

MINUTES OF MEETING
of the
FEDERAL ADVISORY COUNCIL

May 12, 13 1924

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

May 12, 1924.

The regular meeting of the Federal Advisory Council was held in the Federal Reserve Board room, Treasury Building, Washington, D. C., Monday, May 12, 1924.

Present :

Mr. P. M. Warburg, President	District No. 2
Mr. C. A. Morss	District No. 1
Mr. L. L. Rue	District No. 3
Mr. C. E. Sullivan	District No. 4
Mr. J. M. Miller, Jr.	District No. 5
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 pro tem.

Absent :

Mr. O. Wells	District No. 6
Mr. F. J. Wade	District No. 8

The President, Mr. Warburg, called the meeting to order at 9.30 A. M., and stated that this meeting, by direction of the Executive Committee, was being held the second Monday of May instead of on the third Monday as called for in the By-laws.

The President, Mr. Warburg, presented a telegram from Mr. Wade stating that he was prevented from attending the meeting because of illness.

On motion, duly seconded, the minutes of the Council meeting of February 18-19, 1924, copies of which had previously been sent to the members, were approved.

The President, Mr. Warburg, presented resignation of Mr. Aiken as member of the Council from the Boston District, and presented communication from the Federal Reserve Bank of Boston, certifying to the election of Mr. Charles A. Morss as representative of that District for the rest of the year.

The President, Mr. Warburg, reported that in accordance with authority given him at the meeting, February 18, 1924, he had appointed as Secretary of the Council Mr. C. B. Georgen, who would enter upon his duties following this meeting.

The President, Mr. Warburg, called for nominations for Vice President of the Council to take the place of Mr. Aiken, resigned, and Mr. Swinney was nominated. On motion, duly seconded, Mr. Swinney was unanimously elected Vice President of the Council for the current year.

On motion, duly seconded, it was resolved that the President, ex-officio, should act as Chairman of the Executive Committee and that the office of Vice Chairman of the Executive Committee should be created.

The President, Mr. Warburg, called for nominations for the office of Vice Chairman of the Executive Committee and Mr. C. A. Morss was nominated. On motion, duly seconded, Mr. Morss was unanimously elected Vice Chairman of the Executive Committee for the year 1924.

The President, Mr. Warburg, presented communication from Governor Crissinger of the Federal Reserve Board, dated April 24, 1924, submitting four topics for Council's consideration. These topics were informally discussed by the members of the Council.

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

May 12, 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, Hon. H. M. Dawes, Comptroller of the Currency, Messrs. C. S. Hamlin, A. C. Miller, E. H. Cunningham.

Present: Members of the Federal Advisory Council:

Mr. P. M. Warburg President, Mr. E. F. Swinney, Vice President, Messrs. C. A. Morss, L. L. Rue, C. E. Sullivan, J. M. Miller, Jr., O. Wells, J. J. Mitchell, G. H. Prince, W. M. McGregor, D. W. Twohy and H. L. Hilyard, Secretary pro tem.

The President of the Council, Mr. Warburg, called the meeting to order and requested Vice Governor Platt to address the conference. Mr. Platt discussed the subjects contained in Governor Crissinger's letter of April 24, 1924, and also suggested that the Council give informal consideration to question of whether or not it would be advisable to recommend an amendment to the Federal Reserve Act making membership voluntary by permitting National Banks to withdraw from the Federal Reserve System in the same manner as State member banks.

The members of the Council, each in turn, made oral report as to business and credit conditions in their respective Districts with special reference to the desirability of changing rediscount rates. None of the members of the Council recommended changes in rediscount rates in their respective Districts at the present time.

The members of the Council and the Board discussed open market and discount rate policies of the Federal Reserve Banks, and also the question of payment of dividends by the Federal Reserve Banks even though not earned.

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

H. L. HILYARD,

Secretary pro tem.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

May 12, 1924.

At 2.30 P. M., the Federal Advisory Council reconvened in the Federal Reserve Board room, the President, Mr. Warburg, in the chair.

Present: Mr. P. M. Warburg, President, Mr. E. F. Swinney, Vice President, Messrs. C. A. Morss, L. L. Rue, C. E. Sullivan, J. M. Miller, Jr., O. Wells, J. J. Mitchell, W. M. McGregor, D. W. Twohy and H. L. Hilyard, Secretary pro tem.

Absent: Messrs. F. J. Wade and G. H. Prince.

Further consideration was given to the topics presented in Governor Crissinger's letter of April 24, 1924, and the various matters discussed at the joint conference with the Board at the morning session. The Executive Committee was requested to formulate and submit to the Council for its approval recommendations on the various topics.

Relative to the question submitted by Vice Governor Platt at the morning session whether National Banks should be permitted to withdraw from the Federal Reserve System, members of the Council discussed the matter informally, but it was voted that no record should be made at this time of the views individually expressed by the members.

Concerning the question referred to on Page 4 of the Minutes of the Council meeting for February 18, 1924, 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, it was unanimously decided for the time being to drop the question.

Mr. Warburg presented for discussion the question whether or not it would be desirable for the Federal Reserve Act to be amended so as to give greater latitude to accepting banks with regard to domestic and foreign acceptances. The matter was discussed by the members of the Council and Mr. Warburg was requested to prepare recommendation to be presented to the Council for its approval and then for presentation to the Federal Reserve Board.

At 4.30 P. M., the Council adjourned.

H. L. HILYARD,

Secretary pro tem.

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

May 12, 1924.

At 4.30 P. M., the Executive Committee of the Federal Advisory Council met in the Federal Reserve Board room as arranged.

Present: Mr P. M. Warburg, Chairman, Mr. C. A. Morss, Vice Chairman, Messrs. L. L. Rue, J. M. Miller, Jr., J. J. Mitchell, E. F. Swinney and H. L. Hilyard, Secretary pro tem.

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

At 5.30 P. M., the meeting adjourned.

H. L. HILYARD,

Secretary pro tem.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

May 13, 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. E. F. Swinney, Vice President, Messrs. C. A. Morss, L. L. Rue, C. E. Sullivan, J. M. Miller, Jr., O. Wells, J. J. Mitchell, W. M. McGregor, D. W. Twohy and H. L. Hilyard, Secretary pro tem.

Mr. Warburg, as Chairman of the Executive Committee, presented the report containing draft of Recommendations to be presented to the Federal Reserve Board. On motion, duly seconded, the report was unanimously approved for presentation to the Board (Recommendations 1, 2, 3 and 4), and the President was instructed to have reprints of Recommendation No. 3 given to the press for publication.

Mr. Warburg presented Recommendation on topic No. 5 relative to Domestic Acceptances, which Recommendation was unanimously approved for presentation to the Federal Reserve Board.

At 10.30 A. M., the Council adjourned to meet 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

May 13, 1924.

At 10.30 A. M., the joint conference was held as arranged.

Present: Members of the Federal Reserve Board:

Vice Governor Edmund Platt, Hon. H. M. Dawes, Comptroller of the Currency, Mr. Winston, Undersecretary of the Treasury, Messrs. C. S. Hamlin, A. C. Miller, E. H. Cunningham.

Present: Members of the Federal Advisory Council:

Mr. P. M. Warburg, President, Mr. E. F. Swinney, Vice President, Messrs. C. A. Morss, L. L. Rue, C. E. Sullivan, J. M. Miller, Jr., O. Wells, J. J. Mitchell, W. M. McGregor, D. W. Twohy and H. L. Hilyard, Secretary pro tem.

Mr. Warburg, President of the Council, called the meeting to order and presented Council's recommendations on five topics which had been prepared. (Recommendations are attached hereto and made part of these minutes.)

A general discussion was held among the members of the Board and of the Council relative to subject matter of the recommendations.

At 12 o'clock noon, the Conference adjourned, concluding the session of the Council.

H. L. HILYARD,

Secretary pro tem.

RECOMMENDATIONS OF THE FEDERAL ADVISORY COUNCIL TO THE
FEDERAL RESERVE BOARD,

May 13, 1924.

TOPIC NO. 1. The credit and business situation and outlook, with special reference to the open market and discount rate policies to be pursued in the circumstances by the Federal Reserve banks, collectively or separately.

RECOMMENDATION: Inquiry of all members present has elicited an expression of opinion that no changes in rediscount rates at the present time are desirable.

With regard to open market operations Council reiterates the view expressed on previous occasions that the Federal Reserve banks should not make investments for the sole purpose of increasing their earnings and earning dividends. On the other hand, the Council is of the opinion that it is desirable for the Federal Reserve System in normal times to be possessed of a sufficient volume of investments (i. e. total earning assets) so as to be able to steady the market in case that should be necessary. The Council finds it extremely difficult to lay down any definite rule as to what the normal figure of investments should be because naturally it would change from time to time in accordance with the economic and financial conditions which prevail in given circumstances. Under present conditions, it would seem that it would not be out of line for the System to seek to preserve an aggregate investment (i. e. total earning assets) of substantially its present volume with a tendency somewhat to increase these investments if this can be done without unduly affecting the market. The Council makes these suggestions with a great deal of reluctance, as it feels that an authoritative opinion can only be given by those actively in charge of operations.

TOPIC NO. 2. Regulation H—a discussion of the adequacy of its provisions and their application by the Federal Reserve Board.

RECOMMENDATION: The Council has examined Regulation H and has no criticism to offer.

TOPIC NO. 3. The so-called "Dawes-McKenna" Report to the Reparations Commission.—The Board would like to have an expression of the views of the Council upon any matters considered in the report which the Council believes to be pertinent for the consideration of the Federal Reserve Board, or of interest and concern to the American banking and financial public. The Board would also like to have the Council discuss the advisability of the Federal Reserve banks purchasing from American banks, with their endorsement, German trade bills which bear also the endorsement of the new German Gold Rediscount Bank.

RECOMMENDATION: At the request of the Federal Reserve Board, the Advisory Council has given careful consideration to the Report of the First Committee of Experts, the so-called Dawes Report.

The Council wishes to record its admiration for the excellent work done by the Committee, and to express the hope that with the least possible delay the Committee's recommendations will be carried into actual effect. The Council furthermore endorses the wish recently expressed by President Coolidge that American private capital and initiative give this plan its hearty support as a demonstration of the Nation's desire to do its full share in the economic rehabilitation of the Old World.

The Council has given particular thought to the question of how far the Federal Reserve System may aid the country in accomplishing these aims.

It is obvious that the Federal Reserve System, as such, cannot by any action of its own co-operate in the flotation and distribution of the new German loan, the absorption of which on a liberal scale in the United States is one of the pre-requisites of the Dawes Plan. Nor should any such direct aid by the Federal Reserve System be necessary. There should be little difficulty in placing this loan, provided it is properly secured and provided the investing public feels confident that the debtor, having accepted the burden in good faith, will be free to go about his work without hindrance as long as he makes the utmost effort of which he is capable.

While, therefore, the Council has no suggestion to offer to the Federal Reserve Board concerning this phase of the problem, there are important services the Federal Reserve System could render with regard to the operations of the new Note Issuing Bank which Germany is to organize under the provisions of the Dawes Plan.

The Council urges the Federal Reserve Board to examine very closely into the powers vested in this respect in the Federal Reserve Banks and to study the question how far it may be desirable to amend existing rulings and regulations in order to approach the problem of Europe's financial and economic reconstruction in the most helpful spirit in the same manner as is being done by the Bank of England and other central note-issuing banks.

Unless America finds ways and means to permit her excessive banking strength to benefit other countries, particularly those striving to bring their house in order, the dollar cannot maintain its position as a world standard of exchange, and foreign countries—and even American banking and commerce—will, once more, in a larger degree become dependent upon and tributary to the pound sterling, to the greater exclusion of the dollar. It is idle, however, to preach the use of the dollar, unless at the same time we render it possible for other countries to avail themselves of our dollar facilities. It is obvious that our credit power cannot continue to grow indefinitely without the danger of over-saturation. If the stream of gold that floods our shores is not stemmed in time, it is to be feared that, ultimately, we will not be able to ward off its inflationary effects. Credit and currency inflation would only aggravate the economic maladjustment already existing within our own boundaries; a maladjustment which not only disturbs and endangers our trade with other countries, but which makes our agricultural situation particularly difficult and distressing.

But, irrespective of the danger of inflation against which there still are at our disposal powerful cushions that could be applied in order to counteract or soften its effect, the problem ought to be weighed from another and even more important angle.

It is the question of whether the world is more likely to regain the blessings of economic stability under the sway of several fluctuating standards of exchange or by a general return, as speedy as circumstances may permit, to definite relations of exchanges to gold as the ultimate measure and regulator.

The Dawes Report leads the world to the cross-roads in this regard. It provides for a German note-issuing bank on a gold basis, but leaves the door open to place it on a sterling basis, and it cannot be denied that there is no small probability of the latter basis being chosen. In the opinion of the Council the sooner Germany can be placed on a gold or gold exchange basis, the sooner can England, and other countries, also, return to an unrestricted gold standard, while, if Germany were placed on a sterling basis, England—in returning to an unrestricted gold basis—would have to pull not only her own weight, but that of Germany also. It is obvious, therefore, that, if the new German bank is placed on the sterling exchange basis, the world must prepare itself to remain on a basis of exchange instability for a prolonged period, the end of which cannot be foreseen, while the adoption of the gold (that is, the dollar) basis would accelerate the return to world-wide stability.

It is this momentous alternative that is involved in the organization of the new German Note-Issuing Bank, and the Council deems it its duty to point to its importance with all the emphasis of which it is capable. It is not as an American problem that we are discussing this phase, but as one that touches the future of all the world.

The Council has been pleased to learn that it has been ruled that Federal Reserve Banks may consider as eligible for their open market purchases certain German dollar trade bills, payable in the United States, if endorsed by the recently established German Gold Rediscount Bank, the so-called Schacht Bank, and by approved American endorsers.

The Council sees in this decision a move in the right direction, helpful to all parties concerned, inasmuch as it transfers credit power from where it is idle and redundant to where an acute shortage of credit cripples the purchasing ability of a country, which normally ranks second in line as a buyer of our goods.

The Council recommends that, when the new German Note-Issuing Bank, provided in the Dawes Plan, is organized, the Federal Reserve Banks take the steps necessary in order to facilitate the re-discounting in this country of properly protected German gold bills, be it through the intermediary of American banking institutions, or through so-called agency agreements, or such other arrangements as have been concluded by Federal Reserve Banks with Central Banks of other countries.

Measures of this character do not only tend to bring our gold hoard into active and healthy use, but by enabling and encouraging other countries to trade in terms of dollars, we stimulate our own foreign commerce. We facilitate, furthermore, the direct sale in dollars of our own products, instead of making foreign countries and ourselves dependent in this respect upon Great Britain's acting as broker and banker, as naturally she would, where the Pound Sterling would govern as an exclusive basis of commerce and trade.

If there is any reason to assume that success of the Dawes Plan may prove the turning point in Europe's long road of suffering and decline, it is a unique opportunity and duty for the United States to lend a helpful hand to the utmost of its ability.

In the opinion of the Council, there does not seem to be any room for doubt with regard to the policy which in these circumstances the Federal Reserve System should pursue.

TOPIC NO. 4. Should the Federal Reserve Banks continue to pay dividends even though not earned.

RECOMMENDATION: The Council was unanimously of the opinion that dividends should be continued as long as the amount of surplus justifies this action, even though such dividends may not have been earned during the current year.

TOPIC NO. 5. Domestic Acceptances.

RECOMMENDATION: The Council was asked to discuss the topic whether or not Congress should be asked to amend the Federal Reserve Act so as to give greater latitude to accepting banks with regard to both domestic and foreign acceptances. The Council is of the opinion that it is not advisable or necessary to ask for such an amendment. On the other hand, the Council recommends that the most liberal interpretations and rulings that consistently can be made should be given by the Federal Reserve Board, particularly with regard to such expressions occurring in the Act as "involving" and growing out of "domestic," and then to leave it to the Federal Reserve Banks to exercise the restraining influence within such liberal interpretations and rulings. If this were done, the Council is confident that American accepting Banks can be placed in a position effectively to meet British competition which now is threatening to monopolize the field where American banks are not now in a position effectively to compete.