

MINUTES OF MEETING  
of the  
FEDERAL ADVISORY COUNCIL  
November 19-20, 1934

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

November 19, 1934.

The fourth statutory meeting for 1934 of the Federal Advisory Council was convened in the Federal Reserve Board Room, Washington Building, Washington, D. C., on Monday, November 19, 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. 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

Absent:

Mr. H. E. McEldowney	District No. 4
----------------------	----------------

The Secretary submitted the following list of topics and there was some slight discussion regarding them:

1. A central bank or central monetary authority vested in some body other than the Federal Reserve Board.
2. Whether or not the bankers are going to make any fight for the preservation of the country's independent, privately-owned banking system, or are they going to leave the matter where the New York group left it at the bankers' convention.
3. What more can be done to stop the absurd claim that bankers are not loaning as much as they ought to loan?
4. Soundness from a banking standpoint of the plan of modernization loans.
5. Whether or not it is socially desirable to urge the people to resume instalment borrowing on a large scale.

Mr. Frew brought up the problem of the regulations to be issued in respect to the marginal requirements in connection with loans secured by registered securities made by banks to others than to members of registered exchanges.

The meeting adjourned at 10:35 A. M.

WALTER LICHTENSTEIN,

Secretary.

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

November 19, 1934.

At 10:45 A. M. a joint conference of the Federal Advisory Council and the Federal Reserve Board was held in the Federal Reserve Board Room, Washington Building, Washington, D. C.

Present: Members of the Federal Reserve Board:

Governor Marriner S. Eccles; Vice Governor J. J. Thomas; Messrs. C. S. Hamlin, G. R. James, A. C. Miller, and M. S. Szymczak; also Messrs. 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; E. L. Smead, Chief of Division of Bank Operations; and Leo H. Paulger, Chief of Division of Examinations, 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, Howard Bruce, H. Lane Young, S. A. Smith, Theodore Wold, W. T. Kemper, J. H. Frost, M. A. Arnold, and Walter Lichtenstein, Secretary.

The Governor of the Federal Reserve Board, after making a verbal report, read the following statement:

“Before beginning its deliberations with the Council this morning the Board desires me to make a brief statement of its views with reference to the relations between the Federal Advisory Council and the Federal Reserve Board. These suggestions are made with a view to promoting and maintaining a friendly and cooperative spirit in the relations of the Council with the Board.

“It has been the practice of the Council in the past to submit to the Federal Reserve Board such representations or recommendations as it might see fit to make with regard to the matters within its province and this, in the judgment of the Board, is the only procedure that is consonant with the intent of the law and conducive to the good administration of the Federal reserve system. The recommendations and representations of the Council are made by the Council in its capacity as adviser to the Federal Reserve Board solely and therefore are for the Board’s consideration alone. It follows that it is for the Board to determine what disposition shall be made of the recommendations and representations submitted to it by the Council after the Board has had adequate time to consider them. And it is also for the Board to determine what, if any, publicity should be given to them other than in its annual report. The Board has always been ready to receive the views of the Council as to the desirability of publishing particular recommendations in advance of the annual report and on occasion such publication has been made by the Board of the Council’s recommendations, either on the Council’s suggestion or on the board’s own motion.

'It is the feeling of the Board, in which it is believed that the Council will concur, that this is the only procedure that will work satisfactorily.

"The Federal reserve system cannot function satisfactorily unless it is animated by a high conception of its responsibility and unless every element in it is imbued with a sense of dedication and loyalty to a common purpose. It is in that spirit that we must work together if the country is to receive the greatest benefits from the Federal reserve system and entertain a high regard for the purposes and spirit of its management. Unless the general public feels respect for the system it cannot exercise great influence and without the exercise of influence as well as power the system cannot fulfill its larger responsibilities."

The President of the Council said that naturally the Council would wish to discuss this memorandum and reserve the right to make a reply in writing at a subsequent meeting.

Mention was made of the work of the legislative committee of the System and it was stated that owing to the illness of Governor Harrison of New York, the committee appointed by the Council to confer with the committee of the System had not been called upon.

Mr. Szymczak reported on the progress being made in respect to "direct loans to industry" by Federal Reserve Banks.

The wish was expressed by members of the Council that the Federal Reserve banks be given more latitude in deciding questions of eligibility as to membership on boards of directors of member banks. At present desirable men, whose membership on a board of directors does not violate the spirit of the law, are compelled to resign because at times the decisions of the Federal Reserve System seem to be governed by technical considerations.

Mr. Arnold of the Council raised the question whether it might be possible for the Federal Reserve Bank of New York to establish a bond pool similar to the former gold pool, so that it might not be necessary to ship United States Government securities in those cases where bonds are being bought and sold in the New York market for the accounts of member banks.

The meeting adjourned at 11:40 A. M.

WALTER LICHTENSTEIN,

Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

November 19, 1934.

At twelve o'clock 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, H. L. Young, S. A. Smith, Theodore Wold, W. T. Kemper, J. H. Frost, M. A. Arnold, and Walter Lichtenstein, Secretary.

On motion, duly made and seconded, the minutes of the Council meeting of September 17-18, 1934, copies of which had been previously sent to the members, were approved.

It was voted to appoint a committee consisting of Messrs. Steele, W. W. Smith, and Young to draft an answer to the memorandum read by the Governor of the Federal Reserve Board at the beginning of the meeting.

The meeting adjourned at 1:00 P. M.

WALTER LICHTENSTEIN,  
Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

November 19, 1934.

At 2:45 P. 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. H. A. Loeb, Vice President; Messrs. T. M. Steele, W. E. Frew, H. L. Young, S. A. Smith, Theodore Wold, W. T. Kemper, M. A. Arnold, and Walter Lichtenstein, Secretary.

From 2:45 P. M. until 4:10 P. M. Dr. Goldenweiser discussed the present business situation.

Mr. Kemper left the meeting at 3:45 P. M.

At 4:05 P. M. Mr. Frost came in.

Mr. S. A. Smith left the meeting at 4:10 P. M.

The meeting adjourned at 4:25 P. M.

WALTER LICHTENSTEIN,

Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

November 20, 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. H. A. Loeb, Vice President; Messrs. T. M. Steele, W. E. Frew, H. L. Young, S. A. Smith, Theodore Wold, J. H. Frost, M. A. Arnold, and Walter Lichtenstein, Secretary.

Mr. Steele, on behalf of the committee appointed to draft a reply to the Board's memorandum, read the following draft and it was agreed that the Board should be informed that this memorandum will be kept confidential as also the memorandum of the Board:

"The Federal Advisory Council has given careful consideration to the memorandum handed to the Council by the Federal Reserve Board on November 19, 1934, and is in hearty sympathy with its purpose of promoting and maintaining a friendly and co-operative spirit in the relations of the two bodies. As the Board correctly says, the Federal Reserve System cannot function properly unless it is animated by a high conception of its responsibility, nor unless every element in it is imbued with a sense of dedication and loyalty to a common purpose. The Council believes that this has been at all times the animating spirit of both Board and Council. #

"The Council respectfully suggests to the Board that the Council, as a statutory body, is under precisely the same duty as is the Board to determine for itself the scope of its duties and responsibilities as defined by the Federal Reserve Act, particularly as the Act itself expressly confers upon the Council the duty of fixing its own rules of procedure. The Council's duties are set forth somewhat fully in the letter from the President of the Council to the Acting Governor of the Board dated October 4, 1934, which has been adopted by the Council as a statement of its position. #

"At a time like the present, when the Federal Reserve System is undergoing a severe test, the Council feels that any difference of opinion between itself and the Board as to the prerogatives of either body would be in every way deplorable and it will cooperate with the Board in every reasonable effort to avoid such difference of opinion so far as it can consistently with its duties to the other constituent parts of the System." #

On motion made by Mr. Steele and seconded by Mr. Frew it was voted unanimously to adopt as the Council's reply to the Board's memorandum the report presented by the Committee. It was agreed that the President of the Council should read the memorandum of the Council at the joint meeting of the Board and the Council.

It was voted to adopt the recommendation, which is attached hereto and made a part of these minutes.

The meeting adjourned at 9:50 A. M.

WALTER LICHTENSTEIN,

Secretary.



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

November 20, 1934.

At 10:30 A. M. a joint conference of the Federal Advisory Council and the Federal Reserve Board was held in the Federal Reserve Board Room, Washington Building, Washington, D. C.

Present: Members of the Federal Reserve Board:

Governor Marriner S. Eccles; Vice Governor J. J. Thomas; Messrs. C. S. Hamlin, G. R. James, A. C. Miller, and M. S. Szymczak; also Messrs. 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; Dr. Carl E. Parry, Assistant Director, Division of Research and Statistics, Federal Reserve Board; E. L. Smead, Chief of Division of Bank Operations; and Leo H. Paulger, Chief of Division of Examinations, Federal Reserve Board.

Present: Members of Federal Advisory Council:

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

The President of the Council read the statement which had been drafted as a reply to the statement of the Board.

In the course of the discussion Messrs. Hamlin and Miller referred to the report which had appeared in the New York "Times" of September 20, 1934, prior to the actual statement made by the Council. The Secretary of the Council explained the origin of this publicity.

Mr. Wyatt, for the Board, stated the reasons for believing that the Council had no authority to do anything except make recommendations to the Board, and Mr. Steele, for the Council, gave an account of the origin of the Federal Advisory Council and the understanding that had prevailed in Congress as to the rights and duties of the Council at the time the Federal Reserve Act was passed.

In order to meet the wishes of the Board in so far as it felt it could consonant with its duties and responsibilities, the Council adopted the following resolution:

"It is the opinion of the Federal Advisory Council as at present constituted that when the Council desires to give publicity to its proceedings it should, by itself or through its representatives, discuss such resolutions or recommendations with the Federal Reserve Board and request that these be given publicity. A reasonable opportunity should be given to the Federal Reserve Board to consider and comply with the request of the Council, and the Council itself should not give publicity to its resolutions or recommendations unless the Board, after due consideration, should be unwilling to comply with the request of the Federal Advisory Council to give the desired publicity."

It was agreed that this resolution would be held confidential in the same manner as the statement of the Board and the Council's reply thereto.

The recommendation, which is attached hereto and made part of these minutes and which was adopted by the Council regarding regulations on collateral loans was presented to the Federal Reserve Board.

The Governor of the Federal Reserve Board stated that it would be the aim of the Board to keep the regulations as simple as possible.

Governor Eccles and Messrs. Morrill, Steele, W. W. Smith, and Lichtenstein were appointed a committee to prepare a statement to be given to the press.

The meeting adjourned at one o'clock.

WALTER LICHTENSTEIN,

Secretary.

RECOMMENDATION OF THE FEDERAL ADVISORY COUNCIL TO THE  
FEDERAL RESERVE BOARD

November 20, 1934.

Topic No. 1. Loans secured by registered securities made by banks to others than to members of registered exchanges.

Recommendation: When regulations are issued covering loans secured by registered securities made by banks to others than to members of registered exchanges, we strongly urge that they be made as simple as possible and that the principle of a definite percentage of margin based on current market values be established.