MINUTES OF MEETINGS
of the
FEDERAL ADVISORY COUNCIL
September 13-14, 1942
and of the
EXECUTIVE COMMITTEE
July 1, 1942
August 5, 1942
October 7, 1942

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

September 13, 1942

The third statutory meeting of the Federal Advisory Council for 1942 was convened in Room 936 of the Mayflower Hotel, Washington, D. C., on Sunday, September 13, 1942, 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 V. Fleming	District No. 5
Mr. H. Lane Young	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. George M. Wallace	District No. 12
Mr. Walter Lichtenstein	Secretary

Absent:

Mr. Nathan Adams	District No. 11

The Secretary of the Council announced that Mr. Adams did not expect to be present and that an alternate for him had not been appointed.

On motion, duly made and seconded, the minutes of the Council meeting of May 17-18, 1942, and of the monthly meetings of the Executive Committee of July 1 and of August 5, 1942, copies of which had been previously sent to the members, were approved.

A discussion took place regarding the silver problem. It was decided to ask the Board of Governors whether any useful purpose would be served if the Council at this time reiterated the position it had taken on several previous occasions.

The President of the Council discussed the situation which had led to a revival of interest in Regulation Q.

After some discussion, it was decided not to draft a resolution on this subject, but to explore the situation further at the joint meeting with the Board of Governors.

It was decided to draft a resolution to be presented to the Board of Governors, asking that the law governing renegotiation of contracts be amended so as to subordinate government claims to claims of banks arising out of renegotiated contracts.

The Secretary of the Council was instructed to summarize for the benefit of Governor Ransom and the Board of Governors, generally, the information which the various members of the Council had submitted as to the status of personal loans, etc., in their respective districts. Governor Ransom had specifically asked for this information.

A discussion took place regarding the monthly Executive Committee meetings of the Council. It was agreed to discuss the matter with the Board of Governors at the joint meeting and to suggest to the Board that the Secretary of the Council would furnish, in advance of each meeting, an agenda made up of suggestions sent to him by the various members of the Council.

A discussion took place regarding the handling of rationing stamps by banks. It was agreed that the banks are best equipped to do the work but that there ought to be proper provision made for the following:

(a) Compensation for the work, at least sufficient, to take care of the out-of-pocket expenses;

(b) Priority for obtaining the necessary machines to do the work;

(c) Relief from liability, except in cases of gross negligence;

(d) Priority for the obtaining of additional necessary manpower required to do the job.

There was some discussion regarding war loan deposit accounts in small banks which are not familiar with the problems involved; also discussion in respect to the program confronting banks due to men being drafted, some of whom are of little use for military purposes, but are very essential to the proper functioning of their respective institutions.

The meeting adjourned at 6:00 P. M.

WALTER LICHTENSTEIN,
Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

September 14, 1942

At 9:30 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, H. Lane Young, S. E. Ragland, Lyman E. Wakefield, W. Dale Clark, George M. Wallace, and Walter Lichtenstein, Secretary.

The Secretary read a draft of a resolution, as follows:

"The Federal Advisory Council is concerned about the possible danger that in the renegotiation of war contracts the credit position of a contracting concern may be altered to a point where credits extended in good faith to it may be endangered.

"The Council suggests to the Board of Governors that it use its influence to the end that a provision be included in the law to protect banks and others who have so extended credit by making any claim or debt due to the Government, by reason of a renegotiation, subordinate to the claims of *bona fide* creditors. As the law stands at present any debt due the Government has a priority over debts due other creditors."

The above resolution was unanimously adopted.

At 9:55 A. M., Mr. Fleming joined the meeting.

A discussion took place regarding the possibility of a preferential rate on loans made by member banks at a Federal Reserve bank, based on government securities having a maturity of not more than a year.

The meeting adjourned at 10:00 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 14, 1942

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 John K. McKee and Ernest G. Draper; also Messrs. Lawrence Clayton, Assistant to the Chairman; Elliott Thurston, Special Assistant to the Chairman; Liston P. Bethea and S. R. Carpenter, Assistant Secretaries, Board of Governors; Walter Wyatt, General Counsel; J. P. Dreibilbis and George B. Vest, Assistant General Counsels; E. A. Goldenweiser, Director, Division of Research and Statistics; Leo H. Paulger, Chief, Division of Examination; Carl E. Parry, Chief, Division of Security Loans; David M. Kennedy, Assistant Chief, Government Security Section, Division of Research and Statistics.

Present: Members of 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 V. Fleming, H. Lane Young, S. E. Ragland, Lyman E. Wakefield, W. Dale Clark, George M. Wallace, and Walter Lichtenstein, Secretary.

The Secretary of the Council read the resolution dealing with the renegotiation of contracts. It was suggested that a committee of the Council meet with Mr. Maurice H. Karker, Chairman of the War Department Price Adjustment Board, or some representative, and discuss the subject. A somewhat lengthy discussion took place regarding the whole problem.

The President of the Council appointed a committee consisting of Messrs. Spencer, Wakefield, and Wallace, with himself as member, *ex-officio*, to meet with Messrs. McKee, Draper, Clayton, and Charles O. Pengra, Counsel, War Department Price Adjustment Board.

A discussion took place in respect to Regulation Q, and the various aspects of the question were considered without any agreement being reached.

The Secretary of the Council presented a summary of the information obtained in answer to the questions of Governor Ransom regarding the status of various types of loans. In general, it was shown that practically all types of individual loans are declining in all the districts, as well as most kinds of real estate loans.

In respect to the silver question, the Board of Governors felt that it might be best for the Council not to take any action at this time.

The President of the Council brought to the attention of the Board of Governors the feeling of the members of the Council that small banks should not be forced to open war loan deposit accounts.

The President of the Council brought to the attention of the Board of Governors the problems of the banks in the handling of rationing stamps.

A discussion took place regarding the desirability of monthly meetings of the Executive Committee of the Council. It was agreed that these be continued, but that the Board of Governors should be furnished prior to the monthly meetings with a list of topics that the Executive Committee expected to discuss with the Board of Governors.

Governor McKee raised the question of surety company bonds in connection with Regulation V loans. He stated that the armed services do not wish to have surety bonds issued to protect banks because it is felt that in such an event the banks would be less concerned about the supervision of contracts. It was suggested to the Board of Governors that this whole matter was connected with the question of man power. If the armed services continue to take away key men from banks, these would soon be left without adequately experienced staffs to do the necessary supervising.

A discussion took place as to whether loans made under Regulation V are eligible for rediscount. It was stated that these might be eligible under 10b at a rate of one-half of one per cent higher than those based on the usual eligible paper.

The meeting adjourned at 1:20 P. M.

WALTER LICHTENSTEIN,
Secretary.

September 14, 1942

At 2:45 P. M., the Federal Advisory Council reconvened in the Board Room of the Federal Reserve Building, Washington, D. C., the Vice President, Mr. Harrison, in the chair.

Present: Mr. George L. Harrison, Vice President; Messrs. William Fulton Kurtz, B. G. Huntington, H. Lane Young, S. E. Ragland, W. Dale Clark, and Walter Lichtenstein, Secretary.

Messrs. Brown, Spencer, Wakefield, and Wallace were at a meeting with Messrs. Pengra, McKee, Draper, and Clayton.

Dr. Goldenweiser appeared before the Council and discussed the business situation and the reserve situation.

At 3:00 P. M., Messrs. Brown, Spencer, Wakefield, and Wallace joined the meeting.

Dr. Goldenweiser left the meeting of the Council at 3:35 P. M.

Mr. Brown reported regarding the committee meeting with Mr. Pengra and members of the Board of Governors.

It was decided that the Council should present the resolution, previously adopted, to the Board of Governors, not with the idea that the Board would do anything about the matter at present, but so that whenever the question came up in Congress, the Board might have the Council's resolution in mind.

It was unanimously voted that the Secretary of the Council send to the Board of Governors of the Federal Reserve System a copy of the resolution so that the Board might be informed as to the views of the Council on the subject of renegotiation of contracts.

The meeting adjourned at 3:45 P. M.

WALTER LICHTENSTEIN,
Secretary.

FEDERAL ADVISORY COUNCIL
Washington, D. C.

September 16, 1942

Dear Mr. Morrill:

Acting under instructions of the Federal Advisory Council, I beg to transmit to you herewith a copy of a resolution adopted at the recent meeting of the Council on September 14.

This resolution was presented to the Board of Governors at the joint meeting with the Council on September 14, but it was understood that the Council would reconsider the subject after a committee of the Council had met with a committee of the Board and Mr. Charles O. Pengra, Counsel, War Department Price Adjustment Board. I am instructed by the Council to inform you that the Council considered the matter at its afternoon session after it had listened to a report of the meeting of its committee with the committee of the Board and Mr. Pengra. It was unanimously voted not to alter the wording of the resolution and to request the Board of Governors to make use of the resolution at such time and in such manner as would seem advisable whenever the question of a change of the present act might be under consideration.

Very truly yours,
(Signed) WALTER LICHTENSTEIN,
Secretary.

Mr. Chester Morrill, Secretary,
Board of Governors of the
Federal Reserve System,
Washington, D. C.

NOTE: The transcript of the Secretary's notes is not to be regarded as complete or necessarily entirely accurate. The transcript should be considered as being strictly for the sole use of the members of the Federal Advisory Council.

W. L.

Secretary's notes on meeting of the Federal Advisory Council on September 13, 1942, at 2:00 P. M. in Room 936 of the Mayflower Hotel, Washington, D. C.

All members of the Federal Advisory Council, except Mr. Nathan Adams, were present. The Secretary stated he understood there would not be an alternate for Mr. Adams.

The minutes of the Council meeting of May 17-18, and of the monthly meetings of the Executive Committee of July 1 and of August 5 were approved.

SILVER PROBLEM

Huntington asked whether it might be well to restate the position of the Council.

Wallace says the trouble is due to the senators from the eight silver states. The problem is acute now on account of commercial demands for silver, e. g., it is possible to use silver for the lining of tin cans.

Harrison suggests asking the Board whether any useful purpose would be served if the Council at this time reiterated its position and passed a new resolution or recommendation. It was decided to follow the suggestion of Mr. Harrison.

REGULATION Q

Brown. The situation in respect to Regulation Q has become acute due to the attitude of the Live Stock National Bank of Omaha. This Bank resigned from the Omaha Clearing House in order to be able to waive exchange charges. The result has been that the Live Stock National has greatly increased its inter-bank deposits at the expense of St. Louis and other banks, and the Comptroller of the Currency has been asked to enforce the law. In this connection the Secretary, at Mr. Brown's request, read a certain letter bearing on the subject.

Fleming stated that it was his understanding that the heads of the respective committees of the two Houses of Congress had suggested not to put into effect ruling relating to Regulation Q. The whole situation really depends more upon the F. D. I. C. than it does upon the Board of Governors.

Brown states that he is not in favor of Regulation Q because it seems to him that it opens the door to regulating not merely exchange charges but every kind of service a bank performs, such as, giving credit information, printing checks, keeping securities, collecting coupons, and what not. If carried far enough it would mean the end of private banking.

Wakefield doubts whether the matters brought up by Brown are really a factor. Competition is breaking down all safeguards. Banks are raiding each others' territory and obtaining accounts by offering all sorts of free service.

Brown states that he has been told that the suggestion has been made to pay 3/8 per cent to banks on their excess reserves. He points out that this would completely kill inter-bank deposits.

It was decided not to draft a resolution on this subject but to explore the situation at the meeting with the Board.

RENEGOTIATION OF CONTRACTS

Wakefield states that the provisions of the act are much too broad and are very dangerous to banking, i. e., it may become a very dangerous situation for the customers of banks and thereby for the banks themselves. He believes the Government should in general have the right to renegotiate contracts but subject to certain limitations. He points out that at present the Government may reopen the subject any time within three years after the completion of a contract.

Wallace suggests that all claims of the Government, including those arising out of renegotiated contracts, should be subordinate to bank claims as long as loans made on the basis of such a contract are still outstanding.

Brown suggests a resolution to be presented to the Board asking that the law covering renegotiating be amended so as to subordinate bank claims to Government claims including those arising out of renegotiated contracts. This was agreed to.

REQUEST OF GOVERNOR RANSOM FOR INFORMATION ABOUT THE STATUS OF PERSONAL LOANS, ETC.

The various members of the Council discussed the situation in their respective districts, and the Secretary of the Council was instructed to summarize this information for the benefit of Governor Ransom.

MONTHLY EXECUTIVE COMMITTEE MEETINGS

Harrison states that the law permits the Council to meet as often as it pleases, and it has the right to ask questions on any subjects connected with the Federal Reserve System.

Fleming suggests giving the Board an agenda in advance of each meeting, and that the Secretary of the Council in advance of each meeting ask every member of the Council for possible suggestions. It was agreed to take up the matter with the Board at the joint meeting.

Fleming states that the Board is going to raise the question of the proposed handling of rationing stamps by banks.

Wakefield understands that the question is going to be raised about paying all subscriptions to Government issues by means of War Loans Deposit account instead of by cash.

Harrison discusses the following topics: (a) There are credit areas not yet occupied by war financing; (b) Banks should be willing to borrow again by means of rediscounts; (c) There might be a preferential rediscount rate on short-term Government securities; (d) Methods of selling Government securities; (e) Constant decline of ratio of bank capital to deposits. The old rule of thumb will not work under present conditions.

Fleming reverting to the problem of O. P. A. He states that there isn't any question that the banks are best equipped to do the work of handling ration stamps. The banks should, however, see to it that proper provisions are made for the following: (a) Compensation for the work, at least sufficient to take care of the out-of-pocket expenses; (b) Priority for obtaining the necessary machines to have the work done; (c) Relief from liability, except in the case of gross negligence; (d) Priority for obtaining the necessary additional man power which will be required to do the job.

Brown brings up the question of forcing War Loan Deposit accounts on banks, especially small banks who are not familiar with the problems involved. He also raises the question of the National Service Act. Banks are suffering from men being called up who are of little use for military purposes but are very essential to their respective institutions; he feels that this is a subject which had better be handled by the A. B. A. than by the Council, and he does not propose to bring it up at the joint meeting. Finally, Brown states that he has been informed there may be a possibility at this time of getting rid of Postal Savings which is conflicting with the sale of E, F, and G bonds. This is also a topic which had better be handled by the A. B. A.

The meeting adjourned at 6:00 P. M.

Secretary's notes on meeting of the Federal Advisory Council on September 14, 1942, at 9:30 A. M. in the Board Room of the Federal Reserve Building, Washington, D. C.

All members of the Council, except Messrs. Fleming and Adams, were present.

The Secretary read the draft bearing on the re-negotiation of contracts. It was adopted with some slight revision and reads as follows:

> "The Federal Advisory Council is concerned about the possible danger that in the re-negotiation of war contracts the credit position of a contracting concern may be altered to a point where credits extended in good faith to it may be endangered.
>
> "The Council suggests to the Board of Governors that it use its influence to the end that a provision be included in the law to protect banks and others who have so extended credit by making any claim or debt due to the Government, by reason of a re-negotiation, subordinate to the claims of bona fide creditors. As the law stands at present any debt due the Government has a priority over debts due other creditors."

At 9:55 A. M. Mr. Fleming joined the meeting.

There was some discussion about preferential rates on Government securities having maturities of not more than a year.

The meeting adjourned at 10:00 A. M.

Secretary's notes on joint meeting of the Federal Advisory Council and the Board of Governors of the Federal Reserve System on September 14, 1942, at 10:40 A. M. in the Board Room of the Federal Reserve Building, Washington, D. C.

The Council met with the Board and all members of the Council were present, except Mr. Adams. Of the Board the following were present: Mr. Ransom, Mr. McKee, Mr. Draper; also Messrs. Clayton, Thurston, Bethea, Carpenter, Wyatt, Dreibelbis, Vest, Goldenweiser, Paulger, Parry, and David M. Kennedy, Assistant Chief, Government Security Section, Division of Research and Statistics.

The Secretary of the Council read the resolution dealing with the re-negotiation of contracts.

Brown explained in detail the danger to the banks arising out of the present law and also pointed out that it may interfere with further financing of some concerns engaged in important war work.

McKee suggested that it might be well if a committee of the Council met with Mr. Maurice H. Karker, Chairman of the War Department Price Adjustment Board, and discuss the subject with him. If Mr. Karker is not available, perhaps somebody else concerned with these problems may be able to meet with members of the Council. He went on to say that the subject has been handled by Eccles, Draper, and himself. The War and Navy Departments and the Maritime Commission each have a committee of their own. In the case of the Army there are committees for the various branches of the service like the Signal Corps. Ordnance, however, has in addition to a central committee thirteen subordinate committees situated in various parts of the country. In the case of the Navy and the Maritime Commission, the business is centralized but the Army has decentralized. However, even in the case of the Army the central board has retained in its own hands some of the largest contracts and will review re-negotiated contracts. The danger is that any certificate, even one issued by the main committee, may be attacked after the war. McKee himself believes that there should not be permitted a reopening of the question after a final certificate has been issued. He suggests that if the Council knew the whole story it might wish to change the wording of its resolution.

Brown says that his understanding is that a super-board is to lay down the general rules with an idea that the whole program should fit in with the anti-inflation program, labor policy, etc. Various services have set up separate committees. The Ordnance Department is by far the most important. Local boards report to the central Ordnance Board in Washington. The claims of banks and contractors furnishing materials are subordinated to those of the Government. There is danger that in some cases field men may take action which will actually endanger the solvency of some concerns. Armed services are well aware that future financing may be endangered and thus war production slowed up. In the last war the British were very wise and assumed losses necessary to protect banks and other creditors in order that war production might go on unhampered.

Vest points out that the Act of April 28, 1942, requires all contracts of over a hundred thousand dollars to be renegotiated in order to prevent excessive profits. There isn't any question that under the law as existing at present, Government claims have priority over all others.

McKee had hoped that the committees would simply try to eliminate excessive profits, unduly high salaries, unnecessary expenses, etc. Committees are prepared to look at each contractor as a whole rather than at each separate contract. The tax bill should be amended to the end that when a certificate is finally issued the matter be considered settled. He believes that if this could be done, most troubles facing creditors would be solved.

Ransom points out that any such change as suggested would require legislation, and he does not know what the possibilities are of having the necessary bills introduced into Congress. If there should be any legislation proposed and hearings conducted, bankers might ask that they be represented.

Brown points out that the tax question is only one angle and that the Council members do not have access to Government regulations issued by the various renegotiation committees. A certificate does not prevent a situation from arising where a contract has been completed and on the basis of the profits made under that completed contract, banks have made new loans, only to have the whole subject matter reopened.

Vest read the Act.

Harrison suggests that a joint committee of the Board and of the Council contact the proper Government officials.

McKee says that since bankers under the V Regulation loans have become partners of the armed services, there ought not to be any longer suspicion of the bankers. He believes bankers on the basis of the financing of the war effort which they are undertaking might well approach the armed services.

Ransom thinks there might well be a joint committee of the Board and Council to contact the armed services' committee. Perhaps some of the people concerned could meet a small group at luncheon. He suggests that an attempt be made to meet with Colonel A. J. Browning, Director of the Purchases Division Headquarters, Services of Supply, and Mr. Maurice H. Karker, Chairman, War Department Price Adjustment Board.

It was voted that Brown appoint a subcommittee to meet with some of the gentlemen suggested. Mr. Brown appointed as the committee of the Council, Messrs. Spencer, Wakefield, and Wallace, with himself as <u>ex-officio</u>. The members of the Board who are to meet with this group are Messrs. McKee, Draper, and Clayton, the last representing the Chairman of the Board who was absent.

These two committees met at lunch with Mr. Charles O. Pengra, Counsel, War Department Price Adjustment Board.

<u>REGULATION Q</u>

<u>Brown</u>: A majority of the Council would probably like to see it enforced, except in such cases where the effort to collect exchange charges would not pay the cost of bookkeeping involved.

<u>Ransom</u>: Either the statute should be changed or the F. D. I. C. find that, under the statute governing its action, it can issue a regulation identical with that of the Board. There is danger that if pressure were brought that Congress would simply repeal the law prohibiting the payment of interest on demand deposits. The Comptroller's Office believes that the rule should be enforced as it was laid down by the Board in 1936. There isn't any question that the Board is not administering the law adequately; Congress probably wasn't aware of the implications of the statute as passed. He suggests that the Council ask the F. D. I. C. to issue a regulation in harmony with that suggested by the Federal Reserve System.

<u>McKee</u> says that perhaps interest on demand deposits should be restored, subject to regulation by the Board.

<u>Wakefield</u> says that deposits have been obtained in some sections of the country by doing definite services for the customer, and absorption of exchange charges is only one of the items. He points out that for example some banks are safekeeping securities for their correspondent banks and take complete charge of the handling of these. Originally, a small charge was made for this work but a New York bank offered to do the work for nothing and the result has been that other banks also waive all charges. He does not like the idea of regulation, but Regulation Q is there, and he thinks something should be done about it but he doesn't know the solution to the problem.

<u>Young</u> says that country banks made most of their money by charging on checks and they charge on par as well as non-par items. As a matter of fact Regulation Q would not interfere with the charges made on incoming checks.

<u>Ransom</u> asks whether the Council would favor using present Regulation or go back to the original form. He suggests that some sort of action be taken in the case of Omaha and East St. Louis banks.

<u>ANSWERS TO QUESTION ON LOANS (RANSOM)</u>

The Secretary of the Council presented the summary of the information obtained:

District 1. Practically all classes of personal loans have declined. Single name paper in a year down 5 per cent. F. H. A. loans off 30 per cent; other real estate loans down 10 per cent.

District 2. Policy loans in N. Y. Life down about 2-3 million a month, equivalent to about 15 per cent decline for the year. Premium loans not rising, while surrender and lapsing of policies lowest in history of the company. Since March new business increasing. Defense housing loans increasing, but other F. H. A. loans just steady. In N. Y. banks individual loans are declining.

District 3. In Philadelphia individual loans down 10-12 per cent from a year ago. Commercial banks generally have not made F. H. A. or other real estate loans, this field being left to mutual savings banks. In Pennsylvania Co. insurance policy loans off 30 per cent, as rates of interest were raised. Chattel financing down 30 per cent and automobile loans down 40 per cent.

District 4. Loans on insurance policies: 126 banks addressed, 27.7 per cent have shown increase; 42.9 per cent show decrease; 19.9 per cent no change and 9.5 per cent of the 126 did not make such loans.

Governmental loans (F. H. A., etc.): 18.3 per cent show increase; 48.4 per cent show decrease; 10.3 per cent show no change; 23 per cent did not make such loans.

Mortgages: 20.6 per cent increase; 64.3 per cent decrease; 12.7 per cent no change; 2.4 per cent did not make such loans.

Single-payment loans to individuals and not subject to Regulation W: 7.2 per cent increase; 73.8 per cent decrease; 17.5 per cent static.

District 5. All loans since March off 10 per cent while consumer loans are down 32 per cent.

District 6. Real estate loans down. While F. H. A. loans are not down much, new ones are not being made. Life insurance loans more or less static. Collateral loans have practically disappeared. Loans down about 1/3 in a year. May pick up with cotton crop financing.

District 7. Real estate loans about the same. F. H. A. loans not made by loop banks, but are down in outlying banks. Life insurance loans static. Personal loans down sharply.

District 8. All loans down. Real estate loans have almost disappeared. All classes of loans off 40 per cent in a year. May pick up in next few months due to cotton.

District 9. Survey of 1st of Minneapolis, 1st of St. Paul, and Northwestern National shows: (a) Loans on life insurance: no increase, no new ones. Generally down. (b) Real estate: noticeable dropping. In 1st of Minneapolis from $1,703,000 down to $1,500,000. (c) Governmental (F. H. A.): slight increase in case of Northwestern National, but there isn't any local production.

District 10. Insurance loans more or less static. F. H. A. and other real estate loans declining and personal loans down.

District 11. No report

District 12. Survey of Los Angeles, San Francisco, San Diego, Salt Lake City, and Portland:

(a) Personal single-payment loans. Declining rapidly.

(b) Life insurance. Portland reports increase. In L. A. reached a peak last winter, but now declining somewhat, but an important branch of business.

(c) Real estate of all types down from February 25 from $389 million to $373 million for whole district. Demand for real estate loans shrinking, though F. H. A. outstandings up somewhat but rate of increase has been diminishing.

(d) People anxious to get out of debt and no tendency to shift from regulated to unregulated loans.

Note: Dr. Parry stated after the Secretary of the Council had submitted the above report, together with detailed reports given him for District 4 and District 12, that only in the cases of Districts 4 and 12 was there a definite statement that personal loans had been decreasing. The Secretary of the Council calls attention to the fact that, not only in the cases of Districts 4 and 12, but also in the cases of Districts 1, 2, 3, 7, and 10, definite statements in the summary of the report were made that individual loans have been declining. To be sure in the cases of Districts 4 and 12, the information was much more detailed, but the Secretary of the Council fails to understand what Dr. Parry meant by his statement.

SILVER QUESTION

Brown asks whether the Board sees any advantage in having the Council reiterate its position. He doesn't wish to have the Council "muddy the waters" in any way.

McKee thinks the war effort will take care of the whole situation. It might be better for the Council to wait before taking any action as the timing of such action would be all important.

Wallace says there isn't any special point in talking about the matter now.

Wakefield agrees that McKee is right and that the timing of action is certainly all important.

Brown says Board knows that the Council will help whenever the Board thinks it can be of service.

WAR LOAN DEPOSIT ACCOUNTS

Brown says the Council feels that banks in larger cities where they have reciprocal balances should have War Loan Deposit accounts but smaller banks should not be forced to open such accounts. There is some danger if the latter institutions have War Loan Deposit accounts, for these institutions do not realize that the deposits may go out suddenly and unexpectedly, and they would then be likely to dump their bonds on the market.

McKee states that the Board has no knowledge of this and, if pressure came, it did not come from the Board. He suggests that it may have been due to pressure of Victory Loan Committees or the Treasury.

Wakefield says that the pressure did probably come from Victory Loan Committees.

O. P. A. RATIONING STAMPS

Brown says that the Council believes that the banks are the best equipped to handle this matter but he feels that the banks should be reimbursed for out-of-pocket expenses; he points out that banks are already having difficulty in obtaining sufficient machines and sufficient man power. The latter is true because draft boards have been holding that banking is not an essential profession.

McKee states that the Board had a meeting with the OPA and suggested that the whole business be placed on a unit cost basis. There should not be too many details and in general wholesalers should take care of the smaller retailers. The OPA is thinking of making a test in northern New York, namely, in Albany, Troy, and Schnectady. McKee also thinks that trust departments in banks would be best equipped to handle this business, but Wakefield and others doubt this.

Brown suggests that people employed on this work be regarded as Government agents and as banks would be doing the work without profit, they should at least be exempt from liability for errors honestly made.

MONTHLY MEETINGS OF THE EXECUTIVE COMMITTEE

Brown points out that the Council feels strongly that the monthly meetings are desirable. In accordance with a suggestion made by the Chairman of the Board, the Council has instructed its Secretary in the future to furnish the Board with an agenda prior to each meeting of the Executive Committee. He feels that conditions are changing so rapidly that the quarterly meetings of the whole Council are not sufficient.

Ransom says that the decision is entirely in the hands of the Council. He points out that members of the Board of Governors are extremely busy at present but if they can be furnished prior to the monthly meetings with topics that are to come up and if the Council feels such meetings are helpful to the System, the members of the Board will be very glad to meet the wishes of the Council.

McKee raises the question of surety company bonds in connection with Regulation V loans. He states that there is a feeling that the small concern, if it is able to insure the exposed risk, might be able to obtain more business. Armed services do not desire surety bonds to protect banks because they feel that in such an event banks would be less likely to supervise the contract and therefore the armed services would not be protected to the same extent as at present in having supervision over the contracts. For this reason the armed services in the event of there being surety bonds regularly issued to cover the exposed part of the loan would not continue to be interested in Regulation V loans. The Army has had some trouble with a few of its contracts. A bank had been guaranteed 95 per cent of the contract price and as a result just did not do any supervising. McKee also says that banks must do their duty or V loans will simply disappear.

Spencer points out that all that sort of thing is tied up with the question of man power. If the armed services continue to take away key men from the banks, these will soon be left without an adequately experienced staff to do the necessary supervising.

Fleming reiterates the same and points out that of his staff about 50 per cent have only been with the bank for a year or less.

McKee then raises another question: Whether some of the larger loans made under Regulation V are eligible for rediscount. The Council ought to consider whether paper arising from such loans is to be considered as good for rediscount without any question. For example, General Motors paper is being advertised as eligible for rediscount; the same is true of Bendix. As a matter of fact the Board has not passed on the matter.

Vest wonders whether technically such paper is eligible. It might be eligible under 10b at 1/2 of 1 per cent higher rate than the usual eligible paper. There is also the problem of possible cancellation and the question of continuous renewal. Under such circumstances does such a paper meet the technical requirements of the law?

Brown: If eligible at 1/2 of 1 per cent higher than the customary rediscount rate, banks would probably find that entirely satisfactory. After all the rate of interest on this class of paper is such that the banks will not suffer any loss if the paper is rediscounted at a somewhat higher rate than the rate on the so-called eligible paper. Brown points out that under the present law any sound asset may be used as collateral for a loan.

McKee says that the borrowers think they can get a better raŧe if their paper is eligible for rediscount.

Brown does not believe that the question of eligibility has entered into the question of the rate of interest at all.

The meeting adjourned at 1:20 P. M.

Secretary's notes on meeting of the Federal Advisory Council on September 14, 1942, at 2:45 P. M., in the Board Room of the Federal Reserve Building, Washington, D. C.

All members of the Federal Advisory Council, except Messrs. Fleming and Adams, were present, but Messrs. Brown, Spencer, Wakefield, and Wallace were at the Committee meeting with Messrs. Pengra, McKee, Draper, and Clayton.

Dr. Goldenweiser joined the Council. In the absence of Mr. Brown, Mr. Harrison presided.

DR. GOLDENWEISER

Dr. Goldenweiser. Currency in circulation is increasing largely because people are away from their homes, many without bank accounts, pay rolls are increasing, and bank service charges are causing many people to use cash instead of checks. Doubts whether there is increase of hoarding to any extent. This is also proved by the fact that the increase of currency in circulation is mostly in bills of small denominations. Probably about $2 billion is still in hoarding. The chances are that the present increase in cirrency in circulation will not increase except if prices should rise. To be sure, 4 million men in our own camps in the country will cause an increase in circulation. At the present time it doesn't matter much to the country where money is being held. As a matter of fact, the situation brings the Federal Reserve System closer to the time when there will not be any excess reserves which means an easier control of the money markets.

Business situation is not changing very much. There is an increased demand for goods; military production is increased while civilian production is decreased. On the 1935-39 basis, the index of production in July was 180. It is estimated that it was 183 in August and probably will reach 200 in September. Materials and man power limit the increase of production and the latter will probably reach its limit in the first three months of 1943. National income at present is about at the rate of $115 billion a year; this is the largest we have ever had. Even on a constant price basis it is about equivalent to about $100 billion a year and this is higher than we have ever had. Savings at present amount to about $25 billion a year or about twice the amount of last year. This may do more to bridge the inflationary gap than taxation. Savings, whether voluntary or involuntary, will be the biggest single source of diverting money to war effort or keeping money in idleness in place of spending it. Good chance of escaping serious inflation and the probability is that it can be controlled. Prices undoubtedly will continue to go up. At present 20 per cent up and may go 20 per cent more. Control of agricultural prices and better control of wages will do the job.

At 3:00 P. M. Messrs. Brown, Spencer, Wakefield, and Wallace joined the meeting.

GOLDENWEISER (Continued)

Excess reserves have gone down in 1-1/2 years from $7 billion to $2 billion. The factors in New York reducing the reserves are: the Treasury drawing out more funds from New York banks than are received in that district, money in circulation increasing and only to a very small extent do withdrawals of bank balances have any influence. This sort of situation always prevailed in New York, but there used to be offsets such as gold imports and movement of funds to New York for the purchase of securities. The purchases by the Federal Reserve System of Government securities has helped out the situation somewhat, but the New York banks have used more funds to buy Government securities than they have received in the form of new deposits. The situation in Chicago is similar to that in New York. In Chicago the reserve balances have not changed much because in that district the Government spending is relatively larger than it is in New York The reduction of reserve requirements to 22 per cent in New York and Chicago has increased excess reserve balances somewhat, but the System will have to decide very soon whether it will continue to reduce reserve requirements or whether it should induce banks to borrow or whether it should carry on a much more strenuous campaign to sell Government securities to the people rather than to the banks. If securities are sold to banks on a huge scale then it is not important which of the three methods is used to handle the situation: (a) Reduction of reserves which is the worst way; (b) Purchases of securities by the System; (c) Borrowing by banks which on the whole is the best of the three methods. If we come out of the war with a debt structure where bonds are chiefly in the hands of one group, such as the banks, there may be attempts to avoid the service of the debt. If the bond holdings are well distributed there is much less danger that there will be anything like repudiation.

Kurtz wants to know how we can sell more securities to the public.

Goldenweiser says we must have more real drives than we have had. He thinks the System should offset the increase of currency in circulation by the purchase of securities. Believes if banks have to borrow then either the Treasury must increase short-term rates or rediscount rates must be lowered. At present the differential between the short-term rate of 3/8 of 1 per cent and the rediscount rate of 1 per cent is too large. In his opinion, the short-term rate should go up.

Harrison says preferential rate on Government securities after the last war got us into trouble.

Goldenweiser. There is an advantage in having people borrow from the banks to buy securities rather than have the banks borrow from the System to do so. The reason is that liquidation is easier if the people are in debt. It is better that corporations, such as insurance companies, should borrow from the commercial banks than from the Federal Reserve Banks. The reason is that it is better not to have too much direct contact of public generally with the Federal Reserve System. The Federal Reserve Banks should remain banks for bankers.

Dr. Goldenweiser left the meeting at 3:35 P. M.

Brown reported regarding the committee meeting with Charles O. Pengra. Pengra stated that the object of his board was to prevent inflation by stopping undue increase of costs. Patterson, Under Secretary of War, who heads the board was not trying to interfere with bank credit. Pengra board is not interested in large salaries, but Congress is. Contracts entirely completed before April 21, 1942, are not subject to renegotiation. Pengra believes the board can issue final certificates for any tax year and is trying to make adjustment for a whole year in the middle of a year except where there are some changes in underlying conditions. There is some question whether the board has the power to issue a final certificate, and the opinion of the Attorney General is being asked.

Brown says that the Council should present its resolution to the Board not with the idea that the Board should do anything about it at present but whenever the question is again brought up in Congress the Board might bear the Council's resolution in mind. Pengra had said that Congress wanted to do many things by means of its laws which his board was not bothering about because in the opinion of his board it would interfere with the war effort. However, at a later date, Congress might agitate the question again.

It was unanimously voted that the Secretary of the Council send to the Board of Governors of the Federal Reserve System the resolution of the Council, so that the Board of Governors might be officially informed as to the views of the Council on the subject of renegotiation of contracts.

The meeting adjourned at 3:45 P. M.