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, September 23, 1947, at 10:40 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Szymczak
Mr. Draper
Mr. Vardaman
Mr. Clayton

Mr. Carpenter, Secretary

Messrs. Spencer, Burgess, Williams, McCoy, Fleming, J. T. Brown, E. E. Brown, Penick, Atwood, Kemper, Winton, and Odlin, members of the Federal Advisory Council from the First, Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, and Twelfth Federal Reserve Districts, respectively

Mr. Prochnow, Acting Secretary of the Federal Advisory Council

At its separate meeting before this meeting the Federal Advisory Council approved statements with respect to various matters which it wished to discuss with the Board of Governors and yesterday it presented these statements to the Board for consideration in accordance with the procedure agreed upon by the Council and the Board on December 3, 1946.

President Brown stated that the agenda for this joint meeting was short and it was the hope of the Council that it could be completed in time to permit a discussion with the Board of any ideas that it might have for dealing with the present inflationary situation.

The discussion at this joint meeting with respect to each of the topics on which the Federal Advisory Council had submitted statements to the Board was substantially as follows:

1. Purchase by Federal Reserve Banks of Treasury bills at a price to be determined daily.

Although there may be some inconveniences in the present policy regarding Treasury bills, the Council is unanimously in favor of continuing with the present procedure at least until such time as the market has had more experience with it.

In this general connection the Council understands that the Federal Reserve Bank of New York has requested the member banks of its district not to buy and sell Federal Reserve funds outside of the district. All banks in New York are not complying with the request and similar requests have not been made in other districts. The Council believes that this request is neither practical nor desirable, and it urges that the request be withdrawn. The Council is opposed to any action by the System which implies a policy that borrowings by member banks should be confined to Federal Reserve banks.

President Brown stated that it was significant that the opinion of the Council on this topic was a unanimous one for the reason that the proposal with respect to Treasury bills originated with Mr. Spencer, the member of the Council from the First Federal Reserve

District, and several members of the Council at first had felt that the suggestion was a good one. However, he said, after the matter had been discussed it was the conclusion of the Council that, in view of the fact that the buying rate and repurchase option on Treasury bills had been discontinued only recently and if Mr. Spencer's suggestion were followed the System probably would be under pressure to maintain a rigid rate on Treasury bills, it would be better to continue the existing procedure without change for the time being.

With respect to the last paragraph of the Council's statement as set forth above, President Brown said that the Council was unanimous on this point also and that it was at a loss to understand why such a request should be made by the Federal Reserve Bank of New York. He also said that in the past it had been the view that trading in Federal funds was desirable, and that the reason for the position, that such transactions should be allowed by banks within the New York District and not allowed by banks in that District with banks in other districts, was not apparent to the Council. He added that there was nothing in the law to justify such a request, that several of the banks in New York were paying no attention to it, and that it was irritating and discriminatory and created the implication that there was some policy in the System that member banks should not borrow from banks other than the Federal Reserve Banks.

Chairman Eccles stated that the position of the Federal Reserve Bank of New York with respect to the purchase and sale of Federal funds had just come to the attention of the Board, that the Board was looking into the matter, but that on the basis of the information available felt that the adoption of such an approach, if after consideration it should be found to be desirable, should be on a System basis and not by one of the Federal Reserve Banks acting alone. It was a matter of System interest, he said, because any action in that direction would affect open market and discount policy as well as the reserve position of member banks.

Chairman Eccles went on to say that, in view of the position of the Council with respect to the Spencer proposal, it would be consistent for the Council to favor the adoption by all of the Federal Reserve Banks as a System matter of the position taken by the Federal Reserve Bank of New York of discouraging member banks in the Second Federal Reserve District from buying and selling Federal funds outside of the District as this would limit the availability of such funds and require member banks in some cases to borrow from the Federal Reserve Banks or sell securities to adjust their reserve positions which would be in harmony with the policy of limiting the use of Reserve Bank credit.

After some discussion of the probable effect of the adoption of the position of the Federal Reserve Bank of New York on a System basis, Chairman Eccles stated that the New York Bank had been asked for full information with respect to its action and that when the information had been received it would be given further consideration by the Board, but that it was the feeling at the present time that, if taken, any such action should be taken as a System matter and not by a single Federal Reserve Bank.

Mr. Burgess said that he had discussed the matter with the Federal Reserve Bank of New York, that the Bank agreed that it was a matter for System consideration, that the problem involved was just now becoming important with the disappearance of Treasury bills subject to the buying rate and repurchase option and the resulting increased importance of dealings in Federal funds, and that what the Bank was doing was to pick up where it left off a good many years ago when it had tried to discourage the purchase and sale of Federal funds.

President Brown stated that it was his opinion that if the System should see fit to adopt the position of the Federal Reserve Bank of New York on a System basis and request all member banks not to buy and sell Federal funds, there would be a number of banks which would disregard the request and there would be criticism and irritation in connection with a relatively unimportant matter.

After discussion of the difference between the 3/8 per cent posted rate on Treasury bills and the Spencer proposal, Chairman Eccles stated that there was considerable merit in the proposal, that if it was desired to get a wide distribution of Treasury bills that would be one way to accomplish it, but that the proposal was inconsistent with the policy of limiting the availability of Reserve funds.

2. <u>Reimbursement of member banks for transportation costs on cash items sent direct to other Federal Reserve Banks and Branches</u>.

> The majority of the members of the Council believe that this matter is not one of significance. The omission of any discussion of the subject with the Council was in all probability an oversight. However, in view of the importance of correspondent banking relationships to the banking system, the Council believes that it would be advantageous in the future for the Board, before taking action, to discuss with the Council matters which might affect correspondent bank relationships. A minority of the Council believes that the practice by the Federal Reserve Banks of absorbing charges even of this character, is objectionable.

President Brown stated that, although banks in some areas in the country were much concerned about the action of the System and interpreted it as the beginning of a plan to require banks to carry all balances with the Federal Reserve Banks, a large majority of the banks felt as the majority of the Council did, that the matter was of no great significance. He also said that based on the records of the Federal Reserve Bank of Chicago there was only one bank in the whole United States that previously had not followed the practice of direct sending that had adopted the practice since August 1, 1947. He added that as a means of avoiding misunderstandings of the kind that occurred in this case it would be desirable for the Board to discuss the matter with the Council, in advance, that the Board probably would find the Council in agreement with the proposed action, and that steps could be taken to prevent misunderstanding from arising.

Inasmuch as opposition to the action of the Federal Reserve Banks in this matter had been strongest in the Dallas District, President Brown called on Mr. Winton for an expression of his views.

Mr. Winton stated that Mr. Adams, President of the First National Bank in Dallas, Texas, had taken a very strong stand in opposition to the System's action, that Mr. Thompson, Executive Vice President of the Continental National Bank of Fort Worth, Texas, became interested in the matter and discussed it with him (Mr. Winton) and that he had told Mr. Thompson that he might go as far as he liked in support of the opposition to the action but that he (Mr. Winton) did not believe it was a matter of very great importance. As he understood it, he said, it was Mr. Adams' feeling that the action of the System was only another step by the Federal Reserve Banks in the direction of trying to take over correspondent bank relationships. He added that some of the bankers in Texas had regarded the matter as a serious one and had gone so far as to solicit the support of Congressman Wright Patman for legislation at the next session of Congress affecting the Federal Reserve System. Mr. Winton expressed the opinion that the System made a mistake in not discussing its proposed action with the Federal Advisory Council in advance, that the resulting situation was quite embarrassing to him as he had not heard of the proposal before it was announced, and that a great deal of opposition had developed to it.

Chairman Eccles reviewed the history of the proposal that Federal Reserve Banks reimburse member banks for transportation costs on cash items sent direct to other Federal Reserve Banks and Branches and the reasons for the recommendation of the Presidents' Conference and its Committee on Collections that the policy of reimbursement be adopted on a uniform basis by all of the Federal Reserve Banks. He also said that the Presidents and the Board had regarded the action as a purely operating matter which was not of sufficient importance to justify taking it up with the Federal Advisory Council in advance.

Mr. Fleming stated that those who were opposed to the action felt that it was contrary to the spirit of the prohibition of the Board's Regulation Q against the payment by member banks of interest on demand deposits; that is, that member banks were prevented from absorbing costs in such a manner as would constitute the payment of interest on balances maintained for a correspondent bank whereas the Federal Reserve Banks felt entirely free to reimburse member banks for transportation costs on cash items sent direct.

Chairman Eccles explained why there was no relation between Regulation Q and the System's action in this matter, stating that member banks were required by law to maintain their legal reserves with the Federal Reserve Bank and the reimbursement of member banks for transportation costs on items sent direct had no relationship to the maintenance of reserve balances but was done for the purpose of (1) effecting economies, (2) at the same time improving the check collection system thereby benefiting commerce, industry, and agriculture, and (3) making membership in the System more attractive. He added that the System could not be in a position of refusing to improve its services because any such action might affect the correspondent relationships of commercial banks, and that, if Congress had intended that to be the policy, the System never would have been established.

Mr. Winton stated that he did not think it was consistent for the System to issue Regulation Q and then authorize the reimbursement of member banks for transportation costs on items sent direct to other Federal Reserve Banks and branches and Chairman Eccles stated again why it was felt by the Board that there was no relationship between the two. He made the further statement that the Board of Governors was entirely willing to permit the payment of interest on demand deposits by member banks if Congress should so authorize but that the Board was not willing to have it done indirectly by some banks who would get unfair advantages thereby.

Mr. Winton responded that he was in favor of the retention of Regulation Q but that he was opposed to the reimbursement of member banks for transportation costs on cash items sent direct.

3. Designation of reserve cities.

At the joint meeting of the Board and the Council on May 20, 1946, the Council outlined in general some of the factors which would require consideration in any proposal to reclassify reserve cities. The Council desires to restate the position it took at that time, together with additional factors that necessitate consideration in connection with the new proposal by the Board for the reclassification of reserve cities. The Council recognizes that the present system of designating reserve cities is not logical, but it believes that the new proposal of the Board for the designation of reserve cities is no more logical. The Council is of the opinion that the classification of reserve cities should depend on the character of the deposits in a city and, specifically, on such factors as the following: (a) the percentage of the demand deposits which represent correspondent bank balances; (b) the percentage of the demand deposits which are represented by out-of-town and widely spread business; (c) the total demand deposits which are held by the banks in a city; and (d) the general degree of stability of deposits in a city. The Council believes it is impossible to develop a rigid formula that will apply fairly to all cities in all the Federal Reserve districts. Individual cities require individual consideration.

Cities which are now reserve cities and wish to remain reserve cities should be allowed to do so. Reserve cities that wish to drop the classification and have a small amount of correspondent bank and out-of-town business, as well as a relatively small total of deposits, should be allowed to give up the classification. Cities that wish to give up the classification but have a substantial volume of correspondent bank and out-of-town business, or a large total of deposits, should be required to retain the classification. Cities which are not now reserve cities but desire the classification should have their requests heard by the

Board. Where a city not now a reserve city clearly should be classified as such, the Board should act on its own initiative but only after a hearing.

The Council sees no real merit or necessity in disturbing the situation now when so many other more pressing problems face the banking system and our economy today.

President Brown stated that the formula proposed by the Board for the designation of reserve cities was based only on correspondent bank balances which would result in Chattanooga, Tennessee, which did not wish to be classified as a reserve city, being placed in that classification while the designation of Toledo, Ohio, which had nearly twice the volume of deposits in Chattanooga and wanted to continue as a reserve city, would be discontinued. He also said that the inclusion as a reserve city of National City, Illinois, a town of only about 250 people was an extreme application of the formula proposed by the Board. The formula, he added, would reduce required reserves of member banks by approximately $40 million and it was the opinion of the Council that such an increase in available reserves at this time would have some significance in the inflationary situation. He made the further comment that the Board's letter asking that this matter be placed on the agenda for discussion by the Council was marked "confidential" and therefore had not been discussed by members of the Council with the Banks in the reserve cities that would be affected by the proposal.

Chairman Eccles stated that the Board and the staff had given a great deal of thought to the whole matter, particularly in the light of the historical development of reserve cities and the responsibility of the Board for the designation of such cities, that the Board felt that the present situation was entirely indefensible in view of the responsibility given to the Board under the law, and that the adoption of a formula or criterion for the designation of reserve cities was necessary.

In response to an inquiry from Mr. Winton, it was stated that there were a number of cities in which there were banks which did not have any correspondent bank accounts or business of a character usually handled by large banks in reserve cities and which therefore should not be required to carry the higher reserve required of reserve city banks.

Mr. Odlin referred to the fact that Spokane had a Branch of the Federal Reserve Bank of San Francisco at one time, that the Branch had been discontinued although an agency of the Federal Reserve Bank was still maintained there, and that it was now proposed to discontinue the designation of Spokane as a reserve city. He said that Helena, Montana, would be continued as a reserve city and that Spokane, which had pride in its position as a reserve city, would look at Helena and would dislike to have its designation discontinued. In these circumstances he suggested that an exception be made to the proposed formula to continue the designation of a reserve city in which an agency of a Federal Reserve Bank was located. It was explained to Mr. Odlin that the office in Spokane was not an agency but an informal office which handled some of the fiscal agency work previously handled by the Spokane Branch.

Following a comment by Mr. Fleming that the volume of bank balances should not be the only criterion for the designation of reserve cities, Chairman Eccles discussed the various bases that might be considered and outlined the reasons why it was felt there should be a single reserve requirement for all deposits regardless of their character or location.

Mr. Fleming stated that if, as suggested by Chairman Eccles, a formula were adopted under which individual banks might be required to carry higher reserve requirements than other banks in the same city, it probably would result in withdrawal of banks from membership.

Chairman Eccles expressed a view that the whole matter of reserve requirements should be considered by the Congress and that if the formula proposed by the Board were adopted it could say to the Congress that it had adopted a policy pursuant to existing law, but that it was the feeling of the Board, based on experience since the System was established, that there should be a single reserve requirement for all classes of deposits wherever located. Then, Chairman Eccles said, if the Congress was not satisfied with the existing situation it could determine the basis upon which member bank reserves should be computed.

President Brown inquired why the matter could not be presented to the Congress without the adoption by the Board of a formula, and Chairman Eccles stated that without such action to point the matter up it would not be possible to get consideration of the matter by the Congress.

Mr. Burgess suggested that there was no need to bring the matter before the Congress during the next five years, that the Board had ample authority under existing law, and that no damage was being done under the present system.

Chairman Eccles responded that the Board did not have authority for a satisfactory solution of the problem, and that every time it proposed to do something to correct the present unsatisfactory situation it ran into strong opposition.

Following a reference to the problems that might be created by the designation of individual banks to carry higher reserves rather than the designation of cities as reserve cities, there was a discussion of the suggestion that the formula proposed by the Board be amended to include in the reserve city designation only banks which held interbank deposits equal to one-third (instead of one-fourth) of one per cent or more of total interbank deposits held by all member banks in the United States. It was stated that if the formula were based on an average of one-third of one per cent or more of total interbank deposits over the two year period instead of one-fourth of one per cent on every call date in the two years ending June 30, 1947, Chattanooga, Tennessee, would not be a reserve city but that otherwise the list of cities that would be designated as reserve cities under the formula would not be changed. The members of the Council indicated that they would favor such an amendment.

At the conclusion of the discussion President Brown stated that the Council requested that the record show that the Council objected to the formula proposed by the Board and saw no need for action by the System at this time.

Mr. Szymczak commented that the formula proposed by the Board would form the basis for consideration by the Congress for the purpose of bringing about a satisfactory solution.

4. Reduction in reserve requirements.

> This item on the agenda did not originate in the Council, but was suggested by a banker in the district of one of the Council members. The Council is unanimously opposed to the suggestion.

Chairman Eccles referred to the prospective large imports of gold in the future which would increase member bank reserves and stated that it might be necessary for the Board again to exercise its authority under existing law to increase the reserve requirements of member banks in central reserve cities.

President Brown stated that he would have no objection to such action, and Mr. Burgess said that he did not think the time for such action had arrived, but that the problem raised the question whether there should be a differential between reserve requirements in central reserve and reserve city banks.

5. Official personnel and salaries at the Federal Reserve Banks.

> The Council is greatly concerned as to the maintenance of the quality of management of the Federal Reserve banks. There seem to us signs of deterioration due to the loss of able men in top positions and difficulty in their replacement. The causes appear to lie partly in low compensation, not well adjusted to recent changes in cost of living and pay in comparable positions, and partly in the feeling by officers of the Federal Reserve banks that they do not have adequate responsibility and authority.
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> We believe this is a situation requiring the cooperative action of the Federal Reserve Board and the Boards of the several Federal Reserve banks.

Chairman Eccles stated that the Board had discussed this matter itself and with the boards of directors of the Federal Reserve Banks at great length and that it did not believe it could approve further increases in salaries of Federal Reserve Bank officers in the top brackets until such time as Congress saw fit to authorize increases in salaries of top Government officials in recognition of higher living costs. He said that a number of increases in salaries up to $10,000 and $15,000 had been approved by the Board, but that there were more reasons at the present time why the Federal Reserve Banks should not increase salaries in the higher brackets than had existed in the past. He expressed the opinion that, because of the interest of the Government in the excess earnings of the Federal Reserve Banks, salaries at the Banks were a direct cost of Government and as much a burden on the Government as any other Government expenditure, that, therefore, any savings in the operation of the Federal Reserve Banks reflected reduced costs to the Government, and that salaries paid to officers of Federal Reserve Banks were in excess of salaries in any Department of the Government but were as much a part of the Government salary picture as the salaries of any Government official. He referred to the salaries now being paid to Presidents and First Vice Presidents of the Federal Reserve Banks and stated that the System was having no trouble in attracting competent men. In response to a comment by President Brown in which he questioned whether that was the case, Chairman Eccles stated that the Board felt the Federal Reserve Banks were well operated. In that connection he outlined why in his opinion the top salaries of the Federal Reserve Banks could not be expected to be as high as the top salaries in large commercial banks.

President Brown stated the salary policy was resulting in the failure of the Banks to get and retain good men and in the promotion of men who were not as good as their predecessors.

Chairman Eccles expressed the opinion that the operation of the Federal Reserve Banks had not suffered from the loss of top executives. He referred to certain specific instances where men had resigned, retired, or died and stated that it was the view of the Board that the Banks were operated just as efficiently after the loss of these men as they were before.

Mr. Odlin stated that it was not so much a question of salary as a feeling of futility and of not having anything to do, that a number of men had refused to serve as directors of the Federal Reserve Banks because as such they would have no responsibility and nothing to do.

Chairman Eccles responded that that situation was a result of the present law which places the responsibility for System credit policy in the Open Market Committee and the Board, and that that was the only practicable way to meet the situation because it was not possible to have twelve independent central banks. He also outlined the responsibility of the Board to Congress for supervision of the Federal Reserve Banks and stated that in the discharge of that responsibility the Board stood in substantially the same relationship to the Federal Reserve Banks as the Bureau of the Budget, the General Accounting Office, and the Civil Service Commission in relationship to other departments and agencies of the Government. In that situation, he said the Board could not be in the position of turning over its responsibility for supervision to the Federal Reserve Banks, and that if the Council felt that the officers of the Federal Reserve Banks did not have sufficient responsibility and authority it should propose a change in the law.

Mr. Fleming inquired if the Board felt it would be criticized if it increased the retirement benefits of officers of the Federal Reserve Banks which, it was believed, were low in comparison with the benefits provided by industry. Members of the Board expressed the opinion that the benefits of the retirement system of the Federal Reserve Banks had to be kept in reasonable relationship to the benefits provided under the civil service retirement system.

Mr. Odlin stated that under the policies followed by some branch banking systems the branch officers were enthusiastic and effective officers of the bank whereas at other institutions the officers in charge of the branches were unable to take any action without first clearing it with the head office, and that the branches of the Federal Reserve Banks were in the latter group.

Chairman Eccles pointed out that the officers at the branches of Federal Reserve Banks felt that they were not given sufficient authority and that the officers at the head offices felt that they were not allowed adequate authority by the Board of Governors, but that as a matter of fact the Federal Reserve Banks did have a great deal of leeway in the organization and operation of the Banks.

President Brown stated that in the opinion of the Council the Federal Reserve Banks were getting an inferior group of men in high official positions but apparently the Board did not agree that that was the case.

Chairman Eccles expressed the opinion that the senior officers of the Federal Reserve Banks were the best men the Banks had had since he became connected with the System in 1934.

In response to an inquiry by Mr. Draper whether the present officers were inferior to the officers of ten or fifteen years ago, President Brown stated that they were inferior to officers in charge of the Banks fifteen or twenty years ago.

Mr. Fleming inquired whether the salary scales in the salary classification plans recently adopted by the Federal Reserve Banks were confidential or could be made available to a member bank for comparison with its own salary scale. Chairman Eccles stated that there was no objection to a Federal Reserve Bank making its salary scale available to a member bank in its district.

6. Purchase of new Treasury bond issue by commercial banks.

This question was placed on the agenda before the terms of the September financing were announced.

The Council notes that in the last Treasury issue the savings and thrift departments of commercial banks were placed on the same basis as mutual savings banks in subscribing to new Treasury issues. The Council is gratified by the support given by the Board in the accomplishment of this objective.

Chairman Eccles stated that the Board had opposed the proposal that the new issue be made eligible for purchase by commercial banks to any extent and that in doing so had felt that it was in harmony with the views expressed by the banks. In that connection, he read statements by the Executive Council of the American Bankers Association in April of this year, by the President of the Association of Reserve City Bankers at the annual meeting of the Association in 1946, and by the Committee on Public Policy in February of this year, all of which expressed the view that the amount of Government debt held by the banks should be decreased by the sale of securities to investors and by the use of the proceeds of such sales to retire Government debt held by the banks.

Mr. Atwood stated that that was not the point the Council had in mind, because if the new issue had not been made eligible for purchase by mutual savings banks, commercial banks with savings departments would have been satisfied.

Chairman Eccles outlined the reasons why it was felt that a distinction should be made between savings banks and commercial banks with savings departments and why purchases of new issues by commercial banks were contrary to the policy of reducing the volume of Government securities held by commercial banks.

During the ensuing discussion of the possible effect of purchases of the new issue by commercial banks with savings departments on the total Government securities held by commercial banks, reference was made to increases in savings deposits in the recent period and the extent to which commercial banks could purchase the new issue. It was suggested by members of the Council that, while the purchase of the new issue by commercial banks was not consistent with the policy of reducing the volume of securities held by commercial banks, there were other considerations which made it desirable for the Treasury to permit such purchases.

7. Legislation.

a. Industrial loan bill (S. 408).

In its memorandum to the Board of Governors relative to the agenda for the joint meeting of the Board and the Council on March 11, 1947, the Council stated that a minority of the Council was opposed to Bill S. 408, even with the amendments the Council proposed. In the letter of the President of the Council accompanying the resolution on Bill S. 408, it was further stated: "The Council's support of Bill S. 408, with the amendments suggested, is given in the belief that some safety valve is desirable for emergency credit situations, and with the recommendation that the lending and guarantee powers of certain other government agencies, including the RFC, should be greatly curtailed, and in many instances should be terminated."

In view of the extension of the life of the RFC without serious curtailment of its powers, the Council is now opposed to the passage of Bill S. 408. The Council suggests that in any further hearings on this subject the present view of the Council be transmitted, as well as the letter accompanying its resolution on Bill S. 408.

b. Holding company bill (S. 829).

The Council desires to reaffirm its position on the Bank Holding Company bill and hopes the bill may be passed with only such minor modifications as will assure its passage.

In response to an inquiry, Chairman Eccles reviewed the legislative situation with respect to the holding company bill and stated that it was expected that it would be brought up for active consideration when Congress reconvened in January.

President Brown stated that the Council was disappointed that the powers of the Reconstruction Finance Corporation had been extended for a further period and that it was the opinion of the Council that the restrictions now in effect on the activities of the Corporation were not the result of changing the law affecting its powers but rather the result of a waiting policy on the part of the management of the Corporation.

Chairman Eccles said that the Board was disappointed in the position the Council had taken with respect to the industrial loan bill, S. 408, and that it was difficult to understand why the Council would reverse its position. He also said that there would be some justification for a reversal if the action of the Congress with respect to the powers of the Reconstruction Finance Corporation had been final, but that the Board felt that the Council would be well advised if it took the position of favoring (1) the termination of the lending authorities of the RFC except with respect to large loans of a public or semi-public nature where credit was not available from private sources, and (2) the adoption of S. 408 which would authorize the Federal Reserve Banks to guarantee loans made by banks, thereby insuring the availability of long-term funds to small concerns which would not have access to the capital markets. He also expressed the opinion that it would not be possible to bring about the termination of the lending powers of the RFC unless something were proposed in its place, and that if the Council withdrew its support of S. 408 it would amount to an endorsement of the continuation of the powers of the RFC. He made the further comment that under Senate Resolution No. 132 adopted last July the Senate Banking and Currency Committee was authorized to make an inquiry into the operations of the RFC and to report its findings and recommendations for such legislation as it deemed advisable, and that the whole matter of the termination of the powers of the Corporation would come before the Congress again when the results of the investigation were available.

Mr. Fleming commented that, while he would prefer the adoption of S. 408 to the continuation of the lending powers of the RFC, he was definitely opposed to the Federal Reserve System and the Corporation competing in the lending field.

President Brown stated that it was not the intention of the Council to imply by its statement that it was not in favor of S. 408 if the powers of the RFC were terminated, but rather if the powers of the RFC were continued it would not favor the enactment of S. 408.

There was a discussion of possible amendments to the Council's statement so as to express clearly its position and Mr. Vardaman suggested that, since the Council would have another meeting before Congress reconvened in January, it might wish to withhold its statement and reconsider and amend it at its next meeting.

This suggestion was discussed and it was agreed by the members of the Council that the second paragraph of the statement by the Council with respect to S. 408 as set forth above should be deleted with the understanding that the Council would give further consideration to the matter at its next meeting. It was also understood that the first paragraph of the statement would stand to make it clear that the support of S. 408 by the Council at its meeting in March 1947 was not unanimous; this for the reason that it had been stated at the hearings on the bill that the support of the Council was unanimous.

President Brown stated that the next meeting of the Council would be held in Washington on November 16-18, 1947. The members of the Board indicated that the dates would be satisfactory to them.

The meeting adjourned at 1:20 p.m. with the understanding that the members of the Council would discuss with Chairman Eccles during their luncheon meeting the steps that might be taken to deal with the present inflationary situation.

S R Carpenter
Secretary.

Approved:

M S Eccles
Chairman.