MINUTES OF MEETINGS
of the
FEDERAL ADVISORY COUNCIL
February 18-19, 1945
May 13-14, 1945
and of the
MONTHLY MEETING
of the
EXECUTIVE COMMITTEE
June 13, 1945

OFFICERS AND MEMBERS OF THE FEDERAL ADVISORY COUNCIL

For the Year 1945

OFFICERS:

President, Edward E. Brown
Vice President, Charles E. Spencer, Jr.
Secretary, Walter Lichtenstein

EXECUTIVE COMMITTEE:

Edward E. Brown
Charles E. Spencer, Jr.
John C. Traphagen
William Fulton Kurtz
Robert V. Fleming
Ralph C. Gifford

MEMBERS:

Charles E. Spencer, Jr.,	Federal Reserve District No. 1
John C. Traphagen	Federal Reserve District No. 2
William Fulton Kurtz	Federal Reserve District No. 3
John H. McCoy	Federal Reserve District No. 4
Robert V. Fleming	Federal Reserve District No. 5
Keehn W. Berry	Federal Reserve District No. 6
Edward E. Brown	Federal Reserve District No. 7
Ralph C. Gifford	Federal Reserve District No. 8
Julian B. Baird	Federal Reserve District No. 9
A. E. Bradshaw	Federal Reserve District No. 10
Ed H. Winton	Federal Reserve District No. 11
George M. Wallace	Federal Reserve District No. 12

BY-LAWS OF THE FEDERAL ADVISORY COUNCIL

ARTICLE I. OFFICERS

Officers of this Council shall be a President, Vice President, and Secretary.

ARTICLE II. PRESIDENT AND VICE PRESIDENT

The duties of the President shall be such as usually pertain to the office; in his absence the Vice President shall serve.

ARTICLE III. SECRETARY

The Secretary shall be a salaried officer of the Council, and his duties and compensation shall be fixed by the Executive Committee.

ARTICLE IV. EXECUTIVE COMMITTEE

There shall be an Executive Committee of six (6) members of the Council, of which the President and Vice President of the Council shall be *ex officio* members. To fill a vacancy, the President, or in his absence, the Vice President shall be authorized to designate as a member of the Executive Committee for a given meeting another member of the Council other than the one elected to the Executive Committee.

ARTICLE V. DUTIES OF THE EXECUTIVE COMMITTEE

It shall be the duty of the Executive Committee to keep in close touch with the Board of Governors of the Federal Reserve System and with their regulations and promulgations, and communicate the same to the members of the Council, and to suggest to the Council, from time to time, special matters for consideration.

The Executive Committee shall have the power to fix the time and place of holding its regular and special meetings and methods of giving notice thereof.

Minutes of all meetings of the Executive Committee shall be kept and such minutes or digest thereof shall be immediately forwarded to each member of the Council.

A majority of the Executive Committee shall constitute a quorum, and action of the Committee shall be by majority of those present at any meeting.

ARTICLE VI. MEETINGS

Regular meetings of the Federal Advisory Council shall be held in the City of Washington on the third Tuesday of the months of February, May, September, and November of each year, unless otherwise directed by the Executive Committee.

A preliminary meeting of the Federal Advisory Council shall be called by the Secretary in accordance with instructions to be given by the President of the Council.

Special meetings may be called at any time and place by the President or the Executive Committee, and shall be called by the President upon written request of any three members of the Council.

ARTICLE VII. ALTERNATES

In the absence of the regular representative of any Federal Reserve District, the Board of Directors of the Federal Reserve Bank of that District may appoint an alternate. The alternate so appointed shall have the right to be present at all the meetings of the Council for which he has been appointed. He shall have the right to take part in all discussions of the Council but shall not be entitled to vote.

ARTICLE VIII. AMENDMENTS

These by-laws may be changed or amended at any regular or special meeting by a vote of a majority of the members of the Federal Advisory Council.

February 18, 1945.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

February 18, 1945

The first and organization meeting of the Federal Advisory Council for the year 1945 was convened in Room 336 of the Mayflower Hotel, Washington, D. C., on Sunday, February 18, 1945, at 2:15 P. M.

Present:

Mr. Charles E. Spencer, Jr.	District No. 1
Mr. John C. Traphagen	District No. 2
Mr. William Fulton Kurtz	District No. 3
Mr. John H. McCoy	District No. 4
Mr. Charles E. Rieman (Alternate for 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	District No. 9
Mr. A. E. Bradshaw	District No. 10
Mr. Joseph H. Frost (Alternate for Mr. Ed H. Winton)	District No. 11
Mr. George M. Wallace	District No. 12
Mr. Walter Lichtenstein	Secretary

Mr. William Fulton Kurtz was elected chairman *pro tem* and Mr. Walter Lichtenstein Secretary *pro tem.*

The Secretary stated that communications had been received from the twelve Federal Reserve banks, certifying to the election of their representatives in accordance with the above list.

Upon nominations for the office of the President of the Council being called for, Mr. Edward E. Brown was nominated.

On motion, duly made and seconded, the nominations were closed, and the Secretary was instructed to cast a ballot for Mr. Brown, who was thereupon declared elected President of the Council for the year 1945.

Upon nominations for the office of Vice President being called for, Mr. Charles E. Spencer, Jr., was nominated.

On motion, duly made and seconded, the nominations were closed, and the Secretary was instructed to cast a ballot for Mr. Spencer, who was thereupon declared elected Vice President of the Council for the year 1945.

The President, Mr. Brown, thereupon called for nominations for the four appointive members of the Executive Committee. Messrs. John C. Traphagen, William Fulton Kurtz, Robert V. Fleming, and Ralph C. Gifford were nominated.

On motion, duly made and seconded, these gentlemen were unanimously elected members of the Executive Committee for the year 1945, the President and Vice President being *ex officio* members.

On motion, duly made and seconded, Mr. Walter Lichtenstein was elected Secretary of the Federal Advisory Council for the year 1945 at a salary of $2500.00 per year.

On motion, duly made and seconded, the Council readopted the existing by-laws, which are attached hereto and made a part of these minutes.

The Secretary presented his financial report for the year 1944, which had been audited by Mr. J. J. Buechner, Assistant Auditor of The First National Bank of Chicago, which on motion, duly made and seconded, was approved and ordered to be printed. The report is attached hereto and made a part of these minutes.

On motion, duly made and seconded, the minutes of the Council meetings of September 17-18, 1944, and of December 3-4, 1944, copies of which had been sent previously to the members, were approved.

On motion, duly made and seconded, the following resolution was unanimously adopted:

"Resolved that the Secretary be and he is hereby authorized to ask each Federal Reserve Bank to contribute $350.00 toward the Secretarial and incidental expenses of the Federal Advisory Council for the year 1945 and to draw on it for that purpose."

The President stated the important subject to be discussed at this meeting of the Council is the pattern of government financing and the interest rates on government securities.

A lengthy discussion followed at the end of which the President put the following questions:

1. Should there be an announcement made by the Treasury in advance of a drive that there would be a direct offering made to the banks of securities having maturities of less than five years?

While a formal vote was not taken, it seemed that most of the members of the Council were in favor of some policy such as was implied by the question.

2. Is the package the next time to consist of E's, F's, G's, 2½'s restricted as to investment by banks, and an issue for banks under five years, possibly ⅞'s and notes, but no 2's?

The members of the Council were all in favor of this suggestion, except that one member did not want the 2's omitted.

3. Should commercial banks having savings departments be allowed to buy 2½'s say either up to $500,000 or up to one million dollars or 10% of their savings deposits, whichever is less?

All members of the Council were in favor of permitting commercial banks having savings accounts to buy up to one million dollars or ten per cent of the savings deposits, whichever is less.

The Secretary of the Council announced that Mr. Fleming was undergoing a serious operation and Mr. Ed A. Winton was unable to attend the meeting of the Council as his wife was seriously ill.

The Secretary was instructed to send a telegram to Mr. Fleming expressing, on behalf of the members of the Council, the hope that he will have a speedy and complete recovery.

The Secretary was instructed to send a telegram to Mr. Ed H. Winton expressing, on behalf of the members of the Council, their regret that Mrs. Winton was seriously ill and hoping that she would have a speedy recovery.

A discussion took place regarding speculation on the stock market and in real estate, both urban and rural.

A discussion took place respecting Regulation Q.

It was decided not to hold an Executive Committee meeting of the Council in March unless there should be some unusual development but to hold such a meeting on April 4, 1945.

The meeting adjourned at 5:30 P. M.

WALTER LICHTENSTEIN,
Secretary.

REPORT OF THE SECRETARY OF THE FEDERAL ADVISORY COUNCIL

For the Year Ending December 31, 1944

Balance on hand December 31, 1943	$4,950.04	Salary	$2,500.00
		Conference expenses	896.51
Assessment—Twelve Federal Reserve Banks	4,200.00	Printing and stationery	269.10
		Postage, telephone, and telegraph	138.26
		Miscellaneous	23.00
		Balance on hand December 31, 1944	5,323.17
	$9,150.04		$9,150.04

Chicago, Illinois
January 4, 1945

To the Federal Advisory Council:

I have audited the books, vouchers, and accounts of the Secretary of the Federal Advisory Council for the year ending December 31, 1944, and certify that the above statement agrees therewith.

Respectfully,

THE FIRST NATIONAL BANK OF CHICAGO,
By J. J. Buechner
Assistant Auditor.

February 19, 1945

At 10:15 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, John H. McCoy, Charles E. Rieman, Keehn W. Berry, Ralph C. Gifford, Julian B. Baird, A. E. Bradshaw, Joseph H. Frost, George M. Wallace, and Walter Lichtenstein, Secretary.

There was some renewed discussion of the pattern of government financing and interest rates.

The meeting adjourned at 10:25 A. M.

WALTER LICHTENSTEIN,
Secretary.

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

February 19, 1945

At 10:45 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 M. S. Szymczak, John K. McKee, Ernest G. Draper, and R. M. Evans; also, Elliott Thurston, Special Assistant to the Chairman; Chester Morrill, Secretary of the Board of Governors; S. R. Carpenter, Assistant Secretary to the Board of Governors; Walter Wyatt, General Counsel; George B. Vest, Assistant General Attorney; Woodlief Thomas, 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; Robert F. Leonard, Director, Division of Personnel Administration; Liston P. Bethea, Director, Division of Administrative Services, and L. M. Piseo, Chief, Government Securities Section of Division of Research and Statistics.

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, John H. McCoy, Charles E. Rieman, Keehn W. Berry, Ralph C. Gifford, Julian B. Baird, A. E. Bradshaw, Joseph H. Frost, George M. Wallace, and Walter Lichtenstein, Secretary.

The President of the Council brought up the subject of the pattern of government financing and interest rates. He stated that members of the Council felt about as follows:

1. The next issue should consist of E's, F's, and G's, ⅞'s, 1½'s, and tax certificates. 2½'s should be restricted as to banks as at present. This would probably result in a further rise of the 2's, but this is to be regarded as the lesser of the evils.

2. The majority of the members of the Council feels that at the time of the next drive there should be an announcement that at the end of the drive there would be a five year note at 1½, especially for banks besides the usual ⅞'s; allotment would be made to banks as before on the basis of deposits. The 2½'s would be open for savings banks and commercial banks having savings deposits, but limited possibly to one million dollars or 10 per cent of the savings deposits, whichever is less. One or two members still believe 2's should be offered to banks. Also, one or two feel that no statement should be made in advance of the drive that there will be a special allotment to banks. The majority believes such an announcement should be made at the time of the drive in order to check speculation.

A lengthy discussion took place. Chairman Eccles made a statement on the subject:

1. Keep down issue of bills. Banks should decide when they must sell and should not have reserves forced on them.

2. The sales organization in the Treasury wants a 1¾ per cent bond for the public, not to be sold to corporations and not directly to banks. He believes this would bring about great speculation for the large speculators would be able to sell with

a handsome profit to the banks. At present, banks buy largely from corporations and not from individuals, but he believes if corporations are not permitted to subscribe then the individuals will be the big sellers and the corporations would simply get individuals to subscribe for them.

There was a discussion on the subject of speculation on the stock market and in real estate and also in reference to Regulation Q.

The meeting adjourned at 1:00 P. M.

WALTER LICHTENSTEIN,
Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

February 19, 1945

At 2:05 P. M., the Federal Advisory Council reconvened in the Board Room of the Federal Reserve Building, Washington, D. C., the Vice President, Mr. Spencer, in the Chair.

Present: Mr. Charles E. Spencer, Jr., Vice President; Messrs. John C. Traphagen, William Fulton Kurtz, John H. McCoy, Charles E. Rieman, Keehn W. Berry, Ralph C. Gifford, Julian B. Baird, A. E. Bradshaw, Joseph H. Frost, George M. Wallace, and Walter Lichtenstein, Secretary.

The Secretary stated the President of the Council had to keep an appointment at the Treasury and so was unable to preside over this meeting.

Dr. E. A. Goldenweiser, Economic Adviser to the Board of Governors, appeared before the Council and discussed the business situation and related topics.

The meeting adjourned at 3:00 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 February 18, 1945, at 2:15 P. M., in Room 336 of the Mayflower Hotel, Washington, D. C.

All members of the Federal Advisory Council were present, except that Mr. Charles E. Rieman served as alternate for Mr. Robert V. Fleming and Mr. Joseph H. Frost served as alternate for Mr. Ed. H. Winton.

Mr. W. F. Kurtz was elected Chairman pro tem and Mr. Walter Lichtenstein, Secretary pro tem.

The Secretary stated that communications had been received from the twelve Federal Reserve Banks, certifying to the election of their respective representatives on the Council for the year 1945.

The following officers were elected unanimously:

Mr. Edward E. Brown, President
Mr. Charles E. Spencer, Jr., Vice President
Walter Lichtenstein, Secretary

The following four members were elected to the Executive Committee, Messrs. Brown and Spencer being members ex officio:

Mr. John C. Traphagen
Mr. William Fulton Kurtz
Mr. Robert V. Fleming
Mr. Ralph C. Gifford

The salary of the Secretary was fixed at $2,500, as in previous years.

The Council readopted the existing by-laws which will be printed and attached to the formal printed minutes.

The Secretary presented his financial report for the year 1944, copies of which had been previously sent to the members of the Council. The report was approved and ordered placed on file. It will be printed and attached to the formal printed minutes. The minutes of the meeting of December 3-4, 1944, copies of which had been sent previously to the members, were approved.

The usual resolution was adopted authorizing the Secretary to draw upon each Federal Reserve Bank for $350.00 toward the secretarial and incidental expenses of the Federal Advisory Council for the year 1945.

Brown. The Board desires that the American delegate both to the Fund as well as to the Bank, proposed at the Bretton Woods Conference, be instructed by the Board of Governors. Brown is opposed to this plan. He believes the most important subject to be discussed at this meeting of the Council is the pattern of government financing and the interest rates on government securities.

PATTERN OF GOVERNMENT FINANCING AND INTEREST RATES

Kurtz. There should be a separate offering made to banks apart from offerings made to the general public. Banks should have nothing more than securities maturing in five years or less and the rates should not be as high as 2%. The issues to banks should consist of notes and certificates with a low rate. Other types of securities should be given to the public, insurance companies, and the like, but the public should not be given securities having maturities of seven and ten years. He feels it is very desirable that the suggestion that banks should have a low rate security should come from banks themselves before some other body makes this suggestion. He understands it is estimated that 55% of the last issue of 2's are now held in the commercial banking system.

Wallace objects to any change in rates for he feels if this were done the various bond committees would have difficulty in selling the securities.

Kurtz says he is not advocating a change in the rates but simply that more paper of the type to which he objected should not be issued.

Brown asks how it would be to prevent banks holding 2's?

Kurtz thinks this is undesirable. The public should buy E's, certificates or 2-1/2's.

Brown says if no more 2's are offered, the present 2's will go up too much.

Traphagen. Banks will be wise, in his opinion, to ask for securities with maturities of five years or less.

Bradshaw thinks there will be 2-1/2's and 1-1/2's and perhaps 1-3/4's but that there will not be any special offerings made to the banks.

Kurtz thinks that this would destroy the whole pattern.

Brown. Some provision ought to be made for commercial banks with savings departments. He points out that in the regions outside of the area in which the mutual savings banks flourish, over half of the deposits in so-called commercial banks frequently are really savings deposits.

McCoy says what Mr. Brown had stated certainly applied to Ohio. Banks in Ohio pay 1 per cent on savings and are taxed two mills on deposits.

Brown says this sort of a tax law which prevails in Indiana and Ohio has been a check on the growth of banks in those states.

McCoy says that as far as Ohio is concerned the situation is helped somewhat by a law that provides that corporations incorporated in Ohio need not pay a tax on deposits in Ohio banks but must pay a tax on deposits outside of the state.

Wallace claims the important matter is to offer something the public will be willing to buy otherwise the whole burden will fall right back on the banks.

Traphagen agrees with the ideas of Kurtz. He thinks the public is ready to take longer term issues. About 45 per cent of the total needed should be offered to banks in the form of five year notes bearing a rate of about 1-1/2 per cent. This would fill up the banks' portfolios and they would not then try to get the 2's which are now in the hands of the public. Consequently, the banks in the future would not rush into the market after each drive and so the bonds would not be driven up in price. This would prevent the banks from being subjected to certain criticism.

Brown says in that case mutual savings banks should also be forbidden to buy 2's and similar issues.

Berry states bonds should be allotted to banks by regions and by size of deposits so that all banks would have a fair chance to purchase.

Brown says that subscriptions ought to bear some relation to deposits or capital funds. Perhaps something like five per cent of deposits or 50 per cent of capital funds, whichever would be greater, might be a pattern. He believes that the problem raised by savings accounts in commercial banks should not be neglected.

Berry asks whether from the Treasury's point of view there is advantage in changing the pattern.

Brown says Treasury might accept suggestion to limiting banks henceforth to issues of five years or less.

Wallace thinks there is something to the idea to fill up the portfolios of banks during the drive so that they will not come into the market.

Kurtz believes the difference in net earnings by banks if a plan such as he had suggested were adopted would be negligible. He points out that a three year note bearing a rate of 1-1/4% would be very attractive.

Berry believes corporations should not be allowed to buy short-term issues.

Bradshaw says that it is his understanding that the next drive is to run from May 14 to June 7 except that the drive to sell E's, F's, and G's is to start in April and that an attempt is to be made to sell $4 billion of E's.

Kurtz thinks that a drive which would run from April to June would be very hard on the bond selling organizations.

Traphagen believes there is an increasing confidence in the stability of the pattern of interest rates. At the beginning of the war, there was a feeling that rates might go up as they did during the last war.

Brown thinks the rise in the price of the 2's has been largely due to the New York banks change in their policy, resulting in buying longer term bonds. This change in policy has been followed by the banks in the rest of the country.

Kurtz formulates two questions that should be answered.

1. Should the Treasury make a special offering to banks?

2. Should there be a shortening of the term of the securities bought by banks and a lower coupon rate?

Brown adds a question:

Should the Treasury in the forthcoming drive give the banks anything longer than five years?

Kurtz adds another question:

Should the banks be kept out of the general drive and an offer of special paper be made to the banks to take up the possible slack?

Frost questions whether any purpose will be accomplished by giving special paper to the banks. He believes banks will buy in the market unless the special offering made to them is made more attractive and this would certainly arouse criticism of banks.

Traphagen believes banks feel they have a responsibility to take a certain amount and if they are filled up they will not come into the market. He says the present market is about 1-1/2% on a 4-1/2 year security.

Brown points out that in the Treasury there are two groups:

1. A selling group which usually has its way and this group wants to be able to sell to the banks any amount needed to make the drive successful.

2. A group which advises on general financial policies.

Frost believes it would be best if we went on in about the present fashion and permitted the market to control the situation.

McCoy thinks there should be very long term 2-1/2's for the public but not for the banks and then there might be two issues which banks should be allowed to buy in the drive.

Gifford believes it dangerous for banks to admit that their earnings are too high. As a matter of fact, he is certain they would not receive any credit if they agreed to take less.

Brown put the following questions:

1. Should there be an announcement made by the Treasury in advance of a drive that there would be a direct offering made to the banks of securities having maturities of less than five years?

It was announced that five had voted in favor, four against, and three were undecided.

Note: Later on while a formal vote was not taken on the above question it would seem that most of the members of the Council were in favor of some such policy as stated in the question.

Wallace thinks it necessary to be careful not to do anything which would prevent the public from buying. The way to prevent banks from buying after a drive is to give them something during the drive which would fill up their portfolios and not cause them to come into the market afterward. If such a plan had been followed the 2's would not have gone up as much as they have.

Brown puts the next question:

2. Is the package the next time to consist of E's, F's, G's, 2-1/2's restricted as to investment by banks, and an issue for banks under five years, possibly 7/8's and notes but no 2's?

Brown comments that he is certain any such program would have to provide that banks buy after the regular drive has ended.

The members of the Council were all in favor of this suggestion, except Wallace, who does not want the 2's omitted.

Brown puts another question:

> Should commercial banks having savings departments be allowed to buy 2-1/2's say either up to $500,000 or up to $1 million or 10% of their savings deposits, whichever is less?

All members are in favor of permitting commercial banks having savings accounts to buy up to $1 million or 10% of the savings deposits, depending upon whichever is less.

It was agreed not to discuss the Wagner-Spence Bill.

BRETTON WOODS

The Council is opposed to having the Board of Governors be the one to give the instructions to the American delegate on the Fund and on the Bank.

The Secretary was instructed to send a telegram to Mr. Fleming expressing, on behalf of the members of the Council, the hope that he would have a speedy and complete recovery. The Secretary was instructed also to send a telegram to Mr. Ed H. Winton expressing, on behalf of the members of the Council, the regret that his wife was seriously ill and the hope that she may have a speedy recovery.

SPECULATION IN THE STOCK MARKET AND IN REAL ESTATE

Brown. There is a group in the administration, of which Eccles is a member, which wants to stop the rise of prices in the stock market and also the rise in prices of real estate, both urban and farm. Eccles maintains there must be some control for otherwise the other controls will not be effective. Under the present Executive Order, the Board can place any margin it desires on the borrowing on stocks and probably can also prescribe limits as to loans on real estate and also terms of amortization. At present, however, there is a desire to go much further and place some sort of limit on future profits, possibly by regarding profits on real estate as if they were normal income, or possibly try to revise upward the excess profits tax on short term transactions. In the corn belt, as a matter of fact, prices for farms have flattened out but there is a violent speculation in urban real estate. Probably Eccles and some others would like to place a ceiling on prices of stocks and real estate.

Traphagen believes that a violent boom in real estate and in the stock market would ultimately result in a debacle which would really be a most serious affair. He doubts whether any attempt to control credit will solve the problem for at the present time, certainly, there is very little business being done by buying on margin. Recently, brokers' loans amounted to only $650 million.

Kurtz points out that the mortgage debt on farms and all other kind of debt is steadily going down.

Baird says that in the 9th District the reduction in farm mortgage debt has flattened out somewhat.

Traphagen doubts whether we shall have a violent boom like in the '20's because large investors and, notably, investment trusts are in the habit of selling stocks after they have reached a certain point, and he believes the markets are likely to be quite orderly. Then, too, people are concerned as to what the Government may do and what the situation may be after the war.

At 4:55 P. M. Mr. Baird left the meeting.

REGULATION Q

There was some discussion as to whether the situation was as told to the Secretary by Mr. Upham who said that he understood there was to be in effect permission to absorb exchange charges if it did not become too serious, or whether the information furnished by Mr. Traphagen is correct, who heard that the Federal Reserve Bank presidents want the law enforced now.

It was decided not to hold an Executive Committee meeting of the Council in March unless there should be some unusual development, but to hold one on April 4.

The meeting adjourned at 5:30 P. M.

The Council met in the Board Room of the Federal Reserve Building at 10:15 A. M., on February 19, 1945.

All members of the Council were present, except that Mr. Rieman served as alternate for Mr. Fleming and Mr. Frost served as alternate for Mr. Winton.

There was some renewed discussion of the pattern of Government financing and interest rates.

Frost feels that to let banks have a special offering might prove to be very bad psychology.

Kurtz does not agree as his idea is to have bank issues so priced that there will not be any profit for the banks.

The meeting adjourned at 10:25 A. M.

At 10:45 A. M. on February 19, 1945, the Council held a joint meeting with the Board of Governors of the Federal Reserve System.

The following members of the Board of Governors were present: Chairman Eccles; Vice Chairman Ransom; Governors Szymczak, McKee, Draper, and Evans; also, Messrs. Thurston, Morrill, Carpenter, Wyatt, Vest, Thomas (Director, Division of Research and Statistics), L. M. Piseo (Chief, Government Securities Section of Division of Research and Statistics), Pollard, Smead, Parry, Leonard, and Bethea (Director, Division of Administrative Services).

All members of the Council were present except, as before, Mr. Rieman served as alternate for Mr. Fleming, and Mr. Frost as alternate for Mr. Winton.

PATTERN OF GOVERNMENT FINANCING AND INTEREST RATES

Brown says the Council is very much concerned that the rate pattern has broken down in the last 60-90 days, and he wonders what should be done about it. In general, the Council's idea is about as follows:

1. The next issue should consist of E's, F's, and G's, 7/8's, 1-1/2's, and tax certificates. 2-1/2's should be restricted as to banks as at present. This would probably result in a further rise of the 2's, but is regarded as the lesser of the evils.

2. The majority of the members of the Council feels that at the time of the next drive there should be an announcement that at the end of the drive there would be a five year note at 1-1/2, and 7/8's especially for banks, and allotment would be made to banks as before on the basis of deposits. The 2-1/2's would be open for savings banks and commercial banks having savings deposits, but limited possibly to $1 million or 10% of the savings deposits, whichever is less. One or two members still believe 2's should be offered to banks. Also, one or two feel that no statement should be made in advance of the drive that there will be a special allotment to banks. The majority believes such an announcement should be made at the time of the drive in order to check speculation.

Eccles raises the question whether individuals should be segregated from corporations.

Brown says it is understood Washington wants $1 billion more than last time. There is some feeling in the Council that short term obligations should not be sold to corporations. Most of the members feel it should be permitted but something ought to be done to stop the so-called "rolling over".

Eccles. How can you get the amounts required without including corporations? The question really is, what should be offered to corporations, and should corporations be approached only after the drive for subscriptions from individuals has been ended? It might also help if there were three drives a year instead of two, for at present there is some seepage by having only two drives. If a definite quota to be raised from individuals were stated, there would be more pressure on individuals. At present the corporations take so large a proportion that the individuals do not feel any pressure to help make the drive a success. The question is whether corporations should be permitted to take intermediate notes or bonds. If banks were permitted to subscribe directly, then perhaps the corporations need not take short term notes or bonds. The size of the drive and who is to be included helps to determine the type of issues. The Executive Committee of the Open Market Committee has spent most of its meetings on these problems. Under present conditions the banks have felt that they must get their securities by enlisting the aid of friends and corporations. In the last drive about half of all subscriptions finally ended up in the banks---i. e., anywhere from $10-12 billion came from banks. It is a delusion, therefore, to say we are financing the war largely by drawing on non-banking sources. He believes either the short rate must go up or the long rate must come down. More and more of the banks were going into 2's which increases the cost to the Treasury. As much as possible should go to individuals, the cost to the Treasury should be kept as low as possible, and to accomplish this a larger proportion of the issues should be in short term securities, especially as far as banks are concerned. As long as banks got 2's, there was bound to be a driving down of the rates. If the Treasury eliminated certificates, etc., and let banks buy all the 2's wanted, the rate would be kept up, but the earnings of the banks would increase greatly, and also the cost to the Treasury would increase. The present pattern is the responsibility of the Treasury. The Treasury and the Open Market Committee agreed in the beginning that, different from the last war, there should not be an increasing rate. There is some argument for making certificates more profitable, which might induce banks to buy more certificates in place of longer term securities. The trouble is that corporations would also buy the certificates and make a rather handsome profit at each drive by selling them to the banks. 1-1/2% should be the ceiling placed on securities to be sold banks, and no more 2's should be made available. Non-bank investors should take 2's and 2-1/2's, E's, F's, and G's. Corporations should take 7/8's, but insurance companies and savings banks might buy 2-1/4's and 2-1/2's. He sees no objection to a gap between 1-1/2's, 2-1/4's, and 2-1/2's. He admits this would change the pattern but there is nothing sacrosanct about the present pattern. All of this would result in a further rise of the 2's but that simply cannot be helped now. As we look back we realize that in view of the volume banks had to take, the 2's offered too large a return, and thus merely furnished ammunition to Patman and other critics of banks.

Kurtz believes the offer to make a change to a lower coupon rate for banks should be made by the banks.

McKee wants to know why it should be believed that the 7/8% rate on bills can be held. It probably will be reduced to 3/4%.

Traphagen says this would merely push the banks to buy more longer terms and thus increase the cost to the Treasury. A mistake has been made in maintaining the fiction that banks are not doing most of the financing. If direct offerings are made to banks, then banks are less likely to buy securities held by the public.

Eccles says the Treasury is opposed to direct offerings to banks. He believes the present market is healthier than to limit by allocation to banks.

Wallace says if you were to give 1-1/2's with a maturity of five years to the public and nothing directly to the banks, then banks would simply buy from the public.

Eccles says that if there is allocation made to banks, banks would simply buy from the public beyond the allocation, and what would be the difference?

Brown says that the selling crew in the Treasury, headed by Gamble, believes it desirable to have the banks in reserve so that bond drives are, without question, always announced as being successful.

Eccles. Not much can be done about bringing the 1-1/2's down. If banks are under pressure to obtain reserves, that will help for it will force them to sell. Between the drives, $3-1/2 billion in reserves are needed. At present the dealers take the bills but immediately sell them to the Fed, so the Fed might as well buy them directly. If the $3-1/2 billion were issued directly to the Fed, then automatically banks would be provided with reserves and there would be no pressure on the banks to sell. The banks sold $2-1/2 billion of short term bills and then went into long terms. It is desirable to have banks kept under pressure rather than force into the market $3-1/2 billion. If the Treasury issues a large amount of bills, then banks will buy. This may bring certificates to 3/4 even if bills should then go to 1/2. He believes a direct offering to banks should be made of certificates bearing a coupon rate of 3/4, which is really all banks get now. The trouble is, the selling organization in the Treasury wants the "ace in the hole" by having corporations buy 7/8's which they then sell to the banks at 3/4.

Brown. The Council feels that in the postwar period the present rate cannot be maintained.

Eccles wants to know what is the difference.

Brown replies: not much difference to some banks but much to others. New banks are being opened and they do not have the bond profits that the others have had, and some of these banks are not so very small.

Eccles says that the Treasury pattern cannot be fitted simply to protect a few banks.

McKee asks Wallace if there should be a cut-back in the manufacture of armaments of, say, 25-50%, what would happen to the vastly expanded corporations on the West Coast, and what would they do in the next drive? He is sure they will not be subscribers. Something may happen in the war effort in between the drives which would change the whole picture. He believes the "rolling over" of so much short term paper will cause trouble when a big shift of deposits takes place. Some banks will lose a large amount of deposits; others will gain; and all of this will create trouble sooner or later.

Eccles says he does not agree with McKee. If one bank sells, another will buy, and the Fed can always furnish the necessary reserves. The danger is not financing the Treasury, but the danger comes from loss of confidence on the part of the public in the currency.

Brown says that is why people are buying real estate and stocks.

Eccles. 1. Keep down issue of bills so banks must sell and do not have reserves forced on them. 2. The sales organization in the Treasury wants a 1-3/4% bond for the public, not to be sold to corporations and not directly to banks. He believes this would bring about great speculation for the large speculators would be able to sell with a handsome profit to the banks. At present banks buy largely from corporations and not from individuals, but he believes if corporations are not permitted to subscribe then the individuals will be the big sellers and the corporations would simply get individuals to subscribe for them.

McKee said corporations sell only at the time of a subsequent drive but individuals sell immediately, if at all.

Brown says there would be no way of supervising corporations to prevent them from having individuals buy for them.

Eccles says it is planned to issue more bills and to give sales organizations 1-3/4 bond to sell to individuals but not to corporations. He regards this as all wrong.

McKee says the Fed has persuaded the Treasury not to issue too many bills but now the Treasury apparently again wants to issue more bills than before.

Eccles says the Federal Reserve System now owns about 80 per cent of all bills. It recognizes it must provide the reserves as deposits grow. If this keeps on there are not enough bills to provide the necessary reserves even if the Fed owns all of them. Therefore, the Treasury feels there must be more bills created. It is hard to see why the Treasury should pay the Federal Reserve System to provide reserves. Why not sell direct to the banks? If War Loan Deposit Accounts decline and banks are short of reserves the Fed furnishes them so perhaps it is in order to have bills amounting to $1-1/2 billion. It is not desirable to have bills to such an extent that the reserves are completely covered.

Brown wants to know about savings accounts in commercial banks. He feels they ought to be allowed to invest on some basis in longer term bonds as now permitted in the case of mutual savings banks.

Eccles replied the Open Market Committee had urged that such banks be allowed to subscribe for 2's and 2-1/2's. In the last drive a limit of $500,000 or 10 per cent of savings deposits whichever was less was established. The Executive Committee of the Open Market Committee has now recommended that this be dropped because the earnings of banks are so great that there isn't any excuse for permitting them to purchase 2-1/2's. It may be here and there, there are banks that are not so well off but these are few in number. The earnings of country banks are very satisfactory.

Brown says large banks are not much affected but in the case of many small banks it makes all the difference between paying some interest on savings or not at all and the result would merely be to drive savings into Building and Loan Associations. Brown believes, and the Council as a whole does, that commercial banks having savings accounts should be allowed to buy longer term issues on some basis or other.

SPECULATION IN THE STOCK MARKET AND IN REAL ESTATE

Brown. Speculation in urban real estate is rather violent even though it has flattened off somewhat in connection with farm lands. The Council would regard it as most unfortunate if anything like Regulation W were put into effect in connection with real estate speculation. It is true that in the last 18 months urban real estate has about doubled in value.

Eccles says that this matter is the responsibility of Messrs. Vinson and Byrnes and not of the Board. The Board does not have any power in connection with real estate. It has merely power to control speculation in listed stocks. About a year and a half ago there was some desire expressed to give the Board, by means of an Executive Order, power to control the prices of farm lands and that of commercial and residential property. He wrote a memorandum showing this wasn't at present a credit problem, for borrowings on all lands, whether urban or farm, have been steadily declining. Even in normal times about 40 farms per thousand are sold on the average every year. Most of this has nothing to do with speculation but the sales take place because someone has died or a man wants to buy a farm for a growing son or for some other similar reason. He believes it would be highly undesirable to interfere in any way with the legitimate purchases of farms and houses. If this is to be controlled, it ought to be by means of a special capital gains tax on the profits of speculators. The G. I. Bill really furnishes credit for the buying of farms and houses. This is not a credit problem but Government might check speculators by a stiff capital gains tax.

Evans says in Australia anyone who wishes to buy a farm must obtain a government certificate showing that he is or his son is a genuine farmer. So far no steps of this kind have been taken here. All those who are studying the problem believe that the prices for farms are going down.

Eccles says the credit people in the Department of Agriculture believe that recent trends have been reversed and that at present the prices of farms are again going up. This is probably due to the new rationing, the prolongation of the European war and the probable need of finding food for a good part of Europe after the war is over.

REGULATION Q

Ransom says attempt will be made to enforce the law and since banks after all in most cases are making large profits they may not raise as much objection to the enforcement of the law as they did previously.

Eccles says the Law will now be enforced.

McKee says the whole trouble is being caused by only 24 or 25 banks in the country.

WAGNER-SPENCE BILL

Eccles states he is not in any way pushing the bill. It is true that the new bill embodies suggestions that he made last year: (a) that there be a limit of 90 per cent on the guarantees; (b) that the total amount to be guaranteed be not more than three times the amount of the fund available, and (c) that there be a five year time limit. Congressman Spence evidently wants to push the bill but Senator Wagner apparently is not specially interested. He doubts very much whether it can come up for quite a while as the calendar is rather full. In the first place the bill changing the gold reserve requirement for Federal Reserve notes and deposits in the Federal Reserve Banks, and which also is to make permanent the provision to allow government securities to be put up for Federal Reserve notes, has precedence. Then next there is the matter of the Bretton Woods Conference. The Price Control Bill is also on the docket and possibly the $1 Billion Bill for the Smaller War Plants Corporation may get ahead and if this last bill should pass there will not be any point in passing the Wagner-Spence Bill. So the Wagner-Spence Bill can hardly be given any consideration for another month or two.

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Brown in answer to a question says that the Council wishes to have the next meeting of the Executive Committee on April 4.

Eccles suggests omitting the meetings of the Executive Committee entirely on account of the traveling situation.

Brown replies that the Council would like to have occasional meetings since the situation is changing so rapidly and the meeting on April 4 will stand unless it should be cancelled before that date.

The meeting adjourned at 1:00 P. M.

At 2:05 P. M., the Council reconvened in the Board Room of the Federal Reserve Building on February 19, 1945, to hear Dr. Goldenweiser, Economic Adviser to the Board of Governors.

All members of the Council were present, except Mr. Brown who had an engagement at the Treasury. As before, Mr. Rieman served as alternate for Mr. Fleming and Mr. Frost served as alternate for Mr. Winton. In the absence of Mr. Brown, Mr. Spencer presided.

Goldenweiser: The problem of inflation has become more serious than was expected because the war in Europe is continuing longer and the effort in the Orient is being speeded up so that for the present there is little chance for reconversion to civilian production. As a result supplies for civilians are becoming less and this is expressed in advancing prices and scarcity. As far as possible at all inflation should be prevented. The difficulty will be to avoid a depression sometime after the war is over and to keep up full employment. It is rather difficult to estimate how many people are really in war work. There are probably 30 million people more or less engaged in war industries which means about 1/2 of the total labor force. The depression may last a year. Not much can be done in connection with the tax system because the frame-work of that is pretty much established now. The banks and the Federal Reserve System can do very little. As such a large proportion of the assets of banks is invested in Governments, the Fed cannot raise the discount rates much, even if banks should begin to borrow, for this would affect the government security market adversely. He himself did not believe in the recent action of the Board in raising margin requirements. It will be necessary to keep up most of the existing controls and Treasury financing should follow a pattern which will not aid in creating inflation. The Treasury is anxious to sell to the public but it wishes above all to have the drives succeed and so it always errs on the side of keeping the rate down. If it allowed the rate to go up it would induce people to buy shorter term securities and the net cost to the Government would be less than it is now. As it is, the proportion of long term securities has increased to 17 per cent of the total. The Government could afford to pay up to 1 per cent on securities running a year or less, and he estimates it would still save $150 million but it has been impossible to convince the Treasury that this is correct. The Treasury also is anxious to keep up the appearance of an open market by not selling direct to the Fed but selling to dealers who immediately, in fact, pass the securities over to the Federal Reserve System. It would be much better if the Treasury did not depend upon dealers. If it increases the bill issue to $200 million a week, it just means that the pressure on banks for reserves becomes less and thus these buy more longer term issues. If there were fewer bills available banks might be compelled to sell something else than bills to the Fed. If the Treasury could issue more short term securities by raising the rate slightly it would help. It would be a better arrangement if there was a drive for subscriptions by individuals and later a drive for subscriptions by corporations and perhaps at the end take $5 billion from the banks. He believes if an announcement were made at the beginning of a drive that special offerings would be made to the banks, but without mentioning the amount, it might be of some help, though he does not feel dogmatic at all as to whether or not the amount should be mentioned. In spite of all these criticisms the Treasury has done a good job in financing the war. It has obtained the money, and it has kept the cost to the Government down. But as a result of the desire to be absolutely certain that each drive will be a great success the Treasury has not done all it might have done. When the European war is ended it may become more difficult to sell to the public and there may be greater pressure than before on the banks and on the Federal Reserve System. The reduction of Reserves of the Federal Reserve System in connection with Federal Reserve notes and deposits in Federal Reserve Banks is not a matter of very great importance. If it were not for the psychological reaction, it would not be necessary at the present time to have this kind of a reserve requirement at all. It is likely that when the war is over the amount of currency in circulation will decline. He still believes the end of the increase of currency is near at hand. At the present time, the Federal Reserve System has about $12 billion in bills and $8 billion in bonds. Hoarding amounts at present to probably about $4 billion. He agrees something should be done to check the rise in real estate values. It could be done:

(a) by government lending agencies being somewhat more careful;

(b) by using some instrument akin to Regulation W;

(c) by having a heavy capital gains tax on profits made on real estate. Stock market speculation should be checked even if it was found necessary to impose a 100 per cent margin requirement; not much can be done with cash transactions but after all it is hard to believe a runaway market can develop without much credit and a 75 per cent margin requirement would probably be sufficient to check any wild speculative rise. He now regrets that the requirement to keep reserves against War Loan Deposit Accounts was dropped because it has resulted in the banks being too flush with funds just at the time of the drives with the result that banks finance these drives to altogether too great an extent.

The meeting adjourned at 3:00 P. M.