

MINUTES OF MEETING
of the
FEDERAL ADVISORY COUNCIL

September 25, 26, 1922

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

September 25, 1922.

A meeting of the Federal Advisory Council was held in the Federal Reserve Board room, Treasury Building, Washington, D. C., Monday, September 25, 1922.

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. J. G. Brown	District No. 5
Mr. E. W. Lane	District No. 6
Mr. J. J. Mitchell	District No. 7
Mr. F. J. Wade	District No. 8
Mr. G. H. Prince	District No. 9
Mr. E. F. Swinney	District No. 10
Mr. R. L. Ball	District No. 11
Mr. D. W. Twohy	District No. 12
Mr. H. L. Hilyard	Secretary

Absent :

Mr. C. E. Sullivan	District No. 4
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The Secretary presented communication from the Federal Reserve Bank of St. Louis, certifying to the election of Mr. Festus J. Wade to serve for the unexpired term of Mr. F. O. Watts, resigned.

On motion, duly seconded, the Minutes of the meeting of April 27-28, 1922, copies of which had previously been sent to the members, were approved.

Mr. Rue stated that during the summer, he had been informed that the matter of the reappointment of Hon. W. P. G. Harding as Governor of the Federal Reserve Board was likely to be determined by the President of the United States at an early date. Mr. Rue reported that in consequence, he had sent the following telegrams to the President and to the Secretary of the Treasury, and asked the Council formally to approve of his action. On motion, duly seconded, Mr. Rue's action in this respect was unanimously approved.

July 31, 1922.

Hon. Warren G. Harding,
President of the United States,
Washington, D. C.

The Federal Advisory Council respectfully urges you to reappoint W. P. G. Harding Governor of the Federal Reserve Board. His long experience, wise, fearless and impartial administration of the affairs of the Federal Reserve System during the period of the war and the trying times which have followed, especially qualify him to fill this most important office. His appointment will insure a safe, sound and conservative administration of our banking system, which is essential to the prosperity and well-being of all the citizens of our country.

L. L. RUE, President,
Federal Advisory Council.

July 31, 1922.

Hon. Andrew W. Mellon,
Secretary of the Treasury,
Washington, D. C.

The Federal Advisory Council respectfully requests and urges you to use your great influence with the President to secure the reappointment of W. P. G. Harding as Governor of the Federal Reserve Board. His splendid record, wide and long experience in the administration of the affairs of the Federal Reserve System are well known to you and have won the admiration and approval of all of us who have been associated with him. We recognize his peculiar fitness and qualifications for this most important office. He is safe, sound, fearless and impartial.

L. L. RUE, President,
Federal Advisory Council.

On motion, duly seconded, the President, Mr. Rue, and the Vice President, Mr. Warburg, were requested by the Council to call upon the Secretary of the Treasury, Mr. Mellon, to ascertain whether, in the latter's judgment, it was desirable for the Executive Committee of the Council to call upon the President of the United States to urge the reappointment of Hon. W. P. G. Harding as Governor of the Federal Reserve Board.

At Mr. Warburg's suggestion, the Council requested the President, Mr. Rue, to appoint a Committee to draw a Resolution for Council's approval commending Governor Harding for his services as a member and Governor of the Federal Reserve Board, and expressing the hope he would be reappointed. The President, Mr. Rue, appointed Mr. Warburg a Committee of one to draw the Resolution and submit it to the Council for approval.

On motion, duly seconded, the Council requested Mr. Rue, the President, to invite Mr. Gilbert, Undersecretary of the Treasury, to participate in the joint conference of the Council and the Federal Reserve Board, after first securing the approval of the Federal Reserve Board of such invitation.

The Council thereupon took up the consideration of the topics submitted by the Federal Reserve Board.

At 11 A. M., the Council adjourned to meet in joint conference 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 25, 1922.

At 11 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:

Vice Governor Edmund Platt, Messrs. C. S. Hamlin, A. C. Miller and J. R. Mitchell.

Present: Members of the Federal Advisory Council:

Mr. L. L. Rue, President; Mr. P. M. Warburg, Vice President; Messrs. Philip Stockton, J. G. Brown, E. W. Lane, J. J. Mitchell, F. J. Wade, G. H. Prince, E. F. Swinney, R. L. Ball, D. W. Twohy, and H. L. Hilyard, Secretary.

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

Mr. Platt discussed the topics which had already been submitted for the Council's consideration, and in addition, submitted information relative to the question of whether subsidiary silver and minor coins should be counted as legal reserve for Federal Reserve Banks.

Mr. Platt also discussed proposed amendments to the Federal Reserve Act with particular reference to Senate Bill 4002, which seeks to prohibit the rediscount with Federal Reserve Banks of paper on which the rate of discount and commission charged by the member bank exceeds by 2% the discount rate of the Federal Reserve Bank.

The members of the Board and of the Council then informally discussed the topics submitted.

At 11.45 A. M., the joint conference adjourned.

H. L. HILYARD,
Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

September 25, 1922.

The Federal Advisory Council reconvened at 11.45 A. M., the President, Mr. Rue, in the Chair.

Present: Mr. L. L. Rue, President; Mr. P. M. Warburg, Vice President; Messrs. Philip Stockton, J. G. Brown, E. W. Lane, J. J. Mitchell, F. J. Wade, G. H. Prince, E. F. Swinney, R. L. Ball, D. W. Twohy, and H. L. Hilyard, Secretary.

The Council discussed the topics which had been submitted by the Federal Reserve Board and instructed the Executive Committee to prepare recommendations thereon for submission to the Council for approval at the session to be held the following day.

On motion, duly seconded, it was decided not to make a written recommendation relative to Senate Bill 4002, discussed by Vice Governor Platt at the morning session, but the President, Mr. Rue, was instructed to express orally to the Federal Reserve Board, Council's disapproval of the bill.

Mr. Wade brought up for discussion the question of the increasing gold reserves of the country, and upon motion, duly seconded, the President, Mr. Rue, was instructed to ascertain the Treasury's policy relative to gold payments.

At 1 P. M., the meeting adjourned.

H. L. HILYARD,
Secretary.

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

September 25, 1922.

At 2 P. M., the Executive Committee of the Federal Advisory Council met in the Federal Reserve Board room as arranged.

Present: Mr. L. L. Rue, Chairman, Messrs. Philip Stockton, P. M. Warburg, J. J. Mitchell, E. F. Swinney, and H. L. Hilyard, Secretary.

The Committee prepared for presentation to the Council recommendations on the topics discussed by the Council.

At 4 P. M., the meeting adjourned.

H. L. HILYARD,
Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

September 26, 1922.

At 10.30 A. M., the Federal Advisory Council reconvened in the Federal Reserve Board room as arranged.

Present: Mr. L. L. Rue, President; Mr. P. M. Warburg, Vice President; Messrs. J. G. Brown, E. W. Lane, J. J. Mitchell, F. J. Wade, G. H. Prince, E. F. Swinney, R. L. Ball, D. W. Twohy, and H. L. Hilyard, Secretary.

Mr. Rue reported that in accordance with the Council's request of the previous day, Mr. Warburg and himself had called upon the Secretary of the Treasury, Mr. Mellon, regarding the desirability of the Executive Committee of the Council's calling upon the President of the United States to urge the reappointment of Hon. W. P. G. Harding as Governor of the Federal Reserve Board; and that Secretary Mellon had stated that the President would be pleased to receive the Council or its Executive Committee; but after a discussion, the Council decided that as the President was already in possession of all the facts concerning Governor Harding's peculiar fitness for this office, it was unnecessary for the Council or its Executive Committee to wait upon him at this time.

Mr. Rue, Chairman of the Executive Committee, presented to the Council the report embodying the recommendations which had been prepared by the Committee, which recommendations were discussed by the Council and approved for presentation to the Federal Reserve Board. A copy of the recommendations is attached hereto and made a part of these minutes.

Mr. Warburg, as the Committee of one appointed on the previous day, presented for Council's approval the Resolution commending Governor Harding for his services as a member and Governor of the Federal Reserve Board and expressing the hope that he be reappointed as Governor, which Resolution was unanimously approved, ordered engrossed and presented to Governor Harding. The Resolution is as follows:

FEDERAL ADVISORY COUNCIL

Resolution unanimously adopted by the Federal Advisory Council in session at Washington, D. C., September 26, 1922.

WHEREAS, the Honorable W. P. G. Harding has served for eight years as a member of the Federal Reserve Board and for six years as its Governor, and

WHEREAS, his first term of office expired on August 10, 1922,

BE IT RESOLVED, that the Federal Advisory Council, representing the member banks constituting all the Federal Reserve Banks, express to him its sincerest appreciation for the invaluable services he has rendered to the entire country by the faithfulness, unselfishness and efficiency with which he has administered his office. Untiringly and courageously, he has done his share in strengthening and developing the Federal Reserve System and in guiding it through the trying times of its organization and the difficult periods of the War and the War's after-

math. The friends and admirers Governor Harding has gained by his rugged honesty and loyal devotion to his work are as creditable to him as the enemies he has made in the fearless performance of his duties. The Federal Reserve System is today the pride of the United States and the envy of the world, and Governor Harding may with just pride and satisfaction look back upon the part he has played in its perfection.

BE IT FURTHERMORE RESOLVED, that it is the earnest hope of all the members of the Advisory Council from north and south, east and west that the country may be permitted to continue to enjoy the benefits of Governor Harding's vast experience, and that to the long and impressive list of his past achievements, he may be able to add an equally distinguished record of unselfish, honest and efficient service rendered in a second term of office.

BE IT FURTHERMORE RESOLVED, that a copy of this resolution be transmitted to Governor Harding as an expression of the Federal Advisory Council's high esteem and as a token of their sincere gratitude and warm affection.

FEDERAL ADVISORY COUNCIL,

Federal Reserve District

(Signed)	L. L. Rue, President	Philadelphia
	Philip Stockton	Boston
	P. M. Warburg	New York
	C. E. Sullivan	Cleveland
	J. G. Brown	Richmond
	E. W. Lane	Atlanta
	J. J. Mitchell	Chicago
	F. J. Wade	St. Louis
	G. H. Prince	Minneapolis
	E. F. Swinney	Kansas City
	R. L. Ball	Dallas
	D. W. Twohy	San Francisco

Attest:

H. L. Hilyard,
Secretary.

At 12 o'clock noon, the Council adjourned to convene in joint session with the Federal Reserve Board.

H. L. HILYARD,
Secretary.

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

September 26, 1922.

At 12 o'clock noon, a joint conference of the Federal Advisory Council and the Federal Reserve Board was held as arranged.

Present: Members of the Federal Reserve Board:

Vice Governor Edmund Platt, Messrs. C. 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; Mr. P. M. Warburg, Vice President; Messrs. J. G. Brown, E. W. Lane, J. J. Mitchell, F. J. Wade, G. H. Prince, E. F. Swinney, R. L. Ball, D. W. Twohy, and H. L. Hilyard, Secretary.

Undersecretary of the Treasury Gilbert was also present at the Council's invitation.

The President of the Council, Mr. Rue, called the meeting to order and submitted the Council's report, copy of which is attached hereto and made part of these minutes.

A general discussion followed as to the Government's policy of paying out gold and gold certificates.

At 1 P. M., the joint conference adjourned, concluding the session of the Council.

H. L. HILYARD,

Secretary

RECOMMENDATIONS OF THE FEDERAL ADVISORY COUNCIL TO THE
FEDERAL RESERVE BOARD

September 26, 1922.

TOPIC 1. Should the so-called commodity rates be revived, the proposition being that the Federal Reserve Banks should give a special rate of $3\frac{1}{2}\%$ on paper secured by staple agricultural products, the borrowing bank to agree to make its loans on such products at not above 6% ?

RECOMMENDATION: The Council is of the opinion that it would be inadvisable to revive the commodity rates, and establish for commodity loans a rate lower than that prevailing for discounts generally. Without wishing to enter into a discussion of the principle involved, the answers of the Federal Reserve Banks themselves to the Federal Reserve Board's letter of August 2nd appear to indicate that the smaller institutions that charge high rates to small borrowers would not change their customs and their entire rate structure in order to rediscount with the Federal Reserve Banks some of their paper at $3\frac{1}{2}\%$, instead of at the prevailing rediscount rate of 4 or $4\frac{1}{2}\%$. The advantage to be gained would not be a sufficient compensation for them. The only institutions that might possibly take advantage of the lower rediscount rate of $3\frac{1}{2}\%$ would be the larger member banks in semi-agricultural districts, which at present make loans at not above 6% . That, however, would be an advantage to the banks and not to the borrowers.

TOPIC 2. Should demand drafts with bills of lading attached be eligible for rediscount with the Federal Reserve Banks?

RECOMMENDATION: Demand drafts with bills of lading attached should not be made eligible for rediscount with Federal Reserve Banks but they should be taken for collection.

The Council understands that these bills with documents attached are being taken for collection at this time, and the Council would deem it advisable for Federal Reserve Banks to give immediate credit with proper interest charge for some reasonable proportion of such collections under proper safeguards and within reasonable limits, having due regard for the condition of the bank applying for the accommodation and the reserve position of the Federal Reserve Bank.

The Council does not believe it sound to permit the Federal Reserve Banks to treat as rediscounts any paper that does not have a definite due date.

TOPIC 3. In view of the difficulty of interpreting "substantial competition" in the Kern Amendment, which makes administration of the amendment correspondingly difficult, it has been suggested that the Council might well discuss and advise the Board with regard to the proposed amendment to the Clayton Act on interlocking directorates. (H. R. 4826.)

RECOMMENDATION: The Council is of the opinion that it would be unwise at this time to attempt to have Congress amend the Clayton Act as it might result in undesirable legislation. The Board may well assume the responsibility of deciding what is "substantial competition" and each case should be determined upon its own merits.

TOPIC 4. Is the present apparent increase in the demand for money temporary and seasonal or is there evidence that a revival of business will increase the demand for bank accommodation for some time to come?

ANSWER: While there is doubtless some revival in certain lines of business which is causing an increased use for money, the increase now prevailing is due for the most part to usual seasonal requirements. This demand will probably continue through the fall months.

TOPIC 5. The increase in commercial paper rates. Cause of the decline in the price of government securities. Is the increase in the price of bonds halted for a considerable period or only temporarily?

ANSWER: The increase in commercial paper rates is due in part to business revival in some lines but for the most part to seasonal requirements. For the past six to nine months prices of government securities have risen because of large purchases by banks and others seeking employment of idle funds; but the increased commercial activity is likely to lead banks and industrial firms and corporations temporarily, at least, to dispose of some of their government securities to meet the requirements of business.

TOPIC 6. Is there any evidence of a change of conditions that may make advisable changes of rates in Federal Reserve Banks in the near future.

ANSWER: No. Seasonal demands for money are being met with only fractional changes in open market rates.

TOPIC 7. Is there discernible any evidence of the approach of a period of secondary expansion or inflation?

ANSWER: Banking statistics do not indicate that a secondary period of inflation is at hand. Liquidation continues in the Federal Reserve System and demand for credit, where it exists, is largely seasonal. In some commodity lines there have been sharp increases in prices, but these, for the most part, are merely recoveries from previous depressed prices. A situation may develop, however, where further inflation of prices may occur in certain industries, out of line with general prevailing conditions, and stimulate unhealthy speculation; and the Federal Reserve Board should have this possibility in mind.

TOPIC 8. Should there be any change in the policy of the Federal Reserve Banks carrying considerable investments in United States Government securities?

RECOMMENDATION: There is no necessity of any change in the earlier recommendations made by the Council in this regard, and reference is made to recommendation No. 9 of the Proceedings of the Council, April 28, 1922.

The Council reiterates its recommendation that the Federal Reserve Banks, in their purchases of government obligations should not be governed by the necessity of covering their fixed charges and earning their dividends. The Council is strongly of the view that open market operations, particularly in so far as they touch investment in government securities, should be carried on under a uniform policy by the System as a whole. Council has learned, with great satisfaction, of the organization of a committee of Governors having supervision of transactions in government securities by the Federal Reserve Banks.

In the Council's opinion, the policy of the Federal Reserve System, as a whole, should be, at this time, not to increase any further its investments in Government securities.