

MINUTES OF MEETING
of the
FEDERAL ADVISORY COUNCIL
May 14-15, 1934

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

May 14, 1934

The second statutory meeting for 1934 of the Federal Advisory Council was convened in Room 836 of the Mayflower Hotel, Washington, D. C., on Monday, May 14, 1934, at 10:15 A. M., the President, Mr. Smith in the Chair.

Present:

Mr. Thomas M. Steele	District No. 1
Mr. Walter E. Frew	District No. 2
Mr. Howard A. Loeb	District No. 3
Mr. Arthur E. Braun (Alternate for Mr. McEldowney)	District No. 4
Mr. Howard Bruce	District No. 5
Mr. H. Lane Young	District No. 6
Mr. Solomon A. Smith	District No. 7
Mr. Walter W. Smith	District No. 8
Mr. Theodore Wold	District No. 9
Mr. W. T. Kemper	District No. 10
Mr. Joseph H. Frost	District No. 11
Mr. M. A. Arnold	District No. 12
Mr. Walter Lichtenstein	Secretary

On motion, duly made and seconded, the minutes of the Council meeting of February 19-20, 1934, copies of which had been previously sent to the members, were approved.

Mr. Steele offered the following resolution which was seconded by Mr. Arnold:

“VOTED that in view of the wide divergence in rates of interest now being paid on thrift and other time deposits in different sections of the country, and in view of the increasing difficulty of obtaining from suitable investments a yield sufficient to warrant the payment of the maximum rate now fixed under the provisions of Regulation “Q” of the Federal Reserve Board, it is recommended that the Board give consideration to the advisability of lowering the present maximum rate and prescribing different rates for different locations, as permitted by the Banking Act of 1933. In the opinion of the Council the present maximum rate might well be lowered at least one-half of one percent in many sections.”

Various amendments were offered. The resolution was finally adopted in the form as it appears attached to these minutes as Recommendation No. 5, Messrs. Bruce, Kemper, and Frost voting in the negative.

In respect to a request of the Federal Reserve Board for an expression of opinion as regards business conditions in the various districts, the members of the Federal Advisory Council stated their views.

It was voted to appoint a committee, consisting of Messrs. Steele, Loeb, Young, and Arnold with the President and Secretary *ex-officio* to draft a composite statement discussing business conditions in the country as a whole. The statement as finally adopted will be found attached to these minutes as Recommendation No. 1.

In respect to bank credit, a recommendation was adopted attached to these minutes as Recommendation No. 2.

In respect to the purchase and sale of Federal Reserve funds a recommendation was adopted attached to these minutes as Recommendation No. 3.

In respect to section 7 (d) of the pending Stock Exchange Bill (S. 3420), the Federal Advisory Council adopted a recommendation attached to these minutes as Recommendation No. 4.

At 1:00 P. M. the members of the Federal Advisory Council adjourned for lunch.

The Federal Advisory Council reconvened in Room 836 of the Mayflower Hotel at 2:00 P. M.

Mr. Frew presented a resolution in respect to certain tendencies which in his opinion are likely to undermine the largely autonomous character of the twelve Federal Reserve banks. While the members of the Council approved of the point of view expressed in the resolution, it was the general sense of the meeting that the resolution should be redrafted.

At 2:30 P. M. Dr. Goldenweiser appeared before the Federal Advisory Council and described at considerable length the prevailing business and credit conditions.

After Dr. Goldenweiser left at 3:00 P. M., Mr. Frew's resolution was somewhat further discussed and it was agreed that it was to be revised by Messrs. Frew and Steele. In the form in which it was finally adopted, it is attached hereto and forms a part of these minutes as Recommendation No. 6.

Mr. Steele raised the question in respect to the interview given out by Governor Black at the end of the February meeting of the Council, which, in the opinion of the Council, did not accurately describe the results of the meeting. It was voted that hereafter if any statement is to be made as to the results of the meeting of the Council the President of the Council should himself issue such a statement.

The meeting adjourned at 4:15 P. M. with the understanding that the Council would reconvene the following morning at 9:30 in Room 836 of the Mayflower Hotel.

WALTER LICHTENSTEIN,

Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

May 15, 1934.

At 9:30 A. M. the Federal Advisory Council reconvened in Room 836 of the Mayflower Hotel, Washington, D. C., the President, Mr. Smith, in the Chair.

Present: Mr. Walter W. Smith, President; Mr. Howard A. Loeb, Vice President; Messrs. T. M. Steele, W. E. Frew, A. E. Braun, Howard Bruce, H. L. Young, S. A. Smith, Theodore Wold, W. T. Kemper, J. H. Frost, M. A. Arnold, and Walter Lichtenstein, Secretary.

The various recommendations numbers one to six, inclusive, attached hereto and forming a part of these minutes, were presented in revised form and formally approved as revised.

The meeting adjourned at 10:50 A. M.

WALTER LICHTENSTEIN,

Secretary.

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

May 15, 1934.

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, Treasury Building, Washington, D. C.

Present: Members of the Federal Reserve Board:

Governor Eugene R. Black; Messrs. C. S. Hamlin, G. R. James, and J. J. Thomas; also Messrs. H. Warner Martin, Assistant to the Governor; Walter Wyatt, General Counsel for the Board; Chester Morrill, Secretary to the Board; L. P. Bethea and S. R. Carpenter, Assistant Secretaries of the Board; Dr. E. A. Goldenweiser, Director, Division of Research and Statistics, Federal Reserve Board; and E. L. Smead, Chief of Division of Bank Operations, Federal Reserve Board.

Present: Members of the Federal Advisory Council:

Mr. Walter W. Smith, President; Mr. Howard A. Loeb, Vice President; Messrs. T. M. Steele, W. E. Frew, A. E. Braun, Howard Bruce, H. L. Young, S. A. Smith, Theodore Wold, W. T. Kemper, J. H. Frost, M. A. Arnold, and Walter Lichtenstein, Secretary.

The Secretary of the Council read the various resolutions and recommendations which had been adopted by the Council.

As Governor Black had an appointment at the White House but desired to be present at the discussion of the recommendations, the meeting recessed at 11:15 A. M.

WALTER LICHTENSTEIN,

Secretary.

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

May 15, 1934.

At 12:50 P. M. the joint conference of the Federal Advisory Council and the Federal Reserve Board reconvened in the Federal Reserve Board Room, Treasury Building, Washington, D. C.

Present: Members of the Federal Reserve Board:

Governor Eugene R. Black; Messrs. C. S. Hamlin, G. R. James, and J. J. Thomas; also Messrs. W. Warner Martin, Assistant to the Governor; Walter Wyatt, General Counsel for the Board; Chester Morrill, Secretary to the Board; L. P. Bethea and S. R. Carpenter, Assistant Secretaries of the Board; E. A. Goldenweiser, Director, Division of Research and Statistics, Federal Reserve Board; E. L. Smead, Chief of Division of Bank Operations, and George B. Vest, Assistant Counsel for the Board.

Present: Members of the Federal Advisory Council:

Mr. Walter W. Smith, President; Mr. Howard A. Loeb, Vice President; Messrs. T. M. Steele, W. E. Frew, A. E. Braun, Howard Bruce, H. L. Young, S. A. Smith, Theodore Wold, W. T. Kemper, J. H. Frost, M. A. Arnold, and Walter Lichtenstein, Secretary.

A discussion took place regarding the various recommendations made by the Council.

Mr. Thomas left the meeting at 1:10 P. M.

Governor Black presented a list of suggested changes in the banking laws and regulations as follows:

1. Change in definition of affiliates.
2. Syndicate operations under section 5136 are not to apply to operations in municipal and state issues. This was decided by the Board last week.
3. There is a proposition to postpone the operation of 21A of the Glass Bill for a year. This would give another year to banking houses to decide whether they want to take deposits or continue underwriting. The matter is pending before the Senate Committee on Banking and Currency.
4. There is a suggestion to extend for another year the period during which banks have to liquidate their affiliates. The Governor stated that Mr. Wyatt, Counsel for the Board, believes that as long as an affiliate is doing no new business and is just being liquidated that there is no new law required to extend the period of liquidation.
5. The Senate Committee on Banking and Currency is considering permitting banks to underwrite to a limited extent but if banks underwrite a security they will not be allowed to distribute either wholesale or retail a security so underwritten. The Governor thinks there is a possibility that this provision will pass and that also the limitation as to the amount which banks may take of any one issue may be changed.

6. The Board has decided that there is no provision in law preventing banks from buying or selling stock for account of customers. The Comptroller believes that the law forbids it and is seeking to have the law altered so that "stocks" will be included in the list of securities which may be sold under certain conditions by banks.

7. The Governor made a statement about the question of joint directorships. He stated that in the opinion of the Board as Congress had decided it was contrary to public policy to permit joint directorships, therefore the Board had not felt it desirable to exercise any discretion whatsoever, even though in another part of the law it would seem as if the Board had the power of review. There is an amendment pending to change this but the Governor does not believe that it will pass in this session of Congress. This also covers the question of permitting a director of a bank to be connected with an institution which lends money to its own employees or the like.

A lengthy discussion took place in respect to Recommendation No. 6. The Governor read a list of powers which the Board possesses and which it has never exercised, his idea being to show that the Board has not sought to curtail the powers of the separate Federal Reserve banks except in so far as it is compelled to do so by law.

The meeting adjourned at 2:25 P. M.

WALTER LICHTENSTEIN,

Secretary.

RECOMMENDATIONS OF THE FEDERAL ADVISORY COUNCIL TO THE
FEDERAL RESERVE BOARD

May 15, 1934.

In answer to definite enquiries on the part of the Federal Reserve Board the Federal Advisory Council made the following four recommendations:

RECOMMENDATION No. 1. Report on Business Conditions.

The Federal Advisory Council in response to the request of the Federal Reserve Board makes the following statement regarding the conditions in the country as a whole. The members of the Council have been surprised by the great similarity of view held by the representatives on the Council of the twelve Federal Reserve districts. It might have been supposed that conditions would vary considerably in different parts of the country, but this does not seem to be the case except in those areas where government money has been expended in large amounts.

In general it may be said that business conditions and sentiment have improved very much as compared with the earlier part of last year and the year immediately preceding. There seems, however, to have been some recession in recent weeks. As far as the members of the Council can tell, this recent setback is due largely to a lack of confidence in the activity of the Congress and some of the governmental bureaus recently established. There is considerable uncertainty as to what the ultimate effect may be of some of the recent legislative enactments and of pending legislative proposals. The members of the Council are unanimous in believing that there can be no permanent improvement until such time as the business community of the country becomes convinced that experimentation in currency and in attempts to regulate business will cease.

The large and uneconomic advance in labor costs is proving definitely untimely and in many cases positively destructive. As a result of these wage advances, selling prices for commodities to absorb such costs have been necessarily advanced to an extent which limits distribution and consumptive demand. As time passes it is found to be particularly true that the influences of increasing costs daily manifest themselves in yet higher prices and increasing restriction of distribution, which has discouraged many lines of industry.

In respect to specific industries it is to be noted that in recent weeks the textile and metal manufacturing trades have suffered. It is true that steel operations are at a higher rate than during the last two or three years, but doubt is expressed as to the next quarter. On the whole it may be said that the increase in consumption has not kept pace with the increase in production.

In some of the regions of the country largely dependent on agriculture the prevailing drought will undoubtedly create difficulties. In the Northwest the dust storms coupled with the unusual dryness has prevented the seed from germinating. Livestock will have to be moved unless abundant rains come in the near future. In these regions to which reference is made there is fear that manufacturers will face large cancellations.

RECOMMENDATION No. 2. Bank Credit.

The Federal Advisory Council believes that in those sections of the country where the money of the Government has been widely distributed there has been some increase of loans on the part of the banks.

In the larger centers of the country, however, loans have tended to decrease.

RECOMMENDATION No. 3. Federal Reserve Funds.

The members of the Federal Advisory Council believe that the effect of dealings in Federal Reserve funds are not of sufficient importance to lessen the ability of the Federal Reserve System to control credit policies.

RECOMMENDATION No. 4. Section 7 (d) of Stock Exchange Bill, S. 3420.

The members of the Federal Advisory Council are of the opinion that the Federal Reserve Board before issuing regulations under this bill, provided it is enacted into law, should make a careful study as regards the needs of the situation. It should be pointed out that the power conferred on the Board is to be permissive and not mandatory. Consequently, there is no need for the Board to issue any regulations until there is evidence that there is necessity for them. In general the members of the Council feel that if the Board conscientiously can refrain from adding unnecessarily to the innumerable regulations, orders, and laws of all kinds under which banks are at present compelled to operate it will be doing a distinct service.

If and when the Federal Reserve Board deems it necessary and advisable to issue regulations under this provision of the proposed law then it is to be hoped that the Board will bear in mind the need for maintaining adequate markets not merely for securities listed on the more important exchanges of the country but also for securities which have merely a restricted local market and those which are sold over the counter and not listed. Stringent regulations may result in destroying the market for the securities of small worthy industries and thereby possibly destroy these industries themselves by making it impossible for them to obtain needed capital.

In addition the Federal Advisory Council made the following recommendation in reference to Regulation "Q".

RECOMMENDATION No. 5. Regulation "Q".

The Federal Advisory Council believes that in view of the wide divergence in rates of interest now being paid on thrift and other time deposits in different sections of the country, and in view of the increasing difficulty of obtaining from suitable investments a yield sufficient to warrant the payment of the maximum rate now fixed under the provisions of Regulation "Q" of the Federal Reserve Board, it is recommended that the Board give consideration to the advisability of lowering the present maximum rate.

In the opinion of the Council the present maximum rate might well be lowered one-half of one per cent.

The Federal Advisory Council also made a statement in respect to certain characteristics of the Federal Reserve System.

RECOMMENDATION No. 6.

The Federal Advisory Council believes that it is timely and important to call attention to certain fundamental characteristics of the Federal Reserve System and to certain present-day tendencies not in harmony therewith.

When Congress enacted into law the Glass-Owen bill establishing the Federal Reserve System, it very wisely provided for twelve largely autonomous Reserve Banks located in twelve different parts of the country each under its own board of directors and each responsive, in some measure, to the individual needs of its district.

The general oversight of these twelve banks was placed with the Federal Board, a coordinating body located in Washington. The members of this Board were appointed by the President with the advice and the consent of the Senate and it was provided that no one of them could be actively engaged in banking. There was thus constituted an independent Federal Banking System functioning free of undue influence by the banks on the one hand and free from control by the government or by political groups on the other.

Recent events have caused the Council to feel that it should sound a note of warning that the System ought itself to be careful not to permit the operation of influences tending to destroy its basic characteristics. The Council believes that it sees a tendency of late towards highly restrictive laws, rules, and regulations with respect to minute details of bank operation which, if not checked, will inevitably destroy the independence of the Reserve Banks. The result of such tendencies, through substituting uniform regulations from Washington in place of the independent judgment of the several boards of directors of the Reserve Banks, will destroy the morale of those Boards and will prevent that adjustment of local practices to local needs which Congress clearly contemplated.

The Council believes that if the Federal Reserve System is to continue in existence and to perform its best services to the people it must avoid both bureaucratic tendencies from within and undue governmental or bank control from without.