

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 Monday, November 18, 1940, at 10:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice 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. Smead, Chief of the Division of Bank
Operations

Messrs. Steele, Fraser, Loeb, Hanes, Clay,
Brown, Ragland, Crosby, Evans, Harding,
and Dick, Members of the Federal Advisory
Council representing the First, Second,
Third, Fifth, Sixth, Seventh, Eighth,
Ninth, Tenth, Eleventh, and Twelfth Fed-
eral Reserve Districts, respectively

Mr. Walter Lichtenstein, Secretary, Federal
Advisory Council

Mr. Draper referred briefly to the meeting held in Washington on November 12-13, 1940, of officers of the Federal Reserve Banks and representatives of the Board, the National Defense Advisory Commission, and other agencies in connection with the plan to increase the participation of small business enterprises in the national defense program. In connection with Mr. Draper's statement there was distributed to the members of the Council a copy of the letter addressed to the

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Board by the Defense Commission on October 25, the Board's reply of October 26, the joint press statement which was released for publication in the morning papers of November 13, 1940, and the letter, and enclosures, sent by Mr. Draper to the Federal Reserve Banks, with copies to their branches, under date of November 16, 1940.

At the request of Mr. Draper, Mr. Davis discussed the policies of the Defense Commission with respect to the decentralization of defense facilities and the purposes sought to be accomplished by the Commission through the plan to increase the participation of small business enterprises in the defense program.

There ensued a further discussion of the place which the commercial banks might be expected to take in financing the defense program during which Chairman Eccles stated that there was no thought on the part of the Board or the Defense Commission that the necessary financing of the defense program would be done by the Government except as a last resort and Mr. Draper made it clear that the program initiated by the Commission, in which the Federal Reserve System was cooperating, was based on the position that the commercial banks should finance the program to the fullest extent possible and that it would not be done either in the form of 13(b) loans by the Federal Reserve Banks or loans by the Government unless it could not be done in any other way. Mr. Brown stated that the Council appreciated very much the attitude of the Board and the Commission in the matter.

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and desired, both as a group and as individuals, to further the plan in any way they could.

Mr. Brown then said that the Council felt as strongly as at its previous meeting with respect to the possibilities of inflation which were inherent in the present situation, that there were indications that inflationary tendencies were increasing, and that the questions thus presented were related to the "easy money" statement submitted by the Council at its May meeting and discussed by the Council with the Board at the October meeting. He also said that it was understood from Mr. Fraser, Chairman of the committee appointed by the Council to meet with the committee of the Board to determine whether a statement with respect to the "easy money" situation could be prepared which could be agreed upon by the Council and the Board, that the Board had certain ideas with respect to the statement which it would like to present to the Council for consideration.

Chairman Eccles stated that he had suggested to Mr. Fraser, and that Mr. Fraser had concurred in the suggestion, that instead of taking time to prepare a statement with respect to what had already happened, the members of the Council and the Board might more advantageously undertake an appraisal of the monetary and credit problems which had been created by events leading up to the present situation and prepare a special report to Congress, which need not

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be a part of the annual report but would be sent as soon after the first of the year as possible, and which would discuss these problems and suggest the action that might be taken to meet them. The procedure proposed by Chairman Eccles was discussed and the suggestion made that the committees appointed by the Board and the Council confer on the matter. Mr. Fraser pointed out that his committee was only authorized to consider the possibility of a joint statement with respect to the "easy money" situation and that if the above suggestion were approved the instructions to his committee should be enlarged. It was agreed that the two committees should be authorized to discuss Chairman Eccles' suggestion at a joint meeting of the committees to be held this afternoon at 3:00 p.m.

Thereupon the meeting adjourned with the understanding that the members of the Board and the Council would meet again tomorrow morning.

Robert Morley
Secretary.

Approved:

W. C. Eccles
Chairman.