

MINUTES OF MEETING OF THE EXECUTIVE COMMITTEE OF THE
FEDERAL ADVISORY COUNCIL

June 3, 1942

At 1:45 P. M., the Executive Committee of the Federal Advisory Council convened in the Conference Room of the Federal Reserve Building, Washington, D. C., on Wednesday, June 3, 1942, the President, Mr. Brown, in the chair.

Present: Mr. Edward E. Brown, President; Mr. George L. Harrison, Vice President; Messrs. William Fulton Kurtz, B. G. Huntington, Robert V. Fleming, and Walter Lichtenstein, Secretary.

The Secretary reported that Mr. Ragland had informed him that he would be unable to attend this meeting of the Executive Committee.

The President discussed the situation in connection with the Murray Bill, which in its present form provided, in language drawn by the Comptroller's Office, that banks in making guaranteed loans might exceed their legal limit provided the guaranty was unconditional and that the loan was payable in cash or its equivalent within sixty (60) days after demand.

The Bill H. R. 7158 was discussed. This Bill covers four items:

1. It rearranges the groupings for representation of Federal Reserve banks on the Open Market Committee. In order that Boston might be represented at times, it was provided that New York should be in a class by itself, while Boston would be grouped with Philadelphia and Richmond, and Chicago with Cleveland. In consequence of these rearrangements there were other rearrangements provided in the Bill.

2. The Board would be given authority on the affirmative vote of four members of the Board to change the reserve requirements of banks in central reserve cities without reference to the reserve requirements of banks in reserve cities or of banks located elsewhere.

3. In order to overcome the effects of the Penny decision, banks would be permitted to make loans and pay dividends even in the event of deficiency of their required reserves, provided an adjustment was made on a weekly basis. This would mean that even though there were a deficiency on some particular day or days, the directors and officers of the bank would not be liable for damages in the event a dividend was declared or a loan was made on which a loss was subsequently incurred.

4. Banks would not be required to pay an assessment to the Federal Deposit Insurance Association on war loan deposit accounts created as a result of purchases of Government securities.

The President stated that he thought in connection with the reserve requirements there ought to be some relationship between the reserve requirements in central reserve cities and those in reserve cities. As an example, he suggested that possibly reserve requirements in central reserve cities should not be more at any time than 150% of reserve requirements in reserve cities in the event of the raising of reserve requirements; and, in the event of the lowering of reserve requirements, the reserve requirements in central reserve cities should not be less than those in reserve cities.

Mr. Kurtz suggested that the Board's attention be called to the difficulties created by the bringing of small loans made by banks under Regulation W. He cited a number of instances where great difficulties were being encountered.

The meeting adjourned at 2:30 P. M.

WALTER LICHTENSTEIN,
Secretary.

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

June 3, 1942

At 2:35 P. M., a joint conference of the Executive Committee 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., on Wednesday, June 3, 1942, the President, Mr. Brown, in the chair.

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

Vice-Chairman Ronald Ransom; Governors M. S. Szymczak, John K. McKee, Ernest C. Draper, and Rudolph C. Evans; also Messrs. Lawrence Clayton, Assistant to the Chairman and Elliott Thurston, Special Assistant to the Chairman; Liston P. Bethea and S. R. Carpenter, Assistant Secretaries to the Board of Governors; Woodlief Thomas, Assistant Director, Division of Research and Statistics.

Present: Members of the Executive Committee of the Federal Advisory Council:

Mr. Edward E. Brown, President; Mr. George L. Harrison, Vice President; Messrs. William Fulton Kurtz, B. G. Huntington, Robert V. Fleming, and Walter Lichtenstein, Secretary.

The President of the Council stated that he thought the rearrangement of the representation on the Open Market Committee was an improvement over the present situation in that Boston could now at times be represented. He did not regard the coupling of Chicago with Cleveland as an improvement over the present situation.

Discussion as to whether there should be some limitation on the power of the Board with respect to changing reserve requirements of central reserve cities.

In a discussion between Vice-Chairman Ransom and the President of the Council, the latter stated that he would regard it as undesirable to have the status of Chicago as a central reserve city changed. He pointed out that at the moment Chicago held more Treasury bills than New York and that while the deposits from correspondent banks in Chicago banks were considerably less than those in New York, nevertheless, they were far larger than in any other city, except New York.

The President of the Council stated that the section meant to overcome the Penny decision met with general approval. He referred to the suggestion made by the American Bankers Association that in the case of national banks, the cost of one of the ~~two~~ semi-annual examinations should be absorbed by the Federal Deposit Insurance Corporation.

The President of the Council raised the question of reserve requirements and stated that the Council did not believe that reserve requirements should be reduced at this time.

Vice Chairman Ransom stated that he thought every effort should be made to sell government securities outside of the banks so as to obviate the need of reducing reserve requirements. The Board at present did not see any need for action.

Mr. Kurtz discussed the difficulties in connection with Regulation W, particularly those of small insurance policy holders who wished to borrow from banks on their policies. He did not see how regulating this type of loan had anything to do with credit control, or how this helped our whole economy. The same held true of small collateral loans.

Vice Chairman Ransom stated that in order to carry out the President's seven point program it was necessary to cover personal loans. He did not see how it would be possible to bring practically all types of loans under Regulation W and leave out one whole area of personal loans. At present, personal debt is running off rapidly entirely aside of official action. The Board's intention is to accelerate this downward trend, and it is expected that the regulation of open book accounts will aid in this effort.

At 4:15 P. M., Chairman Eccles joined the meeting.

Mr. Fleming asked that a memorandum be prepared to show possible financing by means of short term tap issues, such as were suggested at the joint meeting of the Council and the Board of May 18 by Chairman Eccles.

Mr. Thomas made a statement. He said that the assumption had been that the banks would have to supply about \$25 billion to finance the government during the next fiscal year. This would mean an additional \$7 billion required reserves, approximately. As a matter of fact in May the Treasury sold something like \$7 billion of securities of which the banks took only \$800 million. He stated that in 1941 liquid savings amounted to about \$12 billion, while in the fiscal year 1943 they were likely to be about 105 billion. There would be about \$70 billion of consumer goods available, so that there would be approximately \$35 billion left in the hands of people for investment. If reserve requirements were lowered the rates would go lower and so it would be more difficult to sell government securities to the public.

Mr. Harrison stated that the New York banks on the whole approved of the Murray Bill, but would like to have some restriction on the power of the Board along the lines suggested by Mr. Brown.

The meeting adjourned at 5:00 P. M.

WALTER LICHTENSTEIN,
Secretary.

MINUTES OF MEETING OF THE EXECUTIVE COMMITTEE OF THE
FEDERAL ADVISORY COUNCIL

June 3, 1942

At 1:45 P. M., the President, Mr. Brown, called the meeting to order in the Conference Room of the Federal Reserve Building, Washington, D. C., on Wednesday, June 3, 1942, the President, Mr. Brown, in the chair.

Present: Mr. Edward E. Brown, President; Mr. George L. Harrison, Vice President; Messrs. William Fulton Kurtz, B. G. Huntington, Robert V. Fleming, and Walter Lichtenstein, Secretary.

The Secretary reported that Mr. Ragland had informed him that he would be unable to attend this meeting of the Executive Committee.

The President discussed the situation in connection with the Murray Bill, which in its present form provided, in language drawn by the Comptroller's Office, that banks in making guaranteed loans might exceed their legal limit provided the guaranty was unconditional and that the loan was payable in cash or its equivalent within sixty (60) days after demand.

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cities should not be more at any time than 150% of reserve requirements in reserve cities in the event of the raising of reserve requirements; and, in the event of the lowering of reserve requirements, the reserve requirements in central reserve cities should not be less than those in reserve cities.

Mr. Kurtz suggested that the Board's attention be called to the difficulties created by the bringing of small loans made by banks under Regulation W. He cited a number of instances where great difficulties were being encountered.

The meeting adjourned at 2:30 P. M.

Walter Lichtenstein

Secretary

MINUTES OF JOINT CONFERENCE OF THE EXECUTIVE COMMITTEE
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The President of the Council stated that he thought the rearrangement of the representation on the Open Market Committee was an improvement over the present situation in that Boston could now at times be represented. He did not regard the coupling of Chicago with Cleveland as an improvement over the present situation.

Discussion as to whether there should be some limitation on the Power of the Board with respect to changing reserve requirements of central reserve cities.

In a discussion between Vice-Chairman Ransom and the President of the Council, the latter stated that he would regard it as undesirable to have the status of Chicago as a central reserve city changed. He pointed out that at the moment Chicago held more Treasury Bills than New York and that while the deposits from correspondent banks in Chicago banks were considerably less than those in New York, nevertheless they were far larger than in any other city, except New York.

Vice Chairman McKee added that Chicago in the past had been called upon to aid its correspondent banks more than New York had. There was some further discussion on this subject.

The President of the Council stated that the section meant to overcome the Penny decision met with general approval. He referred to the suggestion made by the American Bankers Association that in the case of national banks, the cost of one of the semi-annual examinations should be absorbed by the Federal Deposit Insurance Corporation.

Vice Chairman Ransom stated that the Chairman of the Board feared to open up the bill to amendments because otherwise the general support which the bill now enjoyed in Congress might be lost. He suggested that a separate bill be introduced in Congress, but thought it would be better if in the future there should be just one annual required examination of national banks and the cost of this be absorbed by the Federal Deposit Insurance Corporation. If a particular situation required it, the Comptroller could make additional examinations at the expense of the bank or banks concerned.

The President of the Council raised the question of reserve requirements and stated that the Council did not believe that reserves should be reduced at this time.

Vice-Chairman Ransom stated that he thought every effort should be made to sell government securities outside of the banks so as to obviate the need of reducing reserve requirements. The Board at present did not see any need for action; he stated that the Treasury was not bringing any pressure on the Board to reduce reserves and the relationship between the two bodies was entirely satisfactory.

Mr. Harrison stated that he understood the Treasury was afraid the bill rate might go above $3\frac{3}{8}\%$, and in that event it might be difficult to maintain for any length of time a long term rate of $2\frac{1}{2}\%$. Harrison disagreed with this view and pointed to the experience of Great Britain, where the prevailing bill rate was $1\frac{1}{8}\%$, while the long term rate is still only 3% .

Mr. Kurtz discussed the difficulties in connection with Regulation W, particularly those of small insurance policy holders who wished to borrow from banks on their policies. He did not see how regulating this type of loan had anything to do with credit control, or how this helped our whole economy. The same held true of small collateral loans.

Vice-Chairman Ransom stated that in order to carry out the President's seven point program it was necessary to cover personal loans. He did not see how it would be possible to bring practically all types of loans under Regulation W and leave out one whole area of personal loans. At present, personal debt is running off rapidly entirely aside of official action. The Board's intention is to accelerate this downward trend and it is expected that the regulation of open book accounts will aid in this effort.

At 4:15 P. M., Chairman Eccles joined the meeting.

Mr. Fleming asked that a memorandum be prepared to show possible financing by means of short term tap issues, such as were suggested at the joint meeting of the Council and the Board on May 18 by Chairman Eccles.

Mr. Thomas made a statement. He said that the assumption had been that the banks would have to supply about \$25 billion to finance the government during the next fiscal year. This would mean an additional \$7 billion required reserves, approximately. As a matter of fact in May the Treasury sold something like \$7 billion of securities of which the banks took only \$800 million. He stated that in 1941 liquid savings amounted to about \$12 billion, while in the fiscal year 1943 they were likely to be about \$105 billion. There would be about \$70 billion of goods available, so that there would be approximately \$35 billion left in the hands of people for investment. If reserve requirements were lowered the rates would go lower and so it would be more difficult to sell government securities to the public.

Chairman Eccles stated there is pressure because the Treasury wishes to do its financing easily. If there were short term tap issues, such as he had suggested, the question of underwriting issues would be much less serious.

The President of the Council stated in reference to Regulation V that prime contractors are more opposed than ever to doing away with advances.

Both Governors McKee and Draper stated that there wasn't any attempt to do away with advances. They believed matters should be allowed to take their course.

Mr. Harrison stated that the New York banks on the whole approved of the Murray Bill, but would like to have some restriction on the power of the Board along the lines suggested by Mr. Brown.

The meeting adjourned at 5:00 P. M.

Walter Lichtenstein

Secretary