

MINUTES OF MEETING

of the

EXECUTIVE COMMITTEE OF THE FEDERAL ADVISORY COUNCIL

January 21, 1925

and

MINUTES OF MEETING

of the

FEDERAL ADVISORY COUNCIL

February 16, 1925

OFFICERS AND MEMBERS OF THE FEDERAL ADVISORY COUNCIL

For the Year 1925

OFFICERS:

President, P. M. Warburg
Vice President, E. F. Swinney
Secretary, C. B. Georgen

EXECUTIVE COMMITTEE:

P. M. Warburg, Chairman
C. A. Morss, Vice Chairman
J. M. Miller, Jr.
L. L. Rue
E. F. Swinney
F. O. Wetmore

MEMBERS:

C. A. Morss	Federal Reserve District No. 1
P. M. Warburg	Federal Reserve District No. 2
L. L. Rue	Federal Reserve District No. 3
G. A. Coulton	Federal Reserve District No. 4
J. M. Miller, Jr.	Federal Reserve District No. 5
Oscar Wells	Federal Reserve District No. 6
F. O. Wetmore	Federal Reserve District No. 7
Breckinridge Jones	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
H. S. McKee	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 16, 1925

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

January 21, 1925.

A special meeting of the acting Executive Committee of the Federal Advisory Council was held at New York, N. Y., in the office of the Federal Reserve Bank, on Wednesday, January 21, 1925.

The acting Chairman, Mr. Warburg, called the meeting to order at 11:30 A. M.

Present:

Mr. P. M. Warburg	District No. 2
Mr. C. A. Morss	District No. 1
Mr. J. M. Miller, Jr.	District No. 5
Mr. F. O. Wetmore	District No. 7
Mr. C. B. Georgen	Secretary

There were excuses from:

Mr. L. L. Rue	District No. 3
Mr. E. F. Swinney	District No. 10

In opening the meeting, Mr. Warburg stated that he had received a letter from Vice Governor Platt, dated December 22nd, in which he urged the calling together of the Executive Committee in order to discuss a report on the pending legislation, the so-called McFadden-Pepper Bills (H. R. 8887-S. 3316); and that copies of the letter with accompanying papers had been sent to the members of the Executive Committee as constituted for the year 1924. In view of the fact, however, that the term of all Council members was about to expire by the end of the month, the Chairman had advised Governor Platt that it would not be practicable to call a meeting before the beginning of the next year, and that it was preferable to postpone action until after the new Council's first meeting on February 16th, at which time the Council would organize for the year 1925.

Mr. Warburg pointed out that since then the McFadden Bill had passed the House, and having been informed that action by the Senate was impending, he had communicated with the Federal Reserve Board upon the subject. Governor Crissinger had expressed to him the view that it would be most desirable that an Executive Committee of the Federal Advisory Council be held, and that it express its views with regard to the pending legislation, particularly concerning the so-called Hull amendments.

Under these circumstances, the Chairman stated he had deemed it his duty to

advise the Council members of the situation, and he sent them a telegram as follows:

"January 16, 1925.

McFadden Bill passed the House Wednesday. It is understood that the Senate will take it up quite promptly. The Board has requested the Executive Committee of the Advisory Council to make a report about the pending bill but due to the fact that the Council and Executive Committee does not organize before February sixteenth it has not been possible so far to comply with the request of the Board. Governor Crissinger with whom I communicated this morning is anxious to have the Executive Committee report immediately particularly with regard to Hull amendment. In these circumstances it is thought that the members of the districts which last year constituted the Executive Committee should be called together and act as Executive Committee until proper action can be taken by the Council on February sixteenth. Unless I hear from you to the contrary I shall assume that you do not object to the adoption of this course."

No objection having been raised by any member of the Advisory Council, he then had called an Executive Committee meeting at which the members of those districts had been invited to be present which had in the year 1924 been represented on the Executive Committee. The members present, while not formally constituting the Executive Committee, were therefore meeting at the behest, and with the full consent of the Advisory Council as constituted for 1925.

Revised copies of the McFadden Bill, in the form in which it had passed the House of Representatives on January 14th (embodying the so-called Hull amendments), had been received from the Federal Reserve Board since the calling of the meeting, and these were presented to the members.

The Chairman submitted a draft of a report, which with the co-operation of Mr. George L. Harrison, Deputy Governor of the Federal Reserve Bank of New York, he had prepared. Mr. Harrison was invited by the members to assist at the meeting.

A general discussion followed, and the report was discussed until 1:00 P. M., at which time the meeting adjourned to reconvene at 2:30 P. M., the attendance being the same as previously.

After further extensive consideration a report was unanimously agreed upon, which is attached hereto, and is made part of these minutes. The Chairman was instructed to forward copies thereof to Governor Crissinger with authority to transmit a copy of the report to the Chairman of Senate Committee on Banking and Currency, Senator McLean, either through the intermediary of the Federal Reserve Board, or if the Board would prefer or so desire, to send it direct to Senator McLean.

At 4:30 P. M. the meeting adjourned.

C. B. GEORGEN,

Secretary.

RECOMMENDATION OF THE EXECUTIVE COMMITTEE OF THE
FEDERAL ADVISORY COUNCIL TO THE FEDERAL RESERVE BOARD

(Subsequently approved by the Council)

January 21, 1925.

At the request of the Federal Reserve Board the Executive Committee of the Federal Advisory Council has reviewed the terms of the McFadden Bill, H. R. 8887. While it is not practicable for the Committee to review the more technical aspects of the Bill or to give its opinion upon the more detailed amendments of the various sections of the National Bank Act or other Federal statutes, nevertheless, as previously reported to the Federal Reserve Board, it is in favor of its main purpose.

For some time it has been apparent that more liberal provision must be made by Congress for National banking associations, because of the fact that in certain sections of the country national banks are considerably handicapped in competing with State institutions. This is more particularly true now that Section 9 of the Federal Reserve Act provides that a State institution may become a member bank and "retain its full charter and statutory rights as a State bank and trust company and may continue to exercise all corporate powers granted it by the State in which it was created, and shall be entitled to all privileges of member banks."

The Executive Committee of the Federal Advisory Council, therefore, believes that so far as the McFadden Bill is designed to protect the National banking system and to safeguard Federal Reserve membership, it is desirable legislation and should be enacted into law.

There is one feature of the Bill, however, which the Executive Committee of the Federal Advisory Council does not believe it should let pass without explicit comment and which in its opinion may ultimately work a gross hardship on some National banks and perhaps seriously affect both State and National membership in the Federal Reserve System. It is the so-called Hull amendment. Without discussing the details of those sections of the Bill designed to authorize the establishment of branch banks, the Hull amendment makes it impossible in the future for any National bank located in a State which does not now authorize branch banking to open branch banks even if at a later date the State Legislature should decide to permit State institutions to do a branch bank business. Furthermore, that amendment also provides that any State bank or trust company in such a State which is now a member of the Federal Reserve System must withdraw from the System if it should decide to do a branch banking business under the terms of a subsequent State law permitting branch banking after the enactment of the McFadden Bill. In the opinion of the Council, there is no reason in fairness or in logic for the Federal Congress to authorize National banks to open branches in those States which now authorize State institutions to do a branch banking business and to deny that same right in the future to National banks which may happen to be located in a State which now prohibits branch banking but which may subsequently authorize it.

The Committee notes that Section 17 (g) of the Pepper Senate Bill has been eliminated from the McFadden Bill as that Bill passed the House and it desires to state that it believes that it should also be eliminated from the Senate Bill.

P. M. WARBURG, *Chairman*,
C. A. MORSS, *Vice Chairman*,
J. M. MILLER, JR.,
F. O. WETMORE.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

February 16, 1925.

The organization meeting of the Federal Advisory Council for the year 1925 was held in the Federal Reserve Board room, Treasury Building, Washington, D. C., at 10:00 A. M., Monday, February 16, 1925.

Present:

Mr. C. A. Morss	District No. 1
Mr. P. M. Warburg	District No. 2
Mr. L. L. Rue	District No. 3
Mr. J. M. Miller, Jr.	District No. 5
Mr. Oscar Wells	District No. 6
Mr. Breckinridge Jones	District No. 8
Mr. G. H. Prince	District No. 9
Mr. E. F. Swinney	District No. 10
Mr. W. M. McGregor	District No. 11
Mr. H. S. McKee	District No. 12
Mr. C. B. Georgen	Secretary

Absent:

Mr. G. A. Coulton	District No. 4
Mr. F. O. Wetmore	District No. 7

Mr. Rue, acting as temporary Chairman, called the meeting to order and requested the Secretary to report the accredited members of the Council for the year 1925.

The Secretary stated that communications had been received from all of the Federal Reserve Banks, certifying to the election of their representatives as listed above.

Mr. Rue called for nominations for the office of President of the Council and Mr. Paul M. Warburg was nominated. 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 1925.

The President, Mr. Warburg, took the Chair and called for nominations for Vice-President. Mr. E. F. Swinney was nominated and on motion, duly seconded, the nominations were closed. The Secretary was instructed to cast one ballot for Mr. Swinney, who was thereupon declared elected Vice-President of the Council for the year 1925.

The President called for nominations for the four appointive members of the Executive Committee, suggesting that provision be made for the possibility that a special meeting of the Executive Committee might be desired, as occurred this year, after the expiration of the term of the present Council members, and before the new Executive Committee had been appointed at the organization meeting of the succeeding Council.

REPORT OF SECRETARY OF THE FEDERAL ADVISORY COUNCIL

For the Year Ending December 31, 1924

Balance on hand January 1, 1924	\$1,903.17	Miscellaneous Items	\$ 205.73
Assessment—Twelve Federal Reserve Banks	2,400.00	Salary	1,500.00
Interest on Balance at N. Y. Trust Co.	28.61	Conference Expenses	332.99
		Printing & Stationery	329.40
		Corporation Trust Service	25.00
		Telegrams	58.79
		Postage	34.21
		Balance on hand December 31, 1924	1,845.66
	<hr/>		<hr/>
	\$4,331.78		\$4,331.78

New York, January 19, 1925

To the Federal Advisory Council:

I have audited the books, vouchers and accounts of the Secretary of the Federal Advisory Council for the year ending December 31, 1924, and certify that the above statement agrees therewith.

Respectfully,

(Signed) EDWARD L. DODGE.

After discussion Mr. Wells introduced the following resolution, which upon motion, duly seconded, was unanimously adopted:

RESOLVED, that the representatives on the Federal Advisory Council from the Boston, New York, Philadelphia, Richmond and Chicago Districts, the President and Vice-President, being members ex-officio, constitute the Executive Committee of the Council for the year 1925 and that the representatives from the above Districts as appointed for 1926 shall constitute the Executive Committee until the succeeding Council is organized and a new Executive Committee is appointed by it.

The President 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.

Upon motion, duly seconded, Mr. C. B. Georgen was nominated and unanimously elected Secretary of the Council for the current year, or until his successor has been appointed. The salary of the Secretary's office was fixed at \$1,500 per annum under the direction of the President.

Announcement was made of communications previously received from Messrs. G. A. Coulton and F. O. Wetmore, regretting their inability to be present at the meeting on account of illness.

On motion, duly seconded, the Council re-adopted for the year 1925 the existing By-laws, copy of which is attached hereto and made part of these minutes.

The President called for the financial report of the Secretary for the year 1924, which had been audited by Edward L. Dodge, the General Auditor of the Federal Reserve Bank of New York, and which on motion, duly seconded, was approved. The report is attached hereto and made a 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 Reserve Advisory Council for the year 1925 and to draw on them for that purpose.

On motion, duly seconded, the minutes of the Council meeting of November 24, 1924, and the minutes of the special meeting of the Executive Committee on January 21, 1925, together with the Recommendation made at that time, copies of which had previously been sent to the members, were approved.

The Secretary read to the Council a letter dated December 13, 1924, from Mrs. James B. Forgan, and the First National Bank of Chicago, expressing appreciation for the Resolution upon Mr. Forgan's decease, adopted at the November meeting of the Council. A copy of Mrs. Forgan's letter follows and is made a part of these minutes:

"1415 Dearborn Avenue

Paul M. Warburg, President,

Members and Officers of the Federal Advisory Council,

Dear Sirs:

I have received your beautiful tribute to my dear husband and I wish you to know how deeply I appreciate it. The expression of esteem for his life and character, which you have so kindly placed in your records, have touched and comforted me, and I wish to thank you all for the copy of the Resolution which will ever be treasured by myself and my family.

Very sincerely yours,

December 13th, 1924.

(Signed) MARY E. FORGAN."

The Council thereupon informally considered the topics which had been submitted by the Federal Reserve Board (Topics Nos. 1 to 5, inclusive, attached), as well as the following two topics carried over from the November meeting:

(a) 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?

(b) Future policy of Federal Reserve Banks toward the collection of non-cash items (referred to a sub-committee by the last Governors' Conference for the purpose of studying what charge, if any, should be made. See Recommendation No. 1, May 21, 1923, Recommendation No. 2, November 19, 1923, and Minutes of meetings September 25, 1924, Pages 17 and 20, and November 24, 1924, Page 23).

Regarding the latter topic, on motion, duly seconded, the Council deferred action pending receipt of the report to be made by the Committee of Governors of Federal Reserve Banks.

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

February 16, 1925.

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:

Governor D. R. Crissinger, Vice-Governor Edmund Platt, Messrs. C. S. Hamlin, A. C. Miller, G. R. James, E. H. Cunningham, Hon. J. W. McIntosh, Comptroller of the Currency; also Mr. C. S. Dewey, Assistant Secretary of the Treasury.

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, J. M. Miller, Jr., Oscar Wells, Breckinridge Jones, G. H. Prince, W. M. McGregor, H. S. McKee, and C. B. Georgen, Secretary.

The President of the Council, Mr. Warburg, called the meeting to order and invited the Board to address the conference. Vice-Governor Platt took up the topics which had been previously transmitted. Special reference was made to the problem of open market operations of the Federal Reserve System. A general and thorough discussion followed in which members of the Board and the Council took part.

At 1:00 P. M. the joint conference adjourned.

C. B. GEORGEN,
Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

February 16, 1925.

At 2:15 P. M. the Federal Advisory Council reconvened in the Federal Reserve Board room, the President in the Chair.

Present: Mr. P. M. Warburg, President, Mr. E. F. Swinney, Vice-President, Messrs. C. A. Morss, L. L. Rue, J. M. Miller, Jr., Oscar Wells, Breckinridge Jones, G. H. Prince, W. M. McGregor, H. S. McKee and C. B. Georgen, Secretary.

The President called the meeting to order and upon invitation, the members of the Council made reports upon business and credit conditions in their respective Districts, with special reference to the desirability of changing prevailing discount rates. None of the members recommended changes in discount rates at the present time, with the exception that in the New York District, where the official discount rate for 90-day commercial paper was below the prevailing open market rate for bankers acceptances, it was recommended that such discount rate be increased from 3% to 3½% in the near future (Recommendation No. 3).

Recommendations on the topics submitted were drafted and on motion, duly seconded, unanimously approved for presentation to the Federal Reserve Board (Topics Nos. 1, 2, 3, 4 and 5).

Topic No. 2 of the November Council meeting, which was carried over, was considered as answered by the Recommendation of the Executive Committee on the McFadden Bill, H. R. 8887, on January 21, 1925, which was unanimously approved by the Council at the morning session. Accordingly this report of the Executive Committee was drafted in the form of an Additional Recommendation and on motion, duly seconded, unanimously approved for presentation to the Board (Additional Recommendation No. 6).

At 4:15 P. 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

February 16, 1925.

At 4:15 P. M. a joint conference of the Federal Advisory Council and the Federal Reserve Board was held.

Present: Members of the Federal Reserve Board:

Governor D. R. Crissinger, Vice Governor Edmund Platt, Messrs. A. C. Miller, G. R. James, E. H. Cunningham, Hon. J. W. McIntosh, Comptroller of the Currency; also Mr. C. S. Dewey, Asst. Secretary of the Treasury.

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, J. M. Miller, Jr., Oscar Wells, Breckinridge Jones, G. H. Prince, W. M. McGregor, H. S. McKee and C. B. Georgen, Secretary.

The President of the Council, called the meeting to order and presented to the Board the recommendations of the Council which had been prepared (Recommendations 1, 2, 3, 4, 5 and 6, 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 the subject matter of the Recommendations.

At 5:00 P. M. the conference adjourned, concluding the session of the Council.

C. B. GEORGEN,

Secretary.

RECOMMENDATIONS OF THE FEDERAL ADVISORY COUNCIL TO THE
FEDERAL RESERVE BOARD

February 16, 1925.

TOPIC No. 1. Review of the open market operations of the Federal Reserve Banks since December 1st. What effect has the sale of Government securities had on the central money markets?

RECOMMENDATION: In its recommendation to the Federal Reserve Board on November 24, 1924 (No. 1), on the topic of open market operations, the Council expressed its views as follows:

"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."

A review of the actual operations of the Federal Reserve Banks since that date warrants the statement that the policy then recommended by the Council has been carried into effect with great skill and that it has accomplished the aims then formulated as desirable to be obtained.

As a net result of the operations of the Federal Reserve System's Open Market Investment Committee, the special investment account, which on December 1st, held

about \$490,000,000 in United States securities, was reduced in December by about \$40,000,000 and in January by about \$150,000,000, reducing the account to \$300,000,000, at which it now stands,—a reduction of \$190,000,000 since December 1st.

A study of the graphs of the call money rate in New York shows that the liquidation of the holdings in Government securities was carried out in periods when there were temporary slumps in the rates for money and that through the adoption of this policy the Federal Reserve System succeeded in reducing its holdings of Government securities without unduly disturbing the money market. The graph shows moreover that as the amount of the Federal Reserve System's holdings in Government securities decreased, there was an increase in rediscounts by member banks in the second district, where the bulk of these operations was carried on.

The aggregate holdings of the Federal Reserve System of acceptances bought in the open market on December 3rd, the nearest statement day to December 1st, were \$354,000,000 and reached their peak at \$389,000,000 on December 24th, showing the usual seasonal increase. From that date there was a gradual and almost constant decrease throughout the month of January to \$307,000,000, on January 28th, a reduction of \$47,000,000 from December 3rd and of \$82,000,000 from the peak of December 24th, notwithstanding the decrease during the same period of \$190,000,000 in the Special Account of Government securities, giving a total decrease in items purchased in the open market of \$237,000,000 for the two months of December and January, and \$229,000,000 in the month of January alone, which coincided with the usual seasonal return of currency in the post-holiday period.

The bills discounted account for the System, which was \$248,000,000 on December 3rd, advanced to \$396,000,000 on December 24th, from which point it receded to \$202,000,000 on January 21st, since which date it has increased to \$331,000,000 on February 11th, a point \$83,000,000 above December 3rd, \$65,000,000 below the peak of December 24th and \$129,000,000 above the low point of January 21st, the largest increase being in the second district. A study of the chart of that district indicates that the adjustments between the Federal Reserve Bank and the member banks there since January 21st have been almost entirely through rediscounts which totaled \$39,000,000 on January 21st, \$84,000,000 on January 28th, \$133,000,000 on February 4th and \$149,000,000 on February 11th. In other words, as a result of the open market policies pursued, the discount rate in that district became effective coincidentally with the practical completion of liquidation of important amounts of Government securities, whereas at the end of November it was not effective.

TOPIC No. 2. (a). *Gold Exports*. How long are they likely to continue? Has the tide definitely turned? Does the export of gold suggest any change in the gold policy of the Federal Reserve System?

(b). Probable resumption of a free gold market in England. Is there solid ground under the present rate of sterling exchange? Can the pound sterling be maintained at par?

RECOMMENDATION: From a balance of less than \$400,000,000 of exports over our imports of merchandise in 1923, last year this balance rose to nearly \$1,000,000,000.

In spite of this gigantic balance in our favor (a figure unheard of before the war), the outward flow of gold has reached considerable proportions during the last three months. The explanation is that we have granted foreign loans not only to the amount required by foreign countries in order to balance their net debts incurred in buying our goods, but have made foreign loans in advance even of our international trade balance.

No doubt our granting foreign loans in an aggregate in excess of \$1,250,000,000 proved an invaluable stimulant to our export trade. Indeed, without these loans it is certain that a vast portion of our goods could not have found their foreign buyers. How far similar conditions will prevail in 1925, it is of course entirely impossible to predict with any degree of confidence.

In venturing to formulate a reply to the Board's questions, one might say that the future course of gold movements will largely depend on the foreign loan policy of the United States. The scope of these foreign credit operations will in turn largely depend upon the volume of funds seeking investment and the relative advantages foreign securities may offer as compared with our own.

Progress in stabilizing exchanges along with a continued strengthening of the fiscal and commercial situation in many a foreign country are likely to widen the avenue for American investments in foreign fields. How long the plethora of American investment funds will continue, how long the attraction of a substantial margin in the returns of domestic and foreign investments will last, nobody may safely venture to predict. It is safe, however, to assume that before the tide turns our country will be called upon further to provide huge amounts in foreign loans. It is to be assumed that, as in the past year, there will be all kinds of promiscuous borrowing, short or long term,—commercial borrowing or issue of securities, private, corporate or governmental. In the last year several foreign loans were placed here for the purpose of currency stabilization,—some in the form of bank overdrafts, others in the form of issues of Government bonds. In some cases, the proceeds were used as exchange reserves, in others they were withdrawn through actual shipments of gold to be impounded in the vaults of foreign central banks.

It is generally expected that in 1925 we may witness a development along similar lines and while the Council cannot undertake to offer any specific prognostications, it does not hesitate to state that it would view with favor such a development involving as it would, further progress in world stabilization and a healthy redistribution of the world's gold.

The Council believes that it is not necessary at this time to take any steps toward arresting the outflow of gold, nor to make efforts in the direction of strengthening the Federal Reserve Banks' gold holdings by beginning to substitute Federal Reserve currency for the gold certificates which were placed in circulation during the past years for the purpose of creating a secondary gold reserve. While, as long as the outflow of gold lasts, it would seem advisable not to increase the volume of gold certificates in circulation at this time, it would on the other hand not seem warranted for the present to make any effort towards reducing such volume.

Regarding the future course of sterling exchange the Council cannot undertake to express any definite opinion. British governmental and banking circles seem to be fairly well agreed that now that the sterling has returned to a level so near the old gold par, sooner or later, England will grasp the opportunity of re-establishing exchange stability on the pre-war basis. It is generally assumed that England would not be likely to undertake such a step without providing some sort of an emergency reserve in the United States. Whether or not such assumption is correct, the Council has no means to judge; but it does not hesitate to express the view that if such occasion arises, the United States should give every aid that consistently can be granted.

TOPIC No. 3. Does the business revival give promise of continuing through most of the year, and if so does it point to money rates materially higher? Are there present indications of inflation? If so, what should be the policy of Federal Reserve Banks in meeting it?

RECOMMENDATION: Almost all districts report good business and there seems to be a fair prospect for its continuation along satisfactory lines, with the expectation of some hardening of money rates during the spring months. The general opinion prevailed that there was no indication of an imminent price inflation, so long as the present stocks of merchandise in various branches of business are low and there is a continuation of the very strong degree of conservatism among manufacturers and business men.

No recommendations with regard to increases in discount rates were made except that it was thought that the Federal discount rate in New York, now being below the open market rate, might be brought into line by an increase of one-half per cent. from 3 per cent. to 3½ per cent., in the near future.

TOPIC No. 4. Advisability and propriety of Federal Reserve Banks continuing their memberships in the American Acceptance Council and the American Bankers Association.

RECOMMENDATION: The Council believes it desirable for the Federal Reserve Banks to retain their memberships in the American Acceptance Council and the American Bankers Association but that it should be optional with each Federal Reserve Bank.

TOPIC No. 5. Should public announcement by the Federal Reserve Board be made of changes which are made from time to time in the minimum open market buying rates authorized by it for the Federal Reserve Banks, in the same manner in which discount rate changes are announced?

RECOMMENDATION: The Council believes that the methods at present applied have brought very satisfactory results and does not believe that in developing the discount market a change is advisable in the methods prevailing.

ADDITIONAL RECOMMENDATION No. 6: (*Topic No. 2, Federal Advisory Council meeting, November 24, 1924*: 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 *at meeting, November 24, 1924*: 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).

At the request of the Federal Reserve Board, the Acting Executive Committee met on January 21, 1925, and reported to the Board about the McFadden-Pepper Bill then before the Senate. The Council at its first session today ratified the action of the Executive Committee as submitted to the Board.

Since the January meeting the Bill has again been amended and will doubtless shortly come before the Senate for action. The Council is glad to report that some of the recommendations and criticisms contained in the report of the Executive Committee have been taken into favorable consideration by the Senate Committee. It is not practicable for the Council in the fluctuating condition in which the Bill finds itself, to make definite recommendations at this time.