A meeting of the Federal Reserve Board and the Federal Advisory Council was held in Washington on Tuesday, February 19, 1935, at 11:15 a.m.

PRESENT: Mr. Thomas, Vice Governor
Mr. Hamlin
Mr. Miller
Mr. James
Mr. Szymczak
Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Goldenweiser, Director, Division of Research and Statistics
Mr. Wyatt, General Counsel


Mr. Thomas P. Beal, alternate for the member of the Federal Advisory Council from the First Federal Reserve District
Mr. Walter Lichtenstein, Secretary of the Federal Advisory Council

President Smith referred to the two topics suggested by the Federal Reserve Board for consideration by the Federal Advisory Council at its meeting and there followed a brief discussion of the proposed Banking Act of 1935, H.R. 5357. Upon inquiry as to whether he had any statement to make with regard to the bill, Vice Governor Thomas said that the bill had not been considered formally by the Federal Reserve Board and he was not in a position to speak for the Board. During the discussion there were suggested certain provisions of the bill that might be considered by the Council.
It was understood that the Council, in its separate session, would discuss the bill.

During the discussion Mr. Kemper left the meeting.

In connection with the question whether the Federal reserve banks should continue to function under section 13b of the Federal Reserve Act or whether they should gradually discontinue making industrial advances and leave this field to the Reconstruction Finance Corporation, President Smith stated that he thought it was the opinion of the Council that the Federal reserve banks were better equipped to handle such loans than was the Reconstruction Finance Corporation.

Mr. Szymczak stated that a majority of the Federal reserve banks were of the opinion that since they were given the task of making industrial loans they should be allowed to continue. He said that while fewer applications were being received by the Federal reserve banks, they were improving in quality and the increased participations by financing institutions were resulting in a larger number of commitments being made by the Federal reserve banks. He also referred to the so-called Beckman report of the Department of Commerce and stated that he had been informed that a report would be issued by the Department of Commerce some time in April which would state that the Federal reserve banks had done everything they could to properly administer section 13b.

A general discussion followed during which comments were made by certain of the members of the Federal Advisory Council on the industrial loan activities of the Federal reserve banks in their respective districts.

Mr. Lichtenstein read the following list of topics which had been suggested by members of the Federal Advisory Council for consideration at...
the Council meeting:

1. The Viner-Hardy Report.
2. The Federal Reserve Board's proposal as to rotation of members of the directorates of the various Federal Reserve Banks.
3. The proposal to consolidate the office of Governor and Chairman in the Federal Reserve Banks and/or give the Board the power of veto over Governors selected.
4. It might be timely for us to take cognizance of the condition which has been brought about with respect to the tremendous volume of excess reserves in the hands of the Federal Reserve Banks and the pressure on member banks to find a satisfactory commercial bank investment for them. It has seemed that this pressure would eventually result in banks investing either in second-rate securities or in unreasonably long-term securities that are first-grade in order to obtain what they might regard as a satisfactory income return, and it now seems that this condition has very largely come about and that the member banks are loading up with long-term securities, principally Governments, at prices which may eventually cause them a great deal of embarrassment and possibly even bring into question the solvency itself of a great many otherwise properly managed banks.
5. The new banking bill, H. R. 5357.

President Smith stated that topics Nos. 2 and 3 would be taken up as a part of the consideration of No. 5.

There was a brief discussion of the Viner-Hardy report, and Mr. Loeb suggested that the findings of the report undoubtedly were taken into consideration in connection with the drafting of the proposed Banking Act of 1935 and that a consideration of the bill would involve a consideration of the report. Reference was made particularly to the recommendation in the report that the industrial loan activities be consolidated in a single organization and Mr. Lichtenstein stated that
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at the meeting of the Council in February, 1934, the question of the establishment of intermediate credit banks was discussed and it was felt it was not desirable for the Council to make a record of its views on the matter.

Reference was then made to topic 4 of the list referred to above and Mr. Frost stated that he had suggested the topic and that while he had no suggestion to make with regard to the action to be taken by the Federal Reserve Board, he felt the Council should bring to the attention of the Board the condition which had been brought about by the large holdings of excess reserves of member banks and that the Federal Reserve Board and the Federal Open Market Committee should give consideration to the possible results of the present policy.

At this point Mr. Kemper reentered the meeting.

During the discussion which followed Mr. Miller stated that the questions raised by Mr. Frost in connection with excess reserves of member banks are extremely important and had been in the minds of the members of the Board continually. He said that any considered opinion or expression of judgment which the Council may offer would be of value to the Federal Reserve Board and would have its careful consideration.

At the conclusion of the discussion the meeting adjourned with the understanding that the Council would convene in a separate session and meet again with the Board tomorrow.

Approved: 

[Signature]

Secretary.

[Signature]

Vice Governor.