

Secretary's Notes on Meeting of the
Federal Advisory Council of September 14, 1941
at 2:10 P.M., Room 336, Mayflower Hotel,
Washington, D. C.

All the regular members of the Federal Advisory Council were present except Mr. Harrison whose place was taken by Mr. Leon Fraser.

Mr. Brown reviewed the proceedings of the meeting of the Executive Committee of the Council which took place in Washington on August 15 and 16. The salient facts were covered in a letter of the Secretary of the Council, dated August 20, 1941, of which a copy was sent to each member of the Council.

Brown believes that if the Council could get into the regulations covering installment selling a provision to the effect that all loans whether \$1,000 or under should be permitted provided the loan is not specifically for the purpose of purchasing listed articles, the regulations would be much improved. It must be remembered in this connection that the finance companies object to a purpose clause because they are afraid that the personal loan companies might obtain too much of the installment business.

Brown suggests that the following three points be presented to the Board:

1. The Board of Governors should proceed with caution; otherwise, there might be a popular reaction which would injure the whole Federal Reserve System.

2. The whole Council reiterates the recommendation made by its Executive Committee to exempt small personal loans from the provisions of the regulations except where such are specifically to be used to finance purchases of listed articles.

3. Banks should not be expected to do too much of the policing to carry out the regulations for this imposes too heavy a burden upon the banks.

Wakefield points out that in the past there has been great pressure on the banks, urging them to take care of small people. Now the Administration is attempting to restrict this beneficial move and this may result in a bad reaction.

Brown asked whether he may make a general statement to the Board in accordance with the three points listed above.

Dick moved, and Hanes seconded the motion, that the procedure outlined be adopted. The motion was adopted unanimously.

The third and fourth items on the agenda were then discussed:

"3. Financing of the defense program and its various aspects, such as taxation, priorities, freezing of the price level, limitation of instalment selling, etc.
(Suggested by Mr. Huntington)

"4. Desirability of reiterating danger of continued low interest rates. (See statement of Federal Reserve System dated December 31, 1940) (Suggested by Mr. Huntington)"

Brown refers to the statement of the System submitted to Congress and dated December 31, 1940. He went on to say that at that

time Secretary Morgenthau did not wish any action to be taken until he had time to consider what the effect of the suggestions made might be on the future program of financing Government needs. The question now is whether the present Council approves this statement of December 31, 1940. Since the statement was made, nine months have elapsed, and there isn't much point now in arguing about the whole program. It is obvious that a doubling of present legal reserve requirements is only desirable if the other recommendations embodied in the statement are carried out. It might be well, however, if the present reserve requirements were raised at once to the present legal limits. Governor Szymczak made the statement in confidence that he believed the Board would agree to this, provided the Treasury approved of such action. Eccles, perhaps, doesn't wish it done because until the Board gets further powers the raising of the reserve requirements to the present legal limits would mean that the Board would have expended its last cartridge and that, therefore, this action should be reserved for some very special emergency.

Wakefield does not believe in increased power over reserves and doubts any way whether Congress would approve.

Fraser suggests the Board should be asked whether it was informed as to what the Secretary of the Treasury meant by "selective credit control".

Brown states that Governor Ransom told him that banks ought not to lend to customers for the purpose of enabling them to hoard commodities. Fraser suggests that after giving 30 or possibly 45 days' notice, the Board should raise reserve requirements to the present legal limit as a contribution toward repression of inflation. This might also have some slight effect on the present interest structure for it is most desirable that interest rates rise not because banks would be benefited thereby, but because this is desirable for our general economy. Fraser believes that the public is quite prepared to accept an increase.

After considerable discussion, it was decided to put such a request in the form of a recommendation and that the Council ask the Board's consent that it be given publicity at once. The motion, after being made by Mr. Dick and seconded by Mr. Spencer, was unanimously adopted, and it was decided to ask Mr. Fraser to prepare the recommendation.

Brown asked whether the Council favors further increases in reserve requirements. Last December the Council felt that this should be done only as a part of a general program and the Council obviously does not favor further rigorous increases of reserve requirements except as a part of a general program. Brown, himself, however, would favor such an increase even though it were not part of a general program.

Wakefield would consent to an increase only as a part of a general program and is very reluctant to give such great powers to any governmental body. Fraser states that his view is the Council favors an increase only provided other things are done. Discussion of the fifth item on the agenda was dropped.

("5. What actions can be taken and policies pursued to protect banking against the debacle which must follow this era of excessive Government spending? (Suggested by Mr. Hanes)")

There was some discussion as regards the sixth item,

("6. Consideration of the subject of member banks reporting net balances only in their published reports. (Suggested by Mr. Clay)")

and it was decided to address an inquiry to the Board about it.

Item number 7 would deal with the possibility of Federal land banks borrowing from the Federal Reserve Banks. It was decided to ask the Board what chances there are of the bills in question (H.R. 5346 and related bills) being adopted by Congress. It is obvious that the Federal Advisory Council would not wish the Federal Reserve System to make such loans which would merely mean that the portfolio of the Federal Reserve System would be encumbered by illiquid long-term loans.

("7. Discussion of H.R. 5346 - Farm Credit Act of 1941, (which is identical with H.R. 5336 and S. 1797) especially that part which refers to the Federal Reserve System. (Suggested by Mr. Harding)")

"8. Procedure that should be adopted to curb and, if possible, defeat the inflationary trend now apparent. (Suggested by Mr. Dick)"

Item 8 on the agenda is practically identical with items 4 and 5 on the agenda.

The meeting adjourned at 5:50 P.M., and it was decided to have the Council reconvene on Monday at 10:00 A.M. in the Board Room of the Federal Reserve Building and to meet with the Board of Governors at 10:30 A.M.

Secretary's Notes on Meeting of the
Federal Advisory Council of September 15, 1941
at 10:00 A.M., Board Room, Federal Reserve Building,
Washington, D. C.

All of the members of the Council were present, except as before Mr. Fraser was in place of Mr. Harrison, and Mr. Ryburn Clay was absent but had left word with the Secretary of the Council that he would return in the afternoon.

Brown made a statement in reference to a conversation which he had had with Governor Ransom. Ransom says that the Board desires to increase reserves to the present legal maximum but feels it important to wait with such action until an announcement can be made about other steps to be taken so that the public as well as the security markets might not be left in a state of uncertainty. Treasury is anxious to have reserves kept within the present limit fixed by the Banking Act of 1935.

Brown also told about a conversation with Leo Crowley. A group of economists, including Woodlief Thomas representing the Board of Governors, advised against any selective credit control, but the group was told that what was wanted was not its opinion about selective credit control, but the best methods to be used in case such a policy is adopted. Dreibelbis believes that the present legal limits of reserves could be changed by Executive Order under the emergency just as was done in connection with the order issued to regulate installment selling. It has been rumored that Senator Glass may write the President

mistake for the Council to urge an increase of reserves to present maximum for then subsequently the Board could point to the fact that its powers had been exhausted and the Board might therefore obtain greatly increased powers by Executive Order. Crowley doubts whether Congress would be willing to give the Board of Governors greater powers than it has at present. A recommendation, dealing with the subject of reserves, was presented by Mr. Fraser in accordance with the suggestions made in yesterday's meeting, and with some unimportant changes, the recommendation was unanimously adopted upon motion by Mr. Hanes, seconded by Mr. Kurtz. This recommendation will be attached to the printed minutes and has been furnished to the members of the Council in mimeograph form.

The meeting of the Council adjourned at 10:30 A.M.

Secretary's Notes on Meeting of the
Federal Advisory Council of September 15, 1941
at 10:40 A.M., Board Room, Federal Reserve Building,
Washington, D. C.

The Council met with the Board of Governors, the following being present: Messrs. Ransom, Szymczak, Draper, Morrill, Carpenter, Thurston, Dreibelbis, Bethea, Thomas, Clayton, Smead, Wyatt, Paulger, Parry. All members of the Council as before were present, except Mr. Clay.

Ransom. Reviewed the situation: In connection with regulations about margins and in connection with consumer credit the method of selective credit control has already been employed so that the idea is not an entirely new one. The statement of December 31, 1940 had fallen on rather unfertile soil but the Treasury now is much easier to approach, and there is a much greater spirit of cooperation between the Treasury and the Board of Governors. The Treasury feels that before going again to the market for a large scale operation, there should be a clear understanding as to future steps, and the Board has had the feeling that it should not use any of its present powers until some of the other problems have been settled and it has been decided how much additional power should be asked from Congress.

Two plans have been suggested--the present ratio plan and a so-called ceiling plan. In other words, the problem is whether the authority to be asked should be of an over-all nature or of a rather selective type. As a kind of aside, Ransom mentioned that the present division of banks into Central Reserve, Reserve, and Country Banks is

rather unscientific. There has been consultation between staffs of the Board and the Treasury, and Ransom himself has sat in on most of these meetings. Ransom, himself, feels that the present regulations about installment selling are incomplete until they are extended to cover housing. At the present time, there is not any need of a capital issues committee. The Treasury, above all, does not wish Government financing to become expensive. The Treasury and Board have given very intensive study to the situation. Ransom believes there is little value in coming out with the suggestion to raise reserve requirements to the present legal limits until the whole problem has been examined.

Brown states that the raising of reserve requirements to present legal limits can be done now without any reference to other steps to be taken. He agrees, however, that before the Treasury does major financing, there ought to be a clear understanding as to what the future policies are likely to be.

Ransom, in answer to a question, states that at present there is no need of pro-rating credit. As a matter of fact, there is too much credit available. A number of agencies have considered the problem of capital issues, but it has not gone beyond the study stage. There isn't any question that there will be either more over-all control or more selective credit control, and he, himself, (Ransom) favors the former. He does not believe that the Board can at present insist on its program without an understanding with other governmental agencies as to future steps contemplated.

Wakefield states he does not believe in selective credit control because it means in the final analysis that some Government agency or other in Washington will control all instruments of credit.

Kurtz asks whether prices should be allowed to spiral upward and the Federal Reserve Board not take at least that step which is within its powers to exercise even though it be admitted that that step may have a pretty slight influence. He believes that the Board should not wait until all future steps are decided upon.

Ransom says that the statement of December 31, 1940 got off to a bad start because its premature publication was forced upon the Board. There was no one really to blame for this, but the fact is that the other agencies had not understood the full implications of this statement. The responsibility of the Board of Governors is to do the best it can. He believes that in its talk with the Treasury, the Board has made progress and there is more Administration understanding as to why the Board wishes to raise reserve requirements and also an understanding as to why such action alone cannot do the job.

Fraser supports Kurtz. From what Ransom says it appears to him that nothing will be done unless you can get a complete program, and that means that nothing will be done. He believes in doing what you can do, and raising reserve requirements to the present legal limits is one of the things that can be done and should be done. Then, after this is done or while it is being done, effort should be made to obtain a more complete program.

Ransom. The question is (1) shall we use our present powers without clearing with the Administration; (2) shall we wait to raise reserves until we know what the next steps are to be. He says there will be a definite decision reached within a week, and he hopes, therefore, that the Council will not publish its statement, but that he will be permitted to convey to the Secretary of the Treasury the Council's views. If the Council's statement were published, it would raise many other questions which would be asked by the newspapers, and if these questions were not answered by the Government, the newspapers would undertake to answer the questions themselves.

Brown, speaking in respect to Regulation W, makes the statements agreed upon yesterday--(1) that the regulation should be as simple and as liberal as possible and that the reactions already are bad. He refers to the proviso that there must be a minimum payment of \$5 per month. This simply leads to cases where, for example, in the purchase of a radio where the monthly payment is not \$5, people are induced to buy other articles in order that the monthly payment can be brought up to \$5 a month. (2) The Council, as a whole, urges that the recommendation made by its Executive Committee be adopted, that provided a borrower make an affidavit that a loan under \$1,000 is not intended for the purchase of listed articles that such a loan be exempted from the provisions of Regulation W. (3) The burden of policing thrown on banks should be held down to a minimum because otherwise a very heavy

expense is imposed upon the banks. Ransom states that the original purpose was to include all open book accounts and all cash loans. But finally it was decided to omit open book accounts and to include cash loans only up to \$1,000. It was felt that the finance companies would not cooperate in carrying out the regulation if small cash loans had been allowed, as these would furnish a wide open door to evade the regulation. Originally, the plan was to limit the regulation purely to the purchase of listed articles, but it was found too difficult to draw up a purpose clause. Ransom admits that there is political dynamite in Regulation W. For one thing, it creates discriminatory tendencies. The great problem is to make people understand the reasonableness of the provisions of the regulation.

Farm Credit. H.R. 5346. The Council, interested in how serious the bill is to be taken and feels that the credit of Federal Reserve Banks should not be made available to such institutions. Wyatt stated that there isn't any activity and that the bills in question are merely sleeping in committee, and there isn't any reason to anticipate new legislative action at this time.

The meeting adjourned at 1:10 P.M.

Secretary's Notes on Meeting of the
Federal Advisory Council of September 15, 1941
at 1:15 P.M., Board Room, Federal Reserve Building,
Washington, D. C.

The Council met alone. All members present, excepting Mr. Clay and Mr. Fraser in place of Mr. Harrison.

Brown. In view of Ransom's statements, what does the Council with to do?

1. Does it wish to withdraw its recommendation entirely?
2. Does it wish to insist on publication?

It was decided to present the recommendation but not to insist on its publication at this time, though it might be published after the Treasury and the Board had made public a statement of their agreement if one is reached.

The meeting adjourned at 1:20 P.M.

Secretary's Notes on Meeting of the
Federal Advisory Council of September 15, 1941
at 2:20 P.M., Board Room, Federal Reserve Building,
Washington, D. C.

The recommendation on reserves as prepared by Mr. Fraser was formally adopted upon motion of Mr. Hanes, seconded by Mr. Kurtz.

At 2:30 P.M. Mr. Woodlief Thomas joined the Council to present a survey of business conditions.

Production index is likely to be 167 by the end of the year. Automobiles, silk and a number of other articles are or will be curtailed. Not much future rise in textiles expected. In many lines, production has probably reached the limit of capacity. People are beginning to collect inventories and in many instances needs are covered far in advance of immediate requirements. At times this has been done at the request of the Army or Navy Departments. Retail trade is at highest record for this season of the year. Usually Thanksgiving week marks the maximum of retail sales, but in this year the last week in August was above the Thanksgiving week of last year. Building is still very high, but the FHA figures give some indication that building is beginning to slow up, and unquestionably contractors are becoming hesitant. While there are declines in some lines, these declines are probably not as great as increases in other lines. Prices in 1940 showed little change, but since February 1941, there has been a sharp rise in the price of basic commodities. Cost of living is also steadily going up and is now 10 per cent higher than the pre-war index. Metal prices have been steady, while farm prices continue to rise. The whole-

sale price index is approaching the level of 1929. Wage rates are up about 10 per cent, but as most of this increase in wages is in industries which have had a sharp growth, net profits so far have not been very much affected by the increase in wages. Average total of weekly earnings are up much more than the mere increase in rates. At present there are perhaps four and one half million unemployed, not counting one and one half million on WPA. This is a drop of about three and one half million from before the war. Corporate profits are up over last year. Perhaps for the first half year, up 20 per cent, but the second half year will not show the same increase over the second half of 1940, as the second half of 1940 was already showing very large earnings. Bank credit is at an all-time high, and there is more velocity than before in the turnover of bank deposits. The stock market shows relatively little activity. Authorized appropriations for immediate expenditures amount to about \$60,000,000,000.

(Mr. Clay returned to the meeting at 2:55 P.M.)

Defense expenditures next year may actually go to \$20,000,000,000. The amount available for civilian expenditures will be 10 per cent higher than in 1940. National income is likely to bring an increase of about 30 per cent, but the amount of goods to be bought will not show as much of an increase as that. Taxes: The deficit for the current fiscal year will probably be about \$8,000,000,000 as against \$6,000,000,000 last year. Deficit is not likely to increase very much. There will be about \$12,000,000,000 to be taken care of, of which about \$5,000,000,000 will

be raised by the sale of anticipation tax warrants, defense bonds, etc., leaving about \$7,000,000,000 of securities to be sold in the open market. Last year the Government sold about \$4,000,000,000 in the open market, bought almost entirely by commercial banks, savings banks and insurance companies. So far this year, banks have bought very little, and the Treasury has replenished its funds mainly by sales outside of the banks.

At 3:20 P.M. Woodlief Thomas was through, and the meeting adjourned.

Secretary's Notes on Meeting of the
Federal Advisory Council of September 15, 1941
at 3:20 P.M., Board Room, Federal Reserve Building,
Washington, D. C.

At 3:20 P.M., a joint meeting with the Board of Governors of the Federal Reserve System was held. All members of the Council, including Messrs. Fraser and Clay, were present. Of the Board the following were present: Messrs. Ransom, Draper, Szymczak, Carpenter, Morrill, Bethea, Clayton, Smead, Thomas, and Paulger.

The Secretary of the Council read the recommendation dealing with the desirability of increasing reserve requirements immediately to the maximum limits authorized by the Banking Act of 1935.

Brown stated that in view of what had been said in the morning, the Council withdrew its request for immediate publication.

Brown took up with the Board the desirability of having member banks report only net balances in their published reports which would mean taking out reciprocal balances. He stated the Council was not making a recommendation, but it might be desirable if the Comptroller of the Currency and the state banking authorities were to see to it that the only figures published were those of the net balances.

The meeting adjourned at 3:30 P.M.

MINUTES OF MEETING
of the
FEDERAL ADVISORY COUNCIL
September 14-15, 1941

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

September 14, 1941

The third statutory meeting of the Federal Advisory Council for 1941 was convened in Room 336 of the Mayflower Hotel, Washington, D. C., on Sunday, September 14, 1941, at 2:10 P. M., the President, Mr. Brown, in the chair.

Present:

Mr. Charles E. Spencer, Jr.	District No. 1
Mr. Leon Fraser (Alternate for 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 May 18-19, 1941, copies of which had been previously sent to the members, were approved.

The President reviewed the proceedings of the meeting of the Executive Committee of the Council which took place in Washington, on August 15 and 16, at which the proposed regulation (W) dealing with consumers' credit was considered. The salient facts of the meeting were presented in a letter of the Secretary of the Council dated August 20, 1941, a copy of which was sent to each member of the Council.

The President suggested that the following three points in respect to Regulation W be presented to the Board at the joint meeting:

1. The Board of Governors should proceed with caution; otherwise, there might be a popular reaction which would injure the whole Federal Reserve System.
2. The whole Council reiterates the recommendation made by its Executive Committee to exempt small personal loans from the provisions of the regulations, except where such are specifically to be used to finance purchases of listed articles.
3. Banks should not be expected to do too much of the policing to carry out the regulation for this imposes too heavy a burden upon the banks.

On motion of Mr. Dick, seconded by Mr. Hanes, it was unanimously voted that the procedure outlined by the President be followed. A discussion took place regarding the statement dated December 31, 1940, submitted to the Congress by the Federal Reserve System, and what might be done to carry out some of its provisions.

It was recognized that under existing conditions it presumably would not be possible to carry out all the provisions embodied in that program; but it was felt that the Board at least might raise reserve requirements to the present legal limits.

On motion made by Mr. Dick, and seconded by Mr. Spencer, it was voted that the Council present to the Board of Governors a recommendation urging that after giving

30 or possibly 45 days' notice, reserve requirements should be increased to the maximum allowed under the Banking Act of 1935. It was, furthermore, decided that the Council ask the Board's agreement to the end that such a recommendation be given immediate publicity.

Mr. Clay asked that consideration be given to a recommendation that, in their published reports, member banks report only net balances, i.e., offset against each other reciprocal balances carried by banks. It was decided to discuss this matter with the Board of Governors at the joint meeting.

A discussion took place in respect to H. R. 5346 and related bills, now pending in Congress, which would make it possible for Federal Land banks to borrow from Federal Reserve banks. It was decided to address an inquiry to the Board whether there was any likelihood, in the immediate future, that these bills would be enacted into law.

The meeting adjourned at 5:50 P.M.

WALTER LICHTENSTEIN,
Secretary

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

September 15, 1941

At 10:00 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; Messrs. Charles E. Spencer, Jr., Leon Fraser, William Fulton Kurtz, B. G. Huntington, Robert M. Hanes, S. E. Ragland, Lyman E. Wakefield, W. Dale Clark, R. Ellison Harding, Paul S. Dick, and Walter Lichtenstein, Secretary.

The Secretary stated that Mr. Ryburn G. Clay had left word that he would return in the afternoon.

The President of the Council reported conversations he had had with Messrs. Ramsom and Crowley, dealing with the problem of reserve requirements and "selective credit control."

Mr. Fraser presented a recommendation on the subject of reserve requirements, which, on motion made by Mr. Hanes and seconded by Mr. Kurtz, was unanimously adopted. This is Recommendation No. 1 and is attached to and made a part of these Minutes.

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

September 15, 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:

Vice Chairman, Ronald Ransom; Governors M. S. Szymczak and 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; Liston P. Bethea and S. R. Carpenter, Assistant Secretaries of the Board of Governors; Walter Wyatt, General Counsel; J. P. Dreibelbis, Assistant General Counsel; Woodlief Thomas, Assistant Director, Division of Research and Statistics; Leo H. Paulger, Chief, Division of Examinations; 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; Messrs. Charles E. Spencer, Jr., Leon Fraser, William Fulton Kurtz, B. G. Huntington, Robert M. Hanes, S. E. Ragland, Lyman E. Wakefield, W. Dale Clark, R. Ellison Harding, Paul S. Dick, and Walter Lichtenstein, Secretary.

Vice Chairman Ransom reviewed the situation in connection with consumers' credit, and he also spoke of developments in reference to the statement of December 31, 1940, made to the Congress, and he told the Council of negotiations with the Treasury regarding "selective credit control." A lengthy discussion took place in respect to the various matters raised by Vice Chairman Ransom's statement.

The President of the Council presented the views of the Council as outlined in yesterday's meeting.

In answer to an inquiry, Mr. Wyatt, General Counsel of the Board of Governors, stated that there did not appear to be any likelihood that the Farm Credit bills (H. R. 5346 and related bills) would be enacted into law at this session of Congress.

The meeting adjourned at 1:10 P. M.

WALTER LICHTENSTEIN,
Secretary

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

September 15, 1941

At 1:15 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; Messrs. Charles E. Spencer, Jr., Leon Fraser, William Fulton Kurtz, B. G. Huntington, Robert M. Hanes, 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:

1. Does the Council wish to withdraw the recommendation respecting reserve requirements?
2. Does the Council wish to insist on the publication of the recommendation?

It was decided to present the recommendation but not to insist on its publication at this time.

The meeting adjourned at 1:20 P. M.

WALTER LICHTENSTEIN,
Secretary

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

September 15, 1941

At 2:20 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; Messrs. Charles E. Spencer, Jr., Leon Fraser, William Fulton Kurtz, B. G. Huntington, Robert M. Hanes, S. E. Ragland, Lyman E. Wakefield, W. Dale Clark, R. Ellison Harding, Paul S. Dick, and Walter Lichtenstein, Secretary.

The recommendation as to reserves, prepared by Mr. Fraser, was reread and adopted formally upon motion of Mr. Hanes, seconded by Mr. Kurtz. The recommendation is attached to and made a part of these Minutes.

At 2:30 P. M., Mr. Woodlief Thomas, Assistant Director, Division of Research and Statistics, joined the Council and presented a survey of business conditions.

Mr. Ryburn G. Clay joined the meeting at 2:55 P. M.

Mr. Woodlief Thomas finished his discussion at 3:20 P. M. and the meeting adjourned.

WALTER LICHTENSTEIN,
Secretary

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

September 15, 1941

At 3:20 P. 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:

Vice Chairman, Ronald Ransom; Governors M. S. Szymczak and Ernest G. Draper; also Messrs. Lawrence Clayton, Assistant to the Chairman; Chester Morrill, Secretary of the Board of Governors; Liston P. Bethea and S. R. Carpenter, Assistant Secretaries of the Board of Governors; Woodlief Thomas, Assistant Director, Division of Research and Statistics; Leo H. Paulger, Chief, Division of Examinations; Edward L. Smead, Chief, Division of Bank Operations.

Present: Members of the Federal Advisory Council:

Mr. Edward E. Brown, President; Messrs. Charles E. Spencer, Jr., Leon Fraser, 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 Secretary of the Council read the recommendation dealing with the desirability of increasing reserve requirements immediately to the maximum limits authorized by the Banking Act of 1935. This recommendation is attached to and made a part of these Minutes.

The President of the Council stated that in view of the discussion in the morning, the Council withdraws its request for immediate publication of the recommendation.

The President of the Council presented to the Board of Governors informally the suggestion to have member banks report only net balances in their published reports, thus offsetting against each other so called reciprocal balances.

The meeting adjourned at 3:30 P. M.

WALTER LICHTENSTEIN,
Secretary

RECOMMENDATION OF THE FEDERAL ADVISORY COUNCIL TO THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

TOPIC No. 1. Reserve Requirements.

RECOMMENDATION: The Federal Advisory Council has frequently drawn the attention of the Board of Governors to the many elements in our monetary and credit system that are of an inflationary character and has recommended action to eliminate or to control them. Most of these defects require legislation for correction; and a composite program looking to that end was contained in the special report by the System to the Congress dated December 31, 1940. In the meanwhile inflationary tendencies have manifested themselves with steadily growing and disturbing rapidity.

Concerned by this development the Federal Advisory Council, therefore, unanimously recommends to the Board of Governors that it immediately raise the reserve requirements for the three classifications of banks to the maximum limits authorized by the Banking Act of 1935, such increases to become effective upon 30 days' notice to the banks affected.

September 15, 1941

OFFICERS

EDWARD E. BROWN, PRESIDENT
 GEORGE L. HARRISON, VICE-PRESIDENT
 WALTER LICHTENSTEIN, SECRETARY

EXECUTIVE COMMITTEE

EDWARD E. BROWN
 GEORGE L. HARRISON
 WILLIAM FULTON KURTZ
 B. G. HUNTINGTON
 ROBERT M. HANES
 S. E. RAGLAND

FEDERAL ADVISORY COUNCIL

OFFICE OF THE SECRETARY

38 S. DEARBORN STREET

CHICAGO, ILLINOIS

August 20, 1941

MEMBERS

1941

CHARLES E. SPENCER, JR., DISTRICT No. 1
 GEORGE L. HARRISON, DISTRICT No. 2
 WILLIAM FULTON KURTZ, DISTRICT No. 3
 B. G. HUNTINGTON, DISTRICT No. 4
 ROBERT M. HANES, DISTRICT No. 5
 RYBURN G. CLAY, DISTRICT No. 6
 EDWARD E. BROWN, DISTRICT No. 7
 S. E. RAGLAND, DISTRICT No. 8
 LYMAN E. WAKEFIELD, DISTRICT No. 9
 W. DALE CLARK, DISTRICT No. 10
 R. ELLISON HARDING, DISTRICT No. 11
 PAUL S. DICK, DISTRICT No. 12

Dear Mr.

Last week the Board of Governors of the Federal Reserve System notified Mr. Brown that it would be glad to have representatives of the Federal Advisory Council attend a meeting to be held in the Board Room of the Federal Reserve Building on August 15, called for the purpose of considering a draft of proposed regulation of installment credit, which the Board had been authorized to formulate and promulgate under an Executive Order, dated August 9, 1941.

Mr. Brown, thereupon, requested the members of the Executive Committee of the Council, as well as the secretary of the Council, to be present at the aforesaid meeting in Washington at 9:00 o'clock on the morning of August 15, 1941.

All six members of the Executive Committee, as well as the secretary of the Council, were present at this meeting, which was attended by Chairman Eccles, Vice Chairman Ransom and Governors Szymczak and Draper; also various members of the staff of the Board of Governors and about seventy-five representatives of finance companies, trade organizations, Morris Plan banks, research institutions, etc. The meeting was opened by Chairman Eccles, who made a brief introductory statement and thereupon withdrew. Throughout, the meeting was presided over by Vice Chairman Ransom. The meeting in the morning lasted from 9:10 A.M. to 12:50 P.M. The meeting reconvened in the afternoon at 2:10 and lasted until 4:30. I took detailed notes of the proceedings, but I have been informed by Mr. Chester Morrill, secretary of the Board of Governors, that a complete stenographic transcript of the proceedings would be furnished in due course of time to the members of the Federal Advisory Council, and it is, therefore, not my intention to undertake at this time to transcribe my notes, which are very voluminous. It suffices to say that on the whole there was very little objection raised to most of the provisions embodied in the draft of the regulation. There was considerable discussion as to the effective date of the regulation, the Board of Governors rather favoring September 1, while apparently most of those in attendance preferred September 15. Mr. Morrill informs me that he is supplying each member of the Council who was not present at the meeting on

August 20, 1941

August 15 with a copy of the tentative draft of proposed regulation, and is also furnishing each member of the Council with a copy of the Executive Order of August 9.

After the general meeting adjourned at 4:30 P.M. on August 15, the Executive Committee of the Council met in the Library of the Federal Reserve Building from 4:40 to 6:00 P.M. It was voted to propose to the Board of Governors an addition to the proposed regulation to provide for certain exceptions to be made in the case of small personal loans. Vice Chairman Ransom had stated at the meeting that any suggestions to be made should be submitted in writing. In accordance with this request the Executive Committee drafted a recommendation which will be found embodied in the letter appearing below. It was also decided to draft a covering letter to be considered the following day.

The members of the Executive Committee and the secretary met on August 16 in room 854 of the Mayflower Hotel from 9:30 to 10:45 A.M., and it was unanimously voted to address the following letter to Governor Ransom:

"The Board has requested suggestions in writing as to changes in the tentative draft of regulation on installment credit which was discussed at the meeting yesterday. The Executive Committee of the Federal Advisory Council which attended that meeting with great interest, realizes, as you stated at the meeting, it would be inappropriate to discuss now either the Executive Order itself or to debate the necessity at this time of issuing a regulation thereunder.

"We do believe, however, that in the interest of good administration and of favorable understanding and reception of the regulation, it should, initially at least, be made as simple as possible, enlarging it later, when necessary, rather than to have it too broad at first to be amended or circumscribed later.

"With that in mind, the Committee feels that the regulation should not be drafted to include unsecured personal loans where no part of the proceeds are used for the purpose of purchasing or carrying any of the so-called "listed articles". Such unsecured loans for such other purposes as the payment of medical expenses, funeral, grocery, or other similar legitimate and necessitous bills have no direct impact on the supply or price of raw materials needed by the Government for defense, and only the remotest, most

August 20, 1941

insignificant, and indirect effect on inflation through credit expansion generally.

"Most of these loans, made by institutions to needy borrowers of small means, serve a very useful social purpose. They not only provide necessary funds for the purpose of paying legitimate bills, but they serve to keep the lower salaried borrower away from the loan shark or other unscrupulous lender, and thus enable him better to preserve his self respect.

"To include such personal loans in the regulation is, we believe, wholly unnecessary, to what we were informed to be the general purpose of the regulation and is fraught with the great risk of misunderstanding and resentment by the great mass of small personal loan borrowers all over the country. Also, it may only serve to emphasize in the public mind that the whole regulation will primarily affect only the lower income groups.

"We, therefore, urgently recommend that Section 6, paragraph (c), on page 9 of the Tentative Draft of Proposed Regulation of Installment Credit, dated August 14, 1941, be amended as follows:

"(c) Any extension of installment loan credit which is made (1) to or for a student for bona fide educational purposes, or, (2) to any other person who makes an affidavit that no part of such installment loan credit is to be used towards the purchase of any listed article or to refinance any prior indebtedness incurred in the purchase of a listed article, and further provided that the person extending such credit or his agent handling the transaction certifies that he has accepted such affidavit believing it to be made in good faith."

"We propose this not because we object to a reasonable maximum ~~such as eighteen~~ months, on this kind of loan. Good banking practice would ~~dictate~~ such a limit in any event. But our ~~view is that to subject~~ personal loans, made not for the purpose of purchasing listed articles, to all the other restrictions of the regulation relating to installment sale credit is unnecessary, unwise, and a potential source of grave criticism of the whole regulation."

August 20, 1941

The secretary of the Council transmitted the above letter to Mr. Chester Norvill, secretary of the Board of Governors of the Federal Reserve System, and has received acknowledgment of its receipt. The letter was signed by the president of the Council, as chairman of its Executive Committee.

Very truly yours,

Secretary

This letter was written to the following men and was sent via air mail, except to Mr. Brown:

Mr. Edward E. Brown
Mr. George L. Harrison
Mr. Charles E. Spencer
Mr. William Fulton Kurts
Mr. B. G. Huntington
Mr. Robert M. Hanes
Mr. Hyburn G. Clay
Mr. S. E. Bagland
Mr. Lyman B. Wehfield
Mr. W. Dale Clark
Mr. R. Ellison Harding
Mr. Paul S. Dick

OFFICERS

EDWARD E. BROWN, PRESIDENT
GEORGE L. HARRISON, VICE-PRESIDENT
WALTER LICHTENSTEIN, SECRETARY

FEDERAL ADVISORY COUNCIL

(FEDERAL RESERVE SYSTEM)

OFFICE OF THE SECRETARY

38 SOUTH DEARBORN STREET

CHICAGO, ILLINOIS

September 29, 1941

MEMBERS

1943

CHARLES E. SPENCER, JR., DISTRICT No. 1
GEORGE L. HARRISON, DISTRICT No. 2
WILLIAM FULTON KURTZ, DISTRICT No. 3
B. G. HUNTINGTON, DISTRICT No. 4
ROBERT V. FLEMING, DISTRICT No. 5
H. LANE YOUNG, DISTRICT No. 6
EDWARD E. BROWN, DISTRICT No. 7
RALPH C. GIFFORD, DISTRICT No. 8
LYMAN E. WAKEFIELD, DISTRICT No. 9
W. DALE CLARK, DISTRICT No. 10
NATHAN ADAMS, DISTRICT No. 11
GEORGE M. WALLACE, DISTRICT No. 12

EXECUTIVE COMMITTEE

EDWARD E. BROWN
GEORGE L. HARRISON
CHARLES E. SPENCER, JR.
WILLIAM FULTON KURTZ
B. G. HUNTINGTON
ROBERT V. FLEMING

Dear Mr.

On Monday, September 22, Mr. Brown had a telegram from Mr. Chester Morrill, Secretary of the Board of Governors, stating that there was being called, a meeting for 1:30 P. M. on Friday, September 26, in the Board Room of the Federal Reserve Building, to discuss the substance of possible amendments to Regulation W. The telegram went on to say "amendments to be discussed at this time do not include changes in list of articles or other parts of supplement. They do include propose test for cash loans subject to this regulation; also renewals, add-ons, and provisions governing intervals of payments and minimum monthly payments." Mr. Morrill asked that Mr. Brown let him know, as soon as possible, who would represent the Federal Advisory Council at this meeting.

Mr. Brown requested the members of the Executive Committee of the Council, as well as the secretary of the Council, to be present at the aforesaid meeting in Washington, at 1:30 on the afternoon of September 26, 1941.

Four members of the Executive Committee, Messrs. Brown, Kurtz, Huntington and Ragland, as well as the secretary of the Council, were present at the meeting. Mr. George L. Harrison was in San Francisco and therefore was unable to be present; Mr. Robert M. Hanes had a conflicting engagement. Similar to the meeting held on August 15, this meeting was attended by Vice Chairman Ransom, and Governors Szymczak, McKee, and Draper; also various members of the staff of the Board of Governors and other interested governmental agencies, besides about fifty representatives from installment sales finance companies, personal loan companies, retail furniture associations, and similar organizations.

The meeting was asked to discuss tentative proposals submitted for amending Regulation W: 1. The possibility of having a purpose test from borrowers "in connection with all extensions of installment loan credit under \$1,000.00 and any extension of installment

September 29, 1941

loan credit over \$1,000.00 when secured by any listed article."
2. Providing for certain options in connection with "add-ons."
There were also submitted three different drafts of a statement to be filled out by borrowers in connection with a purpose test.

A very animated discussion took place, showing, not unnaturally, a sharp divergence of views on the part of those representing the personal loan companies and those representing installment sales finance companies.

The President of the Council, in the discussion of a proposal to "retain the present section 5(b) of the regulation, leaving it applicable to all other installment loans of \$1,000.00 or less" stated, on behalf of the Council, that he entered an objection to the retention of the present section 5(b) once a purpose test had been established. As probably most of the loans under \$1,000.00 did not have any bearing on the regulation of installment selling, it would simply mean that many small businesses and others would not be in a position to borrow from commercial banks and thus would be compelled to pay higher interest rates. The purpose of promoting the defense of the country would not be furthered thereby in any way.

The meeting lasted until shortly after 5 o'clock.

It is my understanding that a copy of the proposals submitted at the meeting are to be sent to each member of the Federal Advisory Council, as well as a mimeographed copy of the stenographic transcript of the meeting. Consequently, it is not necessary for me, at this time, to report at further length on this meeting.

Very truly yours,

Secretary

This letter was written to the following men and was sent via air mail, except to Mr. Brown:

Mr. Edward E. Brown
Mr. George L. Harrison
Mr. Charles E. Spencer, Jr.
Mr. William Fulton Kurtz
Mr. B. G. Huntington
Mr. Robert M. Hanes
Mr. Ryburn G. Clay
Mr. S. E. Ragland
Mr. Lyman E. Wakefield
Mr. W. Dale Clark
Mr. R. Ellison Harding
Mr. Paul S. Dick