

MINUTES OF MEETING  
of the  
FEDERAL ADVISORY COUNCIL  
November 21-22, 1928

# MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

November 21, 1928.

The fourth meeting of the Federal Advisory Council for the year 1928 began informally in the Presidential Suite of the Mayflower Hotel, Washington, D. C., on Wednesday, November 21.

The President, Mr. Wetmore, called the meeting to order at 10:20 A. M.

## Present:

Mr. Arthur M. Heard	District No. 1
Mr. L. L. Rue	District No. 3
Mr. Harris Creech	District No. 4
Mr. J. F. Bruton	District No. 5
Mr. P. D. Houston	District No. 6
Mr. F. O. Wetmore	District No. 7
Mr. W. W. Smith	District No. 8
Mr. Theodore Wold	District No. 9
Mr. P. W. Goebel	District No. 10
Mr. B. A. McKinney	District No. 11
Mr. F. L. Lipman	District No. 12
Mr. Walter Lichtenstein	Secretary

## Absent:

Mr. J. S. Alexander	District No. 2
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The minutes of the Council meeting of September 27-28, 1928, were read and two corrections were noted. Corrected copies of these minutes will be sent to the members of the Council. On motion, duly made and seconded, the minutes of the Council meeting of September 27-28, 1928, as corrected, were approved.

Mr. McKinney, in a telegram dated November 8, 1928, had suggested that there be a discussion in regard to the problem presented by Section 13 of the Federal Reserve Act in relation to Section 5200 of the Revised Statutes (National Bank Act), as amended by the Act of February 25, 1927. Under Section 5200 as amended "notes or drafts secured by shipping documents, warehouse receipts or other such documents transferring or securing title covering readily marketable nonperishable staples" may under certain conditions be discounted by a bank to an amount greater than 10 per centum of the capital and surplus of the bank. Under the provisions of the Federal Reserve Act, however, such notes are not eligible for rediscount for more than the customary 10 per centum of the capital and surplus of the bank. Query: Should the Reserve Act be amended so as to make such commodity notes eligible for rediscount to the same extent that they

may be discounted by a bank in accordance with Section 5200 as amended? After a prolonged discussion, Mr. McKinney was requested to prepare a brief embodying definite recommendations.

Governor Young's letter of November 9, 1928, embodying five topics, was read. There was an exhaustive discussion and recommendations were provisionally adopted.

The meeting adjourned at 5 P. M.

WALTER LICHTENSTEIN,

Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

November 22, 1928.

At 9:30 A. M. the Federal Advisory Council reconvened in the Presidential Suite of the Mayflower Hotel, Washington, D. C.

Present: Mr. F. O. Wetmore, President; Mr. J. F. Bruton, Vice-President; Messrs. A. M. Heard, J. S. Alexander, Harris Creech, P. D. Houston, Theodore Wold, P. W. Goebel, B. A. McKinney, F. L. Lipman, and Walter Lichtenstein, Secretary.

The recommendations prepared the day before were read and after some slight changes, were formally adopted.

The meeting adjourned at 9:55 A. M.

WALTER LICHTENSTEIN,

Secretary.

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

November 22, 1928.

At 10:30 A. M. a joint conference of the Federal Advisory Council and the Federal Reserve Board was held in the Federal Reserve Board room, Treasury Building, Washington, D. C.

Present: Members of the Federal Reserve Board:

Governor Roy A. Young, Vice Governor Edmund Platt, Messrs. C. S. Hamlin and E. H. Cunningham; also W. L. Eddy, Secretary, E. M. McClelland, Assistant Secretary to the Board, and E. A. Goldenweiser, Director of the Division of Research and Statistics, Federal Reserve Board.

Present: Members of the Federal Advisory Council:

Mr. F. O. Wetmore, President; Mr. J. F. Bruton, Vice-President; Messrs. A. M. Heard, J. S. Alexander, L. L. Rue, Harris Creech, P. D. Houston, W. W. Smith, Theodore Wold, P. W. Goebel, B. A. McKinney, F. L. Lipman, and Walter Lichtenstein, Secretary.

The Secretary of the Council read the recommendations of the Council which had been adopted (Nos. 1-5 attached hereto and made part of the minutes).

Governor Young reported respecting recommendation No. 3 presented September 28, 1928 and dealing with the composition of the Open Market Committee. The Board submitted this recommendation to the Governors' and Agents' Conference. This body also approved of the recommendation and the Board will probably follow the suggestion.

In respect to recommendation No. 4 of September 28, 1928, suggesting that the Board revoke its ruling of 1919 regarding balances due from foreign banks, Governor Young reported that the Governors' and Agents' Conference had disapproved for the present of the suggestion made by the Federal Advisory Council to the effect that it should be permitted in calculating reserves to deduct such balances from balances due to other banks. The Governors' and Agents' Conference felt that there should be nothing done to reduce reserves at the present time.

In regard to recommendation No. 5 of September 28, 1928 made by the Federal Advisory Council opposing the suggestion to make a minimum limitation of seven days on advances by Federal Reserve banks to member banks on their promissory notes, Governor Young reported that the Governors' and Agents' Conference agreed with the Federal Advisory Council that this would be an undesirable amendment of the Board's regulations.

Governor Young reported regarding the difficulty which the Board was finding in applying that part of Section 19 of the Federal Reserve Act which gives the Federal Reserve Board, upon the affirmative vote of five members, the right to permit member banks located in outlying districts of a central reserve city or reserve city to maintain a lower reserve than that ordinarily demanded on the part of banks located in a central reserve or a reserve city. Governor Young stated that the Board is in a dilemma, as it is not clear that mere distance from the center of a reserve or central reserve city should be the sole determining factor, but if not what should be the factors taken into consideration by the Board in granting or denying applications for reduced reserves. The Governors' and Agents' Conference voted that the character of deposits should be considered. Banks depending on savings deposits and checking accounts from individuals

and small shopkeepers should be the only ones exempted from keeping the reserves ordinarily required from member banks in central reserve or reserve cities. Governor Young pointed out that the adoption of such a policy, however, would mean the revocation of some permits previously granted. Governor Young requested that the Council consider this matter and, if possible, make some recommendation to the Board.

Dr. E. A. Goldenweiser, Director of Division of Research and Statistics of the Federal Reserve Board, made an interesting report on the present credit situation.

The meeting adjourned at 12:55 P. M.

WALTER LICHTENSTEIN,

Secretary.

RECOMMENDATIONS OF THE FEDERAL ADVISORY COUNCIL TO THE  
FEDERAL RESERVE BOARD

November 22, 1928.

TOPIC No. 1. The relation of Federal reserve discount rates and security loan market rates.

RECOMMENDATION: The Federal Advisory Council believes there is a relationship between the rediscount rates established by the Federal Reserve banks and the New York call money rate. The establishment of a five per cent rate by most of the Federal Reserve banks has been followed by a minimum renewal rate of six per cent in the New York call money market, the actual rate depending upon the supply of and demand for money on the New York stock market from day to day. A change at this time of the rediscount rates in either direction is not regarded as advisable having regard to the needs of the commercial, industrial, and agricultural interests and the speculative situation. A raising of the rates would be detrimental to business interests and a lowering would probably encourage continued speculation on the stock markets of the country.

TOPIC No. 2. The effect of open market operations and buying rates of the Federal Reserve System on the security loan market.

RECOMMENDATION: The open market operations have a direct and immediate influence upon all money markets. The buying rates prevailing in the open market operations should not be inconsistent with the policy adopted in fixing the rediscount rates.

TOPIC No. 3. The relation of security loan rates to other money rates.

RECOMMENDATION: The demand for loans on securities has undoubtedly caused an advance in interest rates generally. However, the requirements of business have been fully met at preferential rates which have not been burdensome or restrictive.

TOPIC No. 4. The proper function and use to be made of banking investments in brokers' loans.

RECOMMENDATION: In so far as this refers to non-customer loans, the Council is of the opinion that such investments are proper for member banks to make with surplus funds only except for the purpose of meeting a temporarily disturbed situation. Member banks, however, should not borrow to carry these loans solely for the purpose of making a profit.

TOPIC No. 5. In the opinion of the Council, under what conditions, and what methods of policy, management, or operation, may the Federal Reserve System in discharging its duties under the Federal Reserve Act, use to prevent a seepage of Federal Reserve credit into the Call Loan market, retaining at the same time every assurance of a minimum interference with the free play of credit to accommodate business and commerce.

RECOMMENDATION: The Council in its answer to question number 4 has indicated the cooperation which it believes the member banks of the System would give to the Federal Reserve banks in order to prevent a seepage of Federal Reserve credit into the call loan market. In the opinion of the Council this is the most effective method of accomplishing the desired object.