MINUTES OF THE MEETING
of the
FEDERAL ADVISORY COUNCIL
November 15-16, 1942

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

November 15, 1942

The fourth statutory meeting of the Federal Advisory Council for 1942 was convened in Room 336 of the Mayflower Hotel, Washington, D. C., on Sunday, November 15, 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 had not been appointed.

On motion, duly made and seconded, the minutes of the Council meeting of September 13-14, 1942, and of the monthly meeting of the Executive Committee of October 7, 1942, copies of which had been previously sent to the members, were approved.

A discussion took place regarding the desirability of some reasonable formula being established for the ratio of bank capital to deposits. The general view was that it would not be desirable to have any formula embodied in law and that it would be inadvisable for the Council to adopt a resolution.

It was agreed not to raise the question of Treasury financing at this time largely because it was expected that the Treasury would announce very shortly new financing plans.

There was a general feeling that Treasury bills ought to be counted as part of the legally required reserves, and it was felt that some such resolution, as follows, would embody the ideas of the members of the Council on this subject:

"The Federal Advisory Council suggests that, in computing required reserves, banks be permitted to deduct from their deposits such United States Treasury bills held by them as mature within one hundred days."

It was agreed to ask the Board of Governors what progress had been made regarding Regulation Q.

A discussion took place about the competition between Federal Reserve banks and commercial banks. There was some feeling that Federal Reserve banks are performing services free of charge for banks located in cities where there is not a Federal Reserve bank or a branch thereof, as a result of which a certain amount of business from correspondent banks is lost by banks located in cities where there is a Federal Reserve bank or branch thereof. It was decided, however, not to press this topic though Messrs. Young and Ragland were in favor of taking the matter up with the Board of Governors.

It was agreed to discuss with the Board of Governors the manpower problem as affecting banks.

It was agreed that the attention of the Board would again be called to the suggestion made, at the meeting of the Council of September 13-14, 1942, that the Council is ready to pass a recommendation or a resolution dealing with the silver question at such time as the Board may think action by the Council may be of help.

The meeting adjourned at 5:15 P. M.

WALTER LICHTENSTEIN,
Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

November 16, 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 resolution expressing the desirability of allowing banks to deduct U. S. Treasury bills from gross deposits, before computing reserve requirements, was withdrawn, as it was pointed out that such a change would require legislative action. It would not seem wise to reopen in Congress at this time the whole question of reserve requirements. It was agreed to drop this whole question.

The meeting adjourned at 9:50 A. M.

WALTER LICHTENSTEIN,
Secretary.

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

November 16, 1942

At 11:00 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:

Chairman Marriner S. Eccles; Vice-Chairman Ronald Ransom; Governors M. S. Szymczak, John K. McKee, Ernest G. Draper, and Rudolph M. Evans; also, Messrs. Chester Morrill, Secretary of the Board of Governors; Liston P. Bethea and S. R. Carpenter, Assistant Secretaries, Board of Governors; Walter Wyatt, General Counsel; J. P. Dreibelbis, Assistant General Counsel; E. A. Goldenweiser, Director, Division of Research and Statistics; Woodlief Thomas, Assistant Director, Division of Research and Statistics; R. F. Leonard, Director, Division of Personnel Administration; Edward L. Smead, Chief, Division of Bank Operations; Carl E. Parry, Chief, Division of Security Loans.

Present: Members of the 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.

Ratio of Bank Capital to Deposits

The President of the Council stated that it had been found difficult to draw up a fair formula. While the old rule of thumb of a one to ten ratio was not embodied in any Federal legislation it had been made effective in some states by law. The Council understood that the matter was under consideration at the present time by the various supervisory agencies.

The Chairman of the Board of Governors stated that it was not possible for the Board to give information on this subject at the moment without first asking the consent of the F. D. I. C. and the Comptroller of the Currency. He did express the hope that it might be possible to attain some unity.

The President of the Council expressed the hope that it would be possible to issue some statement clarifying the whole situation.

Treasury Financing

The President of the Council stated that the Treasury financing is obviously of primary concern to all banks in the country. He realized that it was impossible at the moment for the Board of Governors to express any opinions and the same applied to several members of the Council who were acting as advisers of the Treasury.

In the discussion which followed, it was stated that it would be highly desirable if some method could be found of increasing excess RESERVES ~~reservations~~ without necessitating a formal change in reserve requirements. The suggestion about Treasury Bills was mentioned, but the Chairman of the Board agreed that probably nothing could be done without legislative action.

The Chairman of the Board of Governors gave some details about the present fiscal situation.

Regulation Q

Vice-Chairman Ransom pointed out the difficulties of the situation especially in view of the attitude of certain groups in Congress.

Competition of Federal Reserve Banks

The President of the Council informed the Board of Governors that this topic had been dropped by a vote of nine to two.

Relief from Man-Power Acts

Members of the Council presented to the Board of Governors the difficulty that banks are facing in this connection.

Silver Question

The President of the Council repeated the offer made on September 14, 1942 that the Council would be glad to take action on this problem whenever the Board of Governors thought the time was appropriate for the Council to act.

The Chairman of the Board of Governors stated that, in his opinion, there wasn't anything that the Council could do at this time.

The meeting adjourned at 1:30 P. M.

WALTER LICHTENSTEIN,
Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

November 16, 1942

At 2:35 P. M., the Federal Advisory Council reconvened in the Board Room of the Federal Reserve Bank, 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, Robert V. Fleming, H. Lane Young, S. E. Ragland, Lyman E. Wakefield, W. Dale Clark, George M. Wallace, and Walter Lichtenstein, Secretary.

Dr. Goldenweiser appeared before the Council and discussed the business situation with special reference to required reserves.

Dr. Goldenweiser left the meeting of the Council at 3:40 P. M. The meeting thereupon adjourned.

WALTER LICHTENSTEIN,
Secretary.

NOTE: This 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 November 15, 1942, at 2:00 P. M. in Room 336 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 September 13-14, and of the monthly meetings of the Executive Committee of July 1, August 5, and October 7 were approved.

RATIO OF BANK CAPITAL TO DEPOSITS

Brown. Apparently the various supervisory authorities are planning to develop some new formula. There is to be a meeting with the State banking authorities in Philadelphia either tomorrow or Tuesday. At the moment of course the idea is that some formula be adopted which will permit banks to buy more bonds than at present.

Harrison thinks that it is the plan of the Treasury and of the Federal Reserve Board not to let the banks have more than two per cent on bonds and insurance companies not more than two and one-half per cent. He suggests that a formula might be developed which would deduct from gross deposits cash, Governments not having a maturity of more than one year, and deposits with Federal Reserve Banks and other banks.

Wallace thinks Governments up to ten years should be deductible.

Brown says that the Council understands a discussion is going on at present between State and Federal banking supervisory authorities. The three Federal supervisory authorities have reached an agreement. The Council would like to know what the agreement is and then discuss the matter with the Board. He did not believe that there is any sense for the Council at this time to draw up a formula.

Wakefield says the Treasury wishes the banks to buy more Government bonds, and any formula at present will probably not be a very restrictive one. The danger is that there may be a desire to restrict the paying of dividends.

Brown says that when the Comptroller's office some months ago backed a bill to give the Comptroller discretionary power over dividends to be paid by banks, the Council and bankers generally were very much opposed to such discretionary power.

Wallace says that whatever formula is reached, it should not be embodied in any law but left as a mere regulation.

Fleming feels that the principle ought to be established that only exposed assets should be considered in any formula that is devised.

Harrison says that if the Council were to adopt a resolution it should be merely an attack on an outmoded fetish. The Council might suggest that the supervisory authorities instruct all their examiners to drop the old rule and not necessarily that any fixed formula be substituted.

TREASURY FINANCING

Kurtz says that while apparently a ceiling has been fixed on the interest rate, a floor has not been established.

Wakefield gives what he understood the rates are to be.

Harrison says the Treasury is gradually evolving some definite plan and the Council should not take any formal action.

Wakefield feels Council should not undertake to assume any responsibility which belongs entirely to the Treasury.

It was agreed that this question not be presented as the Treasury is to announce new financing plans on either Tuesday or Wednesday of this week.

TREASURY BILLS AS LEGAL RESERVE

Kurtz. It would be unfortunate that if at the start of the war we kept clipping away at the reserve requirements. Politically, this is very bad. His proposal would stimulate the bill market as many even medium sized banks do not buy bills, partly because of 3/8 of 1 per cent is too low. If bills could be counted as reserves then when it becomes necessary to tighten reserve requirements, there would be no need of a formal change in the percentage of the required reserves; all that would be necessary would be to withdraw the right to count bills as legal reserves and, after the war, possibly bills may disappear anyway.

Harrison says it would be better to reduce the amount of deposits against which reserves have to be kept than to have the bills count as reserves themselves.

Brown points out that if bills are to be counted as cash, then cash in till would also have to be deducted and in this way the Federal Reserve System would lose control of the situation. Up to now the principle has been followed that all reserves must be kept in the Federal Reserve Banks.

Kurtz says it was not his idea to allow the total amount of bills the bank has to be counted as reserves but merely a percentage of the bills held.

Brown says why not be allowed to deduct from gross deposits Governments maturing within six months or a year?

Kurtz says that as long as there is a posted rate for the purchase of bills, the bills will be the same as cash.

Harrison suggests that War Loan Deposits accounts might be deducted from the deposits against which reserves must be maintained.

Brown says that in the post-war period the floating debt may be refunded into longer term securities. The Council favors deduction of Government securities from those deposits against which reserves are to be maintained. Thus when the floating debt is refunded reserve requirements would go up without there being any affirmative action. The War Loan Deposits accounts should not be deducted from deposits against which reserves are to be kept since the War Loan Deposits accounts are very volatile. There would be much more of an argument in favor of waiving the F. D. I. C. assessment against War Loan Deposits accounts since these are after all covered by collateral.

Wakefield says the Council's request for deduction should be limited to bills and there was general agreement as to this. The following resolution would embody the ideas of the Council on this subject:

> "The Federal Advisory Council suggests that, in computing required reserves, banks be permitted to deduct from their deposits such United States Treasury bills held by them as mature within one hundred days."

REGULATION Q

It was agreed to ask report of progress from the Board.

COMPETITION OF FEDERAL RESERVE BANKS

Young says the Federal Reserve Banks are competing with commercial banks. Last year Atlanta collected non-cash items amounting to

$243,829,000 for which the out-of-pocket expense amounted to $22,200. It is a System matter and one of the Federal Reserve Banks cannot quit without all of them doing so.

Brown says most of the country banks charge for this service and the Federal Reserve Banks in turn do it for nothing. Banks located in cities where there is a Federal Reserve Bank or a branch thereof lose by this process but other banks gain, and, politically, it would be very dangerous to agitate this topic for out of 15,000 banks, 13,000 banks would suffer if the Federal Reserve System dropped this service.

Harrison says that during the depression the Federal Reserve Banks considered cutting out all free services but at that very time the commercial banks were not in a position to assume additional expenses. At present, Federal Reserve Banks are making much more money and so are not under any pressure to cut expenses though at this time the commercial banks could afford to pay more easily. New York began to charge for drafts with securities attached as such a charge could be passed back to the customer. The real difficulty is a political one. He suggests that the question not be raised as to non-cash items but on a much broader basis. At the proper time the System should consider making charges for free services where these can be charged back to the customer.

Fleming and Wakefield. We think it unfortunate to raise this question at this time when there are so many more important matters under consideration.

Fleming points out this whole question is connected with the rationing plan since any additional work banks would do would require more people.

A vote was taken whether to present this topic or drop it. All except Messrs. Ragland and Young were in favor of dropping the topic.

BANKS AS AN ESSENTIAL INDUSTRY

Fleming says that it was proposed at one time to discontinue regional draft boards. At present this whole situation seems to be in the hands of McNutt, and the American Bankers Association Committee has contacted Mr. Harper, McNutt's chief assistant. Harper said it would be useless to urge exemption for men within the draft age on the grounds they were needed in the bank, but a case might be made for men over 44 being exempted from the application of the Man Power Act when that is passed.

Wakefield says the trouble at present is that people go elsewhere than to banks to get more pay. Employment boards will not send people to banks so loss of man power in banks cannot be made up.

Fleming says that the O. P. A. will use its influence with the Man Power Commission in order that banks may handle the rationing system.

Wakefield says that there might be some value in action by the Council if merely for the purpose of informing the Federal Reserve Board and its staff.

Fleming repeats that General Hershey is willing to have key men with dependents exempted while Harper, McNutt's chief assistant, is willing to exempt only men above the draft age.

SILVER QUESTION

It was agreed that the attention of the Board would again be called to the suggestion made at the meeting of September 13-14, 1942, that the Council is ready to help by passing a recommendation or resolution at such time as the Board may think action by the Council will be of help.

The meeting adjourned at 5:15 P. M.

Secretary's notes on meeting of the Federal Advisory Council on November 16, 1942, at 9:30 A. M., in the Board Room of the Federal Reserve Building.

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

The resolution expressing the desirability of allowing banks to deduct from gross deposits, before computing reserve requirements, United States Treasury Bills was withdrawn, as it was pointed out that such change would require legislative action. It does not seem wise to reopen in Congress at this time the whole question of reserve requirements.

Harrison pointed out that small country banks would be helped by deducting cash in till, while the resolution proposed would seem to be helping only the larger banks, and so there would be objection to it on that ground.

It was agreed to drop the whole question.

The meeting adjourned at 9:50 A. M.

Secretary's notes on the joint meeting of the Board of Governors of the Federal Reserve System and of the Federal Advisory Council on November 16, 1942, at 11:00 A. M., in the Board Room of the Federal Reserve Building, Washington, D. C.

The following were present from the Board of Governors: Chairman Marriner S. Eccles; Vice Chairman Ronald Ransom; Governors Szymczak, McKee, Draper, and Evans; also Messrs. Chester Morrill, Secretary of the Board of Governors; L. P. Bethea, Assistant Secretary; S. R. Carpenter, Assistant Secretary; Dr. E. A. Goldenweiser, Director, Division of Research and Statistics; Woodlief Thomas, Assistant Director of the Division of Research and Statistics; Walter Wyatt, General Counsel; J. P. Dreibelbis, General Attorney; R. F. Leonard, Director, Division of Personnel Administration; Edward L. Smead, Chief, Division of Bank Operations, and Dr. Carl E. Parry, Chief, Division of Security Loans.

All the members of the Federal Advisory Council, except Mr. Adams, were present.

RATIO OF DEPOSITS TO CAPITAL

Brown says it was found difficult to draw up a fair formula. The old one of one to ten ratio was not in any Federal legislation but was made effective in some states by law. In California, for example, banks are not allowed to accept deposits if the ratio falls below one to ten. The Council has understood that there is to be a meeting with the state supervisory authorities. If the Board is in a position to tell the Council anything that is planned, the Council would like to be informed.

Eccles says the Board cannot discuss this subject without first asking the consent of the F. D. I. C., and the Comptroller. So far the program has not been cleared with the Secretary of the Treasury. If a program can be agreed upon, the matter will be taken up with the conference of state supervisory authorities tomorrow.

McKee says the program planned will be in harmony with the ideas of the Council.

Eccles says the hope is to get some uniformity. At present some examiners look with disfavor upon banks borrowing; others object to banks buying Government bonds with maturity beyond five years, and so forth. All of this interferes with Government financing.

Brown asks whether there is any possibility of the matter being considered by the Council at some later date. In Illinois pressure is being exerted to prevent banks with a bad ratio of capital to deposits from paying dividends. The result is that such banks may refuse deposits. A statement clarifying the whole situation would be very helpful.

TREASURY FINANCING

Brown says that obviously this is of the greatest concern to all banks in the country. It is well known that the Board is advising the Treasury, and it is entirely possible that radical departures from practice to date may be adopted today or tomorrow. He is aware that the Board cannot talk frankly and neither can two members of the Council (Brown and Fleming) who are members of the A. B. A. Committee being consulted by the Secretary of the Treasury.

Ransom asks whether any member of the Council would like to express an individual opinion.

Brown says members seem to feel that methods of increasing excess reserves should be found which would not necessitate a formal change in reserve requirements. The Council had planned to suggest that banks might be permitted to deduct Treasury bills from deposits for the purpose of computing required reserves, but later realized that this would require an amendment to the law. Any attempt to change the Federal Reserve Act at this time would be undesirable.

Eccles says the suggestion regarding bills has been made before, and it was thought the Board might give such permission which could be withdrawn at any time. However, the suggestion usually has been made to accept bills as part of the reserves themselves rather than deduct the amount of the bills from the gross deposits. In either case, he is afraid legislative action would be required.

McKee presents a suggestion made by Smead to the effect that the situation might be met by an agreement to waive the penalty for deficiency in reserves, provided a bank held a sufficient amount of bills to offset the deficiency. Such action would not require legislation.

Brown says if this could be done without legislation, it would be desirable for the following two reasons: (1) small banks could buy more bills, and (2) it would increase excess reserves, and after the war it might obviate the need formally to raise reserve requirements.

Eccles thinks that Smead's suggestion might be taken up with the Open Market Committee. Outside of tax collections and outside of sale of defense bonds, about 4 to 5 billion dollars of monthly financing may be required to tide us over. Obviously, this taken in connection with increase of currency in circulation will call for lowering of reserve requirements or some other method.

Harrison calls attention to the fact that if bills are called reserves then the rule requiring that all required reserves be carried with the Federal Reserve System will be broken and a dangerous precedent set in this respect.

Eccles says, naturally, there would have to be some limitation on this right.

Harrison says that he hopes if the tap issue is reopened, maturities will be lengthened so that the maturity dates will be varied, and not all invested funds be paid out at the same time.

Eccles says he thinks Treasury may lengthen maturity each year rather than change it every three months.

Harrison also expresses the hope that, in course of time, tap issues may be made bearer bonds and restrictions generally removed.

Eccles says that the Victory Fund Committee agrees with this. Institutional investors may be satisfied with the present arrangement, but individuals prefer a negotiable bond.

Harrison says insurance companies will be heavy subscribers to the next tap issue because, for one thing, they have been adjusting their investments and selling municipals with the result that subscriptions to the next tap issue will probably set a record, provided the terms of the issue are not changed.

McKee asks whether the F and G bonds are a deterrent to the rest of the financing.

Harrison replies that they are undoubtedly in competition with the tap issues.

Eccles says that E, F, and G bonds should not be issued in increasing amounts. Also, banks should not be loaded up with securities having too long maturities. Funds of banks, after all, are volatile to an extent that is not true of individual investors. The Treasury recognizes that there has been too much pressure for so-called voluntary savings. The estimate at present is that at present price levels, gross production is likely to amount to about 175 billion dollars which includes services and similar items. Of this 175 billion dollars, the armed services will require 90 billion dollars. About 125 billion dollars will be disbursed in form of dividends, wages, and so forth. Taxes will amount to about 15 billion dollars so that 110 billion dollars will be left for expenditures out of the 125 billion dollars. Civilian requirements will have to be kept up, expenses for railways and so forth and 15 billion dollars as already stated for taxes, so 105 billion dollars will not be available to consumers. This leaves 70 billion dollars for consumers, but there is an expendable income of 110 billion dollars by the American public after taxes. During 1942, it is estimated that actual savings, payments of debt, purchases of securities, and the like, will amount to 24 billion dollars. If the same amount is saved next year, taxes will have to be doubled to take up the slack, otherwise there will be very large unabsorbed amounts of expendable funds. On the other hand, if taxes are increased, savings will drop and there will be a conversion of fixed assets into funds which can be used for purchasing. The answer is the spending tax. He believes in addition to the spending tax it is necessary to have enforced savings by which the Government will get the money which has not been spent.

Harrison says a stiffer tax program than the present one will break down if it is not coupled with a pay-as-you-go plan.

Eccles says the Treasury will find that people will not have the money to pay the new taxes if there isn't a pay-as-you-go plan.

Harrison says F. and G bonds might be dropped, and Eccles feels not only might F and G bonds be dropped, but the amount of E bonds to be issued should be reduced.

At 12:25 P. M., Governor McKee left the meeting.

REGULATION Q

Ransom reads the present regulation. The idea has been advanced that the three Federal agencies select some bank violating the regulation and made a test case. This might furnish some workable court decision, or, perhaps it might force the issue into Congress which would be unfortunate. Now that the banks want deposits again, there is increased competition and revival of interest in Regulation Q. In selecting a test case a national bank would be the best one to take because it comes under all three of the Federal supervisory agencies. F. D. I. C. and the Board have an agreement with a certain group in Congress (who wanted to repeal the whole business) to the effect that the status should not be changed without first communicating with this group in Congress.

COMPETITION OF FEDERAL RESERVE BANKS

Brown informs the Board that this topic was dropped by a vote of nine to two.

RELIEF FROM DRAFT AND MANPOWER ACTS

Brown says bankers feel key men should be deferred. At present draft boards do not recognize banking as an occupation which makes possible deferment of any of its people. On the question of salaries banks are badly affected because in the past banks which offer continuity of employment have paid lower salaries than many other industries.

Ransom says the Board is having the same problem as the banks.

Eccles says the whole question is up to the President and nothing can be done until he acts. There is considerable difference of opinion here in Washington. Agricultural wages are not frozen at present, but even in that case the situation has not been clarified.

Wakefield pointed out in detail difficulties banks are facing.

Fleming details conversations with Hershey and Harper, McNutt's Assistant.

Eccles says unless banks are working their men 48 hours, 8 hours being overtime, little relief will be given.

Brown replies in many places banks are working overtime. All that is being asked for is exemption for key men and most of these are executives and are working much more than 48 hours.

Eccles says the British are averaging 54 hours a week, while here non-agricultural workers are working only 43 hours a week. If we did as well as Britain, we could get along with 20 per cent less manpower, or the equivalent of 15 million people.

Harrison says it would be better to look to the Manpower Act and not bother about the draft. The question is what is this Act going to do with the whole civilian economy if every man over 45 years is going to be regulated.

Eccles doubts that the manpower bill will pass, as both the Byrnes' Committee and the Labor Unions are violently opposed.

SILVER QUESTION

Brown says Council will be glad to help as it already offered to do on September 14, 1942, at any time that the Board thinks the time is ripe for the Council to act.

Eccles says both the Treasury and the Board are in favor of release of silver for disposal purposes, but the only people who can help are the Army and Navy, and WPB; they are the ones to bring pressure and there isn't really anything that the Council can do.

Ransom asks that statements in reference to Regulation Q be regarded as Strictly Confidential

The meeting adjourned at 1:30 P. M.

Secretary's notes on the meeting of the Federal Advisory Council on November 16, 1942, at 2:35 P. M., in the Board Room of the Federal Reserve Building, Washington, D. C.

All members of the Council, except Mr. Nathan Adams, were present.

Dr. Goldenweiser: Business is all bound up with war and Treasury financing. There isn't anything else. The Federal Reserve System has the problem of giving advice to the Treasury and taking care of its share of the financing. It is very important that no more of the financing be done through the commercial banks than is absolutely essential. However, banks must have sufficient excess reserves to take care of such financing as may be needed. It is estimated that by the end of 1944, the national debt will be 230 billion dollars. If banks take 60 per cent of this, they will be holding 120 billion dollars of securities, and if they take 40 per cent, they will be holding 90 billion dollars of securities. National income on the basis of 1942 prices will be, by the end of 1944, about 150 billion dollars.

At the end of 1943, currency in circulation and deposits will amount to about 145 billion dollars. This is quite an unnatural relationship between national income and money in deposits. If prices should continue to rise, the national income, on the basis of this new price level, will be about 270 billion dollars by the end of 1943. In that case, the present controls would not be sufficient. All of this is on the assumption that taxes will not rise and that the sale to the public of bonds will only go moderately well. Also presumes that money in circulation will rise about 4 billion dollars a year. The present rise of money in circulation does not seem to indicate much additional hoarding since the increase in circulation is not seriously out of line with increase of employment wages, shift of population and the like. Up to now, hoarding, if anything, has had a deflationary effect. If hoarding, however, continues to increase, it will not be good because it would mean more money in addition to normal needs. If all the needs of banks for additional reserves have to be met by open market operations, then by the end of 1943 the System would have about 14 billion dollars in bonds and at the end of 1944 about 23 billion dollars in bonds. Also there would have to be provision made for increased circulation and still higher deposits. Deposits at present are about 65 billion dollars and may reach 139 billion dollars by the end of 1944. This would require at the end of 1944, 22 billion dollars of reserves, and, if reserves were lowered, 12 billion dollars would be required. If all requirements were met simply by reducing reserves, we should have 4 billion at the end of 1944, but this would mean the end of an effective monetary control when the war was over, for the reserves at the end of 1944 would only be three per cent. Therefore, on the whole, it seems a better policy for the Federal Reserve System to supply needed reserves by open market operations. If the portfolio has a large volume of short-time securities, it may be better to let the portfolio run off rather than have reserve requirements raised at a time when banks might be under pressure. All of this would imply that the System would be making large profits and so for political reasons the franchise tax would have to be reintroduced. It is not likely that there will be very heavy borrowing as the low interest rates are not sufficient inducement to cause banks to borrow for the purpose of purchasing bonds. To be sure, banks will borrow for temporary needs, but the volume will not cut such a large figure as it did during the last war. During the last war the banks borrowed 3 billion dollars to carry a 20 billion dollar national debt. A similar relationship would mean huge amounts under present conditions. Buying at present is in large amounts--about 300 million to 500 million dollars a week. In all, about a billion dollars more must be bought by the end of the year. There is no possibility of raising rates at present. On the other hand, further reduction in reserve requirements is not desirable. Thus the question as to when, where and how to purchase is a difficult one. In former times New York banks were supposed to be in debt to the System 50 million to a hundred million dollars which was regarded as desirable. Perhaps some substitute measuring rod might be made available now. Perhaps New York banks normally should have now an excess reserve of about $500 million. Then a man like Rouse would have some measuring rod. There isn't any point in giving country banks more reserves as they have all they need. The required excess of reserves in the money market could be maintained by open market operations.

Harrison asked why Goldenweiser changed his opinion on borrowing which he had indicated was the best means of supplying additional reserves to the banks.

Goldenweiser. The fact is that banks will not borrow sufficiently.

Brown believes Goldenweiser's formula would defeat all possibility of banks borrowing.

Harrison says that selling securities and letting the portfolio run off is the same thing in the minds of members of the Board.

Goldenweiser agrees, but claims the situation has changed. The System will not be able to sell bonds, but may be able to let its portfolio run off. He is not at all certain that his views are right.

Brown says Goldenweiser's scheme would mean no borrowing at all. It simply would mean the sale and purchase of Fed funds by banks for short periods. Perhaps it would be better to leave New York banks $100 million in debt to the System even though it must be admitted that this would discourage New York banks from buying new Treasury issues.

Harrison says he would not try to establish an automatic measuring stick.

Brown says Treasury withdrawals are creating fluctuations such as were unknown earlier and they are of such magnitude that they may offset any scheme. Rouse and people in his position are dependent on the action of the Treasury.

Goldenweiser agrees that he does not see how we can get out of this situation without leaving an unhealthy condition. It may be that it will not develop as badly as set forth. Very likely there will be something in between two extremes.

Harrison said he would not feel badly if ultimately reserve requirements returned to their original amounts, namely 7 per cent, 10 per cent, and 13 per cent. Probably we can get to the end of 1944 without taking any further steps.

Goldenweiser says the great problem will be whether we can provide sufficient employment after the end of the war. If we can, other problems will solve themselves.

Harrison says what saved us the last time was the fact that we had a great leverage in the large mass of existing debt. It probably saved us from the experiences of Germany and France. The fact that the banks owed money in large amounts to the System meant that the System was able to exercise some control over them.

Goldenweiser says that Germany was not ruined by the printing press. The use of the printing press only indicated that the country was through. In France the difficulty was that the Government did not dare to impose taxes of sufficient magnitude.

Brown thinks banks ultimately will borrow large amounts. No one wants to start, but if a few large banks have done so, the social stigma of borrowing from the System will vanish, and banks again will borrow.

The meeting adjourned at 3:40 p. m.