

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

August 5, 1942

At 10:00 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, August 5, 1942, the President, Mr. Brown, in the chair.

Present: Mr. Edward E. Brown, President; Messrs. B. G. Huntington, Robert V. Fleming, and Walter Lichtenstein, Secretary.

The Secretary reported that Messrs. Harrison, Kurtz, and Ragland had reported to him that they would not be able to attend this meeting of the Executive Committee.

Mr. Fleming reported a telephone conversation with Chairman Eccles to the effect that Mr. Eccles believed the meetings of the Executive Committee, as at present conducted, were not constructive and not helpful. In his opinion, the meetings consisted merely of a cross examination of the members of the Board. Mr. Eccles stated that he did not see any value in these meetings unless some definite program were prepared in advance and submitted to the Board before the meetings; there should not be any meetings unless there were matters of importance to be presented.

Mr. Brown stated that in his opinion the question of reserve requirements should be discussed with the Board, and Mr. Fleming suggested that the question of permitting deductions from the income tax for the repayments of debts be discussed.

The meeting adjourned at 10:30 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

August 5, 1942

At 10:35 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:

Chairman Marriner S. Eccles; Vice-Chairman Ronald Ransom; Governors M. S. Szymczak, John K. McKee, Ernest G. Draper, and Rudolph C. Evans; also Messrs. Elliott Thurston, Special Assistant to the Chairman; Chester Morrill, Secretary of the Board of Governors, and 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; Messrs. B. G. Huntington, Robert V. Fleming, and Walter Lichtenstein, Secretary.

Governor Szymczak read a letter from Assistant Vice-President Sihler of the Federal Reserve Bank of Chicago, dealing with the problem of the cost to banks if the proposal is enacted into law to have the banks collect the withholding tax on all bond coupons and dividend checks presented for payment. This matter was also fully dealt with in a letter from Mr. B. G. Huntington, addressed to Vice-Chairman Ronald Ransom, and dated August 1, 1942, copies of which had also been sent to the members of the Executive Committee of the Federal Advisory Council. Mr. Huntington in his letter made reference to a memorandum prepared by Mr. Charles Mylander, Chairman of the Committee on Taxation of the American Bankers Association. Mr. Sihler in his letter made some suggestions as to how the procedure might be simplified for the banks. He pointed out that there would have to be three different types of certificates:

- 1—For non-taxable securities.
- 2—For taxable securities in the case of holders liable to income tax
- 3—For taxable securities in the case of holders not liable to income tax

There was general agreement that the provision in the proposed tax bill was impracticable and would place an unduly heavy burden upon banks.

Chairman Eccles, winding up the discussion, stated that he believed the Board of Governors would agree to have a memorandum on the subject prepared to be filed with the proper committees of the Congress and with the Treasury.

Mr. Brown brought up the matter of reserve requirements, stating that the members of the Executive Committee felt that reserve requirements should not be reduced at this time.

Governor McKee disagreed with this point of view.

Chairman Eccles made a statement, in accordance with the telephone conversation which he had had with Mr. Fleming, respecting the monthly meetings of the Executive

Committee of the Federal Advisory Council. After a full discussion, it was agreed that this matter should be referred to the next meeting of the Federal Advisory Council for further consideration with the Board.

Governor McKee brought up two subjects:

- 1—Regulation Q.
- 2—Desirability of regarding bills as equivalent to cash in considering the liquidity of banks.

In respect to Regulation Q, he pointed out that at present banks carried unduly large balances with city correspondents in order to save out-of-pocket expenses. The result was that there were funds in some of the banks which could easily be used to buy more government securities.

Mr. Fleming stated that he believed a bill rate of one-half of one per cent would result in far better distribution of bills than at present, and he questioned whether the long term interest rate on securities would thereby be affected. If reserve requirements were lowered there would be a tendency for the interest rate on bills to weaken, which would mean still greater difficulties in bringing about a wider distribution of them.

Chairman Eccles agreed with Mr. Fleming, but he pointed out that if the Treasury refused to do anything about the bill rate, then either the Federal Reserve System would be compelled to buy more bills than perhaps it ought to or reserve requirements would have to be reduced. He stated there were some influences in New York which preferred not to have a higher bill rate because this would merely mean lower deposits in New York from out-of-town correspondents.

Governor Ransom asked that members of the Council, at the meeting in September, report whether the following classes of loans, at present not subject to Regulation W, are increasing or decreasing.

- 1—Loans on insurance policies.
- 2—Governmental loans (F. H. A., etc.)
- 3—Real estate loans.

Also he would like information as to whether single payment loans, not now under Regulation W, are increasing or decreasing. He said the belief was prevalent in some quarters, that one and a half dollars were being repaid for every new dollar borrowed.

The meeting adjourned at 1:10 P. M.

WALTER LICHTENSTEIN
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