

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 15, 1943, at 10:30 a.m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Smead, Chief of the Division of Bank Operations
Mr. Parry, Chief of the Division of Security Loans
Mr. Dreibelbis, General Attorney
Mr. Wyatt, General Counsel
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, Ralph C. Gifford, Lyman E. Wakefield, W. Dale Clark, and Nathan Adams, members of the Federal Advisory Council representing the First, Second, Third, Fourth, Fifth, Sixth, Eighth, Ninth, Tenth, and Eleventh Federal Reserve Districts, respectively

Mr. Walter S. McLucas, alternate for Edward E. Brown representing the Seventh Federal Reserve District

Mr. Walter Lichtenstein, Secretary of the Federal Advisory Council

Mr. Harrison stated that Mr. Brown, President of the Federal Advisory Council, was still ill, and that Mr. Wallace, the Council member

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representing the Twelfth District, had become ill in Washington last night.

Mr. Harrison reported that at its separate session yesterday Messrs. Brown, Harrison, and Lichtenstein had been reelected President, Vice President, and Secretary, respectively, of the Federal Advisory Council for the year 1943, that the only change in the membership of the Council for the current year was in the appointment of Ralph C. Gifford, President of The First National Bank of Louisville, Louisville, Kentucky, as the representative from the Eighth District, and that Mr. Spencer had been appointed a member of the executive committee in place of Mr. Ragland.

Mr. Harrison then stated that, while the Council had no formal recommendations to make, there were some matters it wished to discuss with the Board. He referred to the discussion at the meeting of the executive committee of the Council with the Board on January 6, 1943, with respect to the spacing of Treasury financing drives and to the committee's feeling at that time that periodic drives were to be preferred to frequent offerings of new securities, and he said that the Council was still of that opinion. It was also the opinion of the Council, he said, that there was an advantage in separating drives for bank and nonbank funds, and that, as a compromise, in the April financing the nonbank drive could be followed immediately by an offering of obligations that would be suitable for banks. This would avoid a situation in which, if the drives were combined, nonbank investors might

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hold back because of the large amount of funds being raised. He went on to say that the Council felt it was important to establish district quotas for nonbank funds, leaving the determination of bank quotas, if necessary, to the Federal Reserve Banks or the Victory Fund Committees and making no mention at the time of the nonbank drive of the amount to be obtained from banks.

Chairman Eccles stated that at their meeting in Washington on January 27, 1943, it was the unanimous opinion of the Victory Fund Chairmen that a nonbank drive should first be made, with a bank drive at the end of, or after, the nonbank drive. Between the drives the banks' war loan accounts, particularly in the smaller banks, would be drawn down in accordance with a definite schedule, and bills, savings bonds, and tax notes would continue to be offered. The need for funds just before a financing might be met by System purchases of special short-term certificates of indebtedness or by the purchase by the System direct from the Treasury of all, or a portion of, the weekly bill offering, with the understanding that maturing bills in the amount of the purchase would be allowed to run off, which would supply reserve funds directly to the market. The bills could be resold to the market after the drive was over.

The Chairman emphasized the fact that the public should be impressed with the desirability of financing the war as much as possible outside of the banks and of going to the banks only for the funds that it was not possible to raise in effective campaigns for nonbank funds. He went on to say that the question of quotas had been discussed

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and, inasmuch as there was some disagreement, a committee of the Presidents' Conference had been requested to study the matter, with particular reference to the manner in which quotas could be applied in nonbank drives.

Reference was made to the unusual demand for the recent issue of certificates, and Chairman Eccles outlined the reasons for the demand. He felt that the way to meet the problem in the future was to fill all subscriptions up to \$100,000 in full and to allot a portion of the remainder regardless of whether the subscriptions were received from bank or nonbank sources. He further stated that the situation complained of would continue to exist, at least to some extent, as long as there was an opportunity to sell the shorter issues at a profit and purchase new issues, and that there was no intention on the part of anyone either in the Federal Reserve System or the Treasury to reduce the market rate on certificates.

In response to a suggestion by Mr. Kurtz that dealers be allotted the same amount of their subscriptions as banks, Chairman Eccles stated that that would not solve the problem for the reason that there were hundreds of others who would purchase to resell, and that it was for that reason he suggested full allotment up to \$100,000 with partial allotment of all subscriptions above that amount regardless of their source.

At this point, Mr. Paulger, Chief of the Division of Examinations, joined the meeting.

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Mr. Harrison stated that the adoption of a plan for installment payments for subscriptions would enable institutional investors such as insurance companies to fill their needs with longer-term securities and to that extent would reduce the demand for certificates.

Chairman Eccles replied that such a plan had been discussed but that there had been some opposition to it on the part of the banks because of the amount of work involved in recording the installment payments. He felt that such a plan would be desirable because it would absorb funds between financing drives that otherwise might be spent for consumer goods.

Mr. McKee expressed the opinion that it would be helpful if the Council were to adopt a resolution to the effect that certificates should be regarded as an obligation designed particularly for banks and that, therefore, banks should be given the same allocation on their subscriptions as other purchasers.

Chairman Eccles inquired whether a 7/8 per cent certificate should be included in the April financing campaign, and some of the members of the Council indicated the opinion that such an issue should not be offered but should be held for bank subscription between drives for nonbank funds.

Mr. McLucas suggested that sales of tax notes should be encouraged to the fullest possible extent and that this purpose was defeated by the offering of a 7/8 per cent certificate. The Chairman said he would like to see the Council adopt a resolution to the effect

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that nonbank drives should be confined to further issues of bonds, having in mind that tax notes and Series E, F, and G bonds would continue to be sold on tap.

Mr. Harrison stated that, regardless of any prejudice which it might have against the Series E war savings bond, the Council felt it was best to leave it unchanged unless the right of redemption could be deferred. The Council also felt, he said, that the Series F and G bonds might be eliminated, especially if something, such as a 2 per cent bond, could be substituted for the Series G bond. There was some discussion of changes that might be made in the Series E, F, and G bonds, but there was a general feeling that any changes would be difficult at this time because of the attitude of the Treasury.

In response to the suggestion that Series E bonds should be made eligible as collateral for bank loans, Mr. Kurtz pointed out that the banks would not have the manpower necessary to service the hundreds of small loans that would result. There was general agreement that the Series G bond might be eliminated, and that a 2 per cent bond should be made available in its place which would be either redeemable or acceptable in payment of taxes upon the death of the holder.

Mr. Spencer referred to the suggestion that had been made that in placing subscriptions for Government securities the purchaser indicate the bank through which delivery of, and payment for, the securities would be effected, with the understanding that the bank would be reimbursed for the services rendered. He said that the suggestion

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had been made for the purpose of relieving the security dealers of the work involved, including the computation of accrued interest, in connection with the delivery of the securities through their own offices. It was stated that this procedure was already being followed in some districts, and it was suggested that Mr. Spencer discuss the matter with Mr. Paddock, the Chairman of the Victory Fund Committee in the Boston District.

In this connection, Chairman Eccles said it had been proposed that securities offered during a drive be dated as of a date about half way between the opening and closing of the drive, with the understanding that on bonds purchased before that date the buyer would lose some interest and that on bonds purchased after that date he would gain some interest. Members of the Council were inclined to agree with this suggestion.

Mr. Harrison stated that members of the Council had expressed growing concern with respect to the requirement that banks certify the signatures on Series E bonds when they were presented for redemption, and he inquired whether the Board knew of any new legislation on the matter. Mr. Lichtenstein said he understood that something on this point was included in a bill recently introduced by Representative Disney. It was the feeling of the Council, Mr. Harrison said, that the present procedure of certification was unnecessary.

With respect to the question of excess reserves in connection with Treasury financing, Mr. Harrison stated that the Council felt that

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the problem could not be met by any one method alone and that it would be necessary to use all three available methods, i.e., open market operations, reductions in reserve requirements, and member bank borrowing.

Chairman Eccles expressed the opinion that, if the program of financing the war as much as possible by the use of nonbank funds was fully successful, the amount of reserves that would be needed by the banks to purchase additional securities would be much less than had been anticipated, that the approach that it might be necessary for the banks to take as much as \$30,000,000,000 this year should be abandoned, and that if the program were successful it might be possible to meet the problem by open market operations.

In connection with Chairman Eccles' statement, Mr. McKee said it had been his suggestion that further increases in currency in circulation be met by reductions in reserve requirements and that needed reserves for other purposes be supplied by open market operations, the reason being that in the event of a reversal of the present trend the decline in the volume of currency in circulation could be offset by increasing required reserves.

On the problem of manpower in the banks, the Chairman said that the 48-hour work week with time and one-half for all hours worked over 40 would involve an increase in bank pay rolls of 30 per cent which, together with the lower efficiency of new employees, would increase bank operating costs by as much as 50 per cent, and that it might be necessary for them to increase service charges.

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Mr. Ransom stated that he was not at all in agreement with the Chairman's views regarding banks increasing service charges at this particular time, and that he thought it would be preferable for them to decrease dividends, salaries, and possibly other expenditures, and to increase earnings by investing idle funds in Treasury bills rather than to offend the public further by resorting to an increase in service charges.

Mr. Fleming stated that the special committee of the American Bankers Association working on the manpower question had informal advice from the War Manpower Commission that, while banks would not be placed on the non-essential list of industries, they probably would not be placed on the list of essential industries. Under this arrangement, he said, the banks could tell their employees that banking would not be listed as non-essential, and the United States Employment Service would not attempt to attract employees over 38 years of age for essential industries unless they were artisans, of which there would not be many in the banks. It was also stated that in this situation the banks could not ask the United States Employment Service for additional employees but would have to undertake independently to find suitable people in their respective communities.

Chairman Eccles indicated that it was his understanding that very few, if any, additional services or businesses would be added to the list of essential industries, and that whether banking in fact would be regarded as essential would depend largely on the amount of manpower taken into the armed services.

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Mr. Harrison suggested a classification of "essential to the economy" as an addition to the present classifications of "essential" and "non-essential". He went on to say that the insurance companies were making a survey of their employees on the basis of their essentiality and were earnestly endeavoring to determine those who were available for release to essential industries, and that a number of employees of his company over 38 years of age had received letters from the United States Employment Service urging them to seek employment in essential industries.

Chairman Eccles said it was his understanding that, to the extent that materials were available and businesses were classified as essential, they would be expected to operate with women and with men under 18, over 38, or those unable to pass the physical examination for active service, and that there was no authority at the present time under which a man over 38 years of age could be taken out of a non-essential industry and placed in one classified as essential, although they might be persuaded to make the change. He also stated that if a man were between the ages of 18 and 38 he was subject to the draft unless he was in a position classified as essential, in which event he would be placed in a deferred status under the draft, and that there was little likelihood of banking being classified as an essential industry although there was a possibility that some positions in banks might be given that classification.

Mr. Harrison inquired as to the status of the bill which would eliminate the Federal Deposit Insurance Corporation assessment

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on war loan deposits and the requirement that reserves be maintained by member banks against such deposits. Chairman Eccles replied that the bill had been introduced in both Houses of Congress and referred to the Banking and Currency Committees, that he was to appear before the Senate Committee on Wednesday of this week to testify on the bill, and that he did not anticipate any difficulty in the prompt passage of the bill.

Mr. McKee suggested that the bill in its present form had been presented as being a desirable change in the interest of the financing program and that it would be better if no amendments to the bill were offered by the banks.

Mr. McKee then said that he would like to have an expression of opinion from the Council whether it would be desirable, if the bill above referred to were passed, to separate in published statements of insured banks the item of war loan accounts from other deposits so that, in the event of a substantial decline in war loan deposits, the decline would not be reflected in the total demand deposits of the banks. Comments of the members of the Council indicated that this was being done in some cases and that the members were in agreement with Mr. McKee's suggestion.

Mr. McKee made the further statement that he had seen some evidence of purchases by banks of substandard bonds with the expectation that they shortly would be given ratings which would make them eligible for bank investment. He felt that this practice should be discouraged, and none of the members of the Council expressed disagreement with that position.

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Chairman Eccles said that in speaking of direct purchases from the Treasury he wished to emphasize the point that it was not the thought of the System that such purchases would be made to finance the Government but rather that the System would purchase directly all or part of the weekly bill offerings for a period before a financing operation, with the understanding that maturing bills in the amount of the System's purchases would be paid off, thus supplying reserve funds directly to the banks to be held against deposits created by additional purchases of Government securities offered to the banks. He also said that, when the financing was completed and the funds began to flow back to the banks, the System could sell the bills purchased directly from the Treasury, and that this procedure was much more desirable than to go into the market and bid for securities as was done in connection with the December financing when it was necessary to purchase a large amount of premium bonds in order to supply reserve funds. He felt that there was no essential difference between this arrangement and the purchase of special short-term certificates to supply funds over a temporary period. In the discussion of this point, a majority of the members of the Council expressed agreement that the procedure as outlined was a desirable one.

Mr. McKee expressed the opinion that the weekly offerings of bills should be taken by the System and sold to banks in the respective Federal Reserve districts on the basis of the excess reserves in each district.

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Mr. Harrison stated that according to the agreed schedule the next meeting of the executive committee of the Council with the Board would be held on Wednesday, March 3, 1943, but that it had been decided at the meeting of the Council yesterday that the executive committee would not come to Washington at that time unless something developed in the meantime that would make it desirable.

Thereupon the meeting adjourned.

Chester Morrie

Secretary.

Approved:

W. S. C. C. C.

Chairman.