

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 16, 1942, at 11:00 a.m.

PRESENT: Mr. Eccles, Chairman  
Mr. Ransom, Vice Chairman  
Mr. Szymczak  
Mr. McKee  
Mr. Draper  
Mr. Evans

Mr. Morrill, Secretary  
Mr. Bethea, Assistant Secretary  
Mr. Carpenter, Assistant Secretary  
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. Dreibelbis, General Attorney  
Mr. Leonard, Director of the Division of Personnel Administration  
Mr. Wyatt, General Counsel  
Mr. Thomas, Assistant Director of the Division of Research and Statistics  
Mr. Berntson, Clerk in the Office of the Secretary

Messrs. Charles E. Spencer, Jr., George L. Harrison, William F. Kurtz, B. G. Huntington, Robert V. Fleming, H. Lane Young, Edward E. Brown, S. E. Ragland, Lyman E. Wakefield, W. Dale Clark, and George M. Wallace, members of the Federal Advisory Council representing the First, Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, and Twelfth Federal Reserve Districts, respectively

Mr. Walter Lichtenstein, Secretary, Federal Advisory Council

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Mr. Brown referred to the discussion at the last meeting of the executive committee of the Federal Advisory Council with the Board with respect to the ratio of bank capital to deposits, and stated that the Council had given consideration to possible formulas that might be adopted but had not been able to find one that would be satisfactory in all cases. He also said that the Council felt that the theory of a 10 to 1 ratio and the attitude of some examiners were seriously restricting investment by banks in Government securities at a time when such investment was highly desirable, that the Council understood that, as the result of numerous conferences, there was some unanimity of opinion on the subject on the part of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Board of Governors and that the matter was to be taken up at a meeting this week of the National Association of Supervisors of State Banks, and that the Council would like to discuss the subject if the Board were at liberty to do so.

Chairman Eccles stated that, inasmuch as the solution that had been agreed upon by the three supervisory agencies had not yet been cleared with the Treasury, which had expressed a desire to consider it, he did not feel the Board was at liberty to discuss the matter at this time.

Mr. McKee said it could be stated that, unless substantially modified, the suggested solution would not be in disagreement with the Council's position as stated by Mr. Brown. Mr. McKee went on to say that it had been suggested that, if the position of the Federal supervisory authorities were properly understood in the field, a statement

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on the matter would not be necessary, and he asked whether the members of the Council concurred in that suggestion. All of the members of the Council indicated agreement with an opinion expressed by Mr. Brown that a clarifying statement by the three Federal supervisory agencies, which would have the support of the State authorities, would be highly desirable.

Mr. Brown then referred to the subject of Treasury financing as the second topic for discussion and stated that the members of the Council felt very strongly that the general approach to the financing, financing methods, the extent to which banks would participate, and other related questions were matters of greatest concern to the banks of the country. He also said that the members of the Council realized that members of the Board, and Messrs. Brown and Fleming, as members of a committee of the American Bankers Association, had been conferring with the Treasury with respect to plans for a rather radical departure, in connection with the forthcoming financing, from the practices of the past and that their lips were sealed with respect to these plans, so that they could not be discussed freely.

In response to an inquiry from Mr. Ransom as to whether the individual members of the Council had any views that they would like to express, Mr. Brown stated that the Council at its separate meeting yesterday had discussed both the question of reserve requirements and the possibility of banks, particularly smaller banks, taking more Treasury bills, and that the Council felt (1) that the continued lowering of reserve requirements was undesirable because of the great

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difficulty of raising them again after the war, (2) that any method that would increase excess reserves without a reduction in requirements was desirable, (3) that one step that could be taken was to allow holdings of Treasury bills to be deducted from deposits in the computation of required reserves, and (4) that any attempt to amend the Federal Reserve Act in this respect was undesirable because it would open up the whole subject of amendments to Federal banking law. He also said that it was realized that to permit the deduction of bill holdings from deposits would require a strained interpretation of the law which would subject the Board to criticism, but that if a way to permit the deduction could be found it would be desirable for the reason that, when the war was over and the Government undertook to re-fund the short-term debt into longer-term securities, such action would increase reserves without any action on the part of the Board of Governors.

Chairman Eccles stated that the suggestion had been made before in the form of a proposal that the law be amended to authorize the Board, when conditions justified, to permit bills to be counted as reserves. He also indicated the feeling that the Board would not be able to construe the present law so as to permit the deduction of bills from deposits in the computation of required reserves. In the ensuing discussion, it was pointed out that the Council's suggestion would not permit the counting of bills as reserves but merely the deduction of bill holdings from deposits for the purpose of determining the net amount of deposits against which reserves would have to be maintained.

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Mr. McKee stated that under the present law the Board of Governors could take the position that no penalties would be assessed for deficiencies in reserves if required reserves were maintained against deposits after deducting the amount of bills held. This suggestion and the question as to the amount of excess reserves that might be created by the deduction of bills from gross deposits were discussed. Mr. Harrison stated that there was a real danger in the suggestion that Treasury bills be counted as reserves because, if the amount of Treasury bills were increased, banks might have sufficient bills to make it unnecessary for them to carry any reserve deposits with the Federal Reserve Banks. Because of their similarity to cash items, he said, there was a sound basis for permitting their deduction from deposits.

Mr. Harrison then expressed the hope that the Treasury would consider (1) lengthening the maturity of the 2-1/2 per cent tap issue instead of reopening the existing issue and (2) making the issue a bearer bond in recognition of the preference on the part of many investors for that type of security.

Following a discussion of these suggestions, Mr. McKee inquired whether the Series F and G savings bonds would be a deterrent in the financing program. Mr. Brown's response was that the Council felt that Series F and G bonds appealed to certain classes of investors and that the continuance of these issues would affect the sales of other issues.

Chairman Eccles discussed some of the problems in connection with possible inflationary developments that were presented by (1) the increasing volume of savings bonds outstanding which could be offered

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for redemption at any time to escape the pressure of increased taxes, (2) the large national income in relation to available consumer goods, (3) the use of existing assets to swell the volume of funds available to the consumer for spending, and (4) the difficulty of getting an adequate tax program, and he expressed the opinion that the only way of meeting that situation was by a "hard-boiled" fiscal program that would include a heavy withholding tax and a spending tax.

Mr. Harrison questioned whether such a program would be effective without the payment of income taxes on a current basis, and Chairman Eccles concurred.

Mr. McKee said that, for reasons which he outlined, he would like to see the Series E savings bonds made payable after the war at the rate of 10 per cent a year with the interest to be paid in the eleventh year. Members of the Council questioned whether the bonds would be attractive on those terms.

Chairman Eccles stated that the backlog of purchasing power accumulated by the end of the war might be very large, that it would take industry some time to reconvert to peacetime operations, that, therefore, there was a possibility of inflation after the war which had to be considered, and that the whole job would be made less difficult to the extent that the proper fiscal program was pursued and war expenditures paid for during the war. In response to a question by Mr. Harrison whether that did not mean that savings bonds should be discontinued, Chairman Eccles said that Series F and G bonds should be given up altogether and that, while Series E bonds should not be

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discontinued, they should be reduced in amount and not looked to as a primary source of funds.

Mr. Brown then referred to the discussion at the last meeting of the Council with the Board relating to the absorption by banks of exchange and collection charges and asked if anything had been decided by the Board on the matter.

Mr. Ransom stated that the suggestion had been made that the three Federal supervisory agencies start an action against some national bank which appeared to be violating the regulation, which would either result in a precedent case or revive the entire issue again in Congress, that with the increased value of short-term funds there was constantly increasing danger of the practice spreading, and that he did not see how the Board could continue to ignore violations of the regulation. He added that the proposed action would place the three Federal supervisory agencies on the same footing and let Congress know that action was being taken, and that, subject to agreement with the Federal Deposit Insurance Corporation and the Comptroller of the Currency as to procedure, it would be the Board's plan to go ahead on that basis. He also explained that the Board was under a definite commitment to certain members of Congress, who were concerned with the matter in 1937, not to change the present status of the situation without first taking the matter up with them, and that, if it were decided to go ahead with the proposed action against a national bank, it would first have to be reported to those members of Congress to give them an

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opportunity to determine whether they desired to offer amending legislation.

In response to Mr. Ransom's inquiry as to whether the members of the Council wished to express any views on the matter, several of the members stated that, if the proposed action were taken against some national bank and that became known, other banks violating the regulation would discontinue the practice. Mr. Brown indicated that the Council felt the Board should enforce, rather than change, the present regulation and see what results were obtained from that course.

At the conclusion of the discussion of this matter, Mr. Ransom requested that the information given to the Council with respect to the proposed action of the three Federal supervisory agencies be regarded as confidential.

Mr. McKee withdrew from the meeting at this point to go to Philadelphia where the conference of the National Association of Supervisors of State Banks was being held.

Mr. Brown then stated that Mr. Nathan Adams had suggested that the Council consider the subject of Federal Reserve Bank competition with member banks, particularly with respect to the collection of non-cash items, but that in the absence of Mr. Adams the subject had been passed over.

Mr. Brown said that the Council wished to say again that it was becoming increasingly difficult for banks to retain sufficient personnel with which to carry on their normal operations, and that,

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while they realized that the demands of the armed forces had to be met and the banks desired no special privileges, they did feel banking should be classed as an essential industry and given some relief from a situation in which the local draft boards were instructed not to recognize any bank employee as eligible for deferment on occupational grounds as a key employee.

Chairman Eccles stated that the whole problem of manpower was awaiting action by the President and that there was nothing anyone could do in the matter at the present time.

Mr. Wakefield expressed the opinion that, in view of the part banks were being asked to play in the war effort, they were entitled to some consideration, that someone in Washington should be watching the progress of the National Service Act for the reason that unless the banks were classed as an essential industry they would be in a very disadvantageous position, and that, if banks were no longer to be permitted to give the ordinary salary increases that they had given in the past, they would lose many of their key employees whom they could not get back.

Mr. Fleming stated that, in a conference between General Hershey, Director of the Selective Service System, and the committee appointed by the American Bankers Association, the General took the position that banks were entitled to be classed as essential so far as key employees who had dependents were concerned, but he intimated that he was not the one to settle the matter. He added that since that time contact had been made with Mr. Harper, First Deputy to Chairman

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McNutt of the War Manpower Commission, and a memorandum, supported by a letter from the Office of Price Administration with respect to the work to be done by banks in connection with the ration coupon program, filed with him, and that he (Mr. Fleming) had been advised that Mr. Harper had indicated that so far as men within the draft age were concerned there was no hope, but that in any contemplated legislation the banks would have a case for key employees over 45 years of age. Mr. Fleming went on to say that the stand of the American Bankers Association on any manpower legislation was (1) that all bank employees over 45 years of age should be classified as essential, and (2) that the key groups of employees under 45 years of age should be designated but that the final decision as to whether an employee in such a group was essential should be left to the local draft board inasmuch as a key employee in one bank might not be a key employee in another.

Chairman Eccles stated that until bank employees were working 48 hours per week the banks would not have a very strong case for deferment of key employees. The response of several members of the Council was that the key employees to which they had reference were working that long or longer. Mr. Wakefield pointed out that one of the ways to pay higher salaries was through overtime, and it was suggested that by this means the banks could meet the competition as to salary and at the same time build a stronger case for deferment.

Mr. Fleming said that the committee of the American Bankers Association was watching the pending bill but that there did not seem to be much that could be done at the present time because of the

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unsettled state of the whole matter. He added that the Federal Reserve Banks were in the same position as the commercial banks with respect to the personnel problem, that the committee of the American Bankers Association should get in touch with the Board so that there could be an agreement on the manner of approach, that the efforts of the Board and the banks should be synchronized, and that in his opinion the Board could not get a preferred classification for its employees without action with respect to bank employees.

Mr. Ransom pointed out that the Board of Governors was in a somewhat different position than the Federal Reserve Banks or the commercial banks in that it had been given an opportunity to state which of its employees it regarded as key men.

Mr. Brown said that all the banks wanted was to be put in the same position as a railroad, a packing plant, or other organization that had been classed as an essential industry.

Mr. Fleming suggested that Chairman Eccles had a better opportunity than the committee of the American Bankers Association to discuss the matter with representatives of Government, and that when the proper time came he could do a real service to the banking system by getting a proper solution of the problem.

Mr. Szymczak asked Mr. Fleming if he would send to the Board a statement of the reasons for the position of the committee of the American Bankers Association, and Mr. Fleming indicated he would do so.

Mr. Brown then stated that at the last meeting of the Council with the Board the former had indicated that, at a time when it was

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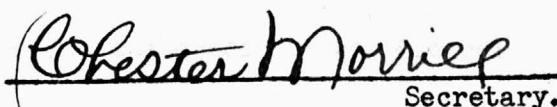
felt such action would be helpful, it would be glad to reiterate its position with respect to the disposal by the Treasury of its silver holdings for industrial purposes. He referred to the bill now pending before Congress and other recent developments on the matter and asked whether the Board felt such a statement on the part of the Council would be useful at this time.

Chairman Eccles stated that he did not feel either the Council or the Board could do anything further in the matter and that, inasmuch as the War Production Board and the armed services were taking the position that the silver was needed in industry, they should urge its release for that purpose.

Mr. Ransom inquired whether the situation with respect to the supply of minor coins, to which reference was made at the last meeting of the Council, had improved. Mr. Young stated that it was still difficult to obtain an adequate supply and that the Federal Reserve Bank of Atlanta was rationing its supply to banks and the banks in turn were restricting supplies to their correspondent banks. Mr. Ransom said that the impression here was that improvement had been made, that every effort was being made to obtain a better distribution of small coins, that the mints were running full time and that everything that could be done in Washington had been done.

Thereupon the meeting adjourned.

Approved:

  
Chairman.  
Secretary.