MINUTES OF MEETING
of the
FEDERAL ADVISORY COUNCIL
February 14-15, 1943
and of the
MONTHLY MEETING
of the
EXECUTIVE COMMITTEE
January 6, 1943

OFFICERS AND MEMBERS OF THE FEDERAL ADVISORY COUNCIL

For the Year 1943

OFFICERS:

President, Edward E. Brown
Vice President, George L. Harrison
Secretary, Walter Lichtenstein

EXECUTIVE COMMITTEE:

Edward E. Brown
George L. Harrison
Charles E. Spencer, Jr.
William Fulton Kurtz
B. G. Huntington
Robert V. Fleming

MEMBERS:

Charles E. Spencer, Jr.	Federal Reserve District No. 1
George L. Harrison	Federal Reserve District No. 2
William Fulton Kurtz	Federal Reserve District No. 3
B. G. Huntington	Federal Reserve District No. 4
Robert V. Fleming	Federal Reserve District No. 5
H. Lane Young	Federal Reserve District No. 6
Edward E. Brown	Federal Reserve District No. 7
Ralph C. Gifford	Federal Reserve District No. 8
Lyman E. Wakefield	Federal Reserve District No. 9
W. Dale Clark	Federal Reserve District No. 10
Nathan Adams	Federal Reserve District No. 11
George M. Wallace	Federal Reserve District No. 12

BY-LAWS OF THE FEDERAL ADVISORY COUNCIL

ARTICLE I. OFFICERS

Officers of this Council shall be a President, Vice President, and Secretary.

ARTICLE II. PRESIDENT AND VICE PRESIDENT

The duties of the President shall be such as usually pertain to the office; in his absence the Vice President shall serve.

ARTICLE III. SECRETARY

The Secretary shall be a salaried officer of the Council, and his duties and compensation shall be fixed by the Executive Committee.

ARTICLE IV. EXECUTIVE COMMITTEE

There shall be an Executive Committee of six (6) members of the Council, of which the President and Vice President of the Council shall be *ex officio* members. To fill a vacancy, the President, or in his absence, the Vice President shall be authorized to designate as a member of the Executive Committee for a given meeting another member of the Council other than one elected to the Executive Committee.

ARTICLE V. DUTIES OF THE EXECUTIVE COMMITTEE

It shall be the duty of the Executive Committee to keep in close touch with the Board of Governors of the Federal Reserve System and with their regulations and promulgations, and communicate the same to the members of the Council, and to suggest to the Council, from time to time, special matters for consideration.

The Executive Committee shall have power to fix the time and place of holding its regular and special meetings and methods of giving notice thereof.

Minutes of all meetings of the Executive Committee shall be kept and such minutes or digest thereof shall be immediately forwarded to each member of the Council.

A majority of the Executive Committee shall constitute a quorum, and action of the Committee shall be by majority of those present at any meeting.

ARTICLE VI. MEETINGS

Regular meetings of the Federal Advisory Council shall be held in the City of Washington on the third Tuesday of the months of February, May, September, and November of each year, unless otherwise directed by the Executive Committee.

A preliminary meeting of the Federal Advisory Council shall be called by the Secretary in accordance with instructions to be given by the President of the Council.

Special meetings may be called at any time and place by the President or the Executive Committee, and shall be called by the President upon written request of any three members of the Council.

ARTICLE VII. ALTERNATES

In the absence of the regular representative of any Federal Reserve District, the Board of Directors of the Federal Reserve Bank of that District may appoint an alternate. The alternate so appointed shall have the right to be present at all the meetings of the Council for which he has been appointed. He shall have the right to take part in all discussions of the Council but shall not be entitled to vote.

ARTICLE VIII. AMENDMENTS

These by-laws may be changed or amended at any regular or special meeting by a vote of a majority of the members of the Federal Advisory Council.

February 14, 1943.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

February 14, 1943

The first and organization meeting of the Federal Advisory Council for the year 1943 was convened in Room 336 of the Mayflower Hotel, Washington, D. C., on Sunday, February 14, 1943, at 2:00 P. M.

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. Walter S. McLucas (Alternate for Mr. Edward E. Brown)	District No. 7
Mr. Ralph C. Gifford	District No. 8
Mr. Lyman E. Wakefield	District No. 9
Mr. W. Dale Clark	District No. 10
Mr. Nathan Adams	District No. 11
Mr. George M. Wallace	District No. 12
Mr. Walter Lichtenstein	Secretary

Mr. George L. Harrison was elected Chairman *pro tem* and Mr. Walter Lichtenstein Secretary *pro tem.*

The Secretary stated that communications had been received from the twelve Federal Reserve banks certifying to the election of their representatives in accordance with the above list, all of whom were present, except Mr. Brown who was ill. Mr. Walter S. McLucas had been appointed alternate for Mr. Brown.

Upon nominations for the office of the President of the Council being called for, Mr. Edward E. Brown was nominated. On motion, duly made and seconded, the nominations were closed, and the Secretary was instructed to cast a ballot for Mr. Brown, who was thereupon declared elected President of the Council for the year 1943.

Upon nominations for the office of the Vice President being called for, Mr. George L. Harrison was nominated. On motion, duly made and seconded, the nominations were closed, and the Secretary was instructed to cast a ballot for Mr. Harrison, who was thereupon declared elected Vice President of the Council for the year 1943.

The Vice President, Mr. Harrison, thereupon called for nominations for the four appointive members of the Executive Committee. Messrs. Charles E. Spencer, Jr., William Fulton Kurtz, B. G. Huntington, and Robert V. Fleming were nominated. On motion, duly made and seconded, these gentlemen were unanimously elected members of the Executive Committee for the year 1943, the President and Vice-President being *ex officio* members.

On motion, duly made and seconded, Mr. Walter Lichtenstein was elected Secretary of the Federal Advisory Council for the year 1943 at a salary of $2500.00 per annum.

On motion, duly made and seconded, the Council readopted the existing by-laws, which are attached hereto and made a part of these minutes.

On motion, duly made and seconded, the minutes of the Council meeting of November 15-16, 1942, copies of which had been previously sent to the members, were approved, with certain corrections. The Secretary stated that he would have the minutes of the November meeting reprinted to embody the corrections suggested.

The Secretary presented his financial report for the year 1942, which had been audited by Mr. J. J. Buechner, Assistant Auditor of The First National Bank of Chicago, which on motion, duly made and seconded, was approved and ordered to be printed. The report is attached hereto and made a part of these minutes.

On motion, duly made and seconded, the following resolution was unanimously adopted:

"Resolved that the Secretary be and he is hereby authorized to ask each Federal Reserve bank to contribute $350.00 toward the Secretarial and incidental expenses of the Federal Advisory Council for the year 1943 and to draw on it for that purpose."

A discussion took place regarding the monthly Executive Committee meetings. It was decided to omit the meeting for March and consider, at some later period, whether it would be desirable or necessary to have the Executive Committee of the Council meet every month.

A discussion took place in connection with the certification of signatures by banks on E bonds. It was felt that this placed an unnecessary burden upon the banks.

A lengthy discussion took place regarding future Treasury financing, dealing with the timing of drives, the question of the interval between the drives planned to obtain funds from banks and those planned to obtain subscriptions from the public-at-large. The question was also raised as to types of bonds and methods of Treasury allotment.

The discussion regarding manpower and its effect upon the operation of banks, a topic which had been considered at several previous meetings of the Council, was continued.

In a discussion about the payment of excess profits by banks, Mr. Fleming stated he believed that at some previous period an informal agreement had been reached with governmental authorities that banks should not be compelled to pay excess profit taxes on profits derived from investments in U. S. securities. It was pointed out that to place an additional tax burden on income derived from government securities would mean that the profit on such investment would be reduced to a point where it would hardly pay banks to buy government securities freely and, furthermore, banks would find it increasingly difficult to improve the relation of their capital structure to deposits.

It was voted to have the Chairman send a telegram to Mr. Brown, expressing the good wishes of the members of the Council.

The meeting adjourned at 5:00 P. M.

WALTER LICHTENSTEIN,
Secretary.

REPORT OF THE SECRETARY OF THE FEDERAL ADVISORY COUNCIL

For the Year Ending December 31, 1942

Balance on hand December 31, 1941	$4,992.78	Salary	$2,500.00
		Conference expenses	1,350.95
Assessment—Twelve Federal Reserve Banks	4,200.00	Printing & stationery	401.80
		Postage, telephone, and telegraph	177.74
		Miscellaneous	38.89
		Balance on hand December 31, 1942	4,723.40
	$9,192.78		$9,192.78

Chicago, Illinois
January 11, 1943

To the Federal Advisory Council:

I have audited the books, vouchers, and accounts of the Secretary of the Federal Advisory Council for the year ending December 31, 1942, and certify that the above statement agrees therewith.

Respectfully,

THE FIRST NATIONAL BANK OF CHICAGO,
By J. J. Buechner,
Assistant Auditor.

February 15, 1943

At 9:30 A. 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. Charles E. Spencer, Jr., William Fulton Kurtz, B. G. Huntington, H. Lane Young, Walter S. McLucas, Ralph C. Gifford, Lyman E. Wakefield, W. Dale Clark, Nathan Adams, and Walter Lichtenstein, Secretary.

The Vice President reviewed the topics which it had been agreed upon at yesterday's meeting to discuss with the Board.

There was some consideration given to Treasury bills in connection with the problem of required reserves.

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

February 15, 1943

At 10:30 A. M., a joint conference of 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, and R. M. Evans; Lawrence Clayton, Assistant to the Chairman; Elliott Thurston, Special Assistant to the Chairman; Chester Morrill, Secretary of the Board of Governors; Liston P. Bethea and S. R. Carpenter, Assistant Secretaries to the Board of Governors; Walter Wyatt, General Counsel; J. P. Dreibelbis, General Attorney; Leo H. Paulger, Chief, Division of Examination; Edward L. Smead, Chief, Division of Bank Operations, and Carl E. Parry, Chief, Division of Security Loans.

Present: Members 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, H. Lane Young, Walter S. Mc Lucas, Ralph C. Gifford, Lyman E. Wakefield, W. Dale Clark, Nathan Adams, and Walter Lichtenstein, Secretary.

A long discussion took place between the members of the Council and the members of the Board of Governors regarding various aspects of Treasury financing.

Likewise, a discussion took place regarding the manpower problem as affecting banks.

On behalf of the Council, it was pointed out that it would be desirable to divide industry into three classes, namely: (1) industries essential to the war effort; (2) industries essential to the economy of the nation; (3) non-essential industries.

It was stated that the bill now pending in the Congress to exempt War Loan Deposit accounts from reserve requirements and F.D.I.C. assessments would probably be enacted into law in the near future.

It was suggested by two of the members of the Board of Governors that the Council might consider passing a resolution urging banks to subscribe to U. S. certificates of indebtedness and asking that these not be made available to the general public.

The meeting adjourned at 1:20 P. M.

WALTER LICHTENSTEIN,
Secretary.

February 15, 1943

At 2:25 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. Charles E. Spencer, Jr., William Fulton Kurtz, B. G. Huntington, Robert V. Fleming, H. Lane Young, Walter S. McLucas, Ralph C. Gifford, Lyman E. Wakefield, W. Dale Clark, Nathan Adams, and Walter Lichtenstein, Secretary.

The question was discussed whether the Council should pass a resolution as suggested by some members of the Board of Governors, urging banks to subscribe to U. S. certificates of indebtedness and not have these made available to the general public. The Council decided not to pass such a resolution feeling that it would not be wise to make recommendations about a part of the fiscal program without having knowledge of the whole pattern.

Dr. Woodlief Thomas, Assistant Director of the Division of Research and Statistics, appeared before the Council and discussed the pattern of the Federal Reserve policy during the past year and what the pattern was likely to be in the immediate future.

The meeting adjourned at 3:40 P. M.

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 February 14, 1943, at 2 P. M. in Room 936 of the Mayflower Hotel, Washington, D. C.

All members of the Federal Advisory Council, except Mr. Edward E. Brown, were present. The Secretary stated that, on account of Mr. Brown's illness, Mr. Walter S. McLucas of Detroit would act as alternate.

Mr. George L. Harrison was elected Chairman pro tem and Mr. Walter Lichtenstein, Secretary pro tem.

The Secretary stated that communications had been received from the twelve Federal Reserve Banks, certifying to the election of their respective representatives.

The following officers were elected unanimously:

Mr. Edward E. Brown, President
Mr. George L. Harrison, Vice President
Mr. Walter Lichtenstein, Secretary

The following four members were elected to the Executive Committee, Messrs. Brown and Harrison being members ex officio:

Mr. Charles E. Spencer, Jr.
Mr. William Fulton Kurtz
Mr. B. G. Huntington
Mr. Robert V. Fleming

The salary of the Secretary was fixed at $2,500, as in previous years.

The Council readopted the existing by-laws which will be printed and attached to the formal printed minutes.

The minutes of the meeting of November 15-16, 1942 were approved with certain corrections.

The Secretary presented his financial report for the year 1942, copies of which had been previously sent to the members of the Council. The report will be printed and attached to the formal printed minutes.

The usual resolution was adopted authorizing the Secretary to draw upon each Federal Reserve Bank for $350.00 toward the secretarial and incidental expenses of the Federal Advisory Council for the year 1943.

MONTHLY EXECUTIVE COMMITTEE MEETINGS

A discussion took place regarding the monthly executive committee meetings.

Harrison thinks every month is too often.

Kurtz believes every six weeks would be often enough.

Wakefield believes meetings should be only on call.

It was decided to have the Secretary consult Mr. Brown, but in any event to omit the meeting which was to take place on March 3.

CERTIFICATION OF E BONDS

Wakefield speaks of the difficulties and expense to banks of required certification of the signature whenever any one wishes to cash an E bond. He believes the Treasury is amply protected without certification, as bank would be liable when it cashed a check given to a holder of an E bond.

Young says something has been done in that the banks are to be held harmless in cashing bonds.

Harrison suggests asking Board what the situation is now.

TREASURY FINANCING

Under this heading the first subject discussed was the timing of the drives.

Wakefield says that a Treasury official had stated to him that the drive to obtain bank funds will be separated from other drives.

Fleming says estimate was that banks would furnish $14 billion. In all there is to be $90 billion raised of which $20 billion is to be refunding and $70 billion new money. He believes the Treasury is altogether too optimistic as regards the amount to be obtained from non-banking sources. It is contemplated to have drives every three months. The April drive is to befor $10-12 billion from non-banking sources and then banks are to go in after the other drive is ended. A. B. A. Treasury Advisory Committee felt a different bond from the present E bond should be offered. It is suggested a bond with a 2-1/2% coupon but registered as to principal, non-negotiable, and non-redeemable but good for a limited time as collateral for bank loans.

Wallace doubts the wisdom of separating bank drives from the others.

Harrison states that the question is whether it would be wise to introduce a bank drive in the middle of a general drive. In December, while the dollar amount obtained was satisfactory, there were actually only 340,000 subscribers.

Wallace points out that in his opinion the public is more likely to buy when it knows that banks are willing to buy.

McLucas says E bond has proved satisfactory in Detroit. The worker on the whole will not buy a non-redeemable bond.

Wakefield says there is a split in the Treasury, and the question is who is to lead. There are on the one hand committees under the jurisdiction of the Collectors of Internal Revenue and on the other side are the Victory Fund Committees. In his opinion it would be desirable if the two groups of committees had one head.

Fleming and Harrison state that there is no need to decide at this moment whether the general drives and the bank drives are to be contiguous or not.

Wakefield says $32 billion in the hands of people in the form of currency and deposits should be put into bonds.

It was decided to suggest that there be a bond for banks which would not be offered in the drive for non-banking funds. Harrison raises the question of what should be done about E, F, and G bonds. Apparently Eccles has the idea of some modified form of E bond which would be non-negotiable for a few years and then be paid in instalments like an annuity.

Fleming suggests a bond which banks might accept as collateral for loans not to exceed six months.

Harrison says the Secretary of the Treasury is attached to the E bond and the compulsory payroll deduction. Be that as it may, there ought to be in addition, some investment security bond.

Wakefield. Hobbs, a Treasury official, said to him that in discussing E bonds it must be remembered that there is much past history and the whole situation ought to be known before attempt is made to do away with it. It is probably inadvisable to raise any question about the E bond at this time.

Harrison. If there is an agreement on the type of drives and the timing of them, the question arises as to what kind of a bond is wanted for non-banking subscribers and what kind for bank subscribers. Then there is the question of the E. F, and G bonds. Personally, he does not like the E bond but it may be advisable rather to drop the F. and G bonds, keep the E's and issue some sort of investment security.

Fleming moved that E bonds be retained, the F and G bonds be dropped with the idea of substituting for them some sort of investment security which could also be used to supplement the E bonds. This was agreed to by a show of hands.

Harrison said the Executive Committee at a previous meeting had agreed to recommend subscription and purchase on the instalment plan. He points out that dealers are now the ones to profit at the expense of the Treasury. Kurtz said that what Harrison has suggested is really a delayed delivery plan, that is, an agreement to take additional bonds at stated intervals, say, January, February, March, and so forth.

Spencer urges a change in the methods of delivery. He says it would probably be up to the banks to handle deliveries after subscriptions have been obtained, and he feels there ought to be some recompense to the banks for clearing deliveries of bonds.

The whole question of the method of Treasury allotment is raised.

Fleming objects that dealers are given 100% of their subscriptions and then sell the securities to banks at a premium.

Wakefield says it is difficult to stop the practice for dealers would simply have individuals subscribe to issues on their behalf.

Harrison says he objects to dealers receiving a preferential allotment of 100% and banks taking what is left. He does not object to dealers buying bonds wholesale, as it were, and selling them, at a profit, retail.

Spencer points out that his suggestion is to help out Victory Fund Committees in that after a bond is sold the purchaser is asked to indicate through which bank it is to be cleared. This is done in Canada, and banks are paid 1/4 of 1%.

Fleming says individual bank quotas should be left in each district to the Federal Reserve Bank of that district. The position of the Council is that quotas should be fixed by Reserve Districts but that any subdivision of the quotas should be worked out informally by the presidents of the Federal Reserve Banks.

Harrison argues that it would be better to have a partial payment plan than to have banks carry bonds for customers at the coupon rate.

RESERVE REQUIREMENTS

Harrison says the Council has taken the position that reserve requirements for banks located in central reserve cities should not go below those required of banks located in reserve cities. He points out again that in his opinion the three possible ways of meeting the present situation should all be used:

Borrowing by banks from Federal Reserve Banks,
Open Market operations, and
Adjustment of reserve requirements.

Wakefield says a suggestion was made that banks should write depositors or give lists of depositors to Victory Fund Committees. He points out that this would mean that many depositors would withdraw their accounts from banks for it would be felt that banks were giving out confidential information.

MANPOWER PROBLEM

Spencer stated that he understood Washington authorities had given assurance that banking would not be classed as a non-essential industry.

Fleming. A week ago Friday, namely, on February 5, Fleming, Hemingway, and Stonier had an interview with McNutt. In December the A. B. A. had asked that banking be classed as an essential industry. This had been refused but at the meeting on February 5 McNutt had stated, off the record, that he would see to it that while banking would not be classed as an essential industry that, at the same time, it would not be classed as non-essential for men over 38. To be sure if a bank had in its employ artisans over 38 these would be taken. As regards the United States Employment Service, McNutt said common sense would be used but, undoubtedly, banks would have to introduce a 48 hour work week. Hemingway, according to Fleming, has written a letter to McNutt confirming the understanding reached. McNutt has suggested that banks should keep in touch with the United States Employment Service to see whether men in banks might give certain of their spare time to war work.

Harrison said that in his opinion there ought to be three calsses:

1. Non-essential industries
2. Industries essential to the economy of the country
3. Industries essential to the war effort

Spencer suggested that the whole question be brought up with the Board.

It was agreed to ask the Board what the status of the bill is exempting War Loan Deposit accounts from reserve requirements and F. D. I. C. assessments.

It was also agreed to discuss with the Board the question of the Treasury paying a service charge for the clearing of government bond sales.

Kurtz raised the question of excess profits taxes affecting the purchase of securities by banks. If excess profits were paid by a bank, it would mean that banks could not earn anything on government securities and, therefore, would have no inducement to buy them and it would also be impossible for banks to build up their capital structure.

Fleming stated an agreement had been reached at one time that banks should not be compelled to pay excess profit tax on profits made on government securities.

Mr. Harrison was asked to send a telegram to Mr. Brown to express the good wishes of the members of the Council and advising him of his reelection as President of the Council for the year 1943. The following wire was sent:

> "Members of Federal Advisory Council send affectionate regards and best wishes. Have just reelected you to presidency since you were not here to vote against it. Warmest regards. We miss you.
>
> (Signed) GEORGE L. HARRISON"

The meeting adjourned at 5:00 P. M.

Secretary's notes on meeting of the Federal Advisory Council on February 15, 1943, at 9:30 A. M. in the Board Room of the Federal Reserve Building.

All members of the Council except Messrs. Fleming, Brown, and Wallace, were present. Mr. McLucas served as alternate for Mr. Brown.

Harrison went over the topics which it was agreed upon yesterday were to be discussed with the Board.

Wakefield raised the question again of counting bills in some way or other toward reserves.

McLucas says that it might not be a bad idea to permit country banks to have the right to buy bills of any kind at 3/8%, but the amount not to exceed $100,000.

Spencer points out that it would require legislation to sell bills without asking for competitive bids.

Gifford. Banking hours should be changed in view of altered conditions. He agrees that probably the banks would have to take the necessary action themselves, possibly through their clearing houses. All the Federal Reserve Board could do would be to encourage the idea.

The meeting adjourned at 10:00 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 February 15, 1943, at 10:00 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, and Evans; also Messrs. Lawrence Clayton, Assistant to the Chairman; Elliot Thurston, Special Assistant to the Chairman; Chester Morrill, Secretary of the Board of Governors; L. P. Bethea and S. R. Carpenter, Assistant Secretaries to the Board of Governors; Walter Wyatt, General Counsel and J. P. Dreibelbis, General Attorney; H. Paulger, Chief of Division of Examinations; Edward L. Smead, Chief of Division of Bank Operations; Carl E. Parry, Chief of Division of Security Loans.

All members of the Council were present, except as before, Messrs. Brown and Wallace. Mr. Fleming joined the meeting at 10:25 A. M.

From 10:00 A. M. until 10:30 A. M., there was an informal meeting of the Council with Messrs. Ransom, Evans, Dreibelbis, Morrill, and Carpenter.

Governor Ransom discussed the situation in which the Board found itself in reference to Regulation Q. It was agreed that all the remarks would be off the record, and the Secretary of the Council was instructed not to circulate any of the remarks made. The regular joint meeting began at 10:30 A. M.

Harrison made a statement about the organization of the Council, the election of officers, etc.

TREASURY FINANCING

Harrison discussed the spacing of the drives. The Council believes there is an advantage in having drives regularly spaced, and drives for bank funds separated from others. However, the drive for bank funds should follow immediately after the general drive. If the drive for bank funds takes place at the same time of the other drives, a false impression is given as to efforts of non-banking subscribers and these may have the feeling that their aid is not needed. The Executive Committee of the Council had at one time suggested an interval between the general drive and that for bank funds, but there is now a feeling that it would be best to have the bank drive follow immediately upon the general one in order that bank funds might be used to lend such amounts as had not been obtained from non-banking sources. Quotas should be fixed by Federal Reserve districts for both bank and non-bank funds. Quotas for individual banks should be determined in each district by the Federal Reserve Bank of the district. It did not seem advisable to publish the amount expected from banks in advance of any drive for non-banking funds.

Eccles states that the presidents of the Federal Reserve Banks also felt that banks should be brought in at the end of the General drive and that the quotas expected from the banks should not be announced in advance. If non-banking funds subscribed to ten billion dollars of bonds in April, 1943, it would mean that only 60% of the funds in the hands of non-banking sources would be tapped. The funds obtained from non-banking sources would undoubtedly have to be supplemented from funds obtained from banks. Bills, certificates, and tap issues would be sold at that time, but not especially pushed. If this plan were followed, the situation for the Federal Reserve System would be simplified. If the Federal Reserve System took the issue of bills for a whole week, say 700 million dollars, then these would not appear in the market at all, and the Federal Reserve Banks could feed them out into the market after the drive was over. In Canada, banks take short paper in between drives and then, during the drives, push out securities and do not participate in the drives. In between the drives, securities can be taken off the market as support is needed.

Harrison states that whether the drive for bank funds should be contiguous with the drive for non-banking funds would depend on the relative success or failure of the general drive. If the amount expected from the public was sufficient to cover Treasury needs at the moment, the bank drive could be postponed.

Eccles said the presidents of the Federal Reserve Banks were not in agreement as to whether there should be any non-bank quotas fixed at all. There was a feeling that the principle was in order, but it was too difficult a matter to handle. The Board, in the past, has given bank quotas to the Victory Fund Committees, but did not publish them. He said that the A. B. A. Committee was not able to agree on any method of working out bank quotas. He believes that subscriptions for bills up to $100,000 should be filled 100% and above $100,000, there should be some system of allocation. He believes 7/8% is too high a rate to pay for certificates if bills are to have a rate of only 3/8%. The rate on bills should be 1/2%, or there is too sharp a differential between certificates and bills. The Treasury, however, instead of raising bills to 1/2%, is suggesting that the rate on certificates be cut to 3/4%. There isn't any movement, in his opinion, to drive down rates.

Kurtz insists that the method of allotment tends to drive down rates.

Wakefield argues that dealers are really not in a non-banking class.

Eccles says it is impossible to define who is a dealer. He says he has been convinced of this by arguments advanced by Messrs. Sproul and Rouse.

Harrison agrees with Eccles that up to $100,000 subscribers should receive 100%, and above that there should be an allocation.

Eccles distinguishes between bonds on the one hand and bills and certificates on the other. The latter should be for banks and there is no need to sell certificates outside of banks. In the case of bonds, however, non-bank subscribers should receive 100% of their subscriptions and, of course, this will be done in the drives. In Canada there is a partial payment plan of six months. This would help in the drives, but the A. B. A. has raised objections if it is intended to place this burden on the banks because it would complicate still more manpower problem. Banks might make a little profit by carrying bonds for customers, but feel that this would not be sufficient recompense.

McKee suggests that the Treasury handle this whole partial payment plan.

Harrison agrees and states that is what he had in mind so that the Treasury would save the payment of interest on those bonds which it carried for subscribers.

McKee suggests the Council pass a resolution urging banks to buy certificates.

Wakefield agrees that certificates have no place in a drive for non-banking funds.

Eccles and McKee both point out that the general public does not need certificates as they can buy tax anticipation warrants. They both would like a resolution from the Council that the 7/8% certificates should be left solely for the banks to buy.

Harrison says some corporations object to tax notes as it is too much bother to present them for redemption when they are not actually used for the payment of taxes. He goes on to say that the Council suggests leaving E bonds alone, but drop F and G bonds. The Council would like to see as a substitute for the F and G bonds, some sort of investment security which did not have the privilege of redemption.

Eccles says there isn't any point in selling E bonds if these are to be redeemed. Privilege of redemption should be postponed for a year, at least.

Fleming argues for a coupon bond good as collateral for six months.

Eccles says you must give a market bond, but that rate must be in line with the rate on other issues. At present, in point of dollar value, the redemption of E bonds amounts to about 3-1/2% of the total.

Spencer raises the question of banks clearing bonds sold in the drives. We ought to follow, in this respect, the Canadian system.

Eccles says this whole question of clearing the bonds should be taken up with the various Victory Fund Committees in the various districts. It has been done in some districts and the banks have done the clearing of the bonds, but evidently this has not been true in Boston. He suggests also that bonds be dated about half way between the beginning and the end of the drive and that then the bonds be sold on a flat basis so that there would not be any accrual of interest.

Harrison speaks of the expense involved for banks being compelled to certify the signatures on E bonds to be presented for redemption. He then discusses the problem of reserves and points out that all three methods of handling this situation must be used.

Eccles says everything depends entirely upon whether non-banking purchasers will buy $2-1/2 billion this year above amounts purchased last year so that bank financing can be reduced by $14 billion. If this is done, the problem will be well in hand. He wants to avoid, as much as possible, increased financing through banks. If banks take only $15 billion this year, then deposits will be $85 billion, but if banks take $30 billion of bonds, deposits will amount to $110 billion. He would regard the latter as meaning that the war was not being properly financed.

McKee would like to see the increase of currency taken care of by reducing reserve requirements in the same proportion as the currency increases.

Eccles points out that loans in banks are running off and a forty-eight hour week means a 30% increase in the banks' payrolls, while at the same time the efficiency of the individuals is decreasing.

MANPOWER PROBLEM

Szymczak tells of a meeting with one of McNutt's officials named Stocking.

Fleming repeats the terms of the understanding which an A. B. A. Committee had reached with McNutt.

Harrison says that industry should be divided into three classes instead of two, namely (1) industries essential to the war effort, (2) industries essential to the economy of the nation, and (3) non-essential industries.

Eccles says only one million men between the years of 18 and 38 will be left in industry. He insists, however, that people over 38 cannot be recruited for anything, even if they are in a non-essential industry. Banking will not be classified as non-essential or essential. He questions whether the country can support an eleven million man army and the lease-lend program at the same time. This would represent a greater effort than either the Russians or the British are making. There are thirty-eight specific services and industries listed as non-essential and in these there is no deferment on account of dependency. This list is to be expanded, but it will not include banks. However, even in essential industries there may be some positions which will be classified as non-essential.

BILL IN REFERENCE TO WAR LOAN ACCOUNTS

Eccles says that it has been discussed in both the Senate and House Committees, and he is to testify before the Senate Committee in connection with the bill on February 17. He does not anticipate any difficulty in having the bill passed. War Loan Deposit accounts average about $3 billion for the country, and, if they are not subject to reserve requirements and F. D. I. C. assessments, it will mean an increase of reserves of approximately $600 million.

McKee believes War Loan Deposit accounts should be listed separately in all bank advertisements for otherwise the public receives a completely wrong impression as regards the increases in bank deposits. There is some evidence that banks are buying sub-standard bonds in the hope that some of these securities will be re-classified by the rating agencies. He believes such practice should be discouraged.

Eccles discusses direct purchases by Federal Reserve System from the Treasury. The object is not to finance the Government. All he wishes is to take up bills that are issued within a week so as to help out the reserve situation and then feed out the bills when the crisis is past. He says reserves are needed to help out underwriting in time of drives. The Treasury will not make an offering to banks when the reserve situation is not satisfactory. Then the only way out will be to bid up the market which is not desirable from the point of view of the banks. This is not the same as an open market operation, but is merely for the purpose of pumping reserves into the System. The System must do what it can to maintain the present pattern. The best way to do this is to take all bills issued in a week rather than bid up securities generally.

The meeting adjourned at 1:20 P. M.

Secretary's notes on meeting of the Federal Advisory Council on February 15, 1942, at 2:25 P. M., in the Board Room of the Federal Reserve Building, Washington, D. C.

All members of the Council, except Messrs. Brown and Wallace were present. Mr. McLucas served as alternate for Mr. Brown.

Harrison raises the question whether the Council should pass a resolution urging banks to subscribe to certificates of deposit and not make these available to the general public. This was suggested by Messrs. Eccles and McKee. The Council decided not to adopt such a resolution as it felt that it would not be wise to make suggestions as to merely one part of the general program without having the whole picture before it.

At 2:35 P. M., Dr. Woodlief Thomas, Assistant Director of the Division of Research and Statistics, appeared before the Council in place of Dr. Goldenweiser, who was out of the city.

Dr. Thomas discussed the pattern of the Federal Reserve policy during the last year. The policy of both the System and the Treasury has been directed toward three objectives:

1. Supplying sufficient reserves to the banks to enable them to buy Government securities.

2. To stabilize the pattern of bills, certificates, and bonds.

3. To sell as large a portion of securities issued to the public as was at all possible.

There were three factors which played an important part:

1. Currency increased by $4 billion during the year.

2. There was a wide spread shift of funds in the country which changed completely the distribution of the reserves. The movement was chiefly out of New York and in part out of Chicago.

3. Banks had certain customs and practices in buying bonds, and the banks located in the districts to which many of the funds flowed were not accustomed to bid for and buy bills. The result was that the money market was not in as good a position as it ought to have been to help out the situation.

These developments called for changes and new patterns had to be developed. In the early part of 1942, Treasury offerings were comparatively moderate and excess reserves amounted to $3 billion, and although they were declining they were adequate. Banks were increasing their holdings of Governments and the System did not have to intervene. In April, the weekly offerings of bills increased and also new certificates of indebtedness were issued. At that time the New York banks who had been the large purchasers of these Government securities were losing funds to the rest of the country with the result that reserves in New York were declining. To meet this situation, the System devised the so-called option privilege, by which is meant the right of the bank to repurchase bills that were sold to the Federal and at the same rate. This made bills really as good as excess reserves. In the first half of the year reserves declined by $1 billion which was almost entirely in New York and Chicago. The result was that reserve requirements in New York and Chicago were gradually reduced 6%, so that reserve requirements were left at 20%, identical with those for banks located in reserve cities. Then in October, the Treasury tried on short notice to sell $4 billion of securities to banks and the System had to come to the assistance of the market by buying notes and bonds. Actually, the support given resulted in the banks having more reserves than were needed, so that the banks, in order to use these excess funds, began to buy bills and the bill holdings of the System declined. The System decided definitely to see to it that the banks had enough reserves to meet all contingencies. In November, the banks bought $5 billion of securities, or about $1/2 billion more than was needed. In the last few days of December, when final payments on Governments were due, the System bought $4 billion; later the bills were allowed to run off or were sold to the banks when the crisis had passed. More recently there have been some other developments. In January, Treasury increased War Loan Deposit accounts which were largely withdrawn in February with a resultant sharp drop in February in the reserves. Both New York and Chicago had hardly any excess reserves and even other cities showed a decline. New York banks have been selling securities to the Federal in order to increase reserves. In spite of all this, at the end of the year the total System holdings were below the peak. In the next coming few weeks, there will be further currency increases and withdrawals from War Loan Deposit accounts (in New York amounting to about $2 billion). In consequence of this, New York banks and also Chicago banks will be under much pressure to sell bills and securities to keep up reserves. The Western and Southern districts show the largest increases in bank deposits, while the smallest are in the Northeast, that is, New York, Boston, Cleveland, and Philadelphia. Smaller towns show more increase in deposits than do the large cities. Most is shown in the rural districts. The reserves follow, of course, the same pattern. Southern and Western districts hold more excess reserves than do other districts. Last year these Southern and Western districts had about 1/3 more than required and now have about 50% more than required.

In the interim of the large drives, the needs of the Treasury could be supplied by the purchase of bills and certificates. No sustained effort is desirable to keep up reserves as market seems fairly stable. At the time of the drives, it is desirable to give the banks all reserves needed to buy securities. The action depends upon the amount banks must take of offerings made by the Treasury. The amount of increase of reserves must not be so great as to cause a rise in the price of securities. On the whole, an orderly pattern has been developed. The problem is to take the money out of the South and West which are the high interest rate areas. The question is whether rates must go up or whether an educational campaign is necessary to get the banks in those districts to buy. The deficit in the calendar year of 1943 is likely to be about $66 billion, which is about what it was in the last quarter of 1942.

CAPACITY OF NON-BANKING SOURCES

Goods and services will amount to $175 billion by which is meant the total product and not merely the so-called National Income. Corporate and individual taxes are likely to amount to $36 billion. Goods and services available to individuals and corporations will amount to about $72 billion. This leaves $67 billion for the payment of debts, for savings, and for purchasing Government securities. The debt to be paid will not amount to much and most of the $67 billion should be available to buy Governments, but of course not all will be used in that way. If there is an attempt to spend these $67 billion, then prices will be driven up, so if we are not to have inflation, money must be left in the banks or used to buy Governments. Last year there was about $40 billion available and about half was left in the banks and half used to buy securities. There isn't any proof that the same ratio will prevail in 1943. Reserve needs depend upon how much banks must buy. If banks buy $37 billion and there is an increase of currency of $4 billion, then there will be $6 billion more needed to buy securities. So reserves would have to go up $10 billion. If bank depositors do not increase deposits beyond need, perhaps only $10 to $15 billion, and use the balance of their funds to buy securities, then the System would have to take $4 billion. The chances are the System will take $8 billion and commercial banks between $15 and $20 billion at the least, and, at the worst, $25 billion. Excluding Government deposits, deposits in 1942 went up $16 to $17 billion. On December 31, 1942, total deposits and currency outside of banks amounted to $99.4 billion as follows:

Demand Deposits	$48.9 billion
Time Deposits	28.2 billion
Currency Outside of Banks	13.8 billion
Government Deposits	8.5 billion
Total	$99.4 billion

The meeting adjourned at 3:40 P. M.