September 17, 1945

At 2:15 P. M., the Federal Advisory Council reconvened in the Board Room of the Federal Reserve Building, Washington, D. C., the President, Mr. Brown, in the chair.

Present: Mr. Edward E. Brown, President; Mr. Charles E. Spencer, Jr., Vice President; Messrs. John C. Traphagen, John H. McCoy, Robert V. Fleming, Keehn W. Berry, Julian B. Baird, A. E. Bradshaw, Ed H. Winton, George M. Wallace, Walter Lichtenstein, Secretary, and Herbert V. Prochnow, Acting Secretary.

Absent: Mr. William Fulton Kurtz

Mr. Ralph C. Gifford

Mr. Woodlief Thomas, Director, Division of Research and Statistics of the Federal Reserve System, discussed general economic conditions.

The meeting adjourned at 3:20 P. M.

HERBERT V. PROCHNOW,
Acting Secretary.

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

October 3, 1945

At 11:05 A. M., the Executive Committee of the Federal Advisory Council convened in the Board Room of the Federal Reserve Building, Washington, D. C., the President, Mr. Brown, in the chair.

Present: Mr. Edward E. Brown, President; Mr. Charles E. Spencer, Jr., Vice President; Messrs. John C. Traphagen, William Fulton Kurtz, Robert V. Fleming, Ralph C. Gifford, and Herbert V. Prochnow, Acting Secretary.

There was a discussion regarding the Bill to Reorganize Government Agencies (H. R. 4129) and its relationship to the banking agencies.

Brief discussions took place regarding the Bill to Amend the Clayton Act (H. R. 2357), the proposed loan to Great Britain and plans for future government financing.

The meeting adjourned at 12:00 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

October 3, 1945

At 12:10 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; Governors M. S. Szymczak, Ernest G. Draper and R. M. Evans; also, S. R. Carpenter, Secretary of the Board of Governors; J. J. Connell, General Assistant, Office of the Secretary; Walter Wyatt, General Counsel; George B. Vest, General Attorney; Woodlief Thomas, Director, Division of Research and Statistics; 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 Executive Committee of the Federal Advisory Council:

Mr. Edward E. Brown, President; Mr. Charles E. Spencer, Jr., Vice President; Messrs. John C. Traphagen, William Fulton Kurtz, Robert V. Fleming, Ralph C. Gifford, and Herbert V. Prochnow, Acting Secretary.

There was a lengthy discussion regarding the Bill to Reorganize Government Agencies (H. R. 4129).

In connection with the Bill to Amend the Clayton Act (H. R. 2357), the Chairman of the Board of Governors stated the Board favors the bill.

The Chairman of the Board of Governors spoke briefly regarding the proposed loan to Great Britain and future government financing.

The meeting adjourned at 1:21 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 October 3, 1945, at 11:05 A. M., in the Board Room of the Federal Reserve Building. All members of the Executive Committee of the Federal Advisory Council were present, Mr. Kurtz joining the meeting at 11:12 A. M., and Mr. Fleming at 11:17 A. M.

BILL TO REORGANIZE GOVERNMENT AGENCIES (H. R. 4129

Brown states the most important matter for discussion is the bill for reorganizing agencies of the Government, particularly as it relates to agencies dealing with banking. He believes Eccles has the idea that the Board of Governors should take over the primary functions of the Comptroller's office and of the FDIC. Eccles also has the idea that you cannot have effective credit control unless you have control over bank examinations. He would undoubtedly favor rigid examinations in time of boom and less strict examinations in time of depression. Eccles proposed such ideas in the past, but they met with the opposition of both Morgenthau, and Crowley and his ideas did not get very far. Morgenthau offered a counter-proposal which was that the Federal Reserve Board should be made a part of the Treasury inasmuch as the Treasury has the responsibility for financing the Government's needs. Brown has discussed this matter with both Delano and Crowley. He suggests that one possibility would be for the Council to use its efforts to have the FDIC and the Comptroller's office exempt from the bill. (Kurtz entered at 11:12 A. M.) Eccles has written a letter asking specifically that the Board be not exempt in the bill. If the bill gets to the floor of the House, it may be difficult to amend; however, in the Senate it might be possible to have amendments considered. Brown also raises the question of discussing the matter with the American Bankers' Association, the Reserve City Bankers' Association, and other interested groups. (Fleming entered at 11:17 A. M.)

Spencer understands that if the present bill passes, the President is allowed to reorganize or abolish Government agencies, unless Congress objects within 60 days to the President's plan for the reorganization.

Fleming. The idea back of this reorganization bill has come up repeatedly over several years, and he has discussed the matter with a number of officials of the Government. He mentions that he saw an article in the American Banker stating that the general idea of the bill as it relates to the reorganization of the agencies dealing with the banking system would be to have the Comptroller's office become the examining body, the FDIC the insuring body and the Board of Governors the policy-making body. Fleming believes that the conflicts which would result from such a division of authority would make any reorganization along these lines unworkable. A bank examiner, for example, might have to take up a problem with the Comptroller's office regarding an examination, and the Comptroller's office would have to take up a question of policy with the Board of Governors. The delays and conflicts which would result would be unfortunate and clearly would not make such a division of authority desirable. It is illogical to have the examinations handled by one agency and the policy-making by another.

Brown. Crowley believes the examining function should be kept out of the control of the Board of Governors. Brown thinks the National Bank Division of the American Bankers Association might well give consideration to the problems which this bill raises. He points out that the expense of national bank examinations is paid by the banks.

Fleming states that as of June 30, as he recalls, the total assets of all banks were distributed approximately as follows: $85 billion in the national banks; $42 billion in the state member banks; and $17 billion in the nonmember banks, making a total of $144 billion in assets for all banks. These figures indicate that national banks have substantially more in assets than either one of the other two groups.

Brown. A poll of the national banks would undoubtedly show that these banks are against the reorganization of these agencies along the lines now apparently being considered. He believes such a national bank poll would be most influential when the Senate considers the measure. Delano will probably not strongly oppose the reorganization and particularly not if they should make the Comptroller of the Currency, the Secretary of the Treasury and the head of the FDIC members of the Board of Governors.

Kurtz. It might not be so bad if the banking system could be assured that the Board of Governors would always be a strong and highly competent Board.

Fleming thinks that even so there would be undesirable aspects of such a reorganization.

Brown. We have an unusual situation in the long and successful record of the Comptroller's office for 82 years, and this is too valuable a tradition to lose. By and large the Comptroller's office has never operated on political lines, but has built up a tradition of handling its affairs on a basis of what was best for the national banking system. It might be permissible to give the right to open new banks to the Board, and it might also be satisfactory to transfer to the Board the regulation of certain investments of banks.

Fleming mentions that both the American Bankers' Association and the Reserve City Bankers' Association are going to petition for the abolition of the special licensing of banks by the Treasury.

BILL TO AMEND THE CLAYTON ACT (H. R. 2357)

Brown. Another matter to be discussed is the bill to amend the Clayton Act, which bill apparently is of some concern to Mr. Needham and to those interested in the state banking systems. The Federal Trade Commission has had certain authority to prevent unlawful restraints, monopolies and activities which lessened competition. The bill to amend the Clayton Act not only provides control over the acquisition of stock of companies, but the acquisition of assets as well, and it provides that these acquisitions shall be approved before they occur. Under this bill the Board of Governors would have essentially the same power in relation to banks that the Federal Trade Commission has in relation to other businesses. Indirectly, this might be considered as another means of stopping certain large bank holding company interests. At present if you buy the bulk or all of the assets of a bank, you need no approval, but if you try to maintain the institution purchased as a branch, the Comptroller must approve the branch.

Spencer mentions a case where his bank bought the assets of another bank but obtained the Comptroller's permission to maintain the office of the purchased bank.

Brown. Those interested in state banking believe that what this measure may do is to require a state bank to get state permission and also Federal permission in connection with the acquisition of a bank. Mr. Needham feels that in a sense this might break down the dual banking system.

BRITISH FINANCING

Fleming believes it would be desirable to ascertain from the Board the present status of the discussion on the proposed loan or grant to Great Britain.

FUTURE GOVERNMENT FINANCING

Traphagen suggests that it might be advisable to ask the Board whether any plans are being made for future Government financing.

Fleming understands the sale of savings bonds will be continued. Rathje has appointed Fleming head of a committee to discuss the matter of Government financing. Brown, Spencer and others are on the committee. Fleming expects to talk with Vinson.

Brown says Vinson wants taxes taken off that hamper business. He has suggested to Vinson that the excess profit tax be eliminated. Vinson understands taxation thoroughly.

Kurtz asks whether Vinson's tax ideas will prevail.

Brown thinks the repeal of the excess profit tax is probable. Some companies not paying an excess profit tax believe it should be retained.

Gifford. Has a successor to Crowley been suggested?

Brown does not know of any successor who has been suggested.

The meeting adjourned at 12 Noon.

On October 3, 1945, at 12:10 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, and the following were present from the Board of Governors: Chairman Eccles, Governors Szymczak, Draper and Evans; also, Messrs. Carpenter, Wyatt, Vest, Thomas, Smead, Parry, Bethea, and Connell.

BILL TO REORGANIZE GOVERNMENT AGENCIES (H. R. 4129)

Brown states that the Council understands a bill providing for reorganizing agencies of the Government is now under consideration and asks what the attitude of the Board is regarding this bill.

Eccles. The Federal Deposit Insurance Corporation and the Board of Governors were originally exempt. Some Government agencies had tried to be exempt, but Eccles specifically asked that the Board be not exempt. He stated that he could not consistently ask that the Board be excluded in view of the fact that the Board had favored a reorganization in its 1938 report. He stated that he had discussed the subject with Snyder and that Snyder had criticized the FDIC, alleging that the FDIC was out in the field urging that it be exempt from the reorganization.

Fleming asks what Eccles' 1938 report contained.

Eccles states that the report pointed out the general overlapping of the agencies.

Brown asks whether the Board has put forth any program regarding the consolidation of the agencies.

Eccles replies that the Board has not set forth any program.

Fleming mentions that he had read in the American Banker some comments to the effect that it was planned to have the Comptroller's office become the examining body, the Federal Deposit Insurance Corporation the insuring body, and the Board of Governors the policy-making body.

Eccles doubts whether anything like that will happen. He has discussed the matter in the past with many Government officials and has talked particularly with Harold Smith and his associates. They are well informed regarding the problem.

He is sure that any reorganization of these agencies will be done by men who understand the problem thoroughly.

SZYMCZAK. The banks apparently favor any measure that consolidates agencies and reduces expenses, except where it relates to the banking agencies.

ECCLES agrees. He thinks the banks will want to keep the three agencies separate---a divide and conquer policy-- pitting one agency against the other. He states that he has seen the banks follow exactly this policy in dealing with the Government agencies.

FLEMING comments that the national banks control the largest portion of the nation's banking assets. (At this point Eccles reads a letter from Harold Smith highly commending the Board in asking to be included in the reorganization. Thomas reads figures as of December 30, 1944 showing total commercial bank deposits of $128 billion of which $71 billion in deposits were in the national banks and $39 billion were in deposits in the state member banks.)

BROWN believes 95 per cent of the number of National banks and banks representing 95 per cent of the national bank assets would vote to keep the Comptroller's office out of the reorganization. He points out that certain functions of the Comptroller might be transferred.

SZYMCZAK. Some functions might have to go to the Treasury.

ECCLES. One thing the Board should have is control of the examination of banks so it can have the necessary controls in booms and depressions. If the Board took over the examination of banks, the banks would not have to pay the expenses. It might also not be necessary to examine the banks twice a year, and it might not even be necessary to examine some banks once a year. Eccles apparently hopes to use the expense and the reduction in the number of examinations as inducements to get the national banks to approve the idea.

FLEMING. An examination has a good effect on the staff of a bank.

ECCLES. Sometimes the Board has pursued one policy, the Federal Deposit Insurance Corporation another policy, and the Comptroller's office still another policy. The depression of the 30's was not due to bad bank loans. Loans that are good on an $80 billion annual national income basis are still better on a $140 billion annual national income basis, but they may be no good on an annual national income of $40 billion. He points out that banks are making term loans now for 2 and 2-1/2 per cent for periods running from 5 to 10 years. If the national income fell to $100 billion or less, these loans might not look so good until such a period as the national income might again rise. The result might be that examiners would criticize a loan when the national income fell and later approve the loan when the national income was higher. The whole question of loans and bond accounts is interwoven with the monetary and fiscal policies and the economic stability of the country.

FLEMING asks whether the Board will discuss with the Council its plans on reorganization when the plans are ready.

ECCLES doubts whether the Board will discuss these plans with the Council.

SZYMCZAK comments that the average banker believes in retaining the present agencies and is not in favor of consolidating them.

ECCLES doubts whether the Administration will even ask the Board its opinion because there are too many special agencies to consult, each one having certain selfish interests.

SZYMCZAK. In a reorganization, all the functions might even be placed in the Treasury.

ECCLES. Any reorganization could not be worse than the present system.

GIFFORD. If the Federal Reserve System should examine all banks, then the non-members might advertise that they were examined by the Federal Reserve System.

ECCLES replies that member banks do not seem to find any advantage in advertising that they are members of the System, but that all of them advertise that they are members of the FDIC.

FLEMING states that banks are compelled by law to advertise that they are members of the FDIC.

BILL TO AMEND THE CLAYTON ACT (H. R. 2357)

BROWN asks whether the Board would care to express its attitude on the bill now being considered to amend the Clayton Act.

ECCLES replies that the Board is for the bill. The Board does not wish to leave the question of monopoly in banking to the Federal Trade Commission. (At this point Vest outlines two of the features of the bill as follows: (1) The Federal Trade Commission shall have control over the acquisition of assets as well as the stock of companies; (2) the consent of the Federal Trade Commission shall be obtained before there can be any such acquisition). The Board wishes to have the same power in banking which the Federal Trade Commission has in other fields.

BROWN. Some persons who are interested in the state banking systems feel that under this bill they will need not only the permission of state banking authorities in these matters, but also the permission of the Board, and that they would weaken the dual banking system.

ECCLES. The bill gives the Federal authorities a chance to consider the situation first rather than afterwards.

BROWN states that in Chicago there have been cases of banks in bad condition which were about to close and where it was possible to obtain prompt action by the local examiner with the Comptroller giving his approval to the action in the middle of the night. He wonders whether such prompt action would be possible if it should prove necessary to go to the Board.

ECCLES. This bill is not concerned with a case such as Brown mentions. Prompt action would be taken in a matter of that kind. The bill aims to prevent monopoly and the lessening of competition.

FLEMING doesn't see where the bill would seriously hurt banking.

BROWN sees no real objection to it, but the American Bankers Association and some state groups are worried about it.

ECCLES. The bill simply provides that before a group can buy out a bank they must obtain the consent of the Federal authorities, just as they would have to obtain consent in getting a new charter.

BRITISH FINANCING

BROWN. Is there any further information on the discussions with the British since the Council met in September?

ECCLES states that there is no additional information. The situation is difficult and complicated. The country seems to be going to isolationism fast, and it would be difficult to put through a British loan. Consequently, Britain may be forced to strict controls and the making of direct (bilateral) deals with various nations

TRAPHAGEN asks whether that isn't a change in Eccles' viewpoint since September.

ECCLES. No; last month I spoke of the need for assistance to the British, but I was not hopeful. Britain may have to go to a Russian type of economy. Eccles believes an unbalanced British budget and a shortage of goods will bring inflation and later deflation.

FUTURE GOVERNMENT FINANCING

BROWN. Have there been any discussions on future Government financing plans?

ECCLES says there have been no new discussions and there will not be any, at least until after the meeting of the Open Market Committee in the near future.

BROWN understands that Snyder's and Vinson's views are that they wish no discussions until this drive is over.

ECCLES says it looks like 2-1/2 per cent is too much for the Government to pay. He does not believe there will be any new financing until after next June.

The meeting adjourned at 1:21 P. M.

NOTE: The Executive Committee met for ten minutes after the joint meeting of the Executive Committee and the Board and discussed informally possible courses of action which might be taken in connection with the bill relating to the reorganization of Government agencies.