

MINUTES OF MEETING
of the
FEDERAL ADVISORY COUNCIL
February 18, 1927

OFFICERS AND MEMBERS OF THE FEDERAL ADVISORY COUNCIL

For the Year 1927

OFFICERS:

President, F. O. Wetmore
Vice-President, John F. Bruton
Secretary, Walter Lichtenstein

EXECUTIVE COMMITTEE:

F. O. Wetmore
J. F. Bruton
J. S. Alexander
Harris Creech
Breckinridge Jones
L. L. Rue

MEMBERS:

A. M. Heard
J. S. Alexander
L. L. Rue
Harris Creech
J. F. Bruton
P. D. Houston
F. O. Wetmore
Breckinridge Jones
Theodore Wold
P. W. Goebel
B. A. McKinney
H. S. McKee

Federal Reserve District No. 1
Federal Reserve District No. 2
Federal Reserve District No. 3
Federal Reserve District No. 4
Federal Reserve District No. 5
Federal Reserve District No. 6
Federal Reserve District No. 7
Federal Reserve District No. 8
Federal Reserve District No. 9
Federal Reserve District No. 10
Federal Reserve District No. 11
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. To fill a vacancy, the President, or in his absence, the Vice-President shall be authorized to designate as a member of the Executive Committee for a given meeting, another member of the Council than those elected to the Executive Committee.

ARTICLE V. DUTIES OF THE 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 Friday 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, 1927.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

February 18, 1927.

The first and organization meeting for 1927 of the Federal Advisory Council was held in the Federal Reserve Board room, Treasury Building, Washington, D. C., Friday, February 18, 1927.

Present:

Mr. T. H. West, Jr. (Alternate for Mr. A. M. Heard)	District No. 1
Mr. G. W. McGarrah (Alternate for Mr. J. S. Alexander)	District No. 2
Mr. Harris Creech	District No. 4
Mr. J. F. Bruton	District No. 5
Mr. P. D. Houston	District No. 6
Mr. M. A. Traylor (Alternate for Mr. F. O. Wetmore)	District No. 7
Mr. Breckinridge Jones	District No. 8
Mr. Theodore Wold	District No. 9
Mr. P. W. Goebel	District No. 10
Mr. B. A. McKinney	District No. 11
Mr. H. S. McKee	District No. 12
Mr. Walter Lichtenstein	Secretary

Absent:

Mr. L. L. Rue	District No. 3
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Mr. Goebel, acting as temporary Chairman, called the meeting to order at 10 A. M.

The Secretary stated that communications had been received from all of the Federal Reserve Banks, certifying to the election of their representatives in accordance with the above list.

Mr. Goebel called for nominations for the office of President of the Council and Mr. Frank O. Wetmore was nominated. On motion, duly seconded, the nominations were closed and the Secretary was instructed to cast one ballot for Mr. Wetmore, who was thereupon declared elected President of the Council for the year 1927.

Mr. John F. Bruton was nominated for Vice-President and on motion, duly seconded, the nominations were closed. The Secretary was instructed to cast one ballot for Mr. Bruton, who was thereupon declared Vice-President of the Council for the year 1927.

Mr. Wetmore being absent, the Vice-President, Mr. J. F. Bruton, took the Chair and called for nominations for the four appointive members of the Executive Committee and Messrs. J. S. Alexander, L. L. Rue, Harris Creech, and Breckinridge Jones were nominated. On motion, duly seconded, these gentlemen were unanimously elected members of the Executive Committee for the year 1927, the President and Vice-President being ex-officio members.

On motion, duly seconded, Mr. Walter Lichtenstein was reelected Secretary of the Federal Advisory Council for the year 1927 at a salary of \$1,500 per annum.

On motion, duly seconded, the Council readopted for the year 1927 the existing By-laws, attached hereto and made a part of these minutes.

On motion, duly seconded, the minutes of the Council meeting of November 19, 1926, copies of which had previously been sent to the members, were approved.

The Secretary presented his financial report for the year 1926, which had been audited by Mr. J. P. McElherne, Assistant Auditor of the First National Bank of Chicago, and which on motion, duly seconded, was 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 Secretary 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 1927 and to draw on them for that purpose.

At 10:35 A. M. the Council adjourned to convene in joint session with the Federal Reserve Board.

WALTER LICHTENSTEIN,
Secretary.

REPORT OF SECRETARY OF THE FEDERAL ADVISORY COUNCIL

For the Year Ending December 31, 1926

Balance on hand December 31,	
1925	\$1,907.99
Assessment—Twelve Federal Reserve Banks	2,400.00
Interest on Balance at N. Y. Trust Co.	8.96
Interest on Balance at 1st Nat. Bank of Chicago.....	32.01
Miscellaneous Items	\$ 228.05
Salary and Special New York trip.....	1,627.40
Conference Expenses	713.97
Printing & Stationery.....	464.05
Telegrams	17.81
Postage	10.00
Balance on hand December 31, 1926.....	1,287.68
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	\$4,348.96
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	\$4,348.96

Chicago, January 18, 1927.

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, 1926, and certify that the above statement agrees therewith.

Respectfully,

(Signed) J. P. McELHERNE.

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

February 18, 1927.

At 10:35 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, E. H. Cunningham; J. C. Noell and E. M. McClelland, Assistant Secretaries to the Board; Mr. E. A. Goldenweiser, Acting Director of the Division of Research Statistics, Federal Reserve Board, and Mr. E. L. Smead, Chief, Division of Bank Operations, Federal Reserve Board.

Present: Members of the Federal Advisory Council:

Mr. J. F. Bruton, Acting President; Messrs. T. H. West, Jr., G. W. McGarrah, Harris Creech, P. D. Houston, M. A. Traylor, Breckinridge Jones, Theodore Wold, P. W. Goebel, B. A. McKinney, H. S. McKee, and Walter Lichtenstein, Secretary.

Discussion took place with the Board about the question of reducing rediscount rates and what policy should be followed in regard to open market operations. The members of the Board pointed out that about eighty million dollars gold had been imported this year.

It was stated that there were in the Federal Reserve Bank of New York foreign bank balances amounting to 340 million dollars, which included free balances, investments, and ear marked gold, divided probably as follows: 300 million dollars represented investments, 20 million dollars represented free balances, and 20 million dollars consisted of ear marked gold. This represents merely what is in the Federal Reserve Bank of New York, itself. All in all, foreign banks have invested all over the world about 1,300 million dollars of which, probably, 750 to 1,000 million dollars is in this country.

In answer to a question by Mr. Jones, it was stated that the amount of eligible paper in the portfolios of member banks amounts to about 4,800 million dollars, which would represent possible credit in the Federal Reserve Bank of about 7,500 million dollars. The peak of borrowings was in 1920, amounting to 2,800 million dollars.

A long discussion took place in regard to the assistance to be rendered by Federal Reserve Banks to weakened member banks.

In respect to the changes in par list during 1926, Mr. Smead, Chief of the Division of Bank Operations of the Board, presented an interesting statement of which copies were given to members of the Council. It showed that seventy-four banks changed from a non-par to a par status, while 461 banks changed from a par to a non-par status. On January 1, 1927, there were 9,580 banking points on which all checks were collectible at par, as compared with 9,894 the year before. This change is accounted for by the large number of bank suspensions during 1926 (160 member banks and 795 nonmembers), which automatically brought about a reduction in the total number of banks in operation and therefore in the number of par as well as non-par banks.

Mr. Traylor raised the question exactly what the new arrangements in Cuba were. The Board thereupon presented the resolution adopted on January 27, 1927, regulating the functions of the agencies established in Havana by the Federal Reserve Bank of Atlanta. Copies of this resolution were handed to the members of the Council.

At 12:30 P. M. the Comptroller of the Currency, Mr. Joseph W. McIntosh, joined the meeting.

The joint meeting was adjourned at 12:45 P. M. and it was voted that the Federal Advisory Council reconvene at 2 P. M.

WALTER LICHTENSTEIN,

Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

February 18, 1927.

At 2 P. M. the Federal Advisory Council reconvened in the Federal Reserve Board room.

Present: Mr. J. F. Bruton, Acting President; Messrs. T. H. West, Jr., G. W. McGarrah, Harris Creech, P. D. Houston, M. A. Traylor, Breckinridge Jones, Theodore Wold, P. W. Goebel, B. A. McKinney, H. S. McKee, and Walter Lichtenstein, Secretary.

The Council continued the discussion of the Cuban situation, and the Secretary was instructed to obtain a copy of the Platt Amendment as well as copies of the regulations in force when the Federal Reserve Bank of Boston as well as the Federal Reserve Bank of Atlanta maintained agencies in Havana, also copies of certain legal opinions obtained by the Federal Reserve Board on this question. It was voted unanimously that the Council study the Cuban situation fully and that Mr. Traylor be requested to file a brief on the subject.

The topics, Nos. 1-3 inclusive attached hereto and made part of these minutes, were discussed.

Recommendations Nos. 1 and 3 were unanimously adopted. In regard to topic No. 2, the following recommendation was presented:

"The Federal Advisory Council believes that no general rule can be laid down in regard to the assistance to be rendered by a Federal Reserve Bank to a member bank in weakened condition. The Council is of the opinion that satisfactory management is of first importance in determining policy and that the ultimate end to be achieved should be the conservation of the interest of depositors."

Mr. McKee presented an amendment to the recommendation reading as follows:

"The extent and kind of assistance to be rendered by a Federal Reserve Bank to a member bank should be determined by the ability of the member bank to conform to the provisions of the Federal Reserve Act and rulings of the Board describing the paper which a Federal Reserve Bank is empowered to receive."

The Amendment was seconded by Mr. Jones. On roll call being demanded there voted "aye" Messrs. Jones and McKee. There voted "nay" Messrs. Creech, Houston, Wold, Goebel, and McKinney. The amendment was declared lost.

Roll call being demanded on the original recommendation, there voted "aye" Messrs. Creech, Houston, Wold, Goebel, and McKinney. There voted "nay" Messrs. Jones and McKee. The recommendation in the form attached hereto was adopted.

The Secretary of the Council read a letter from Congressman James G. Strong of Kansas, dated February 9, 1927, dealing with a bill intended to bring about stabilization of price level by means of the re-discount and open market policies of the Federal Reserve System. The Secretary was instructed to reply to Congressman Strong asking that a copy of the hearings on this bill be forwarded to each member of the Council, but calling attention to the Federal Reserve Act which would make it improper for the Council to discuss questions with individuals other than the members of the Federal Reserve Board.

It was voted that whenever possible the Council hold a preliminary meeting on Thursday evening preceding the regular meeting of the Council, and the Secretary was instructed to consult in regard to this matter with the President of the Council upon his return to this country.

At 3:50 P. M. the Council adjourned to meet with the Federal Reserve Board.

WALTER LICHTENSTEIN,

Secretary.

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

February 18, 1927.

At 4 P. M. a joint meeting 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, E. H. Cunningham, and E. M. McClelland, Assistant Secretary to the Board.

Present: Members of the Federal Advisory Council:

Mr. J. F. Bruton, Acting President; Messrs. T. H. West, Jr., G. W. McGarrah, Harris Creech, P. D. Houston, M. A. Traylor, Breckinridge Jones, Theodore Wold, P. W. Goebel, B. A. McKinney, H. S. McKee, and Walter Lichtenstein, Secretary.

The Acting President of the Council called the meeting to order and presented to the Board the recommendations of the Council which had been prepared (Recommendations 1-3 attached hereto and made part of these minutes).

There was some discussion in regard to the exact meaning of recommendation No. 1. It was pointed out that a distinction must be made if money is easy as a result of business depression or as a result of further importation of gold. It was explained that the recommendation of the Council is based upon the present situation and not upon the presumption that easy money conditions will prevail as a result of a business depression.

The meeting adjourned at 4:30 P. M.

WALTER LICHTENSTEIN,
Secretary,

RECOMMENDATIONS OF THE FEDERAL ADVISORY COUNCIL TO THE
FEDERAL RESERVE BOARD

February 18, 1927.

TOPIC No. 1. What is the view of the Federal Advisory Council in respect to the future discount and open market policies of the Federal Reserve Banks?

RECOMMENDATION: The Federal Advisory Council does not believe that there is anything in the present business situation which would warrant any reduction of existing discount rates, or necessitating any change in present open market policy. The Council feels, however, that should interest rates continue to decline the Federal Reserve banks should reduce their holdings of bills bought in the open market.

TOPIC No. 2. What aid should be rendered by a Federal Reserve Bank to a member bank in weakened condition. Should consideration be given in the first place to the depositors of the bank or to the ability of the bank to make further loans?

RECOMMENDATION: The Federal Advisory Council believes that no general rule can be laid down in regard to the assistance to be rendered by a Federal Reserve Bank to a member bank in weakened condition. The Council is of the opinion that satisfactory management is of first importance in determining policy and that the ultimate end to be achieved should be the conservation of the interest of depositors.

TOPIC No. 3. What action, if any, is advisable in view of the diminution of the number of par points?

RECOMMENDATION: While there has been some diminution in the number of par points largely due to failures and mergers, there is nothing in the present situation to warrant any action at this time.