

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

April 5, 1944

At 11:15 A. M., the Executive Committee of the Federal Advisory Council convened in the Conference Room of the Federal Reserve Building, Washington, D. C., on Wednesday, April 5, 1944, the President, Mr. Brown, in the Chair.

Present: Mr. Edward E. Brown, President; Mr. Charles E. Spencer, Jr., Vice President; Messrs. William Fulton Kurtz, Robert V. Fleming, B. G. Huntington, and Walter Lichtenstein, Secretary.

The Secretary stated that he had a letter from Mr. Traphagen informing him that Mr. Traphagen would not be able to be present at this meeting of the Executive Committee.

It should be noted that Mr. Huntington did not arrive until 1:00 P. M., owing to the fact that his train was five hours late.

It was reported that there was a fair chance the Senate Committee on Banking and Currency would not take any action on the Maybank Bill at this session of Congress.

Mr. Fleming made a report regarding the relationship of banks to the manpower problem. The new regulations envisaged three classes of industries or activities:

- (a) Industries engaged in producing materials directly needed for the prosecution of the war.
- (b) Other industries essential for the war effort and for civilian needs.
- (c) All other activities.

The meeting adjourned at 12:00 o'clock noon.

WALTER LICHTENSTEIN,
Secretary.

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

April 5, 1944

At 12:10 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, Ernest G. Draper, and R. M. Evans; also, Messrs. Lawrence Clayton, Assistant to the Chairman; Elliott Thurston, Special Assistant to the Chairman; Chester Morrill, Secretary of the Board of Governors; Liston P. Bethea and S. R. Carpenter, Assistant Secretaries of the Board of Governors; George B. Vest, Assistant General Attorney; Leo H. Paulger, Director, Division of Examinations; Edward L. Smead, Director, Division of Bank Operations; Carl E. Parry, Director, Division of Security Loans, and Robert F. Leonard, Director, Division of Personnel Administration.

Present: Members of the Executive Committee of the Federal Advisory Council: Edward E. Brown, President; Charles E. Spencer, Jr., Vice President; Messrs. William Fulton Kurtz, B. G. Huntington, Robert V. Fleming, and Walter Lichtenstein, Secretary.

A discussion took place regarding the manpower problem. The Chairman of the Board of Governors explained the various areas into which the country has been divided, of which seventy-six areas have been classified as critical.

It was agreed that the Executive Committee present a memorandum to the Board of Governors to be transmitted by the Board with its concurrence to the proper authorities. The memorandum in question is attached to these minutes.

A discussion took place in reference to the status of the Maybank Bill. The feeling was general that the bill probably would not be taken up by the Senate Committee on Banking and Currency at this session of Congress.

The meeting adjourned at 1:15 P. M.

WALTER LICHTENSTEIN,
Secretary.

FEDERAL ADVISORY COUNCIL

To the Board of Governors of the
Federal Reserve System:

The Federal Advisory Council desires to call to the attention of the Board of Governors the difficulty which the banks of the country are experiencing in connection with obtaining and maintaining sufficient personnel to perform both their normal functions and the war services they render to the Government. Banks as a whole have lost a very large proportion of their male employees to the armed services and due to the drafting of fathers, heretofore deferred, are certain to lose more in the near future. They have replaced these male employees with women to the extent they have been able and have spent much effort in training new employees. The situation has been acute and will inevitably become more acute.

The Council has been informed by the press and otherwise of various experiments and proposals to direct the flow of employment, of proposed new restrictions to be placed upon the hiring of employees, and of the possibility of transferring employees in industries not classified as essential to industries regarded as essential. This is a matter entirely distinct from drafting people capable of performing combatant service. The Council feels that, under some of the proposals now being advocated, the banks are in danger of being unable to secure replacements or to hold present employees with the result that the banking system might be unable to perform the duties required of it.

In the past banking has not been classified as an essential activity. The Council feels strongly that banking is essential both to the economic life of the country and to the maintenance of the war effort. It, therefore, urges strongly that the Board of Governors of the Federal Reserve System impress upon the War Manpower Commission, the Selective Service System, and any other body which may have to do with directing the flow of labor under present or future legislation or regulation the need of recognizing the essentiality and necessity of the banking service to the economic life of the country, and to the war effort. It desires this to be done to the end that in the hiring and retention of employees not eligible for combatant military service, the banks be treated on a parity with those industries regarded as essential even though not directly engaged in the production of war material, so that the banks may retain and acquire personnel in order to be able to continue to function in the public interest.

The Council does not feel it is necessary to explain to the Board the essential part which banks play in the general economy of the country, and the impossibility of this general economy functioning without banks. While the Board is familiar with the various services which the banks are contributing to the war effort, nevertheless, a memorandum is attached listing the more important activities for the purpose of ready reference.

April 8, 1944

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 April 5, 1944 at 11:15 A. M., in the Conference Room of the Federal Reserve Building.

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

It should be noted that Mr. Huntington did not arrive until 1:00 P. M., owing to the fact that his train was five hours late.

REGULATION Q

FLEMING. There is a fair chance the Senate Committee will not take any action this session at all.

BANKING AS ESSENTIAL ACTIVITY.

FLEMING. Fleming states the new regulations envisaged three classes of industries or activities:

- A - Industries engaged in producing materials directly needed for the prosecution of the war.
- B - Other industries essential for the war effort and for civilian needs.
- C - All other activities.

In the case of C there will not be any quota established. Practically, all these activities will have to rely on people over-age and under-age and veterans of the last war. The above classification applies to critical areas. Any business classed as B can hire people employed by businesses classed as B or C. It cannot employ people employed by businesses classified as A; in such cases the United States Employment Services would interfere. As banks are not classified as B, the banking system will be in great difficulty. He states his own bank has an arrangement with high schools for obtaining girls on part time but suffers from the competition of government

BROWN says there has been some trouble in Chicago. He would feel it a great danger if all employees had to go through the United States Employment Service. He refers to the difficulties of labor arrangements which might result therefrom.

FLEMING says if a bank is classified as B it is not subject to the United States Employment Service. He thinks the supervising agencies should help banks everywhere to be classified as B.

BROWN asks whether there is danger of having employees transferred to government agencies located in Chicago, as, for example, to the Redemption Division of the Treasury. He also wishes to know who is deciding how banks are to be classified.

FLEMING answers that a bank must apply to be classified as B.

* * * *

Mr. Winton had made certain suggestions in respect to approaching the Treasury about changes in the bill rate and also the selling of Government bonds on the installment plan. As these matters had been discussed on several occasions last year with the Treasury without any success, it was felt it would not be advisable to raise these questions anew at this time.

The meeting adjourned at 12:00 o'clock noon.

On April 5, 1944, at 12:10 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, Kurtz, Huntington, Fleming, and the Secretary. (It should be noted again that, as a matter of fact, Mr. Huntington did not join the meeting until 1:00 P. M.)

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

BANKING AS ESSENTIAL ACTIVITY

BROWN. The Council is concerned about the regulation of labor. He understands there are to be three classifications: A, B, and C. He understands the Federal Reserve System has succeeded in having its employees classified as B. He feels that all banks ought to be classified as B, and a general directive to that effect should be issued from Washington and not be left to the local authorities. He understands, at present, the local regional director has the necessary authority.

ECCLES. He explains there are four areas:

1. Where labor shortage is acute.
2. Where there is a labor shortage but not acute.
3. Where the demand and supply of labor is more or less in balance.
4. Where there is a labor surplus.

At present there are seventy-six areas classified as critical. In these areas the regional director has the authority to classify civilian industries as essential and in such the number of employees is frozen and any of these can be hired only on being given a certificate of availability.

FLEMING insists this has been changed. There are three classes, A, B, and C. Banks obviously cannot qualify under A but should be classified as B. C is a kind of no-man's land. In many regions there is obviously no understanding of the functions banks are performing.

ECCLES says there is danger that if the matter is left to national regulations, banks might be classified under C, in which case the local authorities could not put banks in B. It is true even if banks are classified under B by the national authorities, the local director must still state that banks in his district are essential to the proper functioning of business life in that particular region.

FLEMING points out there are to be ceilings of the number of total employees for any given concern. Six months' notice will be given before such a ceiling is to be put into effect so that, for example, if a ceiling is fixed on April 1st, it may not go into effect until September 1st. He read a statement showing that in sixteen regions banks on request have been put into class B.

LEONARD says industries classed as C are not itemized. Those in C can employ veterans of World War I and veterans of World War II sixty days after these have been released.

MCKEE suggests Council should draw up an emphatic memorandum to be sent to the War Manpower Commission.

ECCLES says attempt should be made to have all banks put into class B but if that is not possible at least to have banks located in areas one and two put into class B.

FLEMING says banks in the last drive handled eighty per cent of the bonds.

ECCLES says if banks are put in C, they will be raided for employees by concerns classed as B. He agreed with McKee that the Council should make out a strong case. He suggests the Council ask flatly for B for all banks and, if necessary, compromise on areas one and two.

LEONARD says there is talk of legislation to direct 4-F's into war work. The local boards are trying to do this also. He suggests that the memorandum be so broad that it will cover both the present situation and the situation that may arise after legislation has been enacted. He points out at present there are areas where the A. B. and C. classification does not exist but in such instances the banks should be classified as war supporting industries.

BROWN says up to now the War Manpower Commission has not understood the essential nature of the functions performed by banks.

KURTZ left the meeting at 12:45 P. M.

LEONARD says the War Manpower Commission does recognize the essential character of bank work but is of the opinion this does not imply that each and every bank is essential; some may not be.

ECCLES says the Council should not ask the War Manpower Commission to classify every bank as B but ask that banks located in areas one and two be so classified.

MCKEE disagrees.

FLEMING points out New York City is classified as Area 4 but this does not mean that the banks in New York have a surplus of employees.

SZYMCZAK inquires if there is any reason why the Board should not ask the Comptroller of the Currency and the Treasury to join in the effort to have banks classified under B. He also inquires whether it would be desirable to ask the Treasury and the Comptroller of the Currency before any memorandum is sent to the War Manpower Commission.

ECCLES thinks it would be better to have the Council send the memorandum to the Board of Governors and then the Board could ask the Treasury and the Comptroller of the Currency to concur.

FLEMING agreed. He pointed out the Treasury has asked the banks even to step up their efforts to sell bonds, and he does not see how under such circumstances the Treasury can let the banks down. The banks should approach the Treasury and the Comptroller of the Currency in order to obtain their support.

The Executive Committee agreed to present a memorandum to the Board to be transmitted by the Board with its concurrence to the proper authorities.

REGULATION Q

BROWN inquires as to the status of the Maybank Bill.

RANSOM replies the earliest possible date it can be brought up is April 29. He states there is a strong possibility it will be referred to the Sub-committee on Banking of the Committee on Banking and Currency. This committee consists of the following Democrats: Glass, Barkley, Bankhead, Murdock, Scrugham, and McClellan plus the following Republicans: Tobey, Taft, Butler, and Hawkes. Of the Democrats only Glass and Murdock are opposed to the Bill, while among the Republicans it is known Taft and Hawkes are opposed to it. If the Bill is referred to the sub-committee, then Bankhead will preside. He is opposed to the System because it has not supported his plan of a stamp tax. An effort is being made to have the whole Committee consider the Bill in which case Wagner will preside. Bankers have now written 1500 letters in opposition to the Bill and twenty state associations have passed resolutions opposing the Bill. In addition, many trade associations are out against the Bill. One hundred and fifty bankers have asked to be heard in opposition to the Bill, which, of course, is more than the Committee will call. In the Twelfth District so far three state associations have come out against the Bill. (At this point Huntington joined the meeting).

SPENCER says in New England the banks are opposed to the Bill. In Concord, New Hampshire, two of the banks came out in support of the Bill but a meeting was called and banks as a whole voted against support of the Bill. In Connecticut and Massachusetts business and banks as a whole are opposed to the Bill.

BROWN says in the Seventh Federal Reserve District the banks in Illinois and Wisconsin have come out in opposition to the Bill.

RANSOM says in Iowa the Secretary of the Iowa Bankers Association, Warner, has advised against polling the banks as much ill feeling exists in Iowa due to par clearance being forced on the banks by legislative action.

FLEMING said in the Fifth District the majority of the banks is opposed to the Bill.

HUNTINGTON says in Ohio the state organization has not taken any action. Both Senators Taft and Burton are opposed to the Bill. The F.D.I.C. has been very active in trying to get banks to come out in favor of the Bill and has had people canvass the whole district. The Columbus Clearing House has passed a resolution in opposition to the Bill and has sent out letters asking banks to join in this opposition.

FLEMING says President Wiggins of the A. B. A. is bringing the matter up at the meeting of the Executive Council of the A. B. A. which is to take place in Chicago in the week beginning April 16. He thinks likely the A. B. A. will take a definite position.

The meeting adjourned at 1:15 P. M.

* * * *

Copies of the documents which Chairman Eccles suggested the Council prepare in connection with Banking as Essential Activity were sent to you a day or two ago.

1944

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

FEDERAL ADVISORY COUNCIL

(FEDERAL RESERVE SYSTEM)

OFFICE OF THE SECRETARY

c/o THE FIRST NATIONAL BANK OF CHICAGO

P. O. Box A

CHICAGO 90, ILLINOIS

To the Board of Governors of the
 Federal Reserve System:

The Federal Advisory Council desires to call to the attention of the Board of Governors the difficulty which the banks of the country are experiencing in connection with obtaining and maintaining sufficient personnel to perform both their normal functions and the war services they render to the Government. Banks as a whole have lost a very large proportion of their male employees to the armed services and due to the drafting of fathers, heretofore deferred, are certain to lose more in the near future. They have replaced these male employees with women to the extent they have been able and have spent much effort in training new employees. The situation has been acute and will inevitably become more acute.

The Council has been informed by the press and otherwise of various experiments and proposals to direct the flow of employment, of proposed new restrictions to be placed upon the hiring of employees, and of the possibility of transferring employees in industries not classified as essential to industries regarded as essential. This is a matter entirely distinct from drafting people capable of performing combatant service. The Council feels that, under some of the proposals now being advocated, the banks are in danger of being unable to secure replacements or to hold present employees with the result that the banking system might be unable to perform the duties required of it.

In the past banking has not been classified as an essential activity. The Council feels strongly that banking is essential both to the economic life of the country and to the maintenance of the war effort. It, therefore, urges strongly that the Board of Governors of the Federal Reserve System impress upon the War Manpower Commission, the Selective Service System, and any other body which may have to do with directing the flow of labor under present or future legislation or regulation the need of recognizing the essentiality and necessity of the banking service to the economic life of the country, and to the war effort. It desires this to be done to the end that in the hiring and retention of employees not eligible for combatant military service, the banks be treated on a parity with those industries regarded as essential even though not

directly engaged in the production of war material, so that the banks may retain and acquire personnel in order to be able to continue to function in the public interest.

The Council does not feel it is necessary to explain to the Board the essential part which banks play in the general economy of the country, and the impossibility of this general economy functioning without banks. While the Board is familiar with the various services which the banks are contributing to the war effort, nevertheless, a memorandum is attached listing the more important activities for the purpose of ready reference.

April 8, 1944

LIST OF SERVICES BANKS ARE CONTRIBUTING TO THE WAR EFFORT

1. Sale of United States Bonds. The banks have carried the burden of sale and distribution of United States War Savings Bonds. In the first year of the campaign they sold 85% of all bonds and are still increasing the tempo and scope of their sales effort. In a public release dated March 30, the Undersecretary of the Treasury made the statement that the banks of the nation handled at least 80% of all the securities sold during the Fourth War Loan Drive. It was explained that of the \$16,730,000,000 raised in the drive, \$13,556,000,000 represent bonds sold by the banks themselves and those sold by other organizations and volunteer solicitors to investors, who paid for and received their bonds through the banks. It should be noted that no fees are received by the banks for this service.

2. Ration Banking. On behalf of the Office of Price Administration, the banks are handling and keeping the accounts in connection with the ration coupons for manufacturers, wholesalers, and retailers. It is obvious that inexperienced bank personnel cannot be used in such work if it is to succeed.

3. Foreign Funds Control. The banks have been cooperating closely with the U. S. Treasury's Foreign Funds Control to prevent leakage of American assets into Axis hands. In this connection, well trained bank men have been able to discover collateral information concerning plans and movements of enemy aliens all of which has been of inestimable value to governmental authorities. Treasury officials particularly have been emphatic in their expression of appreciation for the assistance they have received from the banks in performing the task of locating and freezing over 7 billion dollars in potential enemy purchasing power. This service can be rendered our government only by seasoned and trained employees. It requires keeping supplemental records and making and filing many reports to the Treasury. This places an additional strain on the trained personnel of the banks, as well as taking the time of bank officers who must supervise this important and vital function.

4. War Factory Payrolls. Due almost entirely to the tremendous increase in war production, factory payroll activity handled by banks has practically doubled in volume during the past eighteen months. The work of handling cash and paychecks necessitates the full-time services of thousands of bank tellers, bookkeepers, and proof department junior clerks.

5. Banking Services at Military Posts. About 300 military posts are now being serviced directly by banks which furnish deposit,

transfer, payroll, and other facilities to military personnel, officers, and paymasters. These facilities require the services of tellers, bookkeepers, clerks, and the supervision of operating bank officers.

6. Financing War Production. Contractors and subcontractors in the rapidly expanding war industries have been financed to a major degree by banks either independently or in cooperation with the Army, Navy, or Maritime Commission under the provisions of Regulation V of the Federal Reserve Board which was issued pursuant to the Executive Order of the President No. 9112. Regulation V loans are made in order that all branches of industry may more adequately and promptly speed the production of war materials. This work requires the experience, judgment, and technical training of loaning officers, credit analysts, accountants, bookkeepers, and clerks. This also applies to the so-called VT loans and presumably will apply to the T Loans when these are made.

7. Financing the Food-For Freedom Program. Increasing food production required under quotas set by the U. S. Department of Agriculture is an activity supported by thousands of banks. In the past these banks have organized and participated in over 2,000 town, county, and state meetings for the purpose of explaining to farmers the gigantic task confronting them and arranging sound, constructive agricultural credit assistance. This activity, like financing war industry, requires the services of experienced bank executives and trained personnel.

8. Credit Control. In the fight against inflation, banks have mobilized their facilities and are employing credit controls prescribed by Regulation W, issued by the Board of Governors of the Federal Reserve System. This regulation extends control to all types of consumer credit whether in the form of installment sales and installment loans or in the form of charge accounts and single payment loans. This technical operation demands competent handling by experienced bank officers assisted by an operating force familiar with credit procedure.

A review of this summary of wartime services reveals the strategic position occupied by the banking system in the nation's war effort. Its services are essential to many military and other governmental operations directly related to war production. Its facilities support and are necessary to the efficient performance of each of the presently listed essential activities.

April 8, 1944

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

April 24, 1944.

Major General Lewis B. Hershey,
Director,
Selective Service System,
National Headquarters,
Washington, D. C.

Dear General Hershey:

I am transmitting the request of the Federal Advisory Council of the Federal Reserve System that in framing policies and programs relating to civilian employment the essential contribution of the banking system to the economic life of the country and the war effort be recognized, and that in the hiring and retention of employees not eligible for military service, banks be regarded as an essential or "war-supporting" activity.

In discussions with the Board of Governors regarding this matter, the Federal Advisory Council emphasized that it is not asking any special consideration with respect to the deferment of bank employees from military service and that its request pertains solely to policies and programs relating to employment plans for civilian personnel and to the utilization of men not physically acceptable for military service.

The Federal Advisory Council is a body created by law to confer with the Board and make recommendations on various matters pertaining to the banking system. It consists of a representative from each of the 12 Federal Reserve Districts.

The matter has been discussed with the Treasury, the Comptroller of the Currency, and the Chairman of the Federal Deposit Insurance Corporation, all of whom concur in the endorsement of the request.

Thus, the Treasury and the three Federal Agencies charged with the supervision of banks, join in asking that banking be regarded as an essential or "war-supporting" activity so far as civilian employment policies, as distinguished from calls for military service, are concerned.

On behalf of the Board of Governors, I strongly urge that this request be granted.

Very truly yours,

(Signed) M. S. Eccles

M. S. Eccles,
Chairman.

Similar letter addressed to
Honorable Paul V. McNutt,
Chairman, War Manpower Commission.