

MINUTES OF MEETING
of the
FEDERAL ADVISORY COUNCIL

February 18, 19, 1924

OFFICERS AND MEMBERS OF THE FEDERAL ADVISORY COUNCIL

For the Year 1924

OFFICERS:

President, P. M. Warburg
Vice President, A. L. Aiken

EXECUTIVE COMMITTEE:

P. M. Warburg
A. L. Aiken
L. L. Rue
J. M. Miller, Jr.
J. J. Mitchell
E. F. Swinney

MEMBERS:

A. L. Aiken	Federal Reserve District No. 1
P. M. Warburg	Federal Reserve District No. 2
L. L. Rue	Federal Reserve District No. 3
C. E. Sullivan	Federal Reserve District No. 4
J. M. Miller, Jr.	Federal Reserve District No. 5
O. Wells	Federal Reserve District No. 6
J. J. Mitchell	Federal Reserve District No. 7
F. J. Wade	Federal Reserve District No. 8
G. H. Prince	Federal Reserve District No. 9
E. F. Swinney	Federal Reserve District No. 10
W. M. McGregor	Federal Reserve District No. 11
D. W. Twohy	Federal Reserve District No. 12

BY-LAWS OF THE FEDERAL ADVISORY COUNCIL

ARTICLE I. OFFICERS

Officers of this Council shall be a President, Vice President and Secretary.

ARTICLE II. PRESIDENT AND VICE PRESIDENT

The duties of the President shall be such as usually pertain to the office; and in his absence the Vice President shall serve.

ARTICLE III. SECRETARY

The Secretary shall be a salaried officer of the Council and his duties and compensation shall be fixed by the Executive Committee.

ARTICLE IV. EXECUTIVE COMMITTEE

There shall be an Executive Committee of six (6) members of the Council, of which the President and Vice President of the Council shall be ex-officio members.

ARTICLE V. DUTIES OF EXECUTIVE COMMITTEE

It shall be the duty of the Executive Committee to keep in close touch with the Federal Reserve Board and with their regulations and promulgations, and communicate the same to the members of the Council, and to suggest to the Council from time to time special matters for consideration.

The Executive Committee shall have power to fix the time and place of holding their regular and special meetings and methods of giving notice thereof.

Minutes of all meetings of the Executive Committee shall be kept and such minutes or digest thereof shall be immediately forwarded to each member of the Council.

A majority of the Executive Committee shall constitute a quorum and action of the Committee shall be by a majority of those present at any meeting.

ARTICLE VI. MEETINGS

Regular meetings of the Federal Advisory Council shall be held in the City of Washington on the third Monday of the months of February, May, September and November of each year, unless otherwise directed by the Executive Committee.

Special meetings may be called at any time and place by the President or the Executive Committee, and shall be called by the President upon written request of any three members of the Council.

ARTICLE VII. AMENDMENTS

These By-laws may be changed or amended at any regular or special meeting by a vote of a majority of the members of the Federal Advisory Council.

February 18, 1924.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

February 18, 1924.

The organization meeting of the Federal Advisory Council for the year 1924 was held in the Federal Reserve Board room, Treasury Building, Washington, D. C., at 10.30 A. M., Monday, February 18, 1924.

Present :

Mr. A. L. Aiken	District No. 1
Mr. P. M. Warburg	District No. 2
Mr. L. L. Rue	District No. 3
Mr. C. E. Sullivan	District No. 4
Mr. C. E. Rieman (Alternate for Mr. John M. Miller, Jr.)	District No. 5
Mr. O. Wells	District No. 6
Mr. E. A. Hamill (Alternate for Mr. J. J. Mitchell)	District No. 7
Mr. G. H. Prince	District No. 9
Mr. E. F. Swinney	District No. 10
Mr. W. M. McGregor	District No. 11
Mr. D. W. Twohy	District No. 12
Mr. H. L. Hilyard	Secretary

Absent :

Mr. F. J. Wade	District No. 8
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Mr. Rue, acting as temporary Chairman, called the meeting to order and called for the Secretary's report of accredited members for the year 1924.

The Secretary reported that he had received communications from all of the Federal Reserve Banks, certifying to the election of their representatives for the year as listed above. Communications were also presented from the Federal Reserve Banks of Richmond and Chicago, appointing Messrs. C. E. Rieman and E. A. Hamill, respectively, as alternates in place of Messrs. Miller and Mitchell.

On motion, duly seconded, the Council held its election of officers for the year 1924. Mr. Rue, who had served as President for the past three years, declined to stand for re-election to this office and nominated Mr. P. M. Warburg for President. On motion, duly seconded, the nominations were closed and the Secretary was instructed to cast one ballot for Mr. Warburg, who was thereupon declared elected President of the Council for the year 1924.

At the suggestion of Mr. Warburg, Council, upon motion, duly seconded, expressed its thanks to Mr. Rue for his administration of the office of President for the past three years, and adopted the following resolution:

WHEREAS, Levi L. Rue has been a member of the Federal Advisory Council since its organization, serving the first seven years as its Vice President, and the last three years as its President,

And, WHEREAS, Mr. Rue has stated to the Council that it is his determination not to accept a re-election as President of the Council for the current year,

Now, therefore, be it RESOLVED: that it is with profound regret that the Council sees itself obliged to defer to Mr. Rue's desire, and that in doing so it records its genuine and deep appreciation of the faithful and invaluable services rendered by him, and of the tact and courtesy with which he has performed his duties,

And, furthermore, be it RESOLVED: that while the Council will miss Mr. Rue as a presiding officer, whose fairness, courage and tact have won him the admiration of every member, it rejoices in the thought that his association with the Council will continue, and expresses the hope and wish that, as in the past, so in the future, it may have the benefit of his wise counsel and genial companionship.

The President, Mr. Warburg, took the Chair and called for nominations for Vice President. Mr. Sullivan nominated Mr. A. L. Aiken and on motion, duly seconded, the nominations were closed. The Secretary was instructed to cast one ballot for Mr. Aiken, who was thereupon declared elected Vice President of the Council for the year 1924.

The President, Mr. Warburg, called for nominations for the four appointive members of the Executive Committee and Messrs. L. L. Rue, J. M. Miller, Jr., J. J. Mitchell and E. F. Swinney were nominated. On motion, duly seconded, the Secretary was instructed to cast one ballot for Messrs. Rue, Miller, Mitchell and Swinney, who, together with the President and Vice President, ex officio, were thereupon declared elected members of the Executive Committee for the year 1924.

On motion, duly seconded, the President, Mr. Warburg, was authorized to appoint the Secretary for the Council at a salary of \$1,500. per annum.

On motion, duly seconded, Mr. H. L. Hilyard was requested to act as Secretary pro tem. until the permanent appointment has been made.

On motion, duly seconded, the Council readopted for the year 1924 the existing By-laws, copy of which is attached hereto and made part of these minutes.

On motion, duly seconded, the minutes of the Council meeting of November 19, 1923, copies of which had previously been sent to the members, were approved.

The Secretary presented his financial report for the year 1923, which had been audited by the Auditor of The Philadelphia National Bank, and which report was, on motion, duly seconded, approved. The report is attached hereto and made part of these minutes.

On motion, duly seconded, the following resolution was unanimously adopted:

Resolved, that the President be and he is hereby authorized to ask each Federal Reserve Bank to contribute \$200. toward the secretarial and incidental expenses of the Federal Advisory Council for the year 1924 and to draw on them for that purpose."

The Council discussed informally the provisions of the McFadden Bill, H. R. 6855, amending the National Bank Act and the Federal Reserve Act.

At 11.15 A. M., the Council adjourned to convene in joint session with the Federal Reserve Board.

H. L. HILYARD,

Secretary pro tem.

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

February 18, 1924.

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:

Vice Governor Edmund Platt, Messrs. A. C. Miller, C. S. Hamlin, G. R. James, also Mr. Winston, Undersecretary of the Treasury.

Present: Members of the Federal Advisory Council:

Mr. P. M. Warburg, President, Mr. A. L. Aiken, Vice President, Messrs. L. L. Rue, C. E. Sullivan, C. E. Rieman, O. Wells, E. A. Hamill, G. H. Prince, E. F. Swinney, W. M. McGregor, D. W. Twohy, and H. L. Hilyard, Secretary.

The President of the Council, Mr. Warburg, called the meeting to order and invited Vice Governor Platt to address the conference. Mr. Platt discussed particularly the banking situation in the Northwest, and there followed a general discussion among the members of the Board and of the Council regarding methods of aiding the situation.

The members of the Board and of the Council also discussed informally the topics which had been presented by the Board for Council's consideration. (Topics Nos. 1, 2, 3, attached.)

Mr. Hamlin spoke of the Board's recent resolution to publish in the future, in connection with weekly statements of the Federal Reserve Banks, a separate percentage of gold held against Federal Reserve notes and of gold held against deposits, in addition to a combined reserve ratio, and the Council was invited to give its attention to this topic. (Topic No. 4 attached.)

The members of the Board and of the Council also discussed the provisions of the McFadden Bill, H. R. 6855, in connection with which members of the Board requested Council to make a recommendation concerning branch banking particularly. (Topic No. 6 attached.)

At 12.45 P. M., the joint conference adjourned.

H. L. HILYARD,

Secretary pro tem.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

February 18, 1924.

At 3.15 P. M., the Council reconvened in the Federal Reserve Board room.

Present: Mr. P. M. Warburg, President, Mr. A. L. Aiken, Vice President, Messrs. C. E. Sullivan, C. E. Rieman, O. Wells, E. A. Hamill, G. H. Prince, E. F. Swinney, W. M. McGregor, D. W. Twohy, and H. L. Hilyard, Secretary.

The President, Mr. Warburg, called the meeting to order and invited Hon. H. M. Dawes, Comptroller of the Currency, to discuss with the members of the Council the provisions of the McFadden Bill, H. R. 6855.

Mr. Dawes explained the provisions of the Bill particularly as they relate to the question of branch banking.

At 4.30 P. M., Mr. Dawes retired from the meeting.

The Council thereupon took up consideration of Topics submitted by the Board and those referred to in the morning session. The Executive Committee was requested to draft formal recommendations to be approved by the entire Council on the following day before presentation to the Federal Reserve Board on the following topics:

- Topic No. 1. The banking situation in the Northwest.
- Topic No. 2. Bankers' acceptances *drawn by banks*.
- Topic No. 3. Open market operations.
- Topic No. 4. Subdivision of gold reserves.
- Topic No. 5. Fulmer Bill, H. R. 3206.

A special committee consisting of Mr. Twohy, Chairman, and Messrs. Sullivan, Prince and McGregor, was appointed by the President at the request of Council to draft formal recommendation relative to the McFadden Bill, No. H. R. 6855, to be presented to the Council on the following day for adoption and presentation to the Federal Reserve Board.

The Council considered two topics which had been presented at the November meeting by Mr. Sullivan (see minutes of meeting of Council, November 19, 1923) as follows:

- (a) Elimination of all limits to the use of Federal Reserve exchange.
- (b) Allow country banks (those banks required to maintain only a 7% reserve) to deduct the float as between themselves and the Federal Reserve Bank, and in addition, cash in vault before computing their deposits for reserve purposes.

The Council, however, decided to make no recommendation on these topics at this time, but it was resolved that at the next meeting of the Council, the topic should be discussed of whether or not a change in reserve requirements should be recommended by the Council, particularly whether any changes should be made for the benefit of member banks not located in Federal Reserve bank cities or Federal Reserve branch bank cities.

At 6 P. M., the Council adjourned.

H. L. HILYARD,

Secretary pro tem.

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

February 18, 1924.

A 8 P. M., the Executive Committee of the Federal Advisory Council met in the New Willard Hotel as arranged.

Present: Mr. P. M. Warburg, Chairman, Messrs. Aiken and Swinney, also Messrs. Wells and Hamill, and H. L. Hilyard, Secretary.

The Executive Committee drafted recommendations on the topics submitted to it to be presented to the Council for its approval on the following day. (Topics Nos. 1, 2, 3, 4 and 5.)

At 11 P. M., the Executive Committee adjourned.

H. L. HILYARD,

Secretary pro tem.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

February 19, 1924.

At 9.30 A. M., the Federal Advisory Council met in the Federal Reserve Board room, Treasury Building, Washington, D. C.

Present: Mr. P. M. Warburg, President, Mr. A. L. Aiken, Vice President, Messrs. C. E. Sullivan, C. E. Rieman, O. Wells, E. A. Hamill, G. H. Prince, E. F. Swinney, W. M. McGregor, D. W. Twohy, and H. L. Hilyard, Secretary.

The President, Mr. Warburg, called the meeting to order and as Chairman of the Executive Committee, submitted the Committee's report for the Council's approval. On motion, duly seconded, the report was adopted and the recommendations approved for presentation to the Federal Reserve Board. (Recommendations Nos. 1, 2, 3, 4 and 5.)

Mr. D. W. Twohy, Chairman of the special committee, appointed the previous day, submitted its report on the McFadden Bill, H. R. 6855. On motion, duly seconded, Council approved the report for presentation to the Federal Reserve Board. (Recommendation No. 6.)

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

H. L. HILYARD,

Secretary pro tem.

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

February 19, 1924.

At 12 o'clock noon, the joint conference was held as arranged.

Present: Members of the Federal Reserve Board:

Hon. D. R. Crissinger, Governor, Mr. Edmund Platt, Vice Governor, Hon. H. M. Dawes, Comptroller of the Currency, Messrs. C. S. Hamlin, A. C. Miller, G. R. James, and Mr. Winston, Undersecretary of the Treasury.

Present: Members of the Federal Advisory Council:

Mr. P. M. Warburg, President, Mr. A. L. Aiken, Vice President, Messrs. C. E. Sullivan, C. E. Rieman, O. Wells, E. A. Hamill, G. H. Prince, E. F. Swinney, W. M. McGregor, D. W. Twohy, and H. L. Hilyard, Secretary.

The President of the Council, Mr. Warburg, called the meeting to order and presented to the Board Council's recommendations on the six topics mentioned above. Copy of the recommendations is attached hereto and made part of these minutes.

A general informal discussion took place among the members of the Board and of the Council.

The members of the Board, and particularly Vice Governor Platt, raised the question of whether the approval by the Council in broad terms of Bill H. R. 6855 was to be considered as an endorsement by the Council of all features of that Bill, particularly of Section 7, relating to state-wide branch banking; and also whether the Council was opposed to a grant of power to National Banks to operate branches in counties. Mr. Warburg stated in reply in behalf of the Council that the opinion of the Council was divided on these two questions, and that no vote had been taken on them; that he believed probably a majority of the Council would have voted for them; that the Council was mainly interested in that Section of the Bill which was designed to give equal powers to National Banks with regard to the operation of branches within States, where State Banks were not prohibited from operating such branches; that the Bill had been submitted to the Council only at the morning session and that it had been impossible in this brief time to give all its features an exhaustive study; that after a discussion with Comptroller Dawes, a majority of the members had reached the conclusion that in order to secure the main advantages to be derived from the passage of the Bill, concessions would have to be made with regard to some of its minor features; that the Bill, probably from a political point of view, presented the best that could be attempted at this time, but that the Council in endorsing the Bill would not wish to have it construed that by so doing, it committed itself as opposing branch banking outside of cities as bad banking; that branch banking, if kept within proper limits and if developed gradually and carefully, could not be held in itself as an objectionable method of banking; that with the strong prejudice existing against it, however, in a majority of the sections of the country, the Bill, in the Council's opinion, had to be considered not purely from the point of view of what was good banking, but what in given social and political circumstances was practicable and desirable. Members of the Board suggested that it might be desirable for the Council to add an expression of these thoughts to the Recommendation.

At 1 P. M., the Board withdrew.

The Council remained in session to discuss the question whether or not its Recommendation No. 6 should be amended along the lines suggested by some members of the Board. On motion, duly seconded, it was decided, however, to leave Recommendation No. 6 unamended.

At 1.05 P. M., the meeting adjourned, concluding the session of the Council.

H. L. HILYARD,

Secretary pro tem.

REPORT OF SECRETARY OF THE FEDERAL ADVISORY COUNCIL

For the year ending December 31, 1923.

Balance on hand January 1, 1923\$1,042.04 Annual assessment for 1923 on T w e l v e Federal Reserve Banks 3,000.00 <hr style="width: 20%; margin-left: auto; margin-right: 0;"/> \$4,042.04	Salary\$1,500.00 Printing and Stationery 150.61 Traveling Expenses 359.19 Corporation Trust 25.00 Telegrams 59.68 Postage 30.00 Binders; Economic Review... 14.39 Balance on hand 12/31/23 ... 1,903.17 <hr style="width: 20%; margin-left: auto; margin-right: 0;"/> \$4,042.04
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Philadelphia, January 9, 1924.

To the Federal Advisory Council:

We have audited the books, vouchers and accounts of the Secretary of the Federal Advisory Council for the year ending December 31, 1923, and certify that the above statement agrees therewith.

Respectfully,
 (Signed) J. A. DUFFY, *Assistant Cashier*,
 The Philadelphia National Bank.

RECOMMENDATIONS OF THE FEDERAL ADVISORY COUNCIL TO THE
FEDERAL RESERVE BOARD

February 19, 1924.

TOPIC NO. 1. The banking situation in the northwest and middle west and in New Mexico, with special reference to the large number of small bank failures. The Board would like to have your opinion as to whether the lack of confidence in these small banks is likely to spread far enough to do any serious injury to banks in the larger cities or to any banks outside of the territory principally affected by agricultural depression. The Board would also like to know whether the Council has any suggestions to make with regard to possible amendments to the National Banking Act which would not be merely palliatives but would prevent any future similar epidemic of lack of confidence.

RECOMMENDATION: It is the opinion of the Council that it is unlikely that the lack of confidence referred to by the Board will spread enough to do serious injury to the banks in larger cities or to other territories affected by agricultural depression at the present time. It is also the opinion of the Council that the present unfortunate banking situation arises largely from the fact that the number of banks in the sections involved has been much greater than local needs for banking accommodations required. The organization of many of these banks has been stimulated and encouraged by unsound systems of guarantee of deposits by various states which gave a false sense of security to those organizing the banks and encouraged in the public mind a lack of discrimination between well-managed and badly-managed banks. This, coupled with unsound and inexperienced management, resulted in inevitable disaster. The Council heartily approves of the attempt that is being made to meet the present emergency but is confident that no amendment to the National Bank Act or Federal Reserve Act will safeguard the business community from the consequences of unsound banking methods. It has, therefore, no amendment to recommend. While there are no means that can prevent banks from suffering the consequences of mismanagement or dishonesty in the administration of their affairs, measures may possibly be devised that would serve to alleviate the hardships of the depositors of banks in receivers' hands, particularly of depositors of small means.

It may be opportune for the Board to take up anew its earlier recommendation, made several years ago when combatting former propositions for a guarantee of deposits. The Board's recommendation envisaged the creation of a liquidation fund. Such fund was designed under very careful safeguards and restrictions to pay to depositors of banks in receivers' hands such proportion of their deposits as could be safely advanced against the depositors' claims against the defaulting bank. The Council does not wish to make this suggestion with regard to the present emergency, but solely with a view to stimulating a careful examination of the problem which is bound to recur in the future in some form or other.

TOPIC NO. 2. The general policy involved in bankers' acceptances *drawn by banks* to finance export transactions, assuming that banks may lawfully give such acceptances. The Board has had a number of propositions involving such acceptances submitted to it for rulings as to their compliance with the law, but would like the advice of the Council as to the policy involved.

RECOMMENDATION: This question was fully covered in the Council's conference with the Board in which Mr. Warburg stated that he thought to express the Council's views when holding that the transaction involved was clearly within the legal powers of the accepting member banks. It was, however, a question of good or bad banking practice. In the Council's view acceptances of this character should only be considered as eligible by Federal Reserve banks when drawn by banks directly connected with or located in the foreign country from which, or to which, the goods were moving (so-called foreign or colonial banks or their branches) and furthermore, such bills should be drawn within a time reasonably near to shipment of the goods and in no circumstances after the transportation had been completed. The Council thought that the decision concerning the eligibility of such acceptances might well be left to the discretion of the Federal Reserve banks instead of trying to deal with it by a rigid regulation which could hardly cover so complex and so individual a case.

TOPIC NO. 3. Open market operations and the basis upon which they should be handled during the year 1924.

RECOMMENDATION: The Council is reluctant to give very positive advice concerning the desirability of increasing or decreasing the volume of open market investments of the Federal Reserve banks at this time. Experience has shown that the volume of bills rediscounted and held by the Federal Reserve System and the total invested in open market purchases are closely interrelated. Only by actual tests and careful experiments is it possible to ascertain from time to time whether a substantial increase or decrease in the aggregate of investments may safely be brought about and if so, what effects it will have on the position of the combined member banks and the money market. The Council is very glad to notice the growing attention devoted by the Board to the importance of open market operations; for with gold standards suspended all the world over and gold moving to our country almost automatically, the gold reserve percentages of the Federal Reserve System have become barometers of much smaller significance than the fluctuations in the volume of the Federal Reserve System's total investments. The Council is inclined to believe that in view of present domestic and foreign conditions, it might be opportune for the Federal Reserve Banks to engage in some careful experiments in the direction of increasing open market investments. These might result in a slight easing of money rates and in a more liberal use of our credit facilities at home and abroad.

It is the unanimous opinion of the Council that discount rates should not be changed at this time.

The Council urges the Federal Reserve Banks in their open market operations to show a greater preference for acceptances than for Government issues.

TOPIC NO. 4. Subdivision of gold reserves.

RECOMMENDATION: After considering the form contemplated by the Board for its weekly condensed statement of combined gold reserves, viz. statement of percentage of gold holdings against outstanding Federal Reserve notes, of percentage of gold holdings against member bank deposits, and of percentage of total gold holdings against Federal Reserve notes and deposits combined, the Council is of the opinion that the legal requirement is complied with by publishing the amounts of the several gold reserves without giving the three individual percentages. The Council feels that fluctuations in the gold strength, as indicated in the discussions of the previous question, are of minor significance in present circumstances and that by giving three percentages, too much emphasis would be laid upon fluctuations, which as a consequence of the proposed grouping, are likely to appear more pronounced. Moreover it is to be feared that

during a period of economic strain, always recurring from time to time, the Board may be charged with artificially manipulating the reserve percentages. It is to be expected that the press and the public will continue to watch the combined reserve percentage (against notes and deposits combined), as it is the only percentage which will clearly indicate any increase or decrease in reserve strength from week to week. It would seem to the Council, therefore, that the greater simplicity of the present method of reporting would lead to a better understanding of the problem on the part of the lay community and for the time being, at least, would seem to be the better course. As it is, there is grave danger that critics of the Federal Reserve System will charge the Board as being possessed of larger powers in the determination or stabilization of price levels than it actually has. The proposed scheme would be construed by them as an additional means of control in the hands of the Federal Reserve Board and as such might easily be used as an invitation for further attacks upon the Board.

RECOMMENDATION NO. 5: The Council expressed itself as unanimously opposed to the provisions of the bill pending in Congress, H. R. 3206, requiring the payment by Federal Reserve banks of two per cent. interest on member bank balances.

RECOMMENDATION NO. 6: McFadden Bill.

The Council has read the Bill H. R. 6855, introduced in the House of Representatives by Congressman McFadden, and agrees in principle with the general trend of thought embodied in the said bill. The present uncertainty with reference to branch banking makes it difficult for those engaged in the banking business to determine their course of action, and we consider that the proposed bill, if enacted, would offer very essential and helpful relief in this regard. Without venturing an opinion concerning questions of detail involved in the bill, we endorse its objects and aims and respectfully urge its passage.