, J. G. Brown, F. O. Watts, G. H. Prince, E. F. Swinney, and H. L. Hilyard, Secretary.

The President, Mr. Rue, called the meeting to order and submitted the Council's report, following which the various recommendations were discussed informally by the members of the Board and of the Council.

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

April 28, 1922.

TOPIC 1. Should Federal Reserve Banks adopt with respect to their own transactions the policy recently adopted by the United States Treasury of paying out gold and gold certificates without reservation?

RECOMMENDATION: The Council is of the opinion that there is no necessity for the Federal Reserve Banks paying out gold or gold certificates without reservation in their transactions with member banks. If, however, gold is called for by a member bank it should be provided without any question. We believe it to be sound policy for the Federal Reserve Banks to be the depositories of the gold of the country. The concentration of the gold in the banks and the issue of Federal Reserve notes as the principal medium of circulation throughout the country is not to be considered a war measure. It is one of the fundamental principles of monetary reform that the gold of the country should be mobilized in the Federal Reserve Banks. War conditions are so beclouded at the moment that it is impossible to forecast what proper use may be made of our gold power. Self interest would dictate that we should do nothing which would interfere with our ability at the proper moment to render our maximum assistance in restoring the equilibrium of the world. In the event of need the country is in a much stronger position if the gold is mobilized in the vaults of the Federal Reserve Banks than if it is scattered as a circulating medium in the hands of the people. The argument has been made in favor of the payment of gold or gold certificates by Federal Reserve Banks at this time that it would reduce the high reserves of the Federal Reserve Banks, which high reserves have been the subject of unjust criticism, and that it would also create a secondary gold reserve in the hands of the people. The Council is of the opinion that both of these arguments are of comparatively slight importance in the face of conditions as we see them.

The Council is glad to learn that since the Secretary of the Treasury's letter of March 6th was submitted, a full exchange of views has taken place between the Treasury, the Board and the Federal Reserve Banks, from which a full understanding has resulted concerning the most important points raised in the Secretary's letter. The Council notes with great satisfaction from the Secretary's letter of April 25th that all parties now agree that under the provisions of the Federal Reserve Act, the final responsibility with respect to their conduct of business and with regard to their general methods of making payments must rest with the Federal Reserve Banks, acting under the direction and supervision of the Federal Reserve Board. This, however, does not prevent that when Federal Reserve Banks act as redemption agencies for the Treasury, taking the place of sub-treasuries, they may be requested to make payments in gold or gold certificates in redemption of the Government's obligations. Moreover, as already stated, the general policy should be adopted by them never to refuse to make payments in gold in the discharge of their own obligations whenever a payee makes a particular request for such gold payment.

The Federal Reserve Act provided for the gradual elimination of sub-treasuries and for the undertaking of fiscal agency functions by the Federal Reserve Banks. This obviously brings about the necessity of devising ways and means of doing justice to the requirements of the Treasury without affecting the autonomy of the Federal Reserve System and creating the dangers and defects which may result from a division of authority and control.

It was with these conditions in view that the Federal Reserve Act made the Secretary of the Treasury an ex officio member and Chairman of the Board, so that through the Board as a joint instrument, with the Secretary's co-operation and in full understanding with him, policies and plans of action could be devised which would best serve the interests of both the Treasury and the Federal Reserve System, and which would then be carried into effect through the joint instrumentality of the Federal Reserve Board. The Council is glad to note that the Secretary's letter of April 25th augurs well for a fruitful co-operation on these lines.

TOPIC 2. In order to make some headway in the matter of retiring national bank note circulation, would it be advisable for the Federal Reserve Banks to adopt the policy of forwarding all national bank notes received by them, whether for deposit or redemption, to the Treasurer of the United States for redemption, thus making it much more difficult for national banks to maintain their circulation and tending to make the profit disappear, in which event the premium on circulation bonds would correspondingly tend to disappear; and the Federal Reserve Banks might then be in a better position to acquire the circulation bonds and gradually accomplish the retirement of national bank notes.

RECOMMENDATION: The Council is of the opinion that the Federal Reserve Banks should not adopt a policy which would tend to force the retirement of circulation notes of national banks by making their issue unprofitable.

#### ADDITIONAL RECOMMENDATIONS:

RECOMMENDATION 3: In answer to inquiry from the Federal Reserve Board the Federal Advisory Council would state it is of the opinion that no Federal Reserve Bank should be permitted to refuse to accept national bank notes for deposit, as we believe that so long as national bank notes are outstanding they should remain on a parity with the other circulating media and it is therefore essential that no discrimination against them be made by Federal Reserve Banks.

RECOMMENDATION 4: The Council recommends that the Federal Reserve Board permit Federal Reserve Banks to purchase in the open market trade acceptances bearing the endorsement of a third name in the same manner as is required by the Board in the purchase of bankers acceptances under Section 14 of the Federal Reserve Act.

RECOMMENDATION 5: The Federal Reserve Board has been asked to amend Regulation D, Series of 1920, so as to sanction the methods of treating as time or savings deposits, deposits which in practice are payable on demand. The Council expresses itself as opposed to any modification of this Regulation which might tend to serve as a subterfuge in order to secure lower reserve requirements.

RECOMMENDATION 6: In view of the very large surplus earned by the Federal Reserve Banks in the past several years, the Council, while not passing upon the legal aspect of the question, but solely from the standpoint of equity and sound banking policy, is of the opinion that it would be proper at this time for the Federal Reserve Banks to continue payment of dividends from surplus, even though not currently earned, particularly as the maximum rate is 6% per annum and such dividends are cumulative.

RECOMMENDATION 7: The Council approves the principle involved in Senate Bill 3255, providing for the extension of charters of national banks.

RECOMMENDATION 8: The Council suggests to the Federal Reserve Board the importance of pursuing a campaign of education of the public regarding the functions and operations of the Federal Reserve System.

RECOMMENDATION 9: The Council has read with interest the letter of the Secretary of the Treasury to the Governor of the Federal Reserve Board dated April 25, 1922, relative to investments of Federal Reserve Banks, in which letter the Secretary requested the consideration of the subject by the Federal Advisory Council.

The Council congratulates the country upon enjoying a financial administration which takes the enlightened point of view that the Federal Reserve System should not be used for the purpose of carrying the Government's obligations. Many countries of Europe would have been saved from some of their most serious financial difficulties, if equal wisdom had governed their policies.

The Council is also in sympathy with the point of view expressed by the Secretary of the Treasury that the Federal Reserve Banks should avoid excessive investments in Government securities, even of a short maturity. The Council is fully in accord with the views implied that the Federal Reserve Banks should by preference seek investments in the fields of such bills of exchange as they can purchase in the open market.

The Council is of the view, however, that the particular circumstances prevailing at present must be borne in mind, especially the present high percentage of reserves of the System.

Moreover, if the Federal Reserve Banks should entirely liquidate their holdings of Government obligations, they would thereby lose all power of influence on the banking situation of the country, in case excessive ease of money should develop, threatening a new era of inflation. In such times, it is of the utmost importance that the Federal Reserve System should be able to dispose of its holdings, thereby throwing the burden on the member banks and thus exercising a restraining influence. The floating supply of bills at present is extremely limited. Aggressive buying of acceptances would, no doubt, tend further to reduce the rate at which these acceptances could be bought, and it might destroy to a certain extent at least the distribution of acceptances among a large part of buyers—the so-called acceptance market—which has been built up with no little effort.

While the Council believes at the same time that the Federal Reserve System would be well advised in making efforts to increase its holdings of acceptances, there is no doubt that the Federal Reserve Banks as a whole can not avoid at this time, for the reasons above explained, investing very substantial amounts either in Government Bonds, Certificates of Indebtedness, or warrants. Of these three, no doubt, the short term Treasury Certificates are the most suitable as investments for the Federal Reserve Banks. Bearing in mind that the capital and surplus of the combined Federal Reserve Banks amount to approximately \$300,000,000, the Council does not feel that there is just cause to criticise the Federal Reserve Banks for having invested in Treasury Certificates and short term Government obligations up to an amount which is not largely in excess of their capital and surplus, and which, considering the amount of their assets, constitutes only a small part of their resources.

The Council is still of the opinion that the Federal Reserve Banks should avoid investing in long term Government bonds. The Council further urges the Federal Reserve Banks when making any purchases of short term Government obligations, that such purchases should not interfere with Treasury operations.

In giving this view, the Council is in no way moved by any consideration of earnings of the Federal Reserve Banks, but stands entirely by the opinion expressed in its resolution of November 21, 1921, as follows:

"The Board brought to the attention of the Council the matter of the increase in the reserves of the Federal Reserve Banks, and the apparent approach of the time when, as a result of the liquidation of borrowings by member banks, the Federal Reserve Banks will be seeking investment for their idle funds. The Board requested the Council's opinion as to the wisdom of the Federal Reserve Banks' investing these funds in United States Government bonds.

"The Council stated that it is not disturbed by the fact that the earnings of the Federal Reserve Banks are decreasing because of the accumulation of idle funds. The Federal Reserve Banks were not created for profit and the Council is mindful of the fact that, as past experience has shown, times of temporary idleness of funds are bound to be followed by periods of greater demands for money, be they seasonal or emergency requirements.

"Whenever it may appear necessary for Federal Reserve Banks to seek investments in the open market, the Council would recommend that preference be given to obligations such as :

1. Bankers Acceptances.
2. United States Certificates of Indebtedness.
3. Such short term State and Municipal obligations as are permitted by the Federal Reserve Act."

RECOMMENDATION 10: The Council notes with great satisfaction the recent ruling of the Federal Reserve Board in relation to bankers acceptances, in harmony with Recommendation No. 11 of the Federal Advisory Council, dated May 17, 1921.

RECOMMENDATION 11: Excessive borrowings. In the judgment of Council, the most effective way to handle the situation is by the personal influence of the Governor of each Federal Reserve Bank on the member banks borrowing to excess.