

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, February 18, 1941, 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. Paulger, Chief of the Division of Examinations
 Mr. Smead, Chief of the Division of Bank Operations
 Mr. Parry, Chief of the Division of Security Loans
 Mr. Dreibelbis, Assistant General Counsel
 Mr. Wingfield, Assistant General 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 following the discussion with the Board yesterday morning the Council met in a separate session and approved a

2/18/41

-2-

statement with respect to the special report to Congress which he would ask Mr. Lichtenstein to read. The statement was prepared, Mr. Brown said, only for submission to the Board and not for publication. The statement read by Mr. Lichtenstein was as follows:

"The Federal Advisory Council is of the opinion that the Special Report submitted to the Congress on December 31, 1940, by the Board of Governors of the Federal Reserve System, the Presidents of the Federal Reserve Banks, and the Federal Advisory Council, was an important statement dealing with the risks of a possible inflationary development which might arise out of the present situation. While the Council does not fear that such an inflation is imminent and is likewise aware of the fact that 'inflation can not be controlled by monetary measures alone,' nevertheless, the Council does believe that monetary action may be an important factor if it should become necessary at some future time to control an inflationary movement.

"The Council believes that the System as a whole should be prepared to support fully the recommendations and statements made in the Report, since it does not consider there is any reason at this time for a change in the position taken in the Report. If the System, or the Board of Governors, should be requested by the Congress to implement the Report, or more specifically, if either should be asked to draft a bill designed to translate the recommendations made in the Report into law, the bill, as the Council believes at this time, should seek only to put into legal form those recommendations in the Report which relate specifically to the problem of excess reserves. The Council is furthermore of the opinion that if later on it appears that those recommendations should be modified or supplemented it would be helpful before a bill is proposed if there were a prior conference with those groups subscribing to the original report. The Council takes it for granted that the other protective steps discussed in the Report 'equally or more important' than the monetary aspects of control will be dealt with by those authorities or departments of the Government within whose jurisdiction they belong."

Mr. Brown said in explanation of the statement that it was the feeling of the Council that while the System should be prepared to recommend legislation in accordance with the statement it should not take the

2/18/41

-3-

initiative in proposing legislation at this time.

There was a discussion of the Council's statement and of the possibility of an agreement by the Board, the Council, and the Presidents of the Federal Reserve Banks on a legislative program. The suggestion was made that, in view of the apparent agreement among the members of the Board and the Council (in which it was believed the Presidents of the Federal Reserve Banks would join) that no action should be taken at the present time with respect to the submission of suggested legislation, the Board, the Council, and the Presidents' Conference might each appoint a small committee to make a more or less continuous study of the problem and to make suggestions as to a legislative program that could be considered and, if possible, agreed upon by the three groups.

Chairman Eccles raised a question as to the instructions that could be issued to the three committees.

In the discussion which ensued it was agreed that the Board, the Council and the Presidents' Conference should each appoint a committee of three and that the three committees would be instructed to cooperate in an effort to prepare a legislative program which would be acceptable to the three groups as a basis for action when it seems desirable. It was also understood that the work of the committees would relate only to the recommendations contained in the special report to Congress and that other legislative questions would not be referred to them.

At this point Mr. Draper left the meeting.

2/18/41

-4-

Mr. Brown stated that the Council had given consideration to bill S.310, which was introduced by Senator Glass on January 14, 1941, to regulate the control of insured banks by holding companies and that, while the Council had adopted no formal statement with respect to the bill, it was opposed particularly to (1) the death sentence provisions, (2) the dividend restrictions, and (3) the provisions which would authorize the Federal Deposit Insurance Corporation to seek anticipatory injunctions and which would authorize fines or imprisonment for violations of the provisions of the act or any rules and regulations issued thereunder.

With respect to the first objection, Mr. Brown said he did not believe the Council would be opposed to legislation freezing the existing holding company situation but that there was little or no private capital available for the purchase of the stock of banks held by holding companies and if the death sentence provision of the bill were enacted it would mean that the banks affected would have to be liquidated which would not be in the public interest. In response to an inquiry from Mr. Ransom, Mr. Brown said that it was felt that the most satisfactory means of solving the problem would be on the basis of freezing the existing situation or finding a solution for the branch banking problem.

In connection with the second objection, Mr. Brown stated that, while it might be desirable to provide for corrections of specific violations of the Banking Act and the Comptroller's regulations and to give the Comptroller the right to prohibit or regulate dividends in certain

2/18/41

-5-

cases, the Council felt that to give the Comptroller and the Federal Deposit Insurance Corporation virtually unrestricted control of dividends would be entirely undesirable. He added that it is difficult to get bank capital at the present time and if dividends were made subject to the arbitrary power of the Comptroller of the Currency and the Federal Deposit Insurance Corporation it would add greatly to the difficulty of obtaining capital.

In response to an inquiry from Chairman Eccles as to how the Council felt about the virtual transfer of jurisdiction over holding companies to the Federal Deposit Insurance Corporation, Mr. Brown stated that it was felt that the whole approach of the bill to the problem involved was wrong, that it was understood that the bill had been proposed for the purpose of obtaining the necessary authority to require corrections in a few institutions which were unwilling to comply with the requests of the Comptroller of the Currency, and that any needed legislation should be so drafted as to apply only to such cases.

Mr. Brown made the further comment that it was hoped that the Board would oppose the bill and that it would be appreciated, in the event it appeared that hearings were to be held, if the Board would advise the Council so that it could also appear in opposition and present an alternative draft of the section relating to the payment of dividends.

Mr. Wakefield stated that his company, the First Bank Stock Corporation, could not interpret the passage of the holding company bill in

2/18/41

-6-

any other way than that it was intended to encourage the corporation in the liquidation of a number of its subsidiary banks.

Chairman Eccles stated that the Board had been charged with the administration of bank holding companies since 1933, that it was believed the Board had done as good a job as could be done under the existing law, that the new bill was somewhat of an indictment of the Board in that the bill proposed the virtual transfer of the supervision of holding companies to the Federal Deposit Insurance Corporation, and that the facts do not support the statement that the present holding company situation is dangerous and unsound, as it could be shown that the control of banks by holding companies had not increased during the seven-year period and that the condition of holding companies and their subsidiary banks had been greatly improved and strengthened during the period. Chairman Eccles made the further statement that the bill was introduced without consultation with or knowledge of the Board, that the Treasury and the Comptroller of the Currency were aware of the Board's attitude on the bill, that the Board had agreed to advise the Secretary of the Treasury formally of its objections to the bill, and that a request had been received from the Senate Banking and Currency Committee for a report on the bill.

After a discussion of a number of changes which it was felt should be made in the existing law, Chairman Eccles suggested that it would be helpful if the Council would be prepared to have someone represent it at any hearings that might be held on the bill. Members of the Council

2/18/41

-7-

indicated that they would be glad to be of any assistance they could in this connection.

Thereupon the meeting adjourned.

Chester Morris
Secretary.

Approved:

W. S. ...
Chairman.