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FEDERAL RESERVE BOARD FILE  
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STATEMENT FOR THE PRESS  
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November 19, 1918.

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The Federal Reserve Board and the Federal Advisory Council concluded today the last joint session of the two bodies that will be held during this year. The following members of the Advisory Council were present:

- Mr. James B. Forgan, Chicago ✓
- Mr. L. L. Rue, Philadelphia ✓
- Mr. J. P. Morgan, New York ✓
- Mr. Daniel G. Wing, Boston ✓
- Mr. W. S. Rowe, Cincinnati ✓
- Mr. J. W. Norwood, Richmond ✓
- Mr. C. A. Lyerly, Chattanooga ✓
- Mr. F. O. Watts, St. Louis ✓
- Mr. John R. Mitchell, Minneapolis ✓
- Mr. E. P. Wilmot, Dallas ✓
- Mr. Herbert Fleishhacker, San Francisco ✓

The session developed a full discussion of the business and banking situation of the country with particular reference to the transition from war to peace activities. Reports from all sections of the country indicate that both bankers and business men view with equanimity and confidence the Nation's ability to meet whatever problems may confront it.

A U X I L I A R Y M I N U T E S

11.  
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Sec. 1 - (a) : Minutes of Sessions of Advisory Council  
with Board.

At a joint meeting of the Federal Reserve Board  
and the Federal Advisory Council, held in the Assembly Room  
of the Board, on Tuesday, November 19, 1918, at 11.30 A.M.,

PRESENT: <sup>She</sup> Governor ~~Harding~~, presiding  
Mr. Strauss  
Mr. Miller  
Mr. Hamlin  
Mr. Williams  
Mr. Broderick, Secretary, ~~of the~~  
<sup>of the</sup> Federal Reserve Board.

Mr. Forgan  
Mr. Rue  
Mr. Morgan  
Mr. Wing  
Mr. Rowe  
Mr. Norwood  
Mr. Lyerly  
Mr. Watts  
Mr. Mitchell  
Mr. Wilmot  
Mr. Fleishhacker,  
of the Federal Advisory Council.

Mr. Forgan reported as follows the recommendations  
of the Advisory Council on the topics agreed upon for dis-  
cussion:

2

RECOMMENDATIONS  
BY  
THE FEDERAL ADVISORY COUNCIL  
TO  
THE FEDERAL RESERVE BOARD

NOVEMBER 19, 1918.  
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TOPIC NO. 1. Federal Reserve Notes.

**Question:** Is it desirable that steps should be taken to check further growth in the volume of Federal Reserve notes? If so, what action is recommended?

**Answer:**

During the period of readjustment and reconstruction on which we are now entering sudden changes in financial conditions are likely to arise which will have to be met with practical banking judgment. It would seem to be undesirable to take any steps to check further growth in the volume of Federal Reserve notes issued. The expansion which has taken place recently incident to war financing, and which will continue undoubtedly under additional government financing and probably through the reconstruction period, is made possible chiefly through the issue of Federal Reserve notes. Their issue and redemption respond to the requirements of trade. Natural and not artificial methods should control the situation.

TOPIC NO. 2. Development of open markets for bankers' acceptances.

**Question:** What steps can be taken to promote and accelerate the development in each Federal Reserve district of an open market for bankers' acceptances?

**Answer:**

No steps should be taken by the Federal Reserve Board as yet. Banking habits must be given time to develop and should not be rushed. The open market for bankers' acceptances is developing and must grow by use.

TOPIC NO. 3. Drafts drawn for the purpose of furnishing Dollar exchange.

The Board has heretofore granted permission to member banks to accept drafts drawn upon them by banks and bankers in Central and South America for the purpose of furnishing dollar exchange. The opinion of the Council is desired as to whether there are other countries in which the "usages of trade" are such as would warrant the extension of the Board's policy.

**Recommendation;**

This question does not seem to require immediate attention. Under the development of peace conditions undoubtedly the drawing of drafts to create dollar exchange from countries other than those prescribed may become necessary, but the matter can be considered more intelligently later as conditions develop.

TOPIC NO. 4. Extension of American banking facilities in foreign countries.

(A) Question: Are there any special steps which the Council would recommend that the Board should take for the purpose of encouraging the establishment of additional American banking facilities in foreign countries?

Answer:

The purpose of establishing American banking facilities in foreign countries is of course to encourage and enlarge American trade. The two go together. Branch banking in foreign countries may be considered as having developed most satisfactorily under the trying conditions which have prevailed since the Federal Reserve Act, which first authorized this method of banking, was enacted. Under peace conditions doubtless there will be further development and there would seem to be no steps necessary at this time to further encourage the business.

(B) Question: Should the Board, in the exercise of its powers over foreign branches of national banks and banking corporations engaged in foreign banking, in the stock of which national banks are permitted by the Board to invest, require that reserves of not less than a stated per cent be maintained against demand deposit liabilities of such branches and banks? If so, (a) should requirement be uniform in all countries in which such branches and banks are operated, and (b) of what should the reserve consist, and (c) what reserve percentage is recommended?

Answer:

We are advised that the Federal Reserve Board has already definitely decided this question on the lines that such banks will not be required to keep a fixed ratio of reserve and that foreign branches of national banks will not be required to keep any portion of their reserve in Federal Reserve Banks against deposits received in foreign countries, the whole matter of reserves of their foreign branches being left to the discretion of the parent institution. This Council concurs in the action of the Federal Reserve Board in this matter.

(C) Question: What limit or restriction should be imposed upon the acceptance power of banks engaged in foreign banking, which are operated under supervision of the Federal Reserve Board?

Answer:

At present the ratio of six to one between acceptances and capital and surplus would seem sufficient to meet the requirements, but as the business of the branches of American banks grows, there is reason to believe that it may be necessary later to increase the ratio, which, under proper control, can be done conservatively. When American banks begin to approach their present limit of six to one, and make application for permission to increase the ratio, would seem time enough to consider such extension. Branches of foreign banks are operated ordinarily without limits.



TOPIC NO. 5.

Question: What further services should be rendered by Federal Reserve banks to the public through additional free facilities granted to member banks?

Answer:

During the past year the Federal Reserve banks have added considerably to the free facilities afforded to the public through member banks. The Council has at this time no suggestion to make in regard to an extension of these free services. It would not seem desirable to add materially to the burdens assumed by the Federal Reserve banks until the relations of the Federal Reserve banks and their member banks are established upon a peace basis.

II

In view of the apparent near conclusion of hostilities, the attention of the Council is invited to the consideration of

After-war policies both domestic and foreign of the Federal Reserve system.

TOPIC NO. 6.

Question: With respect to the requirements of the domestic situation, should the policy of the Federal Reserve banks be restrictive or liberal? In other words, should contraction of credit and currency be a controlling consideration in the Board's policies?

Answer:

The policy of the Federal Reserve banks should be as liberal as is consistent with safety. Any attempt at enforced contraction of credit on their part would be injurious to the business interests of the country.

TOPIC NO. 7.

Question: In connection with the consideration of the changed position of the United States with respect to international finance and banking, what should be the policy of the Federal Reserve system with respect to

- A The management of its gold reserve;
- B Operations in the purchase and sale of foreign bills,

Answer:

A. Acting in conjunction with Great Britain the United States should get back to a free gold market as soon as feasible.

B. The purchase and sale of foreign bills should be engaged in by the Federal Reserve banks only as a means to regulate the exchange market and to control gold.

TOPIC NO. 8.

In connection with the discussion of A (Topic No. 7) consideration of the following further questions is asked:

Question:(a) Is it desirable that the gold embargo should be continued on shipments of gold to any country or group of countries after the termination of the war? If so, on what principle?

Question:(b) Should the gold embargo be lifted on behalf of any country or group of countries before the termination of the war?

Answer ( a and b ):

It would seem desirable that the question of the gold embargo be left to the Gold Committee, to be handled with such elasticity as developing conditions make advisable. If the Gold Committee of the Federal Reserve Board is free to pass on all applications for gold for shipment with entire freedom, the merits of each individual case in connection with the whole situation can decide its action. We would recommend that the necessary legislation be obtained as soon as possible continuing the powers of this Committee for a period of six months beyond the declaration of peace.

Question:(c) Is it desirable that the Federal Reserve system should undertake, by informal conferences with other central banking systems, to formulate policies or promote arrangements to regulate the international distribution and flow of gold in an orderly manner, at the end of the war?

Question:(d) Is it desirable that provision should be made in the treaty stipulations following the conclusion of war for the establishment, under suitable safe-guards and international guarantees, of international trust funds of gold so as to minimize the hazards and costs of gold shipments?

Answer ( c and d ):

It would not seem desirable at this time to encourage any informal conference with other central banking systems for the purposes stated. During the war we have had a close working arrangement with Great Britain. Such a working arrangement if continued would probably meet the situation. No treaty stipulations in connection with international trust funds of gold would seem to us to be desirable.

TOPIC NO. 9. In connection with the discussion of B (Topic No. 7) consideration of the following further questions is asked:

Question (a) Should it be the policy of the United States to establish and maintain a free gold market?

Answer:

The United States should as soon as possible re-establish and maintain a free gold market if it is to remain a world banker and hold the place it has secured during the past four years. Particularly will this be necessary if Great Britain carries out its intention of reestablishing its free gold market.

Question (b) If such a policy is adopted, should the main reliance of the reserve system be the adoption of the English practice of regulating the flow of gold by a variable discount rate?

Answer:

The main reliance of the Federal Reserve system should be the adoption of the English practice of regulating the flow of gold by establishing a variable discount rate.

#### ADDITIONAL RECOMMENDATIONS.

Amend the Federal Reserve Act to allow surpluses of Federal Reserve banks to accumulate until they are 100% of their paid-in capital.

The Federal Advisory Council recommends that the first paragraph of Section 7 of the Federal Reserve Act be amended to read as follows:

"Section 7. After all necessary expenses of a Federal Reserve bank have been paid or provided for, the stockholders shall be entitled to receive an annual dividend of six per centum on the paid-in capital stock, which dividend shall be cumulative. After the aforesaid dividend claims have been fully met, all the net earnings shall be paid into a surplus fund until it shall amount to one hundred per centum of the paid in capital stock of such bank, after which all the net earnings in excess of aforesaid dividend shall be paid to the United States as a franchise tax."

Amend Federal Reserve Act to allow member banks to accept foreign bills up to 200% of their capital and surplus.

It is generally conceded that following the declaration of peace, this country will have an opportunity to develop its foreign trade to an extent impossible before the war. If we are to develop and maintain our export and import trade it should be financed by American banks and bankers and it is therefore essential that the member banks be granted additional acceptance powers to properly take care of the increasing volume of dollar exchange and credits.

We recommend that the Federal Reserve Act be amended as soon as possible so as to allow member banks to accept on purely foreign transactions up to 200% of their capital and surplus. This limit to include acceptances of foreign banks or bankers for the account and under the guaranty of the member banks. This acceptance power to be in addition to that now provided by the Act for domestic acceptances.

To make bank acceptances available as reserve to the owning bank on the day of maturity.

The Council suggests the institution by the Federal Reserve Board of a uniform plan by which bank acceptances may be available as reserve to the owning bank on the day of maturity and payment. It would seem a simple process to accomplish this end by wire though the Gold Fund and the service would broaden the market for such acceptances.

Federal Reserve Banks should not afford non-member banks clearing privileges unless they belong to the Clearing House if any exists in the city in which they are located.

The Council recommends that the Federal Reserve Banks should adopt the policy of not permitting non-member banks to avail themselves of the privilege of clearing their items through them unless the non-member banks are members or affiliated members of the clearing house association if any exists in the city in which said non-member banks are located, and subject to Clearing House rules and regulations.



The Governor expressed appreciation of the very clear and definite suggestions and recommendations of the Advisory Council, and stated that such were open for discussion. ¶ On Topic No. 4, (c), relating to the restriction placed upon the acceptance powers of banks engaged in foreign business, Mr. Strauss pointed out that while the answer of the Council was that the ratio of acceptances to capital <sup>+</sup> ~~surpluses~~ should for the present remain at 6 to 1, the Board had already in some cases fixed this rate at 12 to 1. The Governor informed the Council that the ratio varied with different corporations with which the Board had agreements, and that the higher ratio prevailed particularly with respect to a corporation whose acceptances at the time of signing ~~this~~ agreement were already ten times its capital and surplus, and that the Board had for the time being fixed for that institution a ratio of 12 to 1. He added that ~~at~~ the agreements, with such banking corporations, provided that they be free to make application for extensions in this respect, the only requirement being that the Board should receive ~~mere~~ <sup>reasonable</sup> satisfactory reasons for making exceptions to ~~the~~ <sup>established</sup> previous minima. ¶ Mr. Miller called attention to the apparent contradiction of answer (a), Topic No. 7, ("Acting in conjunction with Great Britain the United States should get back to a free gold market as soon as feasible") by the last sentence of answer (a and b), Topic No. 8; ("We would recommend that the necessary legislation be obtained as soon as possible, continuing the powers of this

committee -- Gold Export Committee of the Federal Reserve Board -- for a period of six months beyond the declaration of peace"). In reply, Mr. Forgan stated that the idea of the Council was that the authority of the Gold Export Committee should be extended for a period sufficient to enable the committee to continue its control of the Gold situation, but that the committee should <sup>operate</sup> ~~move~~ with a view to removing its hands just as rapidly as future conditions, which could not now be forecast, might permit. ¶ On Topic No. 9 general discussion was had of the anomalies existing by reason of the variance between the American and British discount rates. During the course of this discussion, Mr. Forgan stated that recently his bank had found it possible to rediscount foreign bills <sup>in London</sup> at lower rates than it could obtain from its Federal Reserve bank. ¶ Reports of districts were then called for and furnished as follows:

1. Mr. Wing:

District No. 1, like the rest of the country, is marking time. As far as business is concerned, it looks as if that condition would have to continue for some little time. Business conditions depend very largely upon the prompt settlement of government contracts. If they can be cleaned up rapidly so that plants can get on to other lines without being tied up, he expected, after a few months, to see again active business conditions. From what he heard in his own district and from other districts, there is no great stock of goods in the country, and there appears a tendency for everybody to wait for lower prices. He expressed

it as his view that this policy would lead to hand to mouth buying for a long time to come. In the wool market, for instance, the understanding is that the government owns 400,000,000 pounds of wool. The mills require that wool for domestic use, and it is a question whether they ~~could~~ *should* buy it at the present prices or wait for a lower level, which apparently is bound to come, and this condition is bound to lead to more waiting, which, if continued, will cause money to accumulate somewhat, although it has not done so yet. Mr. Wing stated that there had been very little reduction in payments for government bonds; that there had been a great many renewals ~~and a great many renewals~~ without reduction, and he thought this situation was bound to continue for some time to come. The over-subscription of the Fourth Liberty Loan in New England is causing <sup>large</sup> ~~very~~ much demands on the banks and ~~the~~ <sup>now</sup> money is going out very rapidly, which will lead to larger rediscounts by banks with the Federal Reserve bank. ~~This process is now taking place.~~ Mr. Wing expressed the belief that there was nothing to do in New England but to wait. As labor becomes more abundant and wages lower labor will find employment at different wages and business will pick up and perhaps require more money, but for the next two or three months an accumulation of money should be ~~made.~~ *expected.*

2. Mr. Morgan:

Conditions in district No. 2 similar to those of district No. 1. Peace has come more suddenly than

expected, and everybody is waiting to see what is going to happen. The relations of the money committee with the stock exchange is a case in point. As to the outlook for capital, he did not think that capital would be likely to charge less for its services for a while than it has heretofore, for the reason that there is the uncertainty as to government action, as to how much labor is going to demand with the backing of the government, or what use is going to be made of capital and what return allowed on its use. Apprehension of big taxes makes it important for capital to get all it can, and it will not be freed except at high rates. Mr. Morgan thought this condition would continue to be the case for some time to come.

No. 3. Mr. Rue:

The situation in ~~the~~ third district almost identical with ~~that~~ of the first and second. Philadelphia is a centre for ship-building, munitions and war work activities, and conditions of peace have struck them rather unexpectedly. There must be a radical readjustment sooner or later with these industries. Labor has been getting all sorts of fancy prices, and there must, of course, be an adjustment in rates of pay. Stocks of merchandise generally are light, and everybody is in a waiting attitude. As far as the banks themselves are concerned, they have been rediscounting very heavily with the Federal Reserve bank, and this process will probably increase largely as the result of



financing the Fourth Liberty Loan. The banks were compelled by the Liberty Loan Committee to grant accommodations to would-be purchasers for one year at the bond rate, and the loss resulting therefrom will have to be carried for a year, unless the bonds go to a premium, of which there is no apparent prospect. The majority of people have been paying  $4 \frac{3}{4}$  to 5% to carry some of the previous issues of bonds. So far as business is concerned, the district is in a waiting attitude. No relaxation in money expected because of the loans. Mr. <sup>Rue</sup>~~Morgan~~ expressed the belief that government contracts should be settled as speedily as possible to relieve the uncertainty that exists.

At this point, Mr. Williams asked Mr. Rue if he did not think it was clear to his mind that the United States could never have financed the war had it not been for the Federal Reserve System. Mr. Rue replied that it could not have. Mr. Williams then asked Mr. Morgan and Mr. Wing the same question. Mr. Wing replied that the United States could not have financed the war as it has without the Federal Reserve System, and Mr. Morgan said that while he did not put it past anybody to find a way to remedy <sup>any</sup> situation, he had always thought that the Federal Reserve System was the one and only way in which our war-time conditions could have been met.

No H.-

In calling upon Mr. Rowe to state the conditions of the fourth district, the Governor stated that the Federal Reserve Bank of Cleveland had maintained a higher

average of reserves during the year than any other Federal Reserve bank, <sup>that</sup> it had asked for no rediscounts, and had done great work in rediscounting for other Federal Reserve banks, and has borne more than would seem to be its fair burden, adding that he believed that the Cleveland bank's favorable position was caused by the fact that in its district there were many war industries, and manufacturing had been stimulated by war conditions. He asked Mr. Rowe to state his views as to the speed with which it <sup>might</sup> be expected <sup>that</sup> these industries would work back to normal.

No. 4. Mr. Rowe:

Mr. Rowe referred to the fact that in the beginning everyone agreed that as the Cleveland Federal Reserve district had been carved out, it would be more self-sustaining nearly all the time.

~~Mr. Rowe~~ Mr. Rowe

*stated that*

Everyone was in agreement from the beginning of the System that the Cleveland Federal Reserve District would be more than self sustaining all the time, as was evident from the diversified character of the products of the district, and the situation has worked out exactly as anticipated. The district has had a larger share in the war work than a number of others.

It is practically impossible to say what will be the effect of this quick *sudden* armistice on the community, and ~~we~~ *people* are loath to make commitments until we know what policy will be pursued, as there are any number of causes that would affect the whole situation. ~~The~~ Curtailment of products for government account has come very abruptly within the space of only a few days. Undoubtedly, it would be cheaper for the government, where contracts cover needs that no longer exist, to stop production and settle with the contractors as quickly as possible, with ~~de~~ regard, on the other hand, to the labor situation, ~~The~~ Curtailment so far, however, has come very quickly, and one plant alone is letting off four or five hundred men a day and ~~has~~ stopped all work. We do not know how these men are going to take their reduction of pay. That is one factor of the situation of which ~~we know nothing whatever~~ *is that no one knows*, and I think until ~~we do know~~ *that is known* as we go ~~on each day we cannot make plans~~ *cannot be made* for a week or a month ahead until ~~we know what~~ *it is known* the obligations of the United States abroad are going to be, how much ~~we are~~ *it is* going to have to bear, and how much ~~we are~~ *it is* going to collect. As to the district, as far as the government loans have gone, ~~my~~ impression is that the last loan has been paid for to a greater extent than any previous loan, a great many people paying in full and many paying more rapidly than ever before. ~~we~~ *Banks* have had to lend heavily to ~~the~~ *the* railroads in ~~our~~ district, occasioned, to some extent, by delays in receipt by them of remittances on balances from other roads. (Mr. Williams interpolated that the Railroad Administration at present

is working on a plan of establishing a clearing house system of settlement of railroad balances, that should be in effect by January first, 1919.)

No. 5. Mr. Norwood:

No conditions in ~~our~~ district that are unusual, as compared with other districts; great scarcity of labor prevails, particularly with respect to lower classes, which receive now three times the wages paid four years ago. ~~The~~ District ~~is~~ in admirable position to meet demands occasioned by the coming of peace. Cotton manufacturers ~~are~~ in good financial condition, having enormous profits, and will pay a large tax to the government, which they will do cheerfully in view of the handsome returns war conditions have enabled them to make. Some of them, in the last year, have made profits equal to their capital stock. ~~There is a~~ tendency on the part of banks to abuse the Federal Reserve rediscount privilege. (The Governor, at this point, advised the Council of the Board's recent letter to all Federal Reserve Banks, in re abuse of rediscount privilege.)

No. 6. Mr. Lylerly:

Business conditions good; crops ~~are~~ <sup>excellent</sup> good. 35% to 50% of cotton grown ~~is~~ still in ~~the~~ hands of ~~the~~ producers, who ~~is~~ <sup>are</sup> holding for ~~a~~ price of 35 cents, but ~~there is~~ plenty of cotton in ~~the~~ hands of ~~the~~ mills. No disturbing elements in ~~the~~ district. ~~The~~ District has not, so far, suffered from ~~the~~ scarcity of labor. If any disturbance comes, it will be in ~~the~~ labor situation. District ~~is~~ anxious about ~~the~~



future, but feels amply able to meet any emergency that may arise.

No. 7. Mr. Forgan:

Conditions in the Chicago District since ~~the~~ signing of ~~the~~ armistice pretty much the same as stated with respect to ~~the~~ large cities of the East. A great many munitions manufacturers and industries ~~are~~ alarmed as to how ~~they are going~~ to meet their excess profits taxes, and have consulted their banks on the subject to a great extent. It will be a great relief to them to know that ~~the~~ excess profits taxes will not be as heavy as ~~was~~ anticipated before the signing of ~~the~~ armistice. <sup>business</sup> General/ conditions good and sufficient to employ all ~~the~~ funds of ~~the~~ bank. Banks have been able to reduce their rediscounts in Chicago by turning in ~~their~~ short time certificates to make first payments for ~~their~~ customers on ~~the~~ Fourth Loan, and thereby get deposits out of such first payments. ~~That~~ <sup>P</sup> process will be repeated this week when the second payment is made, and will continue so long as government deposits are held by them; but when these deposits are withdrawn by ~~the~~ government the banks will have to come back to ~~the~~ Federal Reserve Bank for assistance, because they have no money to carry certificates without the assistance of the Federal Reserve Bank. They have, however, ample money to care for their own customers. ~~There is one feature that was drawn to my attention at a meeting of the Executive Committee of the Federal Reserve Bank recently: We found that~~ Federal Reserve notes that had been out in the country in use in connection with ~~the~~ movement of crops are beginning to come in from member banks throughout the district. This process ~~is, of course,~~ greatly facilitated

by ~~the~~ Federal Reserve Banks sustaining ~~the~~ expense of shipments. ~~The~~  
 banks ~~are~~ not holding on to ~~the~~ notes but ~~are~~ shipping them in and  
 retiring their rediscounts and loans from the Federal Reserve Bank. ~~In the~~  
 district we ~~are~~ in a waiting condition. People want to know what con-  
 ditions are going to be so that they <sup>may</sup> ~~can~~ establish themselves <sup>on permanent basis</sup> under ~~the~~  
~~new conditions.~~ ~~They are all in pretty good condition.~~ <sup>Banks</sup> We ~~are~~ in liquid  
 shape and with ~~the~~ continued assistance of ~~the~~ Federal Reserve Bank, ~~we~~ <sup>will</sup>  
 go into ~~the~~ future without fear.

At this point, Mr. Williams asked Mr. Forgan:

"Do you not also feel that we owe our ability  
 to finance this war to the Federal Reserve  
 System?"

Mr. Forgan stated there was no doubt on that subject; <sup>that while</sup> as a matter of <sup>fact</sup>  
 course, ~~while we did not start~~ the Federal Reserve System for the pur-  
 pose of financing the war, it was very fortunate that the Federal Reserve  
 System was ready when we entered the war, <sup>was not started</sup> it <sup>in the nation</sup> had <sup>that</sup> carried us through in an  
 admirable way and <sup>that he did</sup> I ~~do~~ not think we could have conceived of any better  
 method of financing a situation such as has been produced by the war than  
 the Federal Reserve System <sup>has</sup> proved to be.

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No. 8, Mr. Watts:

Industrial conditions in the Eighth District differ only in degree from conditions prevailing in other districts. Merchants and manufacturers and others are maintaining a waiting attitude and <sup>which</sup> probably that attitude will continue for some little time. It is probable that rediscounts of the banks will lessen within the next thirty to sixty days, notwithstanding the withdrawal of government funds. There is some indication that the smaller banks have not only liquidated their own notes, but are in the market for commercial paper, which will, in the course of time, find its way to the larger cities and to St. Louis. The only matter of especial interest <sup>in</sup> to the district at this time is <sup>was</sup> the agitation for the establishment of a foreign bank. While it appears a somewhat ambitious undertaking for St. Louis, the bankers and merchants <sup>were</sup> are acting together in the investigation of the subject and ~~both~~ have indicated their willingness to join in the undertaking to establish one institution of sufficient importance to represent St. Louis.

more space

No. 9.

The Governor: <sup>stated that</sup> Some weeks ago, the Minneapolis District was calling upon the Board almost every day for rediscounts, <sup>that</sup> its reserves were down to 40% and it needed money to finance crop movements, but <sup>that</sup> today its reserve stands at 73% and the district is doing its share in rediscounting for other districts.

No. 9, Mr. Mitchell:

The situation has changed from one of low reserves to the highest, because the district enjoys a commodity that <sup>liquidates</sup> returns very rapidly. By reason of the fact that war industries are relatively

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small in the district, it will not suffer to the same extent as others, <sup>w</sup>  
By reason of the change from the war to the peace basis. The Country  
banker has liquidated very largely his indebtedness to the city banker  
and the member banks are not borrowing nearly as much as they were from <sup>the</sup>  
the Federal Reserve Bank.

No. 10. Mr. Swinney. Absent.

No. 11. Mr. Wilmot:

Conditions have improved very much since our last  
meeting sixty days ago. The district suffered almost continuous draught <sup>drought</sup>  
for three years up to October first, since which time it has had the  
benefit of twelve inches of rain. They are now planting oats and wheat  
and these crops look unusually good. <sup>Only</sup> The unfavorable situation in the <sup>with</sup>  
district is the condition of cotton. The market has been pretty high,  
34-35-35 $\frac{1}{2}$  cents, and that is a good price for it, but, based upon the  
supply and demand price of manufactured goods, many farmers want 40%.  
The peculiar feature of the situation is that farmers always hold for  
the highest market and actually sell at the lowest price. The Reason  
that the majority of cotton men in the South objected to cotton price-  
fixing was that they had had very short crops for the last few years, and  
thought that the law of supply and demand should regulate the price. The  
farmers felt, further, that the first need of the world upon the con-  
clusion of peace would be cotton, but right after the signing of the  
armistice a drop was had, and had it not been for the 200 point regula-  
tion of the Cotton Exchange, <sup>he</sup> I believed cotton would have gone to 10¢ or 15¢.

A report <sup>had been</sup> was received from New York that England was selling cotton on our market with the hope of reducing it as low as possible, to enable that country to secure its cotton supply at low prices.

Mr. Williams: Was that story <sup>asked if the had been</sup> going around <sup>and</sup> and did they have the <sup>if cotton men</sup> apprehension that there was a movement on the part of the Allies, or certain of them, to smash the price of cotton?

Mr. Wilmot: I do not know. <sup>said he did</sup> <sup>He added that</sup> The situation at the present time is that about 60% of the cotton crop of North Texas is being held by the farmers, merchants and cotton men and in South Texas about 35% to 40%. <sup>that</sup> Two weeks ago it was impossible for the farmers to sell 50 or 100 bales. Manufacturers wanted to buy, but shippers had more cotton on hand than they could get transports for. <sup>he had</sup> <sup>however</sup> Since ~~I~~ have been away there must have been a greater demand for cotton from some source, because it has gone up several hundred points, but if ships were available to transport cotton already sold to Switzerland, Spain and other neutral countries, it would relieve the situation in the South immediately.

Mr. Williams: <sup>asked Mr. Wilmot if he did</sup> Do you not think there <sup>was</sup> is a pretty good profit in cotton at 25¢ a pound? <sup>Mr. Wilmot did not think there was</sup>

Mr. Wilmot: No, not with the present high price of labor.

Mr. Williams: <sup>they asked</sup> "Is there not at least 5¢ a pound profit? As you know, 2¢ net profit was the rule a few years ago and so 5¢ would appear unusually good. / Do you not think that at 25¢, this price includes a profit of 5¢?"

Mr. Wilmot: <sup>said he</sup> I think the crop has <sup>she</sup> cost them as much as 25¢ on the whole crop; The price of everything that has been used in making the crop has been high also.

Mr. Williams: <sup>asked</sup> <sup>be</sup> What would you regard as a good profit on cotton at



21

these prices? <sup>and</sup> What do you think the farmer should get? <sup>to which the</sup>

<sup>replied that</sup> Mr. Wilmot: I should think \$15. a bale, - 3¢ net per pound, would be fair.

<sup>He added that</sup> The result of the failure to move cotton has <sup>and caused</sup> been <sup>the</sup> over extension of all the banks in <sup>the</sup> our district, as well as the Federal Reserve Bank. Member banks <sup>had</sup> have been rediscounting for sometime back, but ~~that~~ situation would be relieved in two weeks time if ~~this~~ cotton were moved. The Cotton situation and the financing of liberty loans <sup>had</sup> have caused nearly all the banks to be over extended, but <sup>the district</sup> they have a very valuable asset in <sup>it</sup> this cotton <sup>and</sup> <sup>that</sup> as soon as it ~~is~~ moved, money <sup>was</sup> will go into the banks to meet their liabilities and enable the reserve bank in turn to reduce notes and liabilities. <sup>He said</sup> No district responds quicker than Dallas when the staple crop moves. <sup>There</sup> <sup>were</sup> are in the district in the neighborhood of some 200,000,000. bales of cotton.

<sup>which</sup> If sold, it would put the banks and the Federal Reserve Bank in most excellent condition. <sup>Mr. Wilmot said the</sup> <sup>with Dallas</sup> Our new oil field <sup>is that</sup> has been a great help <sup>to us</sup>. Nearly every well put down has come in very large.

No. 12. Mr. Fleishhacker: We have in our <sup>had</sup> district some problems ~~that are~~ not common to others. The Quartermaster General of the Army <sup>had</sup> requisitioned California products. Canned salmon and dried fish ~~have been~~ held in storage by ~~the~~ Quartermaster General and ~~our~~ packers ~~have been~~ unable to sell ~~any of~~ these commodities, as in the past, to ~~the~~ shipping interests, <sup>which</sup> ~~this~~ has resulted in ~~tying up of~~ millions of dollars and is one of the reasons why the Twelfth District has gone up, to a considerable extent, in rediscounts. <sup>Its</sup> Entire crop of barley ~~is~~ in storage <sup>because</sup> as ~~there have been no cars~~ <sup>not</sup> available for its shipment. England and France have been direct buyers in the district in the past, and until these goods move out and ~~the~~ Quartermaster General

22

*detached unit*  
 lifts the embargo, we ~~are going to be~~ hard up. *California has* We have had one of the ~~biggest~~ *biggest* crops in the history of the state, and that *which also* is true of the whole Pacific Coast.

*might have been*  
 The Liberty Loan was not as successful as we ~~should like to see.~~  
 The above reasons are particularly responsible for the lack of money with which to buy bonds, ~~and as a result the banks would have to carry a larger percentage of this loan than of any previous issue.~~

*labor* situation is always acute on the Coast. Many thousands of men will be put out of employment by the arrival of peace, but they will find ready reemployment. *our* Problem will be to see that labor is employed. ~~If it is not, I look for parades with red flags. We have had that in California for twenty years.~~

*railroad improvements*

At this point Mr. Williams addressed the meeting, pointing to the many means at the disposal of the Secretary of the Treasury and the Director General of Railroads to direct the resumption of building *public* construction and *purchases* ~~operations heretofore planned~~ *stopped by war conditions* that will give employment to many thousands of men.

In closing the Conference, the Governor stated it had been most interesting and helpful, and expressed appreciation to the members of the Council for their most valuable suggestions, to which the Board would give due attention.

On motion, at 1:30 P. M. the Conference adjourned.

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Secretary.

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Chairman.

*Sp*  
*Nov 18 1918*  
*Meeting*

*Topics & replies Council*

FEDERAL RESERVE BOARD FILE  
*1303*

November 19, 1918.

*X-1273*

Dear Mr. Secretary:-

In accordance with your request, I hand you herewith copy of a list of topics which was submitted by the Board on October 30th to the Federal Advisory Council for its consideration, together with stenographic report of my remarks at the opening of the joint session with the Council, and copy of replies and recommendations which were made by the Council.

Very truly yours,

Hon. W. G. McAdoo,  
Secretary of the Treasury.

LEAVE BOARD FILE

RECOMMENDATIONS  
BY  
THE FEDERAL ADVISORY COUNCIL 130.  
TO  
THE FEDERAL RESERVE BOARD

NOVEMBER 19, 1918.  
.....

TOPIC NO. 1. Federal Reserve Notes.

Question: Is it desirable that steps should be taken to check further growth in the volume of Federal Reserve notes? If so, what action is recommended?

Answer:

During the period of readjustment and reconstruction on which we are now entering sudden changes in financial conditions are likely to arise which will have to be met with practical banking judgment. It would seem to be undesirable to take any steps to check further growth in the volume of Federal Reserve notes issued. The expansion which has taken place recently incident to war financing, and which will continue undoubtedly under additional government financing and probably through the reconstruction period, is made possible chiefly through the issue of Federal Reserve notes. Their issue and redemption respond to the requirements of trade. Natural and not artificial methods should control the situation.

TOPIC NO. 2. Development of open markets for bankers' acceptances.

Question: What steps can be taken to promote and accelerate the development in each Federal Reserve district of an open market for bankers' acceptances?

Answer:

No steps should be taken by the Federal Reserve Board as yet. Banking habits must be given time to develop and should not be rushed. The open market for bankers' acceptances is developing and must grow by use.

TOPIC NO. 3. Drafts drawn for the purpose of furnishing Dollar exchange.

The Board has heretofore granted permission to member banks to accept drafts drawn upon them by banks and bankers in Central and South America for the purpose of furnishing dollar exchange. The opinion of the Council is desired as to whether there are other countries in which the "usages of trade" are such as would warrant the extension of the Board's policy.

Recommendation:

This question does not seem to require immediate attention. Under the development of peace conditions undoubtedly the drawing of drafts to create dollar exchange from countries other than those prescribed may become necessary, but the matter can be considered more intelligently later as conditions develop.



TOPIC NO. 4. Extension of American banking facilities in foreign countries.

(A) Question: Are there any special steps which the Council would recommend that the Board should take for the purpose of encouraging the establishment of additional American banking facilities in foreign countries?

Answer:

The purpose of establishing American banking facilities in foreign countries is of course to encourage and enlarge American trade. The two go together. Branch banking in foreign countries may be considered as having developed most satisfactorily under the trying conditions which have prevailed since the Federal Reserve Act, which first authorized this method of banking, was enacted. Under peace conditions doubtless there will be further development and there would seem to be no steps necessary at this time to further encourage the business.

(B) Question: Should the Board, in the exercise of its powers over foreign branches of national banks and banking corporations engaged in foreign banking, in the stock of which national banks are permitted by the Board to invest, require that reserves of not less than a stated per cent be maintained against demand deposit liabilities of such branches and banks? If so, (a) should requirement be uniform in all countries in which such branches and banks are operated, and (b) of what should the reserve consist, and (c) what reserve percentage is recommended?

Answer:

We are advised that the Federal Reserve Board has already definitely decided this question on the lines that such banks will not be required to keep a fixed ratio of reserve and that foreign branches of national banks will not be required to keep any portion of their reserve in Federal Reserve Banks against deposits received in foreign countries, the whole matter of reserves of their foreign branches being left to the discretion of the parent institution. This Council concurs in the action of the Federal Reserve Board in this matter.

(C) Question: What limit or restriction should be imposed upon the acceptance power of banks engaged in foreign banking, which are operated under supervision of the Federal Reserve Board?

Answer:

At present the ratio of six to one between acceptances and capital and surplus would seem sufficient to meet the requirements, but as the business of the branches of American banks grows, there is reason to believe that it may be necessary later to increase the ratio, which, under proper control, can be done conservatively. When American banks begin to approach their present limit of six to one, and make application for permission to increase the ratio, would seem time enough to consider such extension. Branches of foreign banks are operated ordinarily without limits.



TOPIC NO. 5.

Question: What further services should be rendered by Federal Reserve banks to the public through additional free facilities granted to member banks?

Answer:

During the past year the Federal Reserve banks have added considerably to the free facilities afforded to the public through member banks. The Council has at this time no suggestion to make in regard to an extension of these free services. It would not seem desirable to add materially to the burdens assumed by the Federal Reserve banks until the relations of the Federal Reserve banks and their member banks are established upon a peace basis.

II

In view of the apparent near conclusion of hostilities, the attention of the Council is invited to the consideration of

After-war policies both domestic and foreign of the Federal Reserve system.

TOPIC NO. 6.

Question: With respect to the requirements of the domestic situation, should the policy of the Federal Reserve banks be restrictive or liberal? In other words, should contraction of credit and currency be a controlling consideration in the Board's policies?

Answer:

The policy of the Federal Reserve banks should be as liberal as is consistent with safety. Any attempt at enforced contraction of credit on their part would be injurious to the business interests of the country.

TOPIC NO. 7.

Question: In connection with the consideration of the changed position of the United States with respect to international finance and banking, what should be the policy of the Federal Reserve system with respect to

- A The management of its gold reserve;
- B Operations in the purchase and sale of foreign bills,

Answer:

A. Acting in conjunction with Great Britain the United States should get back to a free gold market as soon as feasible.

B. The purchase and sale of foreign bills should be engaged in by the Federal Reserve banks only as a means to regulate the exchange market and to control gold.

TOPIC NO. 8.

In connection with the discussion of A (Topic No. 7) consideration of the following further questions is asked:

Question:(a) Is it desirable that the gold embargo should be continued on shipments of gold to any country or group of countries after the termination of the war? If so, on what principle?

Question:(b) Should the gold embargo be lifted on behalf of any country or group of countries before the termination of the war?

Answer ( a and b ):

It would seem desirable that the question of the gold embargo be left to the Gold Committee, to be handled with such elasticity as developing conditions make advisable. If the Gold Committee of the Federal Reserve Board is free to pass on all applications for gold for shipment with entire freedom, the merits of each individual case in connection with the whole situation can decide its action. We would recommend that the necessary legislation be obtained as soon as possible continuing the powers of this Committee for a period of six months beyond the declaration of peace.

Question:(c) Is it desirable that the Federal Reserve system should undertake, by informal conferences with other central banking systems, to formulate policies or promote arrangements to regulate the international distribution and flow of gold in an orderly manner, at the end of the war?

Question:(d) Is it desirable that provision should be made in the treaty stipulations following the conclusion of war for the establishment, under suitable safe-guards and international guarantees, of international trust funds of gold so as to minimize the hazards and costs of gold shipments?

Answer ( c and d ):

It would not seem desirable at this time to encourage any informal conference with other central banking systems for the purposes stated. During the war we have had a close working arrangement with Great Britain. Such a working arrangement if continued would probably meet the situation. No treaty stipulations in connection with international trust funds of gold would seem to us to be desirable.

TOPIC NO. 9. In connection with the discussion of B (Topic No. 7) consideration of the following further questions is asked:

Question (a) Should it be the policy of the United States to establish and maintain a free gold market?

Answer:

The United States should as soon as possible re-establish and maintain a free gold market if it is to remain a world banker and hold the place it has secured during the past four years. Particularly will this be necessary if Great Britain carries out its intention of reestablishing its free gold market.

Question (b) If such a policy is adopted, should the main reliance of the reserve system be the adoption of the English practice of regulating the flow of gold by a variable discount rate?

Answer:

The main reliance of the Federal Reserve system should be the adoption of the English practice of regulating the flow of gold by establishing a variable discount rate.

#### ADDITIONAL RECOMMENDATIONS.

Amend the Federal Reserve Act to allow surpluses of Federal Reserve banks to accumulate until they are 100% of their paid-in capital.

The Federal Advisory Council recommends that the first paragraph of Section 7 of the Federal Reserve Act be amended to read as follows:

"Section 7. After all necessary expenses of a Federal Reserve bank have been paid or provided for, the stockholders shall be entitled to receive an annual dividend of six per centum on the paid-in capital stock, which dividend shall be cumulative. After the aforesaid dividend claims have been fully met, all the net earnings shall be paid into a surplus fund until it shall amount to one hundred per centum of the paid in capital stock of such bank, after which all the net earnings in excess of aforesaid dividend shall be paid to the United States as a franchise tax."

Amend Federal Reserve Act to allow member banks to accept foreign bills up to 300% of their capital and surplus.

It is generally conceded that following the declaration of peace, this country will have an opportunity to develop its foreign trade to an extent impossible before the war. If we are to develop and maintain our export and import trade it should be financed by American banks and bankers and it is therefore essential that the member banks be granted additional acceptance powers to properly take care of the increasing volume of dollar exchange and credits.

We recommend that the Federal Reserve Act be amended as soon as possible so as to allow member banks to accept on purely foreign transactions up to 200% of their capital and surplus. This limit to include acceptances of foreign banks or bankers for the account and under the guaranty of the member banks. This acceptance power to be in addition to that now provided by the Act for domestic acceptances.

To make bank acceptances available as reserve to the owning bank on the day of maturity.

The Council suggests the institution by the Federal Reserve Board of a uniform plan by which bank acceptances may be available as reserve to the owning bank on the day of maturity and payment. It would seem a simple process to accomplish this end by wire through the Gold Fund and the service would broaden the market for such acceptances.

Federal Reserve Banks should not afford non-member banks clearing privileges unless they belong to the Clearing House if any exists in the city in which they are located.

The Council recommends that the Federal Reserve Banks should adopt the policy of not permitting non-member banks to avail themselves of the privilege of clearing their items through them unless the non-member banks are members or affiliated members of the clearing house association if any exists in the city in which said non-member banks are located, and subject to Clearing House rules and regulations.



FEDERAL RESERVE BOARD FILE  
X-1273  
13 0

Minutes of session of Advisory Council with Board, at a joint meeting of the Federal Reserve Board and the Advisory Council, held in the Assembly Room, National Metropolitan Bank Building, Washington, D. C. on Monday, *Carded* November 18, 1918, at 11 o'clock, A. M.

Present: Mr. Harding, presiding  
Mr. Strauss  
Mr. Hamlin  
Mr. Miller  
Mr. Williams  
Mr. Broderick, Secretary.

of the Federal Reserve Board, and

Mr. Forgan  
Mr. Rue  
Mr. Morgan  
Mr. Wing  
Mr. Rowe  
Mr. Norwood  
Mr. Lyerly  
Mr. Watts  
Mr. Mitchell  
Mr. Wilmot  
Mr. Fleishhacker

of the Federal Advisory Council.

Present also: R. C. Leffingwell, Assistant Secretary of the Treasury.  
Benjamin Strong, Governor of the Federal Reserve Bank of New York.

In opening the session, Governor Harding said:

"We are meeting today under far happier auspices than upon the occasion of our last joint session. Today we are concerned with the problems of reconstruction and peace instead of those of the prosecution of the great War. We have the pleasure of having with us today Mr. Leffingwell, Assistant Secretary of the Treasury, who is present to represent the Secretary of the Treasury. Governor Strong, of the Federal Reserve Bank of New York,



is also present at our request to contribute the benefit of his views to the meeting. You have before you the topics suggested by the Board for discussion at the meeting. They are very comprehensive questions and are all inter-related, so instead of trying to discuss them in detail I believe I might better present briefly a general picture of the situation as the Board sees it.

It may be well to take a retrospective view of what the Federal Reserve Board has done during the past four years, or rather, some of the things it has not done. When the banks were organized on November 16, 1914, the shock given to credit institutions and industries by reason of the outbreak of the European War had largely subsided. Through the measures taken, and particularly through the issue of the emergency currency provided by the Aldrich-Vreeland Act, as amended by the Federal Reserve Act, the Federal Reserve Banks found themselves at the outset approaching a period of easy money. In 1915 and up to the early months of 1916, there was such a plethora of money that most of the Federal Reserve Banks were unable to make expenses, and the control contemplated over the banking situation by means of discount rates vested in the Board and the Federal Reserve Banks was nullified. Discount rates all over the country were abnormally low. As the Federal Reserve Banks were unable to get business under the prevailing low rates, they certainly would have gotten even less business at higher rates. Owing to the urgent demands of European belligerents for supplies and munitions of war for quick delivery, and as the result of their policy of shipping gold into this country in payment of their obligations here, we experienced abnormally easy-money conditions, which created a good market for foreign-owned American securities.

*billion*

The result was that we gained something over a ~~million~~ billion dollars in gold from January 1, 1915, to January 1, 1917. We saw a very large increase in the gold volume of bank credits as a result of our gold expansion.

The only period when the Federal Reserve Board was able to exercise any effective control over the banking situation was during the last two or three months of 1916, and the first quarter of 1917. You will remember that during these months the Board discouraged the purchase of municipal warrants, advanced discount rates, and advised the Federal Reserve Banks to put their affairs in the most liquid shape possible, and that very material increases in reserves had been effected by the first of April 1917. I believe you gentlemen will agree with me that the United States entered the war better prepared from a banking standpoint than in any other line of activity. After April 6, 1917, as you know, war necessities became paramount and imperative. It is not within the power of any group of banks or of any banking system to regulate the financial demands of war. War is a hard taskmaster; munitions and supplies must be had at all hazards and transported to the front without delay, and the only province of the banking community in this connection is to "come across" with the capital necessary to procure the goods and man power required. The military organization makes its requisitions and all other activities must adjust themselves to the military demands. Now, we are approaching the time of general international readjustment and reconstruction, and while the war, as far as actual hostilities are concerned, is ended, it is not over in a financial sense and from a standpoint of permanent adjustment. These problems of readjustment must be met by the civil authorities of the various nations supported by their military and naval power.

The question now arises, has the time come when the Federal Reserve Banks and the Federal Reserve Board can assume to undertake any aggressive policy relating to the topics that have been suggested to you for consideration, or whether we should merely consider them and get ready for the time when we can properly undertake the exercise of all the functions entrusted to us under the terms of the Federal Reserve Act. It seems to me that we must await more <sup>settled</sup> conditions,

We have, as you know, about \$2,558,000,000 of Federal reserve notes in circulation. The consolidated reserve against Federal reserve notes and deposits is today 49.9%. Looking at it in another way, if we set aside arbitrarily a reserve of 35% against deposits, we have a reserve of 59.6% against Federal reserve notes. The Federal Reserve Board announced some time ago that it would be its policy, in case these reserves should decline below the limit prescribed by law, to permit the reserve against deposits to fall as far as need be inasmuch as no penalty attaches to a deficiency in reserves against deposits and to allow the residue developed by such decline to apply as reserve against the Federal Reserve notes. As you know, if a deficiency of reserves against notes should arise it would develop perplexing complications. There is provided a penalty for deficient reserves on note issue on a graduated scale to be recouped by an addition to the discount rate. This deficiency and penalty would have to be figured out for each bank to determine what amount should be added to the discount rate to effect the recouperment. That might result in the addition of 1/42% or 1/64% to rates, so, in order to keep away from the complication, it seems far better to allow the deficient reserve to apply against deposits, where deficiencies are not penalized. Furthermore, deficiency in reserves against deposits would be less apt to create alarm than one against note

liabilities. We must, of course, bear in mind that there is a point beyond which deficiency in reserves against deposits cannot be permitted.

Indications are that we are coming back rapidly to a peace basis. A great many of the restrictions imposed by the War Industries Board and other branches of Executive Departments of the Government are fast being removed. For example, the domestic use of gold and silver for industrial purposes and in the arts has been freed of restrictions. I believe that the removal of restrictions against the use of gold and silver in the arts will have a very good effect because while it may result in the presentation of some Federal Reserve notes for redemption there will be afforded an opportunity to demonstrate that the Federal Reserve note is what it purports to be - redeemable in gold - and will show the people that there is no premium on gold in this country, which can be obtained by the presentation of Federal Reserve notes.

The restrictions imposed upon the exportation of gold were made effective over a year ago ( in September 1917) by an Executive Order of the President which put the whole matter in the hands of the Secretary of the Treasury, who in turn, gave to the Federal Reserve Board power to issue licenses in specific cases. The question arises as to when the Board should advise that these restrictions be modified or lifted entirely. The suggestion has been made that it would be proper to begin with the South and Central American nations. The Board itself is not unanimous on this subject. The majority of the Board is of the opinion that it would be well to be assured of our domestic position before taking any such action: to maintain the integrity of the Federal Reserve note, to be prepared to make any necessary redemptions to establish the fact that these note are always redeemable on demand in gold. So far as our dealings with foreign countries are concerned, it is evident



that our exchange situation all over the world is materially improved. This more satisfactory exchange position arises from several causes - direct negotiations by United States Treasury agents abroad and, the most compelling factor is, of course, our military success. Our present exchange situation is by no means acute.

The suggestion has been made that it would be wise policy for the Federal Reserve Banks to reduce their rates on bankers' acceptances against the exportation and importation of goods. Such a course would give the banks quickly available resources in the shape of prime investments and would enable us to meet foreign competition. There would be no reason then for anyone to hesitate as between drawing in dollars or in sterling or feel obliged to use sterling because of lower rates. In order to put the banks in a position to give these low rates it seems necessary to continue the existing rates on our internal transactions. There does not appear to be any reason why we should consider at this time any reduction of the discount rate on ninety day commercial paper or member banks' collateral notes.

Upon the entrance of the United States into the war, the Federal Reserve Board, in line with its policy of supporting the Government to the utmost of its ability, established a differential rate on paper secured by Government obligations. The rate of interest on Treasury certificates and Government bonds was established by the Secretary of the Treasury after consultation with various interests all over the country, and in order to make it possible for banks to engage in these transactions without being penalized, the Board felt that it would be helpful to establish a differential. The result has been that the invested resources of the Federal Reserve Banks are between



70% and 80% in paper secured by Government obligations and the balance in commercial obligations, with the further effect that the Federal Reserve notes outstanding are thus indirectly secured proportionately by Government obligations.

It is evident that a reduction in the Federal Reserve Banks' rate on bankers' acceptances will have a tendency to restore the proper equilibrium in the banks' invested resources and give them an opportunity gradually to work off these obligations secured by Government issues.

There is one further thought which I have not had an opportunity of discussing with my colleagues of the Board but which I venture to throw out - when the time comes for us to have larger dealings in gold with foreign countries there should be reached some definite understanding, It seems to be that before engaging in such transactions we must be assured of the responsibility of the governments with which we deal. It is, of course, obvious that our dealings with foreign countries must be based upon credit for some time to come. Mr. Leffingwell says that the Treasury expects to continue for some time to make advances to allied governments on account of their purchases in this country. When we consider our own national debt and the war obligations of Great Britain, France and Italy, we see that the smount of gold we have and the amount of gold in the world is wholly inadequate to serve as the basis for the debts. For this reason credits must be extended over a long period of years and extinguished by systematic saving and thrift. It would be absurd to attempt to set up a gold reserve against such gigantic obligations. As far as we are concerned, the gold against our Federal Reserve notes is adequate, so that, as we get

the Government obligations out of the banks and get back to a basis of liquid commercial paper the notes will automatically regulate themselves and solve any currency problems which may arise, thus preventing the complications which arose at the close of the Civil War.

Whenever we establish a free gold market in this country we should be particularly careful to see that it is not one-sided and that it works both ways. Take the case of a bank which suspends business and then is reorganized within a brief period. It as a rule provides for the payment of old deposits over a period of months or years in installments. It then opens its doors for business; any new deposits coming in are subject to payment in cash on demand, old deposits being treated as time obligations until due under the terms of the agreement. It seems to me that whoever has authority in the matter should require, whenever we come to a free gold basis, some definite understanding whereby such gold operations will be engaged in as current business and upon a basis of reciprocity, so that whenever our trade balance should permit or require there should be no obstruction to our drawing in gold because of the erection of artificial barriers on account of old war debts. Unless our free gold market is established upon that basis, a nation might withdraw gold and impound it as a reserve against its war debts instead of treating the gold transaction as one of current business.

The topics submitted to you for consideration cover the entire field of our financial problems, and in closing I would like to call the attention of the Council to that provision of Section 12 under which it has come into existence. I wish to express also, in behalf of my colleagues and myself, appreciation of the very considerate way in which you have treated the Board

in all our discussions. It seems to me that you have gone even beyond the bounds of courtesy in deferring to the Board, and I would like to call attention to the fact that this Advisory Council is a body organized by Congress with certain specific powers. It has the right not only to advise the Board but also to criticize its actions; it has the right to call for any specific information it desires and to ask "the reason why". As far as I am concerned ( and I am sure my colleagues of the Board take the same view ) I would welcome any suggestion and also any inquiry that you wish to make as to the why's and wherefore's of the Board policies. It seems to me that the adoption of a policy of this sort by the Council would be very helpful just now in building up some constructive policy upon which to base our work from this time forth. We have here a body of representative bankers from all sections of the country and certainly their views individually as well as collectively would be of great value to the country, so I hope you will not defer too much to the Board and that you will be as assertive as you please in order that we may have a friendly discussion of any matters which you may deem important.

Mr. Wilmot. Governor Harding, how much free gold has the Federal Reserve System now on hand?

Governor Harding: About \$500,000,000. The issue of Federal Reserve notes has not been materially increased for the past thirty days and the crop moving is pretty well advanced and there should be some contraction of the note issues during the next sixty days.

Auxiliary Minutes, Section 1 (a)

Minutes of session of Advisory Council with Board, at a joint meeting of the Federal Reserve Board and the Advisory Council, held in the Assembly Room, National Metropolitan Bank Building, Washington, D. C. on Monday, November 18, 1918, at 11 o'clock A. M.

Present: Mr. Harding, presiding  
Mr. Strauss  
Mr. Hamlin  
Mr. Miller  
Mr. Williams  
Mr. Broderick, Secretary.

of the Federal Reserve Board, and

Mr. Forgan  
Mr. Rue  
Mr. Morgan  
Mr. Wing  
Mr. Rowe  
Mr. Horwood  
Mr. Lyerly  
Mr. Watts  
Mr. Mitchell  
Mr. Wilmot  
Mr. Fleishacker

of the Federal Advisory Council.

Present also: R. C. Leffingwell, Assistant Secretary of the Treasury.  
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*Hillion*

The result was that we gained something over a billion dollars in gold from January 1, 1915, to January 1, 1917. We saw a very large increase in the gold volume of bank credits as a result of our gold expansion.

The only period when the Federal Reserve Board was able to exercise any effective control over the banking situation was during the last two or three months of 1916, and the first quarter of 1917. You will remember that during these months the Board discouraged the purchase of municipal warrants, advanced discount rates, and advised the Federal Reserve Banks to put their affairs in the most liquid shape possible, and that very material increases in reserves had been effected by the first of April 1917. I believe you gentlemen will agree with me that the United States entered the war better prepared from a banking standpoint than in any other line of activity. After April 6, 1917, as you know, war necessities became paramount and imperative. It is not within the power of any group of banks or of any banking system to regulate the financial demands of war. War is a hard taskmaster; munitions and supplies must be had at all hazards and transported to the front without delay, and the only province of the banking community in this connection is to "come across" with the capital necessary to procure the goods and man power required. The military organization makes its requisitions and all other activities must adjust themselves to the military demands. Now, we are approaching the time of general international readjustment and reconstruction, and while the war, as far as actual hostilities are concerned, is ended, it is not over in a financial sense and from a standpoint of permanent adjustment. These problems of readjustment must be met by the civil authorities of the various nations supported by their military and naval power.

The question now arises, has the time come when the Federal Reserve Banks and the Federal Reserve Board can assume to undertake any aggressive policy relating to the topics that have been suggested to you for consideration, or whether we should merely consider them and get ready for the time when we can properly undertake the exercise of all the functions entrusted to us under the terms of the Federal Reserve Act. It seems to me that we must await more bettered conditions.

We have, as you know, about \$2,558,000,000 of Federal reserve notes in circulation. The consolidated reserve against Federal reserve notes and deposits is today 49.9%. Looking at it in another way, if we set aside arbitrarily a reserve of 35% against deposits, we have a reserve of 59.6% against Federal reserve notes. The Federal Reserve Board announced some time ago that it would be its policy, in case these reserves should decline below the limit prescribed by law, to permit the reserve against deposits to fall as far as need be inasmuch as no penalty attaches to a deficiency in reserves against deposits and to allow the residue developed by such decline to apply as reserve against the Federal Reserve notes. As you know, if a deficiency of reserves against notes should arise it would develop perplexing complications. There is provided a penalty for deficient reserves on note issue on a graduated scale to be recouped by an addition to the discount rate. This deficiency and penalty would have to be figured out for each bank to determine what amount should be added to the discount rate to effect the recoupment. That might result in the addition of 1/42% or 1/64% to rates, so, in order to keep away from the complication, it seems far better to allow the deficient reserve to apply against deposits, where deficiencies are not penalized. Furthermore, deficiency in reserves against deposits would be less apt to create alarm than one against note



liabilities. We must, of course, bear in mind that there is an point beyond which deficiency in reserves against deposits cannot be permitted.

Indications are that we are coming back rapidly to a peace basis. A great many of the restrictions imposed by the War Industries Board and other branches of Executive Departments of the Government are fast being removed. For example, the domestic use of gold and silver for industrial purposes and in the arts has been freed of restrictions. I believe that the removal of restrictions against the use of gold and silver in the arts will have a very good effect because while it may result in the presentation of some Federal Reserve notes for redemption there will be afforded an opportunity to demonstrate that the Federal Reserve note is what it purports to be - redeemable in gold - and will show the people that there is no premium on gold in this country, which can be obtained by the presentation of Federal Reserve notes.

The restrictions imposed upon the exportation of gold were made effective over a year ago (in September, 1917) by an Executive Order of the President which put the whole matter in the hands of the Secretary of the Treasury, who, in turn, gave to the Federal Reserve Board power to issue licenses in specific cases. The question arises as to when the Board should advise that these restrictions be modified or lifted entirely. The suggestion has been made that it would be proper to begin with the South and Central American nations. The Board itself is not unanimous on this subject. The majority of the Board is of the opinion that it would be well to be assured of our domestic position before taking any such action: to maintain the integrity of the Federal Reserve note, to be prepared to make any necessary redemptions to establish the fact that these notes are always redeemable on demand in gold. So far as our dealings

with foreign countries are concerned, it is evident that our exchange situation all over the world is materially improved. This more satisfactory position arises from several causes - direct negotiations by United States Treasury agents abroad and, the most compelling factor is, of course, our military success. Our present exchange situation is by no means acute.

The suggestion has been made that it would be wise policy for the Federal Reserve Banks to reduce their rates on bankers' acceptances against the exportation and importation of goods. Such a course would give the banks quickly available resources in the shape of prime investments and would enable us to meet foreign competition. There would be no reason then for anyone to hesitate as between drawing in dollars or in sterling or feel obliged to use sterling because of lower rates. In order to put the banks in a position to give these low rates it seems necessary to continue the existing rates on our internal transactions. There does not appear to be any reason why we should consider at this time any reduction of the discount rate on ninety day commercial paper or member banks' collateral notes.

Upon the entrance of the United States into the war, the Federal Reserve Board, in line with its policy of supporting the Government to the utmost of its ability, established a differential rate on paper secured by Government obligations. The rate of interest on Treasury certificates and Government bonds was established by the Secretary of the Treasury after consultation with various interests all over the country, and in order to make it possible for banks to engage in these transactions without being penalized, the Board felt that it would be helpful to establish a differential. The result has been that the invested resources of the Federal Reserve Banks are between



70% and 80% in paper secured by Government obligations and the balance in commercial obligations, with the further effect that the Federal Reserve notes outstanding are thus indirectly secured proportionately by Government obligations.

It is evident that a reduction in the Federal Reserve Banks' rate on bankers' acceptances will have a tendency to restore the proper equilibrium in the banks' invested resources and give them an opportunity gradually to work off these obligations secured by Government issues.

There is one further thought which I have not had an opportunity of discussing with my colleagues of the Board but which I venture to throw out - when the time comes for us to have larger dealings in gold with foreign countries there should be reached some definite understanding. It seems to be that before engaging in such transactions we must be assured of the responsibility of the governments with which we deal. It is, of course, obvious that our dealings with foreign countries must be based upon credit for some time to come. Mr. Leffingwell says that the Treasury expects to continue for some time to make advances to allied governments on account of their purchases in this country. When we consider our own national debt and the war obligations of Great Britain, France and Italy, we see that the amount of gold we have and the amount of gold in the world is wholly inadequate to serve as the basis for the debts. For this reason credits must be extended over a long period of years and extinguished by systematic saving and thrift. It would be absurd to attempt to set up a gold reserve against such gigantic obligations. As far as we are concerned, the gold against our Federal Reserve notes is adequate, so that, as we get the

Government obligations out of the banks and get back to a basis of liquid commercial paper the notes will automatically regulate themselves and solve any currency problems which may arise, thus preventing the complications which arose at the close of the Civil War.

Whenever we establish a free gold market in this country we should be particularly careful to see that it is not one-sided and that it works both ways. Take the case of a bank which suspends business and then is reorganized within a brief period. It as a rule provides for the payment of old deposits over a period of months or years in instalments. It then opens its doors for business; any new deposits coming in are subject to payment in cash on demand, old deposits being treated as time obligations until due under the terms of the agreement. It seems to me that whoever has authority in the matter should require, whenever we come to a free gold basis, some definite understanding whereby such gold operations will be engaged in as current business and upon a basis of reciprocity, so that whenever our trade balance should permit or require there should be no obstruction to our drawing in gold because of the erection of artificial barriers on account of old war debts. Unless our free gold market is established upon that basis, a nation might withdraw gold and impound <sup>it</sup> as a reserve against its war debts instead of treating the gold transaction as one of current business.

The topics submitted to you for consideration cover the entire field of our financial problems, and in closing I would like to call the attention of the Council to that provision of Section 12 under which it has come into existence. I wish to express also, in behalf of my colleagues and myself, appreciation of the very considerate way in which you have treated the Board

in all our discussions. It seems to me that you have gone even beyond the bounds of courtesy in deferring to the Board, and I would like to call attention to the fact that this Advisory Council is a body organized by Congress with certain specific powers. It has the right not only to advise the Board but also to criticize its actions; it has the right to call for any specific information it desires and to ask "the reason why" As far as I am concerned ( and I am sure my colleagues of the Board take the same view ) I would welcome any suggestion and also any inquiry that you wish to make as to the why's and wherefore's of the Board policies. It seems to me that the adoption of a policy of this sort by the Council would be very helpful just now in building up some constructive policy upon which to base our work from this time forth. We have here a body of representative bankers from all sections of the country and certainly their views individually as well as collectively would be of great value to the country, so I hope you would not defer too much to the Board and that you will be as assertive as you please in order that we may have a friendly discussion of any matters which you may deem important.

Mr. Wilmot. Governor Harding, how much free gold has the Federal Reserve System now on hand?

Governor Harding: About \$500,000,000. The issue of Federal Reserve notes has not been materially increased for the past thirty days and the crop moving is pretty well advanced and there should be some contraction of the note issues during the next sixty days.



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MERRITT H. GRIM, SECRETARY

EXECUTIVE COMMITTEE  
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L. L. RUE  
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HERBERT FLEISHHACKER, DISTRICT NO. 12

CHICAGO, Nov. 13, 1918

Mr J A Broderick, Secretary  
Federal Reserve Board,  
Washington, D C

Dear Mr Broderick:-

I have yours of 2nd inst., just received, enclosing Digest and Index of Opinions of Counsel, 1915 1916 and June 1918 Bulletin, for which I desire to thank you.

I also appreciate your thoughtfulness in regard to the typewriter, which I will doubtless need. The topics sent us are quite numerous and under existing conditions there may be many others suggested, so we may have a great deal of work to do.

Hoping to see you next week, I am

Very truly yours,

*Merritt H. Grim*

Secretary  
First National Bank, Chicago.

*File no answer*





FEDERAL RESERVE BOARD FILE  
138.

November 2, 1918.

Mr. Merritt H. Grimm,  
Secretary, Federal Advisory Council,  
Chicago, ILL.

My dear Mr. Grimm:

Your letter of October 30th has just come to hand and I note that the next stated meeting of the Federal Advisory Council will be held on Monday and Tuesday, November 18 and 19th. We shall arrange to have the Board's Assembly Room in the National Metropolitan Bank Building put in readiness for this meeting. I assume you will want to arrange for a typewriter and unless I hear from you to the contrary I shall have one on hand for you.

In response to your request I take pleasure in sending you herewith copy of the "Digest and Index of Opinions of Counsel" for 1915 and 1916, also copy of the June 1918 Bulletin which carries rulings up to and including the month of April 1918.

Yours very truly,

*J. M. Proctor*  
Secretary.

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L. L. RUE, VICE-PRESIDENT  
MERRITT H. GRIM, SECRETARY

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139

CHICAGO. November 2, 1918

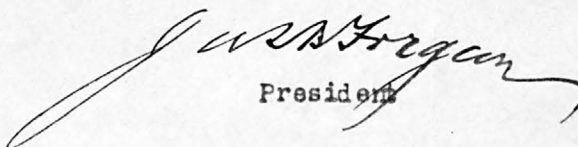
A. C. Miller, Esq.,  
Federal Reserve Board  
Washington, D C

My dear Dr Miller:-

I have your letter of 30th ulto. submitting to this Council the topics and questions prepared by the Executive Committee of the Federal Reserve Board for its consideration at its forthcoming meeting in Washington.

I have had copies of your letter made and have sent them to the members of the Council so they can have opportunity to consider them preparatory to the meeting. Thanking you for your courtesy in the matter, I am

Very truly yours,

  
President

RECORD BOARD

JAMES B. FORGAN, PRESIDENT  
L. L. RUE, VICE PRESIDENT  
MERRITT H. GRIM, SECRETARY

EXECUTIVE COMMITTEE  
JAMES B. FORGAN  
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W. S. ROWE

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E. P. WILMOT, DISTRICT No. 11  
HERBERT FLEISHACKER, DISTRICT No. 12

CHICAGO, October 30, 1918

Mr J A Broderick, Secretary  
Federal Reserve Board,  
Washington, D C

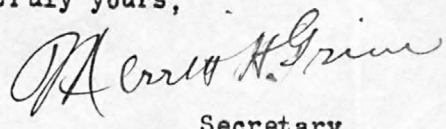
Dear Mr Broderick:-

The next statutory meeting of the Federal Advisory Council will be held in Washington -- at the Federal Reserve Board room? -- on Monday and Tuesday, November 18th and 19th, convening at 11 A M on the 18th.

I would like to get another copy of the "Digest and Index of Opinions of Counsel, informal rulings of the Federal Reserve Board, etc. from the Federal Reserve Bulletin 1915-1916." This is a pamphlet printed in 1917. Will you kindly have some one send me a copy? If however there has been a later publication covering the same material down to date, I should like to have two copies of it.

Thanking you in advance, I am

Very truly yours,



Secretary  
First National Bank,





List of topics and questions for discussion by the Federal Advisory Council at its meeting November 18th and 19th, 1918.

I.

1. Federal Reserve Notes.

Is it desirable that steps should be taken to check further growth in the volume of Federal Reserve notes issued? If so, what action is recommended?

2. Development of open markets for bankers' acceptances.

What steps can be taken to promote and accelerate the development in each Federal Reserve District of an open market for bankers' acceptances?

3. Drafts drawn for the purpose of furnishing dollar exchange.

The Board has heretofore granted permission to member banks to accept drafts drawn upon them by banks and bankers in Central and South America for the purpose of furnishing dollar exchange.

The opinion of the Council is desired as to whether there are other countries in which the "usages of trade" are such as would warrant the extension of the Board's policy.

4. Extension of American banking facilities in foreign countries.

(A) Are there any special steps which the Council would recommend that the Board should take for the purpose of encouraging the establishment of additional American banking facilities in foreign countries?

(B) Should the Board, in the exercise of its powers over foreign branches of national banks and banking corporations engaged in foreign banking, in the stock of which national banks are permitted by the Board to invest, require that reserves of not less than a stated per cent be maintained against demand deposit liabilities of such branches and banks? If so, (a) should requirement be uniform in all countries in which such branches and banks are operated, and (b) of what should the reserve consist, and (c) what reserve percentage is recommended?

(C) What limit or restriction should be imposed upon the acceptance power of banks engaged in foreign banking, which are operated under supervision of the Federal Reserve Board?



5. What further services should be rendered by Federal Reserve Banks to the public through additional free facilities granted to member banks

## II.

In view of the apparent near conclusion of hostilities the attention of the Council is invited to the consideration of:

After-war policies, both domestic and foreign, of the Federal Reserve System.

1. With respect to the requirements of the domestic situation, should the policy of the Federal Reserve banks be restrictive or liberal? In other words, should contraction or credit and currency be a controlling consideration in the Board's policies?

2. In connection with the consideration of the changed position of the United States with respect to international finance and banking, what should be the policy of the Federal Reserve System with respect to?

- (A) The management of its gold reserve;
- (B) Operations in the purchase and sale of foreign bills?

In connection with the discussion of (A), consideration of the following further questions is asked:

(a) Is it desirable that the gold embargo should be continued on shipments of gold to any country or group of countries after the termination of the war? If so, on what principle?

(b) Should the gold embargo be lifted on behalf or any country or group of countries before the termination of the war?

(c) Is it desirable that the Federal Reserve System should undertake, by information conferences with other central banking systems, to formulate policies or promote arrangements to regulate the international distribution and flow of gold in an orderly manner, at the end of the war?

(d) Is it desirable that provision should be made in the treaty stipulations following the conclusion of war for establishment, under suitable safe-guards and international guarantees, of inter-

national trust funds of gold so as to minimize the hazards and costs of gold shipments?

In connection with the discussion of (B), consideration of the following further questions is asked?

(a) Should it be the policy of the United States to establish and maintain a free gold market?

(b) If such a policy is adopted, should the main reliance of the Reserve System be the adoption of the English practice of regulating the flow of gold by a variable discount rate?

*Copy  
from J. H. ...  
11/5/18*

October 30, 1918.

Dear Mr. Forgan:

In the absence of Governor Harding, there has been referred to me for reply your letter to him of October 25th advising that the next statutory meeting of the Federal Advisory Council will be held in Washington on Monday and Tuesday, November 18th and 19th, and requesting that you be sent a list of topics which the Federal Reserve Board desires to have considered by the Federal Advisory Council at its coming meeting.

At a meeting of the Executive Committee of the Board held this afternoon, the following topics and questions were agreed upon to be submitted to the Council:

I

1. Federal Reserve Notes.  
Is it desirable that steps should be taken to check further growth in the volume of Federal Reserve notes issued? If so, what action is recommended?
2. Development of open markets for bankers' acceptances.  
What steps can be taken to promote and accelerate the development in each Federal Reserve District of an open market for bankers' acceptances?
3. Drafts drawn for the purpose of furnishing dollar exchange.  
The Board has heretofore granted permission to member banks to accept drafts drawn upon them by banks and bankers in Central and South America for the purpose of furnishing dollar exchange.  
The opinion of the Council is desired as to whether there are other countries in which the "usages of trade" are such as would warrant



the extension of the Board's policy.

4. Extension of American banking facilities in foreign countries.
  - (A) Are there any special steps which the Council would recommend that the Board should take for the purpose of encouraging the establishment of additional American banking facilities in foreign countries?
  - (B) Should the Board, in the exercise of its powers over foreign branches of national banks and banking corporations engaged in foreign banking, in the stock of which national banks are permitted by the Board to invest, require that reserves of not less than a stated per cent be maintained against demand deposit liabilities of such branches and banks? If so, (a) should requirement be uniform in all countries in which such branches and banks are operated, and (b) of what should the reserve consist, and (c) what reserve percentage is recommended?
  - (c) What limit or restriction should be imposed upon the acceptance power of banks engaged in foreign banking, which are operated under supervision of the Federal Reserve Board?
5. What further services should be rendered by Federal Reserve banks to the public through additional free facilities granted to member banks?

## II.

In view of the apparent near conclusion of hostilities, the attention of the Council is invited to the consideration of:

After-war policies, both domestic and foreign, of the Federal Reserve System.

1. With respect to the requirements of the domestic situation, should the policy of the Federal Reserve banks be restrictive or liberal? In other words, should contraction of credit and currency be a controlling consideration in the Board's policies?
2. In connection with the consideration of the changed position of the United States with respect to international finance and banking, what should be the policy of the Federal Reserve System with respect to:



Mr. Forgan - 3.

- (A) the management of its gold reserve;
- (B) operations in the purchase and sale of foreign bills?

In connection with the discussion of (A), consideration of the following further questions is asked:

- (a) Is it desirable that the gold embargo should be continued on shipments of gold to any country or group of countries after the termination of the war? If so, on what principle?
- (b) Should the gold embargo be lifted on behalf of any country or group of countries before the termination of the war?
- (c) Is it desirable that the Federal Reserve System should undertake, by informal conferences with other central banking systems, to formulate policies or promote arrangements to regulate the international distribution and flow of gold in an orderly manner, at the end of the war?
- (d) Is it desirable that provision should be made in the treaty stipulations following the conclusion of war for the establishment, under suitable safe-guards and international guarantees, of international trust funds of gold so as to minimize the hazards and costs of gold shipments?

In connection with the discussion of (B), consideration of the following further questions is asked:

- (a) Should it be the policy of the United States to establish and maintain a free gold market?
- (b) If such a policy is adopted, should the main reliance of the Reserve System be the adoption of the English practice of regulating the flow of gold by a variable discount rate?

Doubtless other topics will suggest themselves to the Council, either before or after it convenes at the conference, and the Board may have a few additional suggestions to offer. The foregoing, however, embraces a considerable list of topics, many of which will demand careful and extended study.

Believe me,

Very truly yours,

Mr. James B. Forgan, Pres.,  
Federal Advisory Council,  
Chicago, Illinois.

A. C. Miller.

The attached &  
letter to Mr. Jagan Oct 30  
when sent to file after  
circulating.

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What further services should  
be rendered by DRR Banks  
to the public through  
additional free facilities  
to member Banks.

133.

Issue of Federal Reserve Notes

---

Is it desirable to curtail further expansion in the volume of Federal Reserve Notes outstanding; If so, what action is recommended?



Acceptance of drafts drawn for the purpose of furnishing dollar exchange

---

The Board has heretofore granted permission to member banks to accept drafts drawn upon them by banks and bankers in Central and South American countries, to furnish dollar exchange.

In the opinion of Council are there other countries in which the usages of trade are such as would warrant the extension of the Board's policy?

Development of open markets for Bankers' Acceptances.

What steps can be taken to promote and accelerate the development, in each Federal Reserve District, of an open market for bankers' acceptances.

Acceptances against domestic transactions

---

Should a recommendation be made for the amendment to the Federal Reserve Act so that the Federal Reserve Board would be authorized to permit member banks to accept up to extent of 100% of capital and surplus, drafts growing out of domestic transactions.

October 30, 1918.

1. Extension of American Banking Facilities in Foreign Countries.

(A) Are there any special steps which the Council would recommend that the Board should take for the purpose of encouraging the establishment of additional American banking facilities in foreign countries.

(B) Should the Board, in the exercise of its powers over foreign branches of National Banks and banking corporations engaged in foreign banking, in the stock of which national banks are permitted by the Board to invest, require that reserves of not less than a stated per cent be maintained against demand deposit liabilities of such branches and banks; If so, (a) should requirement be uniform in all countries in which such branches and banks are operated, and (b) of what should the reserve consist, ~~and~~ (c) what reserve percentage is recommended; ~~(d)~~ what limit or restriction should be imposed upon the acceptance power of banks engaged in foreign banking, which are operated under supervision of Federal Reserve Board.

c



II

In view of the apparent near conclusion of hostilities, the attention of the Council is invited to the consideration of:

- (1) After-war policies of the Federal Reserve System, both domestic and foreign.

1 ~~FR~~ With respect to the requirements of the domestic situation, should the domestic policy of the Federal Reserve banks be restrictive or liberal? In other words, should contraction of credit and currency be a controlling consideration in the Board's policies?

2 In connection with the consideration of the changed position of the United States with respect to international finance and banking, what should be the policy of the Federal Reserve System with respect to:

- (A) the management of its gold reserve;  
(B) operations in the purchase and sale of foreign bills?

In connection with the discussion of (A), consideration of the following further questions is asked:

- (a) Is it desirable that the gold embargo should be continued for any country or group of countries after the termination of the war?  
*If so on what principle?*
- (b) Should the gold embargo be lifted on behalf of any country or group of countries before the termination of the war?
- (c) Is it desirable that the Federal Reserve System should undertake, by informal conferences with other central banking systems ~~either at the end of the war or before~~, to promote arrangements to ~~establish a permanent~~ *establish policies and arrangements to regulate the international distribution and flow of gold in an orderly manner, at the level of the Council?*
- (d) Is it desirable that provision should be made in the treaty stipulations following the conclusion of war for the establishment, under suitable safe-guards and international guarantees, of international trust funds of gold so as to minimize the hazards and costs of gold ~~movements?~~ *Shipments?*

*on shipments of gold to*

In connection with the discussion of (B), consideration of the following further questions is asked:

(a) Should it be the ~~avowed~~ policy of the United States to establish and maintain a free gold market?

(b) If such a policy is adopted, should the reserve system ~~adopt~~ the English practice of regulating the flow of gold by a variable discount rate?

*be the adoption*

*Main source of the*

VALLEY PAPER CO

October 28, 1918.

~~Dear~~ Sir:

Your letter of October 25th requesting that you be furnished with a list of topics which the Federal Reserve Board desires to submit to the Federal Advisory Council for its consideration at the meeting to be held November 16th - 19th, has been received during Governor Harding's absence from the city.

Your letter will be immediately brought to the attention of the other members of the Federal Reserve Board, and to Governor Harding on his return.

Respectfully yours,

Secretary to the Governor.

Mr. Jas. B. Forgan,  
President Federal Advisory Council,  
Chicago, Illinois.



OFFICERS

JAMES B. FORGAN, PRESIDENT  
L. L. RUE, VICE-PRESIDENT  
MERRITT H. GRIMM, SECRETARY

EXECUTIVE COMMITTEE

JAMES B. FORGAN  
L. L. RUE  
J. P. MORGAN  
DANIEL G. WING  
W. S. ROWE

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FEDERAL ADVISORY COUNCIL

OFFICE OF THE PRESIDENT

RECEIVED  
OCT 28 1918  
GOVERNOR'S OFFICE

CHICAGO, October 25, 1918

130.

Hon. W. P. G. Harding,  
Governor  
Federal Reserve Board,  
Washington, D C

Dear Mr. Harding:-

The next statutory meeting of the Federal Advisory Council will be held in Washington, D C, on Monday and Tuesday, November 18th and 19th.

Will you be good enough to give me at your early convenience a list of topics which the Federal Reserve Board desire to submit to the Federal Advisory Council for its consideration at this meeting. As soon as I hear from you I intend to send a copy of the subjects to each member of the Council as before.

Thanking you in advance for your attention to this matter, and hoping to see you in Washington at the time of the meeting, I am,

Very truly yours,

*James B. Forgan*  
President

11/19/18



FEDERAL RESERVE BANK  
OF NEW YORK

130.  
RECEIVED  
1918  
GOVERNOR'S OFFICE

September 23, 1918.

Honorable W. P. G. Harding,  
Governor, Federal Reserve Board,  
Washington, D. C.

Dear Governor Harding:

At the conference of Federal Reserve Agents held in Washington some months ago, Mr. Caldwell Hardy and I were appointed a committee to assign tentatively the years in which the various Federal reserve banks would elect new members to the Federal Advisory Council, the understanding being that the term of a member would be three years, which corresponds with the term of directors of Federal reserve banks, that is, one election and two re-elections, to comply with statutory provision for the annual election of members of the Council.

Since that time the matter has been discussed by each Federal reserve bank, and following is a summary of advices received from the several Federal reserve agents:

PROPOSED SCHEDULE FOR ELECTION OF MEMBERS  
OF FEDERAL ADVISORY COUNCIL

1919  
New York  
Richmond ✓  
Minneapolis  
San Francisco

1920  
Boston  
Cleveland ✓  
Atlanta  
Kansas City ✓

1921  
Philadelphia ✓  
Chicago  
St. Louis ✓  
Dallas

ACTION TAKEN BY RESPECTIVE BOARDS

1919  
Richmond  
New York  
San Francisco  
Minneapolis

1920  
Boston  
Cleveland  
Kansas City  
Atlanta

1921  
Dallas (See note)  
Philadelphia

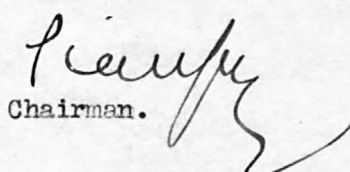
9/23/18

St. Louis: Directors do not believe it consistent with the meaning of the Federal Reserve Act that any agreement, tentative or otherwise, should be entered into between the various banks as to the election of members to the Federal Advisory Council.

Chicago: Federal Reserve Agent advises that so long as their present incumbent continues as Federal Advisory Council member, they think it unwise to consider a plan for rotation in membership.

Dallas: Directors accept the principle and elected a new member in 1918. They make reservation, however, that they cannot promise just what their course will be in the future.

Very truly yours,

  
Chairman.

PJ/MAF

P. S. Of course, it should be understood that each board of directors is at all times free to take such action in this matter as it may see fit, but it is presumed that the banks will follow the above schedule unless there are reasons to the contrary.

*Rotations*

*9/25/18*

*# 2*

FEDERAL RESERVE BOARD F.L.  
*13 2. 1*

Mr. Jay reports efforts to revise plan of election of members of  
Federal Advisory Council.

*Read*

*Voluntary arrangement - No legal effect or binding*

*Sept 16, 1918*

FEDERAL RESERVE BOARD FILE  
*130* X-1211

For immediate release September 18, 1918.

*X1211*

*Carded*

STATEMENT FOR THE PRESS

The Federal Reserve Advisory Council held its regular quarterly session on September 16 and 17, two joint sessions being held with the Federal Reserve Board.

The members of the Council were present as follows:

Messrs. Wing (Boston), Morgan (New York), Rue (Philadelphia), Rowe (Cleveland), Norwood (Richmond), Lyerly (Atlanta), Forgan (Chicago), Watts (St. Louis), Mitchell (Minneapolis), Swinney (Kansas City), Wilmot (Dallas), and Fleishacker (San Francisco).

The existing financial situation was fully discussed, and the Council expressed itself as being in entire accord with the discount policy at present pursued by the Board, feeling that satisfactory progress is being made in the curtailment of nonessential and less essential credits, and that proper regulation of the entire credit situation can be accomplished without further advances in discount rates.



*Not necessarily correct 130'*

*9/17/18*

RECOMMENDATIONS OF THE  
FEDERAL ADVISORY COUNCIL TO THE  
FEDERAL RESERVE BOARD.

TOPIC NO. 1.      Development of the acceptance market.  
                    (With reference to the call loan rate of  $4\frac{1}{2}\%$   
                    recently establishment in New York on notes  
                    secured by acceptances. )

Recommendation: -

The making of a preferential rate by banks in the financial centers on demand loans secured by acceptances will aid in the development of the market for acceptances by facilitating and encouraging their use. It seems to us that the acceptance market is developing wonderfully well under existing circumstances which <sup>are</sup> ~~are~~ favorable for the making of such forms of credit are not so favorable for the marketing of them.

TOPIC NO. 3.      The use of bankers' and trade acceptances in financing the movement of crops.

Recommendation:-

The Council is of the opinion that the bankers and commercial interests are both alive to the use of trade and bankers' acceptances and that the use of these forms of credit is being developed as rapidly as can be expected under present conditions. While conservative bankers are disposed to encourage the legitimate use of bankers' acceptances they are equally disposed to discourage their misuse where the transaction does not naturally arise in the usual course of their customers' business. They are inclined to hold their acceptance privilege in reserve for the benefit of their customers engaged in essential lines of business, whose credit requirements are enhanced by war orders.

TOPIC NO. 3. Progress of the movement to curtail non-essential credits.

(a) Have results thus far been obtained without undue hardships ?

~~Recommendation:-~~ *Answer*

The efforts of the Federal Reserve Board followed up by various Clearing House associations and other bodies <sup>have</sup> ~~has~~ we believe resulted in bankers generally discriminating between essential and non-essential credits and in a reduction of the latter. They cannot however enforce payment of current loans nor can they indiscriminately decline new credits to the point of causing hardships and embarrassments to their customers without such action retaliating against themselves, hence, ~~we~~ <sup>we</sup> are of the opinion that no undue hardships have resulted and we believe that as a rule borrowers are cooperating with the banks by curtailing their demands for credit for non-essential purposes.

(b) Is it practicable to lay down any general rule governing a differentiation between essential and non-essential credits, and if so, what is the best method of its application ?

Recommendation:-

As applications for bank credit are of such unlimited variety that each must be dealt with on its individual merits, we ~~are inclined to~~ doubt the feasibility of laying down any general rule governing a differentiation between essential and non-essential credits. We believe bankers generally appreciate the necessity for such differentiation and fully understand the difference between essential, ~~less~~ essential and non-essential credits. Moreover the demand for essential credits is so strong as to make it as unnecessary as it would be unwise and unpatriotic to fail to discriminate in their favor. We believe the persistent prosecution of the

Federal Reserve Board's efforts, already well developed, will be all that is necessary,

TOPIC NO. 4. (a) Investments of banks in public utility securities and loans on such collateral.

Recommendation: -

It is most essential that the assets of the banks of the country be kept in as liquid form as possible and with this in view they should not invest to any large extent in public utility securities nor make loans on such collateral.

(b) What can be done to assist public utilities in the emergency which now confronts them?

Recommendation: *Answer.*

In our opinion a mistake was made in the law under which the War Finance Corporation was organized by involving the banks in the financing of public utilities. The law should be ~~amended~~ <sup>or such legislation enacted</sup> as to give the War Finance Corporation <sup>general instead of emergency</sup> powers to deal directly with the borrowers without the intervention of the banks, or through some other corporation <sup>or agency</sup> organized for the purpose. It is highly desirable that loans should be made to public utilities only where rates are granted which are adequate to meet the present cost of operation.

TOPIC NO. 5. Distribution of Liberty bonds and discussion of preferential rates at Federal Reserve banks on paper secured by Government obligations.

Recommendation:

We would recommend that the member banks should make loans on the



Fourth Liberty Loan bonds on the same terms as those very generally made on the Third Liberty Loan bonds, viz., the coupon rate for ninety days' loans, with a moderate advance over that rate for renewals, and that the Federal Reserve banks to encourage subscriptions to the new loan should make a preferential rate on ninety days' loans of from  $\frac{1}{4}$  to  $\frac{1}{2}$  of one per cent below the coupon rate.

**TOPIC NO. 6. Gold embargo.**

**Recommendation:**

The Council is of the opinion that it would be unwise to permit the free export of gold at this time in view of the fact that it is impossible to accurately estimate the amount that would be required not only to adjust our own trade balances but those of our Allies to neutral countries, particularly South America.

In regard to the release of gold to Mexico in return for silver bullion, we believe that if a substantial increase in silver imported from that country can be obtained by increasing somewhat the percentage of gold exported against silver bullion shipped us, such an arrangement would under present conditions be to our advantage.

**TOPIC NO. 7. Supervision by the Capital Issues Committee of loans made by banks for capital purposes.**

**Recommendation:-**

We would recommend that the member banks be urged to cooperate with the Capital Issues Committee in its effort to obtain full information of projected capital issues, so that the consent of the Committee may be obtained before any financial commitments are made by prospective borrowers.



TOPIC NO. 8. Discount rates.

Recommendation:-

It is the opinion of the Council that the discount rates of the Federal Reserve banks have been properly and carefully regulated by the directors of the respective banks with the approval of the Federal Reserve Board and we see no occasion at present for any change either in the existing rates or policy other than as we have ~~repeatedly~~ recommended for the encouragement of subscriptions to the Fourth Liberty Loan.

ADDITIONAL RECOMMENDATION

TOPIC NO. 9. Tax on undistributed earnings of banks, proposed in pending legislation.

Recommendation:-

In view of the fact that the undistributed earnings of banks immediately become additional banking capital, which should be conserved during this war period, the Council recommends that an exception be made of the banks so that as was provided in the previous tax law the normal rate only shall apply to their undistributed profits and that the Federal Reserve Board take steps to bring this matter before the proper committees of congress.

## ADDITIONAL TOPIC

TOPIC NO. 10. Member state banks to receive government deposits.

## Recommendation:-

For the purpose of affording state banks coming into the Federal Reserve system all the privileges afforded to national banks this Council would recommend that the words "All national banking associations" occurring in Section 5153 of the Revised Statutes of the United States should be changed to read "All banks members of the Federal Reserve system. "

*will report to Government Dept*

FEDERAL RESERVE BOARD FILE  
130.

September 17th, 1918.

Hon. Charles S. Hamlin,  
Chairman, Capital Issues Committee,  
Washington.

S i r :

One of the topics submitted to the Federal Advisory Council for consideration at its meeting yesterday, was that of supervision by the Capital Issues Committee of loans made by banks for capital purposes.

At the joint meeting of the Federal Reserve Board and the Federal Advisory Council today, the Federal Advisory Council recommended:

That the member banks be urged to co-operate with the Capital Issues Committee in its effort to obtain full information of projected capital issues, so that the consent of the Committee may be obtained before any financial commitments are made by prospective borrowers.

In accordance with the request of the Federal Advisory Council at the meeting today, I transmit to you this recommendation of the Federal Advisory Council for your information.

Yours very truly,

Governor.

FEDERAL RESERVE BOARD  
130

September 11th, 1918.

Mr. Merritt H. Grim,  
Secretary, Federal Advisory Council,  
First National Bank, Chicago. Ill.

My dear Mr. Grim:

Receipt is acknowledged of your letter of  
September 9th, with request that a typewriter be fur-  
nished for your use during the meeting of the Federal  
Advisory Council, on the 16th and 17th instant, and I  
beg to advise that arrangement will be made as you  
suggested; a typewriter to be placed at your disposal  
in the typewriter desk in the Federal Reserve Board  
Room in the National Metropolitan Bank Building, at  
ten o'clock on the morning of the 16th.

Yours very truly,

*J. M. Brodbeck*  
Secretary.

JD/R



THE  
FIRST NATIONAL BANK  
CHICAGO

1301

Sept 9, 1918

Mr J A Brroderick, Acting Secretary  
Federal Reserve Board,  
Washington, D C

Dear Sir:-

In connection with the next meeting of the Federal Advisory Council in Washington on Monday and Tuesday, 16th and 17th, I would like to have the use of a typewriter in or near the Federal Reserve Board room. I have frequent occasion to run off copies of resolutions, etc., and on my previous visits to Washington I found it quite necessary to have a typewriter at the hotel, which I have borrowed from your Board. Dr Willis or Mr Allen always arranged this for me. It is impossible to rent a typewriter in Washington in these times so I am compelled to secure the loan of one from your Board for use in the hotel. <sup>straight</sup> I can have one of the boys there carry over the typewriter I use in the Federal Reserve Board room, <sup>after business hours,</sup> and will be glad to make any arrangement necessary. Will you therefore give instructions to have a typewriter placed at my disposal in the typewriter desk in the Board room or a nearby room, say, at ten A M on 16th inst. Thanking you in advance for troubling you with this matter, I am,

Very truly yours, +

*Merritt H. Grimm*

Secretary  
Federal Advisory Council



OFFICERS

JAMES B. FORGAN, PRESIDENT  
L. L. RUE, VICE-PRESIDENT  
MERRITT H. GRIM, SECRETARY

EXECUTIVE COMMITTEE

JAMES B. FORGAN  
L. L. RUE  
J. P. MORGAN  
DANIEL G. WING  
W. S. ROWE

FEDERAL ADVISORY COUNCIL

OFFICE OF THE PRESIDENT

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HERBERT FLEISHACKER, DISTRICT No. 12

FEDERAL RESERVE BOARD FILE  
130

Harbor Point, Mich.

CHICAGO, September 9, 1918

7

RECEIVED  
SEP 11 1918  
GOVERNOR'S OFFICE

Hon. W P G Harding, Governor  
Federal Reserve Board,  
Washington, D C

My dear Mr. Harding:-

I have your favor of 7th inst. suggesting the topic "Supervision of loans made by banks for capital purposes," as an additional subject for the Council's consideration at its meeting next week.

We will be prepared to formally consider this topic at the meeting and thanking you in the matter, I am

Very truly yours,

*James B. Forgan*  
President

SECOND BOARD

130.

September 7, 1918.

7

My dear Mr. Forgan:-

As an additional topic for discussion at the meeting of the Council, I wish to suggest "Supervision of loans made by banks for capital purposes."

The Capital Issues Committee have been advised by their counsel that they have jurisdiction over loans of this kind. The opinion will be reviewed next week by the counsel of the Board. The members of the Capital Issues Committee would like, during the stay of the members of the Council in Washington, to have a conference with them on this subject, and have agreed to take no action until they have had this conference with the Council.

I hope therefore that you will add this topic to your list and that it will be convenient to the Council to confer with the members of the Capital Issues Committee.

Very truly yours,

Governor.

Mr. James B. Forgan,  
President Federal Advisory Council,  
Chicago, Illinois.

Date \_\_\_\_\_

FEDERAL RESERVE BOARD

13

MEMORANDUM

For Mr. Harding:

At a meeting of the Federal Reserve Board on

\_\_\_\_\_, the following matter  
(as Chairman, Committee on  
was referred to you (as member, " "  
(as Governor

It was voted that the Governor be directed to request the Chairman of the Advisory Council to list among the subjects for consideration at the meeting to be held September 16, the topic: "Supervision of Loans made by Banks for Capital Purposes" and that the Capital Issues Committee be represented at the discussion of this topic.

*W. C. Chapman*  
ASSISTANT SECRETARY.

Please return this memorandum with copy of documents resulting from action taken, if any,

Date Aug 9/36

Documents \_\_\_\_\_

Signature [Signature]

*[Handwritten initials]*



OFFICERS

JAMES B. FORGAN, PRESIDENT  
L. L. RUE, VICE-PRESIDENT  
MERRITT H. GRIM, SECRETARY

EXECUTIVE COMMITTEE

JAMES B. FORGAN  
L. L. RUE  
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DANIEL G. WING  
W. S. ROWE

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FEDERAL ADVISORY COUNCIL

OFFICE OF THE PRESIDENT

Harbor Point, Mich.  
CHICAGO. Sept. 5, 1918

FEDERAL RESERVE BOARD FILE  
130-

RECEIVED  
SEP 11 1918

GOVERNOR'S OFFICE

7

Hon. W. P. G. Harding,  
Governor, Federal Reserve Board,  
Washington, D C

Dear Mr Harding:-

Your favor of 29th ulto. enclosing some copies of a letter you have received from a private banking house for the members of the Council, was received and forwarded here for my information.

The secretary has sent each member of the Council a copy of the letter referred to and the Council will be glad to consider the question of removing the present restrictions on gold exports, suggested therein.

Very truly yours,

*James B. Forgan*  
President

*Re  
Shipments of  
Gold*

RESERVE BOARD FILE

130

August 29, 1918.

Dear Mr. Forgan:-

I enclose herewith several copies of a letter which the Board has received from a private banking house in Boston, which may be of interest to you and the other members of the Advisory Council.

The matter referred to in this letter has already been discussed by members of the Board and Treasury officials, but it is felt that <sup>we are</sup> ~~it is~~ unable to estimate the amount of gold that might have to be shipped should the door be opened, and some of us feel that while it might be well to keep this policy in mind with the view of putting it into effect at the proper time, the present is not an opportune time and we should wait until the end of the war is more clearly in sight. It might be interesting however, to discuss this question at the next meeting of the Council.

Very truly yours,

Governor.

Mr. James B. Forgan,  
President Federal Advisory Council,  
Chicago, Ill.

OFFICERS

JAMES B. FORGAN, PRESIDENT  
L. L. RUE, VICE-PRESIDENT  
MERRITT H. GRIM, SECRETARY

EXECUTIVE COMMITTEE

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FEDERAL ADVISORY COUNCIL

OFFICE OF THE PRESIDENT

FEDERAL RESERVE BOARD FILE  
130

CHICAGO.

August 29, 1918

*Spf.*  
RECEIVED  
AUG 31 1918  
GOVERNOR'S OFFICE

Hon. W P G Harding, Governor,  
Federal Reserve Board,  
Washington, D C

Dear Mr. Harding:-

I have your favor of 27th inst. giving me for the members of the Council a list of topics to be considered at the forthcoming meeting of the Council in Washington.

I am sending each member of the Council a copy of your letter for their preliminary consideration, and thanking you for your courtesy in the matter, I am,

Very truly yours,

*James B. Forgan*  
President

*[Handwritten checkmark]*

C O P Y

130.

August 27, 1918.

Dear Mr. Forgan:

I acknowledge the receipt of your letter of the 22nd inst. advising that the next statutory meeting of the Federal Advisory Council will be held in the assembly room on Monday and Tuesday, September 16th and 17th, convening at 11 A.M. on Monday the 16th.

At a meeting of the Board this morning consideration was given to the topics which should be discussed at the approaching meeting of the Council, and I am directed to say that the Board would be obliged if you would bring to the attention of the members of the Council the following:

1. Development of the acceptance market.  
With reference to the call loan rate of  $4\frac{1}{2}\%$  recently established in New York on notes secured by acceptances.
2. The use of bankers' and trade acceptances in financing the movement of crops.
3. Progress of the movement to curtail non-essential credits.  
Have results thus far been obtained without undue hardships?  
Is it practicable to lay down any general rule governing a differentiation between essential and non-essential credits, and if so, what is the best method of its application?
4. Investments of banks in public utility securities and loans on such collateral.  
What can be done to assist public utilities in the emergency which now confronts them?
5. Distribution of Liberty Bonds and discussion of preferential rates at Federal Reserve banks on paper secured by Government obligations.

No doubt some other topics will suggest themselves to the Council and perhaps the Board may have a few additional suggestions to make after it convenes, but the foregoing embraces the subjects which appear to be of greatest consequence at the present time.

Very truly yours,

Mr. James B. Forgan, President, Governor  
Federal Advisory Council,  
Chicago, Ill.



C O P Y

The First National Bank of Chicago

Harbor Point, Michigan.

August 22, 1918.

Hon. W. P. G. Harding,  
Governor Federal Reserve Board,  
Washington, D. C.

Dear Mr. Harding:

The next statutory meeting of the Federal Advisory Council will be held in Washington -- in the Federal Reserve Board room-- on Monday and Tuesday, September 16th and 17th, convening at 11 A M on Monday the 16th.

I will feel obliged if you will send me in due course a list of the topics the Federal Reserve Board desire to submit to the Council for its consideration at this meeting so that I may transmit them to the Council members in time to give them an opportunity for considering them before the meeting.

You can address me at Chicago. I expect to be at my desk in the bank the greater part of next week after which I will return here to remain until just before I leave for Washington, when I will hope to see you.

Very truly yours,

Jas. B. Forgan

President

FEDERAL RESERVE BOARD FILE  
133.

*Sept 16-1918*  
*Notes + answers*

FEDERAL ADVISORY COUNCIL MEETING

List of topics suggested by Board for discussion:

1. Development of the acceptance market.  
With reference to the call loan rate of  $4\frac{1}{2}\%$  recently established in New York on notes secured by acceptances.
2. The use of bankers' and trade acceptances in financing the movement of crops.
3. Progress of the movement to curtail non-essential credits.  
Have results thus far been obtained without undue hardships?  
Is it practicable to lay down any general rule governing a differentiation between essential and non-essential credits, and if so, what is the best method of its application?
4. Investments of banks in public utility securities and loans on such collateral.  
What can be done to assist public utilities in the emergency which now confronts them?
5. Distribution of Liberty Bonds and discussion of preferential rates at Federal Reserve banks on paper secured by Government obligations.
6. Supervision of Loans made by Banks for Capital purposes.

## OFFICERS

JAMES B. FORGAN, PRESIDENT  
 L. L. RUE, VICE-PRESIDENT  
 MERRITT H. GRIM, SECRETARY

## EXECUTIVE COMMITTEE

JAMES B. FORGAN  
 L. L. RUE  
 J. P. MORGAN  
 DANIEL G. WING  
 W. S. ROWE

## FEDERAL ADVISORY COUNCIL

OFFICE OF THE PRESIDENT

## MEMBERS

DANIEL G. WING, DISTRICT No. 1  
 J. P. MORGAN, DISTRICT No. 2  
 L. L. RUE, DISTRICT No. 3  
 W. S. ROWE, DISTRICT No. 4  
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 E. F. SWINNEY, DISTRICT No. 10  
 E. P. WILMOT, DISTRICT No. 11  
 HERBERT FLEISHACKER, DISTRICT No. 12

CHICAGO, August 26, 1918

Mr. J. A. Broderick, Secretary

Federal Reserve Board,

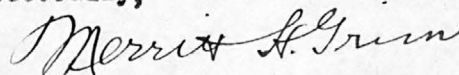
Washington, D C

Dear Sir:-

The next statutory meeting of the Federal Advisory Council will be held on Monday and Tuesday, September 16th and 17th, convening at 11 A M on Monday. The Council usually meets in the Federal Reserve Board room in the Metropolitan Bank Bldg by the courtesy of the Board. Mr. Forgan has written Governor Harding asking him for the subjects the Board desires the Counsel to consider at this meeting.

I merely desire to apprise you of the fact that the Council will expect the use of the Federal Reserve Board room, if agreeable, should there be any special arrangements that is necessary for you to make in this connection. Hoping to meet you in Washington, I am

Respectfully,



Secretary  
 Federal Advisory Council.  
 c/o First National Bank

1301

THE  
FIRST NATIONAL BANK  
CHICAGO

130.

Harbor Point, Michigan.

August 22, 1918

RECEIVED

AUG 26 1918

GOVERNOR'S OFFICE

Hon. W P G Harding,  
Governor Federal Reserve Board,  
Washington, D C

Dear Mr Harding:-

The next statutory meeting of the Federal Advisory Council will be held in Washington --in the Federal Reserve Board room-- on Monday and Tuesday, September 16th and 17th, convening at 11 A M on Monday the 16th.

I will feel obliged if you will send me in due course a list of the topics the Federal Reserve Board desire to submit to the Council for its consideration at this meeting so that I may transmit them to the Council members in time to give them an opportunity for considering them before the meeting.

You can address me at Chicago. I expect to be at my desk in the bank the greater part of next week after which I will return here to remain until just before I leave for Washington, when I will hope to see you.

Very truly yours,

*Jas Morgan*  
President

9/16/18

*Plm*



FEDERAL RESERVE BOARD FILE  
X-957  
1300

STATEMENT FOR THE PRESS.

May 21, 1918.

X957

Carded

The Federal Reserve Advisory Council held its regular quarterly session on May 20 and 21, two joint sessions being held with the Federal Reserve Board. The members of the Council present were as follows:

Messrs. Wing (Boston), Morgan (New York), Rue (Philadelphia), Rowe (Cleveland), Lyerly (Atlanta), Forgan (Chicago), Watts (St. Louis), Mitchell (Minneapolis), Swinney (Kansas City), Wilmot (Dallas), Fleishhacker (San Francisco).

Among matters of interest discussed by the Board and Council were the question of discount rates at Federal Reserve Banks, in which the Council recommended no changes. The excellent distribution of the Third Liberty Loan was commented upon as likely to bring about a contraction of loans during the next few weeks. The question of rates to be allowed by banks to depositors, especially on deposits made by banks with other banks was reviewed, as well as the plan for curtailment of unessential credits with which the Council declared itself in fullest accord. Legislation now pending in Congress with reference to amendments of existing law was also considered.

In the afternoon members of the Council conferred with the directors of the War Finance Corporation in order to exchange views concerning the general situation.

## FEDERAL RESERVE BOARD.

WASHINGTON.

Notice of joint meeting of F.R. Board with  
Federal Advisory Council, Monday, May 20,  
in Metropolitan Bank Building, Seventh  
Floor, at 11 a.m.

CHAIRMAN

E.C.

RECEIVED

GOVERNOR

MAY 20 1938

GOVERNOR'S OFFICE

VICE GOVERNOR

COMPTROLLER

J.M.C.

RECEIVED

MAY 20 1938

MR. DEBARO  
OFFICE OF  
MR. DELANO

MR. HAMLIN

M.H.M.

SECRETARY

COUNSEL

MR. MILLER



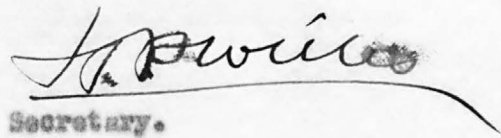
...tedness or Liberty Bonds

FEDERAL RESERVE BOARD FILE

130.

NOTICE OF JOINT MEETING WITH ADVISORY COUNCIL

There will be a joint meeting of the Federal Reserve Board and the Federal Advisory Council in the Assembly Room in the Metropolitan Bank Building, Seventh Floor, today, Monday, May 20, at 11 a.m.

  
Secretary.



OFFICERS  
JAMES B. FORGAN, PRESIDENT  
L. L. RUE, VICE-PRESIDENT  
MERRITT H. GRIM, SECRETARY

EXECUTIVE COMMITTEE  
JAMES B. FORGAN  
L. L. RUE  
J. P. MORGAN  
DANIEL G. WING  
W. S. ROWE

# FEDERAL ADVISORY COUNCIL

OFFICE OF THE PRESIDENT

FEDERAL RESERVE BOARD FILE  
MEMBERS

DANIEL G. WING, DISTRICT NO. 1  
J. P. MORGAN, DISTRICT NO. 2  
L. L. RUE, DISTRICT NO. 3  
W. S. ROWE, DISTRICT NO. 4  
J. W. NORWOOD, DISTRICT NO. 5  
CHARLES A. LYERLY, DISTRICT NO. 6  
JAMES B. FORGAN, DISTRICT NO. 7  
F. O. WATTS, DISTRICT NO. 8  
JOHN R. MITCHELL, DISTRICT NO. 9  
E. F. SWINNEY, DISTRICT NO. 10  
E. P. WILMOT, DISTRICT NO. 11  
HERBERT FLEISHHACKER, DISTRICT NO. 12

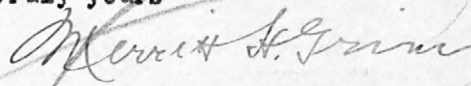
CHICAGO, May 16, 1918

Dr. H. Parker Willis  
Federal Reserve Board  
Washington, D C

Dear Dr. Willis:-

I am taking the liberty of forwarding in your care a parcel containing some supplies for my use at the Council meeting next week. Will you have the kindness to hold them for me or send them over to the Board room on Monday morning. Thanking you in advance, I am,

Very truly yours



Secretary, Federal Advisory  
Council.

RECORD BOARD

5/20 21/18  
M

#7

FEDERAL RESERVE BOARD FILE  
138.

May 6, 1918.

Mr. Merritt H. Grim,  
Secretary Federal Advisory Council,  
First National Bank,  
Chicago, Illinois.

Dear Mr. Grim:

Your letter of May 3, relative to the  
meetings of the Federal Advisory Council, has  
been received. We shall send you the documents  
you ask for within the next day or two and shall  
make the arrangements as requested.

Very truly yours,

Secretary.

## OFFICERS

JAMES B. FORGAN, PRESIDENT  
L. L. RUE, VICE-PRESIDENT  
MERRITT H. GRIM, SECRETARY

## EXECUTIVE COMMITTEE

JAMES B. FORGAN  
L. L. RUE  
J. P. MORGAN  
DANIEL G. WING  
W. S. ROWE

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## FEDERAL ADVISORY COUNCIL

OFFICE OF THE PRESIDENT

CHICAGO, May 3, 1918

130.

Dr H Parker Willis

Secretary, Federal Reserve Board,  
Washington, D C

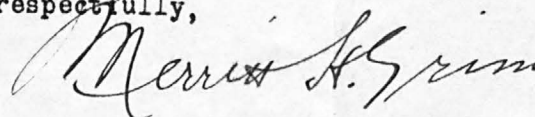
Dear Dr Willis:-

The Federal Advisory Council expects to meet in Washington on Monday and Tuesday, May 20th and 21st, when I presume we can use the Federal Reserve Board room. Mr Forgan has written Governor Harding and has received from him some topics for the Council's consideration.

If convenient I should like to have access to a typewriter at or near the Board room in the Metropolitan bank building. Mr Imlay has always attended to this matter for me, but owing to the crowded condition there now I thought it wise to write you in advance.

Please send me several copies of the latest print of the Federal Reserve Board's proposed amendments to the Federal Reserve Act. I have a copy of H R 10104 introduced by Mr Glass Feb 21st, but presume there have been changes and consequently new prints. I would like to have the latest. Thanking you in advance, I am,

Yours respectfully,



First National Bank

Chicago, Ill





130.

April 29, 1918.

My dear Mr. Forgan:-

Referring again to your letter of the 24th instant, I would suggest, after consultation with members of the Board, that the Advisory Council discuss the following:

- (1) Curtailment of unnecessary credits.

The Board's views on this subject, as far as matured, can be found on page 260, et seq. of the Bulletin for April 1918.

- (2) The proper means of extending banking operations in foreign countries.

This should involve a discussion of foreign branches of national banks having a million dollars or more of capital and surplus, and banks organized to do a foreign banking business in which national banks are stockholders to an amount not exceeding 10% of their capital and surplus.

- (3) Foreign agencies of Federal Reserve banks and the proposition to establish a Government Foreign exchange bank.

On this subject an interesting report has been submitted by a committee of the Chamber of Commerce of the United States, of which I presume you have a copy.

- (4) Senate Bill No. 4426, which the Board understands has been favorably reported by the Senate Committee on Banking and Currency.



This bill provides for the levy and collection each year from each national bank of a tax not in excess of one-tenth of one per centum of the aggregate of all deposits averaging \$5,000 or less, and a tax not in excess of one-tenth of one per centum on \$5,000 of the aggregate of each of the other deposits averaging more than \$5,000, in order to provide a fund for the payment of not more than \$5,000 to each depositor in a bank for which a receiver has been appointed, whose claim has been established. A copy of this bill is enclosed herewith.

There will no doubt be other matters of interest which will come up for discussion before the Council, but the foregoing embodies everything that the Board has to suggest at the present time.

Very truly yours,

Governor.

Mr. James B. Forgan,  
President Federal Advisory Council,  
Chicago, Ill.

Date April 29, 1918.

## FEDERAL RESERVE BOARD

MEMORANDUMFor Mr. Harding.

At a meeting of the Federal Reserve Board on

Monday, April 29, 1918, the following matter  
 (as Chairman, Committee on  
 was referred to you (as member, " "  
 (as Chairman, Executive Committee.

Letter, dated April 24, from Mr. J. B. Forgan,  
 President Federal Advisory Council, Chicago,  
 and Governor's reply of April 27;--read  
 and the question of subjects for discussion  
 referred to the Executive Committee with  
 power to act.

*H. Plummer*  
 Secretary.

Please return this memorandum with copy of  
 documents resulting from action taken, if any,

Date 4/29/18Documents Letter to Mr. Forgan attachedSignature RNB

*Returned back  
to Mr. Harding*

130.

April 27, 1918.

Dear Mr. Forgan:-

I received your letter of the 24th instant advising that the next meeting of the Federal Advisory Council will be held in Washington on May 20th-21st, and requesting suggestions from the Board as to topics to be discussed at the meeting.

I will bring your letter to the attention of the Board at the meeting on Monday and will write you again early in the week.

I hope that your son's wife will have a speedy recovery and that you will soon be relieved of any anxiety regarding her.

Very truly yours,

Governor.

Mr. James B. Forgan,  
President Federal Advisory Council,  
Chicago, Ill.

OFFICERS

JAMES B. FORGAN, PRESIDENT  
L. L. RUE, VICE-PRESIDENT  
MERRITT H. GRIM, SECRETARY

EXECUTIVE COMMITTEE

JAMES B. FORGAN  
L. L. RUE  
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HERBERT FLEISHACKER, DISTRICT NO. 12

FEDERAL ADVISORY COUNCIL

OFFICE OF THE PRESIDENT

CHICAGO. April 24, 1918

130.

Hon. W. P. G. Harding,  
Governor, Federal Reserve Board,  
Washington, D C

RECEIVED  
APR 27 1918  
GOVERNOR'S OFFICE

Dear Mr. Harding:-

The next meeting of the Federal Advisory Counsel will be held in Washington on May 20th and 21st. It is a little early to be asking you to advise me in regard to the subjects which the Federal Reserve Board may desire to have the Council consider at this meeting but as I have been cheated out of my usual trip South and as my son's wife is recovering from a very serious attack of pneumonia, with which she was taken ill in Philadelphia, I am contemplating as soon as she is able to be moved to take her to Atlantic City where I will remain until the Council meeting. She will not be in condition to be moved for at least two weeks yet, but I thought if you could let me have the subjects so that I could attend to advising the other members of the Council from here before I go to Atlantic City it would confer a favor on me.

Very truly yours,

*James B. Forgan*  
President

5/20/18

*Am*





PRESS STATEMENT

February 18, 1918.

X-743

The regular quarterly session of the Federal Advisory Council opened *Carded* this morning, a joint meeting being held with the Federal Reserve Board in the Board's assembly room. Tomorrow morning at 10 o'clock the Council and the Board will confer with the Secretary of the Treasury.

Today's meeting was devoted to the usual opening address of Governor Harding. Mr. Harding called the Council's attention to the recommendations made by the Board in its annual report in favor of amendments to the Federal Reserve Act and to the Board's position as stated in the report regarding the treatment of paper technically eligible for discount but in fact not within the scope of the Federal Reserve Act. Mr. Harding further suggested that the Council be prepared to discuss with the Secretary of the Treasury questions pertaining to bond and certificates issues and he outlined broadly the present reserve and discount rate problems of the System.

At the morning meeting there were present, beside the members of the Federal Reserve Board, Messrs. Rue, (Phila.) Wing, (Boston) Rowe, (Cincinnati) Norwood, (Greenville) Wilmot, (Austin) Fleishacker, (San Francisco) Mitchell, (Minneapolis) Lysterly, (Chattanooga) Watts, (St. Louis).

In the afternoon the Council held a closed session.

X743

Wm. B. R. Hon

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In the afternoon the Council held a closed session.

At the morning meeting there were present beside the members of the Federal Reserve Board Messrs. Rue (Phila.), Wing (Boston), Rowe (Cincinnati), Woodward (Greenwich), <sup>E. P. P.</sup> ~~Wolcott~~ <sup>E. P.</sup> Austin, <sup>Prof</sup> Heishacker (San Francisco), Mitchell (Minneapolis), Lyerly (Chattanooga), Hatt (St. Louis)

3311  
FR. RESERVE BOARD FILE  
130.

*Recommendation  
of Advisory  
Committee*

AMENDMENT TO SECTION 11.

*2/18/18*

BE IT ENACTED BY THE SENATE AND HOUSE OF REPRESENTATIVES OF THE UNITED STATES OF AMERICA, IN CONGRESS ASSEMBLED: That Section 11, sub-section (c), of the Act approved December 23, 1913, is hereby amended and re-enacted by adding at the end thereof, the following paragraph:

"Until June 1, 1919, the Federal Reserve Board may, in its discretion, suspend, in whole or in part, the reserve requirements specified in this Act in the case of any State bank or trust company which becomes a member bank and which is located in a State whose laws do not either expressly or impliedly permit balances with a Federal reserve bank to be counted in lieu of the State reserve requirements, or to be considered as a reserve deposit made in compliance with those State reserve requirements. Provided, however, that each State bank or trust company, for which the reserve requirements have been thus suspended, shall maintain with its Federal reserve bank a balance equal at least to \_\_\_\_\_ per cent. of the amount of its liabilities to the reserve bank on account of re-discounts, and provided further, that each such State bank or trust company shall also maintain with its Federal reserve bank a balance sufficient, in the judgment of the Federal Reserve Board, to offset items in transit held for its account by the Federal reserve bank."

RECOMMENDATIONS OF  
THE FEDERAL ADVISORY COUNCIL  
TO  
THE FEDERAL RESERVE BOARD  
FEBRUARY 19, 1918.

.....

TOPIC NO. 1. Reserves to be carried by member banks in Federal Reserve Banks.

Recommendation:-

While the present system of requiring reserves of 13 % in Central Reserve Cities, 10 % to be carried by banks in Reserve Cities, and 7 % to be carried by so-called country banks may not be scientific and may work an injustice to some cities, nevertheless it is the opinion of the Council that during the existence of the war and while the whole banking system of the country is being subjected to unusual strain, it would be unwise to attempt any legislation looking to a change in reserves to be carried by member banks. The ~~same~~ subject should have the close attention of the Federal Reserve Board and the Federal Advisory Council, so that when matters become normal the necessary legislation may be obtained to correct any inequalities and inconsistencies.

TOPIC NO. 2. Discount rates.

Recommendation:-

There appears to be no immediate necessity to change the discount rates of the Federal Reserve Banks. However an increasing tendency for rediscounts is likely to develop and it will probably be necessary to increase the rates of discount later on in order to protect the reserves of the Federal Reserve banks. The Council is however of the opinion that a preferential rate should continue to be accorded to loans secured by Liberty bonds.



## TOPIC NO. 3. Interest on Third Liberty Loan.

## Recommendation:

With the outstanding 4 % Liberty bonds selling on the market from three to four points below par, it would not seem possible to successfully place a new loan at the same rate. It is the opinion of this Council that the next Liberty Loan should be a short term taxable  $4\frac{1}{2}$  % bond, as the Government must more nearly approach the market value of money if it would successfully place new issues of bonds. The country generally, we believe, expects a bond bearing  $4\frac{1}{2}$  % interest and the effect of the increase has been discounted.

*10 year convertible  
or 5 year unconvertible*

## TOPIC NO. 4. Priorities in Capital and Bond issues.

## Recommendation:

The Council approves of the supervision of Capital and Bond Issues as it is essential that private and corporate enterprises should not absorb the credit power of the country to the detriment of the Government's necessities, the latter being paramount.

## TOPIC NO. 5. What steps, if any, may be properly undertaken in limiting commercial credits?

## Recommendation:-

It is the opinion of this Council that the proper limiting of commercial credits would be aided if cautionary communications are sent to the various Federal Reserve banks by the Federal Reserve Board bringing to their attention the desirability of the member banks curtailing the extension of all credits not necessary to the conduct of the war.

## AMENDMENT TO THE FEDERAL RESERVE ACT:

TOPIC NO. 6. Amending Section 4; Class A and Class B directors of Federal Reserve banks.

## Recommendation:

The Council approves this amendment. ✓

TOPIC NO. 7. Amending Section 11 (k); National banks acting as Trustees, Executor, etc.

## Recommendation:-

The Council approves of both of the proposed amendments. ✓

TOPIC NO. 8. Amending Section, ninth paragraph; Providing larger denominations of Federal Reserve notes.

## Recommendation:-

The Council approves this amendment. ✓

TOPIC NO. 9. Amending Section 19, paragraphs (b) and (c); affecting reserves of banks in central reserve and reserve cities, outlying districts.

## Recommendation:-

The Council does not approve of the proposed amendment at this time, believing that this change should be taken up in connection with the whole subject of the readjustment of reserves at some later date, and would respectfully refer to their recommendation on Topic No. 1 herewith. ?

TOPIC NO. 10. Amending Section 25; (a) Foreign banking corporations: (b) Branches of member banks.

## Recommendation:-

(a) This Council approves of National charters being issued to ~~banks~~ formed under the Federal Reserve Act instead of State charters. ✓

*Foreign banking corporations*

## TOPIC NO. 10. (Cont.)

## Recommendation:

(b) In reference to the proposed amendment the Council would repeat its recommendation of November 20, 1916, as follows:

"We still adhere to the opinion expressed in our communication to you of September 21, 1915, to the effect 'That the National Bank Act should be amended so as to permit the establishment of branches of national banks having an unimpaired capital and surplus of not less than \$1,000,000 in central reserve and reserve cities, provided that no branches are placed outside of the limits of the city where the head office of the parent bank is located.' We are advised that such a privilege granted to national banks would not be affected by State laws and in our opinion any Federal legislation granting such a privilege should apply to all banks in the national system of adequate capital. "

TOPIC NO. 11. War Finance Corporation bill.  
Recommendation:

The Council is of opinion that the assistance contemplated in the War Finance Corporation bill is a public necessity at this time, and that legislation should be enacted granting such relief.



FEDERAL RESERVE BOARD FILE  
130

FEDERAL RESERVE BANK OF CHICAGO

79 WEST MONROE STREET

February 15, 1918.

CONFIDENTIAL

Mr. F. A. Delano,  
Federal Reserve Board,  
Washington, D. C.

*Delano*

RECEIVED  
FEB 18 1918  
OFFICE OF  
MR. DELANO

My dear Mr. Delano:

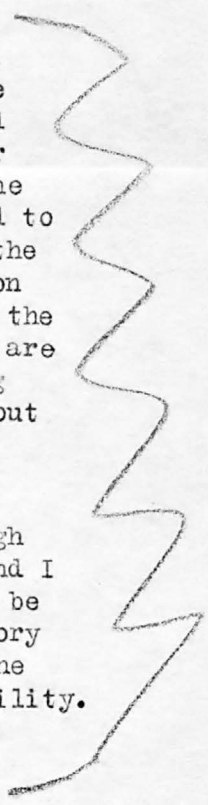
Your personal and confidential of the 10th instant is received, and I note carefully all said therein and will write you further with regard thereto in the near future.

I know you will be very sorry to hear of Mr. Forgan's illness. He attended our Executive Committee February first, but was quite ill at the time, and had just received definite orders from his physician under which he was expected to go home, and this I believe he did following the meeting. He has since been confined to his bed most of the time and has now been removed to the Presbyterian Hospital, and after a thorough examination the physicians have diagnosed his trouble as ulcer of the stomach. Dr. Sippy is in charge. Reports at present are encouraging in that his physician has expressed strong hope that the case can be handled satisfactorily without an operation.

As you are fully aware, one of Mr. Forgan's strong characteristics is to give personal and thorough attention to all responsibilities which he assumes, and I know it will be a great disappointment to him not to be in attendance at the forthcoming meeting of the Advisory Council with the Federal Reserve Board, which under the circumstances recited will, of course, be an impossibility.

Very truly yours,

*J. B. McLaughlin*  
Governor





Res.  
Morgan's illness.

~~Report Harding~~

Noted by  
Guthrie Board

*Jan 18, 1918*  
*ph*

*# 2*

FEDERAL RESERVE BOARD FILE  
*130.*

FEDERAL RESERVE BANK  
OF NEW YORK

January 28, 1918.

Dear Dr. Willis:

I acknowledge with thanks receipt of your letter  
of January 26th advising me when the next meeting of the  
Federal Advisory Council will take place.

Very truly yours,

*Peirce*  
Chairman.

H. Parker Willis, Esq.,  
Secretary, Federal Reserve Board,  
Washington, D. C.

PJ/RAH

RECORDED  
FEDERAL RESERVE BOARD  
JAN 29 1918

*Jan 18. 19.*  
HS  
*[Signature]*

# 2

FEDERAL RESERVE BOARD FILE  
138.

January 26, 1918.

Mr. Pierre Jay,  
Federal Reserve Agent,  
New York City.

Dear Mr. Jay:

In answer to your letter of  
January 24, I beg to say that it is our  
understanding that the next meeting of the  
Federal Advisory Council will take place  
on February 18.

Yours very truly,

Secretary.

FEDERAL RESERVE BANK  
OF NEW YORK

1301

January 24, 1918.

Dear Dr. Willis:

Could you advise me of the actual or approximate dates on which the Federal Advisory Council will meet during 1918? If so, I shall be very much obliged.

Very truly yours,

*Handwritten signature*  
Chairman.

H. Parker Willis, Esq.,  
Secretary, Federal Reserve Board,  
Washington, D. C.

PJ/RAH

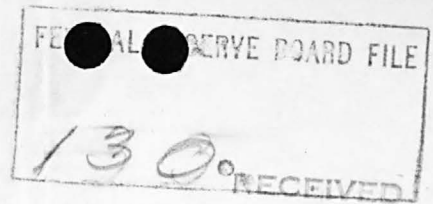
*Next meeting  
on Feb. 18*





OFFICE OF  
CHAIRMAN OF THE BOARD

THE  
FIRST NATIONAL BANK  
CHICAGO



JAN 23 1918

GOVERNOR'S OFFICE

January 24, 1918

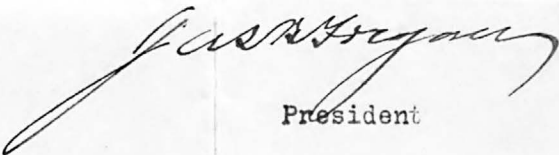
Hon. W. P. G. Harding,  
Governor, Federal Reserve Board,  
Washington, D C

Dear Mr. Harding:

I have your favors of 21st and 22nd inst.,  
the former giving me the topics for discussion at the next meeting  
of the Federal Advisory Council, of which I will advise the members,  
the latter sending me for the information of the Council the report  
of the Board's statistician relating to the proposed change in  
reserves.

I will bring these to the attention of the special  
committee appointed to consider them so that we may be prepared to  
discuss the problem when we meet.

Very truly yours,



President



*Forgan*

132  
RESERVE BOARD FILE  
732

January 22, 1918.

Mr. James B. Forgan,  
President Federal Advisory Council,  
Chicago, Ill.

Dear Mr. Forgan:-

Referring to my letter of yesterday I  
hand you herewith, for the information of your-  
self and of the Advisory Council, report of the  
Board's statistician relating to the proposed  
change in reserves.

Very truly yours,

Governor.

(Enclosures.)

133  
FEDERAL RESERVE BOARD FILE  
7300

January 21, 1918.

*J*

Mr. James B. Forgan,  
President Federal Advisory Council,  
Chicago, Illinois.

Dear Mr. Forgan:

I have received your letter of the 15th instant, and am interested in your figures relating to the effect of the proposed change in computing reserves upon the total reserves held by the Federal Reserve Bank. Our Statistical Division has not quite completed its final report, but I will send you a copy as soon as it is submitted, which I hope will be in time for its consideration by a committee of the Federal Advisory Council. It is suggested that when the Council meets, this question of reserves be one of the main topics for discussion, and that in addition to the usual discussion of discount rates and of the next bond issue, the other topics be: (1) Priorities in capital and bond issues; (2) What steps, if any, may properly be undertaken in limiting commercial credits.

The Board proposes to go into this matter of credit priority very thoroughly, and has appointed a committee to effect an organization which will enable it to pass intelligently upon all such matters which may be brought to its attention.

I have informed all members of the Board that the next regular meeting of the Council will begin on Monday, February 18th,

Very truly yours,

Governor.

OFFICERS  
JAMES B. FORGAN, PRESIDENT  
L. L. RUE, VICE-PRESIDENT  
MERRITT H. GRIM, SECRETARY

EXECUTIVE COMMITTEE  
JAMES B. FORGAN  
L. L. RUE  
J. P. MORGAN  
DANIEL G. WING  
W. S. ROWE

## FEDERAL ADVISORY COUNCIL

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HERBERT FLEISHHACKER, DISTRICT NO. 12

CHICAGO, January 15, 1918

130.

RECEIVED  
JAN 13 1918  
GOVERNOR'S OFFICE

Hon. W. P. G. Harding,  
Governor, Federal Reserve Board,  
Washington, D C

Dear Mr. Harding:-

Referring to your favor of 2nd inst., which was received in due course, I have had the statistics in connection with the banks belonging to the Chicago Clearing House Association prepared and find that on the basis of 3 % on time deposits, 10 % on commercial deposits and 15 % on net bank deposits their total reserve requirements would be reduced as against the present basis of figuring them nearly \$14,000,000, while the total reserve requirements of all the banks connected with the Clearing House Association not now members of the Federal Reserve Bank figured on the same basis would amount to about \$14,000,000. If therefore all the banks connected with the Clearing House Association not now members of the Federal Reserve system should become members of it their reserve deposits would only practically offset the reduction that would take place in the deposits of the member banks were the basis of figuring their reserves changed from the present basis of 3 % and 13 % to the suggested one of 3 %, 10 % and 15 %.

These figures would seem to confirm the results found by your statistical division in connection with all the central reserve and reserve cities and show that the difficulty in connection with the suggested new basis of figuring reserves is the deductions allowed in the form of balances due from banks, clearing house checks, etc. It is evident that we have got to find some other basis of figuring reserves in order to make them equitable to banks in the central reserve and reserve cities, especially to the banks in these cities doing business in outlying localities in connection with which in Chicago there is at present some very strong protests being made and a propaganda to arouse sentiment that the basis of figuring reserves for these outlying banks must in some way be changed, otherwise the national banks in these localities will continue to be very much disgruntled and there is no likelihood of the State banks joining the system.

I will be glad to receive the report of your statistical division as soon as it is prepared and if the Committee appointed by the Federal Advisory Council is to meet a Committee appointed by the Federal Reserve Board for the consideration of the subject, we should get the statistics and other data before the members of my committee

2/18/18



ICERS  
FORGAN, PRESIDENT  
E, VICE-PRESIDENT  
TTT H. GRIM, SECRETARY

MEMBERS  
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# FEDERAL ADVISORY COUNCIL

OFFICE OF THE PRESIDENT

EXECUTIVE COMMITTEE  
JAMES B. FORGAN  
L. L. RUE  
J. P. MORGAN  
DANIEL G. WING  
W. S. ROWE

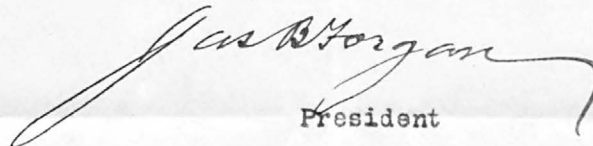
Hon. W. P. G. Harding  
No. 2

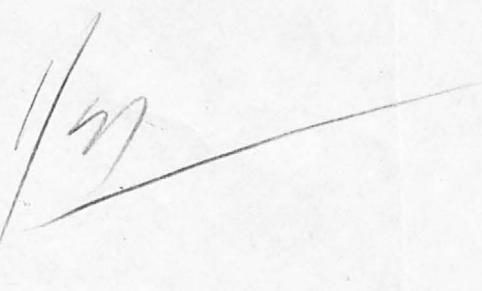
CHICAGO,

so that they could take the matter up with the executive committees of their clearing houses in the large cities which they individually represent. We might arrange to have a meeting in Washington immediately preceding the regular meeting of the Council which takes place on Monday, February 18th.

I also will be glad to have you furnish me as soon as convenient with any other topics which your Board desires to submit for the consideration of the Council at its next meeting.

Very truly yours,

  
President



730.

January 2, 1918.

Mr. James B. Forgan,  
First National Bank,  
Chicago, Ill.

Dear Mr. Forgan:-

I have delayed replying to your letter of the 22nd ultimo regarding the proposed new basis of reserves until I could get some definite information in the way of figures from our statistical division.

An analysis of the Comptroller's abstracts has involved considerable labor, and the statistical division is not yet ready to make a final report. Advance figures, however, indicate that on the present basis of required reserves the banks in New York City, Chicago, St. Louis and all other reserve cities, together with the country banks would maintain reserves amounting to \$964,500,000. On a proposed new basis requiring 10% on demand deposits subject to check in New York and Chicago, and 7% in all other cities and towns the reserve against demand deposits would be \$595,300,000. The reserve on time deposits at 3% for all banks would amount to \$68,879,000 and the reserve on bank deposits figured at 13% in New York and 10% elsewhere would amount to \$335,270,000, or a total of about \$999,500,000. The percentages for bank deposits are based on gross deposits, without deductions or offsets. If offsets be allowed, the reserves on bank deposits, in order to maintain anything like the present volumes of reserve balances would have to be very much higher, probably 18% in New York and 15% elsewhere.

Our statistical division has been considering reserves against bank deposits without allowing deductions for two reasons:

- (1) Because the percentage would be much less, and
- (2) For the sake of uniformity.

As the country banks can make offsets at present only between amounts due to and from banks, checks on other banks which in the cities are classed as exchanges for clearing houses, are not available to the country banks as offset against their general deposits.

As soon as the final reports are received and the Board begins to give serious consideration to the proposition, I will advise you further.

Very truly yours,

Governor.

OFFICERS

JAMES B. FORGAN, PRESIDENT  
L. L. RUE, VICE-PRESIDENT  
MERRITT H. GRIM, SECRETARY

EXECUTIVE COMMITTEE

JAMES B. FORGAN  
L. L. RUE  
J. P. MORGAN  
DANIEL G. WING  
W. S. ROWE

MEMBERS

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T. J. RECORD, DISTRICT No. 11  
HERBERT FLEISHHACKER, DISTRICT No. 12

FEDERAL ADVISORY COUNCIL

OFFICE OF THE PRESIDENT

CHICAGO, Dec. 22, 1917

1301

Hon. W. P. G. Harding,  
Governor Federal Reserve Board,  
Washington, D C

RECEIVED  
DEC 27 1917  
GOVERNOR'S OFFICE

Dear Mr. Harding:-

You will remember that at the last Conference between the Federal Reserve Board and the Federal Advisory Council a committee of the Council was appointed to take up with a committee of your Board the question of changing the basis on which the legal reserve requirements of the member banks is now figured.

The idea suggested was to reduce in the reserve and central reserve cities the percentage of legal reserve required on commercial deposits and to increase it on bank deposits.

You said you thought that you could have prepared for us statistics that would show the effect of such a change on the aggregate of reserve deposits now held by the Federal Reserve Banks. I think the suggestion was that the rate should be reduced to ten per cent on commercial deposits and increased to 15 % on bank deposits.

As it will be desirable for each member of the Committee of the Council to consult the executive committees of their different clearing houses before they meet to consider the matter, I will feel obliged if you will have the statistics prepared as soon as you conveniently can and forwarded to me as a basis for the committee's consideration of the matter.

Very truly yours,

*James B. Forgan*  
Pres

*See Mr. Jacobson  
Wed. A.M.*

*1/2/18*



*Nov. 19, 1917*

*331-1111*

FEDERAL RESERVE BOARD FILE  
*739*

FEDERAL RESERVE BOARD

November 20, 1917.

*gent*

MEMORANDUM FOR MR. HARDING.

At a meeting of the Board with the Advisory Council this morning it was agreed that the Board would appoint a committee to cooperate with a committee of the Council in connection with an investigation looking to a recommendation for a change in the law as to reserves required to be held in central reserve and reserve cities.

Assistant Secretary.



Nov. 19-17

53  
FEDERAL RESERVE BOARD FILE  
130 X-519 ✓

*Carded*

STATEMENT FOR THE PRESS.

The Federal Advisory Council today convened for its  
usual stated meeting, as required by law. A conference with the  
Federal Reserve Board was held at 11 o'clock, all members of the  
Council, with the exception of Mr. Record of Texas, being present.  
In accordance with custom, Governor Harding briefly addressed the  
Council, laying before it certain matters relating to the operation  
of the Federal Reserve System. It is expected that further sessions  
will be held on Tuesday.

November 19, 1917.

FEDERAL RESERVE BOARD.

FEDERAL RESERVE 8081D FILE

WASHINGTON.

130.

NOV. 19, 1917.

NOTICE OF MEETING WITH ADVISORY COUNCIL.

*F.R.B.*  
*Chairman*

*R.*  
~~NOV 19 1917~~  
~~CHAIRMAN OF~~  
~~MR. HAMILTON~~

RECEIVED

NOV 19 1917  
GOVERNOR  
GOVERNOR'S OFFICE

VICE GOVERNOR

*F.R.B.*  
~~NOV 19 1917~~  
~~VICE GOVERNOR~~  
~~MR. HAMILTON~~  
RECEIVED

COMPTROLLER

*J.M.*

REC.  
NOV 19 1917  
MR. DELANO  
OFFICE OF  
MR. DELANO

MR. MILLER

*F.R.B.*

SECRETARY

*✓*

COUNSEL

*W. J. Coy*

Nov. 19 17

FEDERAL RESERVE BOARD FILE  
133

FEDERAL RESERVE BOARD

November 19, 1917.

NOTICE OF MEETING

There will be a preliminary session of the Board with the Advisory Council in the Assembly Room, Metropolitan Bank Building, at eleven o'clock this day, in accordance with an invitation conveyed by President J. B. Forgan at 10:10 A. M.

*J. B. Forgan*  
Secretary.

OFFICERS

AMES B. FORGAN, PRESIDENT  
L. L. RUE, VICE-PRESIDENT  
MERRITT H. GRIM, SECRETARY

EXECUTIVE COMMITTEE

JAMES B. FORGAN  
L. L. RUE  
J. P. MORGAN  
DANIEL G. WING  
W. S. ROWE

MEMBERS

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T. J. RECORD, DISTRICT NO. 11  
HERBERT FLEISHACKER, DISTRICT NO. 12

FEDERAL ADVISORY COUNCIL

OFFICE OF THE PRESIDENT

CHICAGO, Nov 7, 1917

RECEIVED  
NOV 10 1917  
GOVERNOR'S OFFICE

Hon. W. P. G. Harding,  
Governor, Federal Reserve Board,  
Washington, D C

Dear Mr Harding:-

I have your favors of 1st and 3rd inst., the latter enclosing for transmission to Council members copies of suggested topics for consideration at the meeting on 19th inst.

I am informing each member of the Council of your further suggestion that they come prepared to remain in Washington for two or three days to give ample time to fully consider these topics and any others that may be presented to us at the time.

Thanking you for sending me the copies for distribution, I am,

Very truly yours,

*James B. Forgan*  
President



#7

FEDERAL RESERVE BOARD FILE  
1130.

November 3, 1917.

Mr. James B. Forgan,  
President Federal Advisory Council,  
Chicago, Illinois.

Dear Mr. Forgan:

Replying to your letter of October 29th, I  
hand you herewith, for your use and for transmission to  
members of the Council, fifteen copies of a list of topics  
which the Board would like to have the Council consider at  
the forthcoming meeting.

7-472-  
11/3/17

When the Council convenes, I will take  
occasion, as usual, to elaborate somewhat upon these questions  
in order that the Council may have a clear understanding of  
the problems with which the Board has to deal.

Very truly yours,

Governor.

11 17  
X-472  
11/3/17  
SUGGESTED TOPICS FOR DISCUSSION BY

Carded

THE FEDERAL ADVISORY COUNCIL, NOVEMBER 19, 1917.

I. DISCOUNTS AND INVESTMENTS:

1. Should member banks make a practice of discounting their own acceptances.
2. Suspension of commodity rates and reasons therefor.
3. Is it desirable and necessary that preferential rates be established for customers' paper running not longer than ninety days, which is secured entirely by United States bonds or Treasury certificates.
4. General discussion of assistance to banks and savings banks especially in carrying investments in railroad and corporate bonds.
  - (a) What means, if any, are there of affording adequate relief under the present law.
  - (b) Should the Federal Reserve Act be amended so as to permit the rediscount by Federal Reserve Banks of notes secured by bonds of railroad or industrial corporations.
  - (c) Discussion of an alternative plan.

II. CAPITAL AND RESERVE REQUIREMENTS.

1. Should the Federal Reserve Act be amended so as to allow state banks which were in existence on November 16, 1914, to become members of the Federal Reserve System, although their capital be less than national bank requirements.

2. Should the Board be given authority to exempt from the reserve requirements imposed upon banks in reserve and central reserve cities, banks not located in the business centers whose business is largely local, and which do not receive accounts from other banks.

(Note) - The Board has received numerous requests that it ask Congress to modify the existing law in the manner above indicated, but so far has reached no conclusion in the matter. What would the Council advise?

### III. GOLD EMBARGO:

(Note) - The Board has been charged with the duty of advising the Treasury in matters relating to foreign exchange, and to exportations of gold, and it would like to have the opinion of the Council in the following matters:

1. To what extent, and for what purposes should gold be released for shipment to other countries.
2. Should the stabilization of sterling exchange by purchases of sterling bills in this country be continued.
3. Effect of the stabilization of sterling upon dollar exchange.
4. Should any attempt be made to stabilize dollar exchange in countries of continental Europe, such as Sweden, Holland, Switzerland, and Spain.
5. Should an effort be made to bring the dollar back to its parity in South American countries.
6. Exchange relations with Canada.

Should unrestricted shipments of gold to Canada be permitted, or if limited what arrangements can be made to continue normal trade relations with Canada and to facilitate the movement of Canadian crops.

### IV. TREASURY CERTIFICATES OF INDEBTEDNESS:

1. What means should be availed to secure a more general distribution of Treasury certificates of indebtedness.

*April*

*#7*

*4th meeting*  
FEDERAL RESERVE BOARD FILE  
1330

November 1, 1917.

Mr. James B. Forgan,  
President, Federal Advisory Council,  
Chicago, Illinois.

Dear Mr. Forgan:

I acknowledge receipt of your letter of  
October 29th in which you advise that the next meeting  
of the Federal Advisory Council will be held in Washington  
on November 19th. I will bring your letter to the attention  
of the Board, and will send you, in the course of the next  
day or two, a partial list of matters which the Board will  
wish to place before the Council for its consideration and  
advice. There are some very serious questions to be  
considered, and I think it would be advisable for the  
members of the Council to come prepared for a stay of at  
least two days, if not three.

Very truly yours,

Governor.



OFFICERS

JAMES B. FORGAN, PRESIDENT  
L. L. RUE, VICE-PRESIDENT  
MERRITT H. GRIM, SECRETARY

EXECUTIVE COMMITTEE

JAMES B. FORGAN  
L. L. RUE  
J. P. MORGAN  
DANIEL G. WING  
W. S. ROWE

MEMBERS

DANIEL G. WING, DISTRICT No. 1  
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T. J. RECORD, DISTRICT No. 11  
HERBERT FLEISHACKER, DISTRICT No. 12

FEDERAL ADVISORY COUNCIL

OFFICE OF THE PRESIDENT

CHICAGO, Oct. 29, 1917

130

RECEIVED

OCT 31 1917

GOVERNOR'S OFFICE

Hon. W. P. G. Harding,  
Governor, Federal Reserve Board,  
Washington, D C

Dear Mr. Harding:-

The next statutory meeting of the Federal Advisory Council will be held in Washington on Monday, November 19th.

I have just got through with my duties in connection with the Liberty War Loan and have accepted the chairmanship of a committee in charge of raising Chicago's share which is placed at \$3,000,000 of the \$35,000,000 fund to be raised in the country for Y M C A War Work. The intensive campaign in Chicago will take place during the week from November 10th to November 17th. I am therefore likely to be increasingly busy from now until the time I must leave Chicago in order to be present at the Council meeting.

I will feel greatly obliged if you will furnish me as soon as you conveniently can with a list of matters which the Federal Reserve Board may wish to place before the Council for its consideration and advice at this meeting. It is desirable that the members of the Council should be advised as fully as practicable of the matters to be placed before them so that they may be able to give some individual consideration to them before the meeting.

Thanking you for your usual courteous cooperation in this connection, I am,

Very truly yours,

*James B. Forgan*  
President

11/12  
11/11

11/19/17

OFFICERS

JAMES B. FORGAN, PRESIDENT  
L. L. RUE, VICE-PRESIDENT  
MERRITT H. GRIM, SECRETARY

EXECUTIVE COMMITTEE

JAMES B. FORGAN  
L. L. RUE  
J. P. MORGAN  
DANIEL G. WING  
W. S. ROWE

#7  
**FEDERAL ADVISORY COUNCIL**

OFFICE OF THE PRESIDENT

RESERVE BOARD MEMBERS FILE  
DANIEL G. WING, DISTRICT No. 1  
J. P. MORGAN, DISTRICT No. 2  
L. L. RUE, DISTRICT No. 3  
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T. J. RECORD, DISTRICT No. 11  
HERBERT FLEISHACKER, DISTRICT No. 12

CHICAGO, Oct 3, 1917

Mr Sherman Allen, Asst Secretary  
Federal Reserve Board  
Washington, D C

Dear Mr Allen:-

I wish to thank you again for your courtesy for having run off the copies of the report I telegraphed you about. I will expect to receive them in a day or two.

I am sending you by express ten copies of the Recommendations of the Federal Advisory Council to the Federal Reserve Board for the first two years, 1915 and 1916, which have been printed and indexed. Mr Forgan suggests that these be distributed among the members of the Federal Reserve Board. Thanking you for your attention to this matter I am

Yours very truly,

*Merritt H. Grim*

Secretary



# 7

FEDERAL RESERVE BOARD FILE  
a.l.  
130.

3-

August 30, 1917.

Mr. James B. Forgan,  
President Federal Advisory Council,  
Chicago, Illinois.

My dear Mr. Forgan:

The Board finds it difficult, in view of the present incomplete state of the legislation which will so vitally affect our financial situation during the months to come, to suggest a definite list of topics for consideration by the Federal Advisory Council at the approaching meeting.

We understand that the program is for the next bond issue to be announced October 1st, and that the issue will probably be at 4% with limited income tax exemptions. All this, however, depends entirely upon the outcome of the pending legislation. The offering will probably be from three to five billions, although I do not believe that the Secretary of the Treasury has so far settled the matter in his own mind.

The Board would suggest that the members of the Council come prepared to discuss the effect of the pending bond issue upon our general financial situation, the policy that the Federal reserve banks should pursue as to reserves against deposits and note issues; discount rates; and a general discussion of the foreign exchange situation will no doubt be most helpful. To what extent can this country continue to give credits to the nations with which it is associated in the war which normally send us gold in settlement of trade balances due us, and continue to ship gold to those neutral nations to which we may be indebted? What restrictions, if any, are necessary upon our imports to offset the embargoes on exports?

Very truly yours,

Governor.



No. 6-721

Date Aug. 29, 1917.

272.

*18-19-17*  
*132*  
*[Handwritten initials]*

FEDERAL RESERVE BOARD

MEMORANDUM

For Mr. Harding

At a meeting of the Federal Reserve Board on  
Aug. 29, the following matter  
(~~as Chairman, Committee on~~  
~~was referred to you (as member,~~ " "  
(as

minute was entered:

"The question of the forthcoming meeting of the Advisory Council, suggesting that there would be difficulty in making up a preliminary programme in view of the rapid change in conditions now in progress. It was agreed that the Governor write the President of the Advisory Council to this effect, suggesting a general meeting for discussion, governed by circumstances that may develop."

*[Handwritten Signature]*  
Secretary.

Please return this memorandum with copy of documents resulting from action taken, if any,

Date \_\_\_\_\_

Documents \_\_\_\_\_

Signature \_\_\_\_\_

*[Handwritten signatures and initials]*



Sept 18-19 #17

130

August 27, 1917.

Mr. James B. Forgan,  
President, Federal Advisory Council,  
Harbor Point, Mich.

Dear Mr. Forgan:

I have brought to the attention of the Board your letter of August 23rd advising that the statutory meeting of the Council will be called for September 18th and 19th. The Board will be pleased to have a preliminary meeting with the Council on Monday, September 18th at 10:30 o'clock, and I will, within the next two or three days, send you a list of the matters which the Board will wish to bring before the Council for its consideration.

The members of the Board join me in kind personal regards.

Sincerely yours,

Governor.

OFFICERS

JAMES B. FORGAN, PRESIDENT  
L. L. RUE, VICE-PRESIDENT  
MERRITT H. GRIM, SECRETARY

EXECUTIVE COMMITTEE

JAMES B. FORGAN  
L. L. RUE  
J. P. MORGAN  
DANIEL G. WING  
W. S. ROWE

FEDERAL ADVISORY COUNCIL

OFFICE OF THE PRESIDENT

MEMBERS

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E. F. SWINNEY, DISTRICT NO. 10  
T. J. RECORD, DISTRICT NO. 11  
HERBERT FLEISHACKER, DISTRICT NO. 12

Harbor Point, Mich.

~~XXXXXXXXXX~~

August 23, 1917.

130

My dear Governor Harding:-

I have been spending my Summer vacation here and will return to Chicago and to business next Monday morning.

In order to give the members of the Federal Advisory Council opportunity to give some individual consideration to such subjects as you may wish to lay before them at their next meeting, I will feel obliged if you will give me timely advice in regard to them. The statutory meeting will be called for Monday and Tuesday, September 18th and 19th, and if I can hear from you about the first of the month, I will advise the members of the subjects to be discussed when I notify them of the meeting. We will be pleased to have a preliminary meeting with the Board on Monday, September 18th at 10:30 A.M., when the subjects to be considered may be presented to us with such explanation in regard to them as the Board may wish to make.

With kind personal regards to yourself and the other members of the Board, I am

Yours sincerely,

*James B. Forgan*  
President.

Hon. W. P. G. Harding, Governor,  
Federal Reserve Board,  
Washington, D.C

9/18/17

*Mr. Cull*

*Apr 18, 17*

FEDERAL RESERVE BOARD FILE

*130.*

May 3, 1917.

Dear Mr. Secretary:

For your information, I hand you  
herewith copy of recommendations made by the  
Federal Advisory Council to the Federal Reserve  
Board, at its meeting on April 18, 1917.

Respectfully yours,

Governor.

Hon. Wm. G. McAdoo,  
Secretary of the Treasury.

No. 72

Date April 23, 1917.

272.

FEDERAL RESERVE BOARD

130.

MEMORANDUM

For Mr. Harding.

At a meeting of the Federal Reserve Board on  
April 23, 1917., the following matter  
 (as Chairman, Committee on Law.  
 was referred to you (as member, " "  
 (as

the following minute was entered:

"A letter from Vice President Rue, of the Advisory Council, transmitting recommendations of the Advisory Council growing out of its recent meeting, and the Governor's reply to the same, ~~was~~ read and on motion referred to the Committee on Law."

*H. P. K. Wells*  
 Secretary.

*Have Copies made  
 transmit to Secy*

Please return this memorandum with copy of documents resulting from action taken, if any,

Date \_\_\_\_\_

Documents \_\_\_\_\_

Signature \_\_\_\_\_

*file*



FEDERAL RESERVE BOARD FILE

132.

April 21, 1917.

Mr. L. L. Rue,  
Vice-President Federal Advisory Council,  
Philadelphia, Penna.

Dear Mr. Rue:-

I acknowledge the receipt with thanks of your letter of the 20th instant enclosing the recommendations adopted by the Federal Advisory Council at its meeting the early part of this week.

Your letter and its enclosure will be brought to the attention of the Board at its next meeting.

Very truly yours,

Governor.

**OFFICERS**  
JAMES B. FORGAN, PRESIDENT  
L. L. RUE, VICE-PRESIDENT  
MERRITT H. GRIM, SECRETARY

**EXECUTIVE COMMITTEE**  
JAMES B. FORGAN  
L. L. RUE  
J. P. MORGAN  
DANIEL G. WING  
W. S. ROWE

# FEDERAL ADVISORY COUNCIL

OFFICE OF THE PRESIDENT

**MEMBERS**  
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E. F. SWINNEY, DISTRICT NO. 10  
T. J. RECORD, DISTRICT NO. 11  
HERBERT FLEISHACKER, DISTRICT NO. 12

RECEIVED

CHICAGO

APR 2 1 1917

GOVERNOR'S OFFICE Philadelphia, Penn., April 20, 1917

130.

Hon. W. P. G. Harding, Governor,  
Federal Reserve Board,  
Washington, D.C.

Dear Sir:-

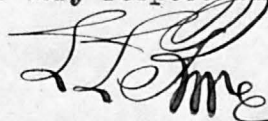
By order of the Federal Advisory Council I here-  
with enclose the recommendations of the Council, all of which were  
adopted by the unanimous vote of the members present.

The Council's recommendations on Topics Nos. 1, 2,  
and 3, were read to the Federal Reserve Board at the joint meeting  
on the 18th inst. and copies were handed to the Board's secretary  
at that time for his records.

As the Council did not finish its deliberations on the  
remaining topics in time on Wednesday to have another joint meeting  
with your Board I now beg to enclose the Council's recommendations  
in full.

The Council adjourned to meet in September next as  
provided in its by-laws unless a special meeting is found desirable  
in the interim.

Yours very respectfully,



Vice-President



RECOMMENDATIONS BY  
THE FEDERAL ADVISORY COUNCIL  
TO  
THE FEDERAL RESERVE BOARD.

April 18, 1917.

....

TOPIC NO. 1. The Hayes Bill.

Recommendation:

The Council is of opinion that the Hayes' bill ought not at the present time be pressed as it seems to it inopportune to introduce any measure of a coercive character, when the cooperation of all the state banks and trust companies is so much needed to assist in carrying out the financial program of the government.

TOPIC NO. 2. The Proposed government bond issue.

Recommendation:-

The Council believes that the first offering of long time bonds should be \$1,000,000,000, if that amount should be adequate to meet the immediate necessities of the government, in order that, first: a successful flotation may be assured, and, Second: the amount may not be materially in excess of short certificates which may be issued in anticipation of such issue, thus avoiding the tying up of either money or bank credits for any length of time. If handled in this manner, successive offerings being made as required by the government, the entire bond financing could be done through the Federal Reserve Banks as fiscal agents for the Treasury and serious disturbance of bank balances avoided. This method coupled with a careful use of short certificates would in our opinion obviate the necessity for a general deposit of government funds in the banks of the country. In our



opinion the bonds should be payable in thirty years, callable after five years.

TOPIC NO. 3. Taxation.

Recommendation:-

In the matter of the taxation as suggested by the Secretary of the Treasury the sense of this Council is --

1st. That the proportion of war cost for the first year to be provided by taxes, viz., 50 %, would impose too great a strain upon industry and the investable surplus of the country; the proportion should not exceed 25 % for the first year.

2nd. That to impose a surplus profits tax and an additional income tax on the incomes of the calendar year 1916 would, besides being unjust, put an excessive burden upon corporations and upon individuals, who having provided for the taxes of that year and having thereby discharged their tax obligation to the government have disposed of the balance of their profits by placing them either in permanent improvements or fixed investments.

3rd. That since the government is about to make huge demands upon the investable surplus of the country it would be most advisable so to frame the tax measures that large incomes from which is derived the greater part of that fund should not be taxed in an undue proportion. In this way industry may continue to finance itself and at the same time the government obtain the needed funds with the least possible disturbance of business.

4th. It is most desirable that the taxes to be levied should be upon luxuries and as little as possible upon thrift, enterprise and savings.



TOPIC NO. 4. Amendments to the Federal Reserve Act proposed by  
the Federal Reserve Board.

Recommendation:

Resolved that the Vice-President of this Council be requested to report to the Federal Reserve Board that the Council has carefully considered the proposed amendments as presented to it by the Federal Reserve Board and that in view of changed conditions it revises its previous recommendations made in January (and formally approved at the Council meeting in February) and approves of the Board's proposed amendments to the Federal Reserve Act with the exception of that to Section 22. The Council would again submit to the Board its recommendation and proposed amendment to Section 22, as follows:

"The Council would recommend that the proposed addition to Section 22 commencing with 'Provided, however, that nothing in this Act contained' should be amended as follows:

"'Provided, however, that nothing in this Act contained shall be construed to prohibit a director, officer, or employee from receiving the same rate of interest paid to other depositors for similar deposits made with such bank; or to prohibit a director who is not an officer or employee from receiving, directly or indirectly, the usual and customary commissions or fees for services rendered in buying and selling securities or other investments for or on account of such bank, but each such transaction must be recorded in the minutes of the meeting of said board, such minutes to specify the name of the director and the firm or corporation with which he is connected, if any, through which such order is executed, together with the amount of the fee or commission paid on each transaction; and, provided further, that notes, drafts, bills of exchange, or other evidences of debt executed or indorsed by directors of a member bank may be discounted with such member bank on the same terms and conditions as other notes, drafts, bills of exchange or evidence of debt.'"

"The Council makes this recommendation because in its judgment an affirmative vote or written assent of at least three-fourths of the

members of the Board is an unnecessary restriction in connection with such services by a director as the buying and selling of securities and inasmuch as notes, drafts, bills of exchange or other evidences of debt executed or indorsed by bank directors are as a rule the very best of their class, the placing of special restrictions on the discounting of such instruments for directors would only unnecessarily and unwarrantably impede legitimate business or force it into other banks. "

TOPIC NO. 5. Bills S. 9 and S. 742

Recommendation:-

The Council has considered Bills S. 9 and S. 742 at the request of the Federal Reserve Board and begs to report that in its opinion any legislation providing for the guaranteeing of deposits or the establishment of a fund for the insurance of deposits is undesirable. A plan might however be devised by the Federal Reserve Board which would provide for prompt relief to be given depositors of failed banks. The Council does not approve of legislation regulating the ratio of deposits to capital as proposed in Section 10 of S. 742.

130.

4/18/17

The Council is of opinion that the Hayes' bill ought not at the present time be pressed as it seems to it inopportune to introduce any measure of a coercive character, when the cooperation of all the state banks and trust companies is so much needed to assist in carrying out the financial program of the government.



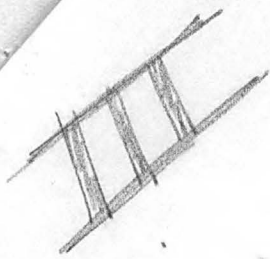
III

Interative &  
subject to discussion

The Council believe that the first offering of long time bonds should be \$1,000,000,000 if that amount should be adequate to meet the immediate necessities of the government, in order that, first: a successful flotation may be assured, and, second: the amount may not be materially in excess of short certificates which may be issued in anticipation of such ~~the~~ issue, thus avoiding the tying up of either money or bank credits for any length of time. If handled in this manner, successive offerings being made as required by the government, the entire bond financing could be done through the Federal Reserve banks as fiscal agents for the Treasury and serious disturbance of bank balances avoided. This method coupled with a careful use of short certificates would in our opinion obviate the necessity for a general deposit of government funds in the banks of the country.

In our opinion the bonds should be payable in thirty years, callable after five years.





In the matter of the taxation as suggested by the Secretary of the Treasury the sense of this Council is --

1st. That the proportion of war cost for the first year to be provided by taxes, viz., 50 %, would impose too great a strain upon industry and the investable surplus of the country; the proportion should not exceed 25 % for the first year.

2nd. That to impose a surplus profits tax and an additional income tax on the incomes of the calendar year 1916 would, besides being unjust, put an excessive burden upon corporations and upon individuals, who having provided for the taxes of that year and having thereby discharged their tax obligation to the government have disposed of the balance of their profits by placing them either in permanent improvements or fixed investments.

*Object to the  
Retroactive  
feature.*

3rd. That since the government is about to make huge demands upon the investable surplus of the country it would be most advisable so to frame the tax measures that large incomes from which is derived the greater part of that fund should not be taxed in an undue proportion. In this way industry may continue to finance itself and at the same time the government obtain the needed funds with the least possible disturbance of business.

4th. It is most desirable that the taxes to be levied should be upon luxuries and as little as possible upon thrift, enterprise and savings.

*Grim*

#17

TELEGRAM  
FEDERAL RESERVE BOARD  
WASHINGTON

FEDERAL RESERVE BOARD FILE  
130.

April 18, 1917.

Herritt H. Grim,  
First National Bank,  
Chicago, Ill.

Your telegram April thirteenth. Board already advised of meeting on Tuesday. Glad to place Board Room at your disposal.

WILLIS  
Secretary.



130.

FEDERAL RESERVE BOARD

April 13, 1917.

Memo. for Dr. Willis:

Crane, Paris & Co. telephoned the following message, received by them over their private wire:

"H. Parker Willis  
Secretary Federal Reserve Board.

Mr. Rue, vice president, has called a meeting of Federal Advisory Council in Washington Tuesday, seventeenth inst. at 10.30 a.m. Could we hold the meeting in the Federal Reserve Board Room? If not convenient we can make other arrangements if you will let me know. Mr. Rue may have arranged meeting place but he did not so state in his wire.

Merritt H. Grim,  
Sec. First National Bank."

Crane, Paris & Co. said they would be glad to send any reply over their private wire.

J.SK.

4/18/17

592.

To

Mr. *Hardy for OK*

*AWB*

Please return to  
Secretary's office.



*John L. Rue*

*#3*  
*Eg*

333-10  
FEDERAL RESERVE BOARD  
130.

April 12, 1917.

Mr. L. L. Rue,  
33 East 36th Street,  
Philadelphia, Penna.

Dear Mr. Rue:-

The Board has no information regarding plans for Government financing other than that which has been given to the press. Possibly by the time the Council meets next week more definite information will be available, but it would be premature for the Board to suggest a discussion in detail, in the absence of information as to the amount of bonds to be placed at once, or the part that the Federal Reserve Banks will be expected to play.

It is suggested, therefore, that the Council discuss in general terms the present banking and investment situation in the country, and the effect of large bond flotations upon the banks' position. The Council might well suggest the maximum amount of bonds which could be floated at any one time without undue disturbance to the money market. It might also discuss the process of reabsorption by the market of the proceeds of bonds, and the functions of the Federal Reserve Banks in this connection. It might also discuss reasonable limitations of taxation, and the effect of excessive taxation upon the investment market and upon the industrial and transportation systems of this country.

Should the Council have time to discuss acceptances, it is suggested that it should consider the advisability of having bankers' acceptances as far as possible discounted at institutions other than those accepting them.

The Board understands that it will meet the Council for a preliminary discussion at 10:30 A. M. next Tuesday, April 17th.

Very truly yours,

Governor.

Willis  
HS

FEDERAL RESERVE BOARD FILE  
130

April 11, 1917.

MEMORANDUM FOR GOVERNOR HARDING.

I suggest that among the topics to be presented to the Advisory Council for discussion at its approaching meeting, there be included the following.

1. What should be done to insure the discounting of bankers' acceptances, so far as possible, at institutions other than those accepting them?

2. Is there any reason why individual business men should not be encouraged to sell bankers' acceptances direct to Federal reserve banks when such reserve banks are in the acceptance market?

3. Extent to which Federal reserve banks should actually hold funds growing out of new loans of Government after, as well as during the period of flotation.

Secretary.

*Franklin D. Roosevelt - 3/21/17*

*Mustang  
July 19-20, '17*

FEDERAL RESERVE BOARD FILE  
130

TOPIC NO 1.

Domestic Branches of Federal Reserve Banks as required by Section 3  
of the Federal Reserve Act. In this connection the attention of the  
Council is called to the report of the Committee of the Governors of Federal  
Reserve Banks, which advises that agencies rather than branches be established. 3/21/17

Recommendation:

The Federal Advisory Council approves the amendment  
proposed to Section 3 of the Federal Reserve Act contained in Section 7  
of H R 20661 and would recommend that further legislation should be enacted  
giving the Federal reserve banks the right with the approval of the Federal  
Reserve Board to establish ~~agencies rather than branches where they would~~  
~~afford all the facilities necessary.~~



TOPIC NO 2.

Foreign agencies or branches of Federal Reserve Banks. Should their establishment at this time be encouraged?

Recommendation: The Council recommends that the foreign business of the Federal reserve banks should for the present be conducted through correspondents and that neither agencies nor branches should be established in foreign countries by any Federal reserve bank until world conditions are more settled and until the efficiency of the service rendered by correspondents be thoroughly tested.

TOPIC NO. 3.

Reserve position of member banks. What changes are anticipated in the present situation?

Recommendation: The position of member banks in relation to their lawful reserves continues to be one of considerable surplus. The further continuance of this position depends on the continuance or discontinuance of gold importations. There seems to be in prospect further foreign loans of considerable size as well as a loan of large proportions to our own government. Considerable dislocation will inevitably result from these issues, bank deposits will no doubt be largely drawn upon. Then the proposed changes in regard to the legal reserves of the member banks including the discontinuance of having balances with legal reserve agents counted as part of such reserves will more or less upset the position of the member banks in regard to their legal reserves as they now calculate them. In view of these prospective features of the situation we look for a shrinkage in surplus legal reserves and for higher rates for money than have prevailed during 1916.

TOPIC NO. § 4.

Sub-Treasuries. ( See letter of Secretary of the Treasury in February Bulletin, page 110).

To what extent is it practicable or advisable that their functions be performed by the Federal Reserve Banks?

Recommendation:

We agree with the Secretary of the Treasury that the gold coin and bullion held against gold certificates and the gold reserve held against U.S. notes and Treasury notes of 1890 and the silver dollars held against silver certificates should all be kept in the physical control of the government so long as the government's obligations are outstanding against them. The government cannot properly transfer its trusteeship to the Federal reserve banks or any other agency. In our opinion however it may be possible with the cooperation of the government under legislation providing for it to gradually retire the government gold certificates and allow Federal reserve notes in suitable denominations to take their place in the circulating media of the country. The government now merely acts as warehouseman for the gold whereas in the hands of the Federal reserve banks it could be more economically and scientifically and quite safely used as the principal basis for the issue of Federal reserve notes and would thus materially contribute to the strength and efficiency of the Federal reserve system; the ultimate object being the replacement of the government gold certificates by Federal reserve notes.

By cooperation between the Treasury department and the Federal reserve banks the latter might be kept well supplied with U. S . notes, Treasury notes and silver certificates in denominations to suit the convenience of the member banks. We see no reason



TOPIC # 4 continued. page 2

why practically all the current funds of the government should not be deposited with the Federal reserve banks and the government disbursements as far as practicable made by checks on these banks. The Federal reserve banks should become the government depositary banks and should be used by the Treasury department as such on an equitable basis as to the cost of handling the business and the profits to be derived therefrom.

The question of interest on government deposits need not be considered as whatever profit there is in the business of the Federal reserve banks beyond 6% to their stockholders reverts to the government.

It is quite evident that there are many functions performed by the sub-treasuries which the Federal reserve banks are not equipped and could not probably be efficiently equipped to perform. We are not sufficiently familiar with the operation of these functions to give specific advice as to which of them it would be practicable or advisable to turn over to the Federal reserve banks. We agree with the Secretary of the Treasury

that this is an important matter and should be considered deliberately. It would seem to be one which can best be worked out between the Treasury officials and your Board cooperating together towards establishing the most efficient and most economical method of handling the public business in the interest of the public. The benefits to be derived from any changes afford the best if not the only reason for making them.



Topic No. 5.

Should the Federal Reserve Board employ a competent man to make a thorough study and investigation of foreign exchange and its bearing on the efforts being made to establish dollar exchange in this country?

RECOMMENDATION.

The value of such a study or investigation would entirely depend on the practical knowledge, experience, efficiency and breadth of view of the student or investigator. A foreign exchange department manager whose training and experience has led him to gather in under the keenest of competition all the business he could control for the profit in it might find difficulty in grasping from a broader point of view the use that should be made of such a department in a Federal reserve bank. At the same time no one could satisfactorily make such an investigation who has had no practical experience and who does not thoroughly understand the business in practice as well as in principle. Such an investigator should be very carefully selected and may be difficult to find, but when found we have no doubt that his investigation and report would prove of sufficient value to the Board and all connected with the Federal reserve system as to warrant his appointment. The Board should, however, tentatively settle in advance just what attitude the Federal reserve banks will assume towards the foreign exchange business and the investigator should be given to understand that his investigation is to be made on the broad basis of

how best Federal reserve banks can cooperate with their member banks in an effort to develop the foreign exchange business and to establish dollar exchange in this country. The investigation should be made broad enough to include the elements other than banking facilities which contribute to the development of foreign business such as transportation, insurance, consular service, etc.

<sup>the</sup>  
Would Council recommend a plan providing for rotation in its membership?

Recommendation:

As the Federal Reserve Act provides that members of the Federal Advisory Council shall be elected annually by the directors of the Federal reserve banks we doubt the propriety of either the Federal Reserve Board or this Council taking any action or making any recommendation in the matter.

*Rotation*

Additional recommendation.

Our attention has been directed to the proposed plan whereby a draft drawn by a member bank upon its Federal reserve bank could be made receivable at par by another designated Federal Reserve bank.

In order that such a plan should be made practically safe and effective in its operation drafts drawn under it should be made "payable upon advice" instead of "receivable for immediate availability " at the designated Federal Reserve bank.

In connection with all new plans inaugurated in the Federal reserve system for the transfer of funds or the collection of checks "safety first" should be the watchword; otherwise such unfortunate complications accompanied with probable loss as have lately arisen in connection with the collection of checks through the Federal Reserve Bank of San Francisco on three State banks in Seattle which recently failed are likely to be repeated to the discredit of the System.



RESOLVED that the Federal Advisory Council reiterates its previous expression upon the issue of Federal reserve notes directly against the deposit of 100% gold or 100% of paper, or both, and for the counting of gold held by the Federal Reserve agents as security for notes as part of the gold reserve required to be held by the banks against such Federal reserve notes. In the opinion of the Council, no more important recommendation has been presented by the Federal Reserve Board. We, therefore, strongly urge the enactment of the principle into law.

RESOLVED FURTHER, that the President of the Council is instructed to at once convey to the Federal Reserve Board ~~and to the Chairmen of the Committees on Banking and Currency of both Houses of Congress~~ this <sup>unanimous</sup> expression from the <sup>entire</sup> Federal Advisory Council.

FEDERAL RESERVE BOARD FILE  
130.

*Grimm*

February 20, 1917.

Dear Sir:

Mr. Forgan left with Mr. Warburg the enclosed memorandum with the request that it be returned to him at Chicago. I send it to you herewith to be held for his return from the South.

Faithfully yours,

Secretary.

Secretary to  
James B. Forgan, Esq.,  
First National Bank,  
Chicago, Illinois.

Enc.

#7  
FEDERAL RESERVE BOARD FILE

1310.

Feb. 19-20, 1917.

February 5, 1917.

FILE

FEB 2 1917

Federal Reserve Board

Mr. James B. Forgan,  
President Federal Advisory Council,  
Chicago, Ill.

My dear Mr. Forgan:-

Replying further to your letter of January 27th I have the honor, in behalf of the Board, to suggest that the Council consider the following:

1. DOMESTIC BRANCHES OF FEDERAL RESERVE BANKS, as required by Section 3 of the Federal Reserve Act.

In this connection the attention of the Council is called to the report of the Committee of the Governors of Federal Reserve Banks, which advises that agencies rather than branches be established; and to the fact *that* the House Committee on Banking and Currency has reported favorably a bill making it mandatory upon the Federal Reserve Board to see that branches are established in each district, but at the same time simplifying the machinery for operating these branches. (See House Bill 20661, page 9)

2. FOREIGN AGENCIES OR BRANCHES OF FEDERAL RESERVE BANKS. Should their establishment at this time be encouraged?

3. RESERVE POSITION OF MEMBER BANKS. What changes are anticipated in the present situation?

4. SUB-TREASURIES. (See letter of Secretary of the Treasury in February Bulletin, page 110) To what extent is it practicable or advisable that

their functions be performed by the Federal Reserve Banks?

Very truly yours,

Governor.

2 As a supplement to this a further 2  
✓ subject was added by Telegraph.



Subjects for Discussion at the Next Meeting of  
The Federal Advisory Council.

130.

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2/1/17

1. What should be our discount policy and rates in the coming months.
2. A suggested organization of the Council to provide for rotation; for example - Making three groups, each to hold office three years.
3. Domestic branches of Federal Reserve Banks as required by Section 3, of the Federal Reserve Act.
4. Foreign agencies, or branches. — *Should we encourage*  
~~Should we employ?~~
5. ~~Foreign agencies, or branches?~~ Reserve situation of member banks: To what extent *their*  
present strength is likely <sup>to</sup> last, etc.?
6. Subtreasury System. See letter of Secretary of Treasury in February Bulletin, page 110. To what extent could or should these functions be taken over by the Federal Reserve Banks?

February 1, 1917.

To 927 Harding



shown by

P. Adams

2/1/17

FEDERAL RESERVE BOARD FILE

1363.

February 19-20, 1917.

January 29, 1917.

Mr. James B. Forgan,  
President Federal Advisory Council,  
Chicago, Ill.

Dear Mr. Forgan:-

I have received your letter of the 27th instant advising that the next statutory meeting of the Federal Advisory Council will be held in Washington on Monday and Tuesday, February 19th and 20th.

The Board will take pleasure in meeting with the Council at 10:30 or such other hour of the morning as may be agreeable to you, for a preliminary presentation by the Board of the subjects it may desire the Council to consider. The Board has charged its executive committee with the duty of preparing a list of subjects to be submitted to the Council, and I will forward you this list in the course of a day or two.

Very truly yours,

Governor.

PRE  
GRIM

MR. FORGAN TO BE ADVISED OF LIST  
OF SUBJECTS FOR MEETING OF COUNCIL



IV

Object to the Guarantee  
of deposits -

PRESIDENT  
VICE PRESIDENT  
SECRETARY

COMMITTEE  
ORGAN

ORGAN  
D. G. WING  
R. ROWE

# FEDERAL ADVISORY COUNCIL

OFFICE OF THE PRESIDENT

## MEMBERS

- DANIEL G. WING, DISTRICT No. 1
- J. P. MORGAN, DISTRICT No. 2
- L. L. RUE, DISTRICT No. 3
- W. S. ROWE, DISTRICT No. 4
- J. W. NORWOOD, DISTRICT No. 5
- CHARLES A. LYERLY, DISTRICT No. 6
- JAMES B. FORGAN, DISTRICT No. 7
- F. O. WATTS, DISTRICT No. 8
- JOHN R. MITCHELL, DISTRICT No. 9
- E. F. SWINNEY, DISTRICT No. 10
- T. J. RECORD, DISTRICT No. 11
- HERBERT FLEISHACKER, DISTRICT No. 12

CHICAGO, Jan. 27, 1917

130.

Hon. W. P. G. Harding,  
Governor,  
Federal Reserve Board,  
Washington, D C

RECEIVED

JAN 29 1917

GOVERNOR'S OFFICE

2/19/17

Dear Mr. Harding:-

It is now about time we were making our preliminary arrangements for the next statutory meeting of the Federal Advisory Council which will be held in Washington on Monday and Tuesday, the 19th and 20th of February.

As this will be the annual meeting of the Council at which its official organization for this year will have to be elected we will meet at ten o'clock. The formalities of organization should be over by 10:30, when we will be glad to meet with the Federal Reserve Board for a preliminary presentation by the Board of such subjects as it may desire the Council to take up for consideration.

In the meantime it will facilitate the work of the Council if you will again send me a list of the subjects to be submitted to the Council so that I may advise the members of them in advance of the meeting.

Your early attention to this matter will be highly appreciated and I am,

Very truly yours,

*James B. Forgan*  
President

*1/29*

*over*

A suggestion

2. Organization of the Council to provide for rotation - Making 3 groups each to hold office <sup>for example</sup> 3 years

3. Domestic Branches of Fed. Res Banks as req<sup>d</sup> by Section 3 of F. R. Act.

4. Foreign Branches - Agencies of { should we employ.

~~4. International Dept~~

~~5. Foreign Govt branches as bank representative~~

~~in the member banks~~

6. What should be our present policy & what in coming months of member banks.

5. Reserve situation - To what extent present strength is likely to last, etc

6. Sub-Treasury System - see letter of Sec of Treasury in February Bulletin, page 110. To what extent could or should these functions be taken over by the Fed Res Bank

P R E S S   S T A T E M E N T .

1354.1

January 29, 1917.

The Federal Reserve Board to-day made public the text of a memorandum transmitted to it by Mr. James B. Forgan, President of the Federal Advisory Council, expressing the views of that body with reference to the proposed amendments to the Federal Reserve Act recently submitted to the Banking and Currency Committees of the two Houses of Congress by the Federal Reserve Board.

It will be noted that the Council unanimously approved the proposed note issue amendment which has been stricken out by the House Committee on Banking and Currency, and that the Council has suggested a modification of the proposed reserves to be carried by member banks with the Federal reserve banks. In view of the fact, however, that the House Committee struck out all requirements for vault cash, the Board believes that the suggested reserves of seven, ten, and thirteen per cent respectively for country banks, reserve city banks and central reserve city banks, should be retained.

The Advisory Council's memorandum, dated January 25th, is as follows:



RECOMMENDATIONS BY  
THE FEDERAL ADVISORY COUNCIL IN REGARD TO THE AMENDMENTS  
TO THE FEDERAL RESERVE ACT PROPOSED BY  
THE FEDERAL RESERVE BOARD

JANUARY 1917.

No. 1. AMENDMENT TO SECTION 16 which provides

- (a) for the issue of Federal reserve notes directly against the deposit of 100% gold; or 100% of paper, or both;
- (b) for the counting of gold held by the Federal reserve agents as security for notes, as part of the gold reserve required to be held by the bank against such Federal reserve notes;

Meets with the approval of the Federal Advisory Council.

No. 2. IN RE. AMENDMENT OF SECTION 19, abbreviating and simplifying the clauses in Section 19 which relate to reserve requirements. This provides that all member banks shall maintain reserves in the Federal reserve bank as follows:

	Against Demand <u>Deposits</u>	Against Time <u>Deposits</u>
(a) Country banks	7%	3%
(b) Reserve city banks	10%	3%
(c) Central Reserve city banks	13%	3%

and in addition every member bank is required to keep in its own vault for till money an amount of specie or currency (not necessarily gold or lawful money) equal to five per cent of its demand deposits, less the amount of net balance with Federal reserve banks in excess of the minimum above stipulated.

This amendment is in harmony with one of the basic principles of the Federal Reserve Act to the effect that the bulk of the gold held as reserves for bank deposits should be mobilized in the Federal reserve banks. From the standpoint however of a practical working basis the Council doubts if so much as is proposed of the member banks' available cash should be arbitrarily tied up in the form of compulsory balances with the Federal reserve banks.

The Council at its meeting of September 19th last, drew the Board's attention to the fact that until the State banks join the system and daily clearing house balances can be settled by checks on the Federal reserve banks the member banks, especially in the large cities, must keep a sufficient supply of gold or lawful money on hand for the settlement of such balances as well as for their counter use. Besides this it would be a conservative policy for the member banks to keep in their own vaults a reasonable amount of gold or lawful money proportionate to their demand deposits. Banks located in Federal reserve cities now receive from the Federal reserve banks late in the afternoon checks on themselves in large volume and amount which have accumulated during the day and have been charged against their legal reserve balances in such large volume and amount as to hamper them in maintaining their legal reserve balances. In our opinion 5% cash on hand would not be sufficient for these purposes and from a practical standpoint it would facilitate the oper-

ations of the member banks if the minimum compulsory balances to be kept by them with the Federal reserve banks against their demand deposits were at least reduced 1% in each class and the percentage of the till money correspondingly increased in the case of the reserve city and central reserve city banks, the increase in till money in the case of the country banks being unnecessary. The Council's recommendation is therefore as follows:

	Deposits in Federal Res. Banks against <u>Demand Deposits.</u>	Deposits in Federal Res. Banks against <u>Time Deposits.</u>	<u>Till Money</u>
Country Banks	6%	3%	5%
Reserve City Banks	9%	3%	6%
Central Reserve City Banks	12%	3%	6%

No. 3. AMENDMENT OF SECTION 11, so as to permit the Federal Reserve Board to raise reserve requirements in emergencies, just as it is now empowered in certain contingencies of a different kind to lower those requirements.

The Council is of opinion that it would be undesirable and unnecessary to grant such power to the Federal Reserve Board. The Board would only take action under such power when member banks are overburdened with surplus cash reserves and its action then could only apply to member banks. The effect would therefore be that member banks would be compelled to increase their noninterest-bearing balances with the Federal reserve banks while

nonmember banks would have the free use of their funds. It would place another stumbling block in the way of State banks joining the system.

- No. 4. AMENDMENT OF SECTION 13, to permit nonmember State banks and trust companies, even though too small to be eligible for membership in the Federal reserve banks, to avail themselves of the clearing and collection facilities of the Federal reserve banks, provided that they cover at par checks on themselves sent for collection by the Federal reserve bank and provided further that they keep a compensating balance with the Federal reserve bank in an amount to be determined under rules prescribed by the Federal Reserve Board.

This might work to the mutual advantage of the member banks in connection with the check collection system and of nonmember banks willing to conform to the rules prescribed by the Federal Reserve Board as well as to that of the Federal reserve banks through the compensating balances. The experiment might be worth trying.

- No. 5. AMENDMENT OF SECTION 22 - the penal statute - so as to define more clearly the rights and limitations of directors in the matter of accepting fees or compensation other than the ordinary fees paid directors for legitimate services rendered in the regular course of business, the performance of which services is not incumbent upon them in their capacity as directors.

The Council would recommend that the proposed addition to Section 22 commencing with "PROVIDED, HOWEVER, THAT NOTHING IN THIS ACT CONTAINED" should be amended as follows:



PROVIDED, HOWEVER, THAT NOTHING IN THIS ACT CONTAINED SHALL BE CONSTRUED TO PROHIBIT A DIRECTOR, OFFICER, OR EMPLOYEE FROM RECEIVING THE SAME RATE OF INTEREST PAID TO OTHER DEPOSITORS FOR SIMILAR DEPOSITS MADE WITH SUCH BANK: OR TO PROHIBIT A DIRECTOR, WHO IS NOT AN OFFICER OR EMPLOYEE FROM RECEIVING, DIRECTLY OR INDIRECTLY, THE USUAL AND CUSTOMARY COMMISSIONS OR FEES FOR SERVICES RENDERED IN BUYING AND SELLING SECURITIES OR OTHER INVESTMENTS FOR OR ON ACCOUNT OF SUCH BANK, BUT IN THIS LATTER CASE THE ACTION OF THE BOARD OF DIRECTORS, IN DIRECTING EACH PURCHASER OR SALE OF SUCH SECURITIES OR OTHER INVESTMENTS, MUST BE BY AN AFFIRMATIVE VOTE OR WRITTEN ASSENT OF AT LEAST THREE-FOURTHS OF THE MEMBERS OF THE BOARD EXCLUSIVE OF THE DIRECTOR INTERESTED. AND BUT EACH SUCH TRANSACTION MUST BE RECORDED IN THE MINUTES OF THE MEETING OF SAID BOARD, SUCH MINUTES TO SPECIFY THE NAME OF THE DIRECTOR AND THE FIRM OR CORPORATION WITH WHICH HE IS CONNECTED, IF ANY, THROUGH WHICH SUCH ORDER IS TO BE EXECUTED TOGETHER WITH THE AMOUNT OF THE FEE OR COMMISSION TO BE PAID ON EACH TRANSACTION; AND, PROVIDED FURTHER, THAT NOTES, DRAFTS, BILLS OF EXCHANGE, OR OTHER EVIDENCES OF DEBT EXECUTED OR INDORSED BY DIRECTORS OF A MEMBER BANK MAY BE DISCOUNTED WITH SUCH MEMBER BANK ON THE SAME TERMS AND CONDITIONS AS OTHER NOTES, DRAFTS, BILLS OF EXCHANGE, OR EVIDENCES OF DEBT UPON THE AFFIRMATIVE VOTE OR WRITTEN ASSENT OF AT LEAST THREE-FOURTHS OF THE MEMBERS OF THE BOARD OF DIRECTORS OF SUCH MEMBER BANK.

The Council makes this recommendation because in its judgment an affirmative vote or written assent of at least three-fourths of the members of the Board is an unnecessary restriction in connection with such services by a director as the buying and selling of securities and inasmuch as notes, drafts, bills of exchange or other evidences of debt executed or indorsed by bank directors are as a rule the very best of their class, the placing of special restrictions on the discounting of such instruments for directors would only unnecessarily and unwarrantably impede legitimate business or force it into other banks.

- No. 6. AMENDMENT OF SECTION 13 to restore the provision which was by error stricken from the Act in the amendments of September 7, 1916, thus restoring to national banks, with the approval of the Federal Reserve Board, the right to accept up to 100% of their capital and surplus in transactions involving imports and exports.

The Council approves this amendment.

- No. 7. AMENDMENT OF SECTION 17, to cancel the provision of The National Bank Act which requires national banks to maintain a minimum deposit of Government bonds with the Treasurer of the United States.

The Council approves this amendment.

- No. 8. AMENDMENT OF SECTION 25 to authorize member banks located in cities of more than 100,000 population and which have a capital and surplus of more than \$1,000,000 to establish branches in the same city, provided the State laws do not prohibit State banks and trust companies from establishing branches.

The Council has already advised the Board that it approves the authorization of member banks located in cities of more than 100,000 population and which have a capital and surplus of more than \$1,000,000 to establish branches in the same city, but disapproves the granting of such a privilege to the banks in some States while it is withheld from banks in other States irrespective of State laws affecting State banks and trust companies in regard to the establishment of branches by them.

-7-

- No. 9. AMENDMENT OF SECTION 9, to authorize mutual savings banks not having a capital stock to become associate members of the Federal reserve system under certain prescribed conditions.

The Council approves this amendment.

- No. 10. AMENDMENT OF SECTION 18 so as to give to United States one-year 3% gold notes in the hands of Federal reserve banks the circulation privilege for the issuance of Federal reserve bank notes.

The Council would recommend that instead of amending Section 18 so as to give United States one-year 3% gold notes in the hands of Federal reserve banks the circulation privilege for the issuance of Federal reserve bank notes that the law providing for the exchange of 2% gold bonds bearing the circulation privilege, but against which no circulation is outstanding, for one-year gold notes to an amount not exceeding one-half of the 2% bonds so tendered for exchange, be so amended as to do away with the one-year gold notes entirely and provide that the 2% gold bonds may be exchanged for an equal amount of thirty-year 3% gold bonds without the circulation privilege.

- No. 11. AMENDMENT OF SECTION 4 to abolish the title and office of Deputy Federal Reserve Agent, thus having two unattached Class C directors instead of one as at present, and to create the position of Assistant Federal Reserve Agent, who shall not be a director of the bank, but who shall be a salaried bonded officer in the

-8-

Federal Reserve Agent's department serving at all times as an assistant to the Federal Reserve Agent and qualified to act for the Agent in his absence.

As member banks and others doing business with the Federal Reserve Agent and his assistant would not necessarily be charged with knowledge of the absence or disability of the Federal Reserve Agent the restricted power of his assistant to act in his name and stead only during his absence or disability should for their protection be removed by striking out the words "during his absence or disability" occurring in the last paragraph of the proposed amendment. If the assistant should act in any matter of importance during the presence or disability of the Agent to act for himself his action would be null and void. Otherwise the Council sees no objection to the amendment.

1/29/17



