

MINUTES OF MEETINGS
of the
FEDERAL ADVISORY COUNCIL
September 17-18, 1944
and
December 3-4, 1944

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

September 17, 1944

The third statutory meeting of the Federal Advisory Council for 1944 was convened in Room 936 of the Mayflower Hotel, Washington, D. C., on Sunday, September 17, 1944, at 2:00 P.M., the President, Mr. Brown, in the chair.

Present:

Mr. Charles E. Spencer, Jr.	District No. 1
Mr. Leon Fraser (Alternate for Mr. John C. Traphagen)	District No. 2
Mr. William Fulton Kurtz	District No. 3
Mr. B. G. Huntington	District No. 4
Mr. Robert V. Fleming	District No. 5
Mr. Keehn W. Berry	District No. 6
Mr. Edward E. Brown	District No. 7
Mr. Ralph C. Gifford	District No. 8
Mr. Julian B. Baird (Alternate for 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

The minutes of the meeting of the Council of May 14-15, 1944, and of the meeting of the Executive Committee on June 7, 1944, copies of which had been previously sent to all the members of the Council, were approved.

The Board of Governors had submitted to the Council the following:

“Should the Board’s Regulation L be amended so that the plan of the Postwar Smaller Business Credit Commission of the American Bankers Association, to permit an officer of one bank to commit another bank without thereby violating the Clayton Act, can be carried out.”

After some discussion, a motion that the Council approve the amendment to Regulation L for the purpose indicated was proposed by Mr. Gifford and seconded by Mr. Winton and unanimously adopted.

A discussion took place regarding a proposed amendment to Section 13b of the Federal Reserve Act.

The Council reiterated the position it had taken in May to the effect that, while it was opposed to all subsidized credit, the bill sponsored by Chairman Eccles to make Section 13b more flexible than at present was probably the lesser of evils.

It was decided, however, not to take any further action at this time.

A discussion took place regarding the ratio of gold to member bank reserve balances and Federal Reserve notes in circulation.

There was a general feeling that if anything had to be done, it would be well to lower reserve requirements to 25 per cent from the present ratio of 40 per cent and 35 per cent.

A discussion took place in respect to the desirability of the Board of Governors keeping the members of the Federal Advisory Council informed about proposed legislation.

Mr. Brown made a detailed and interesting report on the results of the Bretton Woods Conference.

The meeting adjourned at 6:00 P.M.

WALTER LICHTENSTEIN,
Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

September 18, 1944

At 9:40 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. Leon Fraser, William Fulton Kurtz, B. G. Huntington, Robert V. Fleming, Keehn W. Berry, Ralph C. Gifford, Julian B. Baird, A. E. Bradshaw, Ed H. Winton, George M. Wallace, and Walter Lichtenstein, Secretary.

Mr. Fleming stated he believed information of pending legislation is a matter of timing. Obviously, the Council is entitled to information only after a bill has actually been drafted to be introduced into the Congress; the Council should be given proposed bills in sufficient time to enable it to make a study of a bill.

There was general agreement with this statement.

The President of the Council stated that it was his understanding that the Council does not see any objection to the formation of credit pools and if there should be any doubt of the legality, this had better be removed. At the same time, he believed that there really wasn't any question of the legality of the proposed credit pools.

The meeting adjourned at 9:50 A.M.

WALTER LICHTENSTEIN,
Secretary.

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

September 18, 1944

At 10:05 A.M., a joint conference of the Federal Advisory Council and the Board of Governors of the Federal Reserve System was held in the Board Room of the Federal Reserve Building, Washington, D. C.

Present: Members of the Board of Governors of the Federal Reserve System:

Chairman Marriner S. Eccles; Vice Chairman Ronald Ransom; Governors 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; also, S. R. Carpenter, Assistant Secretary; Walter Wyatt, General Counsel; J. P. Dreibelbis, General Attorney; George B. Vest, Assistant General Attorney; E. A. Goldenweiser, Director, Division of Research and Statistics; Leo H. Paulger, Director, Division of Examinations; Edward L. Smead, Director, Division of Bank Operations; 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. Leon Fraser, William Fulton Kurtz, B. G. Huntington, Robert V. Fleming, Keehn W. Berry, Ralph C. Gifford, Julian B. Baird, A. E. Bradshaw, Ed H. Winton, George M. Wallace, and Walter Lichtenstein, Secretary.

A discussion took place regarding the desirability of amending Regulation L in connection with bank credit pools being formed in various cities, notably in New York.

There was general agreement on the part of the members of the Council and the members of the Board of Governors that there was not any need of an amendment at this time.

A lengthy discussion took place regarding the proposed amendment to Section 13b of the Federal Reserve Act.

The Chairman of the Board of Governors read a prepared confidential statement covering the proposed amendment to 13b (Wagner-Spence Bill), a copy of which was given to each member of the Council.

In this connection there was also some discussion about the bill proposed by the Smaller War Plants Corporation to extend its powers.

A lengthy discussion took place as to information on proposed legislation to which members of the Council are entitled.

Chairman Eccles filed a formal statement defining the understanding of the Board as to the extent to which it is obligated to give members of the Council information about drafts of bills and pending legislation generally.

The meeting adjourned at 1:10 P.M.

WALTER LICHTENSTEIN,
Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

September 18, 1944

At 1:20 P.M., the Council met at luncheon with Dr. Goldenweiser, Director of the Division of Research and Statistics of the Board of Governors:

Present: Mr. Edward E. Brown, President; Mr. Charles E. Spencer, Jr., Vice President; Messrs. Leon Fraser, William Fulton Kurtz, B. G. Huntington, Robert V. Fleming, Keehn W. Berry, Ralph C. Gifford, Julian B. Baird, A. E. Bradshaw, Ed H. Winton, and Walter Lichtenstein, Secretary.

Dr. Goldenweiser discussed the problem of the ratio of gold reserves to member bank deposits and notes in circulation.

The meeting adjourned at 2:00 P.M.

WALTER LICHTENSTEIN,
Secretary.

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

W. L.

Secretary's notes on meeting of the Federal Advisory Council on September 17, 1944, at 2:00 P. M., in Room 936 of the Mayflower Hotel, Washington, D. C.

All members of the Federal Advisory Council were present, except Messrs. Traphagen and Wakefield. Mr. Leon Fraser served as alternate for Mr. Traphagen and Mr. Julian B. Baird as alternate for Mr. Wakefield.

Mr. Fleming was not present when the meeting began but arrived at 3:10 P. M.

The minutes of the meeting of the Council of May 14-15, 1944, and of the meeting of the Executive Committee on June 7, 1944, copies of which had been previously sent to the members of the Council, were approved.

REGULATION L

Brown stated that in New York a committee had been formed of the clearing house banks in which each bank was represented. Only the bank whose representative approved of any given credit need participate in that credit and in this way it would seem as if the legal question as to the right of an officer of one bank to represent another was avoided.

Berry believes that the question of the Clayton Act had better not be stirred up.

Wallace agrees with Berry and thinks it inadvisable to raise this question.

The Secretary reads the letter of Morrill of August 18, 1944, in which the problem facing the Board as to the amendment of Regulation L is stated.

Brown believes the amendment of Regulation L for the purpose stated would not cause any embarrassment.

Wallace asks whether the Clayton Act is not being violated in some of the V Loans in which a number of banks participate.

Gifford proposes, and Winton seconds, a motion that the Council approve the amendment to Regulation L for the purposes indicated.

The motion was unanimously adopted.

Brown points out that correspondent banks often prefer having their customers go to the R. F. C. or other Governmental agencies rather than to a big city bank because there is always the danger that the large city bank, if it handles the loan, ultimately receives from the customer the major part of his bank account. However, under the New York plan one large bank may take the entire loan that is being offered and thus the correspondent bank would not avoid the danger to which reference has been made. Brown doubts whether Chicago will have a pool similar to that of New York. The amendment should be drawn broadly enough to cover the case of creditors' committees and the like.

Kurtz withdraws number three on the agenda, "Plans of Post-war Smaller Business Credit Commission of the American Bankers Association". He stated that in Philadelphia the whole question was discussed at a meeting of large and small correspondent banks and the meeting proved very satisfactory.

Berry. In New Orleans not only were correspondent banks invited to a meeting but also organizations of small business.

Kurtz said that at the meeting in Philadelphia about 200 were present. There was not much stress laid on credit stringency. In general, all those present were opposed to any subsidized credit.

Gifford states that in his opinion such meetings are very constructive.

Kurtz said the meeting was called by his bank and all correspondent banks in the Third Federal Reserve District were invited.

Baird said that in a New York conference, at which he was present, there was much difference of opinion. There is danger in city banks approaching their own correspondents as the latter differ very much in their attitude toward this sort of credit. He states that in his bank it is regarded as proper to assist the A. B. A. at group meetings but his bank does not believe it wise to approach correspondents of any particular bank.

Kurtz doubts whether many applications for credit are of a foolish nature.

AMENDMENT TO 13 B

Brown says Eccles has had a bill introduced in Congress which would provide that the stock of the F.D.I.C. held by the Federal Reserve Banks be bought by the Treasury. The bill provides that the Board must pass on loans made out of this fund. Eccles testified before the House and Senate Committees. Bell is evidently in favor of the bill but Morgenthau is opposed. As a result of this division of opinion in the Treasury the Comptroller of the Currency did not wish to testify. McGee told him that he thought the Smaller War Plants Corporation bill is dead. Brown goes on to point out that at the May meeting of the Council all members of the Council, except Berry, thought there would be some legislation to aid smaller business and that, while the Council was opposed to all subsidized credit, it seemed the Federal Reserve bill was the least of the evils. Eccles reported to the House Committee that the Council was in favor of his bill by 11 to 1. The Eccles bill was introduced in Congress very late and probably no legislation would therefore result at this session. Crowley is opposed to the bill.

Kurtz thinks all of these various bills are dead as Congress is too busy and has lost interest.

Brown says the Treasury is angry as it feels the spirit of the rule not to have any Governmental agency introduce a bill into Congress without clearing it with the Bureau of the Budget had been violated. The various Federal Reserve Banks do not like the idea of a common fund to be controlled by the Board.

Winton thinks that in the light of the facts available to the Council in May its position is entirely consistent and he thinks this position should be maintained.

Brown believes that Eccles sees in the amendment to 13B a possibility of greater centralization in the System. He is in general accord with the idea of letting the action of the Council on 13 B stand but at the same time would not at present do anything further about it.

RATIO OF GOLD TO MEMBER BANK RESERVE BALANCES
AND FEDERAL RESERVE NOTES IN CIRCULATION

Fraser states that the New York banks would favor a lowering of reserve requirements to 25 per cent but New York is not at all nervous about the situation and feels confident the System can get along on the present basis, certainly for some months.

Brown says that in his opinion there is nothing sacrosanct about a 40 per cent ratio. He feels Spahr is simply stirring up the public. He would be sorry to see amendments to the Federal Reserve Act introduced at this time as it would raise too many questions and he thinks the Council should not take any action whatsoever.

At this point Mr. Fleming joined the meeting.

Fleming says that when corporations begin reconverting and selling their governments bank deposits will become more inflated. He feels confident that the cut-back after the collapse of Germany will at least temporarily create much unemployment. All of this is connected with the gold ratio question.

It was decided to discuss this question with Dr. Goldenweiser.

Fleming discussed the situation in respect to 13 B. He said that Eccles is angry that the American Bankers Association has not been willing to support the Wagner-Spence bills and he says that if these are not passed the chances are that the Smaller War Plants Corporation will have its own way completely. Fleming doubts that the bills are dead although probably no action will be taken before election. But after election the whole problem will be up again and it may be that some of the more objectionable bills will pass.

INFORMATION ABOUT PENDING LEGISLATION

Brown states that Chairman Eccles has had a holding company bill drafted and has stated that he will not consult the Council in advance of the introduction into Congress of legislation. He feels that legally the Board ought to consult the Council and it has also a moral obligation to do so.

Winton says the position on 13 B should not be tied up with the question on information on pending legislation. The Council should stand on its record on 13 B and keep faith with Eccles.

It was agreed that the Council should meet in the Board Room of the Federal Reserve Building tomorrow at 9:30 A. M. and meet with the Board at 10 A. M. Furthermore, the Secretary was instructed to try to arrange to have Dr. Goldenweiser lunch with the Council to discuss the gold ratio question.

BRETTON WOODS

Brown made a most detailed and interesting report on the results of the Bretton Woods Conference speaking for about 1½ hours. As he is publishing an article in the Journal of Business of the University of Chicago on this whole subject covering identically, more or less, the remarks made at this meeting it was deemed unnecessary to have the Secretary of the Council make notes of what he said.

The meeting adjourned at 6 P. M.

The Council met in the Board Room of the Federal Reserve Building, at 9:40 A. M., on September 18, 1944.

All members of the Council were present, except that Mr. Fraser represented Mr. Traphagen and Mr. Baird represented Mr. Wakefield.

Fleming said he believed the discussion on information of pending legislation is a matter of timing. Obviously the Council is entitled to information only after a bill has actually been drafted to be introduced into Congress and the Council should be given proposed bills in sufficient time to enable it to make a study of a bill.

There was general agreement with this statement.

Brown stated that it is his understanding the Council does not see any objection to the formation of credit pools and if there is any doubt of legality this had better be removed. However, he thinks the whole question of the doubt of legality is a rather farfetched one.

The meeting adjourned at 9:50 A. M.

At 10:05 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 except that Mr. Fraser represented Mr. Traphagen and Mr. Baird represented Mr. Wakefield. The following members of the Board of Governors were present: Chairman Eccles; Vice Chairman Ransom; Governors McKee, Draper, and Evans; also, Messrs. Clayton, Thurston, Morrill, Carpenter, Goldenweiser, Wyatt, Dreibelbis, Vest, Smead, Paulger, Parry, and Leonard.

It should be noted that Mr. Vest joined the meeting at 11:10 and Dr. Goldenweiser at 11:45.

REGULATION L

Brown. The question about amending Regulation L was raised by lawyers in New York in connection with the credit pool formed there. The situation has changed since the Board addressed its letter to the Council. As no bank is required to participate in any given loan unless the action is unanimous and as each bank is represented on the Committee the occasion does not arise of the officer of one bank representing another bank. The Council sees no objection to an amendment such as has been suggested but thinks there is a certain danger in amendment for this special purpose since by implication many existing arrangements to which no objection has ever been raised may be thought to be illegal.

Eccles agrees with Brown that there isn't any need of an amendment.

McKee also thinks there is a danger in amending the regulation.

Ransom believes the New York banks are really more afraid of an antitrust action by the Department of Justice than they are of Regulation L.

Brown says if the question raised by the New York banks has any validity then the mere fact that at the moment the situation is satisfactory is not an answer. The Council has no objection to a modification but would like to see the language of any amendment proposed before it is issued, in order to make certain that long time necessary practices are not made illegal by implication.

Eccles says the whole matter has been laid on the table and there is not any prospect of an amendment.

McKee says if an amendment should be drawn up the language would first be submitted to the Council.

AMENDMENT TO 13b

Eccles read a prepared confidential statement covering the proposed amendment to 13b (Wagner-Spence Bill) a copy of which was given to each member of the Council. He went on to say that the House Committee had a hearing on the bill and he was there for one whole morning and first and last half to two-thirds of the membership of the Committee was present. Wolcott was quite belligerent probably due to political pressure from his party. Crawford spoke on the other side and answered Wolcott very vigorously. Except for Wolcott and Brown, the members of the Committee present seemed to be in favor of the bill. Brown's attitude was due to the opposition of the Federal Reserve System to his bill changing Regulation Q. Eccles stated he had also appeared at the Senate hearing two mornings. Taft had originally opposed the changes but on understanding better what was proposed he changed his position. Danaher of Connecticut seemed satisfied with the answer to his very searching questions and the same was true of Hawkes. Wagner and Maloney were concerned about the limitations on the size of loans and wanted to make certain that sufficient loans would be made available to small business. Eccles felt it a mistake to limit the amounts given to any business because after all the purpose of the whole bill was to help out employment and production. Since the hearing took place Eccles has suggested an amendment to the original bill that not more than half of the loans in amount should be more than \$100,000. He showed that the Smaller War Plants Corporation had loaned only 38 per cent of its total loans in amounts of less than \$100,000. Crowley has signified his desire to appear in opposition to the bill and also the A.B.A. wishes to be heard in opposition on account of a resolution which was passed by the convention of the A.B.A. in September 1943 in which opposition was expressed to all Government guaranteed loans. Spence has stated that it is inadvisable at this time for the House to hold more hearings, and he thinks it best to let the Senate pass its bill and then have the House substitute the Senate bill for its own. But at present it is almost impossible to get action except on very urgent matters since a quorum is very difficult to get in the Senate on account of the approaching election. There is no appropriation needed to put the Wagner-Spence bill into operation as it provides that a fund should be created out of the \$139 million which constituted the surplus of the Federal Reserve Banks which was originally given to the F.D.I.C. The bill provides that the stock held by the Federal Reserve Banks should be bought by the Treasury. He points out that in spite of many restrictions the Federal Reserve Banks up to 1938 made more loans than the R.F.C. after which time the restrictions on R.F.C. loans being removed naturally it was able to make more loans than the Federal Reserve Banks.

Brown says it seems evident that before election only the surplus Property Bill will be passed.

Eccles says probably the Smaller War Plants Corporation bill will also be passed.

Fleming agrees with Eccles that in order to defeat some of the objectionable measures you must propose something in their place and he thinks it inadvisable for the A.B.A. to oppose the proposed amendment to 13b.

At 11:10 Mr. Vest joined the meeting.

Fleming thinks the A. B. A. may change its position.

Eccles regards the amendment to section 13b as merely being a kind of insurance pool for the banks, as he does not believe that banks in the past have been able to set up sufficient reserves to take care of bad loans.

McKee questions the statement that banks have failed on account of bad commercial loans. He thinks such instances have been rare and that failures of banks have resulted from bad investments and bad collateral loans.

Brown asks how far the financing power of the Smaller War Plants Corporation will go. Is it only for the acquisition of plants or also to cover operations?

Vest refers to Section 14, sub-section (f) of H.R.5125 and shows that the bill is intended to cover not merely the acquisition of plants, but also their operation by small business.

Brown says he presumes this can refer only to acquisition of surplus property by small business.

Eccles expresses the opinion that in practice there would be precious few restrictions.

In answer to a question by Kurtz, Eccles states guarantees would be granted by the regional Federal Reserve Banks and the Board would only issue general regulations and fix the rates. The Board would not expect to pass on the actual loans but naturally receive reports.

INFORMATION ON PROPOSED LEGISLATION

Carpenter reads a formal statement on the subject a copy of which was handed to each member of the Council.

Brown says the Council regards it as odd that other bank supervisory bodies like the Comptroller and the F. D. I. C. are willing to discuss proposed legislation and the Board of Governors in general refuses to do so. He does not regard it as a matter of confidence. Taking the proposed amendment to 13 b and the holding company bill, as examples, it would have been well if these had been discussed in advance with the Council. He regards this as a matter very different from such topics as a change in margin requirements.

Eccles claims the Federal Reserve System is in a very different situation from that of the supervisory authorities whose functions after all are very much restricted.

Brown says every one on the Council realizes that while the members of the Board are discussing a topic among themselves or with other administrative agents or with individual members of Congress, they can not take the Council into their confidence. But after a bill has actually been prepared to be handed to some member of Congress, to be introduced, then in nearly all cases there could be little reason why such a bill could not be shown to the Council before being introduced into Congress. After all, the members of the Council generally speaking have had more experience in operating banks than have the members of the Board and are therefore more familiar with some of the practical problems involved.

Eccles says there isn't any reason why amendments cannot be proposed after a bill has been introduced into Congress.

Brown points out how very difficult it is to bring in amendments after a bill has been introduced in Congress without in many instances causing a sharp conflict to arise between the Council and the Board.

Ransom says the Council and Board ought to work together and it should not be a question of legal rights.

Brown says members of the Council do not wish to put this question on the basis of legal rights. If the Council is given opportunity to discuss pro and con pending measures with complete freedom, much public controversy would be avoided. It is a question of attitude and the Council recognizes there are some topics which the Board cannot well discuss with the Council. But the question here is, isn't it possible in most cases to let the Council or its Executive Committee have drafts of bills before such are introduced into Congress.

Ransom answers that 13b has been discussed with the Council for many years and he asks whether the F.D.I.C., for example had discussed with groups of bankers its holding company bill. After all the F.D.I.C. is Crowley and the Comptroller is only a single person but on the Board you may have majorities and minorities and the latter might in some cases be very glad to have the support of the Council against the majority of the Board.

At 11:45 Dr. Goldenweiser joined the meeting.

Fleming reiterates how much more closely members of the Council are in touch with practical operations of banks than members of the Board and he believes much could be gained by frank discussions.

Eccles says that if Title 2 of the Banking Act of 1935 had been shown to the Council in advance of its introduction, the Council undoubtedly would have organized an opposition to it. Only by tying it up with the provisions for the F.D.I.C. was it possible to pass it at all. He does not agree with Brown and Ransom about the legal aspects of the question. It isn't a question of confidence in members of the Council. The question is, what are the legal responsibilities of each body. Without desiring to be technical, the fact remains the Council's responsibility is to represent the banking view of the country while the Board has other responsibilities. He does not think it desirable to consult private banking interests on many topics. The Board has had a long experience in dealing with holding companies, and it and its staff are more competent to deal with this subject than any other body. There are many questions on which the advice of the Council is very helpful and the Council through its members is able to furnish leadership to the banking fraternity of the country. The Council has the right to make recommendations on any topic and to be given all data available. While a piece of legislation or a regulation is under discussion, the Council does not have any right to expect to see them.

Ransom agrees the Council has no legal rights but in many cases its advice would be very helpful to the Board. He would be sorry to have the matter reduced to a legal formula.

Kurtz says the Council has no right to pry into administrative matters but if the Board is contemplating legislation affecting the member banks or any large segment thereof then the Council should be informed. For example, the Minneapolis, San Francisco, and Boston districts may be vitally affected by the holding companies bill, and in trying to get one particular situation straightened out many innocent bystanders might be hurt.

Eccles repeats that the Board and its staff are thoroughly competent to judge all factors and weigh one against the other. Only the Board can judge what it should recommend to Congress and in doing this it must know how its recommendations will affect the various interests involved. There is always ample time for all parties to be heard before legislation is enacted and even after it has been enacted the courts may

Kurtz asks does the Board feel under any obligation to consult the Council on matters affecting the major interests of member banks or does it not.

McKee replies that the question posed by Kurtz is too broad. Take the holding company bill, for example, something had been needed to be done for a long time. He would hate to think that the Council would be obliged not to make its views known because it had been consulted in advance and thereby had been committed. He wished to point out that the holding company bill is not legislation as yet and the whole thing is a tempest in a tea pot.

Eccles says if proposed legislation is made known to the Council, it will be in a position to organize forces in opposition. If the Council is willing to have its day in court by discussing the matter with the Board very well and good but in that case it should not be able to go to Congress to oppose a measure proposed by the Board.

Winton says in his view if the Council is informed in advance by the Board of action it proposes to take, he is sure it would not violate any confidence and if it decided to oppose a measure which had been shown to it in advance it should state so to the Board. But he does not see how the Council can cooperate with the Board if it does not have any knowledge of the Board's intentions. He does not wish to put the matter on a legal basis but whether or not the Council has any legal rights he asks whether it would not be helpful if the Board submitted to the Council bills before these were put into the hopper. After all, no group ever has the answer to all questions and the Board and the Council cooperating closely together could be very helpful to each other. He does not regard the Board's formal statement as being fair to the Council. It does not expect to be consulted every time some conversation takes place with a member of Congress but when a bill has actually been drafted then the Council might well be consulted. If such a proposed bill were submitted to the Council it would be understood that the Council would not discuss it with anyone in advance of its introduction. The Board on its part would know whether or not the Council was opposed to the bill and all cards would be face up on the table.

A discussion took place as to the dates for the next meeting of the Executive Committee of the Council and of the meeting of the whole Council. It was decided that the next meeting of the Executive Committee should be held on October 25 and the meeting of the whole Council on December 3-4.

Eccles said the Council ought to get behind the T-loan program and make the bankers understand it. It should be made clear to the bankers that the present arrangements will not go below the first tier of contractors. He believes the Council and bankers generally should support the program which is intended to let the private banking system do the job.

The meeting adjourned at 1:10 P. M.

At 1:20 P. M., the Council met at lunch with Dr. Goldenweiser.

The same members of the Council were present at this meeting as at the other meeting except that Mr. Wallace was absent.

Dr. Goldenweiser discussed the problem of the ratio of gold reserve to member bank deposits in the Federal Reserve Banks and notes in circulation. The required reserve ratio is 40 per cent against notes for circulation and 35 per cent against deposits. In the last 20 years the whole question has not been discussed very much for after the large gold movements to this country began the reserves were always ample. But in the last year and a half about \$2 billion of gold has been withdrawn from the country. This has happened because we have not been able to export goods so that countries that have been selling us anything have been taking out payment in the form of gold rather than in the form of goods. We have exported a very large amount of goods but practically all of them have been on lend-lease. In addition there has been a great increase of currency in circulation. The increase in Federal Reserve deposits has not been very great. For a time the increase in circulation kept in step with the increase in pay rolls and retail sales, but now the increase cannot be due to these factors. It probably results from the fact that the lower income groups have been accumulating relatively large amounts in money and are holding a large part of this accumulation in the form of currency. It must be remembered that the present ratio of reserves of 53.3 per cent is the over-all reserve and refers to currency as well as deposits so that the over-all could probably go to about 38 per cent. It may be questioned whether the problem will really arise before a year from this December. It is probable, moreover, that there will not be much further increase of currency in circulation and also not much more out-flow of gold. The chances are the whole problem will settle itself before anything need be done. If, however, something does have to be done, it is possible to issue currency which does not require a gold reserve such as the silver certificates. About \$2 billion could be provided in this way. This should not be encouraged unless absolutely necessary. Furthermore, the Treasury could turn over \$1,800 million from the Stabilization Fund. The legal reserve requirements might be reduced though this is not desirable since reserve requirements should be regulated by credit conditions and not by a question of the amount of gold on hand. It should be pointed out also that the Federal Reserve Bank notes do not require a gold coverage but only Government bonds or commercial notes. Possibly, the last is the most satisfactory way of handling this situation. Of course, the Board could also approach Congress and ask that the legal requirements be reduced but the Treasury fears that this might have a very bad effect on the Government bond market. At the present time, the whole discussion is dying down. At one time the Federal Reserve Banks' notes were all taken out of circulation but were put back in 1933 when there was fear of a great drain on the currency. They were issued in 1933 just as a gesture but as a matter of fact were never needed. About two years ago \$660 million of old notes which were on hand were issued in

order to save paper and printing and thereby much needed manpower. These were issued in a rather unorthodox manner in order that the Federal Reserve System would not need to pay $1\frac{1}{2}$ per cent interest. At the present time, they could be issued in a perfectly orthodox way since the Federal Reserve Banks have largely increased their surplus and their income has also increased. As a result of the issue about two years ago a bill actually passed the Senate to repeal the Board's right to issue the bills. Nothing was done about it but obviously if it were contemplated to issue Federal Reserve Bank notes again, Congress would be entitled to an explanation, and, if Congress didn't like the procedure, the legal requirements would have to be reduced. Nothing need be done now but the question will come up on June 30, 1945, when the right to pledge Government securities or commercial paper for the issue of Federal Reserve Bank notes will expire. As a matter of fact, the present law has a provision for suspending under certain conditions reserve requirements. The amount of gold which will have to be deposited in the International Stabilization Fund is relatively small and the amount to be paid in to the capital of the proposed International Bank is really negligible. It may be presumed that after the German collapse currency will flow back into the banks and in any event nothing will probably have to be done until next summer.

The meeting adjourned at 2:00 P. M.

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BOARD OF GOVERNORS
of the
FEDERAL RESERVE SYSTEM
Washington 25, D.C.

August 18, 1944

Mr. Walter Lichtenstein, Secretary
Federal Advisory Council
38 South Dearborn Street
Chicago, Illinois

Dear Mr. Lichtenstein:

This letter is in response to yours of August 8, 1944, asking for a list of the subjects which the Board wishes the Federal Advisory Council to discuss at its meeting at Washington on September 17-19-1944.

A question has arisen in connection with the plan proposed by the Postwar Small Business Credit Commission of the American Bankers Association as a means of providing credit for small business under which a group of banks in New York would become associated for the purpose of participating in commercial and industrial loans originating, and made by outlying correspondent banks, throughout the country. The plan contemplated that such loans would be passed upon by a committee representing the participating banks, the members of which would consist of officers of the banks, and each member of the committee in addition to authority to commit his own bank would be given, by a resolution adopted by the board of directors of another participating bank, authority to commit the second bank as well. It was expected that the plan would be so drawn that it could be adopted by any group of banks in any of the principal cities of the United States, but that it would be used first by an association of banks which were members of the New York Clearing House.

In the discussion of the plan, its sponsors said their attorneys had advised that a legal question was involved because under the arrangement as proposed the officer of one bank with authority to commit the second bank might be an officer of the second bank under the applicable provisions of the Clayton Act, and his service in that capacity would be in violation of the law and the Board's Regulation L, Interlocking Bank Directorates under the Clayton Act. In these circumstances, the representatives of the banks inquired of members of the Board of Governors whether the

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Board would be willing to amend its regulation to permit such service, as it would have authority to do under section 8 of the Clayton Act.

There is some question here whether, for the purposes of the Clayton Act, the officer of the one bank would be an officer or employee of the second bank, but aside from that question the Board would appreciate it if the Council would consider and advise the Board whether it would be advisable to amend Regulation L in the manner proposed.

There may be one or more additional items which the Board would like to have the Council discuss at the forthcoming meeting. In that event you will be informed in time to bring the matters to the attention of the members of the Council before the date of the meeting.

Very truly yours,

(Signed) L. P. Bethea,
Assistant Secretary

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