

MINUTES OF MEETING OF THE EXECUTIVE COMMITTEE OF THE  
FEDERAL ADVISORY COUNCIL

November 6, 1946

At 11:00 A.M., the Executive Committee of the Federal Advisory Council convened in the Conference Room of the Federal Reserve Building, Washington, D.C., on Wednesday, November 6, 1946, the President, Mr. Brown, in the Chair.

Present: Mr. Edward E. Brown, President; Messrs. John C. Traphagen, David E. Williams, John H. McCoy, A. L. M. Wiggins, and Herbert V. Prochnow, Acting Secretary.

Absent: Mr. Charles E. Spencer, Jr., Vice President.

The Executive Committee discussed a recent statement of the Internal Revenue Department that every corporation must distribute, during the calendar year, 1946, a substantial part of its net earnings in dividends. The exact percentage has not been officially announced, but 70 per cent has been the amount referred to in discussions. It was the conclusion of the Executive Committee that there should be a clarification of the statement of the Internal Revenue Department in relation to banks, as many banks should retain their earnings and build up their capital structures.

There was a brief discussion of the origin and work of the Executive Committee of the Council.

The Executive Committee also discussed briefly Regulation Q, the work of the International Bank for Reconstruction and Development, and G. I. loans.

The meeting adjourned at 12:00 o'clock noon.

HERBERT V. PROCHNOW  
Acting Secretary.

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

November 6, 1946

At 12:15 P.M., a joint conference of the Executive Committee 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: Chairman Marriner S. Eccles; Vice Chairman Ronald Ransom; Governors Ernest G. Draper and R. M. Evans; also, Messrs. Elliott Thurston, Assistant to the Chairman; Chester Morrill, Special Adviser to the Board of Governors; S. R. Carpenter, Secretary of the Board of Governors; Merritt Sherman, Assistant Secretary of the Board of Governors; George B. Vest, General Counsel; Woodlief Thomas, Director, Division of Research and Statistics; Robert F. Leonard, Director, Division of Examinations; Edward L. Smead, Director, Division of Bank Operations; Carl E. Parry, Director, Division of Security Loans; and Liston P. Bethea, Director, Division of Administrative Services.

Present: Members of the Federal Advisory Council: Mr. Edward E. Brown, President; Messrs. John C. Traphagen, David E. Williams, John H. McCoy, A. L. M. Wiggins and Herbert V. Prochnow, Acting Secretary.

Absent: Mr. Charles E. Spencer, Jr., Vice President.

The Executive Committee and the Board of Governors discussed the recent releases of the Internal Revenue Department stating that unless a substantial portion of the net earnings of a corporation are distributed, the corporation must prove the amount withheld is not excessive or the corporation will be subject to a substantial additional tax. The Executive Committee suggested that the Board might wish to take some action to have the Internal Revenue Department clarify this matter as it relates to banks. Chairman Eccles reported that a committee of the American Bankers Association had discussed this matter with the Board and the Board is giving it consideration. The Chairman stated that the Board is in favor of some formula helpful to the banks but would not permit abuses for those attempting to evade taxes.

There was a brief discussion regarding Regulation Q.

In a consideration of the operations of the International Bank for Reconstruction and Development, both the Executive Committee and the Board agreed that banks should not be permitted to invest more than 10 per cent of their capital and surplus in the securities of the International Bank.

There was a discussion of the subject of G. I. loans and some of the difficulties which might develop if the loans are not wisely made.

The Chairman of the Board of Governors stated that the Board had reviewed its relations with the Council in the joint meetings over a period of years and had prepared a memorandum expressing its viewpoint with suggestions relating to future meetings. Chairman Eccles then proceeded to read the following statement:

STATEMENT MADE BY CHAIRMAN ECCLES ON BEHALF OF THE BOARD  
WITH RESPECT TO THE MEETINGS OF THE FEDERAL ADVISORY  
COUNCIL AND THE BOARD

For some time past the impression has been growing upon the Board that the relations of the Council and the Board have been drifting away from the original conception of the basic function of the Advisory Council. There are, therefore, two questions which the Board feels should have consideration, one relating to the function of the Council as such and the other to the periodic meetings of the executive committee.

With respect to the first point, there is no doubt that the Congress intended the Council to be an advisory body (see attached quotation from House Committee Report). The Council was to be a means of informing the Reserve Board as to conditions in the various districts, expressing banking opinion, and serving as a source of information upon which the Board might draw. It was to give the banking interests an official channel through which to make their views known to the Board. It grew out of a controversy which was settled by President Wilson when he decided against banker representation on the Board and proposed as an alternative that there should be a separate body composed entirely of bankers, known as the Federal Advisory Council.

A procedure has developed, however, which seems to us to be a departure from this purpose. The meetings of the Council and its executive committee with the Board have tended to become a medium for interrogation of members of the Board to an extent beyond what the Board believes was the intended scope of inquiries by the Council, rather than a medium for conveying the Council's advice and recommendations to the Board. The practice of submitting formal recommendations and discussing them has practically disappeared. Instead, the Council has very largely confined itself to a procedure of asking questions, which frequently relate to what members of the Board may be thinking about prospective legislation or possible actions in the field of policy or regulatory matters.

For the Council to undertake to ascertain the view of the Board as to future actions seems to us to be "putting the cart before the horse." What the Board might do at some future time with regard to proposed legislation or regulatory action, for example, we believe lies outside the field of the factual information for which the Council may call when necessary to supplement its own knowledge as a background for advice to the Board.

While the Board welcomes the Council's advice and recommendations as representing the banking point of view, and feels free to seek the opinion of the Council on matters of common interest, the Board feels that it should not be called upon to express views or answer questions as to actions which have not been taken or which the Board feels justified in regarding as confidential.

The Board does, however, desire to follow a procedure which will result in giving the Board the benefit of the Council's considered views on the important subjects which are of mutual interest and concern. As a practical means of accomplishing this purpose, it is believed that a procedure similar to that which has been worked out in meetings with the Presidents of the Federal Reserve Banks might well be adopted for future meetings of the Council with the Board. Under this procedure, the Presidents, in their separate sessions, review the subjects which they might wish to discuss with the Board, they obtain any factual information which they may desire in addition to what they already have, they formulate written statements, and they furnish copies of these written statements to the Board in advance of the joint session. A sufficient period of time is allowed to intervene before the joint session in order to enable the Board to review and consider these statements which the Presidents expect to present when they meet with the Board. As this procedure has proved to be satisfactory, the Board feels that a similar procedure might well be considered for future meetings of the Council and the Board.

With respect to the meetings of the executive committee of the Council, it is our view that, since the war is over and the process of reconversion is well under way, the periodic meetings of the Board with the executive committee should be discontinued and that future meetings should be confined to those with the Council as a whole. Although the text of the law provided that the Council might confer with the Board through its officers as well as directly, it is clear that the primary intent was that the Council as a whole meet with the Board. We do not believe it was contemplated that there would be an executive committee and especially not one which conducts regular meetings with the Board. The executive committee itself has recognized that it could not necessarily speak for the Council and, consequently, the questions and expressions of the executive committee have been those of the group of individuals, never more than half the Council, who constituted the executive committee.

It is therefore our view, as a peace-time procedure, that the periodic meetings of the Board with the executive committee should be discontinued and that future meetings should be confined to those of the entire Council at regular intervals, which ordinarily need not be more than the customary four times a year that prevailed before the war.

The Report of the Banking and Currency Committee of the House of Representatives on the original Federal Reserve Act contained the following on pages 47 and 48 with respect to the creation of a Federal Advisory Council:

“Section 13 provides for the creation of a Federal advisory council which is to consist of as many members as there are Federal reserve districts, each such district electing through the board of directors of its Federal reserve bank a representative of that bank. The functions of this board are wholly advisory and it would amount merely to a means of expressing banking opinion, informing the reserve board of conditions of credit in the several districts, and serving as a source of information upon which the board may draw in case of necessity. The desirability of such a body as a source of information and counsel is obvious, and it is believed that it gives to the banking interests of the several districts ample power to make their views known, and, so far as they deserve acceptance, to secure such acceptance.”

. . . . .

The meeting adjourned at 1:30 P.M.

HERBERT V. PROCHNOW  
Acting Secretary.

MINUTES OF MEETING OF THE EXECUTIVE COMMITTEE OF THE  
FEDERAL ADVISORY COUNCIL

November 6, 1946

At 2:45 P.M., the Executive Committee reconvened in the Conference Room of the Federal Reserve Building, Washington, D.C., the President, Mr. Brown, in the Chair.

Present: Mr. Edward E. Brown, President; Messrs. John C. Traphagen, David E. Williams, John H. McCoy, A. L. M. Wiggins and Herbert V. Prochnow, Acting Secretary.

Absent: Mr. Charles E. Spencer, Jr., Vice President.

The Executive Committee discussed the statement which the Chairman of the Board of Governors had read to the Executive Committee earlier in the day. A copy of the statement is a part of these printed minutes. The Executive Committee agreed that a written answer to the statement read by Chairman Eccles should be prepared for consideration at the meeting of the Federal Advisory Council in December.

The meeting adjourned at 4:03 P.M.

HERBERT V. PROCHNOW  
Acting Secretary.

NOTE: This transcript of the Acting Secretary's notes is not to be regarded as complete or necessarily accurate. The transcript is strictly for the sole use of the members of the Federal Advisory Council

H. V. P.

The Acting Secretary's notes on the meeting of the Executive Committee of the Federal Advisory Council on November 6, 1946, at 11:00 A. M., in the Conference Room of the Federal Reserve Building. All members of the Executive Committee of the Federal Advisory Council were present except Mr. Charles E. Spencer, Jr.

#### TAX ON UNDISTRIBUTED EARNINGS

WIGGINS calls attention to a recent published statement of the Internal Revenue Department that every corporation must distribute in the calendar year, 1946, a substantial part of its net earnings in dividends. The exact percentage has not been officially announced, but 70 per cent has been the amount referred to in discussions. In the event a corporation did not distribute this percentage of its earnings, the corporation would have to prove that the amount of net earnings not distributed was not an excessive withholding or the corporation would be subject to a special surtax up to 38 per cent of the amount withheld. Wiggins believes there should be a clarification of this Internal Revenue Department statement in relation to banks. Many banks should retain their earnings and build up their capital structures. The emphasis of various banking agencies in the past has been on the importance of building up the capital structure of banks.

MCCOY states that he talked with the Office of Collector of Internal Revenue in his district and was told the office in that district did not consider that this statement of the Internal Revenue Department applied to banks.

TRAPHAGEN comments that not long ago the banking authorities were urging banks to retain earnings in their business.

WILLIAMS thinks the principle is wrong as applied to all corporations.

BROWN believes it is desirable to bring this matter to the attention of the Board of Governors.

WORK OF THE EXECUTIVE COMMITTEE OF THE FEDERAL ADVISORY COUNCIL

BROWN reviews briefly the origin of the meetings of the Executive Committee of the Federal Advisory Council and points out that they have been particularly valuable in periods of emergency and during the war. During the war period, for example, it seemed especially desirable for at least a part of the Council to meet more often because of urgent matters that required attention. The Executive Committee has functioned at various times over the years when important matters needed prompt discussion.

WIGGINS thinks that after the new Congress convenes it is particularly important for the Executive Committee to meet with some frequency, even though it does not meet with the Board on all occasions.

BROWN believes it is important for the Executive Committee to meet with some regularity and points out that the tax problem Wiggins has just presented is typical of unexpected matters which develop and need attention immediately. In the case of this tax matter, it is important that action be taken immediately so all banks, particularly the smaller banks, receive information regarding it before their December meetings. Otherwise they might unwisely be led to pay out excessive amounts in dividends because of the Internal Revenue Department releases. All members of the Executive Committee agree with this viewpoint.

REGULATION Q

BROWN states that J. T. Brown has raised the question of the necessity for uniformity of action as between the Board of Governors and the Board of Directors of the F.D.I.C. in the matter of determining whether or not the absorption of exchange is to be considered a payment of interest on deposits in violation of the Federal Reserve Act. The Board of Governors, under their Regulation Q, considers the absorption of exchange as a payment of interest, but since they have no authority to extend their ruling to non-member banks, and since the Board of Directors of the F. D. I. C. does not so construe the absorption of exchange, some non-member banks in non-par territory are soliciting bank accounts on the basis of their ability to absorb exchange charges. Perhaps the Council could suggest to the Board the willingness of the Council to discuss the matter with the F.D.I.C. with the hope of establishing uniformity between the F. D. I. C. and the Board of Governors on this question.

WIGGINS states that the Executive Committee could advise the Board of Governors that the Executive Committee would like to see the F.D.I.C. change its position on this matter.

BROWN comments that the Executive Committee could also ask the Board of Governors whether the Board believes the F. D. I. C. would consider changing its viewpoint.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

BROWN. Two questions have arisen in connection with the work of the International Bank: First, should banks be allowed to deal in the securities of the International Bank in the same manner as they deal in government obligations? Second, should banks be allowed to invest more than 10 per cent of their capital and surplus in securities of the International Bank? In each case laws would be required to accomplish these objectives. Brown believes that banks should not be permitted to invest more than 10 per cent of their capital and surplus in securities of the International Bank. However, he believes that banks should be allowed to deal in these securities the same as they are allowed to deal in government obligations.

WILLIAMS does not think that banks should be allowed to invest over 10 per cent of their capital and surplus in these securities.

BROWN states that he strongly believes banks should not be allowed to invest over 10 per cent, as some banks which are hungry for earnings, might be inclined to invest a large percentage of their capital and surplus in the securities of the International Bank. They might be tempted to invest too heavily before the International Bank is firmly established.

G. I. LOANS

WIGGINS states that he is disturbed over the G. I. loans now being made by banks. He has carefully investigated some of these loans and feels certain that banks are headed for trouble and may experience real difficulty in the future. The G. I.'s have very little stake in the properties against which banks are advancing funds.

WILLIAMS agrees but states this whole problem is so much a part of the present functioning of our whole economy that it is difficult to do anything about it.

MCCOY states that he mentioned this situation at a recent meeting of the Council and advises that his bank has kept away from making G. I. loans.

WILLIAMS asks which is the best way to approach the problem. He suggests the possibility of taking the matter up through the State Banking Departments or State Bankers Associations.

BROWN suggests the Veterans Administration as a possible agency through which something might be done on this problem of excessive G. I. loans.

WIGGINS believes a situation is being built up in the urban mortgage field which is worse than the expansion in the 1920's.

TRAPHAGEN asks whether banks can place these loans in the

RFC.

WIGGINS. Yes just as fast as the banks can make them.

BROWN asks what the Board of Governors can do about the matter.

WIGGINS replies that the Board might make a timely warning.

TRAPHAGEN inquires whether the State Associations and other bankers groups should not issue the warnings.

BROWN comments that heretofore the Council has not approved the general idea of the Board of Governors having in its hands the control in our economy of the expansion and contraction of credit.

WIGGINS. In this situation the Board would not need specific controls of the kind they desire over consumer credit. They could merely give a timely warning.

TRAPHAGEN asks whether farm prices have risen substantially in value.

WIGGINS. Yes, as much as 100 per cent or more. Fortunately in his state there is a limit on the amount of G. I. loans which a bank can take. He believes the small banks are the most seriously concerned in this matter.

The meeting adjourned at 12:00 noon.

On November 6, 1946 at 12:15 P. M., a joint meeting of the Executive Committee 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.

All members of the Executive Committee were present except Mr. Charles E. Spencer, Jr. The following were present from the Board of Governors: Chairman Eccles, Vice Chairman Ransom, Governors Draper and Evans; also Messrs. Thurston, Morrill, Carpenter, Sherman, Vest, Thomas, Leonard, Smead, Parry and Bethea.

### TAX ON UNDISTRIBUTED EARNINGS

BROWN states that a matter has developed in the last thirty days which the Executive Committee believes is of importance. The Internal Revenue Department has given out releases that unless a substantial portion of the net earnings of a corporation are distributed, the corporation must prove the amount withheld is not excessive or the corporation is subject to an additional tax of as much as 38 per cent of the earnings withheld. In view of the high ratio of deposits to capital and surplus in many banks, it would be undesirable to have the banks, particularly the small banks with high ratios of deposits pay out too large a part of their earnings. Perhaps the Board could take some action with the Internal Revenue Department to clarify this matter.

ECCLES replies that a committee of the American Bankers Association discussed this matter with the Board last week and the Board is giving it consideration. The ownership of some banks is closely held, and in some instances these banks are being used by the owners to avoid taxes. The ratio of deposits to capital and surplus may not be important. To arrive at an acceptable ratio it is necessary to deduct from the deposits the cash and government securities which a bank holds. It is also necessary to deduct furniture and fixtures, as well as other real estate, from the assets, as they offer no real protection to depositors. Banks with large amounts in furniture, fixtures and building have assets which may not be too good in liquidation. On this income tax matter, the Board is in favor of some formula helpful to the banks but that would not permit abuses for those attempting to avoid taxes.

BROWN asks whether government securities would be deducted regardless of their length in determining the proper ratio of deposits to capital and surplus.

ECCLES. Yes, it is hardly conceivable that long term governments will go below par. The policy of the Federal Reserve System is to loan at par on these obligations. The Board is examining this income tax situation and wishes to protect the banks that deserve protection, but it does not desire to protect banks where the owners of the banks are retaining earnings in order to avoid taxes. The Board does not feel it should make a blanket recommendation because there are special situations.

BROWN states that something should be done before the December meetings of the banks to keep directors from paying too large an amount in dividends.

THOMAS reports that the banks have capital ratios of \$1 to \$3, that is, \$1 of capital to \$3 of risk assets.

MORRILL. A committee of the American Bankers Association has taken up this tax problem with the Board of Governors, the F. D. I. C. and the Comptroller.

ECCLES. The F. D. I. C. favors the highest possible capital and surplus in each bank. The viewpoint of the F. D. I. C. is the viewpoint of an insurance agency.

MORRILL. The Comptroller's office is generally sympathetic with the viewpoint of the A.B.A. committee.

#### REGULATION Q

BROWN asks whether there has been any change in the attitude of the F. D. I. C. on Regulation Q. He states that the Board and the Council have discussed this matter on numerous occasions, but it has again been presented by a member of the Council because of situations which have arisen where non-member banks in non-par territory are soliciting bank accounts on the basis of absorbing exchange.

MORRILL reports that a banker from Alexandria, Louisiana, has visited Harl, but Morrill does not believe Harl gave the banker any sympathy.

BROWN asks which member of the Board of Governors is in charge of Regulation Q.

RANSOM replies that Vardaman is in charge of this matter.

ECCLES states that the F. D. I. C. desires every non-member bank to stay out of the Federal Reserve System and every member bank to get out of the Federal Reserve System. As long as there are three banking agencies, these conflicts are certain to develop. The Board

does not think there is anything to be done. Eccles believes the real danger in the situation is the possibility of renewed pressure for the payment of interest on demand deposits. If bank earnings become less favorable and if banks get to the point where they want more deposits to make money, then this issue will make trouble. If you could get the forty-eight states to pass par clearance legislation, it would help, but obviously that would be impossible.

MORRILL. The F.D.I.C. has a bank examining staff and every time a non-member bank becomes a member of the Federal Reserve System, the F.D.I.C. examining staff loses a bank which they can examine. Consequently, the F.D.I.C. does not object to the absorption of exchange charges as they do not wish to do anything which will offend the non-member banks.

#### INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

BROWN. There are two questions concerning the operations of the International Bank which the Executive Committee should like to discuss with the Board. First, there is the question of whether banks should be permitted to invest more than 10 per cent of their capital and surplus in the securities of the International Bank. Second, there is the question of whether banks should be permitted to deal in the obligations of the International Bank.

ECCLES states that legislation would be required to permit the banks to hold more than 10 per cent and also to permit them to deal in the securities of the International Bank. There have been proposals that the securities of the International Bank be classed as investment securities to permit banks to hold them. The Aldrich Committee favors permitting banks to invest 20 per cent of their capital and surplus in these securities. The Aldrich Committee also favors placing these securities in the same class as governments and municipals so banks can deal in them. Eccles does not favor permitting banks to invest more than 10 per cent of their capital and surplus in securities of the International Bank. He does not believe the banks should build up their portfolios with these securities any more than they should build up their portfolios with long term governments. If every bank took its limit, the total taken would not be over \$600 to \$700 million. Eccles does not believe the banks should have the right to deal in securities of the International Bank.

BROWN reports that the Executive Committee agrees with the Board on the matter of not permitting the banks to invest more than 10 per cent of their capital and surplus in securities of the International Bank. However, the Executive Committee believes that banks should have an opportunity to deal in these securities. The bonds dealt in should be included in the 10 per cent.

## G. I. LOANS

BROWN asks whether the Board is in a position to do anything about the inflated loans of G. I.'s on real estate. He asks Wiggins to comment on the subject.

WIGGINS. A bad situation is developing which will mean trouble for the banks and the whole economy. If a veteran fails to make payments, foreclosure follows. Even if the banks do not lose money as the result of foreclosure, they will lose good will.

ECCLES. The inflationary situation in G. I. loans also applies to other developments in our economy. The insurance companies are even worse now than the building and loan associations. The insurance companies are getting borrowers to refund present real estate loans for larger amounts and at lower rates. The building and loan associations are worse than the banks and the insurance companies are worse than the building and loan associations. Eccles believes the froth is off the real estate market. The increased cost of housing has tended to price housing out of the market. Eccles suggests that a committee of the American Bankers Association meet with Bradley of the Veterans Administration and point out what is taking place.

WIGGINS comments that the veteran has no stake in the property now. He gets 100 per cent of an inflated value.

ECCLES reports that if the Wagner-Taft-Ellender Bill is ever passed, and Taft has indicated in the news reports today that he will now push the bill, the situation will become far worse. Eccles thinks that if the Board had the complete facts about the G. I. loans, the Board might discuss the matter with the Veterans Administration. Correcting the situation would work for the welfare of the veterans themselves. The G. I. loans should not be made for excessive values. If the A. B. A. would make a survey of the banks and give the Board the facts, it would provide the Board with some basis for action.

## SPECIAL STATEMENT BY CHAIRMAN ECCLES

ECCLES. The Board has reviewed its relations with the Council in the joint meetings over a period of years, and the Board believes that these meetings are not now being conducted in accordance with the original purpose for which they were established. Eccles then asks permission to read a written statement, a copy of which is attached to these minutes. Eccles states that he will leave the statement for the Council to consider. He thinks that the Council should submit its questions and its recommendations on them to the Board in writing, insofar as that is possible. The Board can then study the items submitted for consideration.

BROWN asks whether the statement which the Chairman of the Board has read may be sent to all members of the Council.

ECCLES replies that it may be sent to all Council members.

BROWN. The Council will wish to discuss the statement of the Chairman, and it is possible that there may be a difference of opinion with the Board on the procedure for the conduct of the joint meetings of the Council and the Board. On matters of banking legislation, for example, the Board has often taken the position that it would not discuss such matters with the Council while the Board was preparing its recommendations to Congress. Consequently, any recommendations the Council might make to the Board would be too late for the Board to consider, and the Council might be in the position of having to oppose the Board before a Committee of Congress.

ECCLES states that in permitting twelve members of the Council to ask questions, the situation is such that Eccles does not know whether every member of the Board agrees with the answers he gives. Generally, he has found that the members of the Board agree with his answers, but on some occasions they have given opposing answers to the questions.

RANSOM. The Board should have the opportunity to discuss the questions fully in advance so that the Board members are all in agreement. He mentions that the proposed arrangement which the Chairman presented in the written statement conforms to the arrangement the Board now has with the presidents of the Federal Reserve banks.

ECCLES states that at the last meeting of the Council and the Board a number of the Council members asked questions and arguments almost resulted. Eccles decided the procedure was wrong and upon his return to his office prepared the statement which he read today. He implied that the statement had the approval of all of the members of the Board.

WIGGINS asks whether it is desired that the various members of the Council refrain from asking questions and permit only the president of the Council to ask questions.

ECCLES. No, that is up to the Council.

WIGGINS. Might the Executive Committee, under the proposed arrangement, bring up special matters for a special session?

ECCLES. Yes, but the Executive Committee should speak for the entire Council.

The meeting adjourned at 1:30 P. M.

The Executive Committee of the Council reconvened in the Conference Room of the Federal Reserve Building at 2:45 P. M. on November 6, 1946. All members of the Executive Committee were present except Mr. Charles E. Spencer, Jr.

SPECIAL STATEMENT OF CHAIRMAN ECCLES

BROWN states that it is possible there may not be so many emergency matters for discussion in this post-war period as there were during the war and the Executive Committee may be called upon to meet less frequently.

WILLIAMS asks whether there are any objections to the Executive Committee speaking for the Council.

WIGGINS believes the Executive Committee should have the power to speak for the Council. On a highly controversial matter the Executive Committee could telephone the other Council members for their views.

TRAPHAGEN does not believe the Council will have any objections to clothing the Committee with the power to speak for the Council.

WILLIAMS believes this recommendation should be made to the Council at the next meeting of the Council.

MCCOY thinks the Council would be willing to give the Executive Committee power to handle matters arising during the interim between the regular meetings of the Council.

WIGGINS states that the Council can hardly be expected to make recommendations to the Board on such matters as banking legislation, for example, if the Board has already taken a position before the Council has had an opportunity to make a recommendation.

BROWN reads Section 12 of the Federal Reserve Act dealing with the powers of the Council. (A copy of Section 12 is attached to these minutes.)

WIGGINS believes a written answer to Eccles should be prepared for consideration at the Council meeting in December.

BROWN thinks that the solution to some of the problems which the Council has had with the Board may depend upon who fills the vacancy in the Board.

TRAPHAGEN believes the Council should make a full statement of what it believes its powers are under the Federal Reserve Act; otherwise, the Council may limit its powers for a long time to come.

BROWN. In the early days of the Federal Reserve System there was no such elaborate system of statistics and information as is now available and no one then either could anticipate the problems that require discussion today.

WIGGINS believes the written memorandum of the Council should perhaps state that the Council should feel entirely free to present its views to Congress on banking legislation.

BROWN. The policy in the past has been to try to iron out differences of opinion on banking legislation with the Board before the proposed legislation was presented to Congress.

WILLIAMS states that he has no desire to get into a political argument with Eccles, but the issue must be met on a basis of what is best for the country.

BROWN. The meetings of the Council and the Board should be executive sessions.

MCCOY. The Chairman of the Board has opened up the issue regarding the powers and responsibilities of the Council and the Council must meet the issue.

BROWN. All the members of the Executive Committee agree that it is desirable to meet fully the issues that have been raised. (It was agreed that the meeting of the full Council would take place on December 1, 2 and 3, that is, for three days instead of the two-day session originally planned).

WIGGINS. In making a written statement to the Board, the Council should state that the right to make oral statements is reserved to the Council, in accordance with the powers given the Council in the Federal Reserve Act.

BROWN states that it is inconceivable that it was intended in the Federal Reserve Act that the Board was not to discuss banking legislation with the Council before the Board made its recommendations to Congress. It would merely lead to confusion and additional problems to have the Council make its recommendations to the Board after the Board had already made its recommendations to Congress on banking legislation.

The meeting adjourned at 4:03 P. M.

Herbert V. Prochnow,  
Acting Secretary

Statement made by Chairman Eccles on behalf of  
the Board with respect to the meetings of the  
Federal Advisory Council and the Board

For some time past the impression has been growing upon the Board that the relations of the Council and the Board have been drifting away from the original conception of the basic function of the Advisory Council. There are, therefore, two questions which the Board feels should have consideration, one relating to the function of the Council as such and the other to the periodic meetings of the Executive Committee.

With respect to the first point, there is no doubt that the Congress intended the Council to be an advisory body (see attached quotation from House Committee Report). The Council was to be a means of informing the Reserve Board as to conditions in the various districts, expressing banking opinion, and serving as a source of information upon which the Board might draw. It was to give the banking interests an official channel through which to make their views known to the Board. It grew out of a controversy which was settled by President Wilson when he decided against banker representation on the Board and proposed as an alternative that there should be a separate body composed entirely of bankers, known as the Federal Advisory Council.

A procedure has developed, however, which seems to us to be a departure from this purpose. The meetings of the Council and its Executive Committee with the Board have tended to become a medium for interrogation of members of the Board to an extent beyond what the Board believes was the intended scope of inquiries by the Council, rather than a medium for conveying the Council's advice and recommendations to the Board. The practice of submitting formal recommendations and discussing them has practically disappeared. Instead, the Council has very largely confined itself to a procedure of asking questions, which frequently relate to what members of the Board may be thinking about prospective legislation or possible actions in the field of policy or regulatory matters.

For the Council to undertake to ascertain the view of the Board as to future actions seems to us to be "putting the cart before the horse". What the Board might do at some future time with regard to proposed legislation or regulatory action, for example, we believe lies outside the field of the factual information for which the Council may call when necessary to supplement its own knowledge as a background for advice to the Board.

While the Board welcomes the council's advice and recommendations as representing the banking point of view, and feels free to seek the opinion of the Council on matters of common interest, the Board feels that it should not be called upon to express views or answer questions as to actions which have not been taken or which the Board feels justified in regarding as confidential.

The Board does, however, desire to follow a procedure which will result in giving the Board the benefit of the Council's considered views on the important subjects which are of mutual interest and concern. As a practical means of accomplishing this purpose, it is believed that a procedure similar to that which has been worked out in meetings with the Presidents of the Federal Reserve Banks might well be adopted for future meetings of the Council with the Board. Under this procedure, the Presidents, in their separate sessions, review the subjects which they might wish to discuss with the Board, they obtain any factual information which they may desire in addition to what they already have, they formulate written statements, and they furnish copies of these written statements to the Board in advance of the joint session. A sufficient period of time is allowed to intervene before the joint session in order to enable the Board to review and consider these statements which the Presidents expect to present when they meet with the Board. As this procedure has proved to be satisfactory, the Board feels that a similar procedure might well be considered for future meetings of the Council and the Board.

With respect to the meetings of the Executive Committee of the Council, it is our view that, since the war is over and the process of reconversion is well under way, the periodic meetings of the Board with the Executive Committee should be discontinued and that future meetings should be confined to those with the Council as a whole. Although the text of the law provided that the Council might confer with the Board through its officers as well as directly, it is clear that the primary intent was that the Council as a whole meet with the Board. We do not believe it was contemplated that there would be an Executive Committee and especially not one which conducts regular meetings with the Board. The Executive Committee itself has recognized that it could not necessarily speak for the Council and, consequently, the questions and expressions of the Executive Committee have been those of the group of individuals, never more than half the Council, who constituted the Executive Committee.

It is, therefore, our view, as a peace-time procedure, that the periodic meetings of the Board with the Executive Committee should be discontinued and that future meetings should be confined to those of the entire Council at regular intervals, which ordinarily need not be more than the customary four times a year that prevailed before the war.

Attachment.

The Report of the Banking and Currency Committee of the House of Representatives on the original Federal Reserve Act contained the following on pages 47 and 48 with respect to the creation of a Federal Advisory Council:

"Section 13 provides for the creation of a Federal advisory council which is to consist of as many members as there are Federal reserve districts, each such district electing through the board of directors of its Federal reserve bank a representative of that bank. The functions of this board are wholly advisory and it would amount merely to a means of expressing banking opinion, informing the reserve board of conditions of credit in the several districts, and serving as a source of information upon which the board may draw in case of necessity. The desirability of such a body as a source of information and counsel is obvious, and it is believed that it gives to the banking interests of the several districts ample power to make their views known, and, so far as they deserve acceptance, to secure such acceptance."

The Federal Advisory Council is provided for in Section 12 of the Federal Reserve Act, which provides as follows:

CREATION, MEMBERS, AND MEETINGS

"Sec. 12. There is hereby created a Federal Advisory Council, which shall consist of as many members as there are Federal reserve districts. Each Federal reserve bank by its board of directors shall annually select from its own Federal reserve district one member of said council, who shall receive such compensation and allowances as may be fixed by his board of directors subject to the approval of the Board of Governors of the Federal Reserve System. The meetings of said advisory council shall be held at Washington, District of Columbia, at least four times each year, and oftener if called by the Board of Governors of the Federal Reserve System. The council may in addition to the meetings above provided for hold such other meetings in Washington, District of Columbia, or elsewhere, as it may deem necessary, may select its own officers and adopt its own methods of procedure, and a majority of its members shall constitute a quorum for the transaction of business. Vacancies in the council shall be filled by the respective reserve banks, and members selected to fill vacancies shall serve for the unexpired term. (12 U.S. Code 261).

POWERS

The Federal Advisory Council shall have power, by itself or through its officers,

- (1) to confer directly with the Board of Governors of the Federal Reserve System on general business conditions;
- (2) to make oral or written representations concerning matters within the jurisdiction of said board;
- (3) to call for information and to make recommendations in regard to discount rates, rediscount business, note issues, reserve conditions in the various districts, the purchase and sale of gold, or securities by reserve banks, open-market operations by said banks, and the general affairs of the reserve banking system. (12 U. S. Code 262)."