

A meeting of the Board of Governors of the Federal Reserve System with the Federal Advisory Council was held in the offices of the Board of Governors in Washington on Tuesday, October 8, 1940, at 10:30 a.m.

PRESENT: Mr. Eccles, Chairman  
Mr. Szymczak  
Mr. McKee  
Mr. Davis  
Mr. Draper

Mr. Morrill, Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Clayton, Assistant to the Chairman  
Mr. Thurston, Special Assistant to the Chairman  
Mr. Wyatt, General Counsel  
Mr. Smead, Chief of the Division of Bank Operations  
Mr. Parry, Chief of the Division of Security Loans  
Mr. Paulger, Chief of the Division of Examinations  
Mr. Dreibelbis, Assistant General Counsel  
Mr. Vest, Assistant General Counsel  
Mr. Thomas, Assistant Director of the Division of Research and Statistics

Messrs. Steele, Loeb, Huntington, Brown, Ragland, Crosby, Evans, Harding and Dick, Members of the Federal Advisory Council representing the First, Third, Fourth, Seventh, Eighth, Ninth, Tenth, Eleventh and Twelfth Federal Reserve Districts, respectively

Mr. W. F. Crowley, Vice President, Fulton National Bank, Atlanta, Georgia, representing the Sixth Federal Reserve District in the absence of Mr. Clay

Mr. Walter Lichtenstein, Secretary, Federal Advisory Council

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ALSO PRESENT: Messrs. Roland Palmedo, F. N. Eaton and Samuel E. Neel from Mr. Knudsen's office of the National Defense Commission

At the request of the Federal Advisory Council, Mr. Eaton distributed a few copies of the current draft of the emergency plant facilities contract, and a brief outline by him of the place which the contract was expected to take in furthering the defense program was followed by a discussion by the representatives of the National Defense Commission of a number of questions asked by members of the Council relating to the contract. During the discussion it was stated that the contract was not yet in final form and that copies thereof would be furnished to the Board of Governors and sent to the members of the Council as soon as the final form had been agreed upon.

At the conclusion of the discussion of the contract Messrs. Palmedo, Eaton and Neel left the meeting.

Mr. Lichtenstein read the following recommendation which had been adopted by the Council at its separate meeting:

"TOPIC No. 1. Financing of war defense program.

"RECOMMENDATION: The Federal Advisory Council believes the danger of inflation would be increased by a material addition to the already large holdings of Government securities in the commercial banking system. The Council, therefore, urges the Board of Governors of the Federal Reserve System to use its influence to the end that future issues of Government securities be placed, as far as possible, with individual and corporate investors, including insurance companies, trusts, and savings institutions, rather than with banks of deposit; terms and maturities of future issues should

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"be fixed with a view of encouraging ownership by such investors and discouraging ownership by banks of deposit."

Upon inquiry from Mr. McKee as to what the Council proposed that the Board do with the recommendation and whether it was felt that it should be transmitted to the Treasury, Mr. Brown stated that he assumed that it would be sent to the Treasury and published by the Board in due course. He added that it might be well, if in the judgment of the Board it was desirable to do so, to publish the statement between now and the end of the year. In the ensuing discussion, members of the Council agreed with a suggestion by Mr. Steele that it be left to the Board to determine what action it should take in connection with the recommendation.

Mr. Brown then stated that, pursuant to the suggestion made at the meeting of the Council with the Board yesterday, a committee of the Council consisting of Messrs. Fraser, as chairman, and Messrs. Loeb, Hanes and Evans, had been appointed to meet with a committee of the Board to discuss the "easy money" statement submitted by the Council and the Board's reply, with the understanding that the Council's committee would make its report at the next meeting of the Council on November 17-19, 1940.

Chairman Eccles stated that the Board would appoint a committee which will be available to meet with the Council's committee at the latter's convenience.

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Mr. Davis suggested that it would be desirable for an arrangement to be made by which Mr. Lichtenstein could be kept advised of developments in connection with defense financing with the understanding that he in turn would keep the members of the Council informed. In that connection, Mr. Davis reported that the Defense Commission had recently appointed a small subcommittee to study the question of how small manufacturers and suppliers throughout the country who are unaccustomed to bidding on Federal contracts could be assisted to get some of the new defense business. It is probable, he said, that the plan this committee proposes will suggest that the personnel and facilities of the Federal Reserve Banks and branches might be made use of as local posts of information and advice to member banks and local manufacturers. To the extent this is done it would tend to relieve local manufacturers of the necessity of coming to Washington for their information and guidance.

Mr. Eccles stated that he saw no reason why an arrangement could not be made under which one or more individuals at the respective Federal Reserve Banks and branches could be assigned to keep themselves fully informed on these matters and perform the functions suggested by Mr. Davis.

Mr. Draper stated that work was being done at the present time on the details of a plan which would meet Mr. Davis' suggestion.

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Thereupon the meeting adjourned.

Chester Morrell  
Secretary.

Approved:

M. C. ...  
Chairman.