

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, September 18, 1944, at 10:10 a.m.

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

Mr. Morrill, 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. Paulger, Director of the Division of Examinations  
Mr. Parry, Director of the Division of Security Loans  
Mr. Dreibelbis, General Attorney  
Mr. Leonard, Director of the Division of Personnel Administration  
Mr. Wyatt, General Counsel

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

Mr. Leon Fraser, President of The First National Bank of the City of New York, and Mr. Julian Baird, Vice President of the First National Bank of St. Paul, Minnesota, who had been designated by the Federal Reserve Banks of New York and Minneapolis, respectively, to attend this meeting in the absence of Messrs.

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Traphagen and Wakefield who were unable to be present

Mr. Walter Lichtenstein, Secretary of the Federal Advisory Council

Mr. Brown stated that, in a letter dated August 18, 1944, addressed to the Secretary of the Council, the Board asked for the Council's opinion with respect to a proposed amendment to the Board's Regulation L, "Interlocking Bank Directorates Under the Clayton Act," so as to remove any question of possible violation of the law and the Board's regulation in the plan proposed by the postwar Small Business Credit Commission of the American Bankers Association under which banks in the City of New York would become associated for the purpose of participating in commercial and industrial loans originating at and made by other banks throughout the country, the plan contemplating that such loans would be passed upon by a committee, each member of which, in addition to authority to commit his own bank, would be given by a resolution adopted by the board of directors of another participating bank authority to commit the second bank as well. Mr. Brown also said that it was his understanding that since the letter was written an agreement had been drawn up by the New York banks in connection with the proposed plan under which no bank would be bound except by unanimous action of the members of the committee, and that the request that the Board's regulation be amended had been withdrawn. Speaking personally, he thought the question was far-fetched, that it was a common custom for banks to participate

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in credit arrangements which might well raise the question involved in the proposed amendment, and that, while the Council felt that there was no objection to the modification if there were any doubt from a legal standpoint, there might be considerable danger in incorporating such an exception in the Board's regulation which might raise a question with respect to other similar procedures. He also said that, if an amendment to Regulation L were drawn, the Council would like very much to see the text of it before it was adopted by the Board.

Chairman Eccles stated that the matter had not been discussed by the Board since the date of its letter to the Council, that apparently there was no reason for a further consideration of it at this time, and that so far as the Board was concerned the matter would be laid on the table.

Mr. McKee added that in the event the Board should decide to adopt such an amendment a copy thereof would be furnished to the Council before it was put into effect.

Mr. Brown then stated that the members of the Council would like to be informed with respect to the present status of the Wagner-Spence bill which would amend section 13b of the Federal Reserve Act to permit the Federal Reserve Banks to guarantee loans made by banking institutions to business and industrial concerns.

Chairman Eccles stated that he would like to discuss this proposal at some length with the Council for the reason that he regarded

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it is an important matter because of the apparent misunderstanding that had arisen with respect to the scope and purposes of the legislation. He added that, in order to clarify with members of the Council what his position in the matter was, he had prepared a statement, which had not been seen or passed upon by the other members of the Board, under the heading "Legislation to Finance Business in the Post-war Period", and which contained the pertinent facts in connection with legislation now pending for the financing of business during the reconversion and postwar period, especially the bill to authorize Federal Reserve Banks to guarantee loans and the bill to expand the authority of the Smaller War Plants Corporation. The statement, a copy of which has been placed in the Board's files, was read by Chairman Eccles after which he outlined briefly the history of the Wagner-Spence bill and stated he thought there was little likelihood of any consideration being given to the bill until after the national election in November. He did think, however, that because of the additional responsibilities placed on the Smaller War Plants Corporation by the Contract Settlement Act of 1944 the bill now before Congress providing for a \$200,000,000 increase in the capital of the Corporation might be adopted.

During a reference to the major emergency legislation now being considered by Congress and to the opposition to the Wagner-Spence bill

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that had been voiced by representatives of the American Bankers Association, Mr. Fleming stated that representatives of the American Bankers Association were in Washington today in connection with Treasury financing discussions at the Treasury, and that it might be possible to discuss the proposed amendment to section 13b with them. He also stated that it might be possible at the meeting of the American Bankers Association at Chicago next week to adopt a resolution which would be more favorable to the proposed amendment and that, since there was little likelihood of the bill coming up for active consideration until after the national election in November, there would be a possibility of developing support for the bill.

Mr. Brown inquired whether the powers that would be granted to the Smaller War Plants Corporation by the Surplus Property Act now under consideration by Congress would permit the financing of the operation of plants after they were acquired as well as the acquisition of the plants. Mr. Vest, Assistant General Attorney, was called into the meeting and in response to Mr. Brown's question read a portion of subsection 14 (f) of the bill which would authorize the Corporation, for the purpose of carrying out the objectives of the section, to make or guarantee loans to small business enterprises in connection with the acquisition, conversion, and operation of plants and facilities, and, in cooperation with the disposal agencies, to arrange for sales of surplus property to small business concerns on credit or time bases. Subsection 14(e)

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of the bill would give the Corporation power to purchase any surplus property for resale and other disposition to small business when in its judgment such disposition was required to preserve and strengthen the competitive position of small business or would assist the Corporation in the discharge of the duties and responsibilities imposed upon it.

It was suggested in the ensuing discussion that, while the Corporation would not be authorized under these provisions to make or guarantee loans for any or all purposes, the authority that would be conferred would be very broad. At the end of the discussion, copies of the statement read by Chairman Eccles earlier in the meeting were handed to the members of the Council and to Mr. Lichtenstein.

There were also distributed copies of the memorandum prepared by the Board for presentation to the Council with respect to furnishing to the Council drafts of bills being considered by the Board.

Mr. Brown stated that the Council still felt very strongly that, before drafts of legislation prepared by the Board were introduced in Congress, copies thereof should be furnished to the members of the Council and they should have an opportunity to express their views with respect to the drafts.

At Chairman Eccles' suggestion, the memorandum prepared by the Board was read, after which Mr. Brown stated that it had been the experience of the Council that the Federal Deposit Insurance Corporation,



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the Comptroller of the Currency, and other agencies of the Government were more willing to discuss drafts of legislation with the Council and to seek its comments and suggestions than the Board appeared to be, and that there had been no objection to drafts of holding company bills prepared at the Treasury being discussed with the Council. A discussion of this point brought out the fact that the Glass holding company bill, which had been prepared in the Treasury and which included the so-called "death sentence", had not been discussed with the members of the Council.

In connection with Mr. Brown's comments, Chairman Eccles said that there was a considerable difference between the responsibilities of the Board of Governors and the Comptroller of the Currency or the Federal Deposit Insurance Corporation in that their responsibilities were largely in the field of bank supervision, whereas such responsibilities were secondary with the Board, the primary function of which was that of influencing credit conditions.

Mr. Brown said that everyone realized that, when the Board was discussing proposed legislation or was considering it with other agencies of the Government or with Congress, it could not be fully discussed with the Council, but after it had put its views in draft form and was ready to give the bill to a member of Congress as representing the views of the Board, in 99 cases out of 100 there could be no possible objection to discussing it with the Council before it was introduced, and that the members of the Council, who in most cases had had more banking

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experience than members of the Board, could make suggestions which would make the legislation more workable and would prevent injustices being done. He added that, if the holding company bill prepared by the Board which contained a reference to banking as interstate commerce had been introduced in Congress, the Board would have found it very difficult to get it removed even though it might be found to have no relationship to the important provisions of the bill.

Chairman Eccles stated that it appeared that the question whether banking was interstate commerce had been settled by the courts.

Mr. Brown responded that "that was neither here nor there" and added that the Board's attitude would make it much more difficult for the Council to act, except in opposition, if it were to have no opportunity to comment on legislation prepared by the Board until after it was introduced in Congress.

Mr. Ransom repeated an opinion which he had expressed previously that the question involved was not one of legal prerogatives, that he had reviewed the relationships and the history of the Council with the Board during the last nine years, that these relationships had been conducted successfully and amicably without reference to legal rights, and that on such matters as the holding company bill he thought the Board should have all the counsel and advice that the Federal Advisory Council was willing to give without the necessity of discussing specific language in any particular bill.



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Mr. Brown stated that he did not think there were any members of the Council who wanted to put the discussion on the basis of legal rights, that the question of legal rights had been raised by Chairman Eccles, and that, if in practice the Council could have an opportunity to express its views on matters which were not secret but which were important to the banking system, that was highly desirable as a means of avoiding major controversies that otherwise would result. He made the further statement that he had been asked to come to Washington on numerous occasions with other representatives of banks to consider legislation which was vital to the banking field, that it was a question of approach, that the Council wanted to work in harmony with the Board, and that the essential question was whether it would be possible to avoid situations where the Board would have legislation introduced without giving the Council or its executive committee an opportunity to discuss it or express views with respect to it.

Mr. Ransom felt that it was a question of the Board getting the advice of the Council on a problem rather than the discussion of the language of a specific bill, that the Council, in relation to the Board, stood somewhat in the position of *amicus curiae* or "a friend of the court" who would not expect to ask for advance information as to the judgment of the court. He did not think it was possible for the six members of the Board and the 12 members of the Council to debate the

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specific language of a bill. He then said that the Board's Annual Report for 1943 stated what the problem with respect to bank holding companies was, and that if the Council would advise the Board as to what to do in the situation there set forth it could be immensely helpful.

Mr. Fleming stated that, when the Banking Act of 1935 was under consideration, he talked to the President who felt it was highly desirable that the banks be consulted, that copies of the proposed legislation were sent to him and considered by representatives of the banks, and that those discussions were productive in making the legislation workable. He also said that, while the Board was charged with the responsibility of policy formation, the members of the Council were very much closer in touch with bank operating problems in the various areas, and that a full and frank discussion with the Council would be found to be productive of great good, and if any man on the Council should fail to treat in confidence any of the matters discussed he would not be fit to sit on the Council. He added that, as a member of the Business Advisory Council of the Department of Commerce, he had participated in many discussions of proposed legislation with representatives of the Department, and that, with one possible exception, there had been no violation of confidence.

Chairman Eccles reviewed briefly the history of the Banking Act of 1935 including efforts of representatives of the banks to have

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title two of the bill, which made major changes in the banking system, separated from the other two sections of the bill, and said that, if such efforts had been successful, title two of the bill never would have passed. He did not agree that the matter under consideration was not a legal matter, as the Board and the Council and their respective rights and obligations existed only because of legislation passed by Congress, that the obligations of each and the relationship to each other were fixed by statute, and that this relationship could not be changed without regard to the statute. He felt that it was not a personal matter or a question of confidence in the members of the Council or the Board, but a question of the kind of constructive relationship that should be maintained in the public interest in the light of the obligations imposed by the law. He made the further statement that the Council had a responsibility as representatives of the banking interests, that the obligations of the Board were entirely different, and that, if he were to return to the banking business, he would not expect this Board or any other public body to advise with representatives of banks on all basic matters that might be regarded as essential but which might affect the banks adversely.

With respect to holding company legislation, he stated that the Board and the Reserve Banks had had responsibility for holding company supervision for a period of years, that the System had acquired competency in dealing with the problem from a supervisory standpoint,

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that it was a question of meeting practical problems relating to bank holding companies, and that he regarded the System as more competent to do that than any other public body. He felt that it was important that the Council should be informed on problems that were developing so that the Board could have the advice of the Council with respect to them, that the Council had a right to make any recommendations or suggestions that it might wish and that it could ask for any information that the Board might have with respect to these problems, but that he did not think that the form of the legislation being considered by the Board was factual information of the kind the Council might expect to receive.

Mr. Ransom expressed the opinion that the Council did not have the legal right to copies of legislative proposals or regulations being considered by the Board, but that, in his opinion, if the Council were consulted with respect to the matter before the draft of bill or regulation were prepared, it would be very helpful to the Board.

Mr. Fleming said that that was all the Council would ask.

Mr. Kurtz stated that, as he understood the position of the Council, there was no intention on its part to pry into the administrative responsibilities of the Board, that he did not know what the legal rights of the Council or the Board were, but that all the Council asked was that if the Board proposed legislation or other action which would

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have considerable significance to member banks, such as the holding company bill, the Council be fully advised and given an opportunity to discuss it with the Board. He also voiced the opinion that, if the Board was to have the cooperation of the Council, it in turn must have the Board's cooperation to that extent, and that the members of the Council did not know what was being considered in the way of legislation and had to look to the Board to keep it advised.

Mr. Ransom inquired whether, so far as the holding company bill was concerned, the statement made in the Board's last annual report would not serve that purpose.

Mr. Kurtz' response was in the negative, and he stated that holding company legislation vitally affected the First, Ninth, and Twelfth Federal Reserve Districts, and that, in his opinion, the Board should discuss any proposed legislation with at least the representatives on the Council from those three districts, as those three men were charged with the responsibility of knowing everything about the matter; otherwise they would not be true representatives.

In response to a further comment by Mr. Kurtz that the defendant should have his day in court, Chairman Eccles said that there was ample opportunity during the consideration of the legislation by Congress for any interested person to be heard. Mr. Kurtz said that the Council should not be placed in a position of appearing to object to the legislation, and Chairman Eccles replied that the Council was under no

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obligation to agree with the Board. Mr. Kurtz felt that it would be unfortunate if it appeared that the Council was in opposition to the Board, and that the question involved was whether the Board felt that it was under obligation to consult with the Council with respect to any legislation that the Board might propose that would have a material effect on member banks.

Mr. McKee expressed the opinion that the question was not that broad, that legislation was difficult to get enacted in any event, that the holding company bill was necessary if the Board was to do an effective job of supervision, and that there were things in the bill which people on the outside wanted to know about, and, if the Board discussed proposed legislation with the Council, its members would be under obligation to say nothing about the proposal until the bill had been introduced.

Mr. Kurtz questioned whether the members of the Council would be under that obligation, and Mr. McKee responded that for that reason the question was one of judgment on the part of the Board in each case whether a proposed bill was one that should not be discussed with the Council, and that the holding company bill was in that category.

Chairman Eccles said it seemed to him that, if the Board made drafts of legislation which it was considering available to the members of the Council, they would be in a position, if they were opposed to it, to organize forces to defeat its passage, and that, if the Council wanted to discuss such matters before the bills were discussed and be obligated



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not to say anything in opposition to them before they were formally introduced, the problem would be a different one from the one under discussion.

Mr. Winton said he did not think that if the Board talked to the Council in confidence the members of the Council would betray that confidence and undertake to go to Congress or work against legislation proposed by the Board before it was introduced, although if they did not agree with the bill they would be at liberty to oppose it after it had been introduced.

Chairman Eccles responded that that would change the whole matter.

Mr. Winton went on to say that the members of the Council in their discussions on this matter had been actuated by a strong desire for full and helpful cooperation with the Board, that they could not be helpful without full information, and that there was no intention to usurp any of the authority of the Board. However, he felt that the Council and the Board had a job to do, and that in the interest of effective cooperation it would be helpful if the Board would discuss with the Council legislation which it had put in final draft form to see if the Council would have any suggestions that might be useful. He added that, while the Council had confidence in the Board and its staff, no one group "knew all the answers" and by close and sincere cooperation the Board and the Council would do a better job. He made the further

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statement that the memorandum which had been read was not a fair statement of the position of the Council as it did not have in mind that the Board would be expected to discuss everything that it might have before it in the way of legislation or regulations, but rather that when a bill was ready to be introduced the Council or its executive committee might be helpful if it had an opportunity to discuss it so that if possible an agreement could be reached before the bill was offered. He thought greater support could have been obtained for the Wagner-Spence bill to amend section 13b of the Federal Reserve Act if the members of the Council had known in advance that it was going to be introduced, and that the bill would not have encountered the difficulty that it did. He also said he thought the Council was still in a position to get support for the bill from the American Bankers Association. He concluded with a repetition of the statement that, if the Board took the Council into their confidence on these matters and gave it an opportunity to make suggestions, he would feel obligated not to discuss any proposed legislation on the outside until after the bill had been introduced. Such a solution of the problem, he said, would be a practical one without the Board or the Council surrendering any of its legal rights.

Mr. Ransom commented that the problem could not be other than one of judgment on the part of the Board, and in that connection pointed

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out that, if an officer of a holding company to which the draft of holding company bill was principally directed were a member of the Council, it would not be desirable or practicable to discuss the holding company bill with the Council. Whenever it was possible, he said, to take a matter up with the Council there was every advantage to the Board in following that course.

Mr. Winton said he realized that there were unusual situations that would have to be handled as Mr. Ransom had outlined.

Mr. McKee expressed the feeling that the Board and the Council were not far apart in their approach to this whole matter. He also stated that it was his personal belief that the Board should discuss everything with the Council that properly could be discussed for the reason that the Council was in a position to be helpful, but that the holding company bill involved matters that could not be taken up with the Council without disclosing information that was confidential to the Board.

Mr. Winton acknowledged that the holding company bill might be an exception to the matters that could be discussed with the Council unless there were members who were not personally interested in holding companies with whom the matter might be discussed in confidence.

Mr. Brown said that from what he knew of the draft of holding company bill prepared by the Board it would cover situations which he did not believe the Board knew existed and which the Board did not

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intend to cover in the bill.

Chairman Eccles replied that the Board was informed of such situations and had intended that the bill should cover them. He also said that so many of the matters that require legislation were so involved and affected so many different interests that the Board would have to be the judge when they should be discussed with the Council. He pointed out that many of the opinions expressed by the Board on legislation drafted elsewhere were much more important from the standpoint of the effect on the banking system than legislation proposed in the first instance by the Board, and that for that reason the statement in the memorandum to which Mr. Winton had referred had been included to show how far the position that had been taken by the Council would go if it were carried to its logical conclusion.

Mr. Brown said that the Board had discussed drafts of regulations with the Council but had not followed that course in connection with legislation, and he asked why, if other agencies of the Government were willing to discuss proposed legislation with the Council, the Board was not willing to do so.

Chairman Eccles' reply was that if some other agency discussed with the Council a bill prepared by the Board that was a different matter because it would not then be known whether a bill was a preliminary or a final draft, but that, if it were discussed by the Board with the Council, and the background information given in connection with it,

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the members of the Council would be in a position to go to Congress and use that information in opposing the bill before it was introduced, as they would be under no commitment to do otherwise.

Mr. McKee expressed the opinion that the Board had no right to discuss matters arising in connection with bank examination and holding company supervision with anyone in the System other than the officers of the Federal Reserve Banks having responsibility in connection with these matters, and that the holding company bill was in that field and had been discussed with other agencies of Government because of their responsibilities in the same field.

Chairman Eccles pointed out that the Board had assisted in the preparation of executive orders which were signed by the President and stated that certainly the Board would have no right to discuss the drafts of such orders with the Council.

Chairman Eccles added that, if the members were interested in the opinion submitted by the Board's Legal Division with respect to the matter under discussion it would be made available. During the meeting copies were handed to Mr. Kurtz and Mr. Fleming at their request.

Mr. Berry felt that it was inconceivable that a condition would arise where a bill prepared by the Board that was ready to be introduced could be effectively opposed by the Council before it was introduced if a discussion between the Board and the Council did not bring out points

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which would justify its being defeated, and that if there were such discussion the Council could call attention to the objectionable phases of the bill and could go a long way in support of the resulting bill.

There was a discussion of the meaning of the question whether the phrase "reserve conditions in the various districts" in section 12 of the Federal Reserve Act covered proposed reserve requirements, and Chairman Eccles pointed out that there was a clear distinction between "reserve conditions" and proposed reserve requirements which might affect the reserve position of member banks. He also said that tight reserve conditions could not exist in any one district under the present open market policies of the System, and that, while changes in reserve requirements were a matter within the general affairs of the Federal Reserve System, so were open market operations and other credit actions of the System, and it could not be claimed that these were matters that should be discussed with the Council in advance of the actions.

The discussion concluded with a statement by Mr. Kurtz that the question was a practical and not a legal one, and that there should be some meeting of the minds of the Board and the Council regarding it.

Reference was made to the dates for the next meetings of the Federal Advisory Council and of its executive committee and it was agreed by the Council that the executive committee should meet in Washington on Wednesday, October 25, that no meeting of the executive



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committee would be held in November, and that the next meeting of the full Council should be held in Washington on December 3 and 4, 1944.

Chairman Eccles said he did not know whether the Council had discussed the new Regulation V program providing for war contract termination financing but that he thought the Banks should get behind the program and make commitments to contractors to finance the termination of their war production contracts as there probably would be thousands of contractors who would need financial assistance pending the settlement of their claims. He also said that it would not be possible for the services expeditiously to make partial payments to all contractors, that the V Loan procedure presented the most effective way to handle the situation, and that, if properly handled, it would be the means of preventing undesirable attempts to meet it. The brief discussion which followed indicated that the banks were aware of the situation and were preparing to go to work on it. Mr. Fleming said that so far as the Reserve city bankers were concerned, it would be effectively handled.

Thereupon the meeting adjourned.

Cheser Morrie

Secretary.

Approved:

W. Eccles

Chairman.