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

July 1, 1942

At 9:30 A. M., the Executive Committee of the Federal Advisory Council convened in the Conference Room of the Federal Reserve Building, Washington, D. C., on Wednesday, July 1, 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, S. E. Ragland, and Walter Lichtenstein, Secretary.

The Secretary reported that Mr. Robert V. Fleming was unavoidably detained and would not be able to attend this meeting of the Executive Committee.

The President stated that he understood the three-prong amendment to the Banking Act of 1935, proposed by the Board of Governors, which had been discussed at the last meeting of the Council, had been recommended by the respective committees of the Houses of the Congress, and it was expected that the bill would pass very shortly.

It was decided to discuss reserve requirements, especially as affecting New York and Chicago.

Mr. Harrison obtained from Mr. Woodlief Thomas the following figures: According to the last report, excess reserves in the whole System amounted to $2,250 million for all member banks, $388 million for New York banks, $55 million for the Chicago banks, which would leave $1,807 million for the banks in the rest of the country.

The President stated that at the moment Chicago banks held more bills than New York banks, the latter having $350 million, while Chicago banks held $400 million. He thought deposits had not been increasing as much as expected, because corporations were using some of their idle funds to buy bills. There had been some discussion about reducing the rediscount rates in New York and Chicago, but the Federal Reserve banks in both cities were opposed.

Mr. Kurtz stated that smaller banks in Pennsylvania were not buying bills because the smaller banks were not familiar with bills and how to bid for them. He felt someone should be sent out by the Federal Reserve Bank and acquaint bankers with the advantage of purchasing bills.

The President said that in Chicago the large banks bought more bills than they required for their own use in order to be able to sell them to correspondent banks.

Mr. Harrison stated that, in his opinion, small banks would prefer to buy short term securities having a fixed rate of interest, as they were not accustomed to bid.

The President stated that he believed there should not be made any hasty change in the reserve requirements for New York and Chicago banks. There was general agreement with this point of view.

Mr. Harrison stated that while Chicago had met its quota for the sale of war bonds, New York had not. He believed the reason was that the amount assigned to New York

State was twenty-five per cent for the total of the country, while as a matter of fact, New York State was in a region in which there had not been anything like the increase in payrolls that there had been in other parts of the country.

The President discussed the situation in Illinois and other states and the relations existing between Victory Fund committees and those in charge of the sale of E bonds.

Mr. Harrison suggested that insurance agents might well be used as had been done in Canada.

The President stated that he understood advances made by the Treasury for the manufacture of war material could not be considered by corporations as part of their capital structure, in estimating their taxes, but loans made under Regulation V would broaden the capital base in relation to earnings.

The meeting adjourned at 10:15 A. 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

July 1, 1942

At 10:25 A. 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.

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

Vice-Chairman Ronald Ransom; Governors M. S. Szymczak, John K. McKee, and Rudolph C. Evans; 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.

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, S. E. Ragland, and Walter Lichtenstein, Secretary.

The President of the Council stated, assuming the Steagall bill is passed within the next few weeks, the Executive Committee of the Council believes that reserve requirements should not be altered at this time.

Vice-Chairman Ransom stated that there had not been any discussion by the Board, but it was his personal belief that there should not be any change at this time in reserve requirements.

Governor McKee, however, stated he was ready to recommend a decrease in reserve requirements, in view of the slowness of sales of war bonds. He believed the Treasury might be embarrassed, and the Government in order to obtain sufficient funds would need more reserves in the banks.

The President of the Council expressed the view that much could be done by a campaign of educating banks and corporations to buy bills. Large banks should buy for correspondent banks, selling the bonds to the correspondent banks at a lower yield of approximately 2/100 of 1%, which actually would not reimburse the selling bank for its out-of-pocket expenses. In Chicago and New York this was being done, but apparently in most other cities this was not so. Excess reserves in Chicago were low but the banks were still able to function, and it might be pointed out that, if reserve requirements were lowered, there would be less incentive for the banks to sell bills to corporations and smaller banks.

There was some discussion regarding the increase in the portfolio of the System of government securities and the correlation between that increase and the increase of currency in circulation.

There was some discussion about methods of sale of E, F, and G bonds.

The Vice-Chairman of the Board stated that in his opinion, when reserve requirements are lowered, it will probably be done for all the banks. He also discussed the five year tap issue proposed by the Chairman of the Board of Governors, and he felt the bankers ought to have been willing to support a proposal to try out this plan, for even if it had not succeeded, no harm would have been done.

Mr. Harrison stated that he believed the Federal Reserve System should not make a permanent commitment that government bonds should not go below par at any time; and he argued that the statement if bills went to a yield of ½ of 1% that then the 2½% rate on long term issues would be affected did not make any sense.

The President of the Council stated it was his impression that the interest of the Treasury in having reserve requirements reduced probably was only in respect to the banks in New York and Chicago.

The President of the Council discussed the effect of Regulation V on the tax situation.

Mr. Harrison discussed the sale of bonds in Canada and pointed out that insurance agents in that country had been very successful. He said, as insurance business in this country was decreasing, it would be very easy to obtain from 1,000 to 2,000 of the best insurance agents to sell bonds here. After all, insurance agents usually had a very wide acquaintanceship with all classes of people.

The meeting adjourned at 12:20 P. M.

WALTER LICHTENSTEIN,
Secretary.

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

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It was decided to discuss reserve requirements, especially as affecting New York and Chicago.

Mr. Harrison obtained from Mr. Woodlief Thomas the following figures: According to the last report, excess reserves in the whole System amounted to $2,500 million for all member banks, $388 million for New York banks, $55 million for the Chicago banks, which would leave $1,807 million for the banks in the rest of the country.

The President stated that at the moment Chicago banks held more bills than New York banks, the latter having $350 million, while Chicago banks held $400 million. He thought deposits had not been increasing as much as expected, because corporations were using some of their idle funds to buy bills. There had been some discussion about reducing the rediscount rates in New York and Chicago, but the Federal Reserve banks in both cities were opposed.

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Mr. Harrison stated that he believed the Federal Reserve System should not make a permanent commitment that government bonds should not go below par at any time; and he argued that the statement if bills went to a yield of 1/2 of 1% that then the 2 1/2% rate on long term issues would be affected did not make any sense.

The President of the Council stated it was his impression that the interest of the Treasury in having reserve requirements reduced probably was only in respect to the banks in New York and Chicago.

The President of the Council discussed the effect of Regulation V on the tax situation.

Mr. Harrison discussed the sale of bonds in Canada and pointed out that insurance agents in that country had been very successful. He said, as insurance business in this country was decreasing, it would be very easy to obtain from 1,000 to 2,000 of the best insurance agents to sell bonds here. After all, insurance agents usually had a very wide acquaintanceship with all classes of people.

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