

MINUTES OF MEETING
of the
FEDERAL ADVISORY COUNCIL
December 13-14, 1937

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December 13, 1937.

The fourth statutory meeting of the Federal Advisory Council for 1937 was convened in the Conference Room of the Federal Reserve Building on Monday, December 13, 1937, at 10:15 A.M., the President, Mr. Smith, in the Chair.

Present:

Mr. Thomas M. Steele	District No. 1
Mr. W. W. Aldrich	District No. 2
Mr. Howard A. Loeb	District No. 3
Mr. L. B. Williams	District No. 4
Mr. Charles M. Gohen	District No. 5
Mr. Edward Ball	District No. 6
Mr. Edward E. Brown	District No. 7
Mr. Walter W. Smith	District No. 8
Mr. John Crosby	District No. 9
Mr. C. J. Chandler (alternate for Mr. W. T. Kemper)	District No. 10
Mr. R. Ellison Harding	District No. 11
Mr. Paul S. Dick	District No. 12
Mr. Walter Lichtenstein	Secretary

On motion, duly made and seconded, the minutes of the meeting of the Council of October 7-8, 1937, copies of which had been previously sent to the members, were approved.

The Secretary announced that Mr. W. T. Kemper was ill and, therefore, unable to attend the meeting, Mr. C. J. Chandler being present as an alternate. The Secretary was instructed to send a telegram to Mr. Kemper expressing the regret of the members of the Council that he was ill and wishing him a speedy recovery. These instructions were carried out later in the day by the Secretary.

A discussion took place regarding the Patman Bill, H.R. 7230. The feeling of the members of the Council was that it would be desirable for the members of the Council to have their respective state banking associations give consideration to this proposed legislation. It was deemed inadvisable that the Council as such should take any action at this time.

The topic submitted by Mr. L. B. Williams respecting the possibility of a change in the reserve requirements was discussed by the Council. There was a feeling on the part of the members of the Council that to change reserve requirements at this time would be undesirable and merely create confusion.

Upon motion by Mr. Brown and seconded by Mr. Ball it was unanimously voted that Mr. Aldrich draft a recommendation opposing any reduction in reserve requirements and giving the reasons for this advice. The President appointed a committee to consist of Messrs. Aldrich, Brown, and Steele to draft a recommendation.

The topic submitted by the Board was then presented:

"How can the Federal Reserve System increase the value or scope of its services to member banks in practicable or desirable ways?"

After some discussion it was voted, on motion by Mr. Aldrich and seconded by Mr. Ball, that this question be referred to the individual members of the Council for a report at the next meeting.

Mr. Aldrich raised the question as to what might be done to reopen the long term capital market. He stated that there was a movement on foot to give permission to banks and investment trusts to engage in underwriting subject to certain very definite limitations. It would be understood that banks should not be allowed either to originate underwriting for the issue of securities or distribute such securities. All that the banks should be allowed to do would be to make a commitment to take over from the underwriters such securities as they would be legally permitted to add to their portfolios. The banks under this arrangement would not be permitted to make a commitment which in the event that they had to take over the securities would mean an extension of credit to any one borrower in excess of the ten per cent of their capital and surplus, the present legal limit. On the other hand, banks should be relieved from all liability under the Securities Exchange Act other than that of fraud.

Mr. Aldrich pointed out that it is generally supposed that the total capital possessed by investment houses at the present time is not sufficient to take care of underwriting on the scale that would be necessary if there should be a revival to a marked degree of financing for the durable goods industries, railroads, and utilities.

The meeting adjourned for luncheon at 12:55 P. M. at which Vice Chairman Ronald Ransom of the Board of Governors of the Federal Reserve System was present.

The meeting reconvened in the Conference Room at 3:30 P. M.

Dr. Goldenweiser, Director, Division of Research and Statistics, of the Board of Governors of the Federal Reserve System, appeared before the Council and discussed the general financial and business situation.

The meeting adjourned at 4:40 P. M.

WALTER LICHTENSTEIN,
Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

December 14, 1937.

At 10:15 A. M., the Federal Advisory Council convened in the Board Room of the Federal Reserve Building, the President, Mr. Smith, in the Chair.

Present: Mr. Walter W. Smith, President; Mr. Howard A. Loeb, Vice President; Messrs. T. M. Steele, L. B. Williams, C. M. Gohen, Edward Ball, Edward E. Brown, John Crosby, C. J. Chandler, R. E. Harding, Paul S. Dick, and Walter Lichtenstein, Secretary.

The recommendation on reserve requirements prepared by Messrs. Brown and Steele (attached to and made a part of these minutes) was read.

It was unanimously voted to adopt the draft presented and to submit it to the Board of Governors of the Federal Reserve System as representing the views of the Council.

The meeting adjourned at 10:25 A. M.

WALTER LICHTENSTEIN,
Secretary.

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

December 14, 1937.

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

Present: Members of the Board of Governors of the Federal Reserve System:

Vice Chairman Ronald Ransom; Governors Chester C. Davis, John McKee and M. S. Szymczak; also Messrs. Lawrence Clayton, Assistant to the Chairman of the Board of Governors of the Federal Reserve System; Walter Wyatt, General Counsel for the Board of Governors; Chester Morrill, Secretary of the Board of Governors; L. P. Bethea and S. R. Carpenter, Assistant Secretaries of the Board of Governors; Dr. E. A. Goldenweiser, Director, Division of Research and Statistics, Board of Governors; Carl E. Parry, Chief of Division of Security Loans; E. L. Smead, Chief of Division of Bank Operations; Leo H. Paulger, Chief of Division of Examinations; and J. P. Dreibelbis, Assistant General Counsel of the Board of Governors.

Present: Members of the Federal Advisory Council:

Mr. Walter W. Smith, President; Mr. Howard A. Loeb, Vice President; Messrs. T. M. Steele, W. W. Aldrich, L. B. Williams, C. M. Gohen, Edward Ball, Edward E. Brown, John Crosby, C. J. Chandler, R. E. Harding, Paul S. Dick, and Walter Lichtenstein, Secretary.

A discussion took place regarding the Patman Bill. Vice Chairman Ransom stated that there had been no formal discussion with the Board regarding this bill. It was stated that one hundred and fifty-nine members of the House had signed the bill, but not many of the signers were members of the Banking and Currency Committee of the House of Representatives.

The Secretary of the Council read the recommendation regarding reserve requirements (attached to and made a part of these minutes).

The President of the Council stated that the Council has no wish to make public the recommendation presented at this time, though the Council reserved the right to make this recommendation public at some later date if such seemed advisable. On the other hand, the Council left it to the Board to publish the recommendation at this time if it so desired.

The Vice Chairman of the Board asked whether the Council approved of the law giving the Board of Governors of the Federal Reserve System the power to change reserve requirements. The President of the Council stated that the question had not been discussed by the Council.

Mr. Aldrich stated that he believed the amount of reserves should be fixed by law, though he saw some advantage at the present juncture of permitting the Board to change reserve requirements.

There was some further discussion respecting the meaning of the recommendation.

The President of the Council referred to the matter of opening up the capital markets and Mr. Aldrich stated the desirability of permitting the banks to do secondary underwriting.

Governor McKee requested the Council to appoint a committee to study the problem in order to be prepared to aid the Board if this question should become a matter of actual discussion. The President of the Council agreed to appoint such a committee.

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

The topic suggested by the Board was then discussed and the President of the Council asked that the Board give further time for a study of the question.

The members of the Council reported on business conditions in their respective districts.

The meeting adjourned at 1:45 P. M.

WALTER LICHTENSTEIN,
Secretary.

RECOMMENDATION OF THE FEDERAL ADVISORY COUNCIL TO THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

December 14, 1937.

TOPIC: Reserve Requirements

RECOMMENDATION: The Federal Advisory Council is strongly of the opinion that the Board of Governors of the Federal Reserve System should make no change in the required reserves of member banks at this time. It is believed that practically no banks were adversely affected by the original increase in requirements and that the few which were temporarily inconvenienced by the subsequent increases have fully adjusted themselves to the present situation. At the present time there is no shortage, either of current bank credit, or of money in the hands of investors available for the purchase of long-time securities. The banks have large excess reserves and interest rates are low. A reduction in reserve requirements at this time could therefore have no beneficial effect on either business or employment.

The Council has stated before its position, and desires to restate it, that changes in reserve requirements should be made as infrequently as possible, and only when clearly demanded. Uncertainty as to reserve requirements inevitably tends to disturb the conduct of banking operations and any change in reserve requirements at this time would be apt to restrict, rather than to promote, the lending operations of the banks of the country, and would probably upset sentiment.

Furthermore, a very large amount of foreign investments and balances in this country exist, a considerable part of which will in all probability be some day repatriated. Until that time it is highly desirable to maintain the banking reserves of this country at a level which will enable the Board of Governors of the Federal Reserve System, by then lowering reserve requirements to insure that any outward movement of foreign capital will not endanger the economy of this country.