

MINUTES OF MEETING  
of the  
FEDERAL ADVISORY COUNCIL

November 21, 1921

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

November 21, 1921.

A regular statutory meeting of the Federal Advisory Council was held in the Federal Reserve Board room, Metropolitan Bank Building, Washington, D. C., Monday, November 21, 1921.

The President, Mr. Rue, called the meeting to order at 10.30 A. M.

Present:

Mr. L. L. Rue, President	District No. 3
Mr. P. M. Warburg, Vice President	District No. 2
Mr. Philip Stockton	District No. 1
Mr. C. E. Sullivan	District No. 4
Mr. J. G. Brown	District No. 5
Mr. E. W. Lane	District No. 6
Mr. J. J. Mitchell	District No. 7
Mr. F. O. Watts	District No. 8
Mr. C. T. Jaffray	District No. 9
Mr. D. W. Twohy	District No. 12
Mr. H. L. Hilyard	Secretary.

Absent:

Mr. E. F. Swinney	District No. 10
Mr. R. L. Ball	District No. 11

The President presented a letter from the Federal Reserve Bank of San Francisco, certifying to the appointment of Mr. D. W. Twohy, Chairman of the Board of the Old National Bank, Spokane, Washington, as representative on the Council for District No. 12, succeeding Mr. A. L. Mills, of Portland, Oregon.

Communications were presented from Messrs. E. F. Swinney and R. L. Ball, stating that it would be impossible for them to be present.

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

On motion, duly seconded and carried, the Council concurred in the action taken by the Executive Committee at its joint conference with the Federal Reserve Board, November 1, 1921. The minutes of that meeting, copies of which had previously been sent to the members of the Council, were duly approved.

The President presented a letter from Governor Harding dated November 3, 1921, copy of which had been sent to the members of the Council, as follows:

FEDERAL RESERVE BOARD

Washington, November 3, 1921.

*Office of the Governor*

DEAR MR. RUE:

Referring again to your letter of October 19th, asking for a list of topics which the Board would like to have discussed at the next meeting of the Council to be held on November 21st, I would state that the Board would like to have discussed the general principles governing the discount rate, with particular reference to the effect of the Federal Reserve rate on the business of the country, on the investment market, and on the rates to borrowing customers by member banks. The Board would also like to discuss with the Council general financial and business conditions and what, if anything, can be done by the Board to improve the situation.

The Board would suggest that it would be well if the members of the Council would come prepared to stay two days in order that we may have ample time for a full and informal discussion of these important matters. The Board would also suggest the propriety of any member of the Council bringing up for discussion any other subject in which he may be interested.

Very truly yours,

W. P. G. HARDING,

*Governor.*

*Mr. L. L. Rue, President,  
Federal Advisory Council,  
421 Chestnut Street,  
Philadelphia, Pa.*

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At 11.15 A. M., 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 RESERVE  
BOARD AND THE FEDERAL ADVISORY COUNCIL

November 21, 1921.

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

Present: Members of the Federal Reserve Board:

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

Present: Members of the Federal Advisory Council:

Mr. L. L. Rue, President, Mr. P. M. Warburg, Vice President, and Messrs. Philip Stockton, C. E. Sullivan, J. G. Brown, E. W. Lane, J. J. Mitchell, F. O. Watts, C. T. Jaffray, D. W. Twohy, 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 referred briefly to recent reductions in discount rates of the Federal Reserve banks and the conditions surrounding the reductions.

He also discussed legislation now pending in Congress attempting to make radical and unsound amendments to the Federal Reserve Act.

Governor Harding outlined the difficulty which Federal Reserve banks may experience in the near future in keeping their surplus funds profitably invested. The subject of investments of the Federal Reserve Banks was discussed by the members of the Board and of the Council. (See Recommendation attached hereto and made a part of these minutes.)

The Governor asked for the Council's views as to the removal of the present limitation of \$5,000. on the amount of a Federal Reserve exchange draft which may be drawn by a member bank against its excess reserve with its Federal Reserve Bank.

The members of the Board and of the Council discussed the subject fully and the consensus of opinion was that there was no necessity at this time for a change in the existing regulation.

The subject matter contained in Governor Harding's letter of November 3d to Mr. Rue (incorporated in the minutes of the morning session) was discussed informally by the members of the Board and of the Council. In the Council's opinion, the recent reduction in rediscount rates has had little effect on business or on rates charged by member banks to borrowing customers. The reduction in rates, however, has had a stimulating effect on the investment market.

At 1.15 P. M., the joint conference adjourned.

H. L. HILYARD,

*Secretary.*

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

November 21, 1921.

The Federal Advisory Council reconvened at 3. 30 P. M., in the Federal Reserve Board room, the President, Mr. Rue, in the Chair.

Present:

Mr. L. L. Rue, President, Mr. P. M. Warburg, Vice President, Messrs. Philip Stockton, C. E. Sullivan, J. G. Brown, E. W. Lane, J. J. Mitchell, F. O. Watts, C. T. Jaffray, D. W. Twohy and H. L. Hilyard, Secretary.

The Council formulated a Recommendation in accordance with the request made by the Board at the joint conference held in the morning, relative to the difficulty which the Federal Reserve Banks may experience in the near future in keeping their surplus funds profitably invested. The Recommendation is attached hereto and made a part of these minutes.

At 4. P. M., the Council adjourned, concluding the session.

H. L. HILYARD,

*Secretary.*

RECOMMENDATION OF THE FEDERAL ADVISORY COUNCIL TO THE  
FEDERAL RESERVE BOARD

November 21, 1921.

The Board brought to the attention of the Council the matter of the increase in the reserves of the Federal Reserve Banks, and the apparent approach of the time when, as a result of the liquidation of borrowings by member banks, the Federal Reserve Banks will be seeking investment for their idle funds. The Board requested the Council's opinion as to the wisdom of the Federal Reserve Banks' investing these funds in United States Government bonds.

The Council stated that it is not disturbed by the fact that the earnings of the Federal Reserve Banks are decreasing because of the accumulation of idle funds. The Federal Reserve Banks were not created for profit and the Council is mindful of the fact that, as past experience has shown, times of temporary idleness of funds are bound to be followed by periods of greater demands for money, be they seasonal or emergency requirements.

Whenever it may appear necessary for Federal Reserve Banks to seek investments in the open market, the Council would recommend that preference be given to obligations such as :

1. Bankers Acceptances.
2. United States Certificates of Indebtedness.
3. Such short term State and Municipal obligations as are permitted by the Federal Reserve Act.