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, February 17, 1941, at 10:15 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. Wyatt, General Counsel
Mr. Goldenweiser, Director of the Division of Research and Statistics
Mr. Dreibelbis, Assistant General Counsel
Mr. Williams, Assistant Counsel

Messrs. Harrison, Kurtz, Huntington, Clay, Brown, Ragland, Wakefield, Clark, Harding, and Dick, Members of the Federal Advisory Council representing the Second, Third, Fourth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, and Twelfth Federal Reserve Districts, respectively

Mr. Walter Lichtenstein, Secretary, Federal Advisory Council

Mr. Brown stated that a member of the Federal Advisory Council from the First Federal Reserve District for the year 1941 had not yet been selected and that Mr. Hanes, the representative of the Fifth Federal Reserve District, was absent because of illness in his family.

Mr. Brown then said that the matter in which the Council was most interested was to know what, if any, action had been taken by the Board to bring about the enactment of the recommendations contained in the special report submitted to the Congress on December 31, 1940.

Chairman Eccles responded with the statement that no action had been taken on the matter, that he doubted that there would be any active consideration of the recommendations until they were placed in the form of a bill and the bill was introduced in Congress, that in his opinion such a bill would have no chance of being enacted while the attention of Congress was fully occupied with other pressing matters, and that, in any event, it could not be enacted without the support of the Administration and the Chairmen of the Banking and Currency Committees. It was his feeling that the program as recommended in the special report to Congress would have no chance of enactment without substantial modification and he outlined some of the reasons for his opinion. He also stated for the information of the members of the Federal Advisory Council that the bill (S-25) which was introduced by Senator Taft on January 6, 1941, and which would repeal certain monetary powers of the President and the Secretary of the Treasury, had not been introduced at the suggestion of the Board or any member thereof or anyone else connected with the Federal Reserve System so far as the Board was aware.

Chairman Eccles made the further statement that it was his opinion that, in the circumstances, no action should be taken by the System at this time with respect to the special report, as an attempt to obtain legislation at this time would be futile, but that, in view of the fact that the report had been placed on the agenda for the meeting of the Federal Advisory Council, he had given consideration to alternative possible programs for legislation which might receive sufficient support to be enacted when the matter is taken up by Congress, that he had discussed these alternatives informally with the members of the Board, that the Board had taken no action with respect to the suggestions, and that he would present them to the members of the Advisory Council as his personal views as to possible alternative forms any proposed legislation would have to take if it was to have any chance of enactment. In this connection he referred to the fact that in the absence of further legislation the powers of the President and the Secretary of the Treasury with respect to devaluation and the stabilization fund would lapse on June 30, 1941, and he expressed the opinion that consideration by Congress of the question whether these powers should be renewed would inevitably bring up for reconsideration the authority to issue greenbacks and the further monetization of silver so that there would be no need for the System to make reference to these matters in any legislation that it might suggest.

Chairman Eccles then read the following alternative program of legislation and made explanatory comments of the various suggestions contained therein:

"Reserve Requirements

"1. Increase the statutory reserve requirements for demand deposits in banks in central reserve cities to 26%; for demand deposits in banks in reserve cities to 20%; for demand deposits in country banks to 14%; and for time deposits in all banks to 6%.

"2. Permit vault cash to be counted as reserves for the purpose of meeting reserve requirements.

"3. Empower the Federal Open Market Committee to make further increases of reserve requirements sufficient to absorb excess reserves, subject to the limitation that reserve requirements shall not be increased to more than double the respective percentages specified in paragraph 1.

"4. Authorize the Federal Open Market Committee to change reserve requirements for central reserve city banks, or for reserve city banks, or for country banks, or for any combination of these three classes.

"5. Require that all member banks and all other banks whose average deposits for the year 1940 exceeded $1,000,000, thenceforth maintain reserves with the Federal Reserve Bank of their district and, in succeeding years, require that each bank whose average deposits for the preceding year exceeded $1,000,000 do likewise. Provide that each nonmember bank as it becomes subject to this requirement shall elect whether automatically it will immediately become a member of the System entitled to all of the rights and privileges of a member bank and subject to the System requirements, or continue as a nonmember bank subject only to the over-all reserve requirements and entitled to membership in the future only in the discretion of the Board.

"6. Reduce the assessment base of banks for the purpose of assessments by the Federal Deposit Insurance Corporation by the amount of reserves maintained as the result of requirements under paragraphs 1 and 2.

"Open Market

"1. Provide for the Federal Open Market Committee to consist of members of the Board of Governors and five

"Presidents of the Federal Reserve Banks as follows: The President of either the Federal Reserve Banks of Boston, Philadelphia or Richmond to be elected by the boards of directors of such Banks; the President of either the Federal Reserve Banks of Atlanta, Dallas or St. Louis to be elected by the boards of directors of such Banks; the President of either the Federal Reserve Banks of Kansas City, Minneapolis or San Francisco to be elected by the boards of directors of such Banks; the President of either the Federal Reserve Banks of Cleveland or Chicago to be elected by the boards of directors of such banks; and, the President of the Federal Reserve Bank of New York.

"2. Authorize Federal Reserve Banks to negotiate the purchase of Government securities with maturities not in excess of ninety days directly with the Treasury.

"3. Prohibit the use of the Stabilization Fund as an open market instrument, permitting it to be spent in the retirement of public debt or to be used as a revolving fund in the purchase of securities only from the Treasury but permitting the sale in the open market of securities so purchased.

"Federal Reserve Banks

"1. Retire stock in Federal Reserve Banks by paying stockholders face value with accrued dividends.

"2. Provide for continued membership in System of all national banks and for automatic membership without the right to withdraw of all State banks which, at or before the date of the retirement of Federal Reserve Bank stock, elect to become members of the System entitled to all of the rights and privileges of a member bank and subject to System requirements.

"3. Reconstitute the boards of directors of the Federal Reserve Banks by providing for a board of seven directors, three with qualifications as now provided for Class B directors (engaged in this district in commerce, agriculture or some other industrial pursuit) to be elected by member banks and three with qualifications as now provided for Class C directors to be appointed by the Board of Governors. Make the President of the Bank an ex-officio member of the board and provide for his election for a term of three years by the other directors, with the approval of the Board of Governors and with the Board of Governors authorized to cast a vote in the event of a tie.

2/17/41

"4. Require all Federal Reserve Banks, when their capital funds remaining after the retirement of their stock have been doubled, to pay all net earnings to the Treasury."

During his statement Chairman Eccles said that an alternative proposal for the reconstitution of the board of directors of a Federal Reserve Bank as suggested above would be for the member banks to elect four directors representing commerce, agriculture, finance, and industry under which arrangement the President of the Federal Reserve Bank would not be a director.

He also stated that he had considered two alternatives to the above program, one of which would place the authority over open market operations in the Board of Governors and retain the present structure of the boards of directors of the Federal Reserve Banks and the present ownership of the capital stock of the Federal Reserve Bank by member banks but would reduce the dividend on Federal Reserve Bank stock to 4% per annum. The other alternative, he said, would make no change in the existing Federal Open Market Committee, the boards of directors, or capital structure of the Federal Reserve Banks (other than to reduce the dividend on Federal Reserve Bank stock to 4% per annum), but would give the President of the United States power to veto action to increase or decrease member bank reserve requirements.

In the discussion of the three alternative plans reference was made also to the further possibility of again making the Secretary of the Treasury and the Comptroller of the Currency ex-officio members of the Board.

Mr. Ransom stated that it appeared to him that there were two courses that might be taken by the Board, the Presidents, and the Federal Advisory Council, one of which was to do nothing, on the theory that it was the responsibility of Congress to take action, and the other was to decide what should be done in the way of a legislative program which might be suggested by the group prior to the submission of the replies to the Wagner questionnaire. He said that he would like to feel that the members of the Federal Advisory Council would explore which of these would be in the greatest public interest. It was his feeling, he said, that in preserving the Federal Reserve System and strengthening it and making it more an agency of the Government, strength would be added to the entire banking system of the country and increase the chances of its preservation.

In connection with a statement by Mr. Szymczak that the alternatives presented by Chairman Eccles were only part of the larger problem presented by the Wagner questionnaire, Mr. Brown inquired whether the Board has prepared its answers to the Wagner questionnaire.

Mr. Ransom reviewed briefly the procedure which had been followed in the preparation of the drafts of the Board's answers and stated that he did not know when the answers would be completed or when they would be submitted, that there was a feeling that no one of the agencies to which the questionnaire was sent would file its answers before the others, and that it might be necessary to work out an arrangement whereby all of the answers would be submitted at the same time. He added that the Federal Reserve Banks were working on their answers to the questionnaire, that he felt it would be unfortunate if the Federal Reserve Banks and the Board submitted their answers independently of each other, and that it was his hope that the Banks and the Board could work out a plan under which there would be at least a preliminary discussion of the answers to be made.

Mr. Harrison stated that the principal power which would be given to the System under the three alternative proposals discussed by Chairman Eccles would be the power to increase reserve requirements, that, while this was a valuable power, there was now much less likelihood of its being used than there was when the special report was submitted to Congress, and that in these circumstances he questioned whether the System should propose legislation which would make such substantial and fundamental changes in the System in order to get a power that it might not use.

The question presented by Mr. Harrison was discussed and Mr. Brown stated that if the price of getting control of the stabilization fund and an increase in the System's authority to change reserve requirements was to be the suggested fundamental changes in the organization of the Federal Reserve System, he felt he could speak for all of the members of the Federal Advisory Council in saying that they would be opposed to such a program.

Chairman Eccles pointed out that under the third alternative there would be no change in the structure of the Federal Reserve System, the only change being to give the President veto power over changes in reserve requirements. Mr. Brown commented that such a proposal would open up the whole question of the structure of the Federal Reserve System to which Chairman Eccles replied any proposal for legislation would have a similar effect. Mr. Kurtz expressed the opinion that the banks throughout the country would be unanimously opposed to giving the President a veto power.

Mr. Wakefield said that in his opinion continued thought should be given to the question of the future place of the System in the banking structure of the country and to desirable changes in the System so that when an opportunity is presented there will be a program that will be acceptable. He also felt that there would be as much public feeling against the elimination of bankers from the boards of directors of the Federal Reserve Banks as there could be developed in favor of such a change. Some of the members of the Board questioned whether this would be the case.

Chairman Eccles concluded with the statement that in submitting the three alternative proposals he was not speaking for anyone other than himself and that his purpose in discussing the matter was to point out that in considering the practical question of obtaining banking legislation and additional powers for the Federal Reserve System it was necessary to be prepared to meet the opposition that would be offered to the granting of additional monetary powers to the System.

Mr. Harrison commented, in response to Chairman Eccles' statement, that if it appeared that authority to increase reserve requirements would not be given to the Federal Open Market Committee, it might be suggested that such powers be placed in the hands of the Board of Governors as in the case of the existing authority, which would be better than to propose that the enlarged powers be placed in the hands of the Federal Open Market Committee at the expense of making fundamental changes in the Federal Reserve System which would be opposed by banks throughout the country.

Mr. Ransom referred to the item on the Council's agenda for this meeting of bills pending in Congress of interest to banks and inquired whether the Council desired any information from the Board or its staff with respect to such bills. Mr. Brown replied that the Council would appreciate being advised of the opinion of the Board on Bill S.310, introduced by Senator Glass on January 14, 1941, to regulate the control of insured banks by holding companies.

Thereupon the meeting recessed with the understanding that the Board would meet with the Council again at 10:15 on the morning of February 18, 1941.

Chester Morrill
Secretary.

Approved:

M S Eccles
Chairman.