

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, November 19, 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. Bethea, Assistant Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Clayton, Assistant to the Chairman  
Mr. Thurston, Special Assistant to the  
Chairman  
Mr. Wyatt, General Counsel  
Mr. Goldenweiser, Director of the Division  
of Research and Statistics  
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

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

Mr. Walter Lichtenstein, Secretary, Federal  
Advisory Council

Reference was made to the news items appearing in the press  
this morning with respect to a letter addressed by Mr. Jones, Federal

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Loan Administrator, under date of November 18, 1940, to the Secretary of War and the Secretary of Navy, in which the statement was reported to have been made that the Reconstruction Finance Corporation would arrange five-year defense facility loans at 1-1/2 per cent in cases where there was a definite undertaking on the part of the War or Navy Department for reimbursement and that the rate on advances for working capital, plant equipment, and expansion where definite reimbursement was not promised by the War and Navy Departments would be not more than 4 per cent. Several of the members of the Council indicated a belief that, regardless of whether it was the intention of the Reconstruction Finance Corporation to make loans at as low as 1-1/2 per cent, such an announcement would make it extremely difficult for commercial banks to make loans to finance defense facilities contracts at a higher rate even in cases where the credit risks involved justified a higher rate.

Mr. Loeb asked if a copy of Mr. Jones' letter could be obtained and furnished to the Advisory Council and Mr. Morrill was asked to see if copies could be obtained.

Mr. Brown expressed the opinion that the announcement would nullify, at least to a considerable extent, the efforts that the Board of Governors and the Defense Commission were making to have defense financing done by banks and would result in considerable confusion on the part of the public as to the rates that should be applied as well

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as the termination by some banks of negotiations that they might have been conducting in connection with such financing. There was further discussion of the possible effect of the statement, and Mr. Draper said that the Board would follow the matter for the purpose of ascertaining what, if any, action should be taken in the circumstances.

Mr. Brown stated that, following the joint meeting yesterday afternoon of the committees of the Board and the Council at which consideration was given to the suggestion made by Chairman Eccles at the meeting of the Council and the Board of Governors yesterday morning, the Federal Advisory Council met for the purpose of receiving the report of its committee, which was to the effect that the two committees had concurred in a recommendation which he would ask Mr. Lichtenstein to read. The recommendation as read by Mr. Lichtenstein was as follows:

"The two committees have agreed that the Council does not waive any rights as to publication of its memorandum on the 'easy money' policy, and the Board maintains its right to prepare an answer to the Council's memorandum to be published together with the memorandum of the Council. However, until the Board has prepared and communicated to a committee of the Council a draft of a more comprehensive statement upon which the Board and the Council may agree, the whole question of publication of the Council's memorandum and all matters relative thereto will be left in abeyance."

Mr. Brown said that it was the hope of the Council, after hearing the committee's report, that the two committees would meet at as early a date as possible and draft a statement along the lines suggested

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by Chairman Eccles which could be sent to all of the members of the Council, particularly for the reason that Mr. Fraser and possibly other members of the Council committee would cease to be members of the Council at the end of the year and it was thought desirable that the matter be carried to a conclusion while the present members of the committee were still members of the Council.

There was general agreement that the procedure suggested by Mr. Brown should be followed and that a draft of statement should be prepared by the Board's staff and submitted to the members of the two committees as promptly as possible.

Reference was then made by Mr. Brown to the variations in the policies of the boards of directors of the Federal Reserve Banks in appointing members of the Federal Advisory Council, some of the Banks having a policy of changing their representatives on the Council every two or three years while others continued the same representatives for a number of years. It was the feeling of the Council, Mr. Brown stated, that a plan of rotation was advisable and that this could be accomplished without an amendment to the law, and to that end the Council had adopted a resolution which, in the absence of objection by the Board, the council proposed to transmit to the Conference of Chairmen of the Federal Reserve Banks. Mr. Brown explained that the resolution was proposed by Mr. Steele and seconded by Mr. Loeb, the two oldest members of the Council in period of service, as an indication that

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there was no desire on the part of any member of the Council to perpetuate himself in office. The resolution referred to was then read by Mr. Lichtenstein, as follows:

"It was voted unanimously that the Federal Advisory Council recommend to the Conference of Chairmen of the Federal Reserve Banks that it give serious consideration to the adoption by the respective boards of directors of the Banks of a regular plan of rotation among the members of the Federal Advisory Council, such plan to be carried out through voluntary cooperation by the Banks rather than through any change in the statutes. It is the suggestion of the Council that a plan of four year membership on the Council with a consequent change of three members each year be inaugurated. This would give to the Council a sufficient continuity of membership so that its efficiency as a continuing body could be maintained, while at the same time it would permit a sufficient amount of change to insure fresh points of view, prevent too great a crystallization of policies, and avoid the danger of too long continuance in office of any single member."

Mr. Brown inquired whether there was any objection on the part of the Board to the Council transmitting the resolution to Mr. McCabe as Chairman of the Conference of Chairmen of the Federal Reserve Banks.

The matter was discussed in the light of the similar policy of the Board with respect to the rotation of directors of Federal Reserve Banks and branches, and the members of the Board indicated that there would be no objection on their part to the submission of the recommendation to the Chairmen's Conference or to the discussion of the recommendation by the members of the Council with the boards of directors of the respective Federal Reserve Banks.

In connection with the discussion of this matter, question was raised whether, in the event the committees of the Council and the

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Board of Governors referred to earlier in this meeting are unable to finish the statement which they are to prepare before the first of the year, they might continue to serve after the first of the year in order to complete their assignment. A discussion of this inquiry led to the suggestion that the above resolution with respect to the rotation of members of the Council might be amended to include the suggestion that the term of appointment of members of the Council be made to begin with the first meeting of the Council in the calendar year and to terminate when their respective successors are appointed and assume their duties.

The following resolution adopted by the Council at its separate meeting was then read by Mr. Lichtenstein:

"It was voted unanimously that the Federal Advisory Council adopt the general practice of giving to the press, after each meeting, a statement by its president. It is intended that this statement be general in its terms, unless for some special reason it should be thought best to go into details. It is expected that ordinarily, before issuing a statement, the president of the Council will consult with the Chairman of the Board of Governors or such representative of the Board as the Chairman may designate. It is not intended to change hereby the procedure governing the publication of the Council's resolutions or recommendations as fixed by a resolution adopted on November 20, 1934 by the Federal Advisory Council in agreement with the then existing Federal Reserve Board.

"The resolution of November 20, 1934 read as follows:

'It is the opinion of the Federal Advisory Council as at present constituted that when the Council desires to give publicity to its proceedings it should, by itself or through its representatives, discuss such resolutions or recommendations with the Federal Reserve Board and request that these be given publicity. A reasonable opportunity should be given to the Federal Reserve Board to consider and comply with

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"the request of the Council, and the Council itself should not give publicity to its resolutions of recommendations unless the Board, after due consideration, should be unwilling to comply with the request of the Federal Advisory Council to give the desired publicity.'

Chairman Eccles raised the question whether the proposed press statements might, in the absence of reference to the position of the Board, be interpreted as indicating in some cases disagreement with the Board of Governors on the matters referred to in the statements, and he inquired whether, in view of the fact that it was the function of the Council to serve in an advisory capacity to the Board rather than to make public statements, the proposed procedure would be of any assistance either to the Council or to the Board.

Mr. Steele stated that he had felt for a long time that the Council was losing the prestige which it so much needed if it was to function effectively, that the public does not know what the Council is, and that if statements were issued from time to time this situation would be corrected and the possibility of the appearance of conflict between the Board and the Council would be diminished for the reason that, under the present procedure, in some instances when a statement is released it is assumed that there is a conflict between the Council and the Board or the statement would not have been issued.

There was a discussion of the question whether a statement in general terms which would not contain any specific information

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other than possibly a reference to the matters discussed by the Council at its meeting would accomplish the purposes which the Council had in mind or whether it would be the occasion for interpretations on the part of the press which would lead to misunderstandings.

During the consideration of this question Mr. McKee suggested that, inasmuch as the Board and the Council were interested in keeping the banks advised of developments in which they were interested, it might be a more satisfactory arrangement to make appropriate reference to the matters discussed by the Council at its meetings in the succeeding issues of the Federal Reserve Bulletin.

At the conclusion of the discussion, each of the members of the Board indicated that he would have no objection to the Council proceeding as proposed in the resolution.

Chairman Eccles then referred to the discussion at the beginning of this meeting with respect to the letter addressed by Mr. Jones to the Secretary of War and Secretary of Navy and suggested that the Council might wish to give consideration to whether it should take any action with respect thereto. This suggestion was also discussed and Mr. Brown said that the Council would meet in a separate session following this meeting with the Board for the purpose of considering the matter.

Secretary's note: Following adjournment of the joint meeting, copies of Mr. Jones' letter were obtained from the Reconstruction

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Finance Corporation and furnished to the Federal Advisory Council while it was still in session. A copy of the letter has also been placed in the Board's files.

Thereupon the meeting adjourned.

Rexford Moriel  
Secretary.

Approved:

W. C. C. C.  
Chairman.