A meeting of the Board of Governors of the Federal Reserve System with members of the executive committee of the Federal Advisory Council was held in Washington on Wednesday, October 6, 1943, at 2:30 p.m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Goldenweiser, Director of the Division of Research and Statistics
Mr. Smead, Chief of the Division of Bank Operations
Mr. Dreibelbis, General Attorney
Mr. Wyatt, General Counsel
Mr. Pollard, Assistant Chief of the Division of Examinations
Mr. Berntson, Clerk in the Office of the Secretary

Messrs. Brown, Spencer, Kurtz, and Fleming, members of the executive committee of the Federal Advisory Council

Mr. Lichtenstein, Secretary of the Federal Advisory Council

Mr. Brown referred to the discussion at the meeting of the Federal Advisory Council with the Board on September 20, 1943, with respect to a survey of bank deposits which had been undertaken by the Securities and Exchange Commission, and stated that the Council had been informed that the Commission had been refused permission by the Budget Bureau to make the survey and that the Ways and Means Committee of the House had made it clear to the Commission that the survey was not being made at its request. He also said that the intervention of the Board in the matter apparently had been effective in relieving the banks of what might have been a burdensome duplication and that the Council appreciated what had been done.

Mr. Brown then stated that some members of the Council were concerned over the burden being placed on banks, particularly small banks and banks with a large number of branches, by the expense involved in the redemption of war savings bonds, particularly Series E bonds. It was his understanding, he said, that the American Bankers Association had discussed the matter with the Treasury with a view to obtaining the Treasury's approval of a small charge to be made by banks for this service, and he inquired whether the Federal Reserve Board had discussed this matter with the Treasury.

Mr. Fleming referred to the discussions that had taken place in connection with the reported practice at the Bank of Edwardsville and stated that in view of the increasing volume and the greater burden on the banks, which was aggravated by the difficulty in many cases of securing proper identification of the owners of the bonds, it would be highly desirable if the Treasury would agree to interpose no objection to some small charge, say 25 or possibly 50 cents, which would regularize the practice and at the same time eliminate the unduly high charges being made in some cases, with the understanding that the banks would not necessarily make any charge.

Mr. McKee stated that he had discussed this matter with a representative of the Treasury on two or three occasions and that, for reasons which he stated, he questioned whether it would be possible to obtain approval of such a charge during the war period.

Mr. Fleming made the further comment that the matter was in the hands of an American Bankers Association committee and that President Wiggins was going to take it up with the Treasury.

Mr. Brown then stated that the Council was concerned with the many problems presented in the renegotiation and cancellation of war contracts. He referred to what he regarded as a problem created by the failure of officials of the War and Navy Departments to recognize that a company might be solvent on its books but that all of its peacetime working capital might now be converted into capital assets, with the result that if war contracts were cancelled it would have to close because of lack of working capital and inability to show any justification for bank credit. He said that already some contractors were refusing to take more war orders and were beginning to sell their machinery, for which there was a market, that these contractors contended that in order to maintain solvency it was necessary for them to get out of business and convert some of their fixed assets, and that it had become increasingly evident that unless provision were made for termination loans banks would suffer heavy losses. Mr. Brown referred to a statement made at the meeting of the Board with the Advisory Council on September 20, 1943, that the Board was keeping in close touch with the armed services on this matter, and he stated that the executive committee of the Council would like to know anything that the Board might have learned about the matter and to reiterate the point of view expressed by the Council that the lack of adequate provision for termination loans in the event of the end of the war with Germany was a most serious threat to the solvency of the banks of the country and the confidence of the public in them.

Mr. McKee said that legislation which would authorize termination loans was apparently in its final stages prior to presentation to Congress, and that if Congress passed the legislation it would clear the way for partial payments upon termination of a contract. He discussed briefly the possible provisions of the legislation and expressed the opinion that, unless misunderstandings developed, there would be no difficulty in the enactment of the legislation.

Mr. Draper stated that the War Department was studying the idea of "bailing out" the subcontractor and using that claim as an offset against the claim of the prime contractor so that the small subcontractors could be taken care of in case the situation was such that it would be difficult for the small contractor to secure a straight termination loan. In connection with a comment made by Mr. Kurtz at the meeting on September 20, 1943, Mr. Draper stated that there was no question but that the War Department was fully alive to the problems confronting the subcontractor as well as those affecting the prime contractor, and that any legislation which was enacted would undoubtedly be as favorable to the former as to the latter.

Mr. Brown concluded the discussion with the statement that there probably was not much the Board could do on the question of renegotiation of contracts as the arguments for action in that direction would have to come from the field, but that the Board, in so far as it could, should insist that renegotiation officials recognize the difference between fixed and quick assets. He also expressed again the feeling of the Council that the problems of renegotiation and the position of subcontractors upon the termination of their contracts constituted the most important and dangerous situation facing the banks today.

During the discussion of the above matter Mr. Goldenweiser withdrew from the meeting to keep another appointment.

Mr. Brown asked whether the Board contemplated any further action with respect to the enforcement of Regulation Q, Payment of Interest on Deposits. Mr. Ransom responded that some inquiries were coming to the Board in connection with the ruling published in the September issue of the Federal Reserve Bulletin, but that no further action in the matter had been taken by the Board, and that no other cases had been presented to it for a further ruling.

Mr. Brown then said that the executive committee of the Council would like to know, if the Board were in a position to discuss the matter, what the Treasury was doing with respect to the plans for international monetary stabilization, that members of the executive committee had heard that the Treasury was considering specific modifications of the White plan, and that, while the committee felt that until the situation became more clarified there was no urgency about the statement of the Council's views which the committee had been requested to prepare, the Council still held the view expressed at the meeting of the Federal Advisory Council with the Board in September that both the Keynes and White plans were unworkable and undesirable.

Mr. Ransom pointed out that the discussions of the various plans were still at the technical or staff level and had not yet reached the policy-making level, and stated that the Board knew only the various views that had been expressed.

Mr. Szymczak stated that Mr. Goldenweiser and members of the Board's staff were meeting with Lord Keynes and members of the Treasury, that modifications of the plans were still being proposed, and that whether Lord Keynes would remain in this country until something definite was agreed upon was not known.

Mr. Brown stated that the executive committee of the Council felt that opposition to both the White and Keynes plans would gain strength, that the White plan would have to be modified before it could be proposed by the Government, and that the executive committee felt it should wait to see what changes were made in the plan before preparing its statement.

During the discussion it was ascertained that the meetings with Dr. White, Director of Monetary Research of the Treasury, which had been scheduled at the Federal Reserve Banks of Boston and Richmond to discuss the stabilization plans had been cancelled.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved: Ronald Ransom
Vice Chairman.