MINUTES OF MEETING

of the

FEDERAL ADVISORY COUNCIL

May 22, 1925

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The second regular meeting in 1925 of the Federal Advisory Council was held in the Federal Reserve Board Room, Treasury Building, Washington, D. C., Friday, May 22, 1925, instead of the third Monday in May, prescribed in the By-Laws. This change was made by consent of the majority of the members to meet the convenience of the Federal Reserve Board.

The President, Mr. Warburg, called the meeting to order at 9:30 A. M.

Present:

Mr. P. M. Warburg, President	District No. 2
Mr. E. F. Swinney, Vice-President	District No. 10
Mr. C. A. Morss	District No. 1
Mr. L. L. Rue	District No. 3
Mr. G. A. Coulton	District No. 4
Mr. L. E. Johnson (Alternate for Mr. J. M. Miller, Jr.)	Disrtcit No. 5
Mr. Oscar Wells	District No. 6
Mr. F. O. Wetmore	District No. 7
Mr. Breckinridge Jones	District No. 8
Mr. G. H. Prince	District No. 9
Mr. H. S. McKee	District No. 12
Mr. C. B. Georgen	Secretary

Absent:

Mr. W. M. McGregor	District No. 11

The Secretary reported that communications had been received from Mr. Miller stating that he would be unable to attend the meeting on account of absence abroad, and that Mr. L. E. Johnson, of Alderson, West Virginia, as alternate, would represent the Fifth District.

A telegram from Mr. McGregor regretting his inability to be present was also read.

On motion, duly seconded, the minutes of the previous Council meeting, on February 16, 1925, copies of which had been sent to the members, were approved.

The topics submitted for the current meeting were thereupon discussed and on motion, duly seconded, recommendations were approved for presentation to the Federal Reserve Board.

The subject of the future policy of Federal Reserve Banks toward unremunerative services, especially the collection of non-cash items, which has been under investigation for some time, was also taken up. (See minutes of meeting 2/19/23, Pages 2 and 3, Recommendation No. 1, 5/21/23, Recommendation No. 2, 11/19/23, and minutes of meetings 9/25/24, Pages 17 and 20, 11/24/24, Page 23 and 2/16/25, Page 6). The President placed before the Council the report of the Standing Committee on Collections on the Collection of Non-Cash Items by Federal Reserve Banks to the Conference of Governors and the Federal Reserve Board, April 6, 1925, and the Secretary was requested to obtain and forward copies to the members for consideration at the next meeting.

At 11:00 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

May 22, 1925.

At 11:00 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 and 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, G. A. Coulton, L. E. Johnson, Oscar Wells, F. O. Wetmore, Breckinridge Jones, G. H. Prince, H. S. McKee and C. B. Georgen, Secretary.

The President of the Council, Mr. Warburg, called the meeting to order and presented to the Board the recommendations of the Council which had been prepared (Recommendations 1 and 2 are attached and made part of these minutes).

Governor Crissinger addressed the conference and elucidated the terms of the recent arrangements for a revolving credit of $200,000,000 to the Bank of England, made with the approval of the Federal Reserve Board, by the Federal Reserve Banks, under the auspices of the Federal Reserve Bank of New York. The correspondence comprising the agreement was also read to the members and generally discussed. Governor Crissinger invited the consideration of the Council before the next meeting to the new McFadden Bill as well as the previous McFadden-Pepper Bill (H. R. 8887-S.3316).

The members of the Council, upon invitation, then reported regarding the business and financial conditions in their respective districts, indicating that no changes in discount rates were warranted at the present time.

The determination of a policy to be followed by Federal Reserve Banks in their open market investments was taken up and Dr. Miller urged that, in view of its importance, constant, rather than intermittent or periodic consideration be given to this question by the Advisory Council. Mr. Warburg and Mr. Rue pointed out that the Executive Committee was always available and at the disposal of the Board for questions of this kind.

At 1:00 P. M. the joint conference adjourned. Thereupon the members of the Advisory Council, previously present, held a short meeting, at which it was agreed that the Executive Committee should hold itself at the disposal of the Board at any time it should seem desirable or wished by the Board to discuss the policy of open market operations.

After further discussion of the $200,000,000 revolving credit, on motion, duly seconded, the Council agreed to make a statement to the Board which is embodied in the recommendations attached hereto and made a part of these minutes. The President was instructed to give this statement to the Press.

The members conferred informally and at 2:00 P. M. the meeting was adjourned, concluding the session of the Council.

C. B. GEORGEN,

Secretary.

RECOMMENDATIONS OF THE FEDERAL ADVISORY COUNCIL TO THE FEDERAL RESERVE BOARD

May 22, 1925.

TOPIC No. 1. The propriety of a member bank borrowing from a Federal Reserve Bank for the purpose of investing in Government securities for profit.

RECOMMENDATION: It is obvious that wittingly Federal Reserve Banks should not employ their funds in direct aid of any speculation. On the other hand, it is clear that it is impossible to follow the proceeds of Federal Reserve Banks' investments once they become intermingled with the sellers' general assets. The proceeds of the rediscount of a thoroughly eligible bill conceivably may indirectly be used for speculative purposes.

It would seem, therefore, that this is a problem to be dealt with without endeavoring to control it by a rigid regulation and that it must be left to the discretion and tact of the officers of Federal Reserve Banks; all the more so as, speaking by and large, it is very desirable that member banks should hold a liberal amount of United States Government securities, as such holdings tend to strengthen their safety and liquidity.

TOPIC No. 2. Discount rates.

RECOMMENDATION: It was the unanimous opinion of the Council that no changes in discount rates at the present time are warranted.

Upon the suggestion of the Council the Governor of the Board presented a report covering the agreement made by the Federal Reserve Banks with the Bank of England regarding a revolving credit of $200,000,000, and after full discussion, on motion, duly seconded, the Council concluded to make the following statement to the Board, authorizing the President of the Council to give it publicity:

"Since the last meeting of the Advisory Council, Great Britain has taken the long-expected step of removing the embargo on the exportation of gold, and by re-establishing a free gold market in London, has once more anchored herself unreservedly to the gold standard.

This event marks an epoch in the financial history of the post war period. It means that the time has definitely come to an end when the world seemed to waver between monetary systems frankly bottomed upon gold on the one hand, and fluctuating exchanges and so-called 'managed currencies' on the other. With the United States, England, the Dominions, Sweden, Holland, Germany, Austria, Hungary, and other countries now returned to a gold basis, or to gold exchange bases, the sway of gold over the world's leading financial systems once more has become an unchallenged fact.

For the United States this development is of the vastest importance: First, because we own approximately one-half of the world's monetary gold; second, because in order to preserve for ourselves conditions of a well-balanced prosperity, foreign markets absorbing our surplus production are an imperative necessity and it is idle to expect that without exchange stability the purchasing power of foreign countries may regain its full capacity; third, in present world conditions the sale of our vast excess production to foreign buyers can only be maintained on anything like the present scale as long as we continue freely to absorb foreign securities. Our ability to do so, however, will depend upon the degree of credit these foreign countries will command here. We have, therefore, a vital interest in seeing the credit of our customers placed on the strongest possible basis.

While it would seem unnecessary to add to the weight of these three points, a true picture of the outlook is gained only if one considers what might have happened had England decided to continue the embargo on gold exports instead of restoring a free gold market. It would not seem an overstatement to assume that in such a case the world might have suffered another exchange collapse with all the uncertainty to trade which that implies; that private and public credit in foreign lands would have been impaired and that instead of making efforts to balance budgets by taxation, the temptation for debasement of currencies in many countries would have continued indefinitely. In such circumstances true wages, and with that, living standards, in competing countries would have been further reduced. We are familiar with the social consequences that would result from such conditions and it is safe to conclude that we ourselves could not have escaped the effects of such a development which, amongst other things, would have involved a further great addition to our gold holdings.

The Advisory Council, with these thoughts in mind, has over and again expressed the view that America should take every opportunity, that consistently and safely could be grasped to aid foreign countries in their struggles towards regaining exchange stability, and that when the time came to do so with confidence and safety, the Federal Reserve System should do its part.

It is with the deepest satisfaction, therefore, that the Council has noted the arrangements now made, with the approval of the Federal Reserve Board, between the Bank of England, on the one hand, and the several Federal Reserve Banks under the auspices of the Federal Reserve Bank of New York on the other.

These arrangements, in the view of the Council, will benefit not only the two countries directly involved, but they will enure to the advantage of the entire world. The Council feels confident that in the annals of the Federal Reserve System these arrangements will be written down as one of its proudest and most constructive achievements.

It is an impressive demonstration of the efficiency of the Federal Reserve Act, as at present constituted, that we are able to render assistance on a liberal scale without fear of adverse effect upon our own financial conditions.

Concentration of reserves and an elastic note issue planned on broad lines enabled us during these last years to absorb a flood of gold in such a manner as to deprive it of the inflationary effects which some of our European friends had expected it inevitably to produce. Conversely, we may now envisage with equanimity the possibility of an outgo of hundreds of millions of dollars of our surplus gold. The same process that enabled us to deprive the inflow of gold of its potential ill effects places us now in a position to lose vast amounts of it without entailing the necessity of a marked contraction of circulation or of forced deflation."