

MINUTES OF MEETING
of the
FEDERAL ADVISORY COUNCIL
September 27-28, 1928

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

September 27, 1928.

The third meeting of the Federal Advisory Council for the year 1928 began informally in the Presidential Suite of the Mayflower Hotel, Washington, D. C., on Thursday, September 27.

The President, Mr. Wetmore, called the meeting to order at 10:20 A. M.

Present:

Mr. Arthur M. Heard	District No. 1
Mr. J. S. Alexander	District No. 2
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

On motion, duly made and seconded, the minutes of the Council meeting of May 17-18, 1928, copies of which had been previously sent to the members, were approved.

The various topics presented for discussion by the Federal Reserve Board, as well as those originating with the Council itself, were thoroughly discussed and recommendations were adopted which are attached hereto and made part of these minutes.

The Council discussed at length the desirability of having the Board return to the practice of having reserves adjusted weekly in place of the semi-weekly adjustment on the part of banks located in cities where there is a Federal Reserve bank or branch thereof. The Council approved unanimously the memorandum on this subject filed with the Board by the President of the Council under date of July 25, 1928 which had been previously approved by members of the Council by mail. It was voted to request Mr. McKinney to present to the Federal Reserve Board at the joint meeting of the Council and the Federal Reserve Board the view that there is no conflict between the provision of the National Bank Act and that of the Federal Reserve Act in regard to reserve requirements.

In reference to the recommendation of the Federal Advisory Council requesting the Federal Reserve Board to consider the advisability of changing somewhat the composition

of the Open Market Committee, Mr. Creech dissented and voted "No" on the motion to make said recommendation to the Federal Reserve Board.

It was voted to ask the Federal Reserve Board what its present attitude was in reference to the suggested bill to amend Section 19 of the Federal Reserve Act filed with the Council by the Federal Reserve Board under date of April 23, 1928.

The meeting adjourned at 5:10 P. M.

WALTER LICHTENSTEIN,
Secretary.

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

September 28, 1928.

At 10 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:

The Secretary of the Treasury of the United States, Governor Roy A. Young, Vice Governor Edmund Platt, the Comptroller of the Currency, Messrs. C. S. Hamlin, A. C. Miller, G. R. James, and E. H. Cunningham; also Messrs. Claude Gilbert, Supervisor of Examinations, Walter Wyatt, General Counsel for the Federal Reserve Board, B. M. Wingfield, Assistant Counsel for the Federal Reserve Board, E. L. Smead, Chief of Division of Bank Operations, E. A. Goldenweiser, Director of Division of Research and Statistics, Federal Reserve Board, J. F. Herson, Chief of Division of Examination, and J. C. Noell and E. M. McClelland, Assistant Secretaries to the Board.

Present: Members of the Federal Advisory Council:

Mr. F. O. Wetmore, President; Mr. J. F. Bruton, Vice-President; Messrs. A. M. Heard, J. S. Alexander, 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 Secretary of the Council read the recommendations of the Council which had been adopted (recommendations Nos. 1-5 attached hereto and made part of the minutes).

Governor Young reported on the open market policy of the Federal Reserve System since the last meeting of the Council. The subject was discussed and the members of the Council approved of the policy which the Federal Reserve Board had followed since the last meeting of the Council.

At 10:20 A. M. the Secretary of the Treasury, Mr. Mellon, withdrew from the meeting.

In reference to topic No. 5 suggesting seven days as the minimum limitation on advances by Federal Reserve banks to member banks on their promissory notes secured by eligible paper or Government securities, Governor Young informed the Council that members of the Federal Reserve Board concurred in the recommendation of the Council in this matter.

Governor Young stated that he personally agreed with the position of the Federal Advisory Council in respect to demand letters of credit as outlined in the Council's memorandum dated September 4, 1928.

Governor Young, furthermore, stated that it was entirely possible that the Federal Reserve Board would accept the recommendation of the Federal Advisory Council as outlined in its memorandum of July 25, 1928 in regard to the adjustment of reserves.

In accordance with the vote adopted at the meeting of the Federal Advisory Council on September 27, 1928, Mr. McKinney presented his arguments tending to show that there is no conflict between the provision of the National Bank Act and the Federal Reserve Act in regard to reserves required of member banks.

At 11 A. M. Mr. John W. Pole, Chief National Bank Examiner, joined the meeting.

In reference to topic No. 3 referring to the composition of the Open Market Committee, Mr. Wetmore formally stated that Mr. Creech had registered his vote against the recommendation made by the Council.

There was a lengthy discussion as to what the attitude of the Federal Reserve Board should be in case requests came to it from Federal Reserve banks to lower the rediscount rate at the present time. Governor Young asked whether in the event of such a contingency the Federal Advisory Council would be willing to meet with the Federal Reserve Board to discuss the matter further.

The President of the Council pointed out that it was the duty of the Council to meet with the Board if the latter made such a request.

Governor Young promised that, if the Federal Reserve Board should decide to urge the passage of the bill to amend Section 19 of the Federal Reserve Act, the Federal Advisory Council would be notified and be given an opportunity to be heard in advance.

The meeting adjourned at 1 P. M.

WALTER LICHTENSTEIN,
Secretary.

RECOMMENDATIONS OF THE FEDERAL ADVISORY COUNCIL TO THE
FEDERAL RESERVE BOARD

September 28, 1928.

TOPIC No. 1. Business conditions in the respective Federal Reserve Districts.

RECOMMENDATION: Members of the Council have been polled and report that business is generally good and on a sound basis. The aggregate volume is greater than the most optimistic forecasts of the earlier part of the year prophesied.

TOPIC No. 2. Effect of prevailing rediscount rates on business.

RECOMMENDATION: The prevailing rediscount rates have not retarded business since its demands have been taken care of satisfactorily by the banks in this time of high money rates and generally have been favored by a preferential discount rate. The Council believes the banks are disposed to continue this practice of favoring commercial borrowers as long as possible. It should also be noted that some financing of a more or less permanent type has been delayed by the present high money market.

TOPIC No. 3. Open Market Committee.

RECOMMENDATION: The Federal Advisory Council without any intention of criticizing the present arrangements but in order that all governors of the Federal Reserve banks may participate in the discussions leading up to actions of the Open Market Committee suggests to the Federal Reserve Board to consider the advisability of having the membership of the Open Market Committee consist of all the governors of the Federal Reserve banks with an executive committee composed of five members with full power to act.

TOPIC No. 4. Suggestion that the Board revoke its ruling of 1919 to the effect that balances due from foreign banks may not be deducted from balances due to other banks by a member bank in calculating its reserves.

RECOMMENDATION: The Council understands fully the need of the ruling of 1919 at the time it was made, but it urges strongly that now under altered conditions deposits in foreign banks immediately available be made a deductible item in figuring the required reserves of member banks.

TOPIC No. 5. Suggestion that the Board's Regulations be amended so as to fix seven days as the minimum limitation on advances by Federal Reserve banks to member banks on their promissory notes secured by eligible paper or Government securities.

RECOMMENDATION: The Federal Advisory Council is opposed to the above amendment of the Board's Regulations. It seems to the Council it will tend to increase rather than diminish the funds available for speculation and to increase the sale and purchase of Federal Reserve funds. It is obvious that, if a member bank must borrow for a period of seven days even though it needs the money for a shorter period only, such a bank will be compelled either to place its idle funds temporarily at the disposal of the call money market or to sell such Federal funds to some other member bank.