

A meeting of the Board of Governors of the Federal Reserve System with the Federal Advisory Council was held in Washington on Tuesday, December 14, 1937, at 10:45 a. m.

PRESENT: Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. McKee
Mr. Davis

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, 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. Paulger, Chief of the Division of
Examinations
Mr. Parry, Chief of the Division of
Security Loans
Mr. Dreibelbis, Assistant General Counsel

Messrs. Steele, Aldrich, Loeb, Williams,
Gohen, Ball, Brown, Smith, Crosby,
Harding and Dick, members of the Fed-
eral Advisory Council representing
the First, Second, Third, Fourth,
Fifth, Sixth, Seventh, Eighth, Ninth,
Eleventh and Twelfth Federal reserve
districts, respectively.

Mr. C. J. Chandler, Vice President of
the First National Bank in Wichita,
Kansas, representing the Tenth Federal
reserve district in the absence of Mr.
W. T. Kemper.

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

Mr. Smith stated that the Council would like to be advised as
to the present status of, and the support being given to, the Patman

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Bill "providing for Government ownership of the twelve Federal Reserve banks, and for other purposes". Mr. Ransom stated that, so far as the Board's information was concerned, it appeared that members of Congress were interested in other legislation at the present time and were not giving active consideration to the Patman Bill; that no member of the Board had been approached, or had had any discussions with any member of Congress, regarding the bill recently; and that it was not believed that its sponsors regarded the bill as being in such a form at the present time that it would be approved by either House of Congress.

Mr. Lichtenstein read the following recommendation which had been approved by the Federal Advisory Council at its separate meeting this morning:

"The Federal Advisory Council is strongly of the opinion that the Board of Governors of the Federal Reserve System should make no change in the required reserves of member banks at this time. It is believed that practically no banks were adversely affected by the original increase in requirements and that the few which were temporarily inconvenienced by the subsequent increases have fully adjusted themselves to the present situation. At the present time there is no shortage, either of current bank credit, or of money in the hands of investors available for the purchase of long-time securities. The banks have large excess reserves and interest rates are low. A reduction in reserve requirements at this time could therefore have no beneficial effect on either business or employment.

"The Council has stated before its position, and desires to restate it, that changes in reserve requirements should be made as infrequently as possible, and only when clearly demanded. Uncertainty as to reserve requirements inevitably tends to disturb the conduct of banking operations and any change in reserve requirements at this time would be apt to restrict, rather than to promote, the lending operations of the banks of the country, and would probably upset sentiment.

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"Furthermore, a very large amount of foreign investments and balances in this country exist, a considerable part of which will in all probability be some day repatriated. Until that time it is highly desirable to maintain the banking reserves of this country at a level which will enable the Board of Governors of the Federal Reserve System, by then lowering reserve requirements to insure that any outward movement of foreign capital will not endanger the economy of this country."

Mr. Smith stated that it was not the intention of the Council to give any publicity to the recommendation at this time, but that, if the question of reserve requirements should become important in the future, the Council might wish to release the recommendation to the press. He added that the Council would have no objection to the Board giving publicity to the recommendation.

During a discussion of the recommendation, Mr. Smith stated as the opinion of the Council that the Board's action in increasing reserve requirements was a satisfactory compliance with its responsibilities under the law. In response to an inquiry as to the reasons for the adoption of the resolution, Mr. Smith stated that the Council felt that the monetary policy of the Federal Reserve System was not the cause of the present business recession and that if, in the future, attempts were made to assign responsibility for the recession to monetary action, the recommendation would be available as an expression of opinion of the Council to the contrary. All of the members of the Council indicated that they concurred in the opinion that monetary action by the System at the present time would not be helpful and

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might be regarded as an admission that the Board had made a mistake in increasing reserve requirements.

Mr. Smith said that the Council had considered the present inactivity in the capital market and had felt that it would be helpful if the present law, which prohibits banks from taking any part in the underwriting or distribution of investment securities, could be amended to permit banks to make a commitment, within the limitations of their authority to purchase investment securities, to buy from the underwriters securities of a new issue to be offered on the market, with the understanding that the securities purchased could be disposed of by the banks only through registered brokers or dealers. At the request of Mr. Smith, Mr. Aldrich, who stated that he had offered this topic for consideration by the Council, discussed the suggestion in further detail and particularly in the light of his feeling that the present free capital of existing underwriting concerns was not sufficient to handle the flotation of the investment securities that would be offered in the event of a revival in the capital market and that the amendment referred to would be an effective means toward meeting this situation.

At the conclusion of the ensuing discussion, at the suggestion of the Board, Mr. Smith stated that the Federal Advisory Council would appoint a committee to study the suggestion made by Mr. Aldrich in order that the Board might have the considered views of the Council regarding it.

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Mr. Smith then referred to the topic suggested by the Board of Governors as to how the Federal Reserve System might increase the value or scope of its services to member banks in practicable or desirable ways, and stated that the members of the Council would like to have additional time to consider the matter and to discuss the technical aspects of the topic with the operating officers of their own banks. In response to an inquiry as to whether the topic referred only to matters relating to routine relations between the Federal reserve banks and member banks or also to larger questions, Mr. Ransom stated that there were no limitations on the question and the Board would appreciate any suggestions that the Council might wish to make.

In response to an inquiry from Mr. Steele as to the consideration being given by the Board to the amendment of Regulation F to authorize the operation of common trust funds, Mr. Ransom stated that the matter had been given careful consideration by members of the Board's staff on the basis of the many suggestions that had been received and that a final draft of report was being prepared for submission to the Board with a view to action by the Board before the end of the year.

The members of the Council were then called upon to review the business situation in their respective districts. During the statements by the Council members Mr. Goldenweiser left the room and Mr. Thomas, Assistant Director of the Division of Research and Statistics, joined the meeting.

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The statements made were in agreement that in all sections of the country, with the exception of the Sixth Federal Reserve District, there had been a sharp business recession with a rapid falling off of orders resulting in reductions in the number of hours worked per week and in increased unemployment. Orders had fallen off to such an extent at some plants that they had been forced to suspend operations entirely, while others which were continuing operations and warehousing their products would have to suspend unless new orders were received in the very near future. The decrease had been particularly marked in industries manufacturing luxury goods. Some industries, however, were reported as not having experienced any substantial reduction in business and their prospects for the future appeared to be good. The statement was also made that there were some indications in other industries, particularly steel, that the bottom of the recession had been reached and that any change in the immediate future would be toward increased production. Retail trade in most areas, which had been higher during the first ten months of 1937 than during the same period of 1936, had shown some reduction recently and, while it was expected that the Christmas trade would be disappointing, it was also the general expectation that the volume for 1937 would be equal to or above that for 1936. In the Atlanta district retail trade had held up well and while steel operations were at a low level in the district, the situation with respect to agriculture and certain

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industries including the tourist trade was quite satisfactory. No definite information was available as to inventories but it was felt in the majority of cases that they would not be found to be so large as to cause undue concern. Labor troubles were still present in various sections of the country and in some cases were causing shut-downs with a resulting serious effect on employment and business activity. Construction was at a low ebb after having receded from a substantial activity in several districts early in the year, and high costs of labor and materials were cited as the cause for this recession. Automobile sales were reported by some members of the Council as having fallen off substantially. The agricultural situation was regarded as generally satisfactory because of good crops, except in the "dust bowl" in the Tenth Federal Reserve District where there was another complete crop failure. It was indicated as the general feeling that December would show a further decline in business activity and some expected that following the turn of the year there would be substantial price reductions. Bank deposits were reported as being lower in some areas. The members who referred to the inactive situation in the capital market felt that there was no doubt that a large amount of capital financing was ready to be undertaken if more favorable conditions appeared but that there was no interest in the market at the present time. Steps to counteract the uncertainty of the future were regarded as the principal means of meeting the present situation and the suggestion was made that action should be taken by the Administration looking toward

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the removal of uncertainties, particularly with respect to the utility and railroad industries. In this connection, the opinion was also expressed by some of the members that the undistributed profits tax was a serious restriction on business expansion.

After a discussion of various elements in the present situation, the meeting adjourned.

Chester Norvell
Secretary.

Approved:

Donald R. ...
Vice Chairman.