

MINUTES OF MEETING
of the
FEDERAL ADVISORY COUNCIL

November 24, 1924

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A regular statutory meeting of the Federal Advisory Council was held in the Federal Reserve Board Room, Treasury Building, Washington, D. C., Monday, November 24, 1924, having been postponed by unanimous consent of the members from the third Monday, the date prescribed in the By-Laws.

The President, Mr. Warburg, called the meeting to order at 10:00 A. M.

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. O. Wells	District No. 6
Mr. J. J. Mitchell	District No. 7
Mr. G. H. Prince	District No. 9
Mr. H. M. Johnson	District No. 10
(Alternate for Mr. E. F. Swinney)	
Mr. W. M. McGregor	District No. 11
Mr. D. W. Twohy	District No. 12
Mr. C. B. Georgen	Secretary.

Absent:

Mr. F. J. Wade	District No. 8
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The President reported that he had received a letter from the Federal Reserve Bank of Kansas City to the effect that, as Mr. Swinney had notified them that he would be unable to attend the present meeting, their Board of Directors had appointed Mr. H. M. Johnson, President of the First National Bank of Oklahoma City, as alternate.

A communication was presented from Mr. F. J. Wade stating that it would be impossible for him to be present.

The President stated that since the last meeting Mr. James B. Forgan's death had occurred and that Mr. Rue and the President had assisted at his funeral, on October 28, representing the Council, whose first President Mr. Forgan had been. He stated also that a memorial wreath had been sent on behalf of the Council. On motion, duly seconded, the following resolution was unanimously adopted:

FEDERAL ADVISORY COUNCIL

Resolution unanimously adopted by the Federal Advisory Council in session at Washington D. C. November 24, 1924.

WHEREAS, JAMES B. FORGAN OF CHICAGO, WHOSE DEATH OCCURRED ON OCTOBER 28, 1924, WAS THE FIRST PRESIDENT OF THE FEDERAL ADVISORY COUNCIL; AND

WHEREAS FOR SIX YEARS HE PERFORMED THE DUTIES OF THAT OFFICE WITH THE FAITHFULNESS, THOROUGHNESS, FAIRNESS AND INTELLIGENCE THAT WERE SO HIGHLY CHARACTERISTIC OF HIM, AND THAT GENIALITY THAT ENDEARED HIM SO MUCH TO HIS COLLEAGUES

NOW BE IT RESOLVED THAT THE COUNCIL RECORD ITS PROFOUND SORROW AT MR. FORGAN'S ALL TOO EARLY DEMISE. IN HIM THE COUNTRY HAS LOST ONE OF ITS BEST SONS; IN HIM THE BANKING COMMUNITY MOURNS THE LOSS OF ONE OF ITS FOREMOST LEADERS, WHOSE LOFTY CONCEPTION OF BANKING ETHICS AND OF HIGHEST BUSINESS INTEGRITY WAS AN INSPIRATION TO HIS FELLOW BANKERS AND ENGRAVED A LASTING MEMORY UPON THEIR MINDS.

BE IT FURTHERMORE RESOLVED THAT THIS RESOLUTION BE SPREAD UPON THE MINUTES OF THE COUNCIL AND THAT COPIES THEREOF BE SENT TO MR. FORGAN'S FAMILY AND TO THE BOARD OF DIRECTORS OF THE FIRST NATIONAL BANK OF CHICAGO.

On motion, duly seconded, the minutes of the Council meeting of September 25, 1924, copies of which had previously been sent to the members, were approved.

The Council thereupon discussed the four topics submitted by the Federal Reserve Board (Topics Nos. 1, 2, 3 and 4 attached and made a part of these minutes), as well as the following recommendation of the Joint Conference of Chairmen and Governors of the Federal Reserve Banks during the week of November 10, as contained in Vice Governor Platt's letter of November 17:

"That action on the recommendation of the Advisory Council (Resolution No. 1, September 25, 1924) relative to the purchase of foreign bills be deferred until such time as we may be in a position to know more about the development of conditions relating to foreign exchanges; and that the System make no purchases of such bills until that time."

While not concurring with this view, the Council decided to submit no further opinion at the present time.

Recommendations on Topics Nos. 2, 3 and 4, were unanimously agreed upon for verbal presentation by the President to the Board and subsequent formulation.

The negative report dated March 24, 1924, of the Committee of Governors regarding the discontinuance of free services in connection with the collection of non-cash items, copies of which had been sent to the members, (See minutes of Council meeting September 25, 1924, pages 17 and 20) was discussed. In view of the fact that the matter had meanwhile been referred to a subcommittee by the last Governors' Conference for the purpose of studying what charge, if any, should be made by Federal Reserve Banks on the collection of non-cash items, the Council, on motion, duly seconded, decided to postpone the matter until the next meeting.

At 11:30 A. M. the Council adjourned to convene in joint session with the Federal Reserve Board.

C. B. GEORGEN,

Secretary.

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

November 24, 1924.

At 11:30 A. M. a joint conference of the Federal Advisory Council and the Federal Reserve Board was held in the Federal Reserve Board room.

Present: Members of the Federal Reserve Board:

Vice Governor Edmund Platt, Messrs. C. S. Hamlin, A. C. Miller, G. R. James, E. H. Cunningham; also Mr. G. B. Winston, Undersecretary of the Treasury; also Mr. W. W. Stewart, Director, Division of Research and Statistics.

Present: Members of the Federal Advisory Council:

Mr. P. M. Warburg, President; Messrs. C. A. Morss, L. L. Rue, C. E. Sullivan, J. M. Miller, Jr., O. Wells, J. J. Mitchell, G. H. Prince, H. M. Johnson, W. M. McGregor, D. W. Twohy and C. B. Georgen, Secretary.

The President of the Council called the meeting to order and in accordance with a suggestion of Vice Governor Platt to address the conference, presented the unanimous views at which the Council had arrived regarding the last three topics submitted by the Board, and which were formulated as Recommendations at a general meeting of the Federal Advisory Council at the close of the session (Recommendations Nos. 2, 3 and 4 attached and made part of these minutes).

During the discussion of these recommendations, Secretary Mellon joined the conference.

Mr. Stewart, upon the invitation of Mr. Warburg, presented a comparative report upon business and credit conditions in the United States for the past three or four years, illustrated by graphic charts.

Dr. Miller referred to the subject matters of Topic No. 1, and submitted for consideration by the conference, the question of whether or not the time had arrived for increasing discount rates, or whether Federal Reserve Banks should reduce, and to what extent, the volume of their open market investments, as a means of bringing the money market under firmer control so as to enable the Federal Reserve Banks to check inflationary tendencies if they should develop.

A general discussion of these matters between the members of the Council and the Board followed until 12:45 P. M., whereupon, the joint conference adjourned to reconvene at 2:30 P. M.

C. B. GEORGEN,

Secretary.

MINUTES OF JOINT CONFERENCE OF THE FEDERAL ADVISORY
COUNCIL AND THE FEDERAL RESERVE BOARD (Continued)

November 24, 1924.

At 2:30 P. M., the joint conference of the Federal Reserve Board and the Federal Advisory Council reconvened.

Present: Members of the Federal Reserve Board:

Vice Governor Edmund Platt, Messrs. C. S. Hamlin, A. C. Miller, G. R. James, E. H. Cunningham; also Mr. G. B. Winston, Undersecretary of the Treasury; also Mr. W. W. Stewart, Director, Division of Research and Statistics.

Present: Members of the Federal Advisory Council:

Mr. P. M. Warburg, President, Messrs. C. A. Morss, L. L. Rue, C. E. Sullivan, J. M. Miller, Jr., O. Wells, J. J. Mitchell, G. H. Prince, H. M. Johnson, W. M. McGregor, D. W. Twohy and C. B. Georgen, Secretary.

The President of the Council called the meeting to order and upon request, the members in turn reported upon general business and credit conditions in their respective reserve districts and expressed views regarding discount rates and open market operations, as embodied in Topic No. 1 and as discussed at the morning joint conference.

The consensus of opinion as summarized and presented verbally by the President of the Council to the Board, was in accordance with Recommendation No. 1, attached, which was formulated at the general meeting of the Federal Advisory Council at the close of the joint session, and made a part of these minutes.

The members of the Board and of the Council thereupon conferred informally and the attitude of the Governors of the Federal Reserve Banks upon the subject of free collection of non-cash items was discussed. Mr. Warburg stated that he had been requested to suggest to the Board that at times, particularly where the Council did not agree with the Governors' Conference on topics under discussion, it might be advantageous for the Governors' Conferences to be held so as to adjourn on the day the Advisory Council would convene, so that if desirable, a direct interchange of views could be had between the two bodies.

At 4:15 P. M. the joint conference adjourned, whereupon the members of the Council present at the joint conference, (with the exception of Mr. Rue who was obliged to leave at 3:20 P. M.), formulated the attached Recommendations Nos. 1, 2, 3 and 4, made a part of these minutes, as already verbally presented to the Board by the President.

At 5:30 P. M. the meeting adjourned, concluding the session of the Council.

C. B. GEORGEN,

Secretary.

RECOMMENDATIONS OF THE FEDERAL ADVISORY COUNCIL TO THE
FEDERAL RESERVE BOARD

November 24, 1924.

TOPIC NO. 1. A carefully considered survey of the present and prospective business situation with reference to its bearing on the credit, discount and open market policy of the Federal Reserve System in the coming months.

RECOMMENDATION: From the reports made at the meeting of the Advisory Council by the different members representing their respective reserve districts, it seems to the Council that there is at this time no evidence of unusual speculation in goods and commodities and no evidence of inflation of their price levels. There would appear, therefore, to be no cause on this account to consider immediate increases in discount rates in the several Federal reserve districts.

The general view seems, however, to be that the near future will bring to the United States a substantial increase in business activity which with the comparatively small stocks available might easily lead to a marked advance in prices. It is the opinion of the Council that this movement of prices might very easily get out of hand and degenerate into conditions of inflation of a more or less acute degree, with its subsequent disastrous results.

It seems to the Council, therefore, that extreme care would be indicated at this time in watching further developments and that at this moment it might be desirable, particularly in New York, where the discount rate at three per cent. is the lowest, and where the activity in the security market has already taken substantial proportions, to bring the financial situation in that district under firmer control of the Federal Reserve Bank. This should be accomplished at the time being by open market operations. The Federal Reserve System's large holdings in Government securities were acquired at the time with a view to arming the Federal Reserve System with a means of combating inflationary movements should they occur. It would seem as if the time had now come for the Federal Reserve System to adopt a policy of reducing, as far as may be expedient, their aggregate open market holdings of acceptances and Government securities and of transferring some of these investments to the financial community. By doing so conditions would likely be gradually brought about in which the banks once more would have recourse to the facilities of the Federal Reserve System by rediscount operations, so that the rediscount rate of the New York Federal Reserve Bank would become more effective. If then it should appear that still firmer interest rates are required by the general situation, an increase in the discount rate of the New York Federal Reserve Bank could then be taken into consideration.

TOPIC NO. 2. What amendments to the National Banking Act in the direction of modernization consistent with sound banking would the Council advise the Federal Reserve Board recommend to Congress?

RECOMMENDATION: While the subject of amending the National Banking Act is important and of current interest because of the consideration which Congress is likely to give it in the near future, the time of a single meeting is inadequate for a discussion of it by this body. The Council suggests that it be made a matter of study by its members for the purpose of forming some conclusions at the next Council meeting.

TOPIC NO. 3. A consideration of the effect of foreign capital flotation in the American market.

RECOMMENDATION: In the opinion of the Council there exists no doubt but that the absorption, by our country, of foreign securities adequately protected, would afford not only a profitable outlet for our surplus funds, but at the same time would redound to the benefit of the borrowing countries, which thus are enabled to buy our commodities, while they are strengthened in their struggle to stabilize their exchanges. It is obvious that it is of as much importance to us to be in a position of selling these goods as it is for the foreign countries to buy them.

TOPIC NO. 4. Should Liberty bonds, or any issue of them, be refunded into bonds available for National bank circulation?

RECOMMENDATION: Liberty bonds should not be refunded into bonds available for circulation, as the gradual elimination of a rigid bond secured circulation was one of the outstanding reasons for the enactment of the Federal Reserve Act, with its provisions for an elastic note issue ample for the needs of the country.