MINUTES OF MEETINGS

of the

FEDERAL ADVISORY COUNCIL

February 17-18, 1946

May 19-20, 1946

and of the

MEETINGS

of the

EXECUTIVE COMMITTEE

April 24, 1946

June 26, 1946

OFFICERS AND MEMBERS OF THE FEDERAL ADVISORY COUNCIL

For the Year 1946

OFFICERS:

President, Edward E. Brown
Vice President, Charles E. Spencer, Jr.
Secretary, Walter Lichtenstein
Acting Secretary, Herbert V. Prochnow

EXECUTIVE COMMITTEE:

Edward E. Brown
Charles E. Spencer, Jr.
John C. Traphagen
David E. Williams
John H. McCoy
A. L. M. Wiggins

MEMBERS:

Charles E. Spencer, Jr.	District No. 1
John C. Traphagen	District No. 2
David E. Williams	District No. 3
John H. McCoy	District No. 4
A. L. M. Wiggins	District No. 5
Robert Strickland	District No. 6
Edward E. Brown	District No. 7
James H. Penick	District No. 8
Julian B. Baird	District No. 9
A. E. Bradshaw	District No. 10
Ed H. Winton	District No. 11
Reno Odlin	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 17, 1946.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

February 17, 1946

The first and organization meeting of the Federal Advisory Council for the year 1946 was convened in Room 336 of the Mayflower Hotel, Washington, D.C., on Sunday, February 17, 1946, at 2:00 P.M.

Present:

Mr. Charles E. Spencer, Jr.	District No. 1
Mr. John C. Traphagen	District No. 2
Mr. David E. Williams	District No. 3
Mr. John H. McCoy	District No. 4
Mr. A. L. M. Wiggins	District No. 5
Mr. Robert Strickland	District No. 6
Mr. Edward E. Brown	District No. 7
Mr. James H. Penick	District No. 8
Mr. Julian B. Baird	District No. 9
Mr. A. E. Bradshaw	District No. 10
Mr. Ed H. Winton	District No. 11
Mr. Reno Odlin	District No. 12
Mr. Herbert V. Prochnow	Acting Secretary

Mr. E. E. Brown was elected Chairman *pro tem* and Mr. Herbert V. Prochnow, Acting Secretary, *pro tem.*

The Acting 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 1946, in accordance with the above list.

The following four officers were nominated and unanimously elected:

Mr. Edward E. Brown, President
Mr. Charles E. Spencer, Jr., Vice President
Mr. Walter Lichtenstein, Secretary
Mr. Herbert V. Prochnow, Acting Secretary

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

Mr. John C. Traphagen
Mr. David E. Williams
Mr. John H. McCoy
Mr. A. L. M. Wiggins

The salary of the Secretary was fixed by the Council 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 1945, which had been audited by Mr. J. J. Buechner, Assistant Auditor of The First National Bank of Chicago.

Copies of the report had been sent previously to the members of the Council. The report was approved and ordered placed on file. A copy of the report is attached and made a part of these minutes.

On motion, duly made and seconded, the minutes of the meetings of the Council on September 16-17, 1945, and on November 18-19, 1945, and of the meeting of the Executive Committee of the Council on October 3, 1945, copies of which had been sent previously to the members, were approved.

On motion, duly made and seconded, a resolution was adopted authorizing the Acting Secretary to ask each Federal Reserve bank to contribute $350.00 toward the secretarial and incidental expenses of the Federal Advisory Council for the year 1946 and to draw upon it for that purpose.

The President of the Council suggested that members of the Executive Committee send the Acting Secretary their fixed dates each month so that some suitable date could be arranged for meetings of the Executive Committee.

The Council discussed the Bill for the Reorganization of Government Agencies (H. R. 4129), and its relationship to the banking agencies.

It was decided to ask the Board of Governors for information regarding the present status of the Bank Holding Company Bill.

The Council considered at some length the general subject of interest rates and the Federal debt. All members of the Council, except one, approved the following general program for submission to the Board of Governors, if the Board desires a written statement:

Abolish the preferential rate; abolish the puts and calls on bills; encourage the reduction of war loan accounts and the general shrinkage of deposits in banks; issue bonds to satisfy investment demands, the bonds not to be eligible for bank investment or even eligible for collateral purposes. The Board of Governors might use a resolution or statement covering these points only if and when it saw fit to do so, and the Board would be under no obligation to publish the resolution or statement.

There was some discussion regarding the 100 per cent margin requirement.

The question of Real Estate Controls and Ceilings on Real Estate prices had been submitted for discussion, but it was decided that this subject did not properly come within the provisions of the Council's authority.

The meeting concluded with a brief discussion of the effect of the Bretton Woods program on our monetary and banking systems.

The meeting adjourned at 6:00 P.M.

HERBERT V. PROCHNOW
Acting Secretary.

REPORT OF THE SECRETARY OF THE FEDERAL ADVISORY COUNCIL

For the Year Ending December 31, 1945

Balance on hand December 31, 1944	$5,323.17	Salaries	$2,500.00
		Conference Expenses	917.72
		Printing and Stationery	195.00
Assessments— 12 Federal Reserve Banks	4,200.00	Postage, telephone and telegraph	52.72
		Miscellaneous	45.68
		Balance on hand December 31, 1945	5,812.05
	$9,523.17		$9,523.17

Chicago, Illinois
January 10, 1946

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, 1945, and certify that the above statement agrees therewith.

Respectfully,

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

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

February 18, 1946

At 10:50 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, Ernest G. Draper and R. M. Evans; also, Messrs. Chester Morrill, Special Adviser to the Board of Governors; S. R. Carpenter, Secretary of the Board of Governors; Bray Hammond, Assistant Secretary of the Board of Governors; J. J. Connell, General Assistant, Office of the Secretary; Walter Wyatt, General Counsel; George H. Vest, General Attorney; Woodlief Thomas, Director, Division of Research and Statistics; Edward L. Smead, Director, Division of Bank Operations; Carl E. Parry, Director, Division of Security Loans; Bonnar Brown, Assistant Director, Division of Security Loans, and Liston P. Bethea, Director, Division of Administrative Services.

Present: Members of the Federal Advisory Council:

Mr. Edward E. Brown, President; Mr. Charles E. Spencer, Jr., Vice President; Messrs. John C. Traphagen, David E. Williams, John H. McCoy, A. L. M. Wiggins, Robert Strickland, James H. Penick, Julian B. Baird, A. E. Bradshaw, Ed H. Winton, Reno Odlin and Herbert V. Prochnow, Acting Secretary.

A discussion took place regarding the Reorganization Bill. Chairman Eccles stated that the Board of Governors does not believe there should be three banking agencies, that is, the Federal Deposit Insurance Corporation, the Comptroller of the Currency and the Board of Governors. At least some of the functions of these three agencies should be consolidated.

Chairman Eccles advised the Council that the staff work has been done on the Bank Holding Company Bill and the Board is waiting on the Treasury for its opinion of the bill. Chairman Eccles also advised that it is so late in the session of Congress that nothing will probably be done about amending the Federal Trade Commission Bill.

The President of the Council informed the Board of Governors that the Council would be pleased to submit a written statement regarding its views on the Federal debt and interest rates. Chairman Eccles stated that the Board would be pleased to receive such a statement.

The meeting closed with a brief discussion regarding the effect of the Bretton Woods program on our monetary and banking systems.

The meeting adjourned at 12:50 P.M.

HERBERT V. PROCHNOW
Acting Secretary.

After the close of the joint conference of the Federal Advisory Council and the Board of Governors, the Acting Secretary of the Council forwarded to the Secretary of the Board of Governors the following resolution of the Council:

FEDERAL ADVISORY COUNCIL RESOLUTION

RESOLVED that the Federal Advisory Council of the Federal Reserve System recommend to the Board of Governors the following program as a means of helping to correct certain undesirable conditions in the money and government bond markets: (a) abolish the preferential rate; (b) abolish puts and calls on bills; (c) reduce the war loan accounts; (d) support at the proper time legislation to eliminate the present exemption from reserve requirements which war loan deposits now enjoy; and (e) urge the Treasury to issue bonds in addition to the E's, F's, and G's to satisfy investment demands of large, long time investors, such bonds to be ineligible for bank investment for demand deposits and also to be so restricted that they would not find their way into banks as collateral.

HERBERT V. PROCHNOW
Acting Secretary.

February 18, 1946

The Secretary of the Board of Governors was advised that pursuant to resolution of the Council, the Board is to use the above resolution only if and when it sees fit to do so and the Board is under no obligation to publish it.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

February 18, 1946

At 2:30 P.M., the Federal Advisory Council reconvened in the Board Room of the Federal Reserve Building, Washington, D.C., the President, Mr. Brown, in the Chair.

Present: Mr. Edward E. Brown, President; Mr. Charles E. Spencer, Jr., Vice President; Messrs. John C. Traphagen, David E. Williams, John H. McCoy, A. L. M. Wiggins, Robert Strickland, James H. Penick, Julian B. Baird, A. E. Bradshaw, Ed H. Winton, Reno Odlin, and Herbert V. Prochnow, Acting Secretary.

Dr. Woodlief Thomas appeared before the Council and presented the results of his study on Future Bank Earnings.

The meeting adjourned at 3:38 P.M.

HERBERT V. PROCHNOW
Acting Secretary.

FEDERAL
ADVISORY COUNCIL

Minutes
and
Recommendations

1946-1950

NOTE: This transcript of the Acting 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.

H. V. P.

The Acting Secretary's notes on the meeting of the Federal Advisory Council on February 17, 1946, at 2:00 P. M., in Room 336 of the Mayflower Hotel, Washington, D. C.

All members of the Federal Advisory Council were present.

Mr. E. E. Brown was elected Chairman pro tem and Mr. Herbert V. Prochnow, Acting Secretary pro tem.

The Acting 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 1946.

The following officers were elected unanimously:

Mr. Edward E. Brown, President
Mr. Charles E. Spencer, Jr., Vice President
Mr. Walter Lichtenstein, Secretary
Mr. Herbert V. Prochnow, Acting Secretary

It was unanimously voted to extend the indefinite leave of absence granted the Secretary of the Council in order, temporarily, for him to continue his services with the United States Government. In the Secretary's absence, the Acting Secretary of the Council was given all the powers of the Secretary.

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

Mr. John C. Traphagen
Mr. David E. Williams
Mr. John H. McCoy
Mr. A. L. M. Wiggins

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 1945, 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 meetings of the Council on September 16-17, 1945, and on November 18-19, 1945, and of the meeting of the Executive Committee of the Council on October 3, 1945, copies of which had been sent previously to the members, were approved.

A resolution was adopted authorizing the Acting 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 1946.

The President of the Council suggested that members of the Executive Committee send the Acting Secretary their fixed dates each month so that some suitable date could be arranged for meetings of the Execu-Committee.

REORGANIZATION BILL

Brown gives a general summary of the discussions on this bill at previous meetings of the Council, particularly relating to proposals for the consolidation of the functions of the Federal Deposit Insurance Corporation, the Comptroller of the Currency, and the Board of Governors. (It should be noted that a considerable part of the discussion at this meeting of the Council was off the record.)

Williams asks whether the Council has made its views clear to the Board.

Brown states that the Board understands the Council's viewpoint on any proposed consolidation of the banking agencies.

Strickland believes it is important that the Board understand the Council's viewpoint, particularly on the value of a dual banking system.

Brown asks whether there are any Council members who believe the Federal Deposit Insurance Corporation and the Comptroller's office should be consolidated with the Board of Governors. Apparently no member of the Council believes a consolidation of this kind should take place.

Penick thinks that in any discussion of the consolidation of government agencies, consideration should be given to problems that have arisen under Regulation Q.

Brown advises that Regulation Q has been discussed at great length in past meetings of the Council and the Board.

Wiggins states that although the Federal Deposit Insurance

Corporation and the Comptroller of the Currency should probably be represented on the Board of Governors, he does not favor consolidating the Federal Deposit Insurance Corporation and the Comptroller of the Currency's office with the Board of Governors.

Brown. The President of the United States has power under the bill to consolidate all three banking agencies.

Traphagen believes little is to be gained by the Council discussing this matter at length with the Board again as the Board understands the Council's views.

McCoy agrees with Traphagen.

Williams agrees with Traphagen.

Odlin agrees with Traphagen.

Wiggins believes it might be desirable to express the Council's viewpoint again.

Brown. It is apparently the unanimous opinion of the Council that a consolidation of the functions, responsibilities, and offices of the Federal Deposit Insurance Corporation and of the Comptroller of the Currency with those of the Board of Governors of the Federal Reserve System would not be in the best interests of the banking system.

BANK HOLDING COMPANY BILL

Brown reviews the background of the holding company bill and advises that at a previous meeting of the Council the Chairman of the Board of Governors had declined to discuss the bill. At that time (November 19, 1945) the Chairman of the Board of Governors had stated that a proposed bill had been sent by him to the Treasury and to the Attorney General for them to consider but the proposal was only on a staff level. The Chairman of the Board had stated then that he did not wish to show the Council the proposed bill until members of Congress had had an opportunity to see it. Brown believes that if Congress adjourns to go home in June, there is little possibility that anything will be done about this bill.

Wiggins asks regarding the scope of the proposed bill.

Brown points out the wide scope of the bill and indicates how insurance companies, for example, who hold stock in several banks might be considered holding companies when they were, as a matter of fact, not holding companies in the usual conception of the term.

Odlin has no desire to see more power given to the Board of Governors in order to accomplish certain other objectives under a bill of this type.

Baird believes there is no chance for a bill this session. Moreover, any bill would not settle the real difficulties of the problem.

Odlin. Bankers on the West Coast have no particular desire to injure holding companies generally.

Brown. It is apparently unanimously agreed not to discuss the bank holding company bill at length with the Board tomorrow.

Wiggins thinks it would be unwise for a holding company bill to come before Congress at present.

Odlin states that bankers on the Pacific Coast will, sooner or later, raise this question because of the problems that confront them. He suggests that perhaps the Council might define the area within which a probable bill could be drawn.

Brown says that he will merely ask the Board regarding the present status of the proposed bill.

INTEREST RATES AND THE FEDERAL DEBT

Brown reviews the entire background of the present interest rate and Federal debt problems and some of the solutions that have been proposed.

Wiggins is strongly in favor of issuing longer term bonds to non-bank investors and taking the bonds out of the banking system.

Baird asks whether any Council member is opposed to removing the preferential rate. The general opinion of the Council seems to be in favor of removing the preferential rate.

Brown states the ultimate solution of the problem is to demonetize the government debt and get it into the hands of investors. This will necessarily take time. If we may assume that there is as much as $140 billion of the total debt of $279 billion in the hands of investors, it will obviously take considerable time to place the balance of the debt in the hands of investors at the rate, for example, of some $6 to $7 billion per year.

Strickland questions whether the Treasury actually wishes to issue longer term, higher rate bonds.

Traphagen doubts whether the Treasury is willing to accept higher rates.

Brown believes the long run savings to the Treasury might be greater than the increased interest costs. He thinks it is much easier politically to sell to the public the idea of the redemption of the higher rate issues.

Traphagen asks whether it would not be advisable to give the Board definite support on any proposals it may have that would be helpful in correcting the present situation.

Baird states that he is active on a committee of the Reserve City Bankers Association which is considering this whole problem. The committee will meet immediately after the adjournment of the Council on February 18 to consider two phases of this problem: (1) What should be done; and (2) Should some statement be made publicly?

Traphagen believes Eccles may wish to do something to change the money market position and perhaps the Council should take some stand to assist him.

Baird believes it would probably be a mistake to make the issue on an interest rate basis, but that it might be better to emphasize the importance of stopping the monetization of the debt through the banks.

Wiggins believes that politically Baird is right. The debt should be taken out of the banks and sole to investors.

Traphagen. In advocating higher interest rates, the bankers might well call attention to the fact that when bonds move out of the banks, the banks will lose deposits. What the banks are aiming to do is to help stop the inflationary trend and protect the public.

Winton. The timing is the important consideration. This is not the opportune time for the Council or the Board to do anything on this matter, as no one knows now how many government securities will be sold by corporations to further reconversion. Winton is against changing the preferential rate now, but believes that as reconversion proceeds, if certificates are sold in large volume, then perhaps something should be done. He believes moving bonds out of the banks will be a slow process, and he thinks that Vinson's recent statement in the press that the Treasury will soon take up at maturity and at optional date certain issues, indicates that Vinson will reduce the over-all indebtedness of the Federal Government.

Brown believes it would be desirable to tell the Board that the Council favors the following general program: Abolish preferential rate; abolish puts and calls on bills; encourage the Treasury to issue bonds to satisfy investment demands but not to be eligible for bank investment. He favors telling the Board that the Council would be willing to make a public statement along these lines if the Board wishes it. He also suggests the Board be told that the Council is willing to urge that war loan deposits be not exempt from reserve requirements.

Wiggins. Would Vinson agree to take up $10 million certificates and issue $10 million in bonds to investors?

Brown suggests a security similar to a long term "G" bond. He states that critics would probably say that this was merely an idea by the banks to get higher rates.

Winton still doubts that this is the opportune time to make these proposals.

Wiggins thinks Brown's suggestions are good, but doubts whether the Council should specifically recommend a type of bond.

Brown. The Council may suggest a bond which is not eligible for bank investment so that there would be no advantage to banks.

Odlin asks whether it is advisable to mention the matter of the war loan deposits and the possibility of reducing these deposits.

Brown replies that Vinson and the Board apparently are both agreed on this matter. He believes Vinson would favor the Council recommending to the Board that war loan deposits be reduced. In answer to Winton, Brown thinks that it is desirable to present these matters to the Board now.

Traphagen suggests that in talking with the Board, the emphasis should be on the dangers of the inflationary trends.

Brown does not believe that the Treasury necessarily opposes these ideas.

Spencer agrees.

Strickland. The Council can state that further monetization of the debt is bad and that even a continuation of the present extent of the monetization is undesirable. He believes the Council has the responsibility of making a statement along these lines.

Baird reports that the American Bankers Association can probably do nothing effective along these lines except over a considerable period of time.

Wiggins states that the committee which met with Vinson was actually a committee of the American Bankers Association.

Brown understands the American Bankers Association wishes eventually to make a statement.

Wiggins believes a statement by the Council would have weight.

Brown summarizes again the suggested general program which he believes the Council might submit to the Board if the Board desires a written statement: abolish the preferential rate; abolish the puts and calls on bills; encourage the reduction of war loan accounts and the general shrinkage of deposits in banks; issue bonds to satisfy investment demands, the bonds not to be eligible for bank investment or even eligible for collateral purposes. The Board of Governors might use such a resolution or statement only if and when it saw fit to do so and the Board would be under no obligation to publish the resolution or statement. All members of the Council but Winton approved this general program.

100 PER CENT MARGIN REQUIREMENT

Brown asks whether the Council wishes to call the attention of the Board to the telegram which the President of the Council had sent to the Chairman of the Board of Governors on March 13, 1945, regarding action the Board might take requiring a 100 per cent margin on loans made for purchasing and carrying listed securities. This telegram requested that in the event the Board should decide on a 100 per cent margin requirement, the Council desired that the statement of the Council's views in the telegram be published at the time such requirement was announced. The 100 per cent margin requirement was announced by the Board on January 17, 1946, and the Council's telegram of March 13, 1945, was not published. Brown suggests that the question of publishing the statement in the Council's telegram should not be raised with the Board. Conditions have changed since the statement in the telegram was made. There was agreement by all members of the Council on Brown's suggestion.

REAL ESTATE CONTROLS AND CEILINGS ON REAL ESTATE PRICES

Brown asks McCoy to comment on these problems.

McCoy states that with present controls and with the proposed bill in Congress it is possible we may see the worst black markets in building supplies we have ever had. (Spencer leaves at 5:25 P. M.) He believes these real estate controls will be unsatisfactory and will delay construction.

Brown. Bowles has asked for control over the sale of old and new real estate, but there is some opinion that he may not get all this authority.

Baird asks whether the Council may properly advise on this subject.

Brown. This subject is probably not within the area of the Council's responsibility.

Wiggins doubts whether this subject comes within the province of the Council's authority.

McCoy states that if the subject is not properly one for the Council to discuss, he will withdraw it.

EFFECT OF BRETTON WOODS PROGRAM ON OUR MONETARY AND BANKING SYSTEMS

Brown states that the immediate effect of the Bretton Woods program and the extension of credit by this country to foreign nations will be on goods, as we export goods and not dollars.

Wiggins thinks that the effect of foreign loans will probably be to increase our deposits.

Strickland asks whether it is possible to stop inflation, considering the large volume of liquid funds our people now hold, plus the export trade we anticipate.

Brown. It may be necessary to have export controls to be sure that the expenditure in our markets of the proceeds of large foreign loans does not accelerate the inflation. We should export those commodities we are in a position to export rather than commodities of which we are in exceedingly short supply and whose purchase by foreign buyers would drive prices higher.

Strickland. What will be the total of foreign loans?

Brown. It is difficult to give a close estimate. Assuming the British loan is granted, it is a question of how much pressure may be brought in various ways by other countries.

Wiggins believes these foreign loans emphasize the necessity of taking the Federal debt out of the banks and also curbing inflationary tendencies in other directions.

Brown. The effect of the foreign loans will be to place pressure on our commodity markets. The principal answer to inflation is the production of goods.

The meeting adjourned at 6:00 P. M.

On February 18, 1946, at 10:50 A. M., the Council held a joint meeting with the Board of Governors of the Federal Reserve System in the Board Room of the Federal Reserve Building.

All members of the Council were present.

The following members of the Board of Governors were present: Chairman Eccles; Vice Chairman Ransom; Governors Szymczak, Draper, and Evans; also Messrs. Morrill, Carpenter, Hammond, Connell, Wyatt, Vest, Thomas, Smead, Parry, Brown, and Bethea.

Brown informs the Board that at the meeting of the Federal Advisory Council on February 17, 1946, he had been elected President, and Mr. Spencer had been elected Vice President of the Council for 1946. He also informs the Board that the Executive Committee of the Council for the year 1946 will consist of Messrs. John C. Traphagen, David E. Williams, John H. McCoy, and A. L. M. Wiggins.

REORGANIZATION BILL

Brown asks the Board whether there has been any change in the status of the reorganization bill.

Eccles replies that so far as he knows, nothing has been done. The Director of the Budget asked all the government agencies to submit their reorganization suggestions by January 25. Eccles says the Board had done nothing in the way of responding to this request for suggestions. He also adds that he understands perhaps the Comptroller and the Federal Deposit Insurance Corporation would not mind taking over some of the functions of the Board of Governors.

Ransom asks whether the Council knows anything that the Board may not know about the reorganization of the banking agencies.

Brown replies that the Council does not have any information.

Eccles states that the bankers apparently wish to maintain the status quo. He advises that the Board does not believe there should be three banking agencies, and if the Board cannot take over some of the functions of the Federal Deposit Insurance Corporation and the

Comptroller of the Currency, then perhaps those two agencies can take over some of the functions and responsibilities of the Board. There should not be three banking agencies.

BANK HOLDING COMPANY BILL

Brown asks for information regarding the present status of the bank holding company bill.

Eccles replies that the staff work has been done but that work is still under way on the bill. The matter is largely in the hands of the Treasury at present, and the Board is waiting on the Treasury for action. He expects something may develop in the next two weeks.

AMENDMENT TO FEDERAL TRADE COMMISSION BILL

Brown inquires regarding the status of this amendment.

Eccles. The amendment of the Board is not in the bill as it has been reported out. The banks can proceed to be monopolistic.

Brown states that there was no opposition by bankers as far as he knows.

Ransom thinks the American Bankers Association did nothing to help the amendment and may actually have hindered it. Those in charge of the bill in Congress were not too anxious to have an amendment added. Needham may have given the impression that the bill would be too complicated with the amendment, and that impression may have discouraged the acceptance of the amendment.

Eccles comments that it is so late in the session of Congress that probably nothing will be done about it.

INTEREST RATES AND THE FEDERAL DEBT

Brown states that the Council has discussed at great length the subject of interest rates and the Federal debt. The Council, with the exception of one member, favors the following general program: abolish the preferential rate; abolish puts and calls on bills; reduce war loan accounts and shrink the deposits of banks; war loan deposits should not be exempt from reserve requirements; issue bonds to satisfy investment demands, the bonds not to be eligible for bank investment or even eligible for collateral purposes. The bonds may, for example, be similar to the "G" bond and have a maturity of perhaps 20 or 25 years. The Council also believes that Treasury balances of $25 billion are too large and that $10 billion would be better. There is probably not over six or seven billion dollars a year available for investment, but it is advisable to get the government debt out of the banks as soon as reasonably possible, and to prevent further monetization of the debt. The insurance companies are investing more and more in real estate, and as rates decline further they will be under the necessity of looking for other types of investment. A 2-1/2 per cent rate on a government security not eligible for bank investment would probably be attractive to insurance companies. The Council will be pleased to pass a resolution embodying these general ideas. The Board of Governors might use such a resolution or statement only if and when it saw fit to do so and the Board would be under no obligation to publish the resolution or statement.

Eccles. The Board believes that Treasury balances have been too large and Eccles has in the past assured the Treasury that the Federal Reserve System could provide funds immediately in any emergency. When Vinson became Secretary of the Treasury, he made no change in the policy which Morgenthau had followed of keeping large balances. The Treasury felt a Victory Bond Drive was desirable. The Board did not see the need for a drive and was instrumental in delaying the Victory Drive until November, although the Board was not successful in postponing the drive for a longer period. Eccles feels that there are too many obligations available for bank investment and he was partially successful in the last drive in having the Treasury leave out some securities from the eligible-for bank-investment catagory. He states that instead of the "E", "F", and "G" bonds being reduced in volume, they are being increased. It appears that the Treasury will have a large demand for "E", "F", and "G" bonds, so the Treasury balance may show an increase. Some of the funds may be used to retire certificates. Any future bond program will necessarily have to be based on the income and the expenditures of the government. Eccles states that he spent two hours with the Treasury recently discussing the program for retiring part of the debt by drawing down the Treasury balances. A recent announcement of the Treasury stated that approximately $2.8 billion of the debt would be retired by using Treasury balances. The banks will lose income on about $2 billion in securities. Some banks may go into longer term issues to make up some of the loss of income. The Federal Reserve System will support the certificate market but will not permit the rate to go up. The market will be supported on whatever basis seems desirable. Eccles states that $4.8 billion in certificates come due in April and $1.6 billion in May. He believes further retirement of certificates may take place at that time. In June, $4.8 billion in certificates come due and approximately $1.8 billion in bonds. He believes the bonds should be paid. The Treasury will probably draw down on its war loan deposits to retire these obligations and the funds that come back into the banks will be subject to reserve requirements. As long as the "E", "F", and "G" bonds are available, as they now are, they will take care of investors, except corporate investors. The only group not taken care of in general is the insurance companies, savings banks and similar institutions. Many 2-1/2 per cent obligations are now held by speculators and are being borrowed on by the holders. Billions of 2-1/2 per cent obligations were bought by corporations which did not buy them for investment. Eccles estimates that perhaps three to five billion of securities are so held that ought to go to the insurance companies. He says that banks created $11 billion in new credit in November and December, 1945, and the banks helped to drive rates where they are now. The rate on long term securities by the end of the year may be 2 per cent, and ultimately may be 1-1/2 per cent or 1-3/4 per cent, unless the banks are blocked out. One way of stopping the trend is the orthodox way of increasing the short term rate. However, Eccles believes this is not practical. The banks will be fortunate to hold a 7/8 per cent rate on certificates as there is pressure now to reduce it to 3/4 per cent. There is no chance to increase the short term rate. The situation is entirely different now than it was when the public debt was only one-tenth of the private debt. The picture is now largely reversed with the private debt only a fraction of the public debt. The idea has been that low rates will not get a country out of a depression, but that high rates will help somewhat to curb an inflation. Eccles believes this view is generally correct except under the present situation. With so much of the debt in public instead of private obligations an increase in rates on the public debt makes higher taxes and more bank earnings. The Treasury will strongly oppose and denounce an increase in rates, and those who advise the Treasury would probably state that an increase in rates would require higher taxes so the government could pay more income to bankers. Regardless of what the Board, the Council, or bankers generally may believe, this is the view the Treasury would hold. He believes the Treasury would contend that the public would look upon an increase in short term rates as merely making an increase in taxes necessary in order to pay more interest to the banks.

Traphagen inquires whether Eccles means by increased rates, the rates on certificates.

Eccles. Yes.

Traphagen asks whether it would be helpful to do away with the preferential discount rate.

Eccles. The preferential discount rate is actually a negligible factor in the situation. The Board has been in favor of abolishing the preferential rate since V-J Day. The Treasury still feels nothing should be done regarding the preferential rate at present. At the end of this month, this whole question will be discussed with the Federal Open Market Committee. With the $2.8 billion retirement operation about to take place, there may be some question of whether this is the right time to abolish the preferential rate.

Traphagen. It might have a depressing effect in that bankers generally would not know how much further the Board might act.

Wiggins asks what can be done to further the demonetization of the debt.

Eccles believes it may require legislation. The banks have determined the rate of monetization. The banks now keep about 20 per cent of their deposits in reserves, exclusive of the war loan accounts which require no reserves. Banks might be required to keep a certain percentage, for example, 50 per cent, of their demand deposits in bills and certificates. Then the banks would sell their intermediate and long term securities, and thus the banks would support the bill and certificate market and the long term rate would inevitably go up.

Wiggins suggests that one method of demonetizing the debt is to shift the debt from the banks to non-bank investors.

Eccles replies that the amount of debt which can be retired to make such shifting possible is not large enough.

Brown. There is a large demand from insurance companies who would buy a 2-1/2 per cent bond similar to a "G" bond.

Traphagen. The Board might create an atmosphere of some uncertainty in order to keep banks out of the intermediates and longer term securities, without increasing the cost of carrying the debt. If bankers become somewhat uncertain about long term rates, they may stop buying the intermediate and longer term securities.

Szymczak. The Treasury does not wish any uncertainty.

Eccles. If you create uncertainty in the minds of bankers, many small non-bank investors may also worry. Then you may have small investors going out of government bonds and investing their funds in other assets.

Strickland believes that the banking position is not so vulnerable that bankers should hesitate to suggest the steps it is believed would help correct the situation, even if higher rates are an indirect result. Bankers are not unwilling to give up certain advantages and lose deposits.

Eccles. The Treasury and its advisors, as well as others, will say the bankers gave up certain advantages, but in return they got even greater advantages in the form of higher rates. The Treasury advisors are exceedingly able and they will not hesitate to emphasize the advantages which bankers would get. They will not stress what bankers give up but rather what bankers gain. The Treasury cannot sell "E", "F", and "G" bonds indefinitely if they do not have a use for the money. For a time, the funds should be used to retire certificates. It may be possible to retire $10 billion in Federal obligations this year. The danger in retiring the certificates of indebtedness held by banks is that it may lead banks to buy other eligible longer term issues. The result would be that banks might further monetize the debt.

Baird states that some banks may reach for the longer term issues, but if deposits go down he doubts whether many banks will reach out for longer term issues.

Eccles again states that by requiring banks to keep a certain percentage of their demand deposits in certificates of indebtedness the result would be to help the long term market.

Strickland asks what the Treasury thinks of Eccles' idea.

Eccles. The Treasury advisers think interest is an evil, capitalistic device. The Treasury does not wish to increase interest costs. He mentions that a low rate is not an evidence of inflation. In an inflation, the interest rate is ordinarily very high. From now to the end of the year, the deficit will be less than the amount of the debt retired.

Wiggins asks whether the foreign loans will result in any further monetization of the debt.

Eccles. The recent budget figures overestimate the expenditures including the amount of the British loan that will actually be expended in that fiscal period.

Brown asks whether Eccles' plan would include non-members as well as member banks.

Eccles. Yes.

Brown. Is it not unrealistic to think that Congress will give this authority?

Eccles replies that Congress has given such authority in relation to various regulations. He states that the Board has no alternative but to bring the matter to the attention of Congress because it is an important problem falling within the Board's responsibilities.

Baird comments that the next inflation may not be accompanied by higher rates. We may have serious inflation with the failure to increase production.

Eccles. If the strikes continue that might happen because of the shortages of goods. However, it is imperative that we point out to Congress that the powers the Board has are not adequate to deal with the situation unless the rates on short term issues are increased to stop the present trend. The likelihood of Congress agreeing to higher rates with the increased costs that would be involved is not very great. The Treasury will not increase interest rates at the expense of tax payers. Eccles is not certain that a statement or resolution from the Council along the lines Brown has suggested would be desirable. He wishes to give the matter consideration.

Winton is of the same opinion as the Treasury. He believes anything that would make people uncertain would dry up the purchase of "E", "F", and "G" bonds. It is better to wait and watch the trends in reconversion and know what happens with the securities which corporations hold. He would not favor giving out any statement and he questions whether even doing away with the preferential rate is desirable. He thinks that anything which would give the impression of stiffening rates is not now desirable. To discontinue the preferential rate just after the government quits selling bonds is not advisable.

Eccles asks whether that is the Council's viewpoint.

Brown states that it is not the Council's viewpoint and that all members of the Council except Winton favor abolishing the preferential rate.

Eccles. The Board of Governors also favors abolishing the preferential rate. In the past, the Treasury has favored large excess reserves. The Board was against this policy as it led banks to go into the government bond market to make use of their funds. The preferential rate was instituted in order to insure the Treasury that it would be easy for banks to get funds in case of necessity. It worked well, but the reason for the preferential rate does not now exist, as the period of substantial deficit financing is over.

Brown. Taking away the puts and calls on bills costs banks money.

Eccles advises that the currency outstanding may show some further decrease and banks will get these deposits. In the next four or five years, this country may also receive as much as $5 billion in gold. The net result would be an increase in excess reserves which may be the basis of an increase in credit of $25 billion. It may be necessary to sell bills to offset this increase, and banks will get income from these bills. Another important danger is the refunding which is now going on in all private financing. Bond issues that were 4 per cent to 6 per cent are now selling on a 2-1/2 per cent to 3-1/2 per cent basis. Term loans are being made on a 2 per cent to 2-1/2 per cent basis.

Brown comments that some term loans are being made at 1-3/4 per cent.

Eccles states that there is not enough margin in those rates to assume risks. He favors a stiffening in the long term rate but he does not wish it to cost the Treasury money.

Wiggins points out that Eccles has not included the municipals to be financed.

Eccles replies that they are an additional factor. He suggests that he would be pleased to have the Council submit a written statement of its views as outlined by Brown.

EFFECT OF BRETTON WOODS PROGRAM ON OUR MONETARY AND BANKING SYSTEMS

Brown points out some of the pressures which will be applied to obtain foreign loans, and indicates it may be difficult to estimate the total amount of foreign credits that may be extended.

Eccles reports that as far as the present government is concerned, it will probably ask Congress for very little money for foreign loans other than the British credit. Loans in the future will probably be filtered through the Export-Import Bank. Some time ago Russia indicated it might like to borrow $1 billion. The Export-Import Bank is supposed to take care of foreign credit needs until the International Bank is set up, perhaps by the end of 1946. It is not advisable to give foreign credits in excess of the goods available in our markets. There is perhaps $10 billion in gold and dollars available in just a few countries. This sum will be largely spent here and any foreign loans in addition might result in purchasing power in excess of our supply of available goods. It will probably be necessary to have export controls. Eccles states that the idea which some nations have expressed that we must grant loans to support their economy does not impress him. The British loan is made to enable the pound to become convertible. Any Russian loan will be used for goods. The British loan will help all countries.

The meeting adjourned at 12:50 P. M.

The Council reconvened in the Board Room of the Federal Reserve Building at 2:30 P. M. on February 18, 1946, to hear Dr. Woodlief Thomas, Director of the Division of Research and Statistics of the Federal Reserve System.

All members of the Council were present.

Brown asks Thomas if he will present to the Council the results of his study on future bank earnings.

* * * *

The summary of the study as given by Dr. Thomas follows:

One of the important consequences of the war financing has been the restoration of banking to a high-earning status after several years of relatively low earnings.

The decline in profits from the late 1920's to the late 1930's reflected a decrease in interest rates more than a decline in the volume of earning assets. This decline in profits was in part offset by reduced expenses. The wartime increase in earnings is the result of an expansion in the holdings of low-interest assets. This wartime increase in earnings has taken place despite a steady decline in interest rates, a decrease in high-interest loans and an increase in expenses. All banks of all sizes in all parts of the country shared in the increased earnings. Less than one per cent of the banks in 1944 showed losses on their operations.

The end of the war changes many of the factors responsible for the growth in profits and brings in new factors. Various conflicting forces may operate and it is, therefore, impossible to predict with any degree of precision what will happen to bank earnings. The following are some of the important factors which will influence the trend of earnings:

1. If there is no further expansion in the public debt, there may be no need for a further increase in the bank holdings of government securities. However, it is not necessarily certain that the expansion in bank holdings of government securities will cease. The banks can create additional reserves by selling short-term securities to the Federal Reserve banks. The existing excess reserves, the possible imports of gold from foreign nations to pay for goods we export, and the deposit in banks of currency which is now in circulation, all provide the basis for a further expansion of bank credit.

2. What will be the yields on securities? Will interest rates decline? Will maturing issues be refunded with lower coupons?

3. Will there be an increase in loans carrying higher interest rates, for example, loans to smaller businesses and consumer loans? Any increase of this character would be offset in part by the decline in loans to war industries and loans on government securities.

4. Will income from service charges increase or decrease?

5. What will happen to expenses? Bank wages have been low and it may be necessary to increase salaries and wages. Will the number of bank employees be increased or will ways be found to decrease the number of employees? Another factor which will influence the trend in expenses is the growth in time deposits requiring the payment of interest. Factors that may decrease expenses are the increased use of machines and improvements in procedures which will permit reductions in the number of employees.

It has been necessary to make various assumptions regarding these factors. The figures which will be presented later show projections on earnings based on different combinations of these factors.

An analysis of the war-time growth of bank earnings shows that the gross earnings in all member banks in 1945 aggregated $2.2 billion, of which a little less than one-half was derived from government securities. The gross earnings are over fifty per cent above the prewar level and are close to the level of the peak years, 1928-30. The war-time increase in earnings and the present high level of earnings are due to the expansion in government security holdings. The average rate of return on government securities has risen slightly from 1.3 per cent in 1940 to 1.38 in 1945. The total earnings on loans, which item was the most important element in earnings in the 1920's, showed little change during the war years. Other earnings, including service charges, showed a moderate increase, although this item is not important. The high level of holdings of government securities at the end of 1945 assures continued substantial earnings in 1946 and probably in 1947. In one analysis it is assumed that member banks will continue to hold their present volume of government securities. It is also assumed that maturing issues will be replaced by issues yielding 7/8 of one per cent. It is further assumed that the average yield will decline to 1.3 per cent in 1946 and 1.21 per cent in 1947. In this case earnings on securities would gradually decline as higher coupon issues are refunded.

In another analysis it is assumed that there may be a further increase of $5 billion dollars each year in 1946 and 1947 in member bank holdings of government securities. These increases would add $30 million to earnings on securities in 1946 and $85 million in 1947, before allowing for taxes.

The earnings on loans are expected to increase in 1946, even with a decline in the total amount of loans. It is assumed the recent increase in commercial loans may continue and that the volume of loans will continue above 1945. It is also anticipated that there will be an increase in consumer loans at higher rates than are obtained on most other loans. It is assumed that there will be a decline in loans on government securities made at low interest rates and in loans to large war producers. The average yield on loans declined from over 4 per cent in the prewar years to 3 per cent in 1945, and it is assumed the yield will increase to 3.3 per cent in 1946 and to 3.4 per cent in 1947. One analysis indicates that earnings on loans in 1947 will be $160 million above the earnings on loans in 1945. In another analysis, it is assumed that there will be a small increase in loans in 1946 and an increase of about $1 billion in loans in 1947; this assumption will add about $65 million more to the total earnings on loans in 1947 than the first analysis.

The war-time increases in bank expenses were due to a combination of several factors, particularly increased salaries and wages, and an increase in the amount of interest paid on time deposits. The volume of time deposits doubled, while the average rate of interest paid declined from 1.2 per cent to .84 per cent; the net result was a 22 per cent increase in the total interest paid on time deposits in the period from 1940 to 1945. Other expenses, excluding taxes, increased 25 per cent in the same period. Expenses now total $1.3 billions annually, which is still well below the level of $1.6 billions in the 1920's, because of the reduction in the interest rate on time deposits. In arriving at the prospective expenses for 1946 and 1947, several assumptions were made.

The following table indicates the assumed average salaries for 1946 and 1947, as well as the actual figures for 1940 and 1945:

	1947	1946	1945	1940
Officers	$5,500	$5,400	$5,200	$4,400
Employees	2,150	2,050	1,950	1,490

It is assumed in this analysis that there will be some further increase in the total amount of interest paid on time deposits, reflecting a further growth in the volume of these deposits. No change in the average rate of interest paid of .84 per cent is anticipated.

Net current earnings from operations, which in 1945 were already at a new high level, will rise further in 1946. They will probably decline some in 1947, but if bank credit expansion proceeds at the maximum rate, projected earnings will increase somewhat further in 1947.

Profits on securities and recoveries and losses on loans and securities have been important elements influencing the net profits of banks in recent years. Recoveries and profits rose to a high level of $430 million in 1945, compared with about $300 million or less in earlier years. Losses and charge-offs in 1945 declined to a new low level of $200 million. Future levels are difficult to forecast. In this analysis of future bank earnings, profits and recoveries are assumed to decline sharply in one case and moderately in the other, reflecting a decline in trading profits with the end of public debt expansion. It is anticipated the net addition to earnings will be smaller than in 1945. The taxes on net income will decline from the 1945 level as a result of the repeal of the excess profits tax and a reduction in the surtax rate.

Net profits available for dividends and for increasing the capital structure reached a new high level in 1945, both in dollar amount and as a ratio of net profits to the capital accounts. By capital accounts, we mean capital, surplus, undivided profits, and all reserves shown on the bank statements. In 1945 the net profits were nearly 11 per cent of the capital, compared with 9.7 per cent in 1944, and a maximum of about 9 per cent in the late 1920's. If it is said that the banks had large losses in the 1930's, the critics of the banks would probably say that banks now do not have as high risk assets as they did in the 1930's. Their assets now are largely government bonds and cash. Consequently, the possibility of large losses is greatly reduced. It is assumed that dividends will increase only moderately and that the capital accounts will increase by the amount of the profits retained, plus small sales of new stock. The profit rate will continue above 10 per cent of the capital in 1946, even if we assume maximum expenses and minimum earnings, and the profit rate may rise above 11 per cent. The rate of profit may decline somewhat in 1947, but is extremely unlikely that it will fall below 8-1/2 per cent or 9 per cent of an increased volume of capital. With the further expansion of credit, the profit rate might stay above 10 per cent. If the credit expansion were checked by policies that raised short-term rates somewhat, banks might earn less than if the credit expansion continued.

S U M M A R Y

I. If bank earning assets show no further expansion -
If maturing government securities are replaced by low rate issues;
If there is some increased demand for high-interest loans;
If expenses increase about 10 per cent over 1945;

Then member bank profits may decline somewhat in 1947 to 9 per cent or less of the increased capital.

II. If there is a further expansion in earning assets of as much as $5 billion a year, member bank profits will continue close to 11 per cent of the capital, notwithstanding increased expenses and lower yields on government securities.

For the longer period, after 1947, if there is a continued refunding of higher-rate securities into lower-rate issues, bank earnings will tend to decline. The reduction in earnings could be as much as $250 million with present holdings and with a decline in the average yield to 1 per cent. If expenses were to increase at the same time it might bring member bank net profits down to about $600 million dollars in a few years. This latter figure is still larger in dollar amount than the net profits in any year between 1931 and 1944. It would amount to about 6 per cent or 7 per cent of the increased capital. There are, however, so many possibilities for changes in earnings and expenses that entire reliance should not be placed on government securities in projecting the future.

Bank profits compare favorably with profits in other lines and now have greater assurance against fluctuation as well as greater assurance against losses in assets, compared with other lines.

ESTIMATED RATIOS OF NET PROFITS TO CAPITAL ACCOUNTS

All Member Banks

	1946	1947
I. Low Earnings		
High expenses	10.3	8.4
Low expenses	10.7	9.1
II. High Earnings		
High expenses	11.4	10.5
Low expenses	11.9	11.2
III. Higher rates on Treasury certificates (1-1/4%) and no credit expansion (low earnings) (Based on the idea of having higher rates on short term government paper)		
High expenses		9.9
Low expenses		10.4

Member Bank Profits, 1944 - 1947

	1940	1944	1945 (est.)	1946 Low	1946 High	1947 Low	1947 High
				Range of forecast			
Earnings	1,323	1,874	2,110	2,300	2,390	2,280	2,475
On securities-US govt.	231	810	995	1,015	1,045	950	1,035
-Other	200	150	155	170	180	180	210
On loans	595	563	590	725	760	750	815
Other	297	351	370	390	405	400	415
Expenses	921	1,127	1,280	1,350	1,385	1,385	1,450
Salaries and wages	400	525	590	620	635	645	675
Int. on time deposits	147	144	180	200	210	210	225
Other	*373	458	510	530	540	530	550
Net current earnings	402	747	830	950	1,005	895	1,025
Recoveries, profit on securities, etc.	303	318	430	270	360	210	290
Losses and charge-offs	356	232	200	165	205	155	180
Net profits before income taxes	*	833	1,060	1,055	1,160	950	1,135
Taxes on net income	*	184	270	220	245	200	235
Net profits	349	649	790	835	915	750	900
Cash dividends	210	226	250	275	300	275	310
Net profits as % of cap. accts.	6.2	9.7	10.9	10.7	11.4	9.1	10.5
Capital accounts	5,597	6,712	7,300	7,800	8,000	8,200	8,600
US govt. securities	17,700	60,324	71,790	78,300	80,800	78,300	85,800
Other securities	2,900	5,131	5,561	6,200	6,500	6,600	7,500
Loans	14,298	17,682	19,817	22,000	23,000	22,000	24,000
Number of officers	35,369	37,693	39,000	39,000	40,000	39,000	41,000
Number of employees	163,783	193,279	200,000	200,000	205,000	200,000	208,000
Average salary of officers	4,400	4,900	5,200	5,400	5,400	5,500	5,500
Average salary of employees	1,490	1,700	1,950	2,050	2,050	2,150	2,150
Ratios							
Interest on US govts. to US governments	1.30	1.33	1.38	1.30	1.30	1.21	1.21
Interest on loans to loans	4.16	3.10	3.00	3.30	3.30	3.40	3.40

* Taxes on net income included in other expenses.

Thomas states that considering banks by size - the three groups, Central Reserve City Banks, Reserve City Banks, and Country Banks - the earnings are fairly close percentage-wise.

McCoy asks whether the estimated increase in the average employee's annual salary from $1,950 in 1945 to $2,050 in 1946 actually is adequate in view of the raises of eighteen and one-half cents per hour which are being granted now in settling strikes.

Thomas points out that the increase from 1940 to 1945 is in excess of 30 per cent.

Baird replies that industrial workers have had that 30 per cent also and are asking large increases now.

Brown states that many banks are experiencing a considerable increase in their personnel because of returning veterans. He also asks whether the figures for capital accounts which Thomas has used include interior reserves.

Thomas replies that only the figures of published reserves are included. He adds also that his analysis does not include the effects of the present government refunding operations. The effect of these operations might be of considerable importance, particularly if as much as $5 billion in government bonds held by the banks are retired.

Dr. Thomas left at 3:35 P. M.

Brown asks the members of the Council who are staying over for a meeting of a committee of the Reserve City Bankers Association to prepare the statement or resolution to be given to the Board on problems relating to the government debt, which statement or resolution Eccles had indicated the Board would be pleased to receive.

The meeting adjourned at 3:38 P. M.

* * * *

Since the close of this meeting, the Acting Secretary of the Council has forwarded to the Secretary of the Board of Governors the resolution which is attached. The resolution will be incorporated in the printed minutes to be published at a later date. The Secretary of the Board of Governors was advised that pursuant to resolution of the Council, the Board is to use the resolution only if and when it sees fit to do so and the Board is under no obligation to publish it.