MINUTES OF MEETING
of the
FEDERAL ADVISORY COUNCIL
MAY 14-15, 1944
and of the
MONTHLY MEETINGS
of the
EXECUTIVE COMMITTEE
April 5, 1944
and
June 7, 1944

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

May 14, 1944

The second statutory meeting of the Federal Advisory Council for 1944 was convened in Room 836 of the Mayflower Hotel, Washington, D. C., on Sunday, May 14, 1944, at 2:00 P.M., the President, Mr. Brown, in the chair.

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. 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. Walter Lichtenstein	Secretary

Absent:

Mr. Robert V. Fleming	District No. 5

The Secretary of the Council stated that Mr. Fleming had informed him he would not be able to be present at this session but expected to be present at the session tomorrow.

The minutes of the meetings of February 13-14, 1944, and the minutes of the meetings of the Executive Committee on March 8 and April 5, 1944, copies of which had been previously sent to all the members of the Council, were approved.

A discussion took place regarding the manpower problem and the President of the Council reported that Mr. Robert V. Fleming of the Federal Advisory Council and Mr. Robert F. Leonard, Director of the Division of Personnel Administration of the Board of Governors, had had interviews with the various governmental authorities concerned with this problem and were well satisfied with their meetings.

A discussion took place regarding the bill proposed to regulate bank holding companies, of which members of the Council were very critical. It was agreed that the President of the Council should ask the Board of Governors for the text of the Holding Companies Bill.

After a discussion concerned with loans to be made by the Smaller War Plants Corporation, a poll was taken of members of the Council on three points:

(1) Should greater powers be given to the Federal Reserve Banks for the purpose of making industrial loans?

Seven of the members of the Council believe the Federal Reserve Banks should not be given greater powers than they now have.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

(2) If the Federal Reserve Banks are given greater powers, should they be required to make loans only if there is bank participation or should they be allowed to make loans without any bank participation?

The members of the Council unanimously believe bank participation should be required.

(3) Do members of the Council believe there should be some form of socialized credit, and, if so, should the Smaller War Plants Corporation be the body to handle it?

Members of the Council do not believe in socialized credit.

The President of the Council stated he would ask the Board again for texts of bills which the Board contemplates having introduced in Congress before such bills are presented to Congress.

The President of the Council stated that it is his understanding that the Brown and Maybank Bills are not likely to be discussed further at this session of Congress and it would be, therefore, well to let the whole question of the enforcement of Regulation Q rest for the time being.

There was a short discussion regarding the increase of currency in circulation.

The meeting adjourned at 5:35 P.M.

WALTER LICHTENSTEIN,
Secretary.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

May 15, 1944

At 9:45 A. M., the Federal Advisory Council reconvened in the Board Room of the Federal Reserve Building, Washington, D. C., the President, Mr. Brown, in the chair.

Present: Mr. Edward E. Brown, President; Mr. 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, George M. Wallace, and Walter Lichtenstein, Secretary.

A short discussion took place in respect to the various matters agreed upon at the meeting held yesterday.

The President of the Council stated his understanding is as follows:

The passage in the Baruch-Hancock Report dealing with loans to small business is due to the suggestions of Chairman Eccles. The Council is divided in its opinion as to who is to make loans to small business. The majority is opposed to having Federal Reserve System make these loans; a minority is in favor of the Federal Reserve Banks making such loans, if they are to be made, but all are agreed that, in any event, there should be participation by commercial banks in any loans to be made.

The Council is opposed to the request of the American Bankers Association for a definition of the term "interest" since this would limit the flexibility of banking. Increasing circulation is due (1) to hoarding; (2) to black market operations; (3) to a desire on the part of some to evade income taxes. As regards the first, the Secretary of the Treasury and his staff are putting pressure on savings depositors to buy bonds and this brings about more hoarding.

A discussion took place how it would be best to approach the Board in respect to asking it to submit to the Council proposed legislative measures before these are introduced into Congress. It was felt the Council really could not function properly if not given full information in regard to pending matters.

The meeting adjourned at 10:00 A. M.

WALTER LICHTENSTEIN,
Secretary.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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

May 15, 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:

Governors 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; Walter Wyatt, General Counsel; J. P. Dreibelbis, General Attorney; George B. Vest, Assistant General Attorney; E. A. Goldenweiser, Director, Division of Research and Statistics; William B. Pollard, Assistant 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 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 President of the Council made the statement that at the meeting of the Board with the Council in February, Chairman Eccles had indicated that he was not disposed to furnish the Council with copies of the legislation proposed by the Board with respect to bank holding companies before its introduction into Congress. However, Mr. Brown said, the Council felt that legally, under the terms of the Federal Reserve Act, it was entitled to information from the Board as to proposed legislation vitally affecting the banking system and that, apart from the question of legality, the Council could not function and could not cooperate with the Board unless it were given such information. He made the further statement that the members of the Council wished to cooperate with the Board and that, while they could not promise that they would agree with the Board in every instance, they did feel very strongly that they should be kept informed of the Board's views and should be furnished drafts of legislation proposed by the Board in advance of its presentation in Congress and not merely afterwards.

Governor McKee stated it was unfortunate the Chairman had been called home unexpectedly and that the Vice Chairman was ill, and it also had been found impossible for Governor Szymczak to be present. He went on to defend the position of the Board in respect to the holding companies. He explained that what the Board had in the way of a bill was the result of a confidential study based on its experience in the supervision of bank holding companies, that it involved many things on which the members of the Council undoubtedly had some knowledge but most of which would be hearsay to them rather than direct experience because the subjects included in the study dealt with loopholes developed from diversified meanings of words, and that it was with respect to those loopholes that legislation was needed. Mr. McKee went on to say that it seemed to him that this matter was further removed from the banking situation and much closer to a public relationship than anything that had come before the Board, that he did not know whether the public would be fully protected by the Board's suggestions, and that he was not too sure that

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

legislation on the matter would ever be enacted. He felt the Council was unduly disturbed, and that there was only one member of the Federal Advisory Council who would fully understand all the ramifications developed in the study.

The proposed amendment to Section 13 B of the Federal Reserve Act was read by the Secretary of the Council.

Governor Draper stated that in view of the number of bills now being introduced in Congress with respect to small business, it had been felt that the time had come for the introduction of a bill with a moderate approach which would channel such loans through the private banking system rather than through a Government agency, and that none of the members of the Board favored having such loans made by a Government agency created for the purpose, thereby shutting out bank participation.

A discussion took place concerning the whole question as to whether the views of Chairman Eccles represented those of the entire Board, in that the Chairman felt under no obligation and had no intention to discuss proposed legislation with the Council, and that the Council could act after it was introduced and not before.

The President of the Council stated he felt this was a complete departure from the law, according to which it had been decided to set up the Council as a compromise body so that the viewpoint of banks could be presented and argued with the Board.

Governor McKee in reply defended the position of the Board of Governors.

A discussion took place regarding the bill for small industrial loans, and in that connection, the discussion was renewed regarding the right of the Federal Advisory Council to be kept informed in advance of legislation the Board is considering recommending to Congress.

A short discussion took place regarding the Brown and Maybank Bills.

A discussion also took place regarding the increase in circulation of currency which it was felt was due largely to three causes:

(1) Hoarding brought about largely by fear of compulsory saving and social pressure to buy war bonds.

(2) Black market operations.

(3) Desire to evade payment of income taxes.

It was questioned whether the Federal Reserve System could do anything in respect to this problem.

The meeting adjourned at 1:10 P. M.

WALTER LICHTENSTEIN,
Secretary.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

May 15, 1944

At 2:10 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, 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.

A discussion took place in respect to the various bills proposed to make loans to small business. All members of the Council, except Mr. Berry, stated they were in favor of supporting the proposals made by the Board of Governors rather than support the Smaller War Plants Corporation Bill.

At 3:00 P. M., Dr. Goldenweiser appeared before the Council and discussed certain problems connected with the readjustments needed after the war.

The meeting adjourned at 3:55 P. M.

WALTER LICHTENSTEIN,
Secretary.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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

W. L.

Secretary's notes on meeting of the Federal Advisory Council on May 14, 1944, at 2:00 P. M., in Room 836 of the Mayflower Hotel, Washington, D. C.

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

The minutes of the meeting of February 14-15, and of the meetings of the Executive Committee on March 8 and April 5, copies of which had been previously sent to the members of the Council, were approved.

MANPOWER PROBLEM

Brown. The Executive Committee took up at its last meeting the problem of men classified as 4-F. The situation was upsetting the problem of employment in banks. There was a danger that if banking were declared to be an essential industry, it might mean a 48-hour week and banks might be compelled to take on people they might not care to employ. What was wanted was to have banks placed on the same footing as essential industries. Eccles, who did not appreciate the need of the fine distinction, in the covering letter sent with the Council's resolution to the Director of the Selective Service System and to the War Manpower Commission asked that banks be classified as essential. Messrs. Fleming and Leonard, however, had interviews with the authorities involved and were well satisfied with their meetings. In Philadelphia a scheme which is quite satisfactory, though unofficial, has been worked out between the banks and the authorities. In Baltimore and Chicago affairs are proceeding smoothly even though there have not been any general orders issued. Fleming had said he found the Selective Service System and the War Manpower Commission quite sympathetic to the point of view of the banks.

Wallace. Los Angeles is a critical area but the banks are operating on a 44-hour week basis and are doing their own hiring.

Winton said in his district banks were having trouble to get people.

It was decided not to take further action on this matter.

CONTROL OF HOLDING COMPANIES

Wakefield thinks the only bank holding company causing difficulty is that of Giannini. There is danger that a bill proposed to

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

regulate bank holding companies would cover much else and might result in serious interference with existing bank relationships. The proper method would be for the Board of Governors to sit down with the interested parties and thus evolve measures satisfactory to the various interests.

Brown says it is his understanding that Secretary Morgenthau thinks it an inopportune time to introduce legislation on this subject but when a bill is introduced it should include a death sentence. As a matter of fact, the two big bank holding companies in Minneapolis and the one in Milwaukee would probably be very glad to sell their country banks at something like their liquidating value if that were possible. A bill such as proposed by Eccles would probably prevent, whenever there would be another bank crisis, large concerns, such as U. S. Steel Corporation, Standard Oil of Indiana, and others from acquiring control of banks in difficulties for the purpose of protecting the deposits of their employees. It is very doubtful if a bill can be introduced in the face of Secretary Morgenthau's opposition and any bill containing a death sentence clause would not be agreeable either to Eccles or to Crowley. The bill as now drawn, he has reason to believe, would place banks under the jurisdiction of the National Labor Relations Board.

Berry asks whether the Council has not the right to know what the Board is contemplating. He believes Council should insist on knowing.

Wakefield thinks some day it will be necessary to investigate who really controls the banks. There are all sorts of agencies, all of whom have some say: Treasury, Federal Reserve Board, F. D. I. C., Comptroller, Smaller War Plants Corporation, R.F.C., etc., etc. It is a very dangerous situation.

Berry. The Council ought again to ask the Board of Governors about Smaller War Plants Corporation and the proposed Holding Companies Bill.

Wakefield understands Eccles wants bankers to be forbidden to serve as directors of Federal Reserve Banks and would prefer to have the Federal Reserve Banks directly under the Board of Governors and not have any Boards of Directors.

Winton feels the Council ought to have a showdown with the Board of Governors.

Brown believes it might be well to take up tomorrow, in the absence of Eccles, the question of seeing the text of the Holding Companies Bill and the question of loans to small businesses. The mead Bill, the Holding Companies Bill, and the suggestions in the Baruch Report are all tied together. The Council should again ask for the text of the Holding Companies Bill since after all the matter has been presented in the annual report. The Council wants to be able to discuss the matter with all the facts before it.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Berry feels the Council should issue a statement expressing its opposition to the whole principle of the Smaller War Plants Corporation and the like.

Traphagen agrees with Kurtz that we are bound to have socialized credit and the Federal Reserve Banks are the best agency to handle the loans to small businesses. The only way we shall get rid of all this is to have a change of Administration.

Wakefield doubts that a change of Administration will make much difference in this respect. The politician is worried because the bulk of war contracts has gone to the large corporations.

The Secretary, at the request of Mr. Berry, read the resolution of the Executive Committee of the Council, dealing with loans of the Smaller War Plants Corporation, adopted on December 7, 1943.

BROWN says in the past the Council had stated that it preferred to have Government loans made by the R. F. C. as it was regarded as a temporary body and the management itself in the period 1936-37 recommended that the R. F. C. be liquidated except that it continue to make loans to the railroads. It was felt the Federal Reserve Banks should not make such loans since they ought not to be allowed to tie up the ultimate liquid resources of the banks of the country. Now the situation has changed and the temper of the country is such that, to prevent a depression after the war, it will be necessary to have the Government continue to finance industry, housing, etc. Therefore, even though the whole theory underlying these Government loans is wrong, still Congress would not dream of doing away with these loans at this time. So it is better for the Council, if it can, to direct the trend and make this practice as inocuous as possible and consider which would be the best agency to handle these loans: Federal Reserve Banks, R. F. C., or Smaller War Plants Corporation. The Federal Reserve System has shown it will not make many of these risky loans and the management of the R. F. C. has made it abundantly evident it does not intend to lose money if it can be avoided. In the case of the Federal Reserve Banks, their funds should not be tied up in risky credits. The objection is the same as was made to the proposed bank credit pool, namely, if the business is handled conservatively, the clamor of small business will not be stilled and the people and the politicians will turn upon the whole Federal Reserve System. It is clear that Federal Reserve Banks with conservative bankers on the Boards of Directors will not make many foolish loans. As for the R. F. C., Jesse Jones will not be its head forever and his successors may hand out money as freely as the Smaller War Plants Corporation. In the long run the Federal Reserve System may be the most conservative body, and it may be advisable to run even the risk of arousing public opinion against the System.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Wakefield says let the Smaller War Plants Corporation make the loans, and we may rest assured there will be such losses that the aftermath will arouse great hostility, but the Federal Reserve System will not have to bear the odium.

Traphagen points out that the Mead Bill would give the Federal Reserve System greater powers.

Brown and Wakefield both think the Mead Bill is not likely to be passed this session of Congress, at any rate, and the Federal Reserve System does not want the authority which this Bill would confer upon it. It may be that under some other name there will be an enlarged Smaller War Plants Corporation, probably to be called Smaller Plant Corporation.

Brown puts three questions to the members of the Council:

(1) Should greater powers be given to the Federal Reserve Banks for the purpose of making industrial loans?

Seven of the members of the Council believe the Federal Reserve Banks should not be given greater powers than they now have.

(2) If the Federal Reserve Banks are given greater powers, should they be required to make loans only if there is bank participation or should they be allowed to make loans without any bank participation?

The members of the Council unanimously believe bank participation should be required.

(3) Do members of the Council believe there should be some form of socialized credit, and, if so, should the Smaller War Plants Corporation be the body to handle it?

Members of the Council do not believe in socialized credit.

Wakefield states the Federal Reserve System would be destroyed if it went into the business of socialized credit. The whole business has become so complicated that the Treasury has not been able to keep track of all the outstanding obligations. Some day there will be a crash, and it would be well for the Federal Reserve System if it could keep out of the picture entirely.

Traphagen thinks there is bound to be socialized credit and that it should be made as safe as possible under the circumstances. He feels certain, even if other agencies crack up, the loans made by the Federal Reserve Banks with bank participation will turn out to have been good loans, and so, in contrast to the other agencies, credit will redound to the Federal Reserve System.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Berry believes the Council should point out the unsoundness of this whole theory of socialized credit.

Traphagen says the Federal Reserve Banks would make loans which are merely an extension of present bank loans but which banks could not afford to go into for 100 per cent of the risk.

Kurtz wants some resolution objecting to Eccles' statement that he will not show to or discuss with the Council legislative bills before they have been introduced into Congress and which have been prepared under the auspices of the Board of Governors. He believes anything affecting the banking system should be submitted to the Council. He wishes to have the Executive Committee of the Council instructed to present this matter at a time when Eccles is able to be present.

Brown says: (1) He will again ask tomorrow for a text of the Holding Companies Bill and will ask whether the Board of Governors has concurred in Eccles' recommendations regarding small loans as presented in the Baruch-Hancock Report. If the Board has approved of Eccles' recommendation, the proposed bill should be shown to the Council for if the Council can not see any of these measures it will be hampered in its work. (2) The Council is opposed to Federal Reserve Banks making 100 per cent loans. In other words, the members of the Council feel that any loan made by a Federal Reserve Bank should have participation on the part of a private commercial bank.

REGULATION Q

Brown believes the Brown and Maybank Bills will not come up in this session of Congress and therefore it would be best if this whole subject is not stirred up at present. He says if it is, we may have regulations compelling banks to make all sorts of service charges. He is very much opposed to the proposal of the American Bankers Association asking that the term "interest" be defined by law as it would mean taking out of banking all flexibility.

CURRENCY CIRCULATION

Wakefield says in Minneapolis bills of large denomination seem to be wanted by country banks.

Brown says he thinks to take the bills of large denomination out of circulation would do more harm than good by creating greater distrust and it would just encourage hoarding. The great increase of circulation is due: (1) To hoarding which in part is caused by people desiring to avoid pressure to buy more Government bonds; (2) to black market operations; (3) to a desire to make income tax evasion easier.

The meeting adjourned at 5:35 P. M.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

The Council met in the Board Room of the Federal Reserve Building, at 9:45 A. M., on May 15, 1944.

All members of the Council, excepting Messrs. Fleming and Winton, were present.

Brown reviews yesterday's understanding. He will ask for the text of the Holding Companies' Bill. It is his understanding that the passage in the Baruch-Hancock Report dealing with loans to small businesses is due to suggestions of Chairman Eccles. He understands the Council is divided in its opinion as to who is to make loans to small businesses. The majority is opposed to having Federal Reserve Banks make these loans; a minority is in favor of Federal Reserve Banks making such loans, if they are to be made, but all are agreed that in any event there should be participation by commercial banks in any loans to be made. He has reasons for believing that the Brown-Maybank Bills will not come up in this session of Congress and consequently this whole question of absorption of exchange charges had better not be stirred up. The Council is opposed to the request of the American Bankers Association for a definition of the term "interest" since this would merely limit the flexibility of banking. Increasing circulation is due (1) to hoarding; (2) to black market operations; (3) to a desire on the part of some to evade income taxes. As regards the first, the Secretary of the Treasury and his staff are putting pressure on savings depositors to buy bonds, and this brings about more hoarding.

A discussion took place how it would be best to approach the Board in respect to asking it to submit to the Council proposed legislative measures before these are introduced into Congress. It is pointed out that the Council really cannot function if it is not given full information in regard to pending matters.

The meeting adjourned at 10:00 A. M.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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: Governors McKee, Draper, and Evans; also, Messrs. Clayton, Thurston, Morrill, Carpenter, Bethea, Goldenweiser, Wyatt, Dreibelbis, Vest, Smead, Pollard, Leonard, and Parry.

Brown. This is the first full meeting of the Council since the February session when the Council requested a copy of the proposed Holding Companies Bill. The Annual Report of the Board has a general discussion but this will not help the Council unless it is furnished further details. Therefore, the Council should either be given a copy of the proposed bill or a summary sufficiently definite as to the proposals in the bill in order to enable it to discuss the problem intelligently. Furthermore, the Baruch-Hancock Report proposes loans to small business and refers to a blueprint outlining in greater detail the proposals. Eccles had stated he would not give the Council a copy of the proposed bill relating to Holding Companies nor would he agree to give the Council details as to the Baruch-Hancock proposals. As regards the latter, Eccles had stated the views expressed in the Baruch-Hancock Report were his personal ones, though he thought the members of the Board would agree with him. Under the Federal Reserve Act, the Council is entitled to full information and it can not discuss proposals intelligently unless it is given full information. The members of the Council feel very strongly that they are entitled to be informed of legislation which it is proposed to submit to Congress before such proposals are sent to Congress.

Kurtz says he was quite shocked to find that the Chairman felt at liberty to withhold at his discretion from members of the Council pertinent information relating to proposed legislation and other vital matters. The Council would be derelict in its duties if it would not ask the Chairman and the Board for an explicit statement as to the rights and duties of the Council. Under the law, the Council has the right to ask for all pertinent information relating to the Federal Reserve System and this obviously implies that the Board is to give the Council such information. There might, at times, arise some unusually delicate matters which can not be entrusted to the Council but this hardly can very often be the case. The Council may not always find itself in agreement with the Board but that is not the point at issue.

McKee. The Chairman has been called home unexpectedly and the Vice Chairman is ill. Governor Szymczak suddenly had an important engagement come up so that he could not be present at this meeting. The Council should not feel too strongly on these matters. The history of

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

the suggestion in the Baruch-Hancock Report is that there was taken from the Federal Reserve System $139 million in order to establish the F.D.I.C. The Chairman is very anxious to be rid of this whole matter by having the fund returned and thus get rid of the present complicated accounting with the Treasury Department. There is not any reason why the full statement of the Chairman could not have been read but the whole time schedule was upset. As regards the Holding Companies Bill, this was the result of a confidential study which was based on long experience and arose from a desire to plug holes in present legislation. It is further removed from actual banking than almost anything that has come up in recent times and is a matter of public relations. He does not believe himself there will be any legislation and the Council is unduly disturbed. He is convinced only one of the present members of the Council would understand all the details. He would be quite willing to go over the high points with that man in a confidential way.

Draper. The Bill arising out of the suggestion in the Baruch-Hancock Report was sent to the chairmen of the two appropriate committees of Congress on Friday.

The Secretary of the Council, at the request of Governor Draper, read the proposed bill to amend Section 13b of the Federal Reserve Act and also the statement accompanying the bill.

Brown requests that copies of the statement and the bill be given to the members of the Council so that they may study them.

Draper says Spence and Wagner had promised to introduce the bills promptly into the respective Houses of Congress. He said Hancock would agree with the Board.

Berry says that the Council ought to have an opportunity to discuss such a matter with the Board before it is a "fait accompli". Obviously, it would be too late for the Council to do anything in suggesting changes after a bill is introduced. To do so would place the Council in public opposition to the Board.

Brown says he understands the Chairman believes that there should not be any private banker representation on the Boards of Directors of the Federal Reserve Banks, and the Federal Reserve Banks should be entirely under the jurisdiction of the Board of Governors. It is, therefore, natural that the Chairman, as far as he is concerned, would not show any proposed legislation to the Council and would have no desire to discuss in advance of introduction into Congress any bill with the Council. The Council would like to know if this is a view shared by the Board of Governors as a whole or merely the personal view of the Chairman. The Council feels the Chairman's point of view is contrary to the intent of the Federal Reserve Act.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

McKee says that he believes anything that can be discussed with the Council should be so discussed. The Board of Governors has given each member of the Board certain functions and legislation under this division of functions belongs to the Chairman and the Vice Chairman. However, the Holding Companies Bill is of special interest to him as he has felt for some time there might be very bad public reaction against all banks unless certain steps are taken in time. He believes the study made by the Board may be of help. He personally would like to discuss this whole matter jointly and severally with the members of the Council but he is embarrassed by the fact that the study in question is an attack on one organization. He is anxious to avert trouble in the future and has felt it necessary to treat this matter as one of highest confidence until developments reach a certain point. He had hoped that the statement made in the Annual Report of the Board of Governors would cause someone to sponsor legislation. The Board can not go to Congress itself without the consent of the Budget Committee and so someone outside of the Board should take up the cudgels. Some years ago he tried to get the holding companies to introduce their own legislation but they declined. He is not very hopeful that any one will undertake to introduce legislation now, but if there is someone, then the Board has made a confidential study which it put into the form of a bill. He asks the members of the Council not to become impatient and he wishes to assure them that nothing in the bill will hurt any unit bank. If the bill is introduced into Congress, it will not be a Board bill. He points out that members of the Council must be aware of the fact that the Chairman of the Board is one who administers matters in his own way and without desiring to consult people generally. He has handled the Baruch-Hancock legislation with the help of Governor Draper and has kept these matters in his own hands. However, the majority of the Board of Governors has approved the confidential report. He regrets exceedingly that there has been a misunderstanding and is anxious that the members of the Council and the Board work together as members of one family.

Brown. Members of the Council are anxious to cooperate. They recognize there may be occasionally matters, and the Bank Holding Companies Bill may be one of them, which cannot be submitted to the Council but Eccles took the position he had no obligation of any kind to show any proposed legislation to the Council before its introduction into Congress and that he had no intention of showing anything of this kind to the Council. As long as the present law exists, the Chairman should--except in most exceptional cases--consult the Council in advance of action.

McKee refers to the Baruch-Hancock Report and the bill based upon it and said the time-table had been stepped up to such an extent that the Board had to act before it was possible to have a meeting of the Council. This was due to a hint that had been given that unless the Board got busy immediately it would find itself out of the picture.

Berry says that the matter of small loans must have been discussed by the Board long before the February meeting of the Council.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

McKee answered that after all the Council had been talking about this matter for a long time and that there wasn't anything new.

Berry says it is different now because the System is evidently planning to extend its functions.

McKee says he is in agreement with the Council that it should have been consulted about the bill based on the Baruch-Hancock Report.

Evans says in his personal conversations with the Chairman he had never found that he assumed the position that he had no obligation to consult the Council.

Wakefield says the Council believes in the perpetuation of the Federal Reserve System and it would be very helpful to the System if the Board cooperated with the Council. As it is the Council has often been forced to oppose the Board after legislation has been introduced into Congress and in many cases this might have been prevented if the Board had shown some confidence in the Council.

Fleming says it is obvious there wasn't any limitation in the bill as to the amount of guarantee the Board might assume in connection with any loan, but he would much prefer to have this business of guaranteed loans handled by the Federal Reserve System in preference to the R. F. C. or the Smaller War Plants Corporation. It is obviously desirable not to have a percentage limitation upon the guarantee placed in the bill for otherwise greater powers would be conferred upon other agencies.

Brown says he, and he is certain the members of the Council, appreciates Governor McKee's statement and he hopes that McKee is expressing the view of the majority of the Board that, except in rare cases, the Board is willing to discuss legislation with the Council before it reaches Congress. As regards Regulation Q, the Council feels the A. B. A. resolution asking for a definition in the law of "interest payment" is most unfortunate; it would prevent all flexibility in banking. Since chances of action by the Senate in the present session of Congress are slight, it seems to him it would be best to let the whole matter rest at present and the less said, the better.

McKee says he understands the Senate was very much impressed by the opposition of businessmen to the Brown and Maybank Bills and he doubts whether the Senate wants to take up the matter at this time. It is most unlikely that it will be possible for the Senate Committee to have hearings before it takes a recess in connection with the Republican Convention and while the Senate may come back after the Republican Convention, it will adjourn again for the Democratic Convention and is then not likely to return before election. He would like to know what the opinion of the Council is about any further rulings at this time in connection with cases violating the regulation of the Board.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Brown says he believes the advice of most members of the Council would be that the Board had better not try to find others to whip until after this Congress adjourns.

Berry says the Board had better leave this whole matter rest.

At 12:30 Kurtz leaves the meeting.

INCREASE IN CIRCULATION OF MONEY

McKee. It has been suggested that the Treasury take some one district and police it and thus see what the factors are which bring about the great recent increase in the circulation of currency.

Brown says in his opinion the main causes for the increase are: (1) Hoarding brought about largely by fear of compulsory saving and social pressure to buy war bonds. The Treasury and the War Loan Committees have really harassed depositors. It has been suggested by the Treasury that everyone having a deposit of over a thousand dollars in a savings bank should be personally interviewed. It is probably true that bank solicitation is the most effective method of selling bonds. Still, if it goes too far, people will simply begin to hoard money. (2) Black markets. (3) Evasion of income tax. Both of these latter items are bound to increase the amount of currency in circulation. He doesn't believe there is anything the Board or the banking system can do about that situation.

Fleming says the pending tax simplification bill is likely to increase the pressure.

Brown says the curtailment of large denominations would merely stimulate the desire to hoard as it would confirm the belief of some people that savings depositors are to be forced to buy bonds. The only thing the curtailment of bills of large denomination would bring about would be that hoarding would be in bills of smaller denominations and more of them.

McKee says Council ought to consider in connection with this whole problem the Federal Reserve Bank notes, reserves, etc. He agrees with Brown that the subject is a very delicate one.

Goldenweiser. Some increase in circulation is evidently due to hoarding, black markets, or in order to evade the payment of taxes. This has been increasing. Before this the increase in circulation was largely due to rise in prices and business activity. The rate of increase is now about $300-$400 million a month instead of $500 million at the peak. He is not very disturbed about the situation and does not regard the matter as particularly significant. In so far as the public holds idle deposits plus cash, this is very regrettable. It would be much better if the public bought more bonds but it is not a matter of prime importance.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Wakefield says the more discussion you have about the currency problem, the more you will have hoarding.

McKee. Taxation on bank deposits in some states creates very great shifts of deposits which often creates embarrassment to the Federal Reserve System. He wishes to know whether the Board should take up this matter with the Council of State Governments or is it too delicate.

Brown says it would be very unfortunate if the matter were taken up with the Council of State Governments. This shifting of deposits takes place in states like Illinois, Missouri, Ohio, Indiana, and Michigan where it is difficult to change the constitution. In Ohio, Indiana, and Michigan the banks are being forced to pay a tax on bank deposits on behalf of their large depositors. He would much prefer to have the temporary upset which takes place in Illinois than to have to pay this tax. The chances are if the Board raises the question Missouri and Illinois will find themselves worse off than at present. In Indiana the present situation prevents the growth of banks.

The meeting adjourned at 1:10 P. M.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

The Council reconvened in the Board Room of the Federal Reserve Building, at 2:10 P. M., on May 15, 1944.

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

Brown. There are two matters to discuss (1) Holding Companies Bill which is evidently shelved for this session of Congress and (2) the proposed amendment to section 13b which was read at the meeting this morning. There was much difference of opinion at the meeting yesterday, seven of the eleven members of the Council present feeling that the Federal Reserve System should not be given more power to make loans. It is true the Board of Governors, as at present constituted, would probably restrict the guarantee to 90 per cent of the loan. Still this Board might have successors who would be willing to make loans and grant guarantees of 100 per cent. On the other hand, if the bill limited the amount of the guarantee it would probably not be adopted by Congress.

Fleming says Mead is carrying on a campaign for his bill. Then there is the bill of the Smaller War Plants Corporation. The 139 million provided for by the Federal Reserve bill may not seem a sufficient amount to Congress.

Wakefield believes the Smaller War Plants Corporation will be able to get its bill passed.

Fleming says there is bound to be some legislation.

Berry doesn't see how the Council consistently can support the bill proposed by the Board when it is opposed to loans to be made by the Smaller War Plants Corporation.

Traphagen does not agree with Berry. He thinks the proposed bill is the least undesirable since we are bound to have some legislation.

Fleming says that each Federal Reserve Bank has six directors elected by the member banks and is pretty certain to be conservative. It must be remembered that the R. F. C. under some person other than Jesse Jones might run completely wild. What he doesn't like in the Federal Reserve bill is that any financial institution can originate a loan so that there would be included building and loan associations as well as nonmember banks.

Berry doesn't want the Federal Reserve System loaded down with business not germane to that of a central bank.

Traphagen thinks that it is less dangerous to the private banking system to give the Federal Reserve System power than to give it to some other agencies.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Wakefield says the $139 million is simply an insurance fund against prospective losses. This idea has crept in everywhere and has been seen in the case of the FHA and similar agencies. We might as well make up our minds we are going to have an experiment in political lending and it will continue until the futility of it is proved. He believes the Council might as well get behind the Federal Reserve proposal.

Fleming says we ought to know what limitation on loans is contemplated. It may be the Board has prepared a tentative scheme of regulations.

Brown believes we shall have a Smaller War Plants Corporation Bill. In addition, we may have the Federal Reserve bill. He doubts whether the Mead Bill will pass. In answer to Berry, he says he has an open mind about the proposals made by the Board. He doubts whether these proposals if carried out will do much good and will probably not do any harm. Theoretically, he believes the Federal Reserve System should not engage in such financing but the legislative situation is such that the Federal Reserve bill may stave off such features as those proposed in the Mead Bill. If Jones were succeeded by certain types of appointees we might be in a much worse situation than the present one. Politically, it is probably wise for the Council to get behind the proposals of the Board in order to prevent worse developments. He would much prefer if there were not any of the socialized credit.

Berry feels there are too many implications involved which are dangerous. The non-member banks are likely to be included and thus you would have another class of institutions brought into the picture.

Traphagen believes all this is part of the Baruch-Hancock Report which on the whole is a constructive document and in his opinion it would be a mistake for the Council to put itself in opposition. What is proposed is a pool very much like the one suggested at one time to be raised by the banks but now the banks would not be saddled with the onus of refusing to make loans.

Berry believes the whole scheme will not function, a lot of machinery will be created, and ultimately the banks will be blamed for the failure.

Winton agrees with Brown, Fleming, and Traphagen that the Federal Reserve proposals are good, and the same opinion is held by Bradshaw, Spence, Huntington, and Gifford. In other words, all members of the Council present except Mr. Berry, are in favor of supporting the Federal Reserve proposals.

Brown makes the statement that Mr. Kurtz before leaving had also agreed to support the proposals.

Traphagen left the meeting at 2:45 P. M.

Brown says it will be necessary to get the non-member banks and such organizations as building and loan associations in on the scheme.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Fleming says best to leave the whole matter rest as it is in the Baruch-Hancock Report. It enables the argument to be made that agencies other than the Federal Reserve System need not be given the authority to make loans.

Brown suggests that members study the whole subject and if they have any suggestions send them to the Secretary of the Council before the next meeting of the Executive Committee which is scheduled for June 7. He will seek to get a promise from the Board that it will consult the Council before it issues any regulations when and if the bill passes.

Wallace leaves the meeting at 2:50 P. M.

At 3:00 P. M., Dr. Goldenweiser appeared before the Council and made the following statement:

Goldenweiser. Not much has happened in a business way since the last meeting of the Council. The war goes on and we have to pay for it. Prices are being held reasonably in line. Financing of the war is not a problem, but the problem is to do the financing in such a way that there will not be any serious after-effects when the war is over. It is therefore more important to think of the postwar picture and what to do in the matter of readjustment. If we are to keep up a reasonable amount of employment after the war we must have a level of production of about $170 billion as against the present $2 billion on the present price level. The prewar production on present price level amounted to about $85 billion per annum. If we had a production of $170 billion we would have about 1-2 million unemployed. We could have a lower level of production than at present and still keep up reasonable employment because people now working such as women, old people, and young people will drop out. Also there will be shorter hours of labor and some people who are now in production will enter personal service. He is publishing an article on this subject in the Federal Reserve Bulletin for May.

He has been concerning himself lately with trying to prepare a program under which a production of $170 billion per annum might be kept up. He has formulated his program in 15 points and recognizes that much of it is guess work, but at least it furnishes the basis to discuss something which may develop into a practical usable scheme. The 15 points are as follows:

1. It will be necessary to keep controls during the period of readjustment until such time as production of goods meets the demand.

2. It is necessary to have a better plan of demobilization than after the last war. This plan ought to cover not merely people in armed services but also people working in special war industries.

3. The program of social security must be expanded. This would increase current demand for goods as people would

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

be more ready to spend and would not in cases of depression worry as much as at present about their own future, Thus, the sharpness of business depressions may be prevented.

4. There must be an expansion of public services: schools, hospitals, etc., all of which are wanting in many districts.

5. An increased minimum standard of living should be developed.

6. There should be a better and more systematic organization of the lower ranks of labor.

7. Hours of labor should revert to those of the prewar days. Lower hours of labor will not in itself solve the problem. Our reduction in working hours must be gradual and not greater than we can afford.

8. Wage levels above minimum must be maintained but should not be raised except as productivity increases.

9. We cannot have a great growth of monopolies whether this be in industry or in labor. He admits he does not know how to work this out.

10. The Government should give a job to everyone who needs one as there is much work the Government should do and it should do it when there is need.

11. Agriculture. We have had an overproduction and very likely after the war we shall have a return from the city to the country. He believes in some places there is a boom now in the price of agricultural lands. (Wakefield questions this.) There is much rural poverty. 92 per cent of the increase of income from agriculture has gone to 2/3 of the farm population and only 8 per cent has gone to 1/3. World trade and industrial prosperity is necessary for a healthy situation in agriculture. Some stabilization of farm prices may be required.

12. Foreign trade must function if we are to have prosperity. To bring this about the first necessity is domestic prosperity in order that we may be able to buy freely from abroad. There is needed some mechanism for making foreign investments of a productive nature.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

13. The budget of the Federal Government must be balanced in order to meet inflationary movements. Such balancing may be of a cyclical nature.

14. In taxation we must have few consumptive taxes and there must be a larger allowance than at present for losses. Excess profit taxes should be abolished and those corporation taxes which now imply double taxation should be abolished.

15. Banking problems. For a while the value of Government securities should be maintained--if necessary, artificially. He does not anticipate that this will be very difficult. On the other hand, short-term rates should be allowed to fluctuate more than at present and this need not affect the prices of longer-term Government securities. There is need for a good reconversion plan. Smaller corporations must be helped. In the Federal Reserve field, selective credit control must be maintained, and the older controls, like discount rates, reserve requirements, etc., should be kept. Greater controls over reserve requirements may be necessary as it is likely after the war we shall have another period of influx of gold.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis