

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

June 7, 1944

At 11:15 A. M., the Executive Committee of the Federal Advisory Council convened in the Board Room of the Federal Reserve Building, Washington, D. C., on Wednesday, June 7, 1944, 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, Robert V. Fleming, and Walter Lichtenstein, Secretary.

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

Mr. Fleming presented a letter written to him under date of June 1, 1944, by Professor W. Y. Elliott, Vice Chairman of the War Production Board's Commission for Civilian Requirements, in which he stated that he is certain that the Essential Activities Committee will see to it that "within the next few days, banking has been added to the relatively few community services and trades which may be declared 'locally needed' by Area Manpower Commission Directors without securing approval from the National Office of the War Manpower Commission."

A discussion took place regarding the proposed amendment to Section 13 B of the Federal Reserve Act. The feeling prevailed that the Federal Reserve Banks should not have the right to initiate loans.

Mr. Fleming reported that he and Mr. Robert F. Leonard, Director of the Division of Personnel Administration of the Board of Governors, had presented oral arguments on behalf of the banks both before Selective Service and the War Manpower Commission.

The meeting adjourned at 11:55 A. 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

June 7, 1944

At 12:00 o'clock noon, 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:

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; 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; 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, 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, Robert V. Fleming, and Walter Lichtenstein, Secretary.

The President of the Council reiterated the position of the Council that it is entitled to information on proposed legislation in advance of its introduction into the Congress. A discussion took place, and it was agreed the point raised by the Council would be considered at the full meeting of the Board of Governors which would reach some definite decision.

A discussion took place regarding the proposed amendment to Section 13 B of the Federal Reserve Act. Some of the Federal Reserve Banks eventually will desire to have the right to initiate loans to which the Council is opposed. It was pointed out that the proposed bill did not give the right of initiating loans to the Federal Reserve Banks.

A discussion took place regarding the International Monetary Fund and the proposed International Bank.

The President of the Council stated that the Executive Committee meetings for July and August would be omitted unless either the Council or the Board should request a meeting.

The meeting adjourned at 1:25 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 the meeting of the Executive Committee of the Federal Advisory Council on June 7, 1944, at 11:15 A. M., in the Board Room of the Federal Reserve Building.

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

The following were present: Messrs. Brown, Spencer, Traphagen, Kurtz, Fleming, and the Secretary.

BROWN stated he understood Vice Chairman Ransom sympathized with the Council in its request to be given full information on proposed legislation before it is introduced into Congress. The suggestion to abolish the elective members of the Boards of the local Federal Reserve Banks is not politically possible at the present time. The Council should reiterate the point that it is entitled to full information.

KURTZ agrees with Mr. Brown.

FLEMING presents a letter written to him under date of June 1, 1944, by Professor W. Y. Elliott, Vice Chairman of the War Production Board's Commission for Civilian Requirements in which it is stated that he is certain that the Essential Activities Committee will see to it that "within the next few days, banking has been added to the relatively few community services and trades which may be declared 'locally needed' by Area Manpower Commission Directors without securing approval from the National Office of the War Manpower Commission."

#### AMENDMENT TO 13B

KURTZ. He is afraid even if there is a guarantee of 90 per cent on the loans, banks in small towns will not wish to take even 10 per cent of the loan and in some cases could not go in for 10 per cent as this would be over their legal limit. Probably big banks would wish to go in but there is a feeling that credit should remain in each locality where the business is situated.

KURTZ presented a memorandum from Mr. Williams of the Federal Reserve Bank of Philadelphia, copy of which is attached hereto. This should be regarded as strictly confidential.

BROWN and TRAPHAGEN do not believe Federal Reserve Banks should have the right to initiate loans.

KURTZ feels if Federal Reserve Banks are given the power to initiate loans they are likely to be forced to make loans in smaller localities to businesses whether they wish to do so or not. He suggests that the Executive Committee might ask the Board how it feels about the matter.

BROWN says he understands the amendment to 13B is not likely to be brought up at this session of Congress but there may be hearings on Regulation Q.

FLEMING says he has been informed by a Senator that the Maybank Bill would not get out of committee.

BROWN replies that the Maybank bill may not be voted out of committee, but Wagner may hold hearings.

#### MANPOWER

FLEMING reports that he and Mr. Leonard presented oral arguments before both Selective Service and War Manpower Commission. He talked to Professor William Y. Elliott who is most sympathetic. He read the letter he received from Elliott to which reference is made above.

SECRETARY raises question whether there should be Executive Committee meeting in July and August. It is agreed that there shall not be any scheduled meeting in either July or August, but if necessary one can be called.

He also brought up the matter of loans to bank officers concerning which Mr. Huntington had sent some material and a suggestion made by Mr. George M. Wallace in respect to clarification in the language of 13B.

FLEMING says it would be very inopportune at this time to raise the question of prolonging beyond June 15 the date when bank officers will be compelled to repay loans to their respective banks. If any suggestion of this kind is made it should come from the supervisory authorities and not from the banks themselves.

The meeting adjourned at 11:55 P. M.

On June 7, 1944, at 12:00 Noon 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, Fleming, and the Secretary.

The following were present from the Board of Governors: Vice Chairman Ransom, Governors Szymczak, McKee, Draper, and Evans; also, Messrs. Clayton, Morrill, Bethea, Carpenter, Wyatt, Dreibelbis, Goldenweiser, Pollard, Smead, and Leonard.

BROWN reiterated the position of the Council that it is entitled to full information on proposed legislation in advance of its introduction into Congress. He points out that this is in accordance with the law. He said such information might well be given in confidence. He said he was mentioning this in connection with the proposed bill to regulate holding companies and the proposed amendment to 13B. He hopes the Board will give favorable consideration to this matter inasmuch as the Council will have to insist upon its point of view.

MCKEE points out that the proceedings of the last meeting were recorded in full and that, in consequence, all members of the Board, even those who were not present at the meeting, are fully cognizant of what was said.

RANSOM. He feels there is a definite advantage in having the Board obtain the advice of the Council before introduction of proposed legislation. He says the point raised by the Council will be taken up by the full Board which will reach some definite decision. He reiterated that the position of the Board in any legislation which it seeks will be helped and assisted if it has the support of the Council. What is even more important in his opinion is the matter of cooperation and he is certain that the Council as a body will observe confidence. There will be delicate situations within the Government where the Council would fully understand the Board's reticence, but in all other cases the Board should greatly value the help of the Council.

FLEMING points out that when regulations were to be drafted under the Banking Act of 1935, committees of the A. B. A. were consulted and there never was any breach of confidence. He agrees that while the Council has certain statutory rights, it is much better if the whole subject is treated as one of cooperation.

RANSOM says that Mr. Kurtz was of the greatest help when the hearings on Regulation Q were going on in the House of Representatives. He says, of course, he is speaking purely as an individual as the matter has not been taken up by the Board as a whole.

AMENDMENT TO 13B

BROWN understands Board has made inquiries of the Federal Reserve Banks in respect to 13B. He says that one of the Federal Reserve Banks has asked its member on the Federal Advisory Council to raise the question.

RANSOM says this is the kind of matter which ought to be thrashed out before legislation is introduced.

DRAPER says he has had correspondence with Sproul but he does not anticipate any early action in Congress on this matter. He plans to take up with the Conference of Presidents of the Federal Reserve Banks and the Open Market Committee the various problems raised.

RANSOM says it is possible there may be earlier hearings than expected. A bill has been introduced into both houses of Congress.

SZYMCZAK says this whole matter is an outgrowth of the Baruch-Hancock Report, and the Board was asked to implement the proposals made in the report. He did not think any bank had objected.

KURTZ says the Federal Reserve Bank of Philadelphia wants each share of the \$139 million to be given back to the bank from which the money originally came. Then - while he does not agree - the Federal Reserve Bank of Philadelphia wishes the Federal Reserve Banks to have the right to initiate loans. He believes this would be a great mistake. The claim of the Federal Reserve Bank of Philadelphia is that there are single industry towns in which the banks could not take on participation even up to 10 per cent of the loan. But he points out after all banks in larger cities could take on such participation.

BROWN points out that direct loans would not be in accord with the provisions in the bill proposed by the Board. The presidents of the Federal Reserve Banks are really suggesting a very radical amendment.

MORRILL says the suggestions made by the Federal Reserve Banks of New York and Philadelphia were known before the bill was introduced into Congress.

DRAPER says he believes most of the Federal Reserve Banks supported the Board.

SMEAD says only four out of the twelve Federal Reserve Banks suggested direct loans.

FLEMING wants to know what the objection is to give the money back to each Federal Reserve Bank.

MCKEE answers that it is merely a matter of pooling of funds.

KURTZ says there is greater danger that money will be lost by pooling than if each Federal Reserve Bank owns its share of the money.

BROWN says his only purpose in raising the question is that if a fundamental change is to be made in the bill as proposed by the Board then he hopes the Board will first discuss the matter with the Council.

DRAPER says that this is a perfectly reasonable request and states the Board has not made any commitments.

MCKEE wants to know if the Council is going along with the Board simply because after all there is on the statute book now a 13B or would it be in favor of a bill such as proposed by the Board even if there were no 13B.

KURTZ. In theory there should not be socialized credit at all but it is a condition and not a theory which confronts us. We are going to have Government lending and the Council feels as long as this is the case this lending better be entrusted to the most conservative body.

TRAPHAGEN says under the proposed bill at least no new bureau is being set up and, when the situation changes, the Federal Reserve can gracefully withdraw while a new bureau created purely for the purpose of making loans could not. He hopes some day there will not be any Government lending.

#### INTERNATIONAL CURRENCY FUND AND INTERNATIONAL BANK

RANSOM says the Federal Reserve System has a great interest in this problem, and as Eccles and Brown are both to be delegates for this country, the system is well represented. Yesterday there was a conference of some of the presidents of the Federal Reserve Banks and it was decided to appoint Sproul of New York, Williams of Philadelphia, and Davis of St. Louis as a committee to study the question. He thinks there will be a preliminary conference held here before the meeting at Bretton Woods and this may freeze the situation.

BROWN says the difficulty is that so far we have a plan which is a statement of principles. If suggestions for changes and improvements are made, the ones making these are more or less committing themselves to some plan, especially if the suggestions made are accepted. Consequently, the people who believe the plan can be defeated in Congress do not wish to discuss the matter, in order not to be committed.

KURTZ says that in his opinion the present draft makes the same error that was committed in connection with the League of Nations in that any member can drop out whenever it wishes to do so.

GOLDENWEISER says in his opinion the right to withdraw increases the power of the United States owing to its proposed large contribution to the Fund which makes the membership of the United States essential so that even though it does not have more than 20 per cent of the votes it probably would yield a greater power than indicated by the percentage of votes. Furthermore, in his opinion, the whole thing is pretty theoretical because, after all, a sovereign power cannot be forced to remain a member if it does not wish to do so.

MANPOWER

FLEMING states Mr. Leonard has now received an official letter confirming the private letter which Elliott had written him. He wishes to thank the Board for the great assistance it has been.

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Some discussion takes place as to publishing the new ruling and MCKEE finally suggests this program be left to be worked out by Fleming and Leonard.

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NOTE: Material relating to this new ruling will be sent to each member of the Council, explaining the official letter from Paul V. McNutt, dated June 6, 1944, copy of which is enclosed herewith.

BROWN states the Executive Committee meetings for July and August will be omitted unless either the Council or the Board should call such a meeting.

The meeting adjourned at 1:25 P. M.

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The statement of Governor Ransom that Messrs. Eccles and Brown are to be members of the American Delegation at the Bretton Woods Conference is to be regarded as confidential until such time as the Government makes public announcement of these appointments.

W. L.

FEDERAL RESERVE BANK  
Philadelphia

MEMORANDUM to  
Warriner S. Eccles

After consideration of your letter dated April 29 relating to financial facilities for small business during war contract cancellation and reconversion periods, I agree with you that the three proposals now in the offing are undesirable. I also agree that the problem should be approached through liberalization of Section 13b of the Federal Reserve Act.

In view of the prevailing attitude toward public agencies with regulatory powers and of the general attitude toward centralization, it would seem desirable, certainly expedient, to modify Section 13b no more than is necessary, thus avoiding innovations that might create new sources of suspicion. The provisions of this section could be amended so as:

- (a) To broaden the purposes for which business loans may be made beyond the provision of working capital to the extension of term loans for any purposes regarded as sound and reasonable by the Reserve Bank making or participating in the loan or making commitments with respect to the extension of this type of credit;
- (b) To extend maximum maturity of business loans to ten years; and
- (c) To empower the Reserve Banks to guarantee loans up to 90% when advisable.

Since the Secretary of the Treasury has authority without additional legislation to make \$139,000,000 available to the Reserve Banks, it would be wise to let the present arrangement in this respect stand, with such changes as may be needed. The proposal that this fund be paid to the Board of Governors and that it be administered by the Board might be, and probably would be, a source of immediate attack from well-known public and private quarters. It would be prudent to avoid giving such an opening, particularly as the suggested change is not essential and politically may endanger the real objective of the proposal. In the event any Reserve Bank would exhaust its portion of the fund, it could rediscount its 13b loans with another Reserve Bank under the present Act slightly modified.

As at present, the Board of Governors, of course, will have the power to prescribe such rules and regulations as will be necessary to govern operations of the Reserve Banks under Section 13b as amended.

Amendment of this section along the foregoing lines would be practical and should be politically acceptable, as it would merely liberalize the existing provisions of the law without any fundamental alteration of the type that might arouse opposition by official agencies and financing institutions, especially since the extension of lending or guaranteeing powers would have aspects of permanency.

Williams