

MINUTES OF MEETING
of the
FEDERAL ADVISORY COUNCIL
November 14-15, 1943
and of the
MONTHLY MEETING
of the
EXECUTIVE COMMITTEE
December 7, 1943

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

November 14, 1943

The fourth statutory meeting of the Federal Advisory Council for 1943 was convened in Room 336 of the Mayflower Hotel, Washington, D. C., on Sunday, November 14, 1943, at 2:00 P. M., the President, Mr. Brown, in the chair.

Present:

Mr. Charles E. Spencer, Jr.	District No. 1
Mr. George L. Harrison	District No. 2
Mr. William Fulton Kurtz	District No. 3
Mr. B. G. Huntington	District No. 4
Mr. Robert V. Fleming	District No. 5
Mr. H. Lane Young	District No. 6
Mr. Edward E. Brown	District No. 7
Mr. Lyman E. Wakefield	District No. 9
Mr. W. Dale Clark	District No. 10
Mr. George M. Wallace	District No. 12
Mr. Walter Lichtenstein	Secretary

Absent

Mr. Ralph C. Gifford	District No. 8
Mr. Nathan Adams	District No. 11

The Secretary of the Council stated that Messrs. Gifford and Adams would not be present at any of the meetings nor had alternates been appointed in their stead. He, furthermore, stated that Mr. Fleming had informed him he would be unable to attend this first session but expected to be present at the subsequent sessions.

The minutes of the meetings of September 19-20, 1943, and the minutes of the meeting of the Executive Committee on October 6, 1943, copies of which had been previously sent to all members of the Council, were approved. The President of the Council announced that it was expected to hold the next meeting of the Executive Committee on December 7. This date was approved by the members of the Executive Committee present. It had been previously agreed to by the Board of Governors.

The Council proceeded to discuss at length the question of the cancellation of war contracts.

It was pointed out that four steps would seem to be essential:

1. Machinery must be organized for settling contracts.
2. Contracting officers must be relieved of personal responsibility.
3. The Armed Services should have final authority in the settlement of contracts and such settlement should not be subject to a review by the Comptroller General except in case of fraud.
4. Special attention must be given to the position of the smaller contractors.

On motion, duly made and seconded, it was voted to draft a resolution presenting the point of view of the Council.

The question of the liabilities of banks in the cashing of government checks was discussed, and it was pointed out that at present banks have no protection and assume unlimited liability in accepting endorsements when cashing government checks.

It was agreed that the President of the Council express to the Board informally the opinion of the Council that it would be highly desirable if legislation might be enacted defining and limiting the liabilities a bank assumes in cashing a government check.

A discussion took place regarding the recent issue in Italy of so-called "allied military currency". It was pointed out that there are really two different kinds of currency involved, one being the "spearhead" currency which is really nothing other than the regular silver certificate, and then the so-called "occupation" currency. It was stated that under decisions of the Supreme Court, the military authority in occupied territory has the right and duty to continue the economic life of the occupied territory. Therefore, if the usual domestic currency in such territory has disappeared as a result of enemy or other action, it is the duty of the military authority to provide some new currency for the territory. The United States does not thereby assume any legal or moral obligation to redeem such currency.

It was agreed unanimously that there was no need to discuss this matter with the Board of Governors.

The President of the Council called attention to the issue recently of a circular by the Smaller War Plants Corporation in which it was stated that any corporation engaged in war production or in essential civilian production may borrow at a bank up to \$25,000, the government giving one hundred per cent guarantee to reimburse the lending bank in case there is any loss incurred on such a loan. The interest on such loan is to be four per cent of which the bank is to receive three per cent and one per cent is to go to the agency.

Various members of the Council criticised this plan as it involved considerable danger for smaller banks which would not be able to compete for loans with the Smaller War Plants Corporation and needed a higher return than three per cent on commercial loans.

It was unanimously agreed that the President of the Council should make strong representations to the Board of Governors on this subject.

A discussion took place regarding Regulation Q and some of the members of the Council stated that it seemed necessary to issue in some districts more definite instructions to bank examiners to have them call the attention of banks to practices which were condemned by a recent ruling of the Board of Governors of the Federal Reserve System.

A discussion took place respecting the future policy of the Treasury in issuing securities.

The meeting adjourned at 4:45 P. M.

WALTER LICHTENSTEIN,
Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

November 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 President, Mr. Brown, in the chair.

Present: Mr. Edward E. Brown, President; Mr. George L. Harrison, Vice President; Messrs. Charles E. Spencer, Jr., William Fulton Kurtz, B. G. Huntington, H. Lane Young, Lyman E. Wakefield, W. Dale Clark, George M. Wallace, and Walter Lichtenstein, Secretary.

A resolution was read dealing with the termination of war contracts. There were some minor changes suggested. In its final form the resolution reads as follows:

"The larger part of the productive capacity of the country is now engaged in the production of war goods. When the war ends the task of converting this gigantic war economy to a peace economy will be a stupendous one, both for the Government and for business.

"Already some war contracts are being cancelled. When peace comes a large percentage of contracts then outstanding will no doubt be cancelled. Speedy and equitable settlement of these contracts will be essential if we are to avoid a disastrous business depression and mass unemployment. Millions of men discharged from military service and millions more now engaged in war plants will be looking for new jobs—and they will expect them promptly. If we delay in the transition from war to peace, if business is hampered one bit more than is unavoidable in its reconversion and in providing new jobs, mass unemployment and social distress will result, relief rolls will mount and the State and Federal treasuries will be subjected to the necessity of making huge grants for the relief of the unemployed.

"This must not and need not happen.

"Many factors are involved but the settlement of terminated war contracts is one of the most important.

"The Federal Advisory Council believes:

"(1) That war contracts which are terminated must be settled and settled promptly and finally by negotiated agreements between the contractor and the procuring agency of the Government which negotiated the original contract.

"(2) That settlements so negotiated should be final and not subject to review by any other agency except for fraud. Any amounts that might conceivably be saved the Government through a post-audit will fade into insignificance in comparison with grants for relief that will be necessitated by resulting delay, uncertainty, and unemployment.

"(3) That if settlements of terminated contracts when negotiated by the procuring agencies are *not* final, or if they are made subject to subsequent audit, credit for working capital needed for reconversion after the war may, in many cases, be unavailable until the settlement does become final and the basis of credit thereby becomes ascertainable. This applies particularly to those contractors whose capital is relatively small.

"(4) That Congress should relieve contracting officers who negotiate settlements from personal responsibility, except for fraud.

"(5) That Congress should enact legislation providing more adequate means of interim financing of contractors whose contracts have been cancelled when for unavoidable reasons there is delay in final settlement and payment.

“(6) That appropriate plans should be made in advance for the prompt removal of surplus Government material and facilities for plants whose contracts are terminated.

“In the opinion of the Federal Advisory Council, unless appropriate steps are taken by the Congress and the various Government agencies to relieve the minds of thousands of contractors large and small and to assure business that, when terminated, contracts will be settled fairly, quickly, and finally, there is danger that war production will be hampered now and that peace production will be perilously delayed after the war.

“The Federal Advisory Council believes that these are risks that need not be taken.”

The President of the Council suggested that the Board of Governors of the Federal Reserve System be asked to transmit the resolution to the Joint Contract Termination Board and to other agencies and officials concerned with this subject.

The meeting adjourned at 9:50 A. M.

WALTER LICHTENSTEIN,
Secretary.

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

November 15, 1943

At 10:00 A. M., a joint conference of the Federal Advisory Council and the Board of Governors of the Federal Reserve System was held in the Board Room of the Federal Reserve Building, Washington, D. C.

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

Chairman Marriner Eccles; 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; Eliott 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; George B. Vest, Assistant General Attorney; Woodlief Thomas, Assistant Director, Division of Research and Statistics; Leo H. Paulger, Chief, Division of Finance; 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. Edward E. Brown, President; Mr. George L. Harrison, Vice President; Messrs. Charles E. Spencer, Jr., William Fulton Kurtz, B. G. Huntington, Robert V. Fleming, H. Lane Young, Lyman E. Wakefield, W. Dale Clark, George M. Wallace, and Walter Lichtenstein, Secretary.

The President of the Council presented to the Board of Governors the desirability of limiting the liability of banks in connection with the cashing of government checks. He pointed out that the American Bankers Association had suggested remedial legislation, and he voiced the hope of the members of the Council that the Board would use its influence to have such legislation enacted into law.

The President of the Council called the attention of the Board of Governors to the circular issued recently by the Smaller War Plants Corporation which authorizes banks to lend to any business engaged in war production or necessary civilian production an amount up to \$25,000, such loans to carry a 100 per cent Government guarantee. He stated that it was the opinion of the Federal Advisory Council that:

1. This is a step toward socialization of all credit.

2. It would endanger the existence of small banks because they would not be able to afford to lend even good smaller concerns on the basis outlined in the circular of the Smaller War Plants Corporation. It would, therefore, deprive small banks of all their normal commercial loans.

The Chairman of the Board of Governors discussed the history of the legislation which permitted the Smaller War Plants Corporation to undertake such guarantees, and he expressed the opinion that there ought to have been voiced strong opposition at the time the legislation was being considered by Congress.

A lengthy discussion took place regarding the problem of cancellation of war contracts.

The Secretary of the Council read the resolution which had been prepared on this subject and which appears above in these minutes.

The Chairman of the Board of Governors stated that the Board of Governors would be very glad to send this resolution with the endorsement of the Board to the proper bodies and officials.

A discussion took place regarding Regulation Q and the members of the Council expressed their satisfaction with the progress that had been made in enforcing the law and the regulation.

The meeting adjourned at 12:00 Noon.

WALTER LICHTENSTEIN,
Secretary.

MINUTES OF MEETING OF FEDERAL ADVISORY COUNCIL

November 15, 1943

At 12:05 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. B. G. Huntington, H. Lane Young, Lyman E. Wakefield, W. Dale Clark, George M. Wallace, and Walter Lichtenstein, Secretary.

The Secretary stated that Messrs. Brown, Spencer, and Fleming could not be present owing to a previous appointment at the Treasury.

A discussion took place regarding the final form of the resolution dealing with the termination of war contracts, and the adoption of the resolution, in the form in which it appears above, was confirmed.

The meeting adjourned at 12:10 P. M.

WALTER LICHTENSTEIN,
Secretary.

NOTE: This transcript of the Secretary's notes is not to be regarded as complete or necessarily accurate. The transcript should be considered as being strictly for the sole use of the members of the Federal Advisory Council.

W. L.

Secretary's notes on meeting of the Federal Advisory Council on November 14, 1943, at 2:00 P. M., in Room 336 of the Mayflower Hotel, Washington, D. C.

The Secretary stated that Messrs. Gifford and Adams would not be present at any of the meetings nor had alternates been appointed in their places. He, furthermore, stated that Mr. Fleming had informed him he would be unable to attend the meeting today but expected to be present at the meeting tomorrow.

The minutes of the meeting of September 19-20 and the minutes of the meeting of the Executive Committee on October 6, copies of which had been previously sent to all the members of the Council, were approved.

The President of the Council announced that it is expected to have the next meeting of the Executive Committee on December 7. This date was approved by the members of the Executive Committee present. It had been previously agreed to by the Board of Governors.

CANCELLATION OF WAR CONTRACTS

Harrison states no one department at present can cancel all contracts. An attempt was made to create a special overall division to handle all cancellations of contracts, but this was found to be impossible because it was a postwar subject which belongs to some other agency of government. A joint committee of the various procuring agencies was organized, but when the postwar government agencies felt it belonged within its scope, the organization of the Joint Contract Termination Board was held up. Finally, however, Messrs. Byrnes and Baruch set up a Joint Contract Termination Board. It is certain that legislation is needed. Everyone seems agreed that when the overall plan is settled each agency should have the power to make a final and definite settlement. Harrison feels once the general policy is settled the central Board will have little work to do. He points out that the small contractors are not being given consideration for having bought machinery and equipment out of their own funds. As a matter of fact, in most cases they were not aware that the Government would have bought such machinery and equipment for them. In order to help them out, the War Department may agree to buy in this equipment.

Brown asks whether there is anything the Council can do. He points out that we do not want the Comptroller General to have the right to interfere, and contracting officers should be relieved of all personal responsibility.

Harrison says one of the troubles is that the big corporations are not worried about the situation and so have not taken any decided stand. It might be helpful if the Council took some definite action. He described how disastrous it will be for our whole economy if the process of settlement of contracts is slowed up. Over 80 per cent of the contracts outstanding are held by the top 200 corporations.

Wakefield says V loans were for the purpose of increasing war production, and he asks whether VT loans can be used for termination.

Harrison thinks all now agreed that this can be done, but he expects soon there will be definite pressure for legislation to relieve contracting officers of responsibility, and in such legislation the matter of the VT loans will be clarified; also the right of the contracting officer to make a complete or partial certification will be clarified. He continues. Byrnes has suggested that the contracting officer and contractor settle, say on a 90 per cent basis of the claim, and the Comptroller General audit the last 10 per cent of the claim. There are two objections to this: (1) The Comptroller General should not have the right to audit anything except the final 10 per cent and not be allowed to raise the question of the settlement made of the other 90 per cent, and, (2) many small contractors absolutely need the last 10 per cent, and it may mean for many of them the difference between life and death. It is also being proposed that a contractor may ask for renegotiation of his whole position. For example, a contractor may have had 10 contracts of which 7 have been terminated and only 3 are left. He may feel that he is going to be injured by having the last three renegotiated. He then may ask that his whole position be taken into consideration.

BROWN. Similar machinery for the final settlement of all war contracts is essential. If not, when the day of victory comes there will be chaos. Four things are needed: (1) Machinery must be set up for settling contracts, (2) contracting officers must be relieved of personal responsibility, (3) armed services must have final authority without being subject to the review of the Comptroller General except in cases of fraud and, (4) there must be emphasis of the position of the small contractor.

Harrison. As yet there isn't any bill actually before Congress, except the May and Murray bills, neither of which is adequate. The real problem is the Comptroller General who is the pet of Congress. The Comptroller General admitted that at present contracting officers have power to make a final settlement, but he asks for power to investigate whether any given contract was desirable from the Government's point of view.

Brown tells how the Comptroller General interfered with the plans of the Maritime Commission for the leasing of ships.

Harrison says that both Byrnes and Baruch are convinced that the Comptroller General must be kept out of the picture.

It was unanimously voted that Harrison be authorized to draft a resolution to present the point of view of the Council.

LIMITATIONS ON GOVERNMENT CHECKS

Harrison says this has been a problem ever since the early 20's.

Brown points out that the method in the past has not been for the Government to sue a bank because it has cashed a given check with wrong endorsement or the like, but the Federal Reserve Bank simply charges a bank's account when a check is returned, and there really isn't any remedy.

After some further informal discussion, it was decided to request the President of the Council to express to the Board informally the opinion of the Council that it would be highly desirable to have some legislation limiting bank's responsibility in accepting endorsements on Government checks.

ALLIED MILITARY CURRENCY

Harrison points out that there are two kinds of currencies involved, the so-called "spearhead" currency which is nothing other than the regular silver certificate. However, in order that it may be distinguished from the currency current in this country it has a yellow seal instead of a blue seal. The other currency is the so-called "occupation" currency. This is merely a convenience. Under decisions of the Supreme Court, the military authority in an occupied territory has the right and duty to continue the economic life of the occupied territory. Therefore, if the domestic currency in such territory has disappeared as a result of enemy or other action, it is the duty of the military authority to provide some new currency for this territory. There is no legal or moral obligation on the part of the United States to redeem such currency. It is a problem which can only be settled by the terms of the treaty of peace. The procedure is entirely justified under the Hague agreements and under international law. He reads a letter from the War Department dealing with this matter. So far, the occupying authority has not issued as much currency as normally circulated in Sicily and that portion of Italy occupied by us. Members of the armed forces having such currency and wishing to send it back home may have it redeemed at a fixed rate in this country without any difficulty whatsoever. Such privilege of exchange, however, is limited strictly to allied troops. Incidentally, the whole issue is a joint

venture of the allies and it is one of the means being used to prevent inflation in Sicily. Relief and supplies are being given by the Army and not being paid for by the Italians.

It was agreed unanimously that there was not need to discuss this matter with the Board.

SMALLER WAR PLANTS CIRCULAR

Brown discussed the issue recently of a circular by the Smaller War Plants Corporation. In this circular it is stated that any corporation engaged in war production or in essential civilian production may borrow at its bank up to \$25,000 with a 100 per cent guarantee on the part of the government. Applications need not be referred to Washington but may be approved without such reference by the local regional office of the Smaller War Plants Corporation. The interest on such a loan is to be 4 per cent of which the banks is to get 3 per cent and 1 per cent to go to the agency. Brown thinks it is bad practice from every point of view. It seems to be authorized by some sort of executive order. A bank does not assume any risk and consequently the interest is higher than a large bank would need but is too little for a small bank. It simply means the socialization of credit. Obviously, almost any business can be brought under the head of essential civilian business.

Wakefield says the individual banks should undertake to meet the Government competition by offering a customer a loan, the net cost of which would be no greater than one obtained from the Government. Most people would prefer to do business with a private bank rather than with a Government agency, and the net cost to a borrower going to a Government agency is frequently much more than the nominal interest charge. Government agencies at present are sending out salesmen to farmers and others to solicit business.

Brown says the circular was issued about two weeks ago. He believes it should be pointed out to the Board that this involves (1) Socialization of credit, and (2) the ruin of small banks.

The Council agrees that the President of the Council should make strong representations to the Board on this subject.

REGULATION Q

Wakefield says a good job is being done.

Young states many State member banks are absorbing exchange charges and the Federal Reserve System is not doing anything about these member banks.

Wakefield suggests asking the Board to instruct its own examiners to look into the situation.

Brown says that the Board states instructions have been issued to its own examiners.

Young says State banks in the Richmond District have never heard anything about this matter, while in the Atlanta District the banks have all been warned.

Brown believes if pressure is kept up the abuses will stop. St. Louis and Kansas City, if they do not conform, will get so much unprofitable business that they will get into line. At present, New York seems to be absorbing for railroads and insurance companies with the result that this may injure Chicago banks and those located in a few other large places. New York banks do not absorb exchange charges for other banks.

It was agreed to meet in the Board Room tomorrow at 9:30 A. M., and to ask the Board of Governors for a joint meeting at 10:00 o'clock. It was found desirable to set the time so early as Messrs. Brown, Fleming, and Spencer must go to a meeting at the Treasury at noon.

FISCAL PROBLEMS

Harrison thinks it might be a good time to suggest that the rate on the 3-months bill be raised to $1/2$ of 1 per cent and that there be a 4 months bill having a rate of $5/8$ of 1 per cent, and that the certificate of indebtedness be eliminated.

Brown points out that Mr. Eccles wants a 9-months bill carrying a rate of $3/4$ of 1 per cent. This is in line with his desire to have all excess funds of member banks carried in the Federal Reserve Banks. The Treasury does not wish to upset the banking situation in New York and Chicago. Bills are being used more and more even by small banks which is one of the reasons that correspondent bank balances, especially in New York, are shrinking. A higher rate is not a solution as long as the Federal Reserve Banks have a fixed rate of redemption.

Wakefield approves of the present setup.

Wallace thinks there is too much spread between the $3/8\%$ bill and the $7/8\%$ certificate of indebtedness.

Wakefield disagrees.

Brown believes that the conference in the Treasury is for the purpose of arranging a drive on individuals for about \$6 billions, and follow this up with a drive of \$8 billions from corporations. It is not intended to make the \$8 billions bought by corporations available to banks until after a considerable lapse of time. He, therefore, doubts whether corporations will buy much except in so far as they may sell

bonds previously purchased and put the money received into the new issues.

Harrison states he always objected to the "put". If you don't increase the rate on the bill from $3/8$ then the rate on the certificates of indebtedness should be lowered.

Brown believes the rate on the certificates of indebtedness might well be decreased to $3/4$ of 1 per cent for the same maturity.

Harrison says that on several occasions Eccles had suggested the Fed buy direct from the Treasury. The Council objected but said it would have less objection if such purchases were merely to replace maturing bills. He thinks Eccles will ask tomorrow whether the Council objects to the Fed making a direct tender to take care of the turnover.

Brown doubts whether there is any mechanical difficulty existing, and therefore objects to the direct purchases.

Harrison asks if this keeps on, may it not be necessary to reduce reserve requirements.

Brown says he does not believe in reducing reserve requirements at this time.

Huntington says New York banks are borrowing from Federal and will show borrowing in their December statements. Borrowing is better than reducing reserve requirements.

Harrison says the time will come when it will not be wise to increase the portfolio in the Fed any further.

Brown says it is not feasible to change the rate during the war, but a year or two after the war the long-term rate ought to be increased to 3 per cent.

The meeting adjourned at 4:45 P. M.

The Council met in the Board Room of the Federal Reserve Building at 9:30 A. M. on November 15, 1943.

Messrs. Fleming, Gifford, and Adams were absent.

Harrison read his resolution on the termination of war contracts. A copy of the resolution in its final form is attached, herewith. He asks what the Council wishes to do with the resolution.

Brown suggests asking the Board of Governors to transmit it to Byrnes and the Joint Contract Termination Board which consists of representatives of the various governmental procuring agencies. The membership of that Board has been settled, except for the chairmanship.

The meeting adjourned at 9:50 A. M.

At 10:00 A. M. the Council held a joint meeting with the Board of Governors of the Federal Reserve System.

All members of the Council, except Messrs. Fleming, Gifford, and Adams were present. Mr. Fleming joined the meeting at 11:05 A. M. The following members from the Board of Governors were present: Chairman Eccles, Governors Ransom, Szymczak, McKee, Draper, and Evans; also Messrs. Clayton, Morrill, Carpenter, Bethea, Wyatt, Smead, Dreibelbis, Paulger, Vest, Thomas, Parry, and Thurston.

LIMITATION ON GOVERNMENT CHECKS

Brown speaks of the desirability of limiting the liability of banks in connection with the cashing of government checks. ABA has suggested legislation and the Council hopes the Board will use its influence to have such legislation enacted into law.

SMALLER WAR PLANTS CORPORATION

Brown calls attention to the circular put out by the Smaller War Plants Corporation which authorizes banks to lend any business engaged in war production or necessary civilian production up to \$25,000; the loan is to have a 100% government guarantee. The rate on such loan is to be 4% of which 1% is to go to the agency and 3% to the lending bank. The Council feels that: (1) This is a step toward socialization of all credit. It is rather too early to see what the attitude of the Smaller War Plant Corporation really will be. (2) This will ruin small banks because they cannot afford to lend even the better smaller concerns on such a basis, and it will practically deprive small banks of all their normal commercial loans. He feels this will make the granting of credit a matter of politics.

Eccles says in his opinion this is water over the dam. Something ought to have been done while legislation was pending, but he feels it is too late now. The whole idea was to help concerns which did not have any war business and no chance of getting any war business, and who were, therefore, in danger of being put out of business. The Board was opposed to this whole idea and the legislation probably would never have passed if Nelson of the WPB had made effective objection when he appeared as a witness before the committees of Congress. What

he did was to submit amendments which Congress promptly adopted and then passed the whole legislation. This legislation was never designed to aid businesses in war work. It was made to help small existing businesses and was motivated by political reasons similar to those which induced the War and Navy Departments to give contracts to certain small businesses. There is nothing to be done about the matter now. Banking and business corporations ought to have made objections while the legislation was pending.

Draper thinks Mr. A. L. M. Wiggins, president of the ABA made the situation worse by apparently approving.

Ransom read a letter from Mr. Wiggins to show that the ABA had always objected to governmental guarantees, except in the war emergency for the purpose of aiding war production.

Brown says the trouble is the terms of the circular would include in these \$25,000 loans the corner grocery store, the drug store, and what have you. It was never supposed that the legislation was intended to cover so much territory.

Eccles repeats that Nelson could have killed the legislation but he did not offer any effective objection. The legislation was entirely unnecessary and it was a purely political move on the part of Mead, Murray, and a few other senators. The Board could transmit the views of the Council and express its own views also and this would not do any harm. Some committee of the ABA might well point out the unsoundness of the whole scheme and that private banks in the long-run cannot operate side by side with such types of credit agencies. It would ultimately ruin the small banks. There are existing now all sorts of agricultural credit agencies and none of these agencies have any date of expiration.

McKee thinks the Council ought to be more excited about the whole situation which he regards as very dangerous. Unless somebody tells the whole story, there will be trouble. The people pushing this are in the controversy between the War Department and the Comptroller General, and, as a matter of fact, are hanging on the skirts of the war effort. The bright spot is that Murray and Mead do not like each other. Besides senators, there is May of Kentucky in the House.

Brown repeats that this whole business is something which has nothing to do with the war and the scheme is being run by people not familiar with banking. He asks whether any other members of the Council wish to speak on the subject.

Eccles says it will certainly not do any harm if the Council takes some action and the opinion could be transmitted to the WPB and to the Byrnes-Baruch organization. As yet no particular attention is being paid to financing termination, working capital, conversion, etc. So far merely technical points of termination are being discussed. It is possible that when these latter problems are raised the Board may also be able to express its opinion about this other legislation.

Brown says the Council will be glad, he is sure, to have a resolution prepared.

CANCELLATION OF WAR CONTRACTS

Secretary of Council reads a resolution dealing with the cancellation of war contracts. A copy of the final form of this resolution is attached, hereto.

Brown says it is desired to have this resolution transmitted to Messrs. Byrnes, Baruch, Warren, and possibly the committees of Congress. If the Board prefers, the Council can transmit the resolution itself.

Eccles says, except for Congress, all governmental agencies desire the program set forth in the resolution and are opposed to the position taken by the Comptroller General.

Harrison. The real difficulty is that there has been lack of interest on the part of business and bankers. If Council were to pass the resolution it would be helpful. Large business seems reluctant to oppose the Comptroller General because many of the concerns have cost-plus contracts which are completely under the jurisdiction of the Comptroller General.

Brown thinks large concerns are not very much affected.

Eccles believes even big business may be hampered in many cases if settlements are dragged out too long.

Wallace points out that this is certainly true of all aircraft corporations.

Brown says big steel companies, agricultural implement companies, and the like do not need much help but small concerns do. It is also necessary to clarify the legality of VT loans.

Eccles found that the lawyers of the Federal Reserve System raised the question of legality of VT loans and so the System had refused to have much to do with them.

McKee wants to know what will happen if war should suddenly end before the necessary legislation is passed.

Harrison adds another clause to the original resolution which appears in the final form as #3.

Brown asks whether anyone has any objection to this new clause.

McKee and Evans think it would be best not to include this new clause.

Wakefield agrees with McKee and Evans.

Eccles thinks the clause essential to the whole case. Even big concerns may be short of capital for conversion, higher inventories, and the like. Situation will be very bad if legislation is not passed. In many cases you will have a credit problem even though legislation is passed. He doubts, however, whether the Smaller War Plants Corporation has anything to do with this problem.

McKee thinks that it will be argued that government aid is needed.

Kurtz believes objection to the clause will be met if no reference is made to bank credit.

Wakefield believes the whole resolution will be better if this subject matter is not injected into it.

It is at this point that Mr. Fleming joined the meeting.

Brown suggests Council consider final wording of resolution after the adjournment of the joint meeting. He suggests that copies be sent to Messrs. Byrnes, Baruch, and the various members of the Joint Contract Termination Board.

Eccles says the Board is not merely willing to transmit this resolution but may even supplement it with a statement of its own and at the least would express its agreement with the resolution.

Harrison says the Joint Contract Termination Board is now organized except the chairman to represent Byrnes has not yet been appointed. The six procuring agencies of the government will be represented on it.

Eccles says it is contemplated to have another committee to handle problems of conversion, employment, and demobilization. He discussed the

War Mobilization Committee. Byrnes has been raised up one step, and it has been suggested to create a special agency to handle termination and reconversion, but for the present Byrnes wishes to set up a division in his own organization to handle these matters, and he has appointed a committee to handle the termination of contracts and other problems.

Brown and Eccles agree to have the resolution sent to this committee.

McKee adds the name of the Comptroller General.

REGULATION Q

Brown says Council believes there have been good results obtained already from the opinion published by the Board. If pressure can be continued, those centers continuing to absorb exchange will get so much undesirable business that they will fall into line. It is desirable to impress upon Federal Reserve examiners to look into the practice of State member banks. So far the procedure has been very uneven and there is gossip that in some districts the National bank examiners and in others the Federal Reserve bank examiners have been uninterested in the whole matter.

Ransom says that he believes progress is being made, and, on the whole, examiners are doing what they can. He read from "Washington", published by the ABA, a paragraph according to which the FDIC holds the remission of a service charge is the same as original absorption. He feels there may be some trouble about it.

Fleming agrees with Ransom that this is a horse of an entirely different color.

Ransom points out the danger if the matter of service charges by banks is introduced into the controversy.

Brown says there has been very little complaint in Chicago except for the fact that insurance companies and railroads claim they can get absorption of charges in New York.

Kurtz left the meeting at 11:00 A. M.

McKee asks whether anything should be done to prepare for shifts of deposits which will take place when the emergency is over. It may be that shift will be from country banks to central reserve city banks.

Brown says he believes the trend will be the other way. In any event, the answer is to keep a large part of assets in short-term governments.

Eccles says there never was a time when a shift of deposits will be easier for banks to handle. They are very much more liquid than after the last war and very much more liquid than in 1929. At the present time agricultural loans are down and most small businesses are in an excellent cash position due to the liquidation of inventories. With large government portfolios, pattern of rates, needs of refunding, banks will be able to sell securities with the greatest of ease.

At 11:55 A. M. Brown, Spencer, and Fleming left for the Treasury and Harrison assumed the chair.

The meeting adjourned at 12M.

The Council met in the Board Room of
the Federal Reserve Building at 12:05
P. M. on November 15, 1943.

Mr. Harrison in the chair; other members present: Huntington,
Young, Wakefield, Clark, Wallace, and the Secretary.

Harrison says War Department feels private banking must provide
working capital and that this is not the business of government. Banks,
however, in many cases will not be able to extend credit to concerns
whose contracts have not been settled. He presented the revised version
of #3 of his Resolution, the final form of which appears in the copy at-
tached, hereto.

The whole resolution was adopted unanimously and the wish ex-
pressed that it be sent to the proper authorities at the earliest
possible moment.

The meeting adjourned at 12:10 P. M.