

A meeting of the Board of Governors of the Federal Reserve System with the Federal Advisory Council was held in Washington on Tuesday, February 15, 1938, at 10:45 a.m.

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

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. Paulger, Chief of the Division of
Examinations
Mr. Goldenweiser, Director of the Division
of Research and Statistics
Mr. Snead, Chief of the Division of Bank
Operations
Mr. Parry, Chief of the Division of Security
Loans
Mr. Dreibelbis, Assistant General Counsel

Messrs. Steele, Aldrich, Loeb, Williams, Hanes,
Ball, Brown, Smith, Harding and Dick, members
of the Federal Advisory Council representing
the First, Second, Third, Fourth, Fifth,
Sixth, Seventh, Eighth, Eleventh and Twelfth
Federal Reserve Districts, respectively.

Mr. Henry W. Kingman, Treasurer, Farmers and
Mechanics Savings Bank, Minneapolis, Minnesota,
representing the Ninth Federal Reserve District
in the absence of Mr. Crosby.

Mr. Walter Lichtenstein, Secretary of the Federal
Advisory Council

Mr. Smith stated that in connection with the preparation of a
statement for submission to the Board on the subject "How can the Federal

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"Reserve System increase the value or scope of its services to member banks in practicable or desirable ways", which was suggested by the Board for consideration by the Council at its meeting on December 14, 1937, members of the Council had written letters to a number of bankers, that the replies had not been summarized, but that this would be done and a statement prepared by the Council for submission at the next meeting of the Council with the Board.

Mr. Smith then said that the Council had given preliminary consideration to the questions suggested by the Board for discussion at this meeting of the Council with respect to (1) the function of the Federal Advisory Council as a part of the Federal Reserve System, and (2) what types of topics should be discussed by the Council with the Board from time to time, and that a committee had been appointed by the Council to draft a report which would be available at the next meeting of the Council with the Board.

Upon inquiry as to the present status of the Patman Bill "providing for Government ownership of the twelve Federal reserve banks and for other purposes", Mr. Ransom stated that Representative Patman was making little progress in his attempt to obtain an agreement by the Banking and Currency Committee of the House of Representatives to hold hearings on the bill, that Representative Patman has indicated a desire to have each of the members of the Board as well as other persons testify at such hearings, and that if his wishes are finally

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met a rather prolonged but possibly important hearing might result.

Mr. Smith inquired whether it would be helpful to the Board if the Council should submit a resolution with respect to its attitude on the bill and some of the members of the Board expressed an opinion that they would like to have a statement from the Council with the understanding that, for the present at least, it would be only for the information of the Board. Mr. Ransom said that he felt that bankers' associations and other groups representing banks should give careful study to the bill and the problems related thereto rather than to adopt resolutions opposing the bill without offering any solution of the matters for which the bill is offered as a correction.

Mr. Smith stated that the Council had taken no action in connection with the bill but had authorized its executive committee to take such steps as might be regarded as necessary if at any time the bill were taken up for active consideration.

Mr. Steele inquired whether one of the questions presented by the Patman Bill would be solved if provision were made for public ownership of the stock of the Federal reserve banks as distinguished from bank ownership in order that ownership by the Government might be avoided, it being understood that under this arrangement six directors of each bank would continue to be elected by the shareholders who would represent the public and three directors would continue to be appointed by the Board as representing the Government. During a dis-

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discussion of this question Chairman Eccles referred to the large powers reposing in the Treasury in the monetary field and field of credit control and pointed out that the powers of the Board and the Treasury in these fields were so closely related that, under present conditions, it would not be possible to effect the complete independence of the Federal Reserve System regardless of the ownership of the Federal reserve banks.

Upon inquiry from Mr. Aldrich, Chairman Eccles outlined briefly the change, which was announced yesterday, in the policy of the Treasury in relation to the sterilization of gold.

Mr. McKee referred to the solicitation by member banks in the large cities of deposits from country member banks in return for services rendered by the large banks as city correspondents in competition with the services being rendered by the Federal reserve banks. He expressed the opinion that such action on the part of the city banks was destroying in a large measure the value of membership in the Federal Reserve System to small banks, thereby weakening the System and at the same time obligating the city banks to render services which in the long-run they could not afford to render.

Reference was made by Chairman Eccles to the practice of certain city banks, particularly in the Cleveland district, of soliciting bank deposits on the basis of an arrangement under which the city banks would allow credit on collection items handled for their country cor-

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respondents at an earlier time than would be the case in the event collections were made through the Federal reserve banks, and stated that such action gave rise to the question whether the Federal reserve banks should not allow immediate credit for all items and render other services to member banks in order that the effectiveness of the Federal Reserve System might be preserved. He also expressed the opinion that the correspondent bank relations being evolved in this country were adverse to the interests of the Federal Reserve System and to the interests of the banking system generally.

Mr. Smith stated that the committee which had been appointed to prepare a report on the two questions suggested by the Board for consideration by the Council would study the questions raised by Messrs. McKee and Eccles and would cover the matter in the committee report.

Mr. Brown stated that one of the complaints of the small country banks against the Federal reserve banks was that the reserve banks require member banks, in their use of the services of the Federal reserve banks, to comply with a maze of bureaucratic regulations and expensive recording procedures resulting in a disproportionate amount of work for the member banks and that he felt that there should be greater liberality at the Federal reserve banks and that the officers of the reserve banks should be more willing to consider the problems of the member banks and how the reserve banks could be more helpful to their

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member banks. In this connection reference was made by members of the Board to the fact that the officers of the Federal reserve banks are selected by the boards of directors of the banks, two thirds of the directors being elected by the member banks, and that the responsibility for the attitude of reserve bank officers toward these matters, within the limits of the regulations of the Board of Governors, rests largely with the directors. The suggestion was also made by members of the Council that the officers of the Federal reserve banks should be allowed greater freedom in meeting the problems arising in their respective districts without fear of being criticized by Washington for making mistakes. Mention was also made of the attitude of State banking officials, the attitude of Federal reserve examiners, and the existence of deposit insurance as possible deterrents to increased membership in the Federal Reserve System.

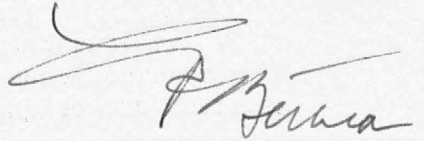
Mr. Smith stated that the committee appointed by the Council would cover in its report the questions raised by Mr. Brown's statement and the subsequent discussion.

With respect to business and credit conditions in the respective districts, Mr. Smith stated that the separate discussions of the Council indicated that the members felt that the decline in business which had taken place during the concluding months of last year and running into the current year had leveled off and that there was uncertainty as to what the trend of business conditions would be in the future.

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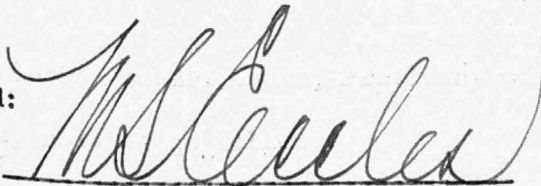
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Thereupon the meeting adjourned.



Assistant Secretary.

Approved:



Chairman.