

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

October 7, 1942

At 11:15 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, October 7, 1942, the President, Mr. Brown, in the chair.

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

*1. Renegotiation of War Contracts.*

Mr. Brown stated that in his opinion credit extended in good faith in order to carry on war work should not be subordinated to government claims resulting from renegotiation of contract.

*2. Draft Classification of Key Bank Employees.*

It was stated that the situation was becoming serious since married and older men are being drafted. Apparently, physical fitness is not to be a prime consideration except for combatant service.

It was decided to omit the third item on the agenda, "Exploration of credit areas not yet occupied by war financing."

*4. Desirability of Banks Borrowing by Means of Rediscounts.*

*5. Possibility of a Preferential Rediscount Rate on Short Term Government Securities.*

It was pointed out that it was not desirable to keep on reducing the reserve requirements for banks located in central reserve cities. As was stated at the last meeting of the Council, there are three methods by which banks can be supplied with funds, and, in order of their preference, they are as follows:

1. By borrowing.
2. By open market operations.
3. By reduction of reserve requirements.

A fairly lengthy discussion took place. It was summed up by Mr. Brown as follows:

1. Reserve requirements for banks located in central reserve cities should not be reduced below those required of banks located in reserve cities. Reserve requirements for banks located in central reserve cities should not be reduced below twenty per cent.

2. A preferential rate on government securities having a maturity of less than one year should be granted to all member banks desiring to borrow from the Federal Reserve banks. There was general agreement that any Federal Reserve bank that desired to establish a preferential rate for loans made to member banks on government securities having a maturity of less than one year should be allowed to establish such a rate as had been approved by the Board of Governors of the Federal Reserve System. No Federal Reserve bank, however, should be compelled by the Board of Governors to establish such a preferential rate. It was believed that it was undesirable to have the preferential

rate apply to securities having a maturity of longer than one year, because otherwise pressure might cause the rate of interest on long term government securities to decline.

B. G. Huntington joined the meeting at 11:15 A. M.

*6. Methods of Selling Government Securities.*

A discussion of this subject brought out the fact that there seems to be lack of harmony between the War Savings Committee of the Treasury and the Victory Fund committees which are headed by the presidents of the various Federal Reserve banks. It was decided to suggest to the Board of Governors that it would be desirable to have it use its influence to bring about a coordination of the various groups selling government securities. It was recognized that excellent work had been done in connection with payroll deduction plans. Statistics showed that 487 out of 490 firms having more than 5,000 employees are included in the payroll deduction plan; of 34,369 firms having over 100 employees, almost 34,000 are supporting the payroll deduction plan.

*7. Constant Decline of Ratio of Bank Capital to Deposits.*

After considerable discussion, it was agreed that it would be very desirable if the members of the Federal Advisory Council were to bring to the November meeting of the Council some formula which might be submitted to the Board of Governors as a substitute for the present outmoded ten to one ratio.

*8. Cooperation by Banks in Handling of Rationing Stamps or Coupons.*

It was decided to urge the Board of Governors of the Federal Reserve System to work as closely as possible with experienced bank men in order that the arrangements might be made as simple and as practicable as possible.

The meeting adjourned at 1:10 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

October 7, 1942

At 2:15 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, October 7, 1942.

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 Draper, and Rudolph C. Evans; Also, Messrs. Lawrence Clayton, Assistant to the Chairman, Elliott Thurston, Special Assistant to the Chairman; Chester Morrill, Secretary to the Board of Governors, and S. R. Carpenter, Assistant Secretary to the Board of Governors; Walter Wyatt, General Counsel of the Board of Governors of the Federal Reserve System, and Messrs. J. P. Dreibelbis and George B. Vest, Assistant General Counsels.

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

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

Chairman Eccles left the meeting at 2:55 P. M.; Mr. Huntington joined the meeting at 3:35 P. M., at which time Messrs. Dreibelbis and Vest left the meeting. Mr. Thurston left the meeting at 4:00 P. M., and Governor Draper was absent from the meeting from 3:40 P. M. to 4:15 P. M.

Mr. Brown announced that the third topic on the agenda, "Exploration of Credit Areas not Yet Occupied by War Financing," had been deleted.

*1. Renegotiation of War Contracts.*

Mr. Brown renewed the suggestion that government claims be subordinated to those of other creditors. Chairman Eccles stated the Board had not done anything in this matter as it felt it would be a great mistake to ask Congress to give preference to banks. It was felt that the guaranty provided under the "V" loans took care of the situation. He believes that the suggestion made by the armed forces and the W. P. B. that only one renegotiation of a contract should be allowed will be adopted by Congress.

*2. Draft Classification of Bank Employees.*

Mr. Fleming stated that the A. B. A. had appointed a committee to explore the situation. There was general agreement that some provision should be made to take care of Federal Reserve banks as well as private banks and protect them against the loss of older key men.

Chairman Eccles made a long statement to the effect that at present there hasn't been any well devised plan as to the size of the army and navy we can support and that until a definite plan is adopted, there is likely to be considerable confusion.

*4. and 5. Desirability of Banks Borrowing by Means of Rediscounts, and Possibility of Preferential Rediscount Rate on Short Term Government Securities.*

On behalf of the Executive Committee of the Federal Advisory Council Mr. Brown summarized, as follows:

1. Reserve requirements for banks located in central reserve cities should not be reduced to a level below those prevailing for banks located in reserve cities.

2. If there is to be a further reduction, it should be for the System as a whole. He pointed out that there are only three ways to provide the banks with additional funds:

- a. By reducing reserves.
- b. By open market operations.
- c. By borrowing on the part of the banks.

It is believed that borrowing is now in order and preferential rates should be granted to loans based on government securities having maturity of a year or less. If one Federal Reserve bank establishes a preferential rate, say of  $\frac{1}{2}$  per cent, then any other Federal Reserve bank desiring to do so should be allowed to establish a similar preferential rate. However, a Federal Reserve bank, not desiring to establish a preferential rate, should not be compelled to do so. There was much discussion of this matter. It was generally agreed that the establishment of a preferential rate was theoretically not a good step, but, under present conditions, the banks needing money probably have an ample supply of short term securities and the bank that does not have short term securities should not be encouraged to buy more long term securities as it would undoubtedly do if a preferential rate applied to all government securities.

*6. Method of Selling Government Securities.*

Mr. Brown expressed the view of the Executive Committee that it would be highly desirable to have more cooperation between the various Victory Fund committees and the War Loan Committee, and it might be desirable to have an assistant secretary of the Treasury appointed to head both committees to coordinate the work.

*7. Ratio of Bank Capital to Deposits.*

It was pointed out that some other formula, rather than the outmoded ten to one ratio, should be worked out, not for legislation, but as a yard stick to be used by the supervisory authorities. Mr. Brown indicated that the Council might wish to submit a formula at the time of the November meeting. Governor McKee stated that the Board had had the whole matter under consideration, and there had been a meeting of the heads of the various interested bureaus, but he had to admit that so far there had not been any progress.

*8. Cooperation by Banks in Handling of Rationing Stamps or Coupons.*

Mr. Brown stated that he had learned that the O. P. A. was now thinking of having banks handle the rationing of retailers as well as wholesalers. He expressed the hope that the Board would keep in close touch with the O. P. A. to the end that the Board and the banks might be consulted before any plan were definitely adopted. If this were done, the plan to be followed would undoubtedly be practicable, and the banks would find it easier to cooperate. Mr. Clayton stated that the thirteen banks that had tried out the plan had stated that they were willing to assume responsibility for handling the coupons for retailers as well as for wholesalers.

Mr. Brown reiterated the view of the Executive Committee of the Council that the banks were willing and anxious to cooperate, but hoped that the plan adopted would be simple and practicable.

The meeting adjourned at 4:20 P. M.

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