Secretary's Notes on Meeting
of the Federal Advisory Council of May 18,
1941, at 2 p.m., Room 336, Mayflower Hotel,
Washington, D. C.

All present.

Minutes approved.

In answer to the Secretary's inquiry the feeling generally prevailed that it would be very helpful if the Secretary could send the members in advance of the official printed minutes a transcription from his notes, it being understood that these notes have not been revised and that hence their accuracy cannot be guaranteed. Furthermore, it is understood that these notes are to be regarded by each member as strictly confidential and solely for his own personal use.

Installment Financing. Wakefield discusses problem, danger that the whole control will get into the hands of the S.E.C. Chester Davis indicated in his speech in St. Louis that legislation was very likely and he, himself, (i.e., Davis) favored it. It would assist in present defense financing by making consumption of needed articles more difficult and when the present emergency is over by then relaxing regulations, a flood of orders might be produced and thus the shock felt to industry by the cessation of defense production would be reduced.

Kurtz pointed out to Parry that a very careful distinction must be made between pleasure vehicles and those needed by contractors for defense work. There is a difference between a man who has an automobile and simply wants to buy a better one, and the workman who has just obtained a job in some defense industry and requires a car to get to work. Similar instances might be multiplied.

Brown points out that in the past it has often been true that certain legislation has been regarded as inevitable with the result that a whole new field of intervention by Government agencies is opened up. It would be much better to discuss first of all the fundamental question as to whether such legislation is necessary.

Wakefield agrees that it would be much better to try taxing those commodities production of which should be limited rather than start legislation for the purpose of curbing installment buying and selling.

Harrison says that experience on the whole has been good to date. Object is to limit competitive buying in order to prevent an inflationary movement.

Brown points out again the fact that by controlling installment selling and buying at present, a flood of orders may be induced to flow when such is necessary.

Harrison agrees with Brown and states that the authorities may hesitate to lower exemptions and at the same time may be able to tax certain classes in other ways than by income tax.

Kurtz says that as a matter of fact many of the finance companies, department stores, and the like would like to have competition limited.

Wakefield points out that there is a school of thought in Washington which wishes to control all credit and doesn't want any private control over credit.

Ragland feels that the moves suggested are in the right direction and that regulation is needed.

Dick states that these questions are of great importance on the Pacific Coast, and there attempts have been made to check undue development of installment buying by voluntary curbing of the terms by those engaged in the business of financing installment selling and buying.

Brown points out that before the automobile had become important, the farm implement companies had been badly "burnt" by making terms for installment buying too easy. As a result, the abuses in the farm implement industry in connection with installment selling were corrected, and Brown believes that this is the way to attain results. A similar situation at one time or another has developed in other fields. A few years ago Congress passed a law regulating natural gas. This proved to be very dangerous because it introduced the principle that the price of commodities of all kinds appearing in interstate commerce may be regulated by the national Government. If it is really necessary in order to carry out the defense program to regulate the finance companies and others engaged in financing the installment business, well and good, but if the measures suggested are intended to establish a permanent control over credit, the case is a very different one.

Harrison raises the following question: Suppose we assume that regulation is inevitable, which body should have the power, the Board of Governors of the Federal Reserve System or the S.E.C.?

Huntington agrees with Brown about the undesirability of regulation.

Ragland believes control may be desirable but would be very sorry to see the Government given this increased power.

Dick: Installment selling is very important. Due to competition much slackness in terms allowed has developed. There is much competition between banks, finance companies, and others, but the answer is not Government regulation but rather voluntary control. Naturally this would not bring about the social objectives desired.

Clark wants to see the situation handled without Government control.

Clay would like to see regulation and believes that the banks located in his District want it.

Harrison believes that there are many other measures that might be adopted to bring about the results required for the defense program rather than regulating installment selling and buying. If there is to be Governmental control, then he prefers that it go to the Board of Governors of the Federal Reserve System rather than to the S.E.C.

Spencer wants to know how about the F.H.A. and whether that wouldn't have to be regulated and controlled.

Hanes says that the defense program is being used in part in order to bring about certain social changes. As far as banks are concerned the examining authorities without any further laws are in a position to check abuses. It is not desirable to give the Government more power than it has now over credit.

A number of the members point out there are many cases where automobile paper runs for 3 years.

Kurtz states that much of our thinking is undoubtedly influenced by our attitude toward some of those in charge of the Government bureaus and that if we had more confidence in the management, we might not object to some of the proposed legislation.

Wakefield states that he does not desire such powers as proposed given to the Government because he thinks it is a bad method of procedure.

Brown believes we should not start by trying to amend measures which we regard as fundamentally bad. He thinks what should be introduced if needed are heavy excise taxes, priorities and the like.

Kurtz says that to tax automobiles 20 per cent ad valorem is equivalent to higher individual taxes. He states that in his particular bank that 20 months' paper is accepted. He goes on to point out that it would be rather difficult to get the smaller companies to agree to a voluntary restriction to length of term simply because the longer the term, the greater the profit.

Brown points out that gas and electric companies sell gas and electric ranges on the installment plan and these corporations do not borrow from banks as a rule. Consequently, merely to regulate the banks would not cover many of the cases. The gas and electric companies often sell appliances below cost and expect to get their profit from greater use of gas and electricity.

Brown, summing up, states that as far as he understands it, ten members of the Council are opposed to the legislation to giving more control over installment buying and selling, unless it be discovered that priorities, excise taxes, etc., will not do the job.

Kurtz and Clay state that they are not in disagreement really with the majority of the Council and Brown may as well say he is speaking for all the members of the Council.

Brown and Kurtz agree that if the heads of the C.I.T., the C.C.C., and the G.M.A.C. were called in together, namely Ittleson, Duncan, and Schuman, and made to agree to voluntary restriction, most of the problems would be solved.

Brown brings up the question, if something is done, which agency should enforce the regulations. It was agreed that it would be preferable to have the Board of Governors of the Federal Reserve System, but the Council recommends rather higher excise taxes on goods entering into the defense program, priorities and self-regulation by pressure on the larger finance companies - Sears and similar concerns.

Harrison says that the control of installment selling hits really only the poor man while excise taxes at least bear on all people. He favors power being given to the local Federal Reserve Banks with power of oversight by the Board of Governors.

Harrison points out that there are really two different types of credit, (a) that extended by banks, finance companies and what might be termed in a general way, financial institutions, and (b) that extended by the actual seller of the goods. He believes that regulatory power might be given to two different agencies, one to handle banks, etc., and the other non-banking institutions.

Brown wants to know what would be done about dealers that financed their own paper. He points out that incidentally Sears Roebuck is one of the largest dealers in refrigerators selling on the installment plan.

What part are member banks to play in Government financing? Wakefield says bankers ought to get behind the sale of defense bonds to the public. The Class G bonds are the best security in the market at present, not subject to any state or local taxes and in case of the death of the holder of the bond the bond matures immediately with full interest rate.

Harrison thinks it is difficult to say what banks will have to do. It depends how much of the Government securities will be brought by general investors. He is afraid that the public will not help as much as the Treasury hopes, especially in view of what the tax bill is likely to be.

The Patman Program. Patman evidently wishes to freeze branch banking at its present state, have Federal Reserve Banks owned entirely by the Government, presidents of Federal Reserve Banks to be appointed by the President and subject to recall by Congress. Dividends of banks are to be controlled and the Federal Advisory Council is to be abolished. No one in the System is to receive a higher salary than $25,000. Private bankers are not to be on any of the local Federal Reserve Boards, and commercial bankers are not to be members of the Open Market Committee.

Hanes says there are more chances for this bill than any of the previous Patman bills.

Brown states that there is little we can do. Morgenthau has the feeling that the Board of Governors in an emergency like the present should be merely a bureau of the Treasury.

Wakefield believes there is real danger in this Patman Bill, and he is adopting the method of speaking to country bankers and showing them what this control of credit means and that in order to control every dollar in the pocket of every man there are such proposals as the 100 per cent reserves. He believes that it is important that bankers educate men in their own profession and also members of Congress as to the ultimate meaning of some of these proposals.

Bank Holding Company Bill. Wakefield says the membership of the subcommittee having the bill in charge in the Senate has been completely changed so that with the exception of Senator Glass the members are now practically all adherents of the Administration. Morgenthau is behind the bill but he cannot make any progress unless the President gets behind it and the President at this time does not want to have any more controversial issues introduced into Congress. The "death sentence" claus is not regarded as so very important. As far as the Bank of America is concerned the proposed law would give additional power only over dividends. Giannini transferred enough of his stock outside of Transamerica so that at least in California he does not need a voting permit.

Brown says we should find out what progress the Board has made with its formulation of answers to the Wagner Committee's questionnaire.

Harrison thinks that the whole investigation for the time being is being shelved, especially as Senator Wagner is very ill and the war has come along. Wagner, himself, is reported as believing there is too much before Congress at the present time and the matter should be held over.

It was decided that the Council should ask the Board to carry out its agreement of discussing with the Federal Advisory Council the answers before they are filed with the Senate Committee.

Harrison points out that many important offices in the System are vacant and ought to be filled. The present situation breaks down the morale of the local Federal Reserve Banks. The salary situation is bad. An outside investigation was made as to the salaries, etc., and the report turned in is a good one but the Board does not take any action.

Brown, speaking on the rotation of membership in the Council, stated that Mr. McCabe had written that some Districts were opposed and Brown believes the matter should be discussed further with the respective local Federal Reserve Directors.

Harrison regards a three-year term better than a four-year term.

The meeting adjourned at 5 p.m. to meet in the Board Room tomorrow morning at 10 a.m.

Secretary's Notes on Meeting
of the Federal Advisory Council of May 19,
1941 at 10:30 a.m., Board Room, Federal
Reserve Building, Washington, D. C.

At 10:30 a.m. all the members of the Council assembled in the Board Room but the Council was notified that Mr. Eccles had to go to a meeting at the Treasury and Mr. Ransom was out of town and therefore the meeting with the Board would be postponed until noon. It was thereupon decided to ask Dr. Goldenweiser to make his usual appearance before the Council at this time.

Goldenweiser: The business situation is one in which all pressures have been reversed. Instead of it being necessary to find things to do, the problem now is how to be able to do more in order to meet the defense requirements. There is still some unemployment so in a few places full capacity has not been reached. In April production index went down 4 points as compared with March, largely due to the coal strikes and strikes in some auto plants. The index has now gone up to about 138-9 (it has been as high as 143) and by the end of the year the estimate is that the production index will be around 160. Relatively, growth undoubtedly will be slower and the crucial question at the moment is that of the price structure. There is undoubtedly an inflationary movement and controls are difficult. The remedies may be put under five headings:

1. Require more hours of work by use of shifts and the like.

2. Increase efficiency in production and, if necessary, as in the case of wool, bring in additional imports.

3. The tax program might be used to check price movements.

4. As far as possible have Government borrow from non-financial institutions and sources, and finally

5. Have some action to give greater power over excess reserves.

The present atmosphere is unfavorable to doing anything in regard to reserve requirements. People who at one time made the supply of money in the country the chief factor, now feel the question of the supply of money is not very important. Nevertheless, in spite of this view the supply of money in this country remains an important factor. The Federal Reserve System must necessarily aid the Government in being able to carry out its financing. There ought to be some power given which would make it possible to impose greater reserve requirements unpon new deposits as compared with old deposits. This is better than a general increase all along the line. Action will probably not be taken if it is restricted to orthodox methods. The Chairman of the Board is not in agreement with this suggestion. Keynes told Dr. Goldenweiser that when the Government spends 15 billion dollars on armament, it adds that much to the stream of spending and this is an inflationary tendency. In England the gap was filled by voluntary and compulsory saving, by taxes, by using up the available supplies and by having imports that are not paid for by corresponding exports. With us the situation is different because we send more consumption goods out of the country than we receive so as a matter of fact our international trade is apt to aid inflation. On the other hand, we have more room than Britain for increasing our efficiency and we have more available stocks of goods on hand. In spite of everything, we are likely to have a serious rise in prices. It is essential to have control of wage increases and there must not be strikes or stoppages of production. In England there are no provisions for preventing strikes but by voluntary action they do not take place. Here we shall probably need some definite legal arrangements. The problem of strikes and wages, while of very great importance, is not quite as important as sometimes stated. In 1940 we had less loss of hours, etc., from strikes than for a long time previously. Hillman has some plans which may work out.

Brown says that in Chicago there is great competition for labor which raises wages even though the Unions themselves do not take any action.

Goldenweiser admits the whole wage question a serious factor but not the sole one.

In answer to a question by Harrison, Goldenweiser answered that there is not any disposition at present on the part of the Board to use up its present powers to increase reserves though he thinks it ought to be done. The fact is that 1937 left a very bad taste though the action of the Board in 1937 had probably very little, if anything, to do with later developments but nevertheless the Board has been blamed for these.

Installment Credit. As a general proposition volume of installment buying in times of prosperity tends to increase booms and this means the accentuation of depressions. It has been advocated without any reference to the present situation to check expansion of installment buying and selling by controlling terms. At this time there is a situation where it is necessary to reduce production of autos and similar goods which employ materials which are needed for defense purposes. Prices as a result may get out of line. Quantity of auto production has now been reduced 20 per cent by regulation and it may be necessary to reduce it still further. There may also be an excise tax imposed. At the present time one-quarter to one-fifth of the autos are sold on more liberal terms than the orthodox 18 months and one-third down payment. Terms more liberal than the orthodox ones as well as balloon notes should be prohibited. The whole subject requires much study. It has not been determined what, if anything, should be done.

Brown thinks excise taxes and priorities might be sufficient controls. The trouble is that if regulations are issued referring to autos, these would soon spread to refrigerators and other articles sold on the installment plan, and we would end up with the control of prices of all goods.

Goldenweiser admits that many of these controls are not needed for carrying out the defense program but are important in order to control the fluctuations in the business cycle. Undoubtedly it means further regulation and increase of power of Government over prices. It is going to be increasingly difficult to draw a line between the essentials of the defense program and those which are only indirectly important to the defense program. Both down payments and monthly payments are important. The regulation of installment selling is intended to diminish the demand for goods and thus prevent price distortion.

Wakefield doesn't see how checks can be developed which will apply to those who sell on the installment plan without doing any borrowing for this purpose.

Goldenweiser points out that we now have a law which regulates margins on securities and this is, after all, very similar to the present proposal. Undoubtedly, however, the administration of these regulations may be difficult. Talks are being held with a number of important concerns in the industry and with big financing companies in order to investigate the possibility of voluntary action.

Harrison asks why should food prices have risen so much.

Goldenweiser says that prices of foods were low in many instances and furthermore the chart that is being used is one for sensitive prices and is based on August 1939 equalling 100. The complete index is much more sluggish. Furthermore, Government purchases of food for the armed forces has been one of the important factors in this matter.

Dr. Goldenweiser left the meeting at 11:30 and it was decided to adjourn until 12 o'clock.

Secretary's Notes of Meeting.

At 12 o'clock the Council met with the Board of Governors of the Federal Reserve System, the following being present: Draper, McKee, Parry, Carpenter, Goldenweiser, Bethea, Dreibelbis, Wyatt, Szymczak, Eccles, Morrill, and all members of the Council.

Brown states greatest interest on part of the Council is in the question of controlling installment credit: reasons and methods Board has in mind. It will be unfortunate if other means are available to give anybody in Washington power over installment selling. Such practice would start with autos and hard goods but would soon spread to everything else. As far as the defense program is concerned priorities, excise taxes on autos and gasoline and a Federal vehicle tax ought to be sufficient. As far as the large and intermediate finance companies are concerned as well as the banks, all of these could be educated without actual laws and regulations. Once control of credit is given to a Governmental bureau an important section of credit would be permanently under Government control. All other means of control should be tried first.

Eccles: Board has not taken final action on any plan. But Board feels something will be needed shortly. If Board does not do it, another Government agency will be given the authority. Henderson's organization known as the Office of Price Administration and Civilian Supply (OPACS) feels something must be done and that all this comes within its field. He believes credit control should not be under the jurisdiction of OPACS, but by some other agency in consultation with OPACS. Any number of other things such as taxes, prices, wages, also affect supply and distribution of goods and all of these matters should be regulated in consultation with OPACS but not left solely to it. At present the Board of Governors of the Federal Reserve System has selective controls over credit. Consumer credit control must go outside of banks as after all banks only represent one part of the picture. An excise tax alone cannot control this situation in view of increased wages, longer hours, and overtime pay. Even a 20 per cent excise tax will not restrict consumption adequately if installment terms are made too attractive. Consumer credit control is a necessary supplement to everything else. In the case of autos, it is not difficult to control the price asked by manufacturers and to allocate the amount of production. However, if there is a limitation of 3 million cars established and there is a demand for 4 million cars then a control of prices asked by manufacturers will not be sufficient. It is necessary to decrease demand for cars in order to make the credit control effective. Trying to control the situation through the dealer is very difficult and if credit control is not instituted then OPACS would fix prices right down to the final consumer. All durable goods are competing with the defense program. If you have a heavy tax and credit control, then you do not need regimentation and price control to the consumer. Some of the auto people themselves want consumer credit control and at least two of the big finance companies also desire it. If there were merely a voluntary restraint instituted then small competitors would spring up everywhere. As a matter of fact some sort of credit control is needed entirely regardless of the defense program. It is needed to prevent undue swings in the business cycles. It is not the thought of the Board that it should get power to control credit without in all cases consulting the local Federal Reserve Banks. A point has not been reached in the discussions of the Board where a program can be submitted to the Council. The power to exercise such control must be obtained either by legislation or by Executive Order.

Dr. Parry: The Chairman has covered all the chief arguments in favor of instituting a control such as has been under discussion. Parry has studied the mechanism. The general view of most people seem to be that if any control is established, the Board of Governors of the Federal Reserve System is the best agency to administer it. The Board would consult with people interested: A.B.A., the National Association of Finance Companies, Morris Plan Banks, personal loan companies, etc. Regulation "U" for example was submitted in a rough form first to the Federal Advisory Council.

McKee thinks that there are different methods of approach and doubts whether the present approach is the correct one. Men in new plants away from transportation need a car and it is not fair to prevent them from getting them. You are gambling in the dark and you ought to have direct action.

Brown objects to imposition of controls which are intended primarily to affect the business cycle and which do not have anything to do with the defense program.

Harrison asks whether it is planned to extend controls to sellers like Sears Roebuck and Company.

Eccles: Details must be left aside at the moment. We are just at the beginning of changes due to the war and all that is being proposed now will in a short time seem very mild and inadequate. Much can be done to restrict new housing to that which is connected directly with the defense program as for example in the case of workers engaged in defense production in a new plant.

Harrison: Wouldn't the administration be so difficult that ultimately controls might have to be extended to all forms of credit? And Eccles admits this may be so. Harrison replies that this goes much further than anything involved in the defense program.

Eccles: In the last 5 years, 18 million new cars have been produced so there is an ample supply. Old cars can be bought and he doubts whether there will be any hardships. Keynes told him that in Britain no new cars are being produced.

McKee asks whether the Council believes terms are too limited.

Harrison gives examples of abuses. Much of these might be checked to getting banks into line. Better concerns would like to have these abuses controlled and checked.

Parry: There are plans under foot to do something by voluntary action but he does not believe the problem can be solved in that matter.

Eccles asks whether the Council would prefer some agency other than the Federal Reserve System to handle this credit control. He believes it ought to go to autos, farm implements, refrigerators, etc., does not wish controls to cover soft goods. He points out that in the past the Federal Reserve System has allowed many separate agencies such as R.F.C. and F.D.I.C. to develop instead of trying to keep such bureaus within the System and the result has been that the System no longer controls the credit situation. Here now is another subject being proposed which again may be put under a bureau other than the Federal Reserve System and the final result of all this will be that the Federal Reserve System will be little more than an agency for transit items.

Szymczak says when plan is worked out, it will be submitted to the Federal Advisory Council and to the local Federal Reserve Banks for criticism.

Brown asks under what law an Executive Order could be issued to authorize such controls but Eccles declined to go into that question.

Eccles asks members of the Council to keep an open mind on the subject. Council should not be merely concerned with control of credit but consider alternatives in the present emergency. If the members of the Council do not like some of the suggestions they ought to offer alternatives.

The meeting adjourned at 1:45 in order to meet again at 2:30.

Secretary's Notes on Meeting.

At 2:40 p.m. all members of the Council and the following from the Board of Governors re-convened: Parry, Wyatt, Morrill, Carpenter, Eccles, Draper, Szymczak, Goldenweiser, Bethea, Dreibelbis, McKee.

Brown: As far as possible Government financing should be done without the intervention of the banks. Perhaps private investors, insurance companies and the like would be more ready to help if the coupon rate on bonds were a little higher and the bonds be of somewhat longer term. Bonds might be made non-transferable so as to discourage over-subscription. "G" bonds might create a very serious demand liability for the Treasury. Council believes the Board should continue to urge the Treasury to have financing done mostly by the help of non-banking investors.

Eccles: The present rate of buying of the new bonds is at about 5 billion a year. This may fall off. On the other hand the sale of two other classes of bonds other than "G" bonds might increase. He doubts if the Treasury is dissatisfied with the sales to date.

McKee says at present there isn't any pressure to force buying.

Brown repeats that the Council feels there is room for a fourth class of bond: non-negotiability for a period from 6 to 12 months after purchase, somewhat higher coupon rate, and longer maturity.

Eccles doubts whether banks would refrain from buying such issues as suggested. He doubts that higher rate and longer term would stop buying by banks for as supply of other bonds disappeared banks would bid up the issues. He doubts whether there is any point in talk of more than a $2\frac{1}{2}$ per cent rate for Government can sell any amount of bonds at $2\frac{1}{2}$ per cent.

Brown states that he is not thinking of rate primarily but that the issue should run from about 20-30 years which is such a long maturity that at present banks would not want such bonds while on the other hand private investors, insurance companies, and trust estates would probably buy such bonds heavily.

McKee says that what is needed is an open tap issue which can be bought as wanted. Treasury can always close the books whenever it has all the funds it needs and re-open the books when it needs some more funds.

Eccles says it would be difficult to price such an issue but it would do away with the padding of bids. Until now bonds have been sold somewhat under the market so that dealers and banks have bought bonds for the purpose of selling them almost immediately and thus make a profit. Such procedure is not needed at present. If a tap issue went under par the trust funds of the Treasury and the Federal Reserve System would have to help. When books are closed, the market would rise until such times as the Treasury needed more money. Eccles thinks something like this may be done and that as regards the banks a definite amount should be allocated to each bank.

Harrison thinks that the jam in the investment market would be broken if some such scheme as the British scheme were adopted and the whole market would be stabilized while at present investors hold off because they aren't certain as to what the rate will finally be. Harrison wants a 3 per cent rate as most insurance companies base their estimates on some such rate.

Eccles wants a $2\frac{1}{2}$ per cent rate with a longer maturity. The British want a rate under which the credit system can live and function. The problem is not to see how cheaply Government can get money but to prevent rates from going too low. In the short-term money market the rate is much too low now and if we keep on we run the danger of killing the whole credit sytem which is the basis of our present economic system. In the absence of any control over excess reserves, banks ought to be offered a fair return on short-term obligations in order to keep them out of the long-term market. This will be especially true when the mortgage market slows up.

Brown emphasizes the fact that on the questions discussed, the Council and Board are in agreement.

Eccles points out there is a formidable opposition on the part of dealers to tap issues and the like for such procedure would kill the secondary market and dealers and some banks are living more or less on the profit made by this Government financing. The cost has been paid by insurance companies.

Brown states there are a number of vacancies in the "C" directorships and one presidency is unfilled and the Council feels that these positions ought to be filled. The Council would also like to know what progress is being made as regards answers to the Wagner Questionnaire. He points out that the Council was promised it would be shown the answers before these answers were filed with the Wagner Committee.

Eccles says nothing has been done for a long time and work is still going on revamping the replies. At present he does not wish to be a party to this whole business for he feels it is just a matter of academic interest and parts of answers would be picked out by the newspapers and misconstrued. In his view, no useful purpose would be served by sending any answers to Congress at present. Legislation will only result when Administration wants some, and he does not know whether in that case it would come piecemeal or on a larger scale. There is no reason, however, why answers should not be discussed with the Council before being sent to the Congress.

Brown states that whenever the Board is ready, it will be appreciated if a confidential copy of the Board's answers be sent to members of the Council and the Council could then if necessary call a special meeting to meet with the Board.

Eccles does not want confidential copies sent to each member of the Council and to presidents of the Federal Reserve Banks but the Council and the presidents should appoint committees to meet with the Board. He believes that considering the present condition of the world by the time the questionnaire and the answers can really be considered they will all appear very archaic. No one can tell at present what financial and banking problems will look like after the war.

Brown wants to know about the Patman and Glass bills. He states there are rumors that Patman has more strength than formerly. Then members of the Council would like to know about the death sentence claus in the Glass bill and the provisions about control of dividends.

Eccles doubts that Patman's power has increased. He believes support would come to him in a period of depression rather than under present conditions. If interest returns went up and a deflationary movement set in, Patman might gain in influence. To the extent that the Federal Reserve System should be publicly controlled, in that he may get more support, for the general movement is toward centralization of power under Government. Since the Council met last the Board sent to the Treasury a memorandum opposing the Glass bill in its present form and Eccles attended a meeting in the Treasury where the Comptroller's Office and the F.D.I.C. were both represented. The Board sent a letter explaining why no action had been taken in an unhealthy and dangerous situation. The Board criticized the bill and also offered an alternative program. All this has been done in the last few weeks and the Comptroller's Office is now working on the problem. Eccles believes that there isn't any interest in Congress in the subject and unless the Secretary of the Treasury or the holding companies stir up the question it is likely to lie dormant. Establishment of additional branches and acquisition of more banks by holding companies create difficulty and if for the time being there were not any expansion the situation would probably be left alone.

McKee says there will be hearings only if requested. If the holding companies could agree among themselves on some method of freezing the present situation, he feels certain nothing would be done.

Eccles advises leaving the whole problem alone for if the matter is stirred up the Secretary of the Treasury will fight for his bill and may get White House support.

It is understood that if and when the Board works out some definite plan in respect to control of installment selling and buying and if and when the answers to the Wagner Questionnaire are in final form, the Council as a whole or its Executive Committee will be consulted.

The joint meeting of the Council and the Board adjourned at 4 p.m.

Secretary's Notes on Meeting.

At 4:10 p.m. the Council met alone.

Brown asks whether Council should pass a resolution about control of installment selling, but doubts if this is done by Executive Order that a resolution of the Council would do any good, and if it is to be done by legislative action there would be hearings and ample time for the Council to take action.

Kurtz thinks the terms set by small finance companies are bad. The business really belongs largely to banks and in the next 10 years the banks are likely to do it. There is 5 billion dollars of business and he thinks limitation of terms will be good for the banking business.

Harrison thinks all that is needed can be done now by the Federal Reserve System under present regulations and it is most undesirable to set up a new overlord in Washington.

Brown points out that the National Bank Examiner in Chicago District is now pressing the banks and urging them not to take paper from small finance companies where terms are much too lax.

Dick wants an expression from the Council as to which agency is preferred in case the problem of control of installment selling becomes acute before the Council meets again.

Ragland agrees with Kurtz. He believes that it is desirable for the banks themselves to have some control instituted.

Harrison suggests that Comptroller and Federal Reserve Banks issue instructions to examiners to prevent banks from taking paper running more than 18 months and less than one-third down payment but he objects to giving power to regulate everything in creation.

Brown asks agreement that the Council do not resolute on this matter but that if it should become necessary to state a preference that it be made clear that the Council prefers to give the power to the Federal Reserve System.

Harrison agrees.

Brown states that the Executive Committee be authorized to meet and consider the answers to the Wagner Questionnaire in case the Board should plan to file a report. Authorization to do this was moved by Wakefield and seconded by Harrison and unanimously adopted.

Brown states that if necessary the Executive Committee will state that the Council prefers that the Federal Reserve Board rather than some other agency be given the power to control installment selling and buying but this only in case it is clear that it is intended to give that power to somebody or other.

The meeting adjourned at 4:30 p.m.

MINUTES OF MEETING

of the

FEDERAL ADVISORY COUNCIL

May 18-19, 1941

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

May 18, 1941

The second statutory meeting of the Federal Advisory Council for 1941 was convened in Room 336 of the Mayflower Hotel, Washington, D. C., on Sunday, May 18, 1941, at 2:00 P. M., the President, Mr. Brown, in the chair.

Present:

Mr. Charles E. Spencer, Jr.	District No. 1
Mr. George L. Harrison	District No. 2
Mr. William Fulton Kurtz	District No. 3
Mr. B. G. Huntington	District No. 4
Mr. Robert M. Hanes	District No. 5
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

On motion, duly made and seconded, the minutes of the Council meeting of February 16-18, 1941, copies of which had been previously sent to the members, were approved.

A discussion took place regarding the proposed legislation placing installment financing under the control of the Board of Governors of the Federal Reserve System. It was pointed out that one of the purposes of such legislation would be to assist in the defense program by making civilian use of those materials which are needed to produce armament more difficult; also that when the defense program ended, it might be easier to prevent too great a shock to industry by stimulating installment financing and thus creating orders which would keep industry occupied. The general trend of the discussion was that legislation to regulate installment selling and buying was undesirable and that other methods could be used to regulate prices and the supply of commodities. If, however, legislation to regulate installment financing was inevitable, the members of the Council, on the whole, would prefer that the control be given to the Board of Governors of the Federal Reserve System.

There was general discussion about participation of member banks in Government financing, and the hope was expressed that, as far as at all possible, it might be done by participation of private investors and non-financial institutions.

There was also some discussion about Congressman Patman's program and about the Glass Bank Holding Company bill.

In a consideration of the questionnaire of the Senate Committee on Banking and Currency, it was decided to remind the Board of Governors of the Federal Reserve System that it had promised the Federal Advisory Council that it would discuss its answers to the questionnaire with the Council before the answers were filed with the Senate Committee.

The meeting adjourned at 5:00 P.M.

WALTER LICHTENSTEIN,
Secretary

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

May 19, 1941

At 10:30 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. Charles E. Spencer, Jr., William Fulton Kurtz, B. G. Huntington, Robert M. Hanes, Ryburn G. Clay, S. E. Ragland, Lyman E. Wakefield, W. Dale Clark, R. Ellison Harding, Paul S. Dick, and Walter Lichtenstein, Secretary.

The Council was notified that Chairman Eccles had to attend a meeting at the Treasury, and as Mr. Ronald Ransom was out of town, it was decided to postpone the usual joint meeting with the Board of Governors until noon. Dr. E. A. Goldenweiser, Director of the Division of Research and Statistics of the Board of Governors, was asked to make his usual appearance before the Council at this time.

Dr. Goldenweiser thereupon appeared before the Council. He discussed the dangers of inflation, and admitted that in spite of everything that can be done, we are likely to have a considerable rise in the price level. He also discussed some phases of the proposed legislation to cover installment selling and buying.

Dr. Goldenweiser left the meeting at 11:30 A. M., and the meeting adjourned until noon.

WALTER LICHTENSTEIN,
Secretary

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

May 19, 1941

At 12 noon 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; Governors M. S. Szymczak, John K. McKee, and Ernest G. Draper; also Messrs. Chester Morrill, Secretary of the Board of Governors; Liston P. Bethea, and S. R. Carpenter, Assistant Secretaries of the Board of Governors; Walter Wyatt, General Counsel; J. P. Dreibelbis, Assistant General Counsel; E. A. Goldenweiser, Director, Division of Research and Statistics; 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. Charles E. Spencer, Jr., William Fulton Kurtz, B. G. Huntington, Robert M. Hanes, 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 stated that members of the Council were very much interested in the question of the proposed control of installment selling and buying, and that they were eager to hear from the members of the Board of Governors on this subject. He stated there was a feeling on the part of the members of the Council that, as far as the defense program was concerned, priorities, excise taxes on automobiles and gasoline, and a Federal vehicle tax ought to be sufficient, and the members of the Council questioned whether it was necessary to have laws and regulations to cover finance companies.

The Chairman of the Board of Governors replied that the Board had not taken any final action on this question, but there was a feeling that something would be needed very shortly and that if the Government were to undertake the regulation of installment credit, the members of the Board believed that the power to regulate should rest with the Board, and not with some other Government agency. A general discussion between the members of the Board and the members of the Council on this subject took place.

Governor Szymczak, in conclusion, stated that if and when a plan is worked out by the Board of Governors, it would be submitted to the Federal Advisory Council and to the Federal Reserve banks for their criticism.

The meeting adjourned at 1:45 P. M., and the Council had luncheon with the Chairman of the Board of Governors.

WALTER LICHTENSTEIN,
Secretary

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

May 19, 1941

At 2:40 P. M., the joint conference of the Federal Advisory Council and the Board of Governors of the Federal Reserve System reconvened 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; Governors M. S. Szymczak, John K. McKee, and Ernest G. Draper; also Messrs. Chester Morrill, Secretary of the Board of Governors; Liston P. Bethea and S. R. Carpenter, Assistant Secretaries of the Board of Governors; Walter Wyatt, General Counsel; J. P. Dreibelbis, Assistant General Counsel; E. A. Goldenweiser, Director, Division of Research and Statistics; 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. Charles E. Spencer, Jr., William Fulton Kurtz, B. G. Huntington, Robert M. Hanes, 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 stated that in the opinion of the Council, as far as possible, Government financing should be done without the intervention of the banks, and that there was a belief on the part of the members of the Council that private investors, insurance companies, and other non-financial institutions would be more ready to help if the coupon rate on the bonds were a little higher and the bonds were of somewhat longer term. If bonds were made non-transferable, it would discourage over-subscription.

A general discussion took place regarding Government financing, and the Chairman of the Board of Governors stated that he believed the rate ought to be approximately 2½% with a longer maturity than at present.

The President of the Council raised the question of the Wagner questionnaire. The Chairman of the Board of Governors stated that the staff was still at work revamping the answers to the questionnaire. He saw no reason why answers should not be discussed with the Council before being sent to the Congress. He stated that he did not want confidential copies of the reply sent to each member of the Council and to the presidents of the Federal Reserve banks, but that the Council and the presidents should appoint committees to meet with the Board.

A discussion took place in respect to the Patman and Glass bills.

In conclusion it was stated by the President of the Council, and agreed to by the Chairman of the Board, that it is understood that if and when the Board works out some definite plan in respect to control of installment selling and buying, and if and when the answers to the Wagner questionnaire are in final form, the Council as a whole, or its Executive Committee, will be consulted.

The joint conference adjourned at 4:00 P. M.

WALTER LICHTENSTEIN,
Secretary

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

May 19, 1941

At 4:10 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. Charles E. Spencer, Jr., William Fulton Kurtz, B. G. Huntington, Robert M. Hanes, Ryburn G. Clay, S. E. Ragland, Lyman E. Wakefield, W. Dale Clark, R. Ellison Harding, Paul S. Dick, and Walter Lichtenstein, Secretary.

A discussion took place as to whether it would be advisable for the Council to take any formal action in respect to the proposed control of installment selling and buying. It was finally agreed that the Council would not pass any formal motion, but that if it should become necessary for the Council, to take a position as to which Government bureau should be given power to regulate installment credit, the Council would make it clear that it much preferred to have this authority entrusted to the Board of Governors of the Federal Reserve System.

On motion made by Mr. Wakefield and seconded by Mr. Harrison, it was unanimously voted that the Executive Committee of the Council be authorized to meet and consider answers to the Wagner questionnaire in case the Board of Governors should plan to file a report.

In conclusion, the President of the Council summed up the view of the members of the Council that, if necessary, the Executive Committee of the Council would state that it preferred that the Board of Governors of the Federal Reserve System rather than some other agency be given the power to control installment selling and buying, but such a statement would be made only in case it was clear that it was intended to give such power to some Government agency or other.

The meeting adjourned at 4:30 P. M.

WALTER LICHTENSTEIN,
Secretary