

MINUTES OF MEETING
of the
FEDERAL ADVISORY COUNCIL

May 21, 22, 1923

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

May 21, 1923.

The regular statutory meeting of the Federal Advisory Council was held in the Federal Reserve Board room, Treasury Building, Washington, D. C., Monday, May 21, 1923.

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

Present :

Mr. L. L. Rue, President	District No. 3
Mr. P. M. Warburg, Vice President	District No. 2
Mr. C. E. Sullivan	District No. 4
Mr. J. M. Miller, Jr.	District No. 5
Mr. E. W. Lane	District No. 6
Mr. J. J. Mitchell	District No. 7
Mr. G. H. Prince	District No. 9
Mr. E. F. Swinney	District No. 10
Mr. R. L. Ball	District No. 11
Mr. D. W. Twohy	District No. 12
Mr. H. L. Hilyard	Secretary.

Absent :

Mr. A. L. Aiken	District No. 1
Mr. F. J. Wade	District No. 8

Communications were presented from Messrs. Aiken and Wade giving reasons for their absence.

On motion, duly seconded, the Council voted unanimously to ask the Federal Reserve Banks to select an alternate to attend the sessions of the Council in the place of any member who might be unable to be present, said alternate to be asked to take part in the proceedings of the Council without the privilege of voting.

On motion, duly seconded, minutes of meeting of February 19, 20, 1923, of the Council and of the Executive Committee, copies of which had previously been sent to the members, were approved.

The President, Mr. Rue, presented Governor Crissinger's letter of May 3d enclosing copy of "Memorandum for Governor's Conference, X-3676," with reference to voluntary and unremunerative services performed by the Federal Reserve Banks and also asking members of the Council to furnish the Board with reports upon economic and credit conditions, copies of said letter and memorandum having been sent to the members previously.

On motion, duly seconded, the Council unanimously approved Recommendation No. 1, copy of which is attached hereto and made part of these minutes, with reference to the voluntary and unremunerative services performed by the Federal Reserve Banks.

At 11.30 A. M., the Council 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

May 21, 1923.

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 D. R. Crissinger, Vice Governor Edmund Platt, Hon. H. M. Dawes, Comptroller of the Currency, and Messrs. C. S. Hamlin, A. C. Miller and G. R. James.

Present: Members of the Federal Advisory Council:

Mr. L. L. Rue, President, Mr. P. M. Warburg, Vice President, Messrs. C. E. Sullivan, J. M. Miller, Jr., E. W. Lane, J. J. Mitchell, G. H. Prince, E. F. Swinney, R. L. Ball, D. W. Twohy, and H. L. Hilyard, Secretary.

The President of the Council, Mr. Rue, called the meeting to order and invited Governor Crissinger to address the conference. Governor Crissinger referred to his letter of May 3d, asking Council's advice relative to voluntary and unremunerative services performed by the Federal Reserve Banks.

Governor Crissinger discussed the matter of an Agency of the Federal Reserve Banks of Boston and Atlanta to be located in Havana, Cuba, such Agency to buy and sell cable transfers, and to buy, sell and collect bankers' acceptances bearing satisfactory bank endorsements on behalf of the Federal Reserve Bank of Boston, and to purchase cable transfers and bankers' acceptances and pay out Federal Reserve Notes on behalf of the Federal Reserve Bank of Atlanta. Governor Crissinger stated that the Board had tentatively decided to grant such applications but that their final approval had been deferred because of Mr. Rue's telegram of May 16th requesting the Board to reserve its decision upon the question until the Council should have an opportunity of consulting with the Board. A general discussion was held among the members of the Board and of the Council concerning the merits of the question and the Board submitted to the Council a copy of its proposed resolution on the subject.

At 1.10 P. M., the joint conference adjourned.

H. L. HILYARD,

Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

May 21, 1923.

At 2.30 P. M., the Federal Advisory Council reconvened in the Federal Reserve Board room, as arranged, the President, Mr. Rue, in the Chair.

With the approval of the Council, the President invited Governor W. P. G. Harding, of the Federal Reserve Bank of Boston, to address the Council on the subject of the Federal Reserve Bank Agency in Havana, Cuba, in accordance with Governor Harding's request. Governor Harding spoke at length on the subject and a general informal discussion among the members of the Council followed.

At 4.30 P. M., Governor Harding withdrew.

The discussion of the Cuban Agency was continued and upon motion, duly seconded, Mr. Warburg was requested to prepare and submit to the Council for its approval, a recommendation on the subject embodying the views of the members.

At 4.45 P. M., the meeting adjourned.

H. L. HILYARD,

Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

May 22, 1923.

At 9.30 A. M., the Federal Advisory Council reconvened in the Federal Reserve Board room, as arranged, the President, Mr. Rue, in the Chair.

Present:

Mr. L. L. Rue, President, Mr. P. M. Warburg, Vice President, Messrs. C. E. Sullivan, J. M. Miller, Jr., E. W. Lane, J. J. Mitchell, G. H. Prince, E. F. Swinney, R. L. Ball, D. W. Twohy and H. L. Hilyard, Secretary.

Mr. Warburg submitted to the Council for its approval, the recommendation which he had prepared relative to the Cuban Agency.

On motion, duly seconded, Council approved the recommendation for presentation to the Federal Reserve Board, Mr. Swinney and Mr. Ball voting in the negative for the reason that while they agreed with the provisions of the recommendation they were unwilling to approve it inasmuch as the Federal Reserve Board had advised that they had already decided to grant this authority and Mr. Swinney and Mr. Ball did not want to appear as being in opposition to the Board. (Recommendation No. 2.)

At 11.50 A. M., the Council 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

May 22, 1923.

At 11.50 A. M., a joint conference of the Federal Advisory Council and the Federal Reserve Board was held, as arranged, in the Federal Reserve Board room.

Present: Members of the Federal Reserve Board:

Governor D. R. Crissinger, Vice Governor Edmund Platt, Hon. H. M. Dawes, Comptroller of the Currency, and Messrs. C. S. Hamlin, A. C. Miller and G. R. James.

Present: Members of the Federal Advisory Council:

Mr. L. L. Rue, President, Mr. P. M. Warburg, Vice President, Messrs. C. E. Sullivan, J. M. Miller, Jr., E. W. Lane, J. J. Mitchell, G. H. Prince, E. F. Swinney, R. L. Ball, D. W. Twohy and H. L. Hilyard, Secretary.

In the temporary absence of the President, Mr. Rue, when the session convened, the Vice President, Mr. Warburg, called the meeting to order and at his request the Secretary of the Council read the recommendations which had been prepared by the Council, relative to the voluntary and unremunerative services performed by the Federal Reserve Banks (Recommendation No. 1), and the Federal Reserve Bank Agency in Havana, Cuba (Recommendation No. 2). It was the unanimous opinion of the Council that there is nothing in business and financial conditions which would occasion any change in rediscount rates at this time (Recommendation No. 3). Copy of the recommendation is attached hereto and made part of these minutes.

A general informal discussion took place concerning the subject matter of the recommendations.

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 21, 1923

RECOMMENDATION 1. The Federal Advisory Council believes that all the services inquired about by the Federal Reserve Board in its letter of May 3, 1923, enclosing copy of "Memorandum for Governor's Conference, X-3676," should be continued, except that the Council holds to the opinion that the service rendered in the free collection of non-cash items, both city and country, should be reduced. The free collection of coupons, however, should be continued. The Council understands that this question is now being studied by a special committee of Governors appointed by the Board.

RECOMMENDATION 2. The Federal Reserve Board has submitted to the Federal Advisory Council a copy of its resolution in tentative form authorizing the Federal Reserve Bank of Boston to establish an agency in Havana, Cuba, and specifying the terms and conditions under which such an agency should operate. The Board has asked the Federal Advisory Council to express its views particularly on the question whether the restrictions embodied under "number (1)" of the resolution are far-reaching enough to insure safety; and on the other hand, whether in the opinion of the Council these restrictions are so far-reaching that they might prevent the attainment of the objects of the establishment of the agency—the outstanding objects being, as members of the Board have explained to the Council, the so-called stabilization of the Cuban currency and banking situation, and the furnishing of a continuous supply of clean money.

A careful examination of the resolution leads the Council to the view that the limitations are not stricter than the circumstances require. The stupendous losses that American banks operating in Cuba have recently suffered cannot but impress the Council with the absolute necessity of placing the greatest possible safeguards upon the open market operations of Federal Reserve Banks in Cuba. If these bills are to be bought by the agency before they are actually accepted by the bank on which they are drawn, it is obvious that the Board is well-advised if it stipulates that they shall be secured by shipping or other documents conveying title. Also that they should bear what the Board calls "a satisfactory bank endorsement." Without these safeguards obviously the agency would not be safe in buying these bills. With these safeguards it is doubtful, however, whether the agency will find an adequate supply of bills which are thus made eligible for purchase by it. A very large number of these bills are being drawn as so-called "dry season credits"—that is, the large sugar growing concerns are permitted to draw on the banks granting the credit for the making of the crop in advance of the grinding, and during the grinding period, and the shipping documents are forthcoming in due course as soon as the raw sugar becomes available for shipment. While these bills are excellent investments for Federal Reserve Banks after they have been accepted, they are, therefore, not available for purchase by the foreign agency in the foreign country where they are drawn. Another difficulty arises when we reach the point of defining what is a "satisfactory bank endorsement." If we were restricting this definition so as to include only member banks, there would be only two banks available for such endorsement for the agency, and this would give them a position of preference. On the other hand, it will be very difficult for the agency to discriminate and to refuse the endorsement of local banks or the Canadian banks. The fact remains,

however, that the Federal Reserve Bank is in no position to examine these Canadian or local banks in a similar manner as it can secure statements and examinations of American endorsing or accepting institutions. There have been quite a number of important Cuban banks that have gone into receivers' hands, and one of the important Canadian branch banks became heavily involved only about a year ago. Moreover, it should not be overlooked that some of the large sugar estates are practically owned, voluntarily or involuntarily, by banks and banking firms and that in such cases the bank endorsement is not quite as independent a guarantee as it would appear. If the agency would be very careful in selecting the names that it would consider as satisfactory endorsements, and in keeping the amount that it would take of each name within very conservative limits, it would soon be charged with giving a position of preference to American branch banks. It is hard to conceive, however, how such a development could be avoided. Moreover, the supply of these bills will be forthcoming only during certain seasons of the year. The operations of the agency will, therefore, not be continuous, but only seasonal. On the whole, the Council cannot escape the conclusion that on this of-necessity restricted scope a basis cannot be found which would prove satisfactory to the Cuban banks or secure any position of continuous effective influence for the agency.

What has been said about power to purchase acceptances applies to a certain degree also to power given to the agency to buy and sell cable transfers. This, too, would be only a sporadic business, and there is grave doubt whether the agency would be able to secure the bulk of this business as long as it could not buy the bulk of the long bills which would be offered in the market, and as long, therefore, as a great many of the sellers of these bills are more likely to send their remittances to some New York, Philadelphia or Boston correspondent and draw against these remittances by cable. Moreover, the volume of cable transfer business to be done by the agency would be determined by its willingness to carry, itself, the expense of shipping currency. It also must be borne in mind that a bank buying or selling cable transfers would not of necessity pay in currency or receive currency. It may simply receive or make payment by transfer in the settlement at the Clearing House. It is, therefore, a mistake to assume that all of these transactions would result in currency movements.

Governor Harding of the Federal Reserve Bank of Boston appeared before the Council and explained his thoughts concerning the future operations of the contemplated agency. When asked how these operations would tend to stabilize the currency he replied that Cuban currency was practically stable; and about the currency situation itself he stated that in his opinion it seemed worse than it actually was, inasmuch as there was a great deal of clean currency in Cuba, but this was held back by the banks and the people while the unclean currency was put into circulation. He said that the total amount of objectionably soiled currency in circulation was estimated at about ten million dollars.

While the Council is in full sympathy with the ends that the Board is trying to attain, it believes that the plan as now contemplated would not prove successful in actual operation and that what the Board desires to achieve can and should be accomplished by other and simpler means which would not involve the ominous step of permitting Federal Reserve Banks to establish organizations of their own in foreign countries—a step which in the opinion of the Council was not contemplated by the Act—a step for which the traditions of the important European central banks would give no precedent.

The following thoughts have suggested themselves to the Council and are herewith respectfully submitted to the Board for its consideration. It has been stated as an element of uncertainty in the Cuban banking situation that in case of runs or emergencies, the banks cannot count on obtaining an adequate supply of currency within a

reasonably short time. It would seem to the Council that if provisions were made to maintain at all times an adequate currency supply at the Jacksonville Branch of the Federal Reserve Bank of Atlanta, or, if need be, at a branch to be established by it at Key West, a currency reserve could be made available for the banks in Havana in practically one night or even in a shorter time. The mere fact that such an arrangement would be announced would have a reassuring effect, and in case of need no doubt this arrangement would prove entirely sufficient. While a provision of this sort would give Cuba assurance that a sufficient volume of currency would be forthcoming, there remains the second phase of the problem, which is to provide for Cuba a constant stream of clean currency. If the Board authorized Federal Reserve Banks to appoint correspondents among the banks operating in Cuba, for which appointment the Federal Reserve Act gives them undoubted authority, it would be an easy and entirely practicable matter to have accounts of Federal Reserve Banks opened not only with the American branches but also with the leading Canadian and local banks. If such accounts were opened by Federal Reserve Banks transmitting to such Cuban banks, let us say, one hundred thousand dollars in clean currency, for which balances collateral could be required, and if at the same time arrangements were made with these correspondent banks by which the return of unfit currency to the United States would be facilitated, a simple machinery would be set up by which these balances could be continuously replenished by the remittance of clean currency, while the soiled currency would flow back to the United States. What volume this stream of currency would assume is a matter that could be ascertained and developed on the strength of actual experience gained from month to month. If a plan of this sort would be announced, the Council has no doubt it would be most popular, because it would meet the two main requirements of the situation without subjecting the System to the charge of undue discrimination or exposing it to the danger of opening the crack of the door which might lead the Federal Reserve System to operation of its own organizations in other foreign countries. If, as these operations develop, the Boston Federal Reserve Bank, or any other Federal Reserve Bank, should feel that the general interest requires that they should buy bills in Cuba direct, instead of purchasing them after they are in the United States and properly accepted, or that they should deal in cable transfers, they are free to do so through the intermediary of their correspondents or agents, or agencies (whichever name may be preferred). The Council fails to see that these transactions would in any way promote or that they are directly related with the attainment of the end sought by the Board; viz, the creation of an adequate currency reserve, or the furnishing of a constant stream of clean circulating notes. From Governor Harding's statement, it would appear that the dealing in cable transfers and the open market operations are proposed mainly for the reason of giving the agency a legal status, which then would enable it to exercise the currency functions which are the real object to be accomplished, but for which Section 14-E does not grant any special authority.

With the question of which of the Federal Reserve Banks should secure a larger or smaller share in this development, the Council has little concern, nor does the Council think that the Federal Reserve Banks among themselves should look upon this problem from the point of view of competition or of securing any special advantage for any particular district. The question must be judged from the point of view of what is best for the Federal Reserve System, best for the United States, and also in this case of what is the most advantageous method of procedure in working out the financial problems of Cuba, in which the United States has so large an interest, and for the welfare of which our country has responsibilities that it has toward no other foreign nation.

RECOMMENDATION 3. Council is of the opinion that there is nothing in business and financial conditions which would occasion any change in rediscount rates at this time.