

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 Tuesday, December 3, 1946, at 10:35 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom
Mr. Draper
Mr. Evans
Mr. Vardaman

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Paulger, Special Adviser
Mr. Smead, Director of the Division
of Bank Operations
Mr. Parry, Director of the Division
of Security Loans
Mr. Vest, General Counsel
Mr. Townsend, Assistant General Counsel

Messrs. Spencer, Traphagen, Williams,
McCoy, Wiggins, Brown, Penick,
Baird, Bradshaw, Winton, and Odlin,
members of the Federal Advisory
Council from the First, Second,
Third, Fourth, Fifth, Seventh,
Eighth, Ninth, Tenth, Eleventh,
and Twelfth Federal Reserve
Districts, respectively.

Mr. Prochnow, Acting Secretary of the
Federal Advisory Council.

Mr. Brown stated that at the separate meeting of the Council yesterday a draft of a memorandum had been prepared in response to the statement presented by the Board at the meeting with the Executive Committee of the Council on November 6, 1946. Mr. Brown read the draft of statement and, after some preliminary discussion, the members of the Board and its staff withdrew from the meeting for an informal discussion of the draft.

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The joint meeting reconvened at 12:05 p.m. with the same attendance as at the earlier session except that Mr. Carpenter was the only member of the Board's staff present.

Chairman Eccles said that the Board's statement was submitted not because of any lack of confidence in the Council or any cleavage or serious difference with the Council, but for the purpose of improving the relationship between the Council and the Board and making it possible more effectively to get the advice and assistance of the Council whenever it was practicable to do so, that the procedure that had been followed during the recent period was not tending in the right direction, and that a change in procedure had been suggested by the Board to formalize the relationship with the Council to a greater extent in order to prevent, if possible, any occasion for fundamental differences. He emphasized that the Board's suggestion did not mean that there should not be full and friendly discussion among the members of the Council and the Board, but rather that the discussion should follow more complete consideration by the Council, and an opportunity for discussion by the members of the Board, of the matters to be considered at the joint meetings. He also said that there could be differences in the interpretation of the law relating to the powers and functions of the Council, but that the Board was interested primarily in developing a practicable procedure that would make more

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effective the relationship between the Council and the Board so that the Board could have the full benefit of the Council's advice and recommendations.

There was a general discussion of the various steps that might be followed in such a procedure and it was understood that the Council would meet again following the luncheon period to complete consideration of the memorandum to be submitted by it to the Board.

In this connection, President Brown stated that the members of the Council felt that, since they were appointed by the boards of directors of the respective Federal Reserve Banks, they were under obligation to give to the directors copies of the statement submitted to the Council by the Board and any memorandum that the Council might approve as a response thereto.

Chairman Eccles stated that if that were done, the Board would want to consider whether it should make a formal reply to any memorandum submitted by the Council and that if copies of the memoranda were to be given such wide distribution, there was a possibility of undesirable publicity in the newspapers or otherwise. For this reason, he suggested that the members of the Council might agree to report to the boards of directors that the two statements had been submitted and that a procedure had been agreed upon.

President Brown stated that in its separate meeting the Council would give consideration to this suggestion.

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Chairman Eccles then referred briefly to the matters of interest to the Federal Reserve System on which legislation should be considered in the next session of Congress. He stated that the question of whether permanent legislation should be enacted granting the Board authority to regulate consumer credit should be decided by the Congress, and that if it did not see fit to grant continuing authority the executive order under which the present authority of the Board was exercised should be terminated. He also said that the Board at the proper time would recommend that the authority of the Federal Reserve Banks to purchase up to \$5 billion of Government securities directly from the Treasury be made permanent; that certain changes be made in the bank holding company bill (H.R. 6225) based on discussions with representatives of independent bankers' associations, bank holding groups, and others; and that Section 13b of the Federal Reserve Act be repealed and Section 13 amended to grant the Federal Reserve Banks authority of a standby character to assist in the financing of business, particularly small business, on a more practicable basis under which the Federal Reserve Banks could guarantee up to ninety per cent of a loan made by a commercial bank.

President Brown stated that the Council had adopted, and the Secretary would forward to the Board, a statement expressing the opinion of the Council that the existing authority of the Federal

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Reserve Banks to purchase securities directly from the Treasury should be continued at least for a number of years.

In response to an inquiry from President Brown as to whether the Board would recommend legislation granting permanent authority for the regulation of consumer credit, Chairman Eccles stated that the Board in its annual report for 1945 suggested that Congress give consideration to the question whether permanent legislation should be enacted but that the Board had not recommended legislation.

On the question of the amendment of Section 13 of the Federal Reserve Act, Mr. Brown stated that, while he did not know what the final attitude of the Council would be, he felt that their views would be largely influenced by the question whether as a part of the action by Congress the lending powers of the Reconstruction Finance Corporation were to be modified or terminated, and that the amendment of Section 13 as proposed by the Board would be a small price to pay for the termination of the lending powers of the Reconstruction Finance Corporation and the Council would favor that solution.

Chairman Eccles made it clear that the Board's proposal would be independent of any action by Congress with respect to the Reconstruction Finance Corporation, but that the Board felt that since the Corporation was an emergency organization, it would be better if the standby lending authority proposed by the Board were continued in the Federal Reserve Banks which would use their own

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funds for the purpose and not be under necessity of calling on the Government for funds.

With respect to bank holding company legislation, President Brown stated that it was assumed that the amended bill would be submitted to the Congress by the Board early in January, and Chairman Eccles replied that it should be presented as promptly as possible after the new Congress convened.

President Brown said that ordinarily the next meeting of the Council would be held on February 16 and 17, 1947, but that the Council wished to suggest that the meeting be postponed until March 3 and 4. Upon being advised that these dates would conflict with the annual meeting of the Federal Open Market Committee and a meeting of the Presidents Conference, it was agreed by the members of the Council and the Board that the meeting of the Council should be held on March 10 and 11.

Thereupon the meeting adjourned.

Secretary's Note: After luncheon the members of the Federal Advisory Council met again, and while the meeting was in session President Brown advised Chairman Eccles that the Council had approved the following memorandum and would like to know if the procedure suggested therein for further meetings of the Board of Governors and the Council was satisfactory to the Board. A meeting of the Board was called to consider the matter after which Chairman Eccles advised President Brown that the suggested procedure was satisfactory to the Board. When President Brown submitted the memorandum to Chairman Eccles, he advised that the Council had

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agreed that the statements submitted by the Board and the Council should not be given to the directors of the Federal Reserve Banks but that each member of the Council would report to the board of directors that the Council and the Board had agreed on a four-point procedure in connection with further meetings. It was understood that the members of the Council would make it clear in their reports to the boards of directors that the reason for the memorandum submitted by the Board was to arrive at a somewhat more formal procedure for the purpose of improving the relationship of the Council and the Board, preventing any occasion for conflict from arising in the future, and allowing more time for consideration of the various matters coming before the Council and the Board for discussion:

"The Federal Advisory Council has carefully considered the statement made by Chairman Eccles on behalf of the Board of Governors before the Executive Committee of the Council on November 6.

"The Council believes that in connection with its statement, Section 12 of the Federal Reserve Act should be considered, since this section provides for the Council and defines its powers. This section reads as follows:

"CREATION, MEMBERS, AND MEETINGS

'Sec. 12. There is hereby created a Federal Advisory Council, which shall consist of as many members as there are Federal reserve districts. Each Federal reserve bank by its board of directors shall annually select from its own Federal reserve district one member of said council, who shall receive such compensation and allowances as may be fixed by his board of directors subject to the approval of the Board of Governors of the Federal Reserve System. The meetings of said advisory council shall be held at Washington, District of Columbia, at least four times each year, and oftener if called by the Board of Governors of the Federal Reserve System. The council may in addition to the meetings above pro-

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"Provided for hold such other meetings in Washington, District of Columbia, or elsewhere, as it may deem necessary, may select its own officers and adopt its own methods of procedure, and a majority of its members shall constitute a quorum for the transaction of business. Vacancies in the council shall be filled by the respective reserve banks, and members selected to fill vacancies shall serve for the unexpired term. (12 U. S. Code 261).

'POWERS.

'The Federal Advisory Council shall have power, by itself or through its officers,

- (1) to confer directly with the Board of Governors of the Federal Reserve System on general business conditions;
- (2) to make oral or written representations concerning matters within the jurisdiction of said board;
- (3) to call for information and to make recommendations in regard to discount rates, rediscount business, note issues, reserve conditions in the various districts, the purchase and sale of gold, or securities by reserve banks, open-market operations by said banks, and the general affairs of the reserve banking system. (12 U. S. Code 262).'

"The statement by the Chairman on behalf of the Board of Governors with respect to the meetings of the Federal Advisory Council and the Board raises more fundamental questions than the procedure at meetings. The real questions are the statutory powers and duties of the Advisory Council and the relationship between the Council and the Board of Governors.

"The Federal Advisory Council was set up under the Act that created the Federal Reserve System and is part of the structure of the system. Its duties, powers and authority are fixed by law. It is not subject to control or direction by the Board of Governors. Its members are elected under the statute by the Boards of Directors of the twelve Federal Reserve Banks.

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"The powers of the Council are primarily advisory - as its name implies. It is empowered to confer as a council or through its officers 'directly with the Board of Governors of the Federal Reserve System' and 'to make oral or written representations concerning matters within the jurisdiction of said Board.' In order that the Council may keep fully informed on the affairs of the Federal Reserve System, it is authorized and empowered 'to call for information and to make recommendations in regard to . . . the general affairs of the reserve banking system.'

"It was the clear intent of Congress that the Federal Advisory Council should be currently advised of developments affecting the Federal Reserve System and should place at the disposal of the Board of Governors representations as to actions, policies and programs on any 'matters within the jurisdiction of said Board.'

"The Federal Advisory Council in performing its duties recognizes that the Board of Governors is not required to approve, accept or act upon any of the advice given.

"The matter of procedure in meetings between the Board and the Council is incidental to the larger question of the cooperation between the Board and the Council in finding answers to the many and difficult questions affecting the operations of the reserve banking system and the effectiveness of the system in performing its duties to the Government and the people of the United States.

"The Board and the Council could and should discuss all important problems of the Federal Reserve System in mutual good faith and good will. It is the belief of the Council that an informality and flexibility of procedure enhances the benefits that come from their joint meetings. To straight-jacket the contacts of the two groups in formal written communications would largely destroy the effectiveness of the Council as well as its value to the Board.

"Unless and until the Congress changes the law, the Council will continue to exercise the powers given it to the best of its ability in the interest of the national welfare as it sees it. While the Council realizes its function is advisory, it will insist on its statutory right to confer with the Board of Governors, to make oral or written representations, to make recommendations, and to ask for information which the law entitles it to have. It reserves the right

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"to make its recommendations public if it so desires. Within these limitations it desires to cooperate with the Board of Governors to the end that whenever possible the Council can support the Board's position publicly and in banking circles. Obviously, if the Council is not to be given information as to matters of proposed legislation or regulatory action until after the Board has formally recommended the legislation or adopted the regulation, the possibility that the advice of the Council might affect the Board's decision is greatly lessened, if not absolutely destroyed. If the Council should disagree with actions or proposals of the Board taken without any discussion with the Council, and if the Council is to carry out the purpose given it by Congress, it may feel obliged to take issue publicly with the Board's actions or proposals. This would be unfortunate, and we sincerely believe that free and frank discussion between the Council and the Board would in many cases result in an agreement on proposed legislation or a regulation. Cases undoubtedly will arise where the Board and Council would have to disagree publicly, but the number of such cases would be minimized.

"As to the procedure, which the Board declares to be a departure from the purposes and functions of the Federal Advisory Council, the minutes of the joint meetings of the Council and the Board reveal that most of the matters discussed between the Board and the Council have been submitted in writing to the Board in advance of the meetings. Many of the Council's suggestions have been adopted by the Board in whole or in part. In recent years the Board has submitted in advance to the Council, for its opinion or advice, very few matters, and during the past two years only two questions which it was considering.

"Coming to questions of future procedure the Council believes:

I. That the meetings of the Board and the Council should be confined to the members of the Board and the Council, with only a secretary present for each body. The present practice which has grown up in recent years of a dozen or more of the Board's staff being present at meetings constrains free discussion and frank expression on both sides. While the presence of the Staff has the advantage of making technical information immediately available and was undoubtedly adopted for this reason, we strongly feel that any advantage of the staff's presence is outweighed by the constraint its presence imposes on discussion.

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"II. That the Board submit to the Council in advance of its meetings, or at least by noon of the day the Council meets by itself in Washington, questions of importance upon which the Board desires the advice of, or discussion with, the Council so that the Council can advise as a body upon them after an opportunity of discussion among its members.

III. That the Secretary of the Council will, as heretofore, send the Secretary of the Board questions which any member of the Council thinks should be discussed or on which he desires information. The Council fully understands the desire of the Board to have the Council's questions submitted in advance of the meetings, and a memorandum incorporating the results of the separate discussion of the Council, any recommendations that it might wish to make, and a statement of any additional information that it might wish to have from the Board, will be submitted to the Board early on the following morning. The joint meeting may be held the same afternoon or the following morning. To maintain the effective position of the Council it reserves the right, as contemplated in the Act, to discuss with the Board other matters which may arise.

IV. That the practice be discontinued of holding monthly meetings of the Executive Committee of the Advisory Council and the Board between Council meetings at dates fixed in advance. That instead, the Board and the Executive Committee meet when either the Board or the Committee so requests. It is not contemplated that such meetings will be requested unless one or the other feels some development between the regular meetings of the whole Council renders such a meeting desirable. The monthly meetings of the Board with the Executive Committee between the quarterly meetings of the Council were agreed upon as desirable during the war period and the Council believes served a useful purpose with the rapidly changing war conditions.

"Since the establishment of the Federal Reserve System it has been the custom of the Executive Committee of the Council to meet with the Board in times of emergency. The powers given the Council specifically provide that they may be exercised 'by itself or through its officers.' The members of its Executive Committee are its 'officers.' The Council has amended its by-laws to that effect.

"Both the Council and the Board have serious obligations to the nation under the laws of their creation and powers. They have obligations to one another in dealing

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"with the problems of the Federal Reserve System in a spirit of mutual confidence, respect and good will.

"The Federal Advisory Council pledges that cooperation to the fullest extent that the Board of Governors will make possible."


Secretary.

Approved:


Chairman.