

MINUTES OF MEETING  
of the  
FEDERAL ADVISORY COUNCIL  
February 13-14, 1944  
and of the  
MONTHLY MEETINGS  
of the  
EXECUTIVE COMMITTEE  
January 5, 1944  
and  
March 8, 1944

# OFFICERS AND MEMBERS OF THE FEDERAL ADVISORY COUNCIL

For the year 1944

## OFFICERS:

President, Edward E. Brown  
Vice President, Charles E. Spencer, Jr.  
Secretary, Walter Lichtenstein

## EXECUTIVE COMMITTEE:

Edward E. Brown  
Charles E. Spencer, Jr.  
John C. Traphagen  
William Fulton Kurtz  
B. G. Huntington  
Robert V. Fleming

## MEMBERS:

Charles E. Spencer, Jr.	District No. 1
John C. Traphagen	District No. 2
William Fulton Kurtz	District No. 3
B. G. Huntington	District No. 4
Robert V. Fleming	District No. 5
Keehn W. Berry	District No. 6
Edward E. Brown	District No. 7
Ralph C. Gifford	District No. 8
Lyman E. Wakefield	District No. 9
A. E. Bradshaw	District No. 10
Ed H. Winton	District No. 11
George M. Wallace	District No. 12

# BY-LAWS OF THE FEDERAL ADVISORY COUNCIL

## ARTICLE I. OFFICERS

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

## ARTICLE II. PRESIDENT AND VICE PRESIDENT

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

## ARTICLE III. SECRETARY

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

## ARTICLE IV. EXECUTIVE COMMITTEE

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

## ARTICLE V. DUTIES OF THE EXECUTIVE COMMITTEE

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

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

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

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

## ARTICLE VI. MEETINGS

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

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

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

#### ARTICLE VII. ALTERNATES

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

#### ARTICLE VIII. AMENDMENTS

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

February 13, 1944.

# MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

February 13, 1944

The first and organization meeting of the Federal Advisory Council for the year 1944 was convened in Room 936 of the Mayflower Hotel, Washington, D. C., on Sunday, February 13, 1944, at 2:00 P.M.

## Present:

Mr. Charles E. Spencer, Jr.	District No. 1
Mr. John C. Traphagen	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. Keehn W. Berry	District No. 6
Mr. Edward E. Brown	District No. 7
Mr. Ralph C. Gifford	District No. 8
Mr. Lyman E. Wakefield	District No. 9
Mr. A. E. Bradshaw	District No. 10
Mr. Ed H. Winton	District No. 11
Mr. George M. Wallace	District No. 12

Mr. Edward E. Brown was elected Chairman *pro tem* and Mr. Walter Lichtenstein Secretary *pro tem*.

The Secretary stated that communications had been received from the twelve Federal Reserve banks certifying to the election of their representatives in accordance with the above list.

Upon nominations for the office of the President of the Council being called for, Mr. Edward E. Brown was nominated.

On motion, duly made and seconded, the nominations were closed, and the Secretary was instructed to cast a ballot for Mr. Brown, who was thereupon declared elected President of the Council for the year 1944.

Upon nominations for the office of Vice President being called for, Mr. Charles E. Spencer, Jr. was nominated.

On motion, duly made and seconded, the nominations were closed, and the Secretary was instructed to cast a ballot for Mr. Spencer, who was thereupon declared elected Vice President of the Council for the year 1944.

The President, Mr. Brown, thereupon called for nominations for the four appointive members of the Executive Committee. Messrs. John C. Traphagen, William Fulton Kurtz, B. G. Huntington, and Robert V. Fleming were nominated.

On motion, duly made and seconded, these gentlemen were unanimously elected members of the Executive Committee for the year 1944, the President and Vice President being *ex officio* members.

On motion, duly made and seconded, Mr. Walter Lichtenstein was elected Secretary of the Federal Advisory Council for the year 1944 at a salary of \$2500.00 per year.

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

The Secretary presented his financial report for the year 1943, which had been audited by Mr. J. J. Buechner, Assistant Auditor of The First National Bank of Chicago, which on motion, duly made and seconded, was approved and ordered to be printed. The report is attached hereto and made a part of these minutes.

On motion, duly made and seconded, the minutes of the Council meeting of November 14-15, 1943, copies of which had been sent to the members, as well as the minutes of the Executive Committee meetings of December 7, 1943, and of January 5, 1944, were approved.

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

"Resolved that the Secretary be and he is hereby authorized to ask each Federal Reserve Bank to contribute \$350.00 toward the Secretarial and incidental expenses of the Federal Advisory Council for the year 1944 and to draw on it for that purpose."

Mr. Gifford corrected a statement made by Governor Ransom at the meeting of the Executive Committee on January 5, 1944, relating to Regulation Q. He stated Louisville had not rescinded the resolution abolishing the absorption of exchange charges but had merely left the effective date of the resolution in abeyance.

Mr. Fleming asked permission for Colonel Bryan Houston, Deputy Administrator for Rationing in the O. P. A., to appear before the Council after the close of the regular meeting in order to bring to the attention of the Council certain abuses that had arisen in connection with ration banking.

It was agreed to hear Colonel Houston at the close of the meeting.

It was agreed to ask the Board of Governors for a copy of the draft of a bill which it was understood had been prepared further to regulate holding companies.

Mr. Kurtz made a report of the hearing which he had attended in reference to the Brown Bill (H. R. 3956) before the Committee on Banking and Currency of the House of Representatives.

A general discussion took place regarding the problem of absorption of exchange charges, and it was agreed that the President appoint a committee to draft a resolution on this subject to be considered by the Council.

The President appointed Messrs. Kurtz and Fleming as a committee to draft the resolution.

The President of the Council stated it was inadvisable to ask at this time that the resolution, adopted by the Executive Committee of the Council on December 7, 1943 in respect to loans to be made by the Smaller War Plants Corporation, be published.

There was general agreement not to ask for publication at this time.

There was a general discussion on the subject of the present status of termination of contracts and reimbursements.

A discussion took place about the desirability of the repeal of Regulation W but it was agreed not to take any action at this time.

The regular meeting adjourned at 5:20 P. M.

At 5:30 P. M., Colonel Bryan Houston, Deputy Administrator for Rationing in the O. P. A., appeared before the Council and discussed his problems in connection with ration banking and the need for obtaining a proper person to revise the organization within the banks so as to eliminate abuses that had arisen.

This special session adjourned at 6:15 P. M.

WALTER LICHTENSTEIN,  
Secretary.

REPORT OF THE SECRETARY OF THE FEDERAL ADVISORY COUNCIL

For the Year Ending December 31, 1943

Balance on hand December 31, 1942.....	\$4,723.40	Salary.....	\$2,500.00
Assessment—Twelve Federal Reserve Banks.....	4,200.00	Conference Expense.....	960.75
		Printing & Stationery.....	256.00
		Postage, telephone, and telegraph.....	160.58
		Miscellaneous.....	96.03
		Balance on hand December 31, 1943.....	4,950.04
	<u>\$8,923.40</u>		<u>\$8,923.40</u>

Chicago, Illinois  
January 7, 1944

To the Federal Advisory Council:

I have audited the books, vouchers, and accounts of the Secretary of the Federal Advisory Council for the year ending December 31, 1943, and certify that the above statement agrees therewith.

Respectfully,

THE FIRST NATIONAL BANK OF CHICAGO,

By J. J. Buechner,  
Assistant Auditor.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

February 14, 1944

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. E. E. Brown, President; Mr. Charles E. Spencer, Jr., Vice President; Messrs. John C. Traphagen, William Fulton Kurtz, B. G. Huntington, Keehn W. Berry, Ralph C. Gifford, Lyman E. Wakefield, A. E. Bradshaw, Ed H. Winton, George M. Wallace, and Walter Lichtenstein, Secretary.

The Secretary presented a resolution on the subject of absorption of exchange charges which had been prepared, at the Council's request, by Mr. Dreibelbis, General Attorney of the Board of Governors. Mr. Kurtz presented a resolution on the same subject which he had prepared, reading as follows:

"The Federal Advisory Council reaffirms its repeated belief that the enforcement of Regulation Q prohibiting the absorption of exchange charges is both proper and necessary; and that the Board of Governors of the Federal Reserve System be urged firmly to oppose the passage of the so-called Maybank Bill (S. 1642) and the Brown Bill (H. R. 3956) now before the Senate and the House, respectively. The practice of exchange absorption has become a serious competitive abuse, and is tending to draw deposits away from their natural trade areas and normal trade streams. This dislocation of funds may well cause embarrassment at the time of any future banking stress.

"The Council believes that the practice violates the intent of the Banking Acts of 1933 and 1935 respecting the prohibition against the payment of interest on demand deposits. The proposed bills legalizing exchange absorption run counter to all recent Federal legislation in that they create a preference in favor of the large depositor."

It was unanimously voted to adopt the resolution prepared by Mr. Kurtz.

The meeting adjourned at 9:45 A. M.

WALTER LICHTENSTEIN,  
Secretary.

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

February 14, 1944

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:

Chairman Marriner S. Eccles; Vice-Chairman Ronald Ransom; Governors M. S. Szymczak, John K. McKee, and Ernest G. Draper; also, Lawrence Clayton, Assistant to the Chairman; Elliott Thurston, Special Assistant to the Chairman; Chester Morrill, Secretary of the Board of Governors; Liston P. Bethea and S. R. Carpenter, Assistant Secretaries to the Board of Governors; Walter Wyatt, General Counsel; J. P. Dreibelbis, General Attorney and George B. Vest, Assistant General Attorney; E. A. Goldenweiser, Director, Division of Research and Statistics; Leo H. Paulger, Director, Division of Examinations; Edward L. Smead, Director, Division of Bank Operations, and Carl E. Parry, Director, Division of Security Loans.

Present: Members of the Federal Advisory Council:

Mr. Edward E. Brown, President; Mr. Charles E. Spencer, Jr., Vice President; Messrs. John C. Traphagen, William Fulton Kurtz, B. G. Huntington, Robert V. Fleming, Keehn W. Berry, Ralph C. Gifford, Lyman E. Wakefield, A. E. Bradshaw, Ed H. Winton, George M. Wallace, and Walter Lichtenstein, Secretary.

The Secretary of the Council read the resolution dealing with the absorption of exchange charges which had been adopted by the Council.

Governor Ransom suggested some minor changes in the resolution which were accepted by the Council. The resolution in its final form reads as follows:

“The Federal Advisory Council reaffirms its repeated belief that it is both proper and necessary to prevent the evasion of section 19 of the Federal Reserve Act by the device of absorbing exchange charges; and that the Board of Governors of the Federal Reserve System be urged firmly to oppose the passage of the so-called Maybank Bill (S. 1642) and the Brown Bill (H.R. 3956) now before the Senate and the House, respectively. The practice of exchange absorption has become a serious competitive abuse, and is tending to draw deposits away from their natural trade areas and normal trade streams. This dislocation of funds may well cause embarrassment at the time of any future banking stress.

“The Council believes that the practice violates the intent of the Banking Acts of 1933 and 1935 respecting the prohibition against the payment of interest on demand deposits. The proposed bills legalizing exchange absorption run counter to all recent Federal legislation in that they create a preference in favor of the large depositor.”

A discussion took place regarding loans of the Smaller War Plants Corporation and the desirability of having the Board resume its former practice of sending to the members of the Council lists of bills having a bearing on banking which have been introduced in Congress.

A lengthy discussion took place regarding plans for the termination of war contracts. Special emphasis was placed upon the need of protecting subcontractors against the possible insolvency of contractors in the tiers above them.

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It was unanimously voted to adopt the resolution prepared by Mr. Kurtz.

The meeting adjourned at 9:45 A. M.

WALTER LICHTENSTEIN,  
Secretary.

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

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Present: Members of the Federal Advisory Council:

Mr. Edward E. Brown, President; Mr. Charles E. Spencer, Jr., Vice President; Messrs. John C. Traphagen, William Fulton Kurtz, B. G. Huntington, Robert V. Fleming, Keehn W. Berry, Ralph C. Gifford, Lyman E. Wakefield, A. E. Bradshaw, Ed H. Winton, George M. Wallace, and Walter Lichtenstein, Secretary.

The Secretary of the Council read the resolution dealing with the absorption of exchange charges which had been adopted by the Council.

Governor Ransom suggested some minor changes in the resolution which were accepted by the Council. The resolution in its final form reads as follows:

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A discussion took place regarding loans of the Smaller War Plants Corporation and the desirability of having the Board resume its former practice of sending to the members of the Council lists of bills having a bearing on banking which have been introduced in Congress.

A lengthy discussion took place regarding plans for the termination of war contracts. Special emphasis was placed upon the need of protecting subcontractors against the possible insolvency of contractors in the tiers above them.

In reply to the formal request made by the President of the Council asking that the Board of Governors permit the members of the Council to see the draft of the Bill dealing with holding companies, the Chairman of the Board of Governors stated he did not believe it advisable to present the draft of the Bill to the Council and stated he did not think that a bill drawn by the Board of Governors need be discussed necessarily with the Council before its introduction in the Congress.

Governor Ransom stated after consultation with Messrs. Kurtz and Fleming it had been decided to release for publication the resolution adopted by the Council dealing with the absorption of exchange charges.

It was agreed by the Board of Governors and the Council to hold the next meeting of the Executive Committee of the Council on March 8 instead of March 1.

The meeting adjourned at 1:00 P. M.

WALTER LICHTENSTEIN,  
Secretary.

# MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

February 14, 1944

At 2:25 P. 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. Charles E. Spencer, Jr., Vice President; Messrs. John C. Traphagen, William Fulton Kurtz, B. G. Huntington, Keehn W. Berry, Ralph C. Gifford, Lyman E. Wakefield, A. E. Bradshaw, Ed H. Winton, 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 business situation.

The meeting adjourned at 3:20 P. M.

WALTER LICHTENSTEIN,  
Secretary.

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

W. L.

Secretary's notes on meeting of the Federal Advisory Council on February 13, 1944, at 2:00 P. M., in Room 936 of the Mayflower Hotel, Washington, D. C.

All members of the Federal Advisory Council were present.

Mr. Edward E. Brown was elected Chairman pro tem and Mr. Walter Lichtenstein, Secretary pro tem.

The Secretary stated that communications had been received from the twelve Federal Reserve Banks, certifying to the election of their respective representatives on the Council for the year 1944.

The following officers were elected unanimously:

Mr. Edward E. Brown, President  
Mr. Charles E. Spencer, Jr., Vice President  
Mr. Walter Lichtenstein, Secretary

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

Mr. John C. Traphagen  
Mr. William Fulton Kurtz  
Mr. B. G. Huntington  
Mr. Robert V. Fleming

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

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

The Secretary presented his financial report for the year 1943, copies of which had been previously sent to the members of the Council. The report will be printed and attached to the formal printed minutes.

The minutes of the meeting of November 14-15, 1943, copies of which had been sent to the members, as well as the minutes of the Executive Committee meetings of December 7, 1943, and January 6, 1944, were approved.

The usual resolution was adopted authorizing the Secretary to draw upon each Federal Reserve Bank for \$350.00 toward the Secretarial and incidental expenses of the Federal Advisory Council for the year 1944.

Gifford states he feels Ransom's remarks at the meeting of the Executive Committee of January 6, 1944, relating to Regulation Q, were entirely unfair to Louisville. It is not correct that Louisville had rescinded the resolution abolishing the absorption of exchange charges but when it was found that Cincinnati and other neighboring areas were not willing to go along, the effective date of the resolution was left in abeyance. He said he understood the Cleveland District was in bad shape in this respect.

Fleming asked permission for Col. Bryan Houston, Deputy Administrator for rationing in the O. P. A. to appear before the Council after the regular meeting to discuss certain abuses that had arisen in ration banking.

It was agreed to hear Colonel Houston at the close of the meeting.

Brown read the agenda of the meeting, adding the subject which had been discussed at the last meeting of the Executive Committee, namely, the request of the Council to see the draft of a bill regulating holding companies which it was understood the Board of Governors had prepared. At the last meeting of the Executive Committee of the Council, Vice Chairman Ransom, in the absence of Chairman Eccles, had asked the Council to postpone its request to see the draft of the bill until Chairman Eccles could be present. Brown continues to say his understanding is that the draft of the bill had been endorsed by Crowley and Delano but that the operating men of the Comptroller's Office, such as Upham and Folger, were opposed, as was also the Secretary of the Treasury. It is Brown's understanding that, in the preamble, the bill states that banks, being engaged in interstate commerce, etc. The result would be that if the bill became law, banks thereby would be placed under the National Labor Relations Board and subject to the Wages and Hours Act. The First National Bank of Chicago had successfully contested this in the courts. Brown made it clear that he had not actually seen the bill. It was agreed to ask the Board for a copy of the draft.

#### REGULATION Q

Kurtz describes the situation as he had found it at the hearings at which he had appeared. He says it was obvious that Crawford, of Michigan, and Patman, of Texas, understood the issue but most of the members of the Committee did not. Dreibelbis had made a very good witness. Kurtz thinks the bill can be killed in the Senate even though Crowley is in favor of it. He thinks if a compromise should prove necessary, that some sort of limitation can be obtained on the amount of absorption of exchanges. He feels very strongly that if there is an undue attraction of deposits by banks

who on account of size or location normally would not have these deposits, then in case of any new crisis such deposits would immediately be drawn out of such banks and new trouble would thereby be created.

Fleming says he understood the National Association of Credit Men will oppose the bill vigorously since they feel rightly its effect would be ultimately to destroy the whole par collection system.

Gifford says about 80 banks have gone on the par list since the agitation started.

Brown says he believes the bill may be passed by the House but it should be possible to check it in the Senate.

Fleming believes the Council should adopt a formal resolution expressing its opposition to the bill.

Brown says personally he believes banks should be permitted to pay interest on demand deposits but the Council has been consistently opposed to such a practice. He agrees, if the Brown bill were passed, it would mean deposits would be attracted to banks which do not have any logical right to them. The Council probably should pass a resolution expressing the views of the Council and should also try to establish contact with members of the Senate Committee on Banking and Currency.

Wakefield thinks the testimony in the hearings is worth reading as it shows how little most members of the House Committee understood of the banking business. He believes the fact that payment of interest on demand deposits had been forbidden had prevented much vicious competition. If the Brown or Maybank bill should pass, all banks would have to absorb exchange charges in order to hold their own business. It would greatly increase the cost of doing business. It would also thereby lead to a pressure on interest rates which would endanger the solvency of many banks on account of their large holdings of United States securities.

Winton thinks the Board has not been very effective in its opposition to the bills and much work needs to be done.

Keehn W. Berry joined the meeting at 3:20 P. M., as his train had been late.

Bradshaw seconds Fleming's motion and it was passed unanimously.

Brown appoints Kurtz and Fleming as a committee to draft the resolution.

#### SMALLER WAR PLANTS CORPORATION

Brown agrees there would be no point at present in asking the resolution adopted by the Executive Committee of the Council to be published at this time. He believes the resolution has had the effect of making the Corporation cautious and conservative.

Fleming gives some interesting figures. He states there have been

611 loans made amounting to in all \$33 million  
of which

525 loans have been disbursed

100 have been repaid in full

14 are in trouble

411 are being currently serviced.

Wakefield says he agrees the resolution should not be published. He understands Senator Mead has introduced a new bill which really creates a danger and with the election coming on there will be a tendency to be much more liberal in giving money to small business. He feels the Council should reserve its strength in order to oppose the Mead Bill.

Berry suggests that the smaller businessmen's organizations be mobilized in opposition to these bills rather than have banks make the fight. He points out that such organizations are opposed to pouring out money for the simple reason that it creates competition to existing businesses and gives money to concerns which are likely to employ methods which a well conducted business will not employ.

It was unanimously agreed not to have the resolution on the Smaller War Plants Corporation released for the present.

#### PRESENT STATUS OF TERMINATION OF CONTRACTS AND REIMBURSEMENTS

Brown states there was a meeting in Washington, January 17-18, to consider proposals made by Messrs. Baruch and Hancock.

Fleming says the Mead Bill, he understands, provides that the Board of Governors of the Federal Reserve System is to form the board of directors of a new corporation. This will place the whole System into politics and might easily prove fatal.

Traphagen thinks Berry is quite correct in saying these proposals are much more dangerous to existing good businesses than they are to the banks.

Berry says the banks are doing a much better job of financing small business than is generally realized. He doesn't quite understand how banking groups can advocate a kind of private R.F.C. and at the same time oppose the Government doing it.

Wakefield opposes the creation of the suggested credit pool. The banks will not make the poor loans, credit pool or no credit pool, and so

will be criticized for pretending to do something which in the final analysis they will not do. He would much prefer having the banks separately set up reserves with the idea of here and there taking risks which normally a bank would not undertake. He says that in Minnesota, in spite of all the farm credit agencies, 93 per cent of the loans are in the banks and only 7 per cent in government agencies.

At 4:25 P. M. Kurtz leaves the meeting.

Traphagen says the New York banks had agreed to go into a credit pool by making contributions up to 2 per cent of their capital. Of course, there is a political side to all this, and he agrees with Wakefield there might be very unfortunate reactions on the part of those whose applications were not accepted. It was understood that in every case the local bank would take part of the credit risk.

Brown says in the Chicago Federal Reserve District only 56 banks had made V loans.

Berry questioned whether this told the whole story because he had found that small banks often brought their applications for V loans to the large banks to have them set up the loan. The loan would then be made in the name of the large bank and the small bank which had originated it would have a participation.

Wallace says that our trouble is that under the SEC regulations and taxes it is very difficult to obtain new capital for anything.

Brown says originally it was proposed by Hanes to assess the banks 10 per cent of their capital funds to form the credit pool but this proposal at the Washington meeting of January 17-18 had been supported only by Hanes and by Hemingway.

#### DESIRABILITY OF SAVING COST TO BANKS IN SHIPPING U. S. CANCELLED SECURITIES

It was decided that the A. B. A. committee advising the Treasury should take up this matter.

Gifford says the Navy in California had made some arrangement to redeem foreign currencies brought back by servicemen. He thinks there ought to be some regular organization provided.

Wallace said he had not heard of this at all.

#### REGULATION W

Wakefield is afraid of complete credit control by a Government agency. He does not believe that Regulation W has accomplished its objective. Installment buying has been checked by the disappearance of goods and also by the fact that people have so much cash that they do not care to buy on the installment plan.

Brown says Eccles and Henderson had the idea that Regulation W would be permanent. Henderson is no longer in office but Eccles still holds these views and Brown doubts whether we can get rid of the regulation. As a matter of fact, dealers and the like themselves want the regulation retained. For example, 90 per cent of the members of the Pennsylvania Automotive Association voted to ask that Regulation W be kept in effect. The reason for this is that with Regulation W in existence the weak concerns are on the same basis as the large strong concerns.

Fleming says that Kenton R. Cravens, Chairman of the Consumers Credit Committee of the A. B. A., is in favor of the repeal of Regulation W and wanted a resolution to that effect passed by the A. B. A. The Resolutions Committee of the A. B. A. felt it would be politically unwise for banks at this time to urge the repeal of any such control for if inflation took place the banks would be blamed.

Brown repeats that small finance companies want Regulation W kept though the big ones probably do not. It was agreed that it would not be wise to make any effort at this time to have Regulation W repealed.

The regular meeting adjourned at 5:20 P. M.

At 5:30 P. M., Colonel Bryan Houston, Deputy Administrator for Rationing in the O. P. A., appeared before the Council and discussed for about 45 minutes his problems in connection with ration banking and the need to obtain the proper kind of man to revise the organization within banks so as to eliminate abuses that had arisen. He said Mr. Mark A. Brown of Chicago, Mr. C. Edgar Johnson, of Chicago, Mr. William S. Lambie, of New York, or Mr. Frank L. King, of Los Angeles, had been suggested to him. The members of the Council seemed to feel that Mr. Mark A. Brown would probably be the most suitable man if his services could be obtained by Colonel Houston.

The Council met in the Board Room of the Federal Reserve Building, at 9:30 A. M., on February 14, 1944.

All members of the Council, except Mr. Fleming, were present.

The Secretary read a draft of a resolution on Regulation Q which had been prepared at the Council's request by Mr. Dreibelbis and it read as follows:

"The Federal Advisory Council endorses the reports made by the Board of Governors of the Federal Reserve System on S.1642 'A Bill to amend the Federal Reserve Act, as amended, to provide that the absorption of exchange and collection charges shall not be deemed the payment of interest on deposits' and the companion bill in the House of Representatives, H. R. 3956. The Council believes that the enactment of this legislation would encourage unsound practices on the part of some banks; would encourage banks to withdraw from the Federal Reserve System; would increase the number of banks which do not remit for their checks at par; and would be a long step towards destroying the par-clearance system which has been built up over the course of a quarter of a century."

Kurtz read a resolution which he had prepared and which read as follows:

"RESOLUTION ON REGULATION Q

"The Federal Advisory Council reaffirms its repeated belief that the enforcement of Regulation Q prohibiting the absorption of exchange charges is both proper and necessary; and that the Board of Governors of the Federal Reserve System be urged firmly to oppose the passage of the so-called Maybank Bill (S. 1642) and the Brown Bill (H. R. 3956) now before the Senate and the House, respectively. The practice of exchange absorption has become a serious competitive abuse, and is tending to draw deposits away from their natural trade areas and normal trade streams. This dislocation of funds may well cause embarrassment at the time of any future banking stress.

"The Council believes that the practice violates the intent of the Banking Acts of 1933 and 1935 respecting the prohibition against the payment of interest on demand deposits. The proposed bills legalizing exchange absorption run counter to all recent Federal legislation in that they create a preference in favor of the large depositor."

The resolution prepared by Mr. Kurtz was unanimously adopted.

The meeting adjourned at 9:45 A. M.

At 10:30 A. M., the Council held a joint meeting with the Board of Governors of the Federal Reserve System.

All members of the Council were present. The following members of the Board of Governors were present: Chairman Eccles; Vice-Chairman Ransom; Governors Szymczak, McKee, and Draper; also, Messrs. Clayton, Thurston, Morrill, Carpenter, Bethea, Goldenweiser, Wyatt, Vest, Smead, Dreibelbis, Paulger, and Parry.

#### REGULATION Q

The Secretary read the resolution which had been adopted by the Council.

Ransom wishes to have a little time to consider how the resolution had best be used. He thinks it probably should be published.

Brown agrees to leave the decision with the Board.

McKee asks whether consideration had been given to the desirability of reciting somewhat the history of the bill and to mention the fact that the House Committee had voted the bill out favorably.

Ransom points out the resolution stands on Regulation Q and it would be better if it referred to Section 19 of the Act of 1935.

Brown and Ransom agree that the resolution might be amended in minor ways.

Brown suggests an investigation as to how much banks really earn on exchange charges.

Ransom says he guessed at the time of the hearings that about \$8 million probably represented the earnings of the banks in this connection. Of course if the bill passes many more banks will absorb exchange charges.

Szymczak asked whether the Council has any suggestions to make as to how to handle the situation when it comes before the Senate Committee.

Ransom points out the Board was not the one who suggested hearings in the House.

Eccles says matters have been brought to a head because money has become worth more to banks than it was in recent years. When money was a drug on the market, there wasn't any inducement for banks to go out and increase deposits. Now it has become profitable to buy more securities. If the short term rate interest rate should show signs of firming up, the

pressure would probably become greater and the danger to the banking system would be thereby increased. It is even conceivable banks would begin to withdraw from the System in order to be able to earn more on balances and there might even be a flight from the National Banking System as then interest could be obtained on required reserves. He feels the A. B. A. really ought to take a definite stand on this issue.

Ransom presented some minor changes in the resolution which were accepted by the Council. This included also a change in the heading so that the resolution now reads as follows:

"RESOLUTION ON ABSORPTION OF EXCHANGE CHARGES

"The Federal Advisory Council reaffirms its repeated belief that it is both proper and necessary to prevent the evasion of section 19 of the Federal Reserve Act by the device of absorbing exchange charges; and that the Board of Governors of the Federal Reserve System be urged firmly to oppose the passage of the so-called Maybank Bill (S. 1642) and the Brown Bill (H. R. 3956) now before the Senate and the House, respectively. The practice of exchange absorption has become a serious competitive abuse, and is tending to draw deposits away from their natural trade areas and normal trade streams. This dislocation of funds may well cause embarrassment at the time of any future banking stress.

"The Council believes that the practice violates the intent of the Banking Acts of 1933 and 1935 respecting the prohibition against the payment of interest on demand deposits. The proposed bills legalizing exchange absorption run counter to all recent Federal legislation in that they create a preference in favor of the large depositor."

SMALLER WAR PLANTS CORPORATION

Brown states the resolution bearing on the loans made by the Smaller War Plants Corporation would not be released at present.

Brown asked about the Mead Bill.

Eccles doubts whether any new Mead Bill has been introduced.

Brown suggests the Board renew its former practice of sending out lists of bills introduced in Congress which bear on banking.

Ransom says the practice was discontinued for a number of reasons: Mr. Williams, who took care of this matter, had left the service of the Board, it was desirable to save paper, and the Board also felt there was no certainty the lists were ever complete and entirely accurate.

McKee asks whether it would be enough if bills about which a committee of Congress has asked the Board's opinion to be placed on lists to be sent out.

Ransom repeats he fully understands how the Council would like to have such lists but they are very difficult to make accurate and useful.

Eccles says the Board gets only as a regular practice the bills which have been placed in the hands of the Bureau of the Budget and submitted by some department of the Government. He goes on to say that Baruch and Hancock are not very favorable to the financing of small business by the Smaller War Plants Corporation. He has had some conferences on this subject but this has been purely personal and he did not represent the opinion of the Board. He points out that 13B is still on the statute books and of the \$139 million available originally only \$20 million had been used so that most of the money is still in the hands of the Treasury. He would modify 13B, taking off all present restrictions and have the money used solely for the purpose of guaranteeing loans made by banks and not have the Federal Reserve Banks make any loans directly so the Federal Reserve System would be involved only in case of default when a loan had to be taken over. The guarantee should not exceed 90 per cent of a loan. He had estimated that with a guarantee fund of \$130 million it would be possible to have outstanding at any one time loans amounting to \$500 million. All of this would be supplemental to the R. F. C. He is afraid that if some such scheme isn't carried out some other Governmental agency will get into the picture.

Brown says if he understood the statements correctly the Board of Governors has had nothing to do with any Mead Bill and in fact Senator Mead has not introduced any new bill.

Eccles says that if one has been introduced he doesn't know what is in the bill but he asked

Smead who says that his understanding is that the new bill which Mead proposes to introduce is even worse than his earlier ones were.

McKee wants to know whether strong subcontractors have in some cases refused to go along with weak prime contractors.

Brown answers in the affirmative. He says it is his understanding that General Motors and General Electric have refused to supply parts to weak prime contractors unless the goods are paid for in advance. He goes on to discuss the plans of Baruch and Hancock dealing with the termination of contracts.

Eccles says the final report of a subcommittee dealing with the financing of termination of contracts has been approved by the whole committee but there is not to be a release as there may still be minor changes introduced.

Brown says so far there has been no provision for guaranteeing subcontractors as to the solvency of contractors in the tiers above them. This is especially dangerous in connection with aircraft production as there are many weak prime contractors. In such cases small subcontractors are not able to get a loan. Then also subcontractors have been ordered by the Services to send parts to a weak contractor and he gave names. There ought to be government guarantee of contractors to protect them against the possible insolvency of contractors in the tiers above them. One of the difficulties is small concerns do not know the ropes. It would be very desirable if a 90 per cent payment could be made on any amount approved as reasonable by procurement officers. The objection to this is that the estimate of what would constitute a reasonable amount might take as long as to obtain a final settlement.

McKee says means should be found of seeing to it that contractors make payments to subcontractors even in such cases where prime contractors are completely in the hands of creditor banks.

Brown believes a bank should be allowed to lend, assuming only a 10 per cent risk, on a certificate from the contractor as to his claim and such advance should be made without any investigation. There would be some losses but they would not be serious.

Eccles says the concerns that have been able to obtain V and VT loans are taken care of. The R. F. C. has really unlimited power and practically unlimited resources and it ought to be able to step in and assume 100 per cent of the risk in those cases where banks will not step in. This together with arrangements for the extension of 13B might take care of the whole situation. The Federal Reserve System is not interested in 100 per cent guarantees but should be allowed to guarantee banks up to 90 per cent and should not be allowed to make loans in the first instance.

Brown says this would not take care of the situation of insolvency in upper tiers.

McKee says in the future the ordnance departments ought to re-arrange contracts so that in many cases subs would become prime. Army has done something along this line but the Navy, Air Force, and Maritime Commission have not done anything. He is afraid of what all this may mean in the ultimate effect on banks.

#### HOLDING COMPANY BILL

Brown asks about a bill supposedly prepared by the Board of Governors and dealing with bank holding companies. He pointed out that Chairman Eccles had not been present at the meeting of the Executive Committee of the Council in January and, in consequence, Vice Chairman Ransom had asked the Council to defer its request until this present meeting. He went on to point out that at the time of the banking crisis the United States Steel at Gary and the Standard Oil of Indiana at Whiting had financed banks

in order to protect the deposits of their employees. Similar situations might arise in the future and it would be unfortunate if this were made impossible.

Eccles says he does not believe that necessarily a bill drawn up by the Board of Governors need be discussed with the Council. He says members of the Council have often direct personal interests and he would refuse as a matter of principle to discuss proposed legislation with the Council before its introduction as a bill. He does not know whether any bill on holding companies will be introduced because any such bill must be cleared through the Bureau of the Budget. To be sure, a bill on this subject has been introduced by Patman. Patman might have held hearings last year but the Board had asked him to defer these hearings and it is not fair to ask patman to wait any longer. If hearings are held, the Board will then file a report and this report will show what the position of the Board is.

Gifford asks whether a bill dealing with inter-bank deposits has been introduced.

Eccles says no such bill has appeared so far as he is aware.

Brown says there is a great difference between a bill introduced into Congress by Patman and one which has been passed by the Board of Governors to other agencies. It would be rather difficult for the Council to oppose a bill sponsored by the Board of Governors without giving the impression to the public that there is a rift between the Board and the Council. He makes the statement that he has not seen the bill but he has been informed that there is a preamble which directly states that banks are engaged in interstate commerce. If this is the case, it would place banks in a very bad position. His own bank had won a case in the Circuit Court of Appeals dealing with this very point and the Government had therefore withdrawn all similar cases. If, however, a bill sponsored by the Board were to contain in its preamble a direct statement that banks were engaged in interstate commerce, the whole question would be reopened and banks would end up by finding themselves under the jurisdiction of the National Labor Relations Board and subject to the Wages and Hours Act.

Eccles says the Council can oppose any bill introduced and all the Board asks is an opportunity to present to the Council the Board's side, if there should be a difference in point of view.

Fleming says there must be some period before a bill is made public for the Board and the Council to have a consultation.

Eccles says on interstate commerce there would be no difference of opinion between the Board and Council. He refused to say categorically whether or not the preamble to the bill was as understood by Brown though,

McKee says he believes Brown has been misinformed and goes on to say the Council ought to have confidence in the Board that it will use

its best judgment as to the proper time to consult the Council. He doubts whether the Board bill will ever be introduced though there will probably be hearings on the Patman bill.

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Ransom states, after consulting Kurtz and Fleming, the resolution dealing with the absorption of exchange charges would be released immediately.

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Eccles states that on principle he does not think the Board should discuss with the Council legislation prior to its introduction as Council members are not charged with the public interest but are concerned with private interests. If a bill should be introduced containing the preamble which would put banks under interstate commerce, such a bill would be opposed by the Board.

Brown points out that if a bill were introduced with such a provision in the preamble, it would never be possible to get that provision out under present conditions.

Eccles says the Senate Banking and Currency Committee obviously does not wish to define banks as being engaged in interstate commerce. If it had any such desire, it would have so legislated long ago as it has in other cases. He finally denied categorically that the preamble of the proposed bill contains a provision such as Brown had outlined, namely, one stating that banks were engaged in interstate commerce.

It was agreed by the Board of Governors and the Council to have the next meeting of the Executive Committee of the Council take place on March 8 instead of on March 1.

The meeting adjourned at 1:00 P. M.

At 2:25 P. M., the Council reconvened in the Board Room of the Federal Reserve Building, on February 14, to hear Dr. Goldenweiser, Director of the Division of Research and Statistics of the Board of Governors.

All members of the Council, except Mr. Fleming, were present.

Goldenweiser: Production curve has about reached its height and it is not likely to rise any more. Production has tripled in the last three years which is something unprecedented. It is this factor, more than any other, which is winning the war and all expectations of what was possible have been exceeded. The reason there can be no further increase is due to the limiting factor of manpower. On the other hand, production is not likely to diminish much during the war. If, however, to keep up full employment we shall be compelled to maintain production at its present level, there will be a very serious problem after the war. The national income has expanded in proportion to the increase of production but of the national income about one-half of the total has been paid out for war goods. Civilian goods are lacking and so it is necessary to impose controls in order to prevent an undue rise of prices. The danger of inflation is not as great as is often supposed and may not be even after the war. The tax situation is not satisfactory if we compare ourselves with Canada and Great Britain. But, even so, the tax situation is such that spending is kept within bounds. At present, people with money are unable to obtain goods and also there is prevalent a psychology of saving. The inflationary gap probably consists of about \$16,000,000,000, which is represented by money not spent even though, strictly speaking, it has not been saved and is not being hoarded. The question is what will happen after the war. Will people use idle funds and, in addition, cash in their bonds? As this question cannot be answered at present, controls should be maintained for some time after the war. It is important to keep on selling bonds to the public rather than to banks. He is in hopes enough controls will be maintained and that, of course, there will also be more civilian goods available after the war ends or even after the European part of the war ends. If industry can convert fast enough so people can be employed, we may have the chance of a long continued prosperity. It is estimated that about 15,000,000 people will be released of which, perhaps, 6,000,000 do not usually work, such as married women and old people. This may be optimistic. It is clear we need an annual national income of about \$145,000,000,000 and a production index after the war of about 225-240. One school of thought, represented by Eccles and Hansen, believes it will be necessary to have the Government do much work. This school of thought believes there will not be enough investment to keep up production. If we cannot keep up, we shall be bound to lose out either to Communism or Fascism. As a matter of fact, more has been spent on consumer goods in 1943 than in any other year in our history and about one-third of the people have spent more than ever before. This one-third naturally consists of people who have belonged to the lower income brackets but the increased total they have spent more than offsets the reduction in spending by those in somewhat higher income brackets. This does not mean that civilian production has been kept up but inventories had been very large. There isn't any question that if depression were to get under way, the Government would have to do

something even though this might discourage private spending. We simply cannot afford to have a large amount of unemployment.

In the immediate future the supply of money is likely to increase. Spending does not decrease the amount of money. The long term rate of interest is likely to remain at about  $2\frac{1}{2}$  per cent for many years to come. Market conditions will keep it there and, furthermore, the Government will do everything possible to keep the long-term interest rate low. The short-term rate may go up. Demand for short-term funds will increase and there isn't any logical reason why after the war the Government should interfere. The  $\frac{3}{8}$  per cent rate at present is probably too low as we do not have any amount of excess reserves. From now on the rate of increase of the public debt is not likely to be as great as it has been and deposits also are not likely to go up as much as they have in the immediate past. The increase of money in circulation is not dangerous; payrolls have been going up at about the same rate and as so many people have moved away from their former homes, they have had to carry much in actual cash. Cash in circulation reduces reserves and so to that extent there is less pressure on banks to buy bonds. If and when the cash comes back to the banks, the System can reduce its holdings of Governments and so keep the situation more or less in balance.

The meeting adjourned at 3:20 P. M.