

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, May 15, 1944, at 10:45 a.m.

PRESENT: Mr. McKee
Mr. Draper
Mr. Evans

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. Smead, Director of the Division of Bank Operations
Mr. Parry, Director of the Division of Security Loans
Mr. Dreibelbis, General Attorney
Mr. Leonard, Director of the Division of Personnel Administration
Mr. Pollard, Assistant Director of the Division of Examinations
Mr. Wyatt, General Counsel
Mr. Berntson, Clerk in the Secretary's Office

Messrs. Charles E. Spencer, Jr., John C. Traphagen, William F. Kurtz, B. G. Huntington, Keehn W. Berry, Edward E. Brown, Ralph C. Gifford, Lyman E. Wakefield, A. E. Bradshaw, Ed. H. Winton, and George M. Wallace, members of the Federal Advisory Council representing the First, Second, Third, Fourth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, and Twelfth Federal Reserve Districts, respectively

Mr. Walter Lichtenstein, Secretary of the Federal Advisory Council

Mr. Brown referred to the request made at the joint meeting

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of the Board of Governors and the Federal Advisory Council on February 14, 1944, for a copy of the draft of bill with respect to the supervision of bank holding companies, which it was reported had been prepared by the Board, and stated that within the last few days the members of the Council had seen copies of the Board's Annual Report for the year 1943 and that their attention had been called to the section entitled "Recommended Legislation on Bank Holding Companies". He said that the report was somewhat sketchy, however, that unless the Council had more detailed information of what was proposed it could not discuss the matter with much profit, that, since the Board had now expressed its viewpoint, the Council felt it should be furnished with a copy or a sufficiently complete summary of its provisions to enable the Council members to discuss it intelligently.

Mr. Brown also stated that since the meeting of the Board with the Council on February 14 the so-called Baruch-Hancock report, recommending that the Federal Reserve authority to make industrial loans or commitments be expanded and liberalized as a permanent source of credit for small and medium-sized business enterprises, had been made public and that the report contained the statement that members of Congress might obtain a detailed explanation of the proposal from the Board of Governors. He added that Chairman Eccles had told the executive committee of the Council that the report represented his views and that he was sure the other members of the Board agreed with

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it. He then said that the members of the Council would like to have a copy of the draft of the bill so that they could discuss it intelligently.

Mr. Brown referred to the fact that at the meeting of the Board with the Council in February Chairman Eccles had indicated that he was not disposed to furnish the Council with copies of the legislation proposed by the Board with respect to bank holding companies before its introduction. However, Mr. Brown said, the Council felt that legally, under the terms of the Federal Reserve Act, it was entitled to information from the Board as to proposed legislation vitally affecting the banking system and that, apart from the question of legality, the Council could not function and could not cooperate with the Board unless it were given such information. He made the further statement that the members of the Council wished to cooperate with the Board and that, while they could not promise that they would agree with the Board in every instance, they did feel very strongly that they should be kept informed of the Board's views and should be furnished drafts of legislation proposed by the Board in advance of its presentation in Congress and not merely afterwards. He then said that here were two specific cases about which the Council felt strongly.

In accordance with a request from Mr. Brown that he present his views, Mr. Kurtz stated that he was very sorry that Chairman Eccles was not present, since he would have liked to have him hear what he had to

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say, that he had been quite shocked by the direct statement--not merely an intimation--by Chairman Eccles, who it was assumed was speaking as Chairman of the Board, that he would feel entirely at liberty to withhold from the Council ideas or plans with respect to pertinent legislation or matters of policy in his own good judgment, and that if that policy were pursued he (Mr. Kurtz) could see nothing but a complete emasculation of the Council which would be unfortunate and to which he would not submit without "kicking". Mr. Kurtz went on to say that he felt the Council would be derelict in its duty if it did not ask the Chairman of the Board for an explicit definition of the Council's position with respect to information pertinent to banking and business in general, and that after rereading the Federal Reserve Act it seemed to him that it was the Council's duty to keep informed, that it had the right to request, and therefore to obtain, information, and assuming that right it was implied that the Board should give the Council the information. He said he understood, however, that there might be some situations which were so delicate that they could not be broadcast to the entire Council. He also said that during his membership on the Council he had had the feeling that the teamwork between the Board and the Council was not all that it might be, that members of the Council might at times have a "die-hard" attitude, which, however, was beneficial at times, that he earnestly hoped that the members of the Board present would transmit the Council's feeling to Chairman Eccles, and that if

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the Chairman's attitude represented that of the Board he would ask the Federal Reserve Bank of Philadelphia to relieve him of his duty on the Council and to fill the office with someone who felt less strongly about the matter than he did. Mr. Kurtz added that the matter had been discussed at some length by the Council at its separate meeting yesterday, that he felt all the members were shocked at the Chairman's expression of attitude, and that he hoped it could be changed by expressions of mutual good will.

During Mr. Kurtz' statement, Mr. Robert V. Fleming, the member of the Council representing the Fifth Federal Reserve District but who had not been in attendance at the separate meeting of the Council yesterday, came into the room.

Mr. McKee said that he was sorry that only three members of the Board were able to meet with the Council today, but that Chairman Eccles had been called to Utah, Mr. Ransom was ill and had been for some time, and Mr. Szymczak had had an engagement which he had to keep. He hoped the members of the Council would not let feelings go too long or too deep. He then referred to the proposed amendment to section 13b of the Federal Reserve Act with respect to small loans, and stated that the subject was not new to any of the members of the Council who had served for any length of time, that the \$139,000,000, which was made available under section 13b and which represented the amount taken from the System for the capital of the Federal Deposit Insurance Corporation,

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had been more or less of a "headache" to the Chairman personally, and that he wanted to do something either to get it back into the System or to be relieved of the present arrangement with the Treasury. The majority of the Board, Mr. McKee said, had voted to let Mr. Hancock have the so-called small business bill and he felt that it might be proper to have read the statement of background which was approved by a majority of the Board and sent to the Chairmen of the Banking and Currency Committees of the Senate and House. He also said that the timing of the matter was something over which the Board had no control, that Mr. Hancock had had to move quickly, and that he (Mr. McKee) hoped the members of the Council would be liberal in their judgment of that action.

With respect to the holding company bill, Mr. McKee pointed out that the Board had discussed this subject with the full Council as well as its executive committee and had tried to keep the Council informed as to the problem, that the Board had been unable to get its ideas cleared through the Bureau of the Budget which was necessary under present administration procedure, and that at the present time that situation had not changed. He explained that what the Board had in the way of a bill was the result of a confidential study based on its experience in the supervision of bank holding companies, that it involved many things on which the members of the Council undoubtedly had some knowledge but most of which would be hearsay to them rather than

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direct experience because the subjects included in the study dealt with loopholes developed from diversified meanings of words, and that it was with respect to those loopholes that legislation was needed. Mr. McKee went on to say that it seemed to him that this matter was further removed from the banking situation and much closer to a public relationship than anything that had come before the Board, that he did not know whether the public would be fully protected by the Board's suggestions, and that he was not too sure that legislation on the matter would ever be enacted. He felt the Council was unduly disturbed, and that there was only one member of the Advisory Council who would fully understand all the ramifications of the things in the study. He said he was willing to sit down and go over the high points of the study with that particular member, that he did not think that if any of the Council members had the responsibility of a member of the Board of Governors he would feel differently than he did, that it was not a question of banking legislation but of public legislation, and that it should be "prayed for" by those who were interested in the private banking system for the protection of the public interest and confidence of the public in the banks.

At this point Mr. Goldenweiser, Director of the Division of Research and Statistics, joined the meeting.

In response to a request from Mr. McKee for any comments that

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he might have to make on the proposed amendment to section 13b of the Federal Reserve Act, Mr. Draper said that a copy of the proposed small loans bill and background statement had been handed by Chairman Eccles on May 11, 1944, to Congressman Spence, Chairman of the House Banking and Currency Committee, that he (Mr. Draper) presented the same material to Senator Wagner, Chairman of the Senate Banking and Currency Committee, on the following day, but that whether the bill would be introduced today he did not know.

At Mr. Draper's request, the background statement and proposed amendment were then read by Mr. Lichtenstein, and during the meeting copies were handed to all the members of the Council.

Mr. Draper stated that, in view of the number of bills now being introduced in Congress with respect to small business, it had been felt that the time had come for the introduction of a bill with a moderate approach which would channel such loans through the private banking system rather than through a Government agency, and that none of the members of the Board favored having such loans made by a Government agency created for the purpose, thereby shutting out bank participation.

Mr. Evans suggested that until the bill was actually introduced it should not be discussed by members of the Council with outside individuals.

Mr. Berry said that this situation emphasized the point made

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originally that the Council should be given pertinent information as it developed, and that the proposed amendment to section 13b contained the implication that the financing should be done through the Federal Reserve Banks and not through a Government agency like the Smaller War Plants Corporation, whereas the Baruch-Hancock report set up the Federal Reserve System and the Corporation on a parallel basis.

Mr. Draper indicated that Mr. Hancock and his committee preferred that provision be made for loans by the Smaller War Plants Corporation only during the reconversion period while the Federal Reserve System would be a permanent lending agency.

Mr. Berry reiterated his opinion that it would make a difference if the Council could be informed currently on these matters and have an opportunity to discuss them rather than to have them presented already "cut and dried". He felt that the only thing the Council could do in the latter case, if it disagreed, would be to take an opposing position, which destroyed the original function of the Council as he saw it.

Mr. Brown said that, while he did not know whether the views of Chairman Eccles represented those of the entire Board, the Chairman had stated at earlier meetings with the Council that private banks and bankers should have no representation on the boards of the 12 Federal Reserve Banks but that they should be entirely agencies of the Board of Governors in Washington, and that the Federal Advisory Council,

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representing the interests of the banks of the country and having the right by law as the result of a compromise in the original Federal Reserve Act to present and argue the viewpoint of the private bankers, should be abolished. Mr. Brown further stated that, starting with that idea, it was perfectly natural that the person holding it should say that any legislation proposed by the Board should not be discussed with the Council prior to its introduction in Congress, that Chairman Eccles had made it very clear to the Council and its executive committee that, apart from the particular difficulties such as arose in the case of the bank holding company bill, due to the necessity of getting Budget clearance, he felt under no obligation and had no intention to discuss legislation with the Council, and that the Council could act after it was introduced and not before. Mr. Brown said that the Council, therefore, would like to know whether that position represented the position of the Board, and that it did represent, according to the Council's view of the law, an entire departure from the decision to set up the Council as a compromise so that the viewpoint of the bankers could be presented and argued with the Board.

Mr. McKee said that Mr. Brown's questions were embarrassing, and that he knew that they were not intended that way, to which Mr. Brown responded that they were not put forward for that purpose. Mr. McKee then said that, speaking for himself, he felt that everything

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that could possibly be discussed with the Council should be discussed with it, that the subject of legislation had not been assigned to him but had been assigned to Chairman Eccles and Mr. Ransom for primary consideration, and that the particular situation of which Mr. Brown spoke embarrassed him somewhat since he was greatly concerned about the holding company situation. He added that the reaction would first be against holding companies and then against banks as such, and that, while he did not know all the answers, he had given it a great deal of time and was satisfied that the study which the Board had made was necessary to overcome the possible reactions against banking in general. He said he was pleading with the Council as a member of the Board of Governors, that he would like to discuss with the Council, jointly or severally, all of the points at stake, but that the embarrassing part of that was that the study resulted in an attack on the vicious operations of an organization, that he interpreted the numerous inquiries that had come to him and the Board as attempts to find out what the Board had in mind in the way of legislation in an effort to defeat it before it became law, and that there had been so much of that that it had been felt necessary to treat the subject with the strictest confidence until it had reached a certain point. He further stated that the idea of including a reference to recommended legislation in the Board's annual report resulted from the failure of every other effort to get someone to sponsor legislation for the Administration, and that

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the Board, with its responsibility for supervising holding companies, felt compelled either to place the responsibility on someone else or to tell someone that the Board had a situation it could not handle with its present powers. Mr. McKee went on to say that two or three years ago he had tried to get the holding companies to introduce their own legislation in an attempt to forestall the conditions existing today, that the holding companies had very good reasons for not taking that step at that time, that if he had been in their position he might not have been willing to do so, but that someone had to do it or disastrous results would follow, and that, if and when someone did propose legislation, he felt the Board had a complete confidential study on the subject that would provide a basis for the legislation. In his opinion, while the study was written in bill form and was long, technical and hard to understand, it was in words that were necessary to meet a situation with which the Board was faced and could not control, and he asked the Council members to be a little patient on the whole subject and at the same time assured them that there was nothing in the proposed legislation that the unit banker should not favor. With reference to an earlier suggestion that the preamble to the bill might result in difficulties for the banks on the labor question, Mr. McKee said that the Board would be glad to adjust such things, but that if a bill were introduced it would not be a Board bill. He added that if someone did introduce a bill he would be willing to give that person his file on

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the subject.

With respect to the bill for small loans, Mr. McKee stated that the members of the Board had had an opportunity to speak on the issue and had spoken, that the majority of the Board approved the statement of background which had been read, that he was sorry that time had not afforded an opportunity for a discussion of the bill with the Council before its transmission to the Congressional committees, and that he did not like it any more than the Council did. He further stated that the Board and the Council ought to be two members of a family working for the common good, that misunderstandings of one another were unfortunate, and that he hoped the future would give the System the kind of cooperation he would like to see it have from the Presidents of the Reserve Banks, the Chairmen, and the Council because they all wanted only one thing and that was a better Federal Reserve System.

Mr. Brown expressed the opinion that all the members of the Advisory Council wished to cooperate, that, while it might be true that the Board might feel for good and sufficient reasons that some matters such as the bank holding company bill could not be disclosed in draft form, he thought it was a mistake to put in a lot of general language that from the point of view of the banking industry would affect labor legislation, and that, even if the Board were willing later to take such language out, labor interests might not be willing. He then said that the attitude of the Chairman was very clear and distinct

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that he did not recognize any obligation to discuss legislation with the Council in advance of its introduction in Congress and that he did not propose to, and that the Council would like to know whether that was the feeling of the majority of the Board since, if it were, the members of the Council felt it largely destroyed any usefulness of the Council. He added that the Board might feel, as the Chairman did, that the Council was of no use anyway, but that until the law was changed the Council members were the elected representatives of the banks, and that, although the Council was perfectly willing to recognize that special circumstances might arise that made it impossible to discuss legislation in advance, it was not believed that that applied to legislation generally.

Mr. McKee pointed out that the timetable with respect to the bill for small industrial loans had been stepped up since the last meeting of the Board with the Council's executive committee on April 5, 1944, and that the Board had approved the proposed bill since that meeting.

Mr. Draper explained that the Board had approved the proposed legislation and submitted it to the Banking and Currency Committees of Congress because (1) the Federal Reserve System was mentioned in the Baruch-Hancock report and the Board felt it had a certain mandate to follow through on the basis of the recommendation in the report and (2) the Board had received intimations that action was going to be taken in this field and that the System might not be included in the program at all.

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Mr. Brown expressed the opinion that a meeting of the Council could be arranged on 48 hours' notice to discuss a matter as important as this, and that the question involved was one of general policy of the Board in its relations with the Council in connection with legislative matters.

Mr. Berry suggested that this matter undoubtedly had come up long before the meeting of the Board with the Council on February 14, 1944, that it involved the fundamental question whether the powers of the Federal Reserve System should be extended into an entirely new field, and that unless proposed legislation were discussed with the Council before being placed in final form the Council served no useful purpose whatsoever.

Mr. McKee pointed out that this subject had been under consideration for five years or more, and that it had recently been discussed with the Council in the form of the Mead bill, into which the Federal Reserve System was also tied.

Mr. Berry said the general subject had been discussed but it struck him that it was quite different in the form proposed and was advanced as the Board's idea of the extension of the authority of the System into a new field. He felt that if the Council were to be of any value such matters should be discussed with it.

Mr. McKee said that he did not disagree with the Council, that he felt the legislation should have been discussed fully with the Council, but that he was not apologizing for the Board, that he thought other

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members of the Board would feel as he did, and that as the matter had not been discussed with the Council he hoped it would not be too quick to condemn the Board because it did not.

Mr. Berry said the Council was confronted with a rather positive statement that these matters would not be discussed with the Council in the future.

Mr. Wakefield stated that the interest of the Council rested entirely upon the belief that the Board was under an obligation to continue to protect the private banking system of this country, that, in addition, there were other influences in Government which were stepping into the field which would indicate that they might easily be enlarged to a point where they could push the Federal Reserve System out of the picture, that he felt the Advisory Council believed in the perpetuation of the Federal Reserve System and because of that belief felt that in times like these it would be helpful to the Board if the Council could sit with the Board and try to be helpful, and that it made it very difficult for the Council if the Board placed it in the position where it had to appear to oppose the Board in order to get changes in proposed legislation.

Mr. Draper suggested that the holding company situation was different from other situations, but Mr. Wakefield said that there was no difference whatsoever. He also suggested that if the Board would let someone read the bill they would find many places where it affected banking as a whole and where the Board was imposing undue penalties on

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all holding companies in order to reach a particular institution. He added that everyone in the bank holding company field was vitally interested in some of the things that were going on and in finding the proper means to correct them, and that, if it took "a package of words that thick" (indicating an inch) to correct the situation, there would be a lot of things in the bill that should not be there.

Mr. McKee said that the thoughts and wishes of the Council would be recorded and the members of the Board present would insist that the Board members who were absent read the record. He also suggested that the subject be retained on the Council's agenda for consideration at its next meeting with the Board.

Mr. Berry commented that the Council would be willing to meet with the Board before the next regular meeting which was four months away.

Mr. Brown stated that the Council appreciated Mr. McKee's statement that he wanted to discuss proposed legislation with them whenever it was at all possible. He then pointed out that, while the background statement on the amendment to section 13b contained the comment that it was contemplated that guarantees would not exceed 90 per cent of the amount of the loan, there was no limitation in the proposed amendment to the effect that the Board could not give 100 per cent guarantees or take-out commitments, and he questioned whether that should be so.

Mr. Wakefield expressed the opinion that there should be no

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limitation in the bill on the amount of the guarantee as that was a matter that should be left for regulation by the Board.

It was suggested that Mr. Vest, Assistant General Attorney, be called into the meeting in connection with this discussion, and at this point he came into the room.

Mr. Fleming stated that, while he was not in favor of 100 per cent guarantees by the Board, he felt that the chances for the enactment of the proposed legislation would be weakened if it contained the 90 per cent limitation.

Mr. Brown suggested that the Council would like to discuss the proposed bill at its separate meeting this afternoon. He repeated that the Council appreciated Mr. McKee's statement about being willing to discuss legislation with the Council, and stated that, while there might be specific cases which prevented legislation being discussed with the Council in advance, it was hoped that Mr. McKee's statement represented the views of the majority of the Board.

Mr. Traphagen said he thought Mr. McKee's statement was very reassuring and was appreciated.

Mr. Brown then stated that the Council would like to be informed with respect to recent developments in connection with the Brown-Maybank bill now pending in the Senate, and that this was one subject on which he felt the Council was in agreement with the Board since it wanted to prevent the abuses growing out of the absorption of exchange and collection charges and to see the Maybank bill defeated. He said that the

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Council felt that the resolution on this subject adopted by the American Bankers Association was very unfortunate (Mr. Fleming interjected that he did not agree at all with the resolution), that any attempt to define interest in the law might lead to a situation where all flexibility would be taken out of private banking, and that, since the likelihood of any action on the part of Congress during the present session was slight, the Council felt that the thing to do was to let the discussion of the subject die down as much as possible.

Mr. McKee pointed out that the Board had received the impression that the Senate was rather confused on the issues because of the interest shown in the field and was especially impressed by the opposition of business interests, that the Senate did not want to consider this type of controversial legislation at this time, and that it now appeared that there would be no Senate hearings prior to the recess. Mr. McKee went on to say that there was a question whether in the absence of legislation anything about enforcement should be done by the Board of Governors, that some banks were disturbed over the fact that no action was being taken against flagrant violators of the law, and that he would like an expression of the Council's views on that point.

Mr. Gifford suggested that the law should be uniformly applied and inquired whether the situation was correcting itself generally.

Mr. McKee suggested that perhaps the banks that were complaining about losses in deposits had not made a proper analysis of their losses which might have been occasioned by other causes than the competitive position of banks with regard to the absorption of exchange charges. He said that there were some large banks which still believed

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that the Brown-Maybank bill would be passed, and which in the meantime were not complying with the law, and that he would like to have an expression from the Council as to what should be done in such cases.

Mr. Wakefield stated that in reply to a letter (a part of which he read) from Chairman Crowley of the Federal Deposit Insurance Corporation he had written Mr. Crowley to the effect that the argument he had presented in his letter had no reasonable conclusion of fact in it, that, if a bill were passed legalizing the absorption of exchange, there was nothing to prevent banks from becoming highly competitive, that there was no difference in a bank paying out-of-pocket costs for a depositor or crediting interest to his account, and that if he (Mr. Crowley) felt as stated in his letter he should ask for repeal of the prohibition against the payment of interest on demand deposits.

Mr. Brown stated that he felt that, in response to Mr. McKee's question, the advice of most of the members of the Council would be that until the present Congress recessed the Board should not issue any further rulings.

Mr. Berry expressed the personal opinion that if the matter were left alone it would largely take care of itself.

At this point Mr. Kurtz withdrew from the meeting.

Mr. McKee said that anything the Council members could do to inform businessmen of all of the possible implications of the bill and the necessity for making themselves heard on it would be most helpful.

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Mr. Brown said that it was the Council's view that the less disciplining there was in the next few months the more chance there would be that the discussion of the matter would die down, that the Brown-Maybank bill would be defeated, and that unsound legislation would not be recommended.

At this point Mr. Goldenweiser withdrew from the meeting.

Mr. Brown then stated that the Board had requested informally that the Council consider what could be done to check the increase in the amount of money in circulation, and Mr. McKee stated that the Board did want to know whether, as the Treasury had suggested, the banks could police the size of bills being placed in circulation in a particular district.

Mr. Brown said that the Council felt that, apart from the natural increase in currency because of the increased volume of business, the greatest single factor in the increase was hoarding, which was brought about not through any distrust of the banks but through a fear of forced investment of bank deposits of individuals in Government bonds--possibly non-negotiable bonds or bonds without the redemption privilege--and also the fear that, if compulsory savings legislation were not enacted, individuals known to have bank balances would be placed under great pressure to buy Government securities. He further stated that he felt it was unfortunate that the Treasury, including the Secretary of the Treasury, Mr. Gamble who headed up the war loan

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drives, and the whole war loan organization, had been hammering at the idea of getting all banks to analyze their accounts and to tell depositors with a certain balance to buy bonds, and that Mr. Gamble had wanted a resolution adopted to the effect that everyone with over \$1,000 in bank or other deposits should be personally interviewed and urged to invest it in Government bonds, which the American Bankers Association committee concerned with the war loan drives had refused to approve for the reason that, if such a practice were adopted, it would force large amounts of money now kept in banks into safety deposit vaults. Mr. Brown went on to say that there was undoubtedly a large amount of currency being used in connection with black markets and by people desiring to avoid large income taxes, that it was a question of abolishing the regulations which brought about black markets and of abolishing high taxes or getting more efficient enforcement of the law, and that the Council was of the opinion that if the Treasury restricted the distribution of bills in the larger denominations by calling them in it would be a great mistake psychologically and only increase currency hoarding.

Mr. McKee suggested that, between now and the next meeting with the Board, the Council might give consideration to how the problem might be met.

Mr. Wallace asked if Mr. Goldenweiser still felt as he did at the February meeting when he expressed no apprehension with respect to the currency increase.

Mr. Goldenweiser was called back into the meeting and in response

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to Mr. Wallace's question stated that in recent months there had been a very evident increase in the amount of currency in circulation that was not accounted for by the rise in prices and payrolls, that he had felt generally that the problem presented by currency hoarding had been exaggerated since the growth in currency in circulation in the United States had been similar to the growth in other countries and was in line with payroll and price increases, that recently there had been a growth in the large denominations of currency which would indicate hoarding, but that the present rate of increase of between 300 and 400 million dollars a month in currency in circulation was not as rapid as in earlier months. He said that he was still not concerned about the increase since it made little difference whether the public held its funds in currency or demand deposits, but that, in so far as the public was holding idle funds as cash or demand deposits, it was a fact to be regretted because to the extent that these funds were used to buy bonds the need for bank purchases was reduced. Mr. Goldenweiser went on to say that at a recent meeting of Federal Reserve economists there had been agreement (1) that nothing should be done in the matter except to make a more vigorous drive to sell war savings bonds and to impress the public with the fact that currency being hoarded by them was subject to loss, fire, and theft and earned no interest, and in the end was no better than a bond, and (2) that the withdrawal of large denomination bills from circulation should not be recommended because any interference

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with the currency habits of the people created more apprehension than anything else and did not solve the problem.

Mr. Brown concluded the discussion with the comment that the Council felt that any attempt to interfere with the present situation and to withdraw bills of large denominations would increase hoarding and that the best thing was to say nothing about it.

Mr. McKee then said that he would like to present for the consideration of the Council the question whether the Board of Governors, which was asked periodically by the Council of State Governments for suggestions as to desirable changes in State laws, should present to that Council the matter of abolishing the tax on bank deposits which in such States as Illinois and Missouri brought about abnormal shifts of deposits at various dates as a means of avoiding the tax. The reason for mentioning the matter, Mr. McKee said, was that these shifts created problems for the System in connection with the reserve position of the banks losing the deposits.


Mr. Brown, speaking about the State of Illinois, stated that it would be very unfortunate if the matter were brought up at this time, that it would require an amendment to the State constitution, that the banks in Chicago had spent a considerable sum of money in an attempt to obtain a revision of the ad valorem tax provisions of the State constitution but without success, and that the obvious way of correcting the shift of deposits was to base the tax on the average deposits over the period of a year.

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Mr. Fleming expressed appreciation on behalf of the Advisory Council for the assistance of Messrs. McKee and Leonard in approaching the War Manpower Commission and the Selective Service System in connection with the request of the Council that banks be classified as an essential industry. He also indicated that the Council might ask the Board for further assistance on the matter at a later date.

Thereupon the meeting adjourned.

Chester Morier
Secretary.

Approved: 
Member.