

MINUTES OF MEETING  
of the  
FEDERAL ADVISORY COUNCIL

September 19, 20, 1921

# MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

September 19, 1921.

A regular statutory meeting of the Federal Advisory Council was held in the Federal Reserve Board room, Metropolitan Bank Building, Washington, D. C., at 10 A. M., September 19, 1921.

Present :

L. L. Rue, President	District No. 3
J. S. Alexander	District No. 2
C. E. Sullivan	District No. 4
J. G. Brown	District No. 5
E. W. Lane	District No. 6
J. J. Mitchell	District No. 7
E. F. Swinney	District No. 10
R. L. Ball	District No. 11
A. L. Mills	District No. 12
H. L. Hilyard	Secretary

Absent :

Philip Stockton	District No. 1
P. M. Warburg	District No. 2
F. O. Watts	District No. 8
C. T. Jaffray	District No. 9

The President, Mr. Rue, called the meeting to order at 10 A. M.

The President reported that Messrs. Stockton, Watts and Jaffray could not be present and that Mr. Warburg was abroad.

The President stated that the Federal Reserve Bank of New York desired to have Mr. J. S. Alexander represent District No. 2 in the absence of Mr. Warburg, and certificate of Mr. Alexander's appointment was presented. With the unanimous approval of the Council, Mr. Alexander was accorded full membership privileges for this meeting. The President, with the Council's approval, appointed Mr. Alexander a member of the Executive Committee for this session.

On motion, duly seconded and carried, the Minutes of the May meeting of the Council and of the Executive Committee, copies of which had previously been sent to the members, were approved.

The President reported that an amendment to Recommendation No. 14, of the May 17, 1921, meeting, endorsing Senate Bill 831, had been unanimously approved by the members of the Council through correspondence. On motion, duly seconded and carried, this action was confirmed.

The President referred to the former practice of printing after each set of Recommendations the names of the members of the Council present at the meeting when the Recommendations were made. The Secretary was requested to discontinue this practice.

The topics which had been submitted by the Federal Reserve Board were then discussed informally until 11.15 A. M., at which time the Council adjourned to convene in joint session with the members of the Federal Reserve Board.

H. L. HILYARD,

*Secretary.*

MINUTES OF JOINT CONFERENCE OF THE FEDERAL ADVISORY  
COUNCIL AND THE FEDERAL RESERVE BOARD

September 19, 1921.

At 11.15 A. M., a joint conference of the Federal Advisory Council and the Federal Reserve Board was held as arranged.

Present: Members of the Federal Reserve Board:

Governor W. P. G. Harding, Vice Governor Edmund Platt, Messrs. Charles S. Hamlin, A. C. Miller, J. R. Mitchell and D. R. Crissinger, Comptroller of the Currency.

Present: Members of the Federal Advisory Council:

Mr. L. L. Rue, President, and Messrs. J. S. Alexander, C. E. Sullivan, J. G. Brown, E. W. Lane, J. J. Mitchell, E. F. Swinney, R. L. Ball, A. L. Mills and H. L. Hilyard, Secretary.

The President of the Council, Mr. Rue, called the meeting to order and invited Governor Harding to address the conference.

Governor Harding discussed the Topics which had already been submitted to the Council members. He also submitted the following communication:

FEDERAL RESERVE BOARD

Washington, September 16, 1921.

SUBJECT: Regulation of Inter Federal  
Reserve Bank Rediscount  
Rates.

*Federal Advisory Council,  
Washington, D. C.*

GENTLEMEN:

The Federal Reserve Board desires to submit to the Federal Advisory Council for consideration at its meeting, in Washington, D. C., on September 19, 1921, the matter of regulating inter Federal reserve bank resdiscount rates.

The Federal Reserve Board has authority under Section 11(b) of the Federal Reserve Act—

“To permit, or, on the affirmative vote of at least five members of the Reserve Board to require Federal reserve banks to rediscount the discounted paper of other Federal reserve banks at rates of interest to be fixed by the Federal Reserve Board.”

The specific authority granted to the Board to permit inter Federal reserve bank rediscounts, and to fix the rates at which such rediscounts may be made, necessarily gives to the Board the power to prohibit such rediscounts except upon certain terms and conditions and at certain specified rates. Having in mind the desirability of establishing such control over inter Federal reserve bank rediscounts as will tend to keep them within reasonable limits, while at the same time avoiding any undue restrictions upon such rediscounts when the relative demand for credit in the various Federal reserve districts is such as to justify them, the Board is now considering the advisability of exercising its power to prohibit inter Federal reserve bank rediscounts except at certain specified rates. The Board has in mind particularly the adoption of one or the other of the following proposed regulations:

1. No Federal reserve bank shall be permitted to rediscount paper with any other Federal reserve bank unless its discount rate generally applicable to commercial paper is not less than six per cent, provided, that this prohibition shall not apply to any rediscount for a period not in excess of thirty days when the borrowing Federal reserve bank has not at any time during the three months immediately preceding such rediscount been indebted to any Federal reserve bank on account of rediscounts.

2. No Federal reserve bank shall be permitted to rediscount paper with any other Federal reserve bank unless its discount rate generally applicable to commercial paper is at least one-half of one per cent higher than the lowest discount rate of any Federal reserve bank generally applicable to commercial paper, provided, that this prohibition shall not apply to any rediscounts for a period not in excess of thirty days when the borrowing Federal reserve bank has not at any time during the three months immediately preceding such rediscount been indebted to any Federal reserve bank on account of rediscounts.

The Federal Reserve Board requests the Federal Advisory Council to give careful consideration to the subject matter of this letter and to communicate to the Board its recommendations thereon. The Board would like to have the Council's views upon the general subject of the advisability of regulating inter Federal reserve bank rediscount rates, and also upon the question of which of the two alternative proposed regulations is the more desirable.

Yours very truly,

[SIGNED] W. P. G. HARDING,

*Governor.*

Governor Harding requested the Council to consider also the matter of the constantly increasing expenses of the Federal Reserve Banks, particularly in relation to the establishment of branches.

Governor Harding also discussed the present status of the par collection system of the Federal Reserve Banks.

The joint meeting adjourned at 12 o'clock noon.

H. L. HILYARD,  
*Secretary.*

## MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

September 19, 1921.

The Council reconvened at 12 o'clock noon in the Federal Reserve Board room, the President in the Chair.

Present: Mr. L. L. Rue, President, and Messrs. J. S. Alexander, C. E. Sullivan, J. G. Brown, E. W. Lane, J. J. Mitchell, E. F. Swinney, R. L. Ball, A. L. Mills and H. L. Hilyard, Secretary.

The three topics which had previously been submitted by the Federal Reserve Board were brought up for discussion, as were the additional topics referred to by Governor Harding orally at the joint meeting.

At 1.15 P. M., the Council adjourned to the Metropolitan Club, where various matters were discussed informally with the members of the Federal Reserve Board until 4 P. M.

H. L. HILYARD,  
*Secretary.*

## MINUTES OF MEETING OF EXECUTIVE COMMITTEE OF THE FEDERAL ADVISORY COUNCIL

September 19, 1921.

At 4 P. M., a meeting of the Executive Committee of the Federal Advisory Council was held in the Federal Reserve Board room.

Present: Mr. L. L. Rue, Chairman, and Messrs. J. S. Alexander, J. J. Mitchell, E. F. Swinney and H. L. Hilyard, Secretary.

The Committee prepared Recommendations on the five topics submitted by the Board, and, in addition, prepared for adoption by the Council, Resolution protesting against legislation seeking to obtain representation on the Federal Reserve Board of particular classes or interests.

At 5 P. M., the meeting adjourned.

H. L. HILYARD,  
*Secretary.*

MINUTES OF JOINT CONFERENCE OF THE FEDERAL ADVISORY  
COUNCIL AND THE FEDERAL RESERVE BOARD

September 19, 1921.

At 5 P. M., the Federal Reserve Board and the Federal Advisory Council met in joint session in the Federal Reserve Board room, and discussed informally the five topics and the proposed resolution above referred to.

Present: Members of the Federal Reserve Board:

Governor W. P. G. Harding, Vice Governor Edmund Platt, Messrs. Charles S. Hamlin, A. C. Miller, J. R. Mitchell and D. R. Crissinger, Comptroller of the Currency.

Present: Members of the Federal Advisory Council:

Mr. L. L. Rue, President, and Messrs. J. S. Alexander, C. E. Sullivan, J. G. Brown, E. W. Lane, J. J. Mitchell, E. F. Swinney, R. L. Ball, A. L. Mills and H. L. Hilyard, Secretary.

At 5.30 P. M., the joint conference adjourned.

H. L. HILYARD,

*Secretary.*

MINUTES OF MEETING OF THE EXECUTIVE COMMITTEE OF  
THE FEDERAL ADVISORY COUNCIL

September 19, 1921.

At 5.30 P. M., the Executive Committee of the Federal Advisory Council reconvened in the Federal Reserve Board room.

Present: Mr. L. L. Rue, Chairman, and Messrs. J. S. Alexander, J. J. Mitchell, E. F. Swinney and H. L. Hilyard, Secretary.

The Committee concluded its work and requested the Chairman to present its report to the Council at the meeting scheduled for 9 P. M.

At 6.30 P. M., the Executive Committee adjourned.

H. L. HILYARD,

*Secretary.*

## MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL.

September 19, 1921.

The Federal Advisory Council reconvened, as arranged, in the New Willard Hotel, at 9 P. M.

Present: Mr. L. L. Rue, President; Messrs. J. S. Alexander, C. E. Sullivan, J. G. Brown, E. W. Lane, A. L. Mills and H. L. Hilyard, Secretary.

Mr. Rue, Chairman of the Executive Committee, presented the Committee's Recommendations, and the Resolution protesting against legislation seeking to obtain representation on the Federal Reserve Board of particular classes or interests.

The Recommendations and Resolution were fully considered and approved for presentation to the Federal Reserve Board. Copy is attached hereto and forms a part of these minutes.

The Council adjourned at 11 P. M.

H. L. HILYARD,

*Secretary.*

## MINUTES OF JOINT CONFERENCE OF THE FEDERAL ADVISORY COUNCIL AND THE FEDERAL RESERVE BOARD

September 20, 1921.

At 11 A. M., the Federal Reserve Board and the Federal Advisory Council met in joint session in the Federal Reserve Board room, as arranged.

Present: Members of the Federal Reserve Board:

Governor W. P. G. Harding, Vice Governor Edmund Platt, Messrs. Charles S. Hamlin, A. C. Miller, J. R. Mitchell and D. R. Crissinger, Comptroller of the Currency.

Present: Members of the Federal Advisory Council:

Mr. L. L. Rue, President, and Messrs. J. S. Alexander, C. E. Sullivan, J. G. Brown, E. W. Lane, E. F. Swinney, R. L. Ball, A. L. Mills and H. L. Hilyard, Secretary.

The President, Mr. Rue, submitted the Council's report, following which the various Recommendations and other questions were discussed informally by the members of the Board and of the Council.

Governor Harding gave additional details concerning the present status of the par collection system of the Federal Reserve Banks.

Governor Harding also requested the members of the Council to take up with the Federal Reserve Banks in their respective districts the matter of restricting the increasing expenses of operation of the Federal Reserve Banks.

At 1 P. M., the joint conference adjourned.

H. L. HILYARD,  
*Secretary.*

#### MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

September 20, 1921.

The Federal Advisory Council reconvened in the Federal Reserve Board room at 1 P. M.

Present:

Mr. L. L. Rue, President, and Messrs. J. S. Alexander, C. E. Sullivan, J. G. Brown, E. W. Lane, E. F. Swinney, R. L. Ball, A. L. Mills and H. L. Hilyard, Secretary.

Mr. Swinney offered for adoption Resolution stating that the Council was opposed to political influence in appointments to office in Federal Reserve Banks. On motion, duly seconded and carried, the Council unanimously adopted the Resolution and requested that it be forwarded to the Federal Reserve Board with the Recommendations and Resolution previously adopted. Copy of the Resolution is attached hereto and made a part of these minutes.

At 1.30 P. M., the Council adjourned, concluding the session.

H. L. HILYARD,  
*Secretary.*

RECOMMENDATIONS OF THE FEDERAL ADVISORY COUNCIL TO THE  
FEDERAL RESERVE BOARD

September 20, 1921

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TOPIC No. 1—Should rates bear a direct relation to a Federal Reserve Bank's reserve or should they be established more with reference to the general money market?

RECOMMENDATION—The Council believes that rates should bear a direct relation to a Federal Reserve Bank's reserve and to the general money market, and in addition consideration should be given to the items enumerated in the Council's recommendation of May 17, 1921, as follows:

- “1. The reserves of the Federal Reserve System as a whole.
  2. The reserve position of the Federal Reserve Bank whose rate it is contemplated to change.
  3. The condition of all the banks of the country as a whole, and of the several Federal Reserve districts.
  4. The economic and financial condition of this country.
  5. World conditions, both economic and political.
  6. The eventual establishment of a credit rate policy for the Federal Reserve Banks by which the rediscount rate to member banks is higher than the prevailing commercial rate, taking due consideration of the prevailing open market rates for various classes of loans both in this country and abroad.
  7. Uniformity of rates, while at times practicable and desirable, should not be adopted as a fixed policy, the System being predicated upon the principle that varying conditions might exist in different sections of the country.”
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TOPIC No. 2—If the latter (the general money market), what factors should be considered in arriving at a conclusion as to what is the current rate for money? Among these factors are the following:

- (a) Rates charged by banks to their regular customers.
- (b) Rates for one-name paper bought through note brokers.
- (c) Open market rates on bankers' acceptances, and
- (d) Rates on Treasury Certificates.

RECOMMENDATION—All the four items mentioned are important in determining the money market, but there may be other factors in a district which should likewise be given consideration.

TOPIC NO. 3—Is it important also to consider the effect of a change in the discount rate of a Federal Reserve Bank upon the ruling rate for money in its district?

RECOMMENDATION—General business conditions and the reserve position of a Federal Reserve Bank are the important factors to be considered. The ruling rate for money in a district will adjust itself automatically to these conditions.

#### ADDITIONAL RECOMMENDATIONS:

RECOMMENDATION NO. 4—In response to the letter of Governor Harding of the Federal Reserve Board, dated September 16, 1921, asking the Council to give consideration to the subject of regulating inter Federal Reserve Bank rediscount rates, the Council reiterates its Recommendation No. 1, paragraph 7, of the September, 1920, meeting as follows:

“The rate of such rediscounts should be variable and fixed by the Board from time to time as the situation may appear to require and without regard either for the profit or loss to the contracting banks.”

The Council does not approve the adoption of either of the two regulations proposed in Governor Harding's letter of September 16, 1921. The Council is of the opinion that a Federal Reserve Bank, while borrowing, should not lower its rate; but special conditions may exist in a district which may make a reduction desirable and justify such a course.

RECOMMENDATION NO. 5—The Council has observed with no little concern the increasing number of branches of Federal Reserve Banks and the tendency toward the expenditure of large sums of money for the erection of buildings for the housing of these branches. The Council would recommend that the Federal Reserve Board do not approve the establishment of additional branches of Federal Reserve Banks until sufficient time has elapsed to demonstrate their need. The Council would further recommend that where branches are already established, no expensive buildings be erected for their housing until their permanency and requirements have been fully demonstrated.

The Council unanimously adopted the following resolution:

"The Council has noted that a striking and significant feature of events of the past year has been the unceasing and vigorously insistent demands from a variety of quarters that the Federal Reserve Board shape its policies and actions for the special benefit of particular classes or interests. Bills have been introduced in Congress seeking to place on the Board, members representing this or that industry, thus attempting to give exceptional facilities or privileges to particular classes.

"The Council believes that this development is a most unfortunate and potentially dangerous one. The Federal Reserve Board rests under responsibilities and is charged with the performance of duties touching the very life of the business and finance of the country. The Board properly should have regard for sincere, intelligent, fair-minded public opinion, but it will succeed in its tasks only if it is in a position to decide the important questions and problems presented to it solely on the basis of their merits, irrespective of temporary popular expediency."

The Council also unanimously adopted the following resolution:

"The Council wishes to go on record as opposed to attempts to put in office in Federal Reserve Banks men in place of those who have filled their positions with fidelity and efficiency.

"The Council believes the system should be free from political influences of every kind, and that competent men should be continued in office."

MINUTES OF JOINT CONFERENCE OF THE FEDERAL RESERVE  
BOARD AND THE EXECUTIVE COMMITTEE OF THE  
FEDERAL ADVISORY COUNCIL

November 1, 1921.

A joint conference of the Federal Reserve Board and the Executive Committee of the Federal Advisory Council was held in the Federal Reserve Board Room, Treasury Building, Washington, D. C., Tuesday, November 1st, 1921, at 11 A. M.

PRESENT, Members of the Federal Reserve Board:

Hon. A. W. Mellon, Secretary of the Treasury, Chairman, Governor W. P. G. Harding, Vice Governor Edmund Platt, Hon. D. R. Crissinger, Comptroller of the Currency, Messrs. A. C. Miller and Charles S. Hamlin.

PRESENT, Members of the Executive Committee of the Federal Advisory Council:

Mr. L. L. Rue, Chairman, Mr. J. S. Alexander of District No. 2 (substitute for Mr. Paul M. Warburg, absent in Europe) and Mr. J. J. Mitchell of District No. 7.

(Absent Mr. Philip Stockton of District No. 1, Mr. F. O. Watts of District No. 8 and Mr. E. F. Swinney of District No. 10.)

Governor Harding called the meeting to order and stated that he had requested the Executive Committee of the Federal Advisory Council to meet in conference with the Federal Reserve Board to consider the question of formulating a general policy to govern changes in discount rates of Federal Reserve Banks.

The Secretary of the Treasury stated that he favored a general reduction in discount rates and the Board concurred in this view feeling that a lowering of rates would be beneficial to business and would be welcomed by the country at large.

The Executive Committee of the Council after hearing the views of the Secretary of the Treasury and the members of the Federal Reserve Board in favor of a general reduction of discount rates concurred in the views of the Board that such a reduction was warranted and desirable at this time.

H. L. HILYARD,

*Secretary.*