

MINUTES OF MEETING
of the
FEDERAL ADVISORY COUNCIL
May 17-18, 1928

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

May 17, 1928.

The second meeting of the Federal Advisory Council for the year 1928 convened in the Presidential Suite of the Mayflower Hotel, Washington, D. C., on Thursday, May 17, 1928, at 10:15 A. M.

Present:

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| Mr. Arthur M. Heard | District No. 1 |
| Mr. L. L. Rue | District No. 3 |
| Mr. Harris Creech | District No. 4 |
| Mr. J. F. Bruton | District No. 5 |
| Mr. P. D. Houston | District No. 6 |
| Mr. F. O. Wetmore | District No. 7 |
| Mr. W. W. Smith | District No. 8 |
| Mr. Theodore Wold | District No. 9 |
| Mr. P. W. Goebel | District No. 10 |
| Mr. B. A. McKinney | District No. 11 |
| Mr. F. L. Lipman | District No. 12 |
| Mr. Walter Lichtenstein | Secretary |

Absent:

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| Mr. J. S. Alexander | District No. 2 |
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The President, Mr. Wetmore, called the meeting to order at 10:15 A. M.

The Secretary stated that Mr. Alexander had informed him that he would be present at the regular meeting the next day.

On motion, duly made and seconded, the minutes of the Council meeting of February 16-17, copies of which had been previously sent to the members, were approved.

The Secretary read a communication from the Governor of the Federal Reserve Board, dated April 23, 1928, suggesting the following six different subjects to be discussed by the Council:

- (1) Discount and open market policy of the Federal Reserve System.
- (2) Purchases and sales of Government securities by Federal Reserve banks for their own account apart from the System's Open Market Investment Account.
- (3) The desirability of requiring member banks in Federal Reserve bank and branch bank cities and in other cities designated by the Federal Reserve Board from time to time to calculate and adjust their lawful reserves daily instead of on an average semi-weekly basis as at the present time.

(4) The desirability of recommending legislation amending Section 19 of the Federal Reserve Act relating to required reserves of member banks and of writing into law a complete definition (along the lines of the Board's Regulation D) of what constitutes savings and other time deposits.

(5) The advisability of formulating a program of advising all member bank directors as soon as possible of their legal responsibilities individually arising out of non-compliance with the reserve requirements of the Federal Reserve Act on the part of their respective banks.

(6) The desirability of revising the present list of reserve cities and including in the list certain cities not now so designated which are within a short distance of a Federal Reserve bank or branch city and other cities in which a large volume of bank deposits are carried.

It was decided to postpone discussion of the first topic until the Federal Reserve Board had an opportunity to submit a statement regarding its policy.

The other topics were discussed at length and recommendations were approved, which in their final form are attached hereto and made part of these minutes.

In reference to the third subject, "The desirability of requiring member banks in Federal Reserve bank and branch bank cities and in other cities designated by the Federal Reserve Board from time to time to calculate and adjust their lawful reserves daily instead of on an average semi-weekly basis as at the present time," it was voted in order to carry out the recommendation that the Secretary be instructed to request each member of the Council to send to him as soon as convenient a statement reciting the difficulties which his bank, other banks in his district, and business generally would experience if the period for calculating and adjusting reserves were to be shortened still more. The Secretary was further instructed, on the basis of facts thus submitted, to prepare a memorandum, this memorandum to be submitted for criticism and suggestions to the members of the Federal Advisory Council. After the memorandum has received the approval of all the members of the Federal Advisory Council, it is to be sent as an official communication from the Council to the Governor of the Federal Reserve Board.

The President presented a communication which he had received from the President of the Chamber of Commerce of the United States inviting him to be present at a conference of the Chamber's Banking and Currency Study Committees. The President also read from correspondence with Governor Young on this subject.

It was the opinion of members of the Council that it would be inadvisable for the Council to be officially represented at the meeting called by the Chamber of Commerce of the United States, but that there would be no objection if the President and one or more members of the Council attended the conference, not as members of the Council but as individuals.

Colonel Bruton presented the question whether it might not be desirable for the Council to present to the Board the need of increasing, at least in some instances, the fees paid to directors of the various Federal Reserve banks and to members of the Federal Advisory Council. No action, however, was taken.

The Council adjourned at 4:15 P. M. and it agreed to meet on Friday morning at 9:30 A. M. in the Federal Reserve Board room.

WALTER LICHTENSTEIN,

Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

May 18, 1928.

At 9:30 A. M. the Federal Advisory Council reconvened in the Federal Reserve Board room, Treasury Building, Washington, D. C., the President, Mr. Wetmore, in the Chair.

Present: Mr. F. O. Wetmore, President; Mr. J. F. Bruton, Vice-President; Messrs. A. M. Heard, L. L. Rue, Harris Creech, P. D. Houston, W. W. Smith, Theodore Wold, P. W. Goebel, B. A. McKinney, F. L. Lipman, and Walter Lichtenstein, Secretary.

It was reported by the Secretary that Mr. J. S. Alexander had arrived in Washington but was confined to his room by illness.

It was voted to ratify the various recommendations adopted at the meeting held on Thursday.

The meeting adjourned at 10:30 A. M.

WALTER LICHTENSTEIN,

Secretary.

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

May 18, 1928.

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 Roy A. Young, Vice Governor Edmund Platt, Messrs. C. S. Hamlin and A. C. Miller; also Messrs. W. L. Eddy, Secretary and E. M. McClelland, Assistant Secretary to the Board, Walter Wyatt, General Counsel for the Federal Reserve Board, E. A. Goldenweiser, Director of the Division of Research and Statistics, Federal Reserve Board, and E. L. Smead, Chief of the Division of Bank Operations, Federal Reserve Board.

Present: Members of the Federal Advisory Council:

Mr. F. O. Wetmore, President; Mr. J. F. Bruton, Vice-President; Messrs. A. M. Heard, L. L. Rue, Harris Creech, P. D. Houston, W. W. Smith, Theodore Wold, P. W. Goebel, B. A. McKinney, F. L. Lipman, and Walter Lichtenstein, Secretary.

The President of the Council presented to the Board the recommendations of the Council which had been adopted (recommendations Nos. 2-6 attached hereto and made part of the minutes).

The Governor of the Federal Reserve Board presented a report dealing with the open market operations and the policy followed in fixing rediscount rates. The subject was discussed at considerable length but no action was taken.

The President of the Council presented the question of attendance at the meeting called by the Chamber of Commerce of the United States. The Governor of the Board stated that he expected to attend simply as an observer.

The meeting adjourned at 1:10 P. M.

WALTER LICHTENSTEIN,
Secretary.

RECOMMENDATIONS OF THE FEDERAL ADVISORY COUNCIL TO THE
FEDERAL RESERVE BOARD

May 18, 1928.

TOPIC No. 1. Discount and open market policy of the Federal Reserve System.

RECOMMENDATION: Report by Governor Roy A. Young but no recommendation made by Federal Advisory Council.

TOPIC No. 2. Purchase and sale of Government securities by Federal Reserve banks for their own account apart from the System's Open Market Investment Account.

RECOMMENDATION: The Federal Advisory Council believes it to be desirable to include in the Open Market portfolio of the Federal Reserve System all operations connected with any Government security holdings of the System. This would seem to be the only means of making the policy of the Open Market Committee effective.

TOPIC No. 3. The desirability of requiring member banks in Federal Reserve bank and branch bank cities and in other cities designated by the Federal Reserve Board from time to time to calculate and adjust their lawful reserves daily instead of on an average semi-weekly basis as at present.

RECOMMENDATION: The Federal Advisory Council is emphatically opposed to any further shortening of the period for calculating and adjusting reserves because of the unnecessary disturbance to current business caused thereby. The Council regards the suggestion to require a daily adjustment of reserves as being aimed at a relatively few offending banks. It is the view of the Council that the purpose desired could be attained if regulations were adopted penalizing those banks abusing the present average system. The Council begs to inform the Federal Reserve Board that it will file a memorandum reciting in detail the difficulties and disturbances which would be caused by the suggested change in the calculation and adjustment of reserves.

TOPIC No. 4. The desirability of recommending legislation amending Section 19 of the Federal Reserve Act relating to required reserves of member banks and of writing into law a complete definition (along the lines of the Board's Regulation D) of what constitutes savings and other time deposits.

RECOMMENDATION: The Federal Advisory Council believes that it would be inadvisable to approach the Congress on the question of reserve requirements and definition of savings and other deposits or any like matters. The Federal Reserve Banks and the Comptroller of the Currency through information obtained by the examiners should be able to correct the abuses referred to in the topic suggested by the Federal Reserve Board. In general, Regulation D seems to the Council equitable and just. It might be amplified to prevent some of the abuses which have developed, such as the withdrawal by check of savings and time deposits and the lack of a clear distinction between demand and time deposits. The Council has considered the matter of reserves to be required in the recommendation to topic 6.

TOPIC No. 5. The advisability of formulating a program of advising all member bank directors as soon as possible of their legal responsibilities individually

arising out of non-compliance with the reserve requirements of the Federal Reserve Act on the part of their respective banks.

RECOMMENDATION: The Federal Advisory Council does not favor communications such as suggested except in cases of persistent wrong-doers. The present regulations appear to be adequate.

TOPIC No. 6. The desirability of revising the present list of reserve cities and including in the list certain cities not now so designated which are within a short distance of a Federal Reserve bank or branch city and other cities in which a large volume of bank deposits are carried.

RECOMMENDATION: The Federal Advisory Council believes those cities should be designated as reserve cities whose banks are carrying a substantial volume of deposits from other banks.