

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

March 8, 1944

At 11:30 A. M., the Executive Committee of the Federal Advisory Council convened in the Conference Room of the Federal Reserve Building, Washington, D. C., on Wednesday, March 8, 1944, 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, Robert V. Fleming, and Walter Lichtenstein, Secretary.

A discussion took place regarding the status of the Brown and Maybank Bills.

A discussion took place regarding loans to small business.

A discussion took place as to the situation with reference to ration banking.

The meeting adjourned at 12:30 P. M.

WALTER LICHTENSTEIN,  
Secretary.

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

March 8, 1944

At 2:00 P. M., a joint conference of the Executive Committee of the Federal Advisory Council and the Board of Governors of the Federal Reserve System was held in the Board Room of the Federal Reserve Building, Washington, D. C.

Present: Members of the Board of Governors of the Federal Reserve System: Chairman Marriner S. Eccles; Vice Chairman Ronald Ransom; Governors M. S. Szymczak, John K. McKee, and R. M. Evans; also, Messrs. Lawrence Clayton, Assistant to the Chairman; Chester Morrill, Secretary of the Board of Governors; Liston P. Bethea and S. R. Carpenter, Assistant Secretaries of the Board of Governors; Walter Wyatt, General Counsel; J. P. Dreibelbis, General Attorney; 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 Executive Committee of the Federal Advisory Council: Mr. Edward E. Brown, President; Charles E. Spencer, Jr., Vice President; Messrs. John C. Traphagen, Wm. Fulton Kurtz, and Walter Lichtenstein, Secretary.

Governor Ransom gave an account of the situation with respect to the Brown and Maybank Bills.

A lengthy discussion took place on the Baruch Report, the Smaller War Plants Corporation loans, and the proposed Mead bill.

Governor Eccles discussed a proposal to have a subsidiary corporation of the Federal Reserve System which might make loans in place of the loans now authorized under 13B. He pointed out that this proposal would create a subsidiary similar to those created in Great Britain and Canada as subsidiaries of their respective central banks.

A discussion took place regarding the Patman Holding Company Bill.

The meeting adjourned at 4:15 P. M.

WALTER LICHTENSTEIN,  
Secretary.

NOTE: This transcript of the Secretary's notes is not to be regarded as complete or necessarily 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 Executive Committee of the Federal Advisory Council on March 8, 1944, at 11:30 A. M., in the Conference Room of the Federal Reserve Building.

The Secretary stated that he had had a letter from Mr. Huntington informing him that Mr. Huntington would not be able to be present at this meeting of the Executive Committee. Messrs. Brown, Spencer, Traphagen, Kurtz, and the Secretary were present. Mr. Fleming joined the meeting at 12:00 o'clock

#### REGULATION Q

KURTZ said Governor McKee had told him he hoped the bankers could be stirred up in opposition to the Brown and Maybank Bills.

BROWN said the A. B. A. could not be expected to take any action.

TRAPHAGEN told of an interview with Harold Stonier who had said it simply would be impossible for the A. B. A. to take any position on a controversial matter such as this one.

BROWN said the Legislative Committee of the Association of Reserve City Bankers had had the problem under consideration but had decided any formal action on the part of an association representing more or less merely the larger banks of the country would probably do more harm than good. Senator Glass is very much opposed to both the Brown and Maybank Bills but on account of his health will probably not be able to take any active part.

TRAPHAGEN believes Senator Wagner will do whatever seems politically the most advisable.

BROWN feels that Senator Barkley is the key man in the situation, and he understands that up to the present has not committed himself. He went on to say he doubted whether the Comptroller could issue any statement for the simple reason it would be interwining in a matter on which two government bureaus were in disagreement. Consequently, the Bureau of the Budget would object to any government bureau issuing a statement.

MEAD BILL

BROWN read a letter from Mr. Berry in which he makes the statement that it might be just as well not to stir up any agitation since various government agencies are in disagreement and so nothing may be done.

TRAPHAGEN agrees it would be foolish to have anything done by the Council. He questioned very much whether the suggested widening of powers of the Federal Reserve Board under 13 B would be adopted.

KURTZ said he wished the powers of the Board under 13B might be widened because he was sure the Board would remain conservative which might not be true of some new body especially created. The chances were that retail business organizations would stir up opposition.

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

KURTZ discussed the matter of ration banking and the dangers of scandal. He is going to help for a time in the administration of ration banking and would very much like to have a report from each Federal Reserve district as to how the whole scheme is functioning.

FLEMING says what is needed is an advisory committee for it would be hopeless to get a top executive to take on the job of supervising ration banking for a period of six months. He feels the A. B. A. Committee is a good committee. He went on to discuss the Brown and Maybank Bills and thinks that Mr. A. L. M. Wiggins may take a position. In a sense the vote in the House was an anti-administration vote. The F. D. I. C. regards the Senate Committee, including Senator Barkley, as siding entirely with it. There may be a compromise.

The meeting adjourned at 12:30 P. M.

On March 8, 1944, at 2:00 P. M., a joint meeting of the Executive Committee of the Federal Advisory Council and the Board of Governors of the Federal Reserve System was held in the Board Room of the Federal Reserve Building, Washington, D. C.

The following members of the Executive Committee were present: Messrs. Brown, Spencer, Traphagen, Kurtz, and the Secretary.

The following were present from the Board of Governors: Chairman Eccles; Vice-Chairman Ransom; Governors Szymczak, McKee, and Evans; also, Messrs. Clayton, Morrill, Bethea, Carpenter, Wyatt, Dreibelbis, Paulger, Smead, and Parry.

#### REGULATION Q

BROWN. The senators seem noncommittal.

RANSOM. The vote in the House reflected quite well the overwhelming sentiment as expressed in the hearings. Those favoring the Brown Bill had a very large attendance at the hearings and thus gave the impression that the bill would help the small banks. It is going to be just as difficult in the Senate. It is known that Bankhead, Barkley, and Maybank are in favor of the bill. If there were enough bankers objecting, it might make an impression. Probably the number of banks opposed to the two bills are in a majority and numbers have a great influence on votes in Congress so bankers, business associations, and chambers of commerce can do much. At their recent meeting the presidents of the twelve Federal Reserve Banks agreed to look into the matter. At the hearing in the House, Paul Brown called attention to the fact that every seat in the room was occupied and that practically everyone in the room was in favor of the bill.

ECCLES believes if New York bankers were to make their stand known Senator Wagner might be influenced though he is much less politically minded than many others and has the courage of his convictions. He will support the Board if he becomes convinced it is in the public interest. Quick action is needed so that Wagner will take some interest in the matter and not leave it to a sub-committee. The only three members of the Banking and Currency Committee of the Senate really interested in the question are Barkley, Bankhead, and Maybank. These three are aggressively in favor of the bill. It is necessary to have organizations like clearing houses and bank associations, rather than individuals here and there, take some position.

RANSOM said he had had an inquiry from George Wallace wanting to know if the Council feels this is a fight to destroy par clearance.

BROWN says he feels the greatest danger in the situation is that banks will collect unnatural deposits and that this might create a serious situation in times of stress. He recognizes, however, there may be a considerable effect on par clearance.

SPENCER believes it to be a fight against par clearance.

MCKEE agrees with Brown that the deposit situation may create a very unsound condition under certain circumstances.

ECCLES. If the short term rate goes up, banks do not wish to lose deposits as these can then be used profitably. Consequently, if rates should go up, banks will do unsound things in order to meet competition. The greater the competition for deposits, the greater will be the desire to gain any advantage possible even if this should involve withdrawal from the Federal Reserve System and even from the National Bank System.

RANSOM says some of the support of the bills is undoubtedly from people who wish to destroy the whole Federal Reserve System.

#### MEAD BILL - BARUCH REPORT - SMALLER WAR PLANTS CORPORATION

BROWN wants to know what are the developments.

ECCLES says as this is an election year, naturally, all senators and representatives want to be on record that they are for small business. Therefore, if and when legislation, such as proposed by the Smaller War Plants Corporation or by Senator Mead, should be called up for action, it is certain the proposals will receive general support. Probably, the more conservative representatives and senators would prefer the Mead Bill and might even prefer the mild proposals contained in the Baruch Report. So far Mead has not actually introduced his Bill but there is a so-called official print, dated January 7, and a revision of this, dated January 13, 1944. A sub-committee consisting of Senators Mead, Scrugham of Nevada, and Buck of Delaware has the matter in hand. He stated he had nothing to say about his proposal in the Baruch report regarding 13B. He does not believe that Baruch intends to prepare a bill himself as he believes the agencies concerned should do so or Congress itself should take the initiative. Legislation is badly needed to cover cancellations, disposal of surplus property, etc. Legislation will also be needed for financing termination, which is quite apart from that needed for financing conversion of both large and small concerns. Finally, financing will be needed to stimulate production generally.

BROWN says he understands the Services have prepared a draft of legislation for termination. It is possible some committee of Congress will try to prepare a more overall measure.

ECCLES says there will be a small but vocal minority which will do everything it can to push the financing of small business and he has little doubt that the Smaller War Plants Corporation will obtain ample money and ample power. A few years ago he prepared a program for an industrial credit corporation which was to be decentralized in its activity. This was to take the place of 13B which was to be repealed as too inflexible. The corporation was to be a subsidiary of the Federal Reserve System and was modelled somewhat on the subsidiary of the Bank of England and the one being organized by the Bank of Canada. Most of the loans that were made under 13B would now be made by the banks themselves but in 1933 and the years immediately following banks were loathe to do so. If, however, Congress and Baruch want the banks to be in the picture then some such scheme as suggested in the Baruch Report would have to be adopted. He thought loans should be made only if some bank would assume 10% of the risk. The Federal Reserve System should not make one hundred per cent loans and, of course, none of these schemes would meet the need for equity capital.

MCKEE says that under the present tax laws no one would care to put up equity capital.

ECCLES. In Canada the Bank of England proposed to have a subsidiary with \$25 million capital wholly owned by the Bank of Canada with the right to lend somewhere between \$250,000,000 and \$500,000,000. This subsidiary of the Bank of Canada would also give equity capital as well as funds to aid in conversion. The idea is to keep all the credit arrangements in the hands of the banking system and not as we have it here where there are innumerable non-banking bodies handling credit arrangements. In the 20's the Bank of England had formed a similar corporation. There would be considerable danger in having the Smaller War Plants Corporation expand to the point where it would be in control of much business.

#### PATMAN HOLDING COMPANY BILL

ECCLES says he hasn't heard of any developments but he supposes Patman will call up his bill in the near future.

TRAPHAGEN wants to know what progress is being made on currency stabilization.

SZYMCZAK in reply states that at present conversations are going on with the Russians but everything is still in the hands of the technicians in the Treasury. An agreement has been reached with the British and when there has been agreement among all parties, a conference of experts will be held. It is not intended to have an agreement simply for the purpose of stabilizing the pound sterling and the dollar.

The meeting adjourned at 4:15 P. M.