

MINUTES OF MEETING
of the
FEDERAL ADVISORY COUNCIL
May 23-24, 1943
and of the
MONTHLY MEETING
of the
EXECUTIVE COMMITTEE
April 7, 1943

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

May 23, 1943

The second statutory meeting of the Federal Advisory Council for 1943 was convened in Room 336 of the Mayflower Hotel, Washington, D. C., on Sunday, May 23, 1943, at 2:00 P. M., the Vice President, Mr. Harrison, in the chair.

Present:

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
Lt. Col. Jay L. Taylor (Alternate for Mr. Nathan Adams)	District No. 11
Mr. George M. Wallace	District No. 12
Mr. Walter Lichtenstein	Secretary

Absent:

Mr. Charles E. Spencer, Jr.	District No. 1
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The Secretary of the Council announced that Mr. Brown was unable to be present and that Mr. Walter S. McLucas of Detroit would serve as alternate for him; also, Mr. Adams would not be present, but Lieutenant Colonel J. L. Taylor, U. S. Deputy Food Administrator would serve as alternate for Mr. Adams; also, Mr. Spencer had written he would be unable to be present and no alternate had been appointed.

A discussion took place as to the desirability of the Federal Reserve banks making direct purchases of bills from the Treasury.

It was recognized that in a grave emergency when other methods were not available it might be necessary to have the System buy direct from the Treasury but it should only be done as a last resort.

After a discussion in respect to the situation of War Loan Deposit accounts, it was decided to suggest to the Board of Governors that it might be well to have the composition of assets resulting from War Loan Deposit accounts examined periodically in order to prevent the development of dangerous tendencies.

The members of the Federal Advisory Council felt there was some hazard to banks resulting from cancellation of war contracts, and it was agreed to ask the Board of Governors whether it would be possible to develop some recognized method of procedure which would safeguard the various parties at interest.

It was decided to inform the Board of Governors that the Council is not in favor of reducing reserve requirements at this time. The Council feels open market operations and borrowing by banks would be preferable. The Council also decided to inform the Board of Governors that if feels strongly there is great need to induce corporations, which have not already done so, to set up proper reserves against future tax liabilities and against conse-

quences of cancellations and of renegotiations of contracts. It would be very desirable if some definite program or pattern could be evolved.

There was some discussion in respect to the manpower problem as affecting banks. It was decided to call the attention of the Board of Governors again to the vital interest of banks in the question of the forty-eight hour schedule and the need of developing some reasonable scheme.

The meeting adjourned at 5:10 P. M.

WALTER LICHTENSTEIN,
Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

May 24, 1943

At 9:40 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. William Fulton Kurtz, B. G. Huntington, Robert V. Fleming, H. Lane Young, Walter S. McLucas, Ralph C. Gifford, Lyman E. Wakefield, W. Dale Clark, George M. Wallace, and Walter Lichtenstein, Secretary.

The only purpose of the meeting was to review the subjects to be discussed with the Board of Governors.

The meeting adjourned at 9:55 A.M.

WALTER LICHTENSTEIN,
Secretary.

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

May 24, 1943

At 10:30 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:

Vice Chairman Ronald Ransom; Governors M. S. Szymczak, John K. McKee, Ernest G. Draper, and R. M. Evans; also, Messrs. Lawrence Clayton, Assistant to the Chairman; Elliott Thurston, Special Assistant to the Chairman; Chester Morrill, Secretary of the Board of Governors; S. R. Carpenter, Assistant Secretary of the Board of Governors; Walter Wyatt, General Counsel; J. P. Dreibelbis, General Attorney; E. A. Goldenweiser, Director, Division of Research and Statistics; William B. Pollard, Assistant Chief, Division of Examinations; Edward L. Smead, Chief, Division of Bank Operations; Carl E. Parry, Chief, Division of Security Loans, and Robert F. Leonard, Director, Division of Personnel Administration.

Present: Members of the Federal Advisory Council:

Mr. George L. Harrison, Vice President; Messrs. William Fulton Kurtz, B. G. Huntington, Robert V. Fleming, H. Lane Young, Walter S. McLucas, Ralph C. Gifford, Lyman E. Wakefield, W. Dale Clark, George M. Wallace, and Walter Lichtenstein, Secretary.

The Vice President of the Council stated that the Council had voted unanimously to inform the Board of Governors it considered it dangerous at this time to arouse public feeling by having the System make direct purchases from the Treasury.

There was a discussion regarding War Loan Deposit accounts. The Vice President of the Council stated it might be well to have some program of education rather than of regulations to the end that banks would not be overloaded with long term bonds as security for these accounts.

The Vice President of the Council called the attention of the Board of Governors to the view of the Council that it would regard it as a mistake to reduce reserve requirements at this time. It would be a mistake to have reserve requirements for central reserve cities below the requirements for banks located in reserve cities. In the opinion of the members of the Council, it would be better to have banks borrow at this time than to reduce reserve requirements any further.

The Vice President of the Council pointed out the danger to corporations resulting from the cancellation of contracts and the reaction this might have on banks. He also stated the Council was of the opinion industry ought to put its house in order and safeguard itself against tax liabilities and losses resulting from cancellations and renegotiations of contracts.

A discussion took place regarding the manpower problem.

The meeting adjourned at 12:55 P. M.

WALTER LICHTENSTEIN,
Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

May 24, 1943

At 3:30 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. William Fulton Kurtz, B. G. Huntington, Robert V. Fleming, H. Lane Young, Walter S. McLucas, Ralph C. Gifford, Lyman E. Wakefield, W. Dale Clark, George M. Wallace, and Walter Lichtenstein, Secretary.

Dr. E. A. Goldenweiser, Director of the Division of Research and Statistics, appeared before the Council and discussed the deposit and reserve situation in banks. He also discussed the Keynes and White plans for international stabilization of currencies.

The meeting adjourned at 4:15 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 May 23, 1943 at 2:00 P. M. in Room 336 of the Mayflower Hotel, Washington, D. C.

Messrs. Spencer, Brown, and Adams were not present. Mr. Walter S. McLucas of Detroit acted as alternate for Mr. Brown and Lt. Col. Jay L. Taylor, United States Deputy Food Administrator, acted as alternate for Mr. Adams. The other members of the Council were present as also the Secretary of the Council.

In the absence of Mr. Brown, Mr. Harrison presided.

DIRECT PURCHASE OF BILLS

Wakefield feels that it may be necessary to tide over an emergency.

Harrison believes such a situation can be taken care of by the System purchasing one day bills which has obtained since 1920. This is very different from using direct purchases in order to adjust the reserve situation of banks. The public reaction might be a very bad one as was shown by the discussion when the Treasury recently issued \$660 million of Federal Reserve Bank notes.

Wakefield stated he did not intend to separate himself in this matter from the other members of the Council, and he would be perfectly willing to join in disapproval of direct purchases of bills from the Treasury by the Federal Reserve System.

Harrison reiterates it would be very bad to have the public feel that no real effort is being made to check inflation and whether rightly or not it is felt by many that the first step toward a serious inflation is when the Treasury sells its obligations directly to the central bank. If no other way can be found, in the event of an emergency, it may be necessary for the Treasury to sell directly to the central bank but this should only be done as a last resort. It is interesting to note that the amendment to the statute making direct purchasing of Treasury obligations by the System possible was passed by Congress without most people being even aware that such action was taken.

It was decided without any formal vote to inform the Board that the Council concurred unanimously in the action of its Executive Committee which had voiced disapproval of direct purchases for the purpose of maintaining reserves. It was recognized that in a grave emergency when other methods were not available it might be necessary to have the System buy directly from the Treasury but this should be done only as a last resort.

WAR LOAN DEPOSIT ACCOUNTS IN SMALL BANKS

Gifford. Many small banks now have opened War Loan Deposit Accounts since it is no longer necessary either to pay an FDIC assessment on these or to maintain reserves against them.

Young believes the fixing of definite dates for withdrawals by the Treasury from War Loan Deposit accounts has cured many of the defects formerly inherent in the situation. Small banks now recognize that these deposits are merely temporary and that it would be unwise for them to tie up the assets resulting from such deposits by buying long-term bonds.

Harrison read a statement from the Federal Reserve Bank of New York in which the question of maturities of bond holdings is raised. The authorities of the Federal Reserve Bank of New York did not believe it wise for banks to buy long-term maturities in large quantities. In part, banks have been doing it because they believe the System will always maintain a stable market for such bonds.

Wakefield thinks the danger is exaggerated. He believes the Treasury will try to keep control of the banks by issuing short-term securities such as bills so that more and more the banks will be dependent upon the Treasury for their earnings. The five year bond would have been of great help to the banks but the Treasury refused to issue such a bond in connection with the recent drive.

Fleming says consideration was given to a three year note but the banks wanted the 2 per cent bond.

Wakefield says he has not seen any indication of small banks piling up an undue amount of long-term securities.

Harrison suggests that there not be any formal resolution but that the attention of the Board be called to the tendency of some banks to stretch out maturities and that some attention should be paid to the composition of bank portfolios in connection with the War Loan Deposit accounts.

Kurtz expressed the feeling that such action had better come from the Federal Reserve Banks.

McLucas objects to singling out small banks.

Gifford believes it might be well to ask the Board about this situation.

Wakefield agrees that it might be well to ask the Board if it has seen any tendency on the part of banks to stretch out maturities unduly.

It was decided to ask the Board to have Federal Reserve banks examine the composition of assets behind War Loan Deposit accounts in order to make certain dangerous tendencies are not being developed.

PRESIDENT'S SOCIAL SECURITY PROGRAM

It was decided to drop this topic.

TOPICS IN WAKEFIELD'S LETTER OF APRIL 30

Wakefield. In the last drive dealers purchased \$830 million of 2's. Ultimately, these are bought by the banks.

In connection with banks lending for the purchase of bonds during a drive, he believes:

1. Banks should lend at the coupon rate.
2. There should be a down payment of 10 per cent.
3. The loan should be only for six months and the bank ought to ascertain that the borrower really had money coming in out of which he could repay the loan within six months.

Fleming said his bank followed much the program outlined by Wakefield but that the interest charge did not go below a minimum of 2 per cent even though the coupon rate was lower. He said that his bank actually only had three loans of this nature and Wakefield said his bank had only one.

Gifford says the Federal Reserve Bank of St. Louis in conjunction with a committee of the Board was making a study of the cancellation of war contracts.

Wakefield says this is most important but it must be remembered that when a contract is cancelled, the contractor finds himself from there on dealing with a department of the Government different from the one with which he dealt while the contract was in force. The result was that the new people with whom the contractor was dealing, not knowing anything about the contractor's particular situation, were apt to be very arbitrary.

McLucas says the Federal Reserve bank was the body which first announced that there could not be any reimbursement to banks for out-of-pocket expenses due to the supervision of contracts.

Harrison says this is merely one of the factors involved in the whole complicated problem of demobilization.

Wakefield points out that the question is very much to the front now in connection with the cancellation of the \$300 million contract of the International Harvester Company.

Taylor said that in the case of the International Harvester Company, Chester Davis was trying very hard to obtain for the company extra steel with which to keep its tractor plant busy.

It was agreed to ask the Board what is being done about developing a formula which would safeguard all parties at interest from the consequences of cancellation of contracts.

REDUCTION OF RESERVES

Wakefield read the Thomas (of Oklahoma) bill (S986) which would exclude assessment not merely War Loan Deposit accounts but all Government

Harrison says this has all been discussed before and it would require asking Congress for legislation which would seem inadvisable.

Wakefield states it is dangerous to reduce reserve requirements at this time.

Fleming regards it as dangerous to have reserve requirements for banks located in central reserve cities lower than those required of banks located in reserve cities.

Kurtz discusses at length possibility of deducting amount of bills, etc., maturing within a year from the deposits against which reserves are required.

It was decided to inform the Board the Council is not in favor of reducing reserve requirements at this time. Open market operations and borrowing by banks is preferable. Council agrees to the practice of one day overdrafts to meet temporary emergencies, but is not in favor of direct purchases from the Treasury of bills running longer than one day. Banks and also the public generally are accustomed to the practice of one day overdrafts.

CORPORATION PROGRAMS

Fleming believes corporations should adhere to a low dividend policy and make sure of protection against future tax liabilities and losses resulting from cancellation of contracts. Banks should urge their borrowing customers to set up a program of buying tax anticipation notes. It might be well if the Board developed some formula. There is little doubt that prices will continue to rise which will force corporations to borrow more money to carry inventories. Renegotiations and reimbursements should be speeded up as much as possible.

Wakefield says the Government really gains very little actual money from renegotiations. It just means that spending departments of the Government reduce the outgo but at the same time the Treasury loses the income derived from taxes to almost an equivalent amount.

Harrison raises the question whether it would be possible for the banks and the Federal Reserve System to maintain the present pattern of rates if loans continue to increase largely.

Wakefield points out that the whole problem gets down to one of reserves and he does not believe it is insurmountable. He finds that in the Ninth District after the last war, 83 per cent of the resources of banks consisted of commercial loans and discounts. Today, less than 28 per cent of the resources consist of loans and discounts. Farmers still claim that the rise of the discount rate was what broke farm prices even though this is not so.

Kurtz doubts that there will be much loan expansion after the war.

Taylor says there will undoubtedly be large subsidies which, of course, will increase the national debt which will have a very decided effect upon our whole financial structure. He says the Government may have to take over the canneries. He says the bank profession needs above all some good publicity. Herds on farms are not being built up. He said only 15 per cent of the men leaving farms went into the armed forces. The rest went into industry.

It was decided to ask the Board whether there is any idea of long-term planning of taxation and control of industry. The Council feels strongly there is great need to educate industry to set up proper reserves against future tax liabilities, consequences of cancellations, renegotiations, etc. Some definite program or pattern should be evolved.

PROBLEM OF MANPOWER

Fleming raises the 48 hour question especially as applied to critical areas. Many of the women the banks have are physically not able to work 48 hours and enforcement of the rule simply results in a large amount of absenteeism. There does not seem to be any general rule and everything is left to the local boards. In Washington, banks do not enjoy complete exemption while they do in Springfield, Massachusetts, Buffalo, New York, and Hartford, Connecticut. There ought to be some definite schedule.

Wakefield says the turnover is very heavy. His bank hired last year about 289 girls of high school age; in the first four months of this year 101 women left. He does not believe there is much actual extra work produced by requiring 48 hours work because the result is merely an unavoidable slow-down.

Harrison asks whether Fleming wants the Council to adopt a resolution or just raise the problem with the Board.

Taylor stated he sits with the Central Manpower Commission and if some definite plan can be formulated he would be glad to present it.

Fleming does not wish the banks to be declared essential industries because this would mean that they would have to take the people sent by the United States Employment Organization. He finds that in the Washington banks only 36 per cent of the men have been left while in Great Britain when an industry has lost 60 per cent of its men, it is not required to lose any more. All he wants is that the Board be asked to use its good offices for a review of the situation raised by the 48 hour week requirement and that some reasonable schedule be worked out. He points out that in 1944 it may be expected that banks will have to handle 12 million separate pieces in connection with redemption of bonds.

Gifford and Kurtz state that their banks are making money on the reimbursement for out-of-pocket expenses while Wakefield says his bank is losing about 50 per cent on the handling of the bonds.

Taylor says 10,000 women should be trained to work on farms this being Mrs. Roosevelt's so-called "land army". It takes about six weeks to teach women to run tractors. They are paid while being trained. In England women are doing a considerable amount of work. Most of the women in the "land army" are factory girls

and as they are to receive \$50.00 a month and keep, they will be making a considerable sacrifice for most of them receive higher pay than that in industry. In addition to working on the farm, the girls will be supposed to do some housework.

Fleming asked Taylor if the directors in the various areas have power to use their own judgment to which Taylor replied "Yes".

It was decided to bring up with the Board the Question of the 48 hour schedule and to point out that in some cities there is complete exemption while in others there is not. The Council feels some workable schedule should be formulated.

Harrison presented three matters:

1. Organization of committees for Treasury financing.
Query: Should there be one over-all organization?
2. Separation of bank drives from others.
3. Who should be used to do the selling: Only banks or all kinds of organizations, such as labor unions, clubs, etc.

In respect to separation of bank drives from others, Harrison points out that if the banks make large subscriptions during a general drive, individuals and corporations feel that their subscriptions are not, after all, badly needed.

Fleming says the only reason for including banks in the last drive was due to a fear that owing to the tax period it might not be possible to raise from sources outside of the banks the \$13 billion needed.

In view of a certain situation it was decided not to raise the question of Treasury financing with the Board at this time.

The meeting adjourned at 5:10 P. M.

Secretary's notes on meeting of the Federal Advisory Council on May 24, 1943, at 9:40 A. M. in the Board Room of the Federal Reserve Building, Washington, D. C.

Messrs. Spencer, Brown, and Adams were absent. Mr. Walter S. McLucas served as alternate for Mr. Brown, but Lt. Col. Jay L. Taylor was not present.

Harrison stated that this meeting was simply for the purpose of reviewing matters to be brought to the attention of the Board.

The meeting adjourned at 9:55 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 May 24, 1943, at 10:30 A. M. in the Board Room of the Federal Reserve Building, Washington, D. C.

The following were present from the Board of Governors: Vice-Chairman Ronald Ransom; Governors Szymczak, McKee, Draper, 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; S. R. Carpenter, Assistant Secretary to the Board of Governors; Walter Wyatt, General Council, and J. P. Dreibelbis, General Attorney; E. A. Goldenweiser, Director, Division of Research and Statistics; W. B. Pollard, Assistant Chief, Division of Examinations; R. F. Leonard, Director, Division of Personnel Administration; Edward L. Smead, Chief of Division of Bank Operations; Carl E. Parry, Chief of Division of Security Loans.

The same members of the Council as were noted as being present before were present at this meeting.

It was announced that Chairman Eccles would not be able to meet with the Council at this conference as he had to go to the White House. However, he expected to lunch with the members of the Council.

DIRECT PURCHASE OF BILLS

Harrison stated the Council had voted unanimously that it was considered dangerous at this time to arouse public feeling by having the System make direct purchases from the Treasury. It would be felt this was a move in the direction of inflation. Certainly anything of this sort was untimely just now.

Szymczak feels the reserve situation is not pressing now.

WAR LOAN DEPOSIT ACCOUNTS IN SMALL BANKS

Harrison. There is a danger to small banks in being overloaded with long-term bonds as security for these accounts. To be sure banks, except non-member banks, could borrow on the long-term issues.

McKee feels the division of banks into classes A and B and a definite schedule of withdrawals meets the situation.

Harrison says it might be well to have some program of education rather than regulations. Banks believe there is little danger arising from price fluctuations because they are depending upon the Federal Reserve System to stabilize the market.

RESERVE SITUATION

Harrison. The Council is not in favor of reducing reserves at this time. The pressure is in New York and Chicago, and it would be a mistake to have reserve requirements for central reserve cities below the requirements for reserve cities. He states that Mr. Adams would probably not have agreed with the view just stated. However, he is not present. In the opinion of the other members of the Council, it will be better to have banks borrow at this time than reserve requirements to be reduced any further. In an emergency the Treasury might borrow for a one day period. This practice is quite familiar to the bankers and the public. There is danger that the war might end suddenly and the banks be left with huge liabilities and very low reserves.

McKee. In the next year it may be necessary to find \$6 billion of additional reserves and he raises the question whether it would be wise to do this by means of open market operations.

Harrison says it would be better to do it by open market operations than by reducing reserve requirements at this time.

McKee believes it unwise to have the whole amount raised by means of open market operations.

Harrison states the view of the Council may not be so very different from that of McKee, the only feeling being that action should be postponed at this time.

McKee says there is some danger in extending the portfolio by such large amounts for it might furnish needed arguments to the enemies of the System and of private banking. It might result in the Federal Reserve System having only non-interest bearing securities.

Ransom says that Eccles in his testimony before Congressional Committees had pointed out if the System had only non-interest bearing obligations, it would have to be subsidized. Congress on the whole has not objected to the payment of interest on obligations held by the System. Later events will have to determine which methods must be used to help out the banks in connection with meeting their reserve requirements.

Harrison suggests the possibility of the exhaustion of the reserves of the Federal Reserve System itself.

Goldenweiser states there is still a possibility of increasing the portfolios of the Federal Reserve banks by \$25 billion before there would be any question of lack of reserves. Obviously, the increase of outstanding currency must also be taken into consideration.

PROBLEM OF CANCELLATION OF CONTRACTS

Harrison points out the danger to corporations. It would be well if some formula or policy could be developed; the earlier, the better. It might be possible for the Board to have some study made of this problem.

Draper. Some formula could be worked out in connection with the V loans, but after all, that is only part of the story.

Wakefield says it isn't merely the question of V loan contracts but of all contracts. He points out that when a contract is canceled, an entirely new set of officials enters the picture.

Draper agrees there ought to be worked out some general mode of procedure for all loans.

Wakefield says the V loans are really not the important sector of this problem for in their case the Government is obligated to pay a proportion of the debt, but other loans may be completely frozen.

McKee says he is more worried about the fairness of the settlements. The people at present in charge recognize the dangers involved. Contractors under present conditions may feel they want a V loan solely for the purpose of having some protection against cancellation. The armed forces are not much in sympathy with the idea of loans made for such purposes. They feel if concerns have sufficient credit resources to get along without V loans, they should not apply for them for ulterior purposes. Payments on V loans may be held up in order to discover whether the Government has any counterclaims.

Wakefield feels there should be some plan in advance and formulation of plans should not wait until there is a real danger in the situation. At the moment, when a contract is canceled in most cases some other contract will take the place of the cancelled one, but the time is coming when the Government will not wish to have something else made in place of the things provided for by the cancelled contract.

McKee. The Presidents' Conference has a committee which is trying to develop a plan for cancellation of contracts.

Harrison states when the war ends, there will be three big departments dealing with demobilization. The System will have a serious credit problem on its hands at that time, and it should study the situation in advance. If the presidents of the Federal Reserve banks are studying the problem, well and good.

Ransom says the system is much concerned with keeping up full employment, but there is a real problem of coordination.

Draper. Some fundamental principles might be evolved.

PLAN FOR CORPORATIONS

Harrison. Industry itself should put its house in order and should have its tax liabilities protected by tax anticipation warrants. There are corporations

who are using as working capital the funds which ought to be set aside to meet future tax liabilities. These corporations prefer to do this rather than to borrow at this time.

McKee agrees with the picture presented and feels there is a real danger.

Fleming says he is bothered by the rising deposits and the fact that banks cannot increase their capital to keep pace with this growth. Thus, when the time comes that industry will begin to borrow heavily, bank deposits will increase and banks will not be in a position to lend freely owing to a restricted capital situation. This may develop renewed antagonism against banks. Larger banks are probably planning ahead but the smaller banks may have difficulties as it will be felt they should not take great risks on account of the low capital-deposit ratio. He gave an example of a corporation where funds are completely tied up now.

Wakefield points out the reversal that has taken place between the last war and this one. At the end of the last war, banks had approximately 90% of assets invested in loans and discounts and about 10% in Government securities. At the end of this war, the situation will be just the reverse.

McKee said, at the outbreak of the last war, the corporations had to borrow while at the outbreak of this war, most large corporations were in a very liquid position.

MANPOWER PROBLEM

Harrison presented the difficulties banks were having in connection with the 48 hour week. The Council still feels that this whole schedule is not appropriate for banks. Most women cannot work 48 hours in a stretch. All bank problems are not at all solved by any such regulations.

Fleming. In the Washington area 76 1/2% of the staffs of banks consist of women against 30% only a few years ago. Apparently there is no general policy and the regulations vary by regions. The present regulations do not save any manpower at all.

McKee asks why this is put up to the Board. He says this is something which ought to be handled by the A. B. A. and would not the A. B. A. be much better fitted to do this job.

Szymczak says he would suppose that all that is being asked is that when the Board presents its own case, it should present at the same time the point of view of the private banks.

Rarscm says as he understands it what is wanted is to have the rules coordinated for the whole country. It is very difficult to make general rules which are applicable to the situation of banks. The same is true of many departments of the government which are finding it difficult to adjust their situation as to meet the regulations.

REGULATION Q

Harrison says it is not formally on the program but is ever present.

Ransom says there has not been any development since he last reported confidentially on the situation. He does not believe that war is a good time to raise this controversial issue. No matter what is done, the whole problem will have to go back to Congress. The real question is who is to pay the exchange charges: the customer of the bank or the bank itself? There are great differences of opinion as to this problem among the bankers.

Wakefield says the problem really is due to banks in cities having country bank correspondents and being compelled to rebate to them in some form or other. He believes if the Board sent a circular letter to the banks explaining the regulation and explaining the seriousness of the situation it might do much to solve the problem.

Ransom. If the banks absorbing exchange would obey, then banks charging exchange would move on Congress in a body for their customers would not be willing to pay the charges. It is true the Board would be able to prevent banks from absorbing exchange charges, but when this was tried in 1936, the reaction was extremely violent. Furthermore, before the Board took any action, by a gentleman's agreement, a report of the intention would have to be given to Mr. Steagall and to Senator Wagner.

Wakefield says banks charge exchange but in many cases this is not charged back to the endorsers.

McKee disagrees with this statement.

Ransom says it must be borne in mind that in part the Federal Reserve System was founded to maintain a par-clearance system. The trouble is the public wants continued existence of small country banks and these live on exchange charges.

The discussion went on, more or less the same ideas being repeated.

At 12:45 Fleming left the meeting.

Ransom asks whether this would be a propitious time to raise this whole problem and if the Board decided to take action would the Council be willing to take action.

The meeting adjourned at 12:55 P. M.

Secretary's notes on the meeting of the Federal Advisory Council with Chairman Marriner S. Eccles at lunch, on May 24, 1943, at 1 P. M., in the Federal Reserve Building, Washington, D. C.

The members of the Council met with Chairman Eccles, all members being present, except Messrs. Spencer, Fleming, Brown, and Adams, but Mr. Brown was represented by Mr. Walter S. McLucas, as alternate.

Eccles speaking of agricultural conditions stated that last year there were 48 million hundred pound bags of sugar while this year only 35 million hundred pound bags will be available. Last year the crop was already 7 million bags off. He stated that 60 per cent of the sugar is used commercially and only 40 per cent in households. The Idaho potato crop this year will amount to about 1 million tons. Three million people have left the farms but of these only one million went to the armed forces while two million went into industry.

TREASURY FINANCING

Harrison stated that the Council had approved of the separation of the drives, elimination of the F and G bonds, and some form of installment selling of bonds to insurance companies and similar corporations.

Eccles wants just two issues in the drive: the 2 1/2's and then a short-term instrument plus, of course, tax anticipation warrants as well as a savings bond. The tax anticipation warrant ought to be on tap all the time. Banks should use the 7/8's and bills. Then when there is a drive for bank funds, there should be offers of 7/8's and notes. It might be well to use the Canadian method: there the Central Bank provides automatically the 10 per cent reserve needed for the banks by taking, let us say, at the outset \$50 million so banks can take \$500 million. Then in between drives banks do some buying in the market. He would like to see the quota in the public drives placed so high that everyone would have to struggle to reach it. Otherwise, people feel their money is not really badly needed. In the last drive banks took \$7 billion. In addition, whatever the dealers get goes ultimately to the banks, the dealers making a big commission. The role of the dealers ought not to be one of underwriters for the banks but to provide a market for the ordinary buyers and sellers. Then the Federal supplies the dealers when the market gets too strong and thus can help in stabilizing the market. When the War Loan Deposit accounts are drawn down, banks must either sell securities or borrow. The Federal Reserve System should buy direct from the Treasury for the purpose of replacing securities. At a period when funds are shifting from accounts against which reserves must be carried to accounts against which reserves need not be carried, the Federal lets maturities run off. When the situation is reversed, there is not any point in the Federal Reserve System having securities first go to the dealers and then immediately buy them all back from the dealers. This produces simply speculation in securities on the part of the dealers.

Harrison insists on the recommendation in respect to E, F, and G bonds, the separation of drives, and the elimination of the \$25 bond.

Eccles says offers to buy bills up to \$100,000 are accepted now without requiring any formal bids. He would like to see the Treasury go to a rate of 1/2 for four months. We ought to have a security up to six months at 1/2; nine months at 3/4; get rid of the certificate; and have the Federal Reserve offer to buy any nine months security at 3/4. Between one day bills and nine months, let the market determine. The 7/8's for one year and 3/8's for three months does not make any sense and there is not any point trying to regulate the price for periods in between. He still insists there was not any sense in exempting War Loan Deposit accounts from reserve requirements but the FDIC was not willing to waive the assessment on War Loan Deposit accounts unless the reserve requirement also was eliminated. It must be remembered that there is in existence at present a 1/2 per cent rediscount rate for paper under a year. He does not expect the Council to take any action at this time but it ought to consider the whole situation between now and its next meeting. The Treasury has indicated that it will agree to a separation of drives. Drives for non-banking funds are in April and September and in between the banks should be allowed to have what they need. This would mean that War Loan Deposit accounts would be lower and there would not be as much shifting of reserves as at present. He doubts whether there is any advantage in having drives at less intervals than four months. To have more frequent drives is too hard on the army of voluntary workers. If the next public drive is postponed until October, then \$5 billion will be needed from the banks prior to the drive.

At 2:45 P. M. Mr. Fleming joined the meeting.

Wakefield. Growing sentiment among banks that there ought to be a charge for the certification of bonds. As a matter of fact, banks have been reestablishing themselves in public esteem by doing work for nothing and there is some danger that banks will lose in public esteem again if they begin to make charges for this work. Mr. Daniel Bell in a hearing made the statement that the banks would not make any charge.

Eccles. Many smaller banks are having a hard time making sufficient earnings but banks in New York are better off than they were last year and the same is true in most large cities. It must be remembered that in the case of small banks, installment paper is running off as are agricultural loans and the return on this sort of paper was anywhere from 3 to 6 per cent. The return on Government securities is not an offset. Costs in the meantime have gone up. So these small banks have had to resort to service charges and it does not seem fair to ask the small banks to work for nothing. We may face a real bank crisis and there may be some danger that in that event the government will take over the small banks with a resultant complete change in our banking structure. It must be remembered that country banks must not merely certify the bonds but usually must also write the letters to Washington on behalf of the customers all of which takes time. He would like to see the F. D. I. C, postal savings, and the Federal fix a maximum rate of 1 1/2 per cent on time deposits. There ought to be allocated to the banks 2 1/2 per cent bonds to an amount equivalent to half the amount of time deposits carried by each bank but the maximum of such allocation not to exceed \$1 million for any one bank. This would mean that the small banks could make 1 per cent on time deposits while at the present time there are about six thousand banks paying 2 1/2 per cent on time deposits. In the last drive there was sold to individuals bonds amounting to \$3,300 million besides a certain amount of 7/8's certificates. Banks bought \$5 billion plus \$2 billion bought on the outside from insurance companies and other corporations so in all banks got \$7 billion out of \$18 1/2 billion. Of the \$7 billion, \$6 billion were short-term securities. As the public will have \$40 billion more to spend than there are goods available, it ought to be possible to get from the public \$6 billion and the banks ought to have only \$5 billion or less. Banks

ought to have had more short-term securities. As it is, banks bought about \$2 billion of the 2's.

Wakefield states that it would be highly desirable if the various selling organizations could know a little further ahead what was expected and exactly which features were to be emphasized. In that event, it would be easier to train the members of these various selling organizations more properly than was true at the time of the last drive.

Eccles. There will be additional currency put out this year amounting to \$4 - 6 billion and all of this plus the increased deposits will require extra reserves which somehow or other will have to be provided.

The meeting adjourned at 3:15 P. M.

Secretary's notes on meeting of the Federal Advisory Council on May 24, 1943, at 3:20 P. M. in the Board Room of the Federal Reserve Building, Washington, D. C.

Messrs. Spencer, Brown, and Adams were absent.
Mr. Walter S. McLucas served as alternate for Mr. Brown.

The Council had a discussion regarding what attitude to take in connection with Regulation Q, but the Secretary was instructed to omit all details of the discussion even from his informal record.

It was decided not to hold a meeting of the Executive Committee in June, but tentatively it was decided to have one in July which according to the regular schedule ought to take place on July 7.

At 3:30 P. M. Dr. Goldenweiser appeared before the Council. He discussed very briefly the general situation. Banks at the moment have enough reserves though they are not always well distributed. The Federal Reserve System is bound to see to it that there are sufficient reserves always available. At the end of this calendar year, \$4 billion will have to be added to take care of the increase in outstanding currency. This probably will be done by means of open market operations. In April War Loan Deposit accounts amounted to about \$13 billion which meant that about \$2 billion were added to the reserves. The situation becomes tighter as the Government spends the money. This results that during drives there will be an easy reserve situation which means that at that time the Treasury can relax its pressure on the System. This may mean that banks will feel like buying very freely which is an argument for separating the drives; some in authority do not want such a separation. It is not desirable to reduce reserve requirements, certainly not for the purpose of taking care of additional currency. If deposits grow too rapidly, it may be necessary to reduce reserve requirements, but this ought not to be needed for another year. During this fiscal year there will probably be about \$45 billion available for spending above production and the question is how much the new taxes will take up.

Dr. Goldenweiser showed some charts prepared by Mr. Woytinsky of the Social Security Commission which seem to indicate there will be during the war something like \$90 billion of excess money. Goldenweiser would agree with Woytinsky that it would require unusual discipline during the war to keep prices from not rising more than 16% above the present level.

Goldenweiser does not believe even now that we shall have a runaway inflation. After the war the problem will become much acuter with the huge amount of deferred demand, and the necessary readjustment of the economic plan to meet the situation. He thinks it is a mistake to have constant advertisement to tell people to buy after the war for controls will be needed after the war for many years. Controls during war ought to be greater than at present and more taxes are needed.

STABILIZATION PLANS

Goldenweiser. Both the Keynes and the White plans aim to create a mechanism to control currencies after the war. They must be a part of something much more fundamental. First of all the economies of all countries must be

stabilized. If countries can pay from out of their own production or by means of temporary borrowing, these machineries will not be badly needed. The question arises whether these plans are worthwhile and whether in view of the enormous political problems these schemes will be able to prevent violent fluctuations in exchanges. The British plan starts without any capital, while the American provides for a capital of \$5 billion. The latter, however, ultimately will consist almost entirely of local currencies and government securities, and, therefore, will not differ much from the open book account provided for by the British plan. Keynes apparently plans to have about \$25 billion. The voting power in the Keynes plan is based on foreign trade statistics. It would give 40% of the voting power to Great Britain and only 14% to the United States. White gives both Great Britain and the United States 20% voting power and a practical veto in connection with certain fundamental provisions. From the point of view of the United States banking system, the important question is the effect all of this would have on our reserves. Outside of the United States there exist about \$10 billion in gold available for currency purposes to which is added each year 1 1/4 billion of new gold. All of this would imply that we should have to make ultimately a great contribution in the form of goods and services unless other countries also would be required to deposit gold. The gold is not needed by us and in some ways notes of hand might be better than having countries pay us in gold which would end their obligations while if we held notes we might be able to use them to bring pressure. The function of the Federal Reserve System vis-a-vis this situation is to see that schemes are not adopted which would make it impossible for us to exercise credit control.

The meeting adjourned at 4:15 P. M.