MINUTES OF MEETING

of the

FEDERAL ADVISORY COUNCIL

June 4-6, 1939

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

June 4, 1939

The second statutory meeting of the Federal Advisory Council for 1939 was convened in Room 836 of the Mayflower Hotel, Washington, D. C., on Sunday, June 4, 1939, at 10:55 A. M., the President, Mr. Smith, in the Chair.

Present:

Mr. Thomas M. Steele	District No. 1
Mr. Leon Fraser	District No. 2
Mr. Howard A. Loeb	District No. 3
Mr. T. J. Davis	District No. 4
Mr. Edward Ball	District No. 6
Mr. Edward E. Brown	District No. 7
Mr. Walter W. Smith	District No. 8
Mr. John Crosby	District No. 9
Mr. John Evans	District No. 10
Mr. R. Ellison Harding	District No. 11
Mr. Paul S. Dick	District No. 12
Mr. Walter Lichtenstein	Secretary

Absent:

Mr. Robert M. Hanes	District No. 5

At the beginning of the meeting, Mr. Edward Ball was not present, but joined the meeting at 12:45 P. M.

On motion, duly made and seconded, the minutes of the meeting of the Council of February 12-14, 1939, copies of which had been previously sent to the members, were approved.

The Secretary announced that Mr. Robert M. Hanes had found it impossible to be present at the meeting, and that Mr. Charles E. Rieman, who had been asked to serve as alternate, also found it impossible to be at the meeting.

The first subject on the agenda, "How can the Federal Reserve System increase the value or scope of its services to member banks in practicable or desirable ways?" was presented for discussion.

It was decided to request Mr. Steele to formulate a reply to the Board asking that the Board excuse the Council from further discussion of this topic, as the Council felt that it had exhausted the subject.

The Secretary presented the action of the Executive Committee of the Council in respect to the Barkley bill (S. 477), and the companion bill introduced in the House of Representatives as H.R. 5220, and specifically the letter of April 3, 1939 addressed by the Secretary of the Council to the Secretary of the Board of Governors of the Federal Reserve System, in which it was requested that the Board of Governors submit to the House Committee on Interstate and Foreign Commerce, Recommendation No. 4 adopted at the meeting of the Council on February 12-14, 1939.

On motion made by Mr. Evans, and seconded by Mr. Dick, the action of the Executive Committee of the Council was unanimously approved.

It was decided to consider the Mead Bill (S. 2343).

The suggestion was made to invite Mr. Jesse H. Jones to discuss the subject with the Council, and, after communicating with Mr. Jones, it was stated that he would join the Council in the afternoon, between 3:00 P. M. and 3:30 P. M.

It was decided also to invite the General Counsel of the American Bankers Association, Mr. D. J. Needham, to join the Council, and upon communicating with Mr. Needham he agreed to come at 12:30 P. M.

Mr. Steele presented a resolution dealing with the subject of the "easy money" policy, which was read. It was decided to discuss the subject fully later in the session.

Mr. Needham joined the Council at 12:50 P. M. and with the members of the Council had luncheon in Room 875 from 1:00 P. M. to 2:10 P. M., after which the Council reconvened in Room 836. Mr. Needham left the Council at 2:45 P. M.

A detailed discussion took place as to what action might be effective in combating the Mead bill before the subcommittee of the Senate having the bill in question in charge.

At 3:25 P. M. Mr. Jesse H. Jones and his associates, Messrs. Emil Schram, Claude E. Hamilton, Jr., and Sam H. Husbands, joined the Council, discussing in considerable detail matters relating to the Mead bill.

At 4:20 P. M. Mr. Jones left, and at 4:55 P. M. Messrs. Schram, Hamilton, and Husbands left.

The meeting adjourned at 5:05 P. M.

WALTER LICHTENSTEIN,
Secretary.

June 5, 1939

At 10:30 A. M., the Federal Advisory Council reconvened in the Board Room of the Federal Reserve Building, Washington, D. C., the President, Mr. Smith, in the Chair.

Present: Mr. Walter W. Smith, President; Mr. Howard A. Loeb, Vice President; Messrs. Thomas M. Steele, Leon Fraser, T. J. Davis, Edward Ball, Edward E. Brown, John Crosby, John Evans, R. Ellison Harding, Paul S. Dick, and Walter Lichtenstein, Secretary.

It was decided to proceed with the discussion of Mr. Steele's resolution on "easy money." Various suggestions were made and several amended drafts of the memorandum were prepared.

Mr. Steele submitted a draft of the letter to the Board of Governors of the Federal Reserve System dealing with the topic "How can the Federal Reserve System increase the value or scope of its services to member banks in practicable or desirable ways?"

The Secretary of the Council was instructed to write a letter to the Secretary of the Board of Governors of the Federal Reserve System, reading as follows:

Washington, D. C.,
June 6, 1939.

Board of Governors of the
Federal Reserve System.

Gentlemen:

In a letter addressed to the Secretary of the Council by Mr. Bethea, for the Board of Governors, on March 31, 1939, it was suggested that the Council expand its answer submitted to the Board on February 14 last to certain specific questions which had been propounded to the Council for consideration at the February meeting. These questions all had to do with certain administrative and practical functions of the System, grouped generally under the several headings: (1) Check Collection System, (2) Examination, (3) Reserve Requirements, and (4) Report Requirements. All these topics had developed out of prior reports and statements made from time to time by the Council to the Board as the result of the topic originally submitted by the Board in December 1937 entitled: "How can the Federal Reserve System increase the value or scope of its services to member banks in practicable or desirable ways?"

Upon the submission of this question, the Council at once undertook what it believed to be a reasonably comprehensive survey of the opinions and suggestions of member banks throughout the country. Although, for reasons not now important, no data was obtained from some of the districts and the surveys in some districts were much more satisfactory than in others, the Council did succeed in obtaining the confidential opinions of a large number of banks which it felt were extremely valuable and probably fairly representative of a cross section of nation-wide views upon this important and interesting question. These various replies were carefully tabulated and digested, and were presented to the Board on May 17, 1938, but without opinion of the Council as to the soundness or unsoundness of the varied and sometimes conflicting points of view which were expounded.

Thereafter, on August 3, 1938, the Board asked the Council for a statement of its own views in regard to the problems discussed by the various banks which had sent in replies. In the effort to comply with the request, the Council made a careful reexamination of the material which had been submitted, selected what seemed to it to be the more important of the problems and, after prolonged discussion agreed upon a reply which was submitted to the Board on November 29, 1938.

Subsequently, on January 3, 1939, the Board, through its secretary, submitted a request that the Council answer certain specific questions placed before it, giving its own views upon each of the several matters. The Council responded by another full discussion during which it made every possible effort to agree upon answers which represented the unanimous views of the Council's membership, but as the questions were all, or nearly all, questions of administrative policy or mechanical procedure, it endeavored to make its answers brief and concise. In developing these answers it became obvious that many different points of view are held as to the reasoning upon which the several conclusions are reached. It is believed that this is inevitable in any gathering of representatives of banks from different sections of the country where different conditions and customs prevail, where banks of different size and types prevail, and where competitive conditions vary widely. Therefore, it was impossible for the Council to agree unanimously upon identical reasons for its conclusions upon a number of the answers submitted and it is not believed that further deliberation will result in any greater agreement as to reasons, even though the Council had no difficulty in unanimously agreeing upon its conclusions.

It is, therefore, respectfully requested that the Board excuse the Council from further consideration of this topic as a whole, although it will now, or at any time, gladly undertake to consider and reach conclusions upon single and specific questions upon any topics which the Board may desire to place before it.

Respectfully,

(Signed) Walter Lichtenstein
Secretary.

At 1:00 P. M. the Council adjourned for luncheon with Chairman Marriner S. Eccles, and reconvened in the Board Room at 2:30 P. M. to hear Dr. E. A. Goldenweiser, Director, Division of Research and Statistics.

Dr. Goldenweiser discussed the domestic economic situation, as well as the international situation, and left the Council at 2:25 P. M.

The revision of the memorandum on the "easy money" policy was presented, and after some discussion, adopted, and as Recommendation No. 1 is attached to and made a part of these minutes.

Some further discussion took place on the Mead bill (S. 2343).

Mr. Davis left the meeting at 4:25 P. M.

A vote was taken on the Mead bill and all present declared themselves opposed to it.

The meeting adjourned at 5:30 P. M.

WALTER LICHTENSTEIN,
Secretary.

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

June 6, 1939

At 10:15 A. M. a joint conference of the Federal Advisory Council and the Board of Governors of the Federal Reserve System was held in the Board Room of the Federal Reserve Building, Washington, D. C.

Present: Members of the Board of Governors of the Federal Reserve System:

Vice Chairman Ronald Ransom; Governors M. S. Szymczak, John K. McKee, Chester C. Davis, and Ernest G. Draper; also Messrs. Lawrence Clayton, Assistant to the Chairman of the Board of Governors; Elliott Thurston, Special Assistant to the Chairman; Chester Morrill, Secretary of the Board of Governors; L. P. Bethea and S. R. Carpenter, Assistant Secretaries of the Board of Governors; Walter Wyatt, General Counsel for the Board of Governors; J. P. Dreibelbis and B. M. Wingfield, Assistant General Counsels of the Board of Governors; Dr. E. A. Goldenweiser, Director, Division of Research and Statistics; E. L. Smead, Chief of Division of Bank Operations and C. E. Parry, Chief of the Division of Security Loans of the Board of Governors.

Present: Members of the Federal Advisory Council:

Mr. Walter W. Smith, President; Mr. Howard A. Loeb, Vice President; Messrs. T. M. Steele, Leon Fraser, T. J. Davis, Edward Ball, Edward E. Brown, John Crosby, John Evans, R. Ellison Harding, Paul S. Dick, and Walter Lichtenstein, Secretary.

The Secretary of the Council read the letter of June 6 addressed to the Board of Governors of the Federal Reserve System dealing with the topic, "How can the Federal Reserve System increase the value or scope of its services to member banks in practicable or desirable ways?" The Secretary formally filed a copy of this letter with the Secretary of the Board of Governors of the Federal Reserve System.

Governor McKee made the statement that he believed decentralization had proceeded further in the examination system of the Federal Reserve System than it had in the case of the Comptroller's office. After some further discussion, the Secretary of the Council was instructed to write to Mr. Lewis B. Williams whether his data would give information as to how many National banks and how many State banks in each District objected to the examinations as conducted by the Federal Reserve System, and what the reasons for the objections were. The Secretary of the Council, if successful in obtaining information on this topic from Mr. Lewis B. Williams, was instructed to give the information to the Secretary of the Board of Governors of the Federal Reserve System.

The Secretary of the Council read the memorandum on the "easy money" policy, which is Recommendation No. 1, and is attached to and made a part of these minutes.

A long discussion took place in respect to this memorandum and the members of the Council stated their respective positions and what, in their opinion, the Board of Governors might do to remedy the situation.

The Secretary of the Council read a preliminary draft of a memorandum on the Mead bill (S. 2343).

Governor Draper suggested that the Council consider the suggestion made by Chairman Eccles in his testimony before the subcommittee, recommending the creation of a corporation for the purpose of making long term loans to be under the jurisdiction of the Federal Reserve System.

The meeting adjourned at 1:00 P. M.

WALTER LICHTENSTEIN,
Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

June 6, 1939

At 1:05 P. M. the Federal Advisory Council reconvened in the Board Room of the Federal Reserve Building, Washington, D. C., the President, Mr. Smith, in the Chair.

Present: Mr. Walter W. Smith, President; Mr. Howard A. Loeb, Vice President; Messrs. Thomas M. Steele, Leon Fraser, T. J. Davis, Edward Ball, Edward E. Brown, John Crosby, John Evans, R. Ellison Harding, Paul S. Dick, and Walter Lichtenstein, Secretary.

The Secretary read the proposed draft of the memorandum dealing with the Mead bill (S. 2343).

It was voted unanimously to approve the draft subject to the addition of a paragraph suggesting that legislative action be delayed until data could be collected showing whether there is any need for expansion of credit facilities, such as is proposed by the Mead bill.

The final form of the memorandum on Senate bill No. 2343 appears as Recommendation No. 2, and is attached to and made a part of these minutes.

Messrs. Smith, Steele, and Loeb were requested to represent the Federal Advisory Council at the hearings on the Mead bill before the Senate subcommittee.

The Secretary of the Council was instructed to write a letter to the Secretary of the Board of Governors of the Federal Reserve System to be transmitted to the Board, stating that the Council had considered what action to take in respect to the memorandum on "easy money" policy, and had decided to delay action on the question of publicity of the memorandum until its next meeting, in order to ascertain what progress had been made in the meantime. If, however, the Board of Governors wished to publish the memorandum before the next meeting of the Council, the Council had no objection.

The meeting adjourned at 1:30 P. M.

WALTER LICHTENSTEIN,
Secretary.

RECOMMENDATIONS OF THE FEDERAL ADVISORY COUNCIL TO THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

June 6, 1939.

TOPIC No. 1. Easy Money Policy.

RECOMMENDATION: At the meeting of the Federal Advisory Council with the Board of Governors of the Federal Reserve System held on February 14, 1939, the Council submitted a resolution expressing the opinion that many of the fundamental effects of the continuing "cheap money" policy have not been fully appreciated and recommending that the Board conduct a study of the long range consequences of this policy upon the accumulation and investment of the savings of the people, and upon the financial structure of the country, with especial reference to its effects upon the maintenance of a sound banking system.

At that meeting some members of the Board informally expressed regret that the Council had not made its recommendation more concrete. Other members expressed doubts whether any such special study as recommended would add to the knowledge already possessed and constantly being acquired through the medium of current studies now being made not only by the Board but by other official bodies. In a letter from the Assistant Secretary of the Board to the Secretary of the Council dated March 31, 1939, the latter view was formally expressed and the Council interprets this letter as meaning that the special study recommended is not to be undertaken.

In this situation, and in view of what the Council believes to be the dangerous condition toward which the country appears to be moving, the Council conceives it to be its duty to place formally upon the record its general opinion concerning the results of the "easy money" policy to date and some of the probable results of its further continuance.

The so-called "easy money" policy has been followed since 1929 upon the theory, as the Council understands it, that "easy money" would act as a stimulant to business and that it would cause business to borrow and impel banks to lend. It has done neither; but it has done and is doing undeniable economic injury to the whole savings class of the American people.

The Council believes that the "easy money" policy, through its failure to bring to the banks normal rates on their loans and investments, is tending to weaken the capital position of banks and is encouraging an essentially unhealthy position of the bond portfolios of the banking system through its inducement toward lengthened maturities at progressively lower rates.

In addition the Council believes that the operation of the "easy money" policy, by lessening the current cost of Government financing, has made the people, and even Congress itself, indifferent to the steadily mounting government debt and is tending to create illusions as to the eventual burden of carrying a constantly increasing debt.

It has become evident during the past two or three years that the cumulative effect of the policy in question is profoundly and adversely affecting that large group of industrious and thrifty persons who are, by virtue of their character and habits, the backbone of the country's social and economic structure. Steadily they have seen the returns on their accumulated savings decrease as savings institutions, faced with constantly diminishing earnings, have been forced, step by step, to decrease the rate of interest paid on savings deposits. Steadily, year by year, they are meeting increased discouragement in their attempts, through the purchase of life insurance, to provide for their own old age and for the protection of their families, as the cost of insurance slowly mounts and as the dividends payable on policies steadily diminish. Schools, colleges, churches, hospitals and educational and charitable institutions of all sorts see the returns on their accumulated endowments constantly lessening, the salaries of their staff members reduced and their promotions delayed, services to students, patients and dependents curtailed, and more and more of the functions which are normally and most efficiently performed by private or semi-private agencies necessarily taken over by public boards at the expense of the taxpayers unless essential social needs are to be neglected.

So far as the banking system is concerned, the Council recognizes that it is only a part, but an essential part, of the economic structure taken as a whole. It believes, nevertheless, that the time has come to face squarely the fact that the entire banking system is confronted with a distinct menace to the soundness of its capital structure through the continuation of an abnormally "easy money" policy. A prolongation of this situation threatens the existence of private banking and with it the whole system of private enterprise.

The Council is not unmindful that the long continued "easy money" policy has created a condition, the correction of which can only be gradually attained. But it is now a serious problem portending critical consequences. The Council, therefore, urges upon the Board as one of the greatest single services which it can render to the country as a whole, the modification of the policy of extreme "easy money."

TOPIC No. 2. Mead Bill (S. 2343).

RECOMMENDATION: The Federal Advisory Council desires to call to the attention of the Board of Governors of the Federal Reserve System Senate bill #2343 on which hearings are now being held by a subcommittee of the Banking and Currency Committee of the Senate.

The Council believes that the great majority of businesses needing loans for a period of years, where a reasonable assurance of repayment exists, can and do obtain such loans from banks and other non-governmental sources such as insurance companies. In those cases where such loans are not obtainable from banks or private sources the Reconstruction Finance Corporation is already empowered by existing legislation to make, and through participation arrangements, in effect, to guarantee or insure percentages of such loans, and does so make and in effect insure loans.

Under present legislation the Reconstruction Finance Corporation is restricted in that the loans must be in the opinion of its board "of such sound value or so secured as reasonably to assure retirement or repayment" and to concerns "only when in the opinion of the board of directors, the business enterprise is solvent." Under Senate bill #2343 no such restrictions are imposed. If it is the intent of the bill that the Reconstruction Finance Corporation will under it only insure loans the repayment of which in its opinion are reasonably assured, the bill should be so amended.

If it is the intent of the bill that the Reconstruction Finance Corporation shall insure loans the repayment of which in its opinion are not reasonably assured, and the Reconstruction Finance Corporation should insure such loans, the Council feels that the result would be injurious to industry as a whole and would tend to restrict longer term credit now being made available by banks and others to businesses which in the opinion of the lenders do have reasonable assurances of being able to repay such credit. The extension of credit, through insurance or direct loans, by governmental agencies or by private capital, to businesses not able to repay not only is costly to the lender and does not benefit the borrower, but enables inefficient, poorly managed and uneconomic businesses to compete for a time with other people's money against successful, well managed and economic businesses in the same line. By so doing it retards the expansion of sound business enterprises and because these are faced with unsound competition, makes it more difficult for them to obtain credit either short or long term, and makes it even more difficult for them to obtain additional proprietary capital. In fairness to the sound and solvent businesses of the country, and apart from any considerations of probable loss to the Treasury, the Council believes that no governmental agency should be empowered to make or insure loans to industry or commerce unless after examination the agency feels that such loans are reasonably certain to be repaid.

The provisions for the rediscount of the insured portions of loans contained in the bill should be eliminated. In the case of member banks the Federal Reserve banks could under existing law accept them as collateral for short term loans which can be renewed if necessary. Member banks should not be indebted through rediscounts to Federal Reserve banks over long periods of time as would be the case if notes running up to ten years were rediscounted. Nor should nonmember banks be able to use the credit facilities of the Federal Reserve banks but should depend on their correspondents.

The Council urges that before legislation is enacted which puts the government in the business of insuring industrial and commercial loans on a permanent basis, as contemplated by the bill, and which might have far reaching ultimate effects on industry, commerce and banking, that an investigation be made by Congress of the extent to which existing agencies meet the need for term loans on the part of business and of the extent of the unsatisfied justifiable demand for such loans. The Council is informed that various studies are in progress which might well be used in connection with such an investigation.

The Council requests that a copy of this expression of its views be sent by the Board to the subcommittee considering Senate bill #2343. If the subcommittee will give opportunity the Council would be glad to have one or more of its members appear and testify regarding the bill.

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FEDERAL ADVISORY COUNCIL

Office of the Secretary
38 South Dearborn Street
Chicago, Illinois

New York City
April 5, 1939

Mr. Chester Morrill, Secretary,
Board of Governors of the
Federal Reserve System
Washington, D. C.

Dear Mr. Morrill:

Reference is made to the wire sent to Messrs. Walter W. Smith, Howard A. Loeb and myself by Mr. Bethea quoting a letter from the Honorable William P. Cole, Jr., Chairman of a Subcommittee of the Interstate and Foreign Commerce Committee of the House of Representatives, having in charge House Bill 5220. The Federal Advisory Council made the recommendation shown below in regard to Senate Bill 477, relating to corporate trusteeships, and this recommendation was transmitted by the Board of Governors of the Federal Reserve System to the Chairman of the Senate Committee on Banking and Currency on February 14, 1939.

On March 22, 1939, a redraft of Senate Bill 477 was introduced in the House of Representatives as HR 5220 and was referred to the Committee on Interstate and Foreign Commerce. The members of the Executive Committee of the Federal Advisory Council felt and feel after examining HR 5220 that the Council's objections to the provisions of Senate Bill 477 apply with equal force to HR 5220.

The recommendation made in respect to Senate Bill 477 reads as follows:

"The Federal Advisory Council desires to call the attention of the Board of Governors of the Federal Reserve System to Senate Bill 477 relating to the regulation of trust indentures under which securities are issued.

"The Council feels strongly that the imposition of some of the liabilities as provided in the bill would create contingent liabilities for banks of deposit accepting corporate trusteeships which might be dangerous to themselves and the banking system as a whole. Broadly speaking, no corporations other than banks of deposit have either the financial responsibility or the experience which qualify them to act as corporate trustees.

"Furthermore, the Council believes that the bill would materially increase the cost of, and make more difficult long term public financing, particularly to smaller corporations, and would thus tend to hinder expansion of plants and businesses at a time when such expansion is particularly desirable in the interest of business recovery.

"The Council also believes that the restrictions contained in the bill on the right of security holders to waive defaults, and the requirements that the trustee must act in the event of default if it is to avoid liability, would force into receiverships, or the bankruptcy courts, many businesses that otherwise might survive, particularly in times of depression, with resultant loss to their creditors, including banks, and to their stockholders and to their employees and the communities in which they are located."

As it is impossible in view of the short time before hearings are to be closed on the House Bill to get a meeting of the members of the Federal Advisory Council, the President and Secretary of the Council have communicated with all the members of the Executive Committee and they ask the Board of Governors to submit this expression of its opinion to the House Committee on Interstate and Foreign Commerce with the request that it be put in the records of the hearings before its Subcommittee considering the bill.

Sincerely yours,

(Signed) Walter Lichtenstein

Secretary