A meeting of the Board of Governors of the Federal Reserve System with the Federal Advisory Council was held in Washington on Wednesday, February 12, 1936, at 11:30 a. m.

PRESENT: Mr. Eccles, Chairman
Mr. Broderick
Mr. Ransom
Mr. Morrison

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the Chairman
Mr. Wyatt, General Counsel
Mr. Goldenweiser, Director of the Division of Research and Statistics
Mr. Smead, Chief of the Division of Bank Operations
Mr. Parry, Chief of the Division of Security Loans

Messrs. Steele, Perkins, Loeb, Braun, Gohen, Young, Brown, Smith, Wold, Kemper and Frost, Members of the Federal Advisory Council representing the First, Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth and Eleventh Federal Reserve Districts
Mr. Lichtenstein, Secretary of the Federal Advisory Council

The Secretary of the Federal Advisory Council read the following recommendations which he reported had been adopted by the Council at its meeting this morning:

"<u>Excess Reserves</u>

"The Federal Advisory Council wishes to direct the attention of the Board of Governors of the Federal Reserve System and, through it that of the Open Market Committee of the System, to the communication made by the Council to the Board at its meeting of September 24, 1935, concerning the amount of Government securities held by the System, and to its unanimous recommendation made to the Board at its meeting of November 21, 1935, referring to the same subject and further making recommendations with regard to the amount "of excess reserves of member banks now carried with the System.

"The Council has taken cognizance of a joint statement issued by the Board of Governors and the Open Market Committee under date of December 18, 1935, which seemed to recognize fully that 'the special problem created by the continuing excess of reserves' was of such importance as to justify a continuance of the 'unremitting study and attention of those charged with the responsibility for credit policy in order that appropriate action may be taken as soon as it appears to be in the public interest.'

"In view of the fact that, since the above statement was made, a great change has taken place in the membership of the Board of Governors and an entirely new arrangement of the composition of the Open Market Committee is about to be consummated, the Council feels that it would be in every way desirable and proper for it at this time to refer to the communications mentioned and to make known its present views.

"Of the slightly less than six billion dollars of reserves, approximately three billion dollars of which are required, no less than two billion four hundred million dollars were created by purchases of Government securities in the open market by the issuance of reserve bank credit. A very large percentage of the remainder of the reserve structure is the result of gold imports which have come into the country in the last two years, not as the result of a settlement of trade balances but largely for protection against unsettled conditions in other countries, and partly for speculative purposes. The gold holdings thus acquired may be largely transitory and temporary.

"The Council is of the opinion that it would be unwise and unsound to permit a credit structure to be built on the base of reserves so created.

"The Council recognizes and has taken into the most careful consideration the fact that there have been various groups representing very important elements in the business and financial structure of the country who have firmly expressed the opinion that the present huge volume of excess reserves is a most serious menace, but that the first step for the proper correction of the situation would be an increase of reserve requirements, control over which has been granted to the Board of Governors of the Federal Reserve System by the terms of the Banking Act of 1935.

"The Council is so deeply impressed with the necessity for prompt preventive action in order to avoid the possibility of the building of a credit structure on the reserves as at present constituted, that it recommends to the Board at this time a substantial increase in the reserve requirements for "member banks. This increase should be at least large enough to prevent a credit structure being built on that part of the gold holdings which may be deemed to be transitory or temporary.

"In making this recommendation in respect to the raising of reserve requirements, the Council wishes to make it clear that it does not believe that reserve requirements should be varied at frequent intervals or except for grave reasons. It is of the opinion that frequent changes in reserve requirements would destroy confidence both on the part of the borrower and the banker and restrict employment of bank credit needed for continued business recovery."

"Regulations in Respect to Margin Requirements on Collateral Loans of Banks (Regulation U).

"The Federal Advisory Council is still strongly of the opinion expressed in a recommendation made to the Board of Governors of the Federal Reserve System on November 21, 1935 that there is no need at this time to put into force regulations affecting collateral loans made by banks. The Council believes that the nature of the lending operations carried on by banks is essentially different from that by brokers. Regulations governing collateral loans by banks may affect forms of credit which it is not at all intended to regulate, while the business of brokers is confined almost entirely to loans on registered securities made for the express purpose of purchasing and carrying these."

Chairman Eccles inquired whether it was the intention of the Council that the recommendations be released to the press and Mr. Smith, President of the Council, stated that the recommendations were the result of unanimous action and that although the Council desired that the Board have an opportunity to consider the recommendations it felt they should be released to the press within a week.

Chairman Eccles referred to the statement adopted by the Federal Advisory Council at its meeting on November 20, 1934, which provided that when the Council desired to give publicity to its proceedings it should discuss such resolutions or recommendations with the Board and request that they be given publicity, that a reasonable opportunity should be given to the Board to consider and comply with the request of the Council, and that the Council should not give publicity to its resolutions or recommendations unless the Board, after due consideration, should be unwilling to comply with the request of the Council to give the desired publicity. He stated that in accordance with this understanding the recommendations above referred to would be considered by the Board and the Council advised of any action taken in connection therewith.

Mr. Smith stated that the Council had agreed that its remaining meetings during 1936 should be held on the third Tuesday in May, September and November and that, as the Council was desirous of having the members of the Board meet with it at that time, it would like to know if the dates set for the Council meetings were satisfactory to the Board. It was suggested that it might be more desirable for the September meeting to be held on the fourth Tuesday of the month, and this suggestion was agreed to by the Council. It was then stated that the dates fixed by the Council were satisfactory to the members of the Board.

Chairman Eccles referred to a portion of an article appearing in the New York Times under date of February 9, 1936, under the title "Stabilization Still Opposed By England" and to the letter addressed to the New York Times by Mr. S. Parker Gilbert and appearing in that paper under date of December 18, 1935, under the title "Member Bank Reserves", and suggested that the members of the Federal Advisory Council read the article and letter, as they expressed certain views with which he was in agreement.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved: M S Eccles
Chairman.