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

April 7, 1943

At 11:10 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, April 7, 1943, the Vice President, Mr. Harrison, in the chair.

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

Various matters concerned with the bond drive about to begin were discussed.

The meeting adjourned at 11:30 A. 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

April 7, 1943

At 11:35 A. M., a joint conference of the Executive Committee of the Federal Advisory Council and the Board of Governors of the Federal Reserve System was held in the Board Room of the Federal Reserve Building, Washington, D. C., on Wednesday, April 7, 1943.

Present: Members of the Board of Governors of the Federal Reserve System:

Governors M. S. Szymczak, John K. McKee, Ernest G. Draper, and Rudolph M. Evans; also, Messrs. Lawrence Clayton, Assistant to the Chairman; Chester Morrill, Secretary of the Board of Governors; Liston P. Bethea, Assistant Secretary of the Board of Governors; Walter Wyatt, General Counsel; E. A. Goldenweiser, Director, Division of Research and Statistics.

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

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

The Vice President of the Council discussed the effects of the Social Security Program.

There was some discussion of Treasury financing and methods to be used in the coming drive.

The Vice President of the Council stated that there evidently had been a misunderstanding as to the attitude of the Council toward direct purchases from the Treasury by the Federal Reserve System. The Vice President of the Council made it clear there had not been any general discussion in the Council of this subject but that it was his belief the majority of the members of the Council were opposed to direct purchases from the Treasury by Federal Reserve Banks.

The meeting adjourned at 12:45 P. M.

WALTER LICHTENSTEIN,
Secretary.

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

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The Secretary reported that Mr. Brown was still ill and that Mr. Lane Young who had been appointed as alternate for Mr. Brown for this meeting had sent a telegram that he was ill and was unable to attend the meeting. Mr. Huntington was to be present but probably his train was late.

Harrison stated that one of the recent acts passed by Congress permitted bills to be sold on "bids or otherwise." Consequently, it would be possible to sell small banks bills up to $100,000 without necessity of requiring bids for them. He also said that he had been informed that Chairman Eccles had stated on some occasion or other that the members of the Council had approved direct purchases from the Treasury by the System. The records showed that this was not correct. Chairman Eccles had made a statement in regard to direct purchases to the members of the Council on February 15, 1943, but the Council had not taken a vote on the subject and, as a matter of fact, Harrison and Spencer had raised objections, though Wakefield had approved.

Harrison stated, in respect to the coming drive, that New York banks had revealed names of depositors but in most sections banks had refused to give out the names of their depositors. It is possible that Philadelphia may reveal names. In Washington names were sent to the Committee but amounts of deposits were not given. In other sections, while names were not sent to committees in charge of bond sales, staffs of the larger banks were soliciting their own depositors.

Spencer said that in some cases large accounts with head offices in New York were entering subscriptions in Boston. He was afraid that in such cases it might be necessary to make delivery of the bonds in New York and considerable expense would be incurred shipping securities to New York. It seemed to him that it would be better simply to transfer balances from Boston to New York, as obviously it is merely common sense to transfer money rather than securities.

Harrison pointed out that in the case of insurance companies, it just was not practicable to enter subscriptions in all places where offices were maintained. The buying would have to all be done by the head office.

Spencer stated that that was perfectly proper, but, after all, quotas for the various districts were based on deposits and if the larger depositors did their buying in New York it would not be possible for other districts to fill their quotas.

The meeting adjourned at 11:30 A. M.

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., B. G. Huntington, Robert V. Fleming, and Walter Lichtenstein, Secretary.

Mr. Huntington joined the meeting at 11:50 A. M.

Harrison discussed the effects of social security. He does not believe that the present plan would necessarily mean the socialization or nationalization of insurance companies. In fact, insurance companies might well support the plan as making people more insurance conscious. Harrison went on to state that there was not, in the opinion of most observers, much demand for loans from banks for the purpose of buying government securities. One of the reasons for this was that the drive to reduce personal indebtedness had been very effective.

McKee. Iowa, Texas, and Colorado had inquired whether the Board had changed its view that the limit of borrowing for the purpose of purchasing government bonds should be six months. He judged from this inquiry that some of the districts were interested in the question.

Harrison does not believe it would help the Treasury to have the limit of time of the loans extended. If borrowers were allowed a longer period than six months, the loans would still be in effect when a new drive started and this would mitigate against the success of such a drive.

McKee said that some political subdivisions had passed legislation permitting public funds to be invested in United States government securities. Some states like Massachusetts had always permitted this.

Harrison reiterated his plea that some plan of partial payment should be permitted. This had worked well in the last war and was working well now in Canada. He pointed out that insurance companies would buy more securities if they could use funds accumulated between drives. As it was, some insurance companies would feel they could not afford to have their funds lie idle waiting for a new drive and thus would invest accumulated funds elsewhere. He went on to say that various plans had been suggested to couple the sale of insurance with the sale of bonds. The insurance companies, however, did not wish to give the impression of competing for funds with the government and so would act only if the Treasury were in entire accord.

Szymczak said that it was now too late to make a change in respect to the six months limit for borrowing as far as this coming drive was concerned.

Harrison stated again that all three methods (open market operations, borrowing by banks, and redemption of reserves) should be used to maintain reserves. The majority of the members of the Council were probably not in favor of direct purchases by the System from the Treasury but the matter had not been discussed. Chairman Eccles had made a statement and the plan proposed had found favor with Wakefield but both Harrison and Spencer had expressed opposition. There had really not been any general discussion.

McKee says he is only in favor of direct purchases to take care of maturing bills.

Szymczak states that direct purchases should be used while drives were in progress, which was really Eccles' point.

Harrison says if the Board begins to finance the Treasury directly on the basis of 3/8's of 1%, then, if times became still more difficult, men like Patman would argue there was not really any need of paying 3/8's of 1%, and the Federal Reserve banks ought to lend needed funds to the Treasury without any interest charge.

Goldenweiser stated that the overdraft has been used in recent times by the Treasury to avoid the necessity of drawing down the War Loan Deposit accounts and thereby reducing excess reserves.

Szymczak said that the Treasury had sold directly to the System on two occasions.

Harrison said the Council felt direct buying should not be used to increase excess reserves, and he also believed it should not be used with the idea of later reselling the bills as this would disrupt the organization of dealers.

Fleming says country banks would, in his opinion, not be interested in securities paying 3/8's of 1%.

McKee states that it was the intention to limit sales without requiring bids to $100,000 per bank.

Harrison feels that what small banks want is a security with coupon attached.

Fleming stated that he had been asked by the Federal Reserve Bank of Richmond to get in touch with the correspondents in his district and try to induce these to buy bills but he had found great reluctance on the part of the smaller banks. To be sure, if the present bill pending in Congress exempts any War Loan

Deposit accounts from the F. D. I. C. assessment and reserve requirements, it might be that small banks would be willing to open War Loan Deposit accounts and buy bills.

Harrison instructed the Secretary of the Council to put on the agenda for the May meeting: direct purchase of bills by Federal Reserve banks for the purpose of creating excess reserves.

McKee said someone should work up a partial payment plan to submit to the Treasury before the next financing is due.

Harrison agreed to have a brief prepared on the subject of partial payment plans. He feels the commitment should be directly to the Treasury, and the Treasury should hold the bonds until these were fully paid.

Harrison stated that Lane Young had asked him to bring up the question raised by Colonel Bloomer of New Jersey in a bulletin in the "American Banker" of March 29, 1943, who claims that bank employees may be deferrable.

Fleming said that it would be better for banks to remain in a kind of twilight zone as otherwise they might come under the jurisdiction of the United States Employment Board.

Harrison said that the stabilization plan just published seemed to omit central banks. He hopes the Board may be able to have central banks play some part in any such international plan.

Goldenweiser believes that central banks still have a function as the money to come from the various national economies will be handled by the central banks. Of course, it may destroy the control of the Federal Reserve System over the money market.

Fleming asked about the new loans to be made by the Regional Agricultural Credit Corporations.

Evans says it was to be like V Loans, but there is not much enthusiasm. A bill pending in Congress would provide insurance. For example, if it cost a farmer $50.00 an acre to plant tomatoes, then if he had 5 acres he would get a certificate which he could take to his bank and borrow $250. It would be a sort of percentage guarantee which would be bankable.

Harrison raised the question of the difficulty created for national corporations by appeals from all centers for subscriptions. The difficulty arises from the fact that the quotas of each district are based on deposits. He suggests that the Treasury issue a statement explaining the situation.

Spencer stated that Boston had funds of corporations with head offices in New York. Some of these corporations would make subscriptions in Boston but would want securities delivered in New York which would create unnecessary expense.

The meeting adjourned at 12:45 P. M.