

MEMORANDUM SUBMITTED BY BOARD TO THE COUNCIL ON
MONDAY, NOVEMBER 19, 1934

Before beginning its deliberations with the Council this morning the Board desires me to make a brief statement of its views with reference to the relations between the Federal Advisory Council and the Federal Reserve Board. These suggestions are made with a view to promoting and maintaining a friendly and cooperative spirit in the relations of the Council with the Board.

It has been the practice of the Council in the past to submit to the Federal Reserve Board such representations or recommendations as it might see fit to make with regard to the matters within its province and this, in the judgment of the Board, is the only procedure that is consonant with the intent of the law and conducive to the good administration of the Federal reserve system. The recommendations and representations of the Council are made by the Council in its capacity as adviser to the Federal Reserve Board solely and therefore are for the Board's consideration alone. It follows that it is for the Board to determine what disposition shall be made of the recommendations and representations submitted to it by the Council after the Board has had adequate time to consider them. And it is also for the Board to determine what, if any, publicity should be given to them other than in its annual report. The Board has always

been ready to receive the views of the Council as to the desirability of publishing particular recommendations in advance of the annual report and on occasion such publication has been made by the Board of the Council's recommendations, either on the Council's suggestion or on the Board's own motion.

It is the feeling of the Board, in which it is believed that the Council will concur, that this is the only procedure that will work satisfactorily.

The Federal reserve system cannot function satisfactorily unless it is animated by a high conception of its responsibility and unless every element in it is imbued with a sense of dedication and loyalty to a common purpose. It is in that spirit that we must work together if the country is to receive the greatest benefits from the Federal reserve system and entertain a high regard for the purposes and spirit of its management. Unless the general public feels respect for the system it cannot exercise great influence and without the exercise of influence as well as power the system cannot fulfill its larger responsibilities.

REPLY OF FEDERAL ADVISORY COUNCIL SUBMITTED AT MEETING
ON TUESDAY, NOVEMBER 20, 1934.

November 20, 1934.

The Advisory Council has given careful consideration to the memorandum handed to the Council by the Reserve Board on November 19, 1934, and is in hearty sympathy with its purpose of promoting and maintaining a friendly and co-operative spirit in the relations of the two bodies. As the Board correctly says, the Federal Reserve System cannot function properly unless it is animated by a high conception of its responsibility, nor unless every element in it is imbued with a sense of dedication and loyalty to a common purpose. The Council believes that this has been at all times the animating spirit of both Board and Council.

The Council respectfully suggests to the Board that the Council, as a statutory body, is under precisely the same duty as is the Board to determine for itself the scope of its duties and responsibilities as defined by the Federal Reserve Act, particularly as the Act itself expressly confers upon the Council the duty of fixing its own rules of procedure. The Council's duties are set forth somewhat fully in the letter from the President of the Council to the Acting Governor of the Board dated October 4, 1934, which has been adopted by the Council as a statement of its position.

At a time like the present, when the Federal Reserve System is undergoing a severe test, the Council feels that any difference of opinion between itself and the Board as to the prerogatives of either body would be in every way deplorable and it will cooperate with the Board in every reasonable effort to avoid such difference of opinion so far as it can consistently with its duties to the other constituent parts of the System.

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AMENDMENT TO THE COUNCIL'S REPLY ADOPTED
BY COUNCIL AFTER DISCUSSION ON
TUESDAY, NOVEMBER 20, 1934

It is the opinion of the Federal Advisory Council as at present constituted that when the Council desires to give publicity to its proceedings it should, by itself or through its representatives, discuss such resolutions or recommendations with the Federal Reserve Board and request that these be given publicity. A reasonable opportunity should be given to the Federal Reserve Board to consider and comply with the request of the Council, and the Council itself should not give publicity to its resolutions or recommendations unless the Board, after due consideration, shall be unwilling to comply with the request of the Federal Advisory Council to give the desired publicity.

November 22, 1934.

MEMORANDUM:

TO- SECRETARY MORGENTHAU

FROM- MR. ECCLES

I am attaching hereto memorandums which cover the negotiations between the Federal Reserve Board and the Advisory Council in bringing about an understanding between the two relative to their future working relationship.

The first memorandum was submitted by the Board to the Council at a joint session on Monday morning (November 19th). The second memorandum is the Council's reply which was submitted at the joint session of the Board and the Council on Tuesday morning. The Council was advised that their reply was not satisfactory and would not promote the desired relationship. After considerable discussion in open meeting by members of both the Board and the Council, the amendment to the Council's reply attached hereto was passed following my suggestion that I felt the relationship outlined therein would be satisfactory to the Board.

I feel well-satisfied with the final outcome of our efforts.

FILE COPY

(Letterhead of)

FEDERAL ADVISORY COUNCIL

St. Louis, Mo.,
October 4, 1934.

Hon. J. J. Thomas, Vice Governor,
Federal Reserve Board,
Washington, D. C.

My dear Judge Thomas:

Your letter of September 27th to Mr. Walter Lichtenstein, Secretary of the Federal Advisory Council, with which you returned the statement of the Council dated September 25th, has been referred to me. I am sure that every member of the Council would join with me in deploring any controversy with the Board and particularly at a time of crisis like the present. As the members of the Board so clearly pointed out in our recent joint conferences at Washington, the whole system is now under attack. In that situation the Council has only one thought in mind and that is to do what it can, in common with the Board, the Reserve Banks and the member banks, to call attention to dangers which threaten our whole business and financial structure and directly menace the fundamental theories upon which the entire Federal Reserve System was based.

In view of the interpretation which the press has placed upon the reply of the Board as an intentional rebuke to the Council, and in view of the fact that both your letter and the Resolution of the Board are based upon somewhat technical considerations, I feel that I should endeavor to clarify the Council's position.

Section 12 of the Federal Reserve Act by no means limits the activities of the Council to its meetings at Washington nor to its meetings with the Board. The Statute expressly provides that the Council may meet wherever and whenever it deems it necessary and that it may adopt its own rules of procedure. It authorizes the Council, moreover, not only to confer directly with the Federal Reserve Board but to make oral or written recommendations concerning matters within the jurisdiction of the Board and further "to make recommendations in regard to * * * the general affairs of the Reserve Banking System." Considering the history of the inception and the original purposes of the Advisory Council, its members have always felt that the provisions of the Statute quoted were intended to receive broad interpretation.

At the meeting of September 18th, 1933, you will find that the then Governor of the Federal Reserve Board submitted for the Council's consideration, among other topics, the following:

"INFLATION"

1. Open Market Operations,
2. Bonds,
3. Greenbacks,
4. Silver,
5. Devaluation.

Hon. J. J. Thomas, Vice Governor - (2)

You certainly must agree with us that if these matters were within the jurisdiction of the Council in September, 1933, they are of equal importance today.

The Federal Reserve Board is entrusted with vast and vitally important powers on a wide variety of subjects and these powers were greatly broadened by the Banking Act of 1933 and other recent legislation. The Federal Reserve Board could not perform its functions, and particularly it could not perform its functions under Section 12 A, without full information and understanding of the varied and intricate factors which affect the progress of "commerce and business" and "the general credit situation of the country".

The varied and important publications of the Board themselves reflect the broad lines of its inquiries. The weekly bulletins of the Board, the weekly press release on general business conditions, the vast amount of information which the Board is constantly seeking from the Reserve Banks, and the comprehensive and voluminous annual reports issued by the Board indicate the deep interest which is felt by the Board, and must be felt, in the infinite complexity of the causes underlying the present business paralysis and the conditions which are essential for revival. Specifically, we call attention to Page 39 of the last Annual Report of the Board in which the Board itself states that the Thomas Amendment contains "certain provisions which by their terms directly affect the Federal Reserve System" and specifies the proposed enforced purchase of obligations of the United States by Federal Reserve Banks and the issue of legal tender notes. The Council believes that the voluminous matters touched upon in the Annual Report referred to are inseparably connected with the general subject matter covered by its statement of September 25th, and are necessarily matters of which the Board must and does take cognizance.

The Council holds the Federal Reserve Board in the highest respect. It disclaims any intent whatever of passing beyond its legitimate sphere. In performing its functions, however, it feels obliged to place its own interpretation upon the law and believes that its interpretation is abundantly justified by the considerations which have been mentioned.

Respectfully yours,

(signed) W. W. SMITH

President.