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

January 6, 1943

At 11:00 A. M., the Executive Committee of the Federal Advisory Council convened in the Conference Room of the Federal Reserve Building, Washington, D. C., on Wednesday, January 6, 1943, the Vice President, Mr. Harrison, in the chair.

Present: Mr. George L. Harrison, Vice President; Messrs. Charles E. Spencer, Jr., William Fulton Kurtz, B. G. Huntington, Robert V. Fleming, and Walter Lichtenstein, Secretary.

The Secretary joined the meeting at 11:20, his train having been delayed. He reported that Mr. Brown was unable to be present on account of illness and that Mr. Ragland had also notified him he would not be present. Mr. Spencer had been appointed as an alternate for this meeting of the Executive Committee as provided by Article IV of the by-laws.

It was stated that a bill was to be introduced at this session of the Congress to exempt War Loan Deposit accounts from the assessment of the F.D.I.C. and also from the requirement of keeping reserves against such accounts. It is understood that the Federal supervising authorities have all agreed to support such a bill.

A discussion took place regarding the deferment from military service of key men employed by banks.

Discussion took place regarding the program for future financing by the Treasury.

The meeting adjourned at 12:10 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

January 6, 1943

At 12:30 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.

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, Lawrence Clayton, Assistant to the Chairman; Elliott Thurston, Special Assistant to the Chairman; Chester Morrill, Secretary of the Board of Governors, and Liston P. Bethea and S. R. Carpenter, Assistant Secretaries of the Board of Governors; George B. Vest, Assistant General Counsel; E. A. Goldenweiser, Director, Division of Research and Statistics; Leo H. Paulger, Chief, Division of Examination; 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 Executive Committee of the Federal Advisory Council:

Mr. George L. Harrison, Vice President; Messrs. Charles E. Spencer, Jr., William Fulton Kurtz, B. G. Huntington, Robert V. Fleming, and Walter Lichtenstein, Secretary.

Chairman Eccles confirmed the report that a non-controversial bill was to be introduced in Congress exempting War Loan Deposit accounts from the assessment of the F.D.I.C. and also from the requirement of keeping reserves against such accounts.

The Vice President of the Council stated that the members of the Executive Committee of the Council were unanimously in favor of such a bill. He also stated that banks were worried as regards the manpower situation; the thirty year age limit would take care of the key men in most cases but there was some fear that employees might be shifted to essential war industries and that it would be impossible to replace them.

Chairman Eccles answered that he expected this whole topic to be discussed at a conference of the presidents of Federal Reserve banks which is to be held on January 25.

Some further details of the manpower situation were then discussed.

The Vice President of the Council stated that it was the feeling of the members of the Executive Committee of the Council that in respect to Treasury financing it would be desirable to have periodical drives but that such drives should be limited to non-bank subscribers and that banks should be appealed to only in the intervals between such drives.

There was also some discussion of possible Treasury plans to have bonds paid for by installments.

There was a short discussion regarding the credit situation.

Governor McKee expressed the hope that banks in their published statements would separate War Loan Deposit accounts from other deposits, as otherwise the statements would tend to give a false picture of the fluctuations of bank deposits.

The meeting adjourned at 1:40 P. M.

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OF THE FEDERAL ADVISORY COUNCIL

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Present: Mr. George L. Harrison, Vice President; Messrs. Charles E. Spencer, Jr., William Fulton Kurtz, B. G. Huntington, Robert V. Fleming, and Walter Lichtenstein, Secretary.

The Secretary joined the meeting at 11:20, his train having been delayed. He reported that Mr. Brown was unable to be present on account of illness and that Mr. Ragland had also notified him he would not be present.

Mr. Fleming reported that he understood a bill was to be introduced at this session of Congress to exempt War Loan Deposit accounts from the assessment of the F. D. I. C. and also from the requirement of keeping reserves against such accounts. This is to hold good for the "duration" and six months thereafter. He understood that the Treasury, the Comptroller, the F. D. I. C., and the Board of Governors of the Federal Reserve System had all agreed to support such a bill.

Some doubt was expressed as to the advisability of exempting War Loan Deposit accounts from the necessity of keeping reserves, but it was recognized that it would not be advisable to quibble about details, and it was agreed to ask the Board to support the bill in question so that it might be passed promptly.

It was pointed out that the average amount of reserves carried against War Loan Deposit accounts is about $400 million with a maximum of around $800 million.

Mr. Fleming reported on the matter of deferment for key men employed by banks. He stated that the thirty-eight year age limit took care of most of the key men. The problem, however, of the banks losing so large a number of employees as to impair their proper functioning remained. If the government decided to control all employment, it might be difficult for a bank to find a sufficient number of competent new employees.

It was recognized by all that, in order to obtain results, it would be necessary to approach Mr. McNutt himself and, possibly even, the President.

Treasury Financing. Mr. Harrison stated that, in his opinion, a superb job had been done in the recent drive. The next drive would probably take place some time in April, and he felt some consideration should be given to the possibility of dividing the drives for bank support of Treasury financing from those intended to obtain support from non-banking sources. For example, if the Treasury should need money in February, it might go only to the banks and then in April confine the drive to non-banking groups. In this way, there would be periodical non-banking drives, while bank drives would be wedged in between.

The other question is how are the quotas to be fixed. If there is to be a definite amount to which each bank is expected to subscribe, then salesmen will not be required for that purpose. Probably, the Federal Reserve bank in each district could determine the amount to be expected from the banks within the district.

Mr. Harrison went on to say that it did not seem necessary to him to discuss the type of securities as that seemed to have been satisfactorily settled in connection with the recent drive. He said that insurance companies were still anxious to have a 3% bond. Some of the smaller insurance companies are in danger of not finding a sufficient amount of safe investments with a high enough yield to enable them to keep above the legally required reserves.

Mr. Harrison then discussed the possibility of a partial payment plan. He pointed out that at present some insurance companies have dealers buy and hold for them a larger amount than the company could pay for immediately, the dealer, in turn, borrowing from his bank to enable him to carry the bonds. The insurance companies do this in order to have bonds available as they receive funds. Mr. Harrison pointed out that it might be possible for the Treasury to make some arrangement for insurance companies so that they would not have to go to the dealers.

Mr. Harrison discussed the matter of the series E bonds. Very likely this problem would settle itself as a consequence of a withholding tax. Finally, Mr. Harrison discussed the credit policy, i. e., how can the banks get enough funds to buy the bonds? It seemed to him the answer was a combination of the various methods: namely, open market operations, lowering of reserves, and borrowing by banks. If only one method is used, there is likely to be dislocation. In the case of lowering reserves, it is undesirable to have these at a vanishing point at the end of the war; likewise, it would be undesirable to have the Federal Reserve System loaded up with too large an amount of bonds, and, finally, while it may be desirable to have banks borrow, it should not be to such an extent that the debt of the banks is other than temporary.

The meeting adjourned at 12:10 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

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

Mr. George L. Harrison, Vice President; Messrs. Charles E. Spencer, Jr., William Fulton Kurtz, B. G. Huntington, Robert V. Fleming, and Walter Lichtenstein, Secretary.

War Loan Deposit Accounts. Chairman Eccles stated that the matter had been discussed with the Treasury, the Comptroller's office, and the F. D. I. C. All had agreed on the bill to be introduced, as had Senator Prentiss M. Brown of Michigan and Henry B. Steagall. Consequently, the bill was not controversial, and it was hoped it would be passed promptly.

Mr. Harrison reported that the members of the Executive Committee of the Council were unanimously in favor of the bill but felt that, in principle, the waiving of reserves on War Loan Deposit accounts was perhaps not desirable.

Chairman Eccles in answer stated that the F. D. I. C. had agreed to waive the assessment on War Loan Deposit accounts only on condition that the Federal Reserve System would also waive the reserve requirements.

Manpower Acts. Mr. Harrison stated that it was generally felt that the thirty-eight year age limit would take care of the key men in most cases, but that banks believed there was some danger of other employees being shifted to essential war industries and being unable to replace them, the proper functioning of banks might be impeded.

Chairman Eccles answered that he expected this whole topic to be discussed at a conference of the presidents of the Federal Reserve banks to be held on January 25. He thought banks ought to be willing to go on a forty-eight hour basis, paying time and one-half for eight hours of overtime. Otherwise, it was felt that banks were not making full use of the people they had. He stated that the government had recently gone on a forty-eight hour a week basis, but his attention was called to the fact that in the case of the government the extra hours are not paid for at the rate of time and one-half.

It was generally agreed that some survey ought to be made to classify skilled and unskilled help in the banks.

The question was raised as to bank tellers but the Chairman doubted whether these would be exempted and said that more women would have to be used.

Mr. Harrison pointed out that the U. S. Employment Agency would not give any help to banks with the result that they would be in danger of losing experienced people and not able to obtain any new ones. It ought to be determined in the first place how essential banks are to the O. P. A. and the Treasury, and, secondly, the Board should use its influence to help banks have their skilled people classified.

Chairman Eccles pointed out that Mr. Wright Patman of Texas had introduced a bill, H. R. 1, which would obviate the necessity of banks needing extra help as the bill provided that the power of the Treasury to issue securities bearing interest should be revoked and in the place of such securities, the Treasury should issue non-negotiable, non-interest bearing bonds to be bought by the Federal Reserve banks.

Treasury Financing. Mr. Harrison pointed out that at the time of the full meeting of the Council the method of Treasury financing was just undergoing changes. It was now agreed that periodical drives would be desirable, and the Executive Committee of the Council felt that these drives should be limited to non-bank subscribers and banks should be appealed to only in the intervals between such drives. Thus, the Treasury could put out types of securities for each class. There was much to be said in having quotas for banks by districts and then having the Federal Reserve bank fix the quota for each bank in its district. There might also be a renewal of the partial payment plan for non-bank subscribers. If there was such a plan, for example, an insurance company could estimate its requirements for a three to four months' period. This is especially important for some insurance companies which cannot live on a 2½% basis; some of this pressure could be removed if the companies were in a position to invest funds immediately as they came in, instead of being compelled to have the funds idle for some period of time.

Chairman Eccles wanted to know why insurance companies couldn't borrow now in anticipation of their needs.

Mr. Harrison replied there was some question as to whether insurance companies could legally borrow for the purpose of buying bonds.

Chairman Eccles said he did not see any objection to having the Treasury arrange a partial payment plan, and he understood that the Undersecretary of the Treasury was in favor of this, if the borrowing were for a short period, say for a period of six months.

Mr. Harrison pointed out that at present dealers buy these bonds and borrow money from banks, paying only one per cent. On the other hand, if the Treasury arranged a partial payment plan it would pay 2½% only on that portion of the bond for which the insurance company had actually paid.

E Bonds. Mr. Harrison stated that he did not believe it feasible to do anything at present.

Chairman Eccles stated that there had been some discussion as to whether it would not be desirable to issue a bond to replace the series E bonds; this new bond might be redeemable only after it had been held three years or some such period.

Credit Policy. Mr. Harrison stated it was felt that no one method should be used to the exclusion of all other methods. It would be undesirable to end the war with a 4% reserve requirement, and, likewise, it would be undesirable to overload either the banks or the Federal Reserve System with bonds. There was some discussion about the use of Treasury bills as reserves.

Chairman Eccles asked why not let the Federal Reserve banks buy the bills.

Mr. Harrison answered, there is danger of having the government debt pile up in one place since after the war people would object to being taxed in order to bail out one group.

Chairman Eccles agreed that there should be a division between offerings to banks and non-banks.

Governor McKee stated that when the pending legislation was passed, exempting War Loan Deposit accounts from assessment to F. D. I. C. and required reserve regulations, that then War Loan Deposit accounts should be divorced from other deposits in bank statements, so that these statements would not show too violent fluctuations in deposit accounts.

The meeting adjourned at 1:40 P. M.

Walter Lichtenstein

Secretary