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FEDERAL
ADVISORY COUNCIL

MINUTES
and
RECOMMENDATIONS

1941 - 1945

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 16, 1941

The first and organization meeting of the Federal Advisory Council for 1941 was convened in Room 336 of the Mayflower Hotel, Washington, D. C., on Sunday, February 16, 1941, at 2:00 P.M.

Present:

Mr. George L. Harrison	District No. 2
Mr. William Fulton Kurtz	District No. 3
Mr. B. G. Huntington	District No. 4
Mr. Ryburn G. Clay	District No. 6
Mr. Edward E. Brown	District No. 7
Mr. S. E. Ragland	District No. 8
Mr. Lyman E. Wakefield	District No. 9
Mr. W. Dale Clark	District No. 10
Mr. R. Ellison Harding	District No. 11
Mr. Paul S. Dick	District No. 12

Absent:

Mr. Robert M. Hanes	District No. 5
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Mr. Edward E. Brown was elected Chairman pro tem and Mr. Walter Lichtenstein Secretary pro tem.

The Secretary stated that communications had been received from eleven of the Federal Reserve banks, certifying to the election of their representatives in accordance with the above list. He understood that to date the Federal Reserve Bank of Boston had not made an appointment of a representative for the year 1941.

Upon nominations for the office of President of the Council being called for, Mr. Edward E. Brown was nominated. On motion, duly made and seconded,

the nominations were closed and the Secretary was instructed to cast a ballot for Mr. Brown, who was thereupon declared elected President of the Council for the year 1941.

Upon nominations for the office of Vice President being called for, Mr. George L. Harrison was nominated. On motion, duly made and seconded, the nominations were closed and the Secretary was instructed to cast a ballot for Mr. Harrison, who was thereupon declared elected Vice President of the Council for the year 1941.

The President, Mr. Brown, thereupon called for nominations for the four appointive members of the Executive Committee. Messrs. W. F. Kurtz, B. G. Huntington, R. M. Hanes, and S. E. Ragland were nominated. On motion, duly made and seconded, these gentlemen were unanimously elected members of the Executive Committee for the year 1941, the President and Vice President being ex officio members.

On motion, duly made and seconded, Mr. Walter Lichtenstein was elected Secretary of the Federal Advisory Council for the year 1941 at a salary of \$2,500.00 per annum.

On motion, duly made and seconded, the Council readopted the existing by-laws, which are attached hereto and made a part of these minutes.

On motion, duly made and seconded, the minutes of the Council meeting of November 17-19, 1940, copies of which had been previously sent to the members, were approved.

The Secretary presented his financial report for the year 1940, which had been audited by Mr. J. J. Buechner, Assistant Auditor of The First National Bank of Chicago, which on motion, duly made and seconded, was approved and ordered to be printed. The report is attached hereto and made a part of these minutes.

On motion, duly made and seconded, the following resolution, was unanimously adopted:

"Resolved that the Secretary be and he is hereby authorized to ask each Federal Reserve bank to contribute \$350 toward the Secretarial and incidental expenses of the Federal Advisory Council for the year 1941 and to draw on it for that purpose."

There was some discussion about the question of the publication of the Council's Memorandum on Easy Money, which was originally submitted on May 20, 1940, and a revision of which was filed with the Board of Governors of the Federal Reserve System under date of October 8, 1940. It was decided not to adopt any formal motion, but to permit the whole question to rest, with the understanding that the Council would not press for publication of the Memorandum at this time. It was understood that this really meant that the Council would drop the whole issue without, however, making any formal record.

Some discussion took place about the problem of minimum and maximum reserve requirements and about the Bank Holding Company Act of 1941 (S. 310).

It was decided to ask the Board of Governors of the Federal Reserve System at tomorrow morning's meeting:

(a) What is being done to implement the Special Report made by the System to the Congress on December 31, 1940.

(b) What the Board of Governors is doing in respect to the questionnaire of the Wagner Committee.

(c) In respect to certain provisions in the Bank Holding Company Bill (S. 310), notably the provision regulating dividends, the stringency of some of the sanctions and powers provided for in the Bill and the problem of proper ratio of capital to deposits.

There was considerable discussion about the exemption from the

F.D.I.C. assessment of the required reserves deposited with the Federal Reserve banks.

Mr. Kurtz stated it to be his opinion that all deposits in Federal Reserve banks should be exempt, and he doubted whether this would really injure the correspondent relationships.

The statement was made that the suggestion had been made to deduct from the F.D.I.C. assessment half of the payments which National banks are now required to make for ^{examinations} ~~exemptions~~ by the Comptroller's Office.

It was suggested that the American Bankers Association be requested to drop a proposal made by the State Bank Division of that Association which would provide "for the elimination from the assessment base of the amount of balances carried by banks with Federal Reserve banks and other domestic banks."

Mr. Wakefield discussed the tax exemption of Federal Savings and Loan Associations, which goes much further than that granted to the Federal Housing Administration. He pointed out that there had been a very great acceleration in growth in many districts of the Federal Savings and Loan Associations.

The meeting adjourned at 5:00 P.M.

Walter Lichtenstein,
Secretary

MINUTES OF JOINT CONFERENCE OF THE FEDERAL ADVISORY COUNCIL
AND THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

February 17, 1941

At 10:25 A.M. a preliminary joint conference of the Federal Advisory Council and the Board of Governors of the Federal Reserve System was held in the Board Room of the Federal Reserve Building, Washington, D. C.

Present: Members of the Board of Governors of the Federal Reserve System:

Chairman Marriner S. Eccles; Vice Chairman Ronald Ransom; Governors M. S. Szymczak, John K. McKee, Chester C. Davis, Ernest G. Draper; Lawrence Clayton, Assistant to the Chairman; Elliott Thurston, Special Assistant to the Chairman; Chester Morrill, Secretary; S. R. Carpenter, Assistant Secretary; Walter Wyatt, General Counsel; J. P. Dreibelbis, Assistant General Counsel; B. Magruder Wingfield, Assistant General Counsel; and Kit Williams, Assistant General Counsel.

Present: Members of the Federal Advisory Council:

Mr. Edward E. Brown, President; Mr. George L. Harrison, Vice President; Messrs. W. F. Kurtz, B. G. Huntington, Ryburn G. Clay, S. E. Ragland, Lyman E. Wakefield, W. Dale Clark, R. Ellison Harding, Paul S. Dick, and Walter Lichtenstein, Secretary.

The President of the Council asked whether anything was being done in respect to implementing the recommendations made in the Special Report of the System, submitted to the Congress on December 31, 1940.

Chairman Eccles stated that Senator Taft had introduced a bill which dealt with some of the monetary aspects of the problem discussed in the Special Report. It was, however, merely the re-introduction of a bill which

he had presented at the last session of the Congress and did not have any connection with the Special Report.

Chairman Eccles stated frankly that it would be impossible to obtain legislation to enact the recommendations of the Special Report into law unless the President, the Secretary of the Treasury, and Senator Wagner gave their support to the bills introduced. The Chairman admitted that he doubted whether either the President or the Secretary of the Treasury approved of most of the recommendations made in the Special Report. The Chairman felt that the objection of the Treasury was based on the fact that it did not wish a Federal Reserve System, controlled by private banking interests to have greater powers. Rightly or wrongly, the Treasury felt the System had failed to meet the situation in 1932-33 and that the RFC, the F.D.I.C., and other Governmental agencies had been created for that reason. He stated that it was his view that the Treasury really had more power than the Federal Reserve System, even in the monetary field, and that in spite of the Banking Act of 1935, the System did not have any more powers than it possessed in 1933.

After explaining in some detail his well-known views regarding fiscal and monetary affairs, he suggested the following program:

1. In respect to reserve requirements, follow the proposals made in the Special Report.
2. Permit vault cash to be counted as part of the reserves. He pointed out that such a provision would mean that small banks located in places where there is not a Federal Reserve bank or branch of one would be much benefited if they would not be required to carry all their reserves in the Federal Reserve System.
3. Empower Federal Open Market Committee to double present reserve requirements.

4. Follow the classification of banks suggested in the Special Report.

5. Require all member banks and all other banks whose average deposits during 1940 exceeded one million dollars to keep their reserves with the Federal Reserve bank of the district and maintain this provision for succeeding years, i.e., banks which during the year 1941 have deposits averaging one million dollars should in 1942 be required to keep their reserves with the Federal Reserve bank of the district. Banks which would come under such a classification might, at their own discretion, become members of the System, or not, as they pleased, but if such a bank declined to become a member of the System, then it could not subsequently become a member except with the consent of the Board of Governors of the Federal Reserve System. The Chairman stated his belief that non-member banks are a potent influence legislatively. He stated that there are 186 banks imposing exchange charges whose deposits are over one million dollars. There are 107 banks with over one million dollars of deposits not members of the System. Non-insured banks having over one million dollars of deposits have in all about five billion dollars of deposits. The number of such banks are about 1000, and, in addition, there are about 6000 other non-insured banks whose total deposits, however, are only about two billion dollars. He pointed out that his plan would tend to keep banks in the System and also would force in all banks that had deposits of over one million dollars. The reason that such banks would practically be forced to join the System would be that under such a regulation as he proposed, these banks would have to keep their reserves with the Federal Reserve System, except what they had in the form of vault cash, and at the same time, if they did not join would not enjoy any of the benefits of the System.

6. Deduct required reserves from the amount of deposits subject to F.D.I.C. assessment.

The Chairman went on to give a pretty full statement of the circumstances surrounding the release for publication of January 1, 1941, of the Special Report. He then continued to outline his program:

7. The Open Market Committee to consist of members of the Board of Governors of the Federal Reserve System and one of the Presidents from the Federal Reserve banks of Boston, Philadelphia, or Richmond; and one of the Presidents from the Federal Reserve banks of Atlanta, St. Louis, or Dallas; and one of the Presidents from the Federal Reserve banks of Kansas City, Minneapolis, or San Francisco; and one of the Presidents from the Federal Reserve banks of Cleveland or Chicago; and, finally, the President of the Federal Reserve Bank of New York.

8. Permit the Federal Reserve System to buy direct from the Treasury Government securities having ninety days' maturity. Until 1935 the Federal Reserve System had power to buy any securities direct from the Treasury, but this power was never exercised.

9. Prohibit the use of the Stabilization Fund as an instrument for Open Market operations, but permit it to buy securities from the Treasury which later might be sold in the market, or used to retire debt. This proposal would leave all present powers with the Stabilization Fund, though it would forbid it buying securities in the Open Market, but not forbid it to sell in the Open Market. The argument is used that the Stabilization Fund ought to be continued because it may be used to stabilize Latin American currencies, and when the war is over, it may be needed to stabilize European currencies. It is for this reason also that there may be some advantages in silver seigniorage.

10. Retire the stock of the Federal Reserve banks held at present by member banks and pay the stockholders the par value of the stock plus accrued dividends. Retain, however, the system of member banks. State banks which

elect to remain members of the System at the date of the retirement of the stock should not be allowed to withdraw from the System thereafter.

11. (a) Eliminate directors on Federal Reserve banks who are bankers, but permit the member banks of each district to elect three members of the board of each Federal Reserve bank, such members to represent commerce, agriculture, and industry. The Board of Governors of the Federal Reserve System to appoint three other members of the board of directors of each Federal Reserve bank, and the six directors to elect a president who would become a member of the board of directors. The Open Market Committee in that case to be left as at present, except for the change suggested under #7.

As an alternative of the above suggestion, the president of the Federal Reserve bank might be left off its board of directors and instead the member banks elect four directors, one of these to be a banker.

After the stock had been retired, the surplus would be left and should be increased out of earnings until the total amounted to double of the present surplus. After that, earnings should be turned over to the Treasury.

(b) Instead of the proposal under 11 (a), the stock and directors of Federal Reserve banks might be left as at present, but dividends be reduced from six per cent per annum to four per cent per annum. In that case, the Open Market Committee should consist entirely and only of members of the Board of Governors.

(c) As another alternative, retain the stock and bankers on the boards of directors as at present; leave the Open Market Committee as now except for the change suggested under #7, but give the President of the United States veto power over any increase or decrease of required reserves.

Governor Szymczak asked whether Chairman Eccles had in mind at all the possibility of reinstating as a member of the Board of Governors the

Secretary of the Treasury and/or the Comptroller of the Currency.

Governor Ransom stated that we have really two alternatives:

(a) The component parts of the System might assume the attitude that a report had been made to the Congress, and it was now for Congress to determine what it wished to do about the suggestions made. In addition, he pointed out there was still the Wagner questionnaire.

(b) What in the opinion of the System should be the legislative program and would it be wise to prepare a bill or bills to have introduced into Congress before Congress itself takes the initiative and before the Wagner questionnaire is answered.

If the suggestion under (b) is adopted, then it is necessary to have the support of the Administration. There are advantages and disadvantages in all three of the plans suggested by the Chairman. The Council should explore whether any suggestion at all is to be made, and if so which of the plans suggested, or perhaps some further alternative might be discussed. The aim should be to preserve the private commercial banking system.

The President of the Council asked whether the Board had agreed on answers to the Wagner questionnaire.

Governor Ransom stated that the Senior Staff Council of the Board had prepared a report consisting of 400-500 pages, and this report is now being gone over, discussed, and revised. So far it is not known when it will be ready and when it will be filed with Congress. Each agency of the Government which is filing a report is holding back to see what the other agencies do. Governor Ransom hopes that the Board and the twelve Federal Reserve Banks might agree on a more or less uniform reply to the questionnaire.

Mr. Harrison stated that it was somewhat doubtful whether members of the Wagner Committee would read the 500 pages, and it might, therefore, be

better to have a bill introduced before the answers to the questionnaire are filed.

Governor Ransom and Mr. Harrison agreed that the only way to get action is to have a bill introduced in Congress, but it would be necessary to consult Senator Wagner in advance.

Mr. Harrison pointed out that the Special Report asked for a real increase in powers of the System only as regards reserve requirements, and he said that he had to admit even this was not as important now as it was in December.

There was general agreement that the Report had done much good in calling attention to certain banking problems, but at the moment it would be wiser not to attempt to get any action.

The meeting adjourned at 1:25 P.M., and the Council had luncheon with the Chairman of the Board of Governors.

Walter Lichtenstein,

Secretary

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 17, 1941

At 2:35 P.M. the Federal Advisory Council reconvened in the Board Room of the Federal Reserve Building, Washington, D. C., the President, Mr. Brown, in the chair.

Present: Mr. Edward E. Brown, President; Mr. George L. Harrison, Vice President; Messrs. William Fulton Kurtz, B. G. Huntington, Ryburn G. Clay, S. E. Ragland, Lyman E. Wakefield, W. Dale Clark, R. Ellison Harding, Paul S. Dick, and Walter Lichtenstein, Secretary.

The Council listened to a discussion of business conditions presented by Dr. E. A. Goldenweiser, Director of the Division of Research and Statistics of the Board of Governors. He pointed out that in spite of the rise of the index of production, there has so far been very little increase in prices. The circulation of currency is at an all-time high, with the exception of the period of last Christmas. There is undoubtedly a certain amount of hoarding especially by and for foreigners. Excess reserves are not quite at the peak, though this may be merely temporary. He believes that the problem of excess reserves is still very important for after all gold is still coming into the country and the mere existence of approximately seven billion dollars of excess reserves forms the basis for possible tremendous credit expansion. Furthermore, deposits are almost certain to increase. Dr. Goldenweiser also discussed certain other aspects of the business, monetary, and fiscal situation.

Dr. Goldenweiser left the meeting at 3:45 P.M. and Mr. Kurtz at 4:00 P.M.

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The resolution, submitted by Mr. Harrison and seconded by Mr. Wakefield, was unanimously adopted. In its final form it read as follows:

"The Federal Advisory Council is of the opinion that the Special Report submitted to the Congress on December 31, 1940, by the Board of Governors of the Federal Reserve System, the Presidents of the Federal Reserve Banks, and the Federal Advisory Council, was an important statement dealing with the risks

of a possible inflationary development which might arise out of the present situation. While the Council does not fear that such an inflation is imminent and is likewise aware of the fact that 'inflation can not be controlled by monetary measures alone,' nevertheless, the Council does believe that monetary action may be an important factor if it should become necessary at some future time to control an inflationary movement.

"The Council believes that the System as a whole should be prepared to support fully the recommendations and statements made in the Report, since it does not consider there is any reason at this time for a change in the position taken in the Report. If the System, or the Board of Governors, should be requested by the Congress to implement the Report, or more specifically, if either should be asked to draft a bill designed to translate the recommendations made in the Report into law, the bill, as the Council believes at this time, should seek only to put into legal form those recommendations in the Report which relate specifically to the problem of excess reserves. The Council is furthermore of the opinion that if later on it appears that those recommendations should be modified or supplemented it would be helpful before a bill is proposed if there were a prior conference with those groups subscribing to the original report. The Council takes it for granted that the other protective steps discussed in the Report 'equally or more important' than the monetary aspects of control will be dealt with by those authorities or departments of the Government within whose jurisdiction they belong."

At 4:15 P.M. Messrs. Wyatt and Williams, General Counsel and Assistant General Counsel, respectively, of the Board of Governors of the Federal Reserve System, met with the Council to discuss the Bank Holding Company Act (S. 310). Mr. Wyatt pointed out this bill is based on a movement which started in the Treasury in 1938, and in his annual address that year, the President also stated that something should be done in connection with bank holding companies. The Board of Governors so far had taken no action in respect to this bill, but he was willing to hazard the guess that the Board was opposed to the bill in its present form.

Mr. Wyatt pointed out that, as a matter of fact, Senator Glass, while he had introduced this bill, had done so at the request of the Treasury and had made it clear all along that he did not necessarily support the bill. He doubted whether anything would be done in respect to the bill.

The meeting adjourned at 5:00 P.M.

Walter Lichtenstein,
Secretary

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

February 18, 1941

At 10:15 A.M. the Federal Advisory Council reconvened in the Board Room of the Federal Reserve Building, Washington, D. C., the President, Mr. Brown, in the chair.

Present: Mr. Edward E. Brown, President; Mr. George L. Harrison, Vice President; Messrs. William Fulton Kurtz, B. G. Huntington, Ryburn G. Clay, S. E. Ragland, Lyman E. Wakefield, W. Dale Clark, R. Ellison Harding, Paul S. Dick, and Walter Lichtenstein, Secretary.

The Secretary read the resolution presented by Mr. Harrison, as it had been re-drafted, and it was unanimously adopted. The resolution will be found in the minutes of February 17.

The meeting adjourned at 10:30 A.M.

Walter Lichtenstein,

Secretary

MINUTES OF JOINT CONFERENCE OF THE FEDERAL ADVISORY COUNCIL
AND THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM.

February 18, 1941

At 10:40 A.M. a joint conference of the Federal Advisory Council and the Board of Governors of the Federal Reserve System was held in the Board Room of the Federal Reserve Building, Washington, D. C.

Present: Members of the Board of Governors of the Federal Reserve System:

Chairman Marriner S. Eccles; Vice Chairman Ronald Ranson; Governors M. S. Szymczak, John K. McKee, Chester C. Davis, Ernest G. Draper; also Messrs. Lawrence Clayton, Assistant to the Chairman; Elliott Thurston, Special Assistant to the Chairman; Chester Morrill, Secretary of the Board of Governors, L. P. Bethea and S. R. Carpenter, Assistant Secretaries of the Board of Governors; Walter Wyatt, General Counsel; J. P. Dreibelbis and B. Magruder Wingfield, Assistant General Counsels; Leo H. Paulger, Chief, Division of Examination; E. A. Goldenweiser, Director, Division of Research and Statistics; Edward L. Smead, Chief, Division of Bank Operations; and Carl E. Parry, Chief, Division of Security Loans.

Present: Members of the Federal Advisory Council:

Mr. Edward E. Brown, President; Mr. George L. Harrison, Vice President; Messrs. William Fulton Kurtz, B. G. Huntington, Ryburn G. Clay, S. E. Ragland, Lyman E. Wakefield, W. Dale Clark, R. Ellison Harding, Paul S. Dick, and Walter Lichtenstein, Secretary.

The Secretary of the Council read the resolution dealing with the Special Report to Congress, which appears in the minutes of February 17.

Chairman Eccles stated that he could not concur and would feel it

necessary to introduce a bill which had some chances of being enacted into law.

The President of the Council stated that the Council merely wished to indicate that it would like to be consulted.

Chairman Eccles suggested that a committee of three of the Council and a similar committee of the Presidents of the twelve Federal Reserve banks and one from the Board of Governors be appointed to watch the situation and consult together, if this should be necessary.

Mr. Harrison stated that the Council fundamentally has the same aims as the Board of Governors.

Mr. Brown expressed the opinion that the present structure of the System should not be sacrificed for the purpose of giving greater power to the Board of Governors over excess reserves. The question of the veto power of the President was another matter and in practice existed now and might just as well be recognized by legislation.

Vice Chairman Ransom stated that committees suggested by Chairman Eccles would be very helpful. He expressed himself as differing completely with Chairman Eccles on the question of reserves of small banks. He did not think, however, that at this time the matter was sufficiently urgent to make it worth while continuing the discussion.

In general the members of the Board of Governors of the Federal Reserve System expressed themselves as in agreement to the end that there be three separate committees to cooperate and to study possible legislation to implement the Special Report made to Congress.

The members of the Council also expressed themselves as being in agreement with the suggestion made.

There was considerable discussion regarding the Bank Holding Company Act (S. 310). The following was pointed out:

1. The bill contains a death sentence for holding companies of banks to become effective in 1944. The Federal Advisory Council does not object to freezing the present situation, but there is not any capital available to buy up these banks at the present time, and many of them would have to be liquidated even though the communities in which they were located needed them.

2. Dividends: It would be dangerous to give the Comptroller of the Currency arbitrary power over dividends simply for the purpose of compelling banks to charge off bad debts and allow for desirable depreciation. Past history has shown that some Comptrollers of the Currency were very arbitrary and unjust. The provisions of the law governing this power of the Comptroller should be made very definite.

3. The Federal Advisory Council objects to the general provisions giving drastic powers to the F.D.I.C. and the Comptroller's Office in case of unsound and unsafe banking practices. It was felt that the provisions were altogether too severe and too indefinite. It should not be permitted that an administrative officer who made the ruling should be also judge and jury, as would be the case under the provisions of the present bill. At present this power rests with the Board of Governors of the Federal Reserve System, which, after all, is not the body which enters the original orders dealing with charge-offs of bad debts and depreciation.

The Federal Advisory ^{Council} hopes that the Board of Governors will oppose all three sections of the bill, and if hearings are to be held, the Council would like permission to present opponents to the bill and assist in the preparation of an alternative bill.

At 12:30 P.M. Governor Draper left the meeting.

Chairman Eccles gave a history of the present situation and said that the Board of Governors would not merely criticize the bill if asked, but

would be ready to present an alternative solution. He agreed that the power to control dividends should not be without some check, and banks ought to have the right to appeal to some independent body which might rescind or modify an order of the Comptroller. Possibly the Board of Governors of the Federal Reserve System would be the proper body.

The meeting adjourned at 1:05 P.M.

Walter Lichtenstein,
Secretary

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

February 18, 1941

At 1:10 P.M. the Federal Advisory Council reconvened in the Board Room of the Federal Reserve Building, Washington, D. C., the President, Mr. Brown, in the chair.

Present: Mr. Edward E. Brown, President; Mr. George L. Harrison, Vice President; Messrs. William Fulton Kurtz, B. G. Huntington, Ryburn G. Clay, S. E. Ragland, Lyman E. Wakefield, W. Dale Clark, R. Ellison Harding, Paul S. Dick, and Walter Lichtenstein, Secretary.

It was voted unanimously to appoint a committee in accordance with the suggestion made by Chairman Eccles, this committee to be for the purpose of consulting with similar committees of the Board of Governors and the Presidents of the twelve Federal Reserve banks. It was decided that the following members should serve on the committee: Messrs. Harrison, Hanes, and Brown; Mr. Kurtz to be alternate, but to sit with the committee at all times; Mr. Walter Lichtenstein is to act as secretary of the committee.

The meeting adjourned at 1:40 P.M.

Walter Lichtenstein,
Secretary

MINUTES OF MEETING
of the
FEDERAL ADVISORY COUNCIL
February 16-18, 1941

OFFICERS AND MEMBERS OF THE FEDERAL ADVISORY COUNCIL

For the Year 1941

OFFICERS:

President, Edward E. Brown
Vice President, George L. Harrison
Secretary, Walter Lichtenstein

EXECUTIVE COMMITTEE:

Edward E. Brown
George L. Harrison
William Fulton Kurtz
B. G. Huntington
Robert M. Hanes
S. E. Ragland

MEMBERS:

Charles E. Spencer, Jr.	Federal Reserve District No. 1
George L. Harrison	Federal Reserve District No. 2
William Fulton Kurtz	Federal Reserve District No. 3
B. G. Huntington	Federal Reserve District No. 4
Robert M. Hanes	Federal Reserve District No. 5
Ryburn G. Clay	Federal Reserve District No. 6
Edward E. Brown	Federal Reserve District No. 7
S. E. Ragland	Federal Reserve District No. 8
Lyman E. Wakefield	Federal Reserve District No. 9
W. Dale Clark	Federal Reserve District No. 10
R. Ellison Harding	Federal Reserve District No. 11
Paul S. Dick	Federal Reserve District No. 12

BY-LAWS OF THE FEDERAL ADVISORY COUNCIL

ARTICLE I. OFFICERS

Officers of this Council shall be a President, Vice President, and Secretary.

ARTICLE II. PRESIDENT AND VICE PRESIDENT

The duties of the President shall be such as usually pertain to the office; in his absence the Vice President shall serve.

ARTICLE III. SECRETARY

The Secretary shall be a salaried officer of the Council and his duties and compensation shall be fixed by the Executive Committee.

ARTICLE IV. EXECUTIVE COMMITTEE

There shall be an Executive Committee of six (6) members of the Council, of which the President and Vice President of the Council shall be *ex officio* members. To fill a vacancy, the President, or in his absence, the Vice President shall be authorized to designate as a member of the Executive Committee for a given meeting another member of the Council other than one elected to the Executive Committee.

ARTICLE V. DUTIES OF THE EXECUTIVE COMMITTEE

It shall be the duty of the Executive Committee to keep in close touch with the Board of Governors of the Federal Reserve System and with their regulations and promulgations, and communicate the same to the members of the Council, and to suggest to the Council from time to time, special matters for consideration.

The Executive Committee shall have power to fix the time and place of holding its regular and special meetings and methods of giving notice thereof.

Minutes of all meetings of the Executive Committee shall be kept and such minutes or digest thereof shall be immediately forwarded to each member of the Council.

A majority of the Executive Committee shall constitute a quorum and action of the Committee shall be by majority of those present at any meeting.

ARTICLE VI. MEETINGS

Regular meetings of the Federal Advisory Council shall be held in the City of Washington on the third Tuesday of the months of February, May, September, and November of each year, unless otherwise directed by the Executive Committee.

A preliminary meeting of the Federal Advisory Council shall be called by the Secretary in accordance with instructions to be given by the President of the Council.

Special meetings may be called at any time and place by the President or the Executive Committee, and shall be called by the President upon written request of any three members of the Council.

ARTICLE VII. ALTERNATES

In the absence of the regular representative of any Federal Reserve District, the Board of Directors of the Federal Reserve Bank of that District may appoint an alternate. The alternate so appointed shall have the right to be present at all the meetings of the Council for which he has been appointed. He shall have the right to take part in all discussions of the Council but shall not be entitled to vote.

ARTICLE VIII. AMENDMENTS

These by-laws may be changed or amended at any regular or special meeting by a vote of a majority of the members of the Federal Advisory Council.

February 16, 1941.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

February 16, 1941

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Present:

Mr. George L. Harrison	District No. 2
Mr. William Fulton Kurtz	District No. 3
Mr. B. G. Huntington	District No. 4
Mr. Ryburn G. Clay	District No. 6
Mr. Edward E. Brown	District No. 7
Mr. S. E. Ragland	District No. 8
Mr. Lyman E. Wakefield	District No. 9
Mr. W. Dale Clark	District No. 10
Mr. R. Ellison Harding	District No. 11
Mr. Paul S. Dick	District No. 12
Mr. Walter Lichtenstein	Secretary

Absent:

Mr. Robert M. Hanes	District No. 5
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Mr. Edward E. Brown was elected Chairman *pro tem* and Mr. Walter Lichtenstein Secretary *pro tem*.

The Secretary stated that communications had been received from eleven of the Federal Reserve banks, certifying to the election of their representatives in accordance with the above list. He understood that to date the Federal Reserve Bank of Boston had not made an appointment of a representative for the year 1941.

Upon nominations for the office of President of the Council being called for, Mr. Edward E. Brown was nominated. On motion, duly made and seconded, the nominations were closed and the Secretary was instructed to cast a ballot for Mr. Brown, who was thereupon declared elected President of the Council for the year 1941.

Upon nominations for the office of Vice President being called for, Mr. George L. Harrison was nominated. On motion, duly made and seconded, the nominations were closed and the Secretary was instructed to cast a ballot for Mr. Harrison, who was thereupon declared elected Vice President of the Council for the year 1941.

The President, Mr. Brown, thereupon called for nominations for the four appointive members of the Executive Committee. Messrs. W. F. Kurtz, B. G. Huntington, R. M. Hanes, and S. E. Ragland were nominated. On motion, duly made and seconded, these gentlemen were unanimously elected members of the Executive Committee for the year 1941, the President and Vice President being *ex officio* members.

On motion, duly made and seconded, Mr. Walter Lichtenstein was elected Secretary of the Federal Advisory Council for the year 1941 at a salary of \$2,500.00 per annum.

On motion, duly made and seconded, the Council readopted the existing by-laws, which are attached hereto and made a part of these minutes.

On motion, duly made and seconded, the minutes of the Council meeting of November 17-19, 1940, copies of which had been previously sent to the members, were approved.

The Secretary presented his financial report for the year 1940, which had been audited by Mr. J. J. Buechner, Assistant Auditor of The First National Bank of Chicago, which on motion, duly made and seconded, was approved and ordered to be printed. The report is attached hereto and made a part of these minutes.

On motion, duly made and seconded, the following resolution, was unanimously adopted:

“Resolved that the Secretary be and he is hereby authorized to ask each Federal Reserve bank to contribute \$350 toward the Secretarial and incidental expenses of the Federal Advisory Council for the year 1941 and to draw on it for that purpose.”

There was some discussion about the question of the publication of the Council's “Memorandum on Easy Money”, which was originally submitted on May 20, 1940, and a revision of which was filed with the Board of Governors of the Federal Reserve System under date of October 8, 1940. It was decided not to adopt any formal motion, but to permit the whole question to rest, with the understanding that the Council would not press for publication of the Memorandum at this time. It was understood that this really meant that the Council would drop the whole issue without, however, making any formal record.

Some discussion took place about the problem of minimum and maximum reserve requirements and about the Bank Holding Company Act of 1941 (S. 310).

It was decided to ask the Board of Governors of the Federal Reserve System at tomorrow morning's meeting:

(a) What is being done to implement the Special Report made by the System to the Congress on December 31, 1940.

(b) What the Board of Governors is doing in respect to the questionnaire of the Wagner Committee.

(c) In respect to certain provisions in the Bank Holding Company Bill (S. 310), notably the provision regulating dividends, the stringency of some of the sanctions and powers provided for in the Bill and the problem of proper ratio of capital to deposits.

There was considerable discussion about the exemption from the F.D.I.C. assessment of the required reserves deposited with the Federal Reserve banks.

Mr. Kurtz stated it to be his opinion that all depositors in Federal Reserve banks should be exempt, and he doubted whether this would really injure the correspondent relationships.

The statement was made that the suggestion had been made to deduct from the F.D.I.C. assessment half of the payments which National banks are now required to make for examinations by the Comptroller's Office.

It was suggested that the American Bankers Association be requested to drop a proposal made by the State Bank Division of that Association which would provide "for the elimination from the assessment base of the amount of balances carried by banks with Federal Reserve banks and other domestic banks."

Mr. Wakefield discussed the tax exemption of Federal Savings and Loan Associations, which goes much further than that granted to the Federal Housing Administration. He pointed out that there had been a very great acceleration in growth in many districts of the Federal Savings and Loan Associations.

The meeting adjourned at 5:00 P. M.

WALTER LICHTENSTEIN,
Secretary.

REPORT OF THE SECRETARY OF THE FEDERAL ADVISORY COUNCIL

For the Year Ending December 31, 1940

Balance on hand December 31, 1939.....	\$4,009.91	Salary.....	\$2,500.00
Assessment—Twelve Federal Reserve Banks.....	4,200.00	Miscellaneous.....	.65
		Postage.....	100.00
		Printing and stationery.....	268.28
		Conference expenses.....	744.40
		Balance on hand December 31, 1940.....	4,596.58
	<u>\$8,209.91</u>		<u>\$8,209.91</u>

Chicago, Illinois
January 6, 1941

To the Federal Advisory Council:

I have audited the books, vouchers, and accounts of the Secretary of the Federal Advisory Council for the year ending December 31, 1940, and certify that the above statement agrees therewith.

Respectfully,

THE FIRST NATIONAL BANK OF CHICAGO,

By J. J. Buechner,
Asst. Auditor

MINUTES OF JOINT CONFERENCE OF THE FEDERAL ADVISORY COUNCIL
AND THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

February 17, 1941

At 10:25 A. M. a preliminary joint conference of the Federal Advisory Council and the Board of Governors of the Federal Reserve System was held in the Board Room of the Federal Reserve Building, Washington, D. C.

Present: Members of the Board of Governors of the Federal Reserve System:

Chairman Marriner S. Eccles; Vice Chairman Ronald Ransom; Governors M. S. Szymczak, John K. McKee, Chester C. Davis, Ernest G. Draper; Lawrence Clayton, Assistant to the Chairman; Elliott Thurston, Special Assistant to the Chairman; Chester Morrill, Secretary; S. R. Carpenter, Assistant Secretary; Walter Wyatt, General Counsel; J. P. Dreibelbis, Assistant General Counsel; B. Magruder Wingfield, Assistant General Counsel; and Kit Williams, Assistant General Counsel.

Present: Members of the Federal Advisory Council:

Mr. Edward E. Brown, President; Mr. George L. Harrison, Vice President; Messrs. W. F. Kurtz, B. G. Huntington, Ryburn G. Clay, S. E. Ragland, Lyman E. Wakefield, W. Dale Clark, R. Ellison Harding, Paul S. Dick, and Walter Lichtenstein, Secretary.

The President of the Council asked whether anything was being done in respect to implementing the recommendations made in the Special Report of the System, submitted to the Congress on December 31, 1940.

Chairman Eccles stated that Senator Taft had introduced a bill which dealt with some of the monetary aspects of the problem discussed in the Special Report. It was, however, merely the re-introduction of a bill which he had presented at the last session of the Congress and did not have any connection with the Special Report.

Chairman Eccles stated frankly that it would be impossible to obtain legislation to enact the recommendations of the Special Report into law unless the President, the Secretary of the Treasury, and Senator Wagner gave their support to the bills introduced. The Chairman admitted that he doubted whether either the President or the Secretary of the Treasury approved of most of the recommendations made in the Special Report.

The President of the Council asked whether the Board had agreed on answers to the Wagner questionnaire.

Vice Chairman Ransom stated that the Senior Staff Council of the Board had prepared a report consisting of 400-500 pages, and this report is now being gone over, discussed, and revised. So far it is not known when it will be ready and when it will be filed with Congress. Each agency of the Government which is filing a report is holding back to see what the other agencies do. Vice Chairman Ransom hopes that the Board and the twelve Federal Reserve Banks might agree on a more or less uniform reply to the questionnaire.

Mr. Harrison stated that it was somewhat doubtful whether members of the Wagner Committee would read the 500 pages, and it might, therefore, be better to have a bill introduced before the answers to the questionnaire are filed.

Governor Ransom and Mr. Harrison agreed that the only way to get action is to have a bill introduced in Congress, but it would be necessary to consult Senator Wagner in advance.

Mr. Harrison pointed out that the Special Report asked for a real increase in powers of the System only as regards reserve requirements, and he said that he had to admit even this was not as important now as it was in December.

There was general agreement that the Report had done much good in calling attention to certain banking problems, but at the moment it would be wiser not to attempt to get any action.

The meeting adjourned at 1:25 P. M., and the Council had luncheon with the Chairman of the Board of Governors.

WALTER LICHTENSTEIN,
Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

February 17, 1941

At 2:35 P. M. the Federal Advisory Council reconvened in the Board Room of the Federal Reserve Building, Washington, D. C., the President, Mr. Brown, in the chair.

Present: Mr. Edward E. Brown, President; Mr. George L. Harrison, Vice President; Messrs. William Fulton Kurtz, B. G. Huntington, Ryburn G. Clay, S. E. Ragland, Lyman E. Wakefield, W. Dale Clark, R. Ellison Harding, Paul S. Dick, and Walter Lichtenstein, Secretary.

The Council listened to a discussion of business conditions presented by Dr. E. A. Goldenweiser, Director of the Division of Research and Statistics of the Board of Governors. He pointed out that in spite of the rise of the index of production, there has so far been very little increase in prices. The circulation of currency is at an all-time high, with the exception of the period of last Christmas. There is undoubtedly a certain amount of hoarding especially by and for foreigners. Excess reserves are not quite at the peak, though this may be merely temporary. He believes that the problem of excess reserves is still very important for, after all, gold is still coming into the country and the mere existence of approximately seven billion dollars of excess reserves forms the basis for possible tremendous credit expansion. Furthermore, deposits are almost certain to increase. Dr. Goldenweiser also discussed certain other aspects of the business, monetary, and fiscal situation.

Dr. Goldenweiser left the meeting at 3:45 P. M. and Mr. Kurtz at 4:00 P. M.

A resolution, submitted by Mr. Harrison and seconded by Mr. Wakefield, was unanimously adopted. In its final form it reads as follows:

"The Federal Advisory Council is of the opinion that the Special Report submitted to the Congress on December 31, 1940, by the Board of Governors of the Federal Reserve System, the Presidents of the Federal Reserve Banks, and the Federal Advisory Council, was an important statement dealing with the risks of a possible inflationary development which might arise out of the present situation. While the Council does not fear that such an inflation is imminent and is likewise aware of the fact that 'inflation can not be controlled by monetary measures alone,' nevertheless, the Council does believe that monetary action may be an important factor if it should become necessary at some future time to control an inflationary movement.

"The Council believes that the System as a whole should be prepared to support fully the recommendations and statements made in the Report, since it does not consider there is any reason at this time for a change in the position taken in the Report. If the System, or the Board of Governors, should be requested by the Congress to implement the Report, or more specifically, if either should be asked to draft a bill designed to translate the recommendations made in the Report into law, the bill, as the Council believes at this time, should seek only to put into legal form those recommendations in the Report which relate specifically to the problem of excess reserves. The Council is furthermore of the opinion that if later on it appears that those recommendations should be modified or supplemented it would be helpful before a bill is proposed if there were a prior conference with those groups subscribing to the original report. The Council takes it for granted that the other protective steps discussed in the Report 'equally or more important' than the monetary aspects of control will be dealt with by those authorities or departments of the Government within whose jurisdiction they belong."

At 4:15 P. M. Messrs. Wyatt and Williams, General Counsel and Assistant General Counsel, respectively, of the Board of Governors of the Federal Reserve System, met with

the Council to discuss the Bank Holding Company Act (S. 310). Mr. Wyatt pointed out this bill is based on a movement which started in the Treasury in 1938, and in his annual address that year, the President also stated that something should be done in connection with bank holding companies. The Board of Governors so far had taken no action in respect to this bill, but he was willing to hazard the guess that the Board was opposed to the bill in its present form.

Mr. Wyatt pointed out that, as a matter of fact, Senator Glass, while he had introduced this bill, had done so at the request of the Treasury and had made it clear all along that he did not necessarily support the bill. He doubted whether anything would be done in respect to the bill.

The meeting adjourned at 5:00 P.M.

WALTER LICHTENSTEIN,
Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

February 18, 1941

At 10:15 A. M. the Federal Advisory Council reconvened in the Board Room of the Federal Reserve Building, Washington, D. C., the President, Mr. Brown, in the chair.

Present: Mr. Edward E. Brown, President; Mr. George L. Harrison, Vice President; Messrs. William Fulton Kurtz, B. G. Huntington, Ryburn G. Clay, S. E. Ragland, Lyman E. Wakefield, W. Dale Clark, R. Ellison Harding, Paul S. Dick, and Walter Lichtenstein, Secretary.

The Secretary read the resolution presented by Mr. Harrison, as it had been re-drafted, and it was unanimously adopted. The resolution will be found in the minutes of February 17.

The meeting adjourned at 10:30 A. M.

WALTER LICHTENSTEIN,
Secretary.

MINUTES OF JOINT CONFERENCE OF THE FEDERAL ADVISORY COUNCIL
AND THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

February 18, 1941

At 10:40 A. M. a joint conference of the Federal Advisory Council and the Board of Governors of the Federal Reserve System was held in the Board Room of the Federal Reserve Building, Washington, D. C.

Present: Members of the Board of Governors of the Federal Reserve System:

Chairman Marriner S. Eccles; Vice Chairman Ronald Ransom; Governors M. S. Szymczak, John K. McKee, Chester C. Davis, Ernest G. Draper; also Messrs. Lawrence Clayton, Assistant to the Chairman; Elliott Thurston, Special Assistant to the Chairman; Chester Morrill, Secretary of the Board of Governors, L. P. Bethea and S. R. Carpenter, Assistant Secretaries of the Board of Governors; Walter Wyatt, General Counsel; J. P. Dreibelbis and B. Magruder Wingfield, Assistant General Counsels; Leo H. Paulger, Chief, Division of Examination; E. A. Goldenweiser, Director, Division of Research and Statistics; Edward L. Smead, Chief, Division of Bank Operations; and Carl E. Parry, Chief, Division of Security Loans.

Present: Members of the Federal Advisory Council:

Mr. Edward E. Brown, President; Mr. George L. Harrison, Vice President; Messrs. William Fulton Kurtz, B. G. Huntington, Ryburn G. Clay, S. E. Ragland, Lyman E. Wakefield, W. Dale Clark, R. Ellison Harding, Paul S. Dick, and Walter Lichtenstein, Secretary.

The Secretary of the Council read the resolution dealing with the Special Report to Congress, which appears in the minutes of February 17.

Chairman Eccles stated that he could not concur and might feel it necessary to introduce a bill which had some chance of being enacted into law.

The President of the Council stated that the Council merely wished to indicate that it would like to be consulted.

Chairman Eccles suggested that a committee of three of the Council and a similar committee of the Presidents of the twelve Federal Reserve banks and one from the Board of Governors be appointed to watch the situation and consult together, if this should be necessary.

Mr. Harrison stated that the Council fundamentally has the same aims as the Board of Governors.

Mr. Brown expressed the opinion that the present structure of the System should not be sacrificed for the purpose of giving greater power to the Board of Governors over excess reserves. The question of the veto power of the President was another matter and in practice existed now and might just as well be recognized by legislation.

Vice Chairman Ransom stated that the committees suggested by Chairman Eccles would be very helpful.

In general the members of the Board of Governors of the Federal Reserve System expressed themselves as in agreement to the end that there be three separate committees to cooperate and to study possible legislation to implement the Special Report made to Congress.

The members of the Council also expressed themselves as being in agreement with the suggestion made.

There was considerable discussion regarding the Bank Holding Company Act (S. 310). The following was pointed out:

1. The bill contains a death sentence for holding companies of banks to become effective in 1944. The Federal Advisory Council does not object to freezing the present situation, but there is not any capital available to buy up these banks at the present time, and many of them would have to be liquidated even though the communities in which they were located needed them.

2. Dividends: It would be dangerous to give the Comptroller of the Currency arbitrary power over dividends simply for the purpose of compelling banks to charge off bad debts and allow for desirable depreciation. Past history has shown that some Comptrollers of the Currency were very arbitrary and unjust. The provisions of the law governing this power of the Comptroller should be made very definite.

3. The Federal Advisory Council objects to the general provisions giving drastic powers to the F.D.I.C. and the Comptroller's Office in case of unsound and unsafe banking practices. It was felt that the provisions were altogether too severe and too indefinite. It should not be permitted that an administrative officer who made the ruling should be also judge and jury, as would be the case under the provisions of the present bill. At present this power rests with the Board of Governors of the Federal Reserve System, which, after all, is not the body which enters the original orders dealing with charge-offs of bad debts and depreciation.

The Federal Advisory Council hopes that the Board of Governors will oppose all three sections of the bill, and if hearings are to be held, the Council would like permission to present opponents to the bill and assist in the preparation of an alternative bill.

At 12:30 P. M. Governor Draper left the meeting.

Chairman Eccles gave a history of the present situation and said that the Board of Governors would not merely criticize the bill if asked, but would be ready to present an alternative solution. He agreed that the power to control dividends should not be without some check, and banks ought to have the right to appeal to some independent body which might rescind or modify an order of the Comptroller. Possibly the Board of Governors of the Federal Reserve System would be the proper body.

The meeting adjourned at 1:05 P. M.

WALTER LICHTENSTEIN,
Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

February 18, 1941

At 1:10 P. M. the Federal Advisory Council reconvened in the Board Room of the Federal Reserve Building, Washington, D. C., the President, Mr. Brown, in the chair.

Present: Mr. Edward E. Brown, President; Mr. George L. Harrison, Vice President; Messrs. William Fulton Kurtz, B. G. Huntington, Ryburn G. Clay, S. E. Ragland, Lyman E. Wakefield, W. Dale Clark, R. Ellison Harding, Paul S. Dick, and Walter Lichtenstein, Secretary.

It was voted unanimously to appoint a committee in accordance with the suggestion made by Chairman Eccles, this committee to be for the purpose of consulting with similar committees of the Board of Governors and the Presidents of the twelve Federal Reserve banks. It was decided that the following members should serve on the committee: Messrs. Harrison, Hanes, and Brown; Mr. Kurtz to be alternate, but to sit with the committee at all times; Mr. Walter Lichtenstein is to act as secretary of the committee.

The meeting adjourned at 1:40 P. M.

WALTER LICHTENSTEIN,
Secretary.