

A meeting of the Federal Reserve Board and the Federal Advisory Council was held in Washington on Tuesday, November 20, 1934, at 10:40 a. m.

PRESENT: Mr. Eccles, Governor
Mr. Thomas, Vice Governor
Mr. Hamlin
Mr. Miller
Mr. James
Mr. Szymczak

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Wyatt, General Counsel
Mr. Smead, Chief, Division of Bank Operations
Mr. Paulger, Chief, Division of Examinations
Mr. Goldenweiser, Director, Division of Research and Statistics
Mr. Parry, Assistant Director, Division of Research and Statistics

Messrs. Thomas M. Steele, Walter E. Frew, Howard A. Loeb, Howard Bruce, H. Lane Young, Solomon A. Smith, Walter W. Smith, Theodore Wold, W. T. Kemper, Joseph H. Frost and M. A. Arnold, members of the Federal Advisory Council from the First, Second, Third, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh and Twelfth Federal Reserve Districts, respectively.

Mr. Walter Lichtenstein, Secretary of the Federal Advisory Council.

Mr. Walter W. Smith, President of the Federal Advisory Council, stated that the Council had considered the statement made by Governor Eccles at the meeting of the Council yesterday morning with reference to the relations between the Federal Advisory Council and the Federal Reserve Board, and that he was sure he was expressing the very earnest desire of every member of the Council to

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cooperate in every way with the Board and to be helpful to the Federal Reserve System. He said that the Council, in considering the statement made by Governor Eccles, had felt that it should state its views to the Board and that, accordingly, a statement had been prepared by the Council reading as follows:

"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 cooperative 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."

In response to a question by Governor Eccles, Mr. Walter W. Smith stated that the Council did not expect that any action would be taken by the Board on the statement but that it was filed with the Board as a statement of the Council's position.

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Mr. Miller stated that he felt the matter under consideration was something more than a statement of attitude; that no one has ever doubted that the Council wanted to cooperate; but that what constitutes cooperation, and when there is a departure from that cooperation, may give rise to differences of opinion in the future and that, therefore, he was led to ask whether the Council would feel that a repetition of the procedure under which the Council's statement was made public last September would be consonant with the above statement to the Board. Mr. Miller referred to the fact that the Federal Advisory Council's September statement was sent to the member banks and released to the press approximately simultaneously with its submission to the Federal Reserve Board and he stated that some days before reference was made to the Council's action in an article appearing in the New York Times, which raised the question in his mind as to whether the Board should be in the position of learning from the press the views of the Council, and that he felt that there is still existing a grave question as to the proper procedure.

Mr. Walter W. Smith stated that, after the Board had left the final meeting of the Council on September 18, the September statement of the Council was considered together with a draft of a resolution covering the subject in rough form and a subcommittee was appointed to place it in final form; that the members of the Council pledged themselves that no publicity would be given to the resolution

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at that time; that after the resolution had been prepared in its final form at a later date it was sent by air mail to the other members and their approval had before it was released; and that it was not released to the press until advice was received that the Board had returned it with the statement that the matter contained in the statement did not come within the jurisdiction of the Board.

Mr. Smith said that it was unfortunate that the information was obtained by the press before the statement was approved by the Council itself and that the Council would want to do everything possible to prevent an occurrence of that kind in the future.

Mr. Frew stated that on the date the article appeared in the New York Times the resolution of the Council had not been drawn up and that he was very much surprised when he read the article.

Mr. Hamlin stated that the writer for the New York Times had stated that the information had been given to him by the Secretary of the Federal Advisory Council.

Mr. Lichtenstein requested an opportunity to make a statement in that connection, and said that he is president of the Chicago Council on Foreign Relations; that that body had been very anxious to have someone talk to it on Spain; that he had asked the New York correspondent, who originated the article in question, and who had recently been to Spain, to talk to the Chicago Council on Foreign Relations on that subject; that on the day the Federal Advisory Council meeting in Washington adjourned a rumor was circulated that the Treasury was about to issue a large amount of paper currency,

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and that, in talking to the correspondent of the New York Times about his talk before the Chicago Council on Foreign Relations, he had taken the opportunity of inquiring whether the correspondent had heard of the inflation rumor; and that the correspondent had replied that such rumors were being circulated every two or three days. Mr. Lichtenstein stated that he remained in Washington to attend a meeting of a committee of the Chamber of Commerce and that the next day the New York correspondent called him on the telephone and inquired whether the Federal Advisory Council had talked about the question of inflation; that he had replied to the correspondent in the negative, and had stated that his inquiry of the previous day was simply a personal question; that the correspondent had said that he had looked in the newspaper's index and found that last year the Federal Advisory Council had adopted a statement dealing with a number of monetary questions, and he had inquired whether the Council was still of the opinion as then expressed; and that he had answered that the Council had not rescinded its action but that he was making no statement with regard to the matter. Mr. Lichtenstein said that he explained to the correspondent how the Council was made up, and that he (Mr. Lichtenstein) was as surprised as anyone to find in the newspaper a very garbled account which was obviously not correct. He said that he had since seen the newspaper correspondent when he came to Chicago and had asked him how it happened that he wrote the article; and that the correspondent had replied that he had been surprised to see the story as it appeared,

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as what he was trying to do was to write an account for the Sunday magazine section which he sent in and which evidently the paper had taken to be a current news item and had published it. Mr. Lichtenstein added that while the newspaper item was an accurate account of the statement adopted by the Council in November, 1933, it was not an accurate account of the September action of the Council.

Governor Eccles stated that it appeared to him from the statement submitted to the Board by the Council that the Council disagreed with the position taken by the Board in its statement to the Council yesterday and had asserted an independence which, as he understood the law, did not exist to the extent of contemplating that the Council should submit its recommendations to the public; that, in his opinion, the Council is set up for the purpose of being advisory to the Federal Reserve Board solely; that as to the subjects which the Council may discuss and as to when and where it will hold meetings it has complete freedom; but that there is a real question as to the Council representing the member banks and as to the advisability, if not the propriety, of the Council making public their recommendations rather than addressing them to the Federal Reserve Board; and that in the interest of harmonious relationship the Board should have discretion in the matter of publication. He said the thing the Board is primarily interested in is the maintenance of a relationship with the Council which will avoid controversy and disagreement. He stated that it appeared from the

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statement submitted by the Council that the Council still feels that it is its prerogative to make public the communications it may submit to the Board, either with or without the approval of the Board, and he asked Mr. Smith whether that understanding was correct.

Mr. Smith stated that he thought that was the opinion of the entire membership of the Council; that the statement submitted by Governor Eccles yesterday limited the powers of the Council very severely; and that the Council felt that it was not limited to the narrow scope suggested in that statement.

Governor Eccles requested Mr. Wyatt to make a statement with regard to the legal basis for the statement submitted to the Advisory Council by Governor Eccles.

Mr. Wyatt stated that the first paragraph of section 12 of the Federal Reserve Act deals only with the organization of the Advisory Council and matters of procedure and the only language in that paragraph which could furnish the basis for any difference of opinion is the language that the Council may adopt its own method of procedure, which means only that the Council may determine how it will call and conduct its meetings, whether committees will be appointed by the Council, and other related matters of procedure, and the clause does not enlarge the substantive powers of the Council. He said that the substantive powers of the Council are covered entirely by the second paragraph of section 12 which is contained in one concise sentence and authorizes the Council (1) to confer directly with the Federal Reserve

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Board on general business conditions, (2) to make oral or written representations concerning matters within the jurisdiction of the Federal Reserve Board, and (3) to call for information and make recommendations on certain specific subjects. He said that, while it is true that the second and third clauses are not limited specifically to making representations and recommendations to the Board, it seems that, when read as a whole, the intent is perfectly clear. He said that, having mentioned the Federal Reserve Board specifically in the first clause, the draughtsman apparently thought it was not necessary to repeat the specific mention of the Federal Reserve Board in the second and third clauses and that, in his opinion, the paragraph should be construed as authorizing the Council to confer with the Board, to make oral or written representations to the Board, and to call for information and to make recommendations to the Board. He stated that, it is his opinion, based on the reasons stated above, that the Council is advisory to the Federal Reserve Board only, that this is a confidential relationship, and that, if the proper relationships are to be maintained between the Council and the Board, it is absolutely essential that the Council's advice be considered confidential unless the Board sees fit to make it public.

Mr. Walter W. Smith stated that about a year ago the Council had given consideration to the powers of the Council and an opinion had been prepared on that subject by Mr. Steele. At the request of

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Mr. Smith, Mr. Steele outlined the reasons contained in the memorandum prepared by him which led him to a conclusion opposite to that expressed by Mr. Wyatt, and to the opinion that there exists nowhere, except in the Congress of the United States, the authority to limit the powers given to the Advisory Council, and he stated that he felt the time may come when the Council may find itself in a position where it must reserve liberty of action, and that the Council would be false to the duties resting upon it if it bound itself to give publicity to its actions only if agreeable to the Federal Reserve Board.

Upon inquiry of Mr. Hamlin, Mr. Steele stated that, while he felt the Council had a right to give publicity to its actions before advising the Federal Reserve Board, he felt the Council would not want to take such action.

Mr. Miller inquired whether it was felt that if the Board requested the Council to consider specific topics the Council would be within its reasonable rights in making its action public without the approval of the Federal Reserve Board, and Mr. Steele replied that he felt the Council would be within its reasonable rights, but that he felt that it would be grossly improper and that the properties would make it improper for the Council to take such action. He also stated that he felt that the question of who asks the Council for advice does not limit the Council's power under the law to give advice.

Governor Eccles stated that in the situation which now

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exists, what has happened in the past could happen again in the future; that there is no better understanding or definition of the relationship between the Board and the Federal Advisory Council than there was prior to this meeting; and that if the Council adheres to the view expressed in its statement to the Board there is no reason for the Board to expect in the future that the Council may not create a situation similar to the recent situation which was the result of the Council feeling that it had a right to give publicity to its action. He said that he felt that any controversy as to the legal rights of the Council in this matter should be avoided, but that he believed the Council could reach a better understanding and definition of the relationship between the Council and the Board in order to create the relationship and confidence that is needed for the best results from that relationship. He stated that this matter had a practical aspect for the reason that if the recommendations submitted by the Council at any time were acceptable to the Board there would be no reason why the Board should not comply with a request from the Council that they be published; whereas in the event the Board felt that it would be undesirable to publish the recommendations and the recommendations were published by the Council contrary to the wishes of the Board, it would put the Board in a position where it would have to defend its position which would result in the Board and the Council entering into a public debate.

Reference was made again to the discussion of the September

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statement of the Federal Advisory Council at its meeting in Washington in September and it was said that Mr. Steele had prepared a draft of the statement for consideration at that meeting. Mr. Steele stated that at the request of the Council he had attempted to draft a statement and had drafted something covering a part of the subject matter of the statement as finally approved by the Council but that he had found that a satisfactory draft could not be prepared in the time available and as a result the matter was referred to a sub-committee which prepared the final draft.

After some further discussion, Governor Eccles suggested that the Council might agree, as a matter of propriety, to submit to the Federal Reserve Board all recommendations and statements of the Council before they are submitted to anyone else, indicating to the Board whether or not the Council desires that the recommendations be made public, and to give the Board an opportunity for a full consideration of the recommendations or statements. He said that under this procedure the Federal Reserve Board, if it deemed it advisable not to publish the recommendations or statements, could state its reasons for preferring that they be not published; and that the Board would not ask that the Council make any commitment that it would not publish the communications.

A discussion of Governor Eccles' suggestion resulted in the unanimous adoption by the Federal Advisory Council of the following statement:

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"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 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."

The suggestion was made that it would be helpful to the Federal Reserve Board if in the future a more thorough discussion could be had with the Council with regard to recommendations made by it, and it was indicated as the opinion of those present that it would be desirable for the members of the Council to remain in Washington long enough to permit such a discussion.

Members of the Federal Advisory Council stressed the desirability of the members receiving, some time prior to the meetings of the Council, the topics which the Federal Reserve Board would like to have the Council discuss, in order that the members may consider the topics and, if thought desirable, to discuss them with the officers of the local Federal reserve bank. It was pointed out that this procedure had been followed generally in the past and it was agreed that it would be desirable to follow it more closely in the future.

There was then submitted to the Board the following recommendation adopted by the Federal Advisory Council:

"When regulations are issued covering loans secured by

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"registered securities made by banks to others than to members of registered exchanges, we strongly urge that they be made as simple as possible and that the principle of a definite percentage of margin based on current market values be established."

Governor Eccles stated that it was the Board's desire not to make the regulation referred to in the above recommendation any more complicated than is necessary under the law, and that if the members of the Council have any recommendations or suggestions to submit to the Board in this connection the Board will be glad to give them consideration although they should be submitted promptly.

Governor Eccles stated that he felt that, because of the public attention which has been called to the meeting of the Federal Advisory Council, it will be necessary to make some kind of statement to the press.

After discussion, it was understood that Messrs. Lichtenstein and Morrill would prepare a statement for the press which would be submitted to Governor Eccles and Mr. Walter W. Smith for any suggestions that they may have to make, following which it would be given to the press.

It was also understood that no other publicity would be given to the proceedings of the Council.

Mr. Loeb inquired as to the meaning of a news item appearing in the papers this morning with regard to the Federal Reserve Board or the Comptroller of the Currency requesting financial statements of bank directors. It could not be determined what particular action the writer of the news item had in mind and the members of the Board and its staff stated that they did not know.

Mr. James stated that he had hoped that while the Federal

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Advisory Council was in Washington it would give the Board any suggestions that it might have to make with regard to the progress of the industrial loan program in the various Federal reserve districts. He referred to the survey which was made last year as to the need throughout the country for working capital which indicated that a substantial need existed on the part of worthy borrowers and he stated that inasmuch as the Federal reserve banks have found relatively few cases in which loans could be made on a reasonable and sound basis he felt it was incumbent upon the banks throughout the country through energetic cooperation with the program to show that the results of the survey were not correct, if such was the fact.

There was a brief discussion of the point raised by Mr. James.

Thereupon the meeting adjourned.

Chester H. Moriel
Secretary.

Approved:

McCales
Governor.