MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

May 19, 1946

The second statutory meeting of the Federal Advisory Council for 1946 was convened in Room 336 of the Mayflower Hotel, Washington, D. C., on Sunday, May 19, 1946, at 2:10 P.M., the President, Mr. Brown, in the Chair.

Present:

Mr. Walter S. Bucklin (Alternate for Charles E. Spencer, Jr.)	District No. 1
Mr. John C. Traphagen	District No. 2
Mr. Howard A. Loeb (Alternate for David E. Williams)	District No. 3
Mr. John H. McCoy	District No. 4
Mr. A. L. M. Wiggins	District No. 5
Mr. James E. Robinson, Jr. (Alternate for 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. James E. Robinson, Jr. was delayed in his arrival because of the lateness of his train.

Shortly before this meeting, the Acting Secretary of the Council had received the following letter from the Secretary of the Board of Governors:

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

May 7, 1946

Mr. Herbert V. Prochnow, Acting Secretary
Federal Advisory Council,
38 South Dearborn Street
Chicago, Illinois

Dear Mr. Prochnow:

The Board has received your letter of April 22, 1946, advising that the next meeting of the Federal Advisory Council will be held on May 19-20, 1946, and requesting a list of the subjects which the Board wishes the Council to discuss at that meeting.

When the executive committee of the Council met with the Board on April 24, 1946, there was a discussion of the pending proposal to terminate the reserve city designations of the 24 cities in which there are no Federal Reserve Banks or branches. The Board had hoped that the member banks concerned, in expressing their reasons for their position upon the proposal, would offer suggestions which might serve as a basis for arriving at a formula or set of principles which could be used hereafter in determining what cities should be designated as reserve cities if the pending proposal proved to be unsatisfactory.

In the course of the discussion during the meeting with the executive committee of the Council, Mr. Brown suggested possible tests for determining reserve city designations, and the Board will be glad if the Council will consider this matter more fully at its next meeting and suggest to the Board of Governors a formula or set of principles which could be used under the existing provisions of section 19 of the Federal Reserve Act as a satisfactory basis for determining what cities should be classified as central reserve cities and reserve cities, respectively.

The Board is asking the Presidents of the Federal Reserve Banks to consider this question and to submit their recommendations at an early date. A copy of this letter is being sent to them.

The comment was made during the course of the meeting of the executive committee with the Board that many banks in the 24 reserve cities were disturbed by the possibility that the Board already had reached a decision to discontinue the reserve city designations of cities other than those in which the Federal Reserve Banks or branches are located. While the Board has felt for a long time that the present classification is inconsistent and illogical, it has not made a decision on what should be done to meet the problem. Before reaching a decision the Board will make a study of the whole matter, giving consideration to the views which are being received from member banks and the comments and suggestions to be submitted by the Federal Advisory Council and the Presidents of the Federal Reserve Banks. In the meantime, the Federal Reserve Banks and the members of the Council are at liberty to advise any member banks as to the present status of the matter and that the Board will not take any action until the study referred to above has been completed.

Very truly yours,

(Signed) S. R. Carpenter, Secretary.

A lengthy discussion took place regarding the proposal of the Board of Governors for the reclassification of reserve cities. The Council concluded that the proposal of the Board of Governors for the reclassification of reserve cities was not logical or desirable.

The Council considered at some length the revised Bank Holding Company Bill, and approved certain general objectives of the bill, but recommended that the bill be given further study with the possibility of making amendments which would improve it.

There was a discussion regarding the management of the government debt. The Council expressed approval of the Board's action on the elimination of the preferential rate and on the policy of reducing the large war loan deposits and retiring the debt.

The Council also believed it desirable to ask the Board about the present status of any reorganization proposals relating to the banking agencies.

The President of the Council explained the action which had been taken at the meeting of the Executive Committee on April 24, 1946, regarding the question of the examination of the Federal Reserve banks and the question of Federal Reserve System membership which had previously been raised.

The meeting adjourned at 6:10 P.M.

HERBERT V. PROCHNOW
Acting Secretary.

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

May 20, 1946

At 10:53 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; Governors M. S. Szymczak, Ernest G. Draper, and R. M. Evans; also Messrs. Elliott Thurston, Assistant to the Chairman; S. R. Carpenter, Secretary of the Board of Governors; Bray Hammond, Assistant Secretary of the Board of Governors; George B. Vest, General Counsel; J. Leonard Townsend, Assistant General Counsel; Woodlief Thomas, Director, Division of Research and Statistics; Ralph A. Young, Assistant Director, Division of Research and Statistics; Leo H. Paulger, Director, Division of Examinations; J. E. Horbett, Assistant Director, Division of Bank Operations; Carl E. Parry, 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; Messrs. Walter S. Bucklin, John C. Traphagen, Howard A. Loeb, John H. McCoy, A. L. M. Wiggins, James E. Robinson, Jr., James H. Penick, Julian B. Baird, A. E. Bradshaw, Ed H. Winton, Reno Odlin, and Herbert V. Prochnow, Acting Secretary.

There was a lengthy discussion regarding the proposal of the Board of Governors that only cities in which Federal Reserve banks or branches of Federal Reserve banks are located should be designated as reserve cities. The President of the Council stated that it is the opinion of the Council that the proposal of the Board is not logical or advisable.

The President of the Council reported that the Council favors some of the general objectives of the revised Bank Holding Company Bill but believes that the bill should be given further study and reserves the right to make amendments.

There was a general discussion regarding problems associated with the management of the government debt.

The Chairman of the Board stated there were no new developments regarding the Reorganization Bill and he did not believe anything would be done about it until next fall or next year.

The meeting adjourned at 1:00 P.M.

HERBERT V. PROCHNOW
Acting Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

May 20, 1946

At 2:25 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; Messrs. Walter S. Bucklin, John H. McCoy, A. L. M. Wiggins, James E. Robinson, Jr., Mr. James H. Penick, Julian B. Baird, A. E. Bradshaw, Ed H. Winton, Reno Odlin, and Herbert V. Prochnow, Acting Secretary.

Absent: Mr. John C. Traphagen and Mr. Howard A. Loeb.

Dr. Woodlief Thomas, Director, Division of Research and Statistics, discussed the Current Monetary Situation.

The meeting adjourned at 3:30 P.M.

HERBERT V. PROCHNOW
Acting Secretary.

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 May 19, 1946, at 2:10 P. M., in Room 336 of the Mayflower Hotel, Washington, D. C.

All members of the Federal Advisory Council were present except that Mr. Walter S. Bucklin served as alternate for Mr. Charles E. Spencer, Jr., and Mr. Howard A. Loeb served as alternate for Mr. David E. Williams. Mr. James E. Robinson who served as alternate for Mr. Robert Strickland was not present at this meeting because of a delay in the arrival of his train.

CLASSIFICATION OF RESERVE CITIES

Brown traces the development of the designation of reserve cities since the beginning of the Federal Reserve System and points out that reserve cities have grown somewhat like Topsy. It is important today that a city have this classification if the banks are to obtain and hold correspondent bank business as well as accounts from out-of-town business concerns. The problem concerns particularly cities like Columbus, Fort Worth, St. Paul, and Tulsa. He mentions that Eccles seems inclined to press the matter and is strongly urging that a formula for selecting reserve cities be presented to the Board. However, Brown has learned that the Federal Reserve banks seem to be against the proposal Eccles has made for the classification of reserve cities. Brown states that there are two principal tests: (1) the percentage of correspondent bank balances which a bank has and (2) the percentage of its demand deposits which come from outside its own trade area. Eccles may be urging that the Council work out a formula, knowing that no formula can be developed that can be suitable for all the cities in all the Federal Reserve districts. Then if no acceptable formula is presented, Eccles may urge more strongly than ever his proposal that only a city in which a Federal Reserve bank or branch is located may be designated as a reserve city. In the Seventh Federal Reserve District there is only one branch and that is at Detroit. Cities like Milwaukee, Indianapolis and Des Moines are very much concerned about Eccles' proposal.

Brown asks that the following letter from the Secretary of the Board of Governors be inserted in the minutes:

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

May 7, 1946

Mr. Herbert V. Prochnow, Acting Secretary
Federal Advisory Council
38 South Dearborn Street
Chicago, Illinois

Dear Mr. Prochnow:

The Board has received your letter of April 22, 1946, advising that the next meeting of the Federal Advisory Council will be held on May 19-20, 1946, and requesting a list of the subjects which the Board wishes the Council to discuss at that meeting.

When the executive committee of the Council met with the Board on April 24, 1946, there was a discussion of the pending proposal to terminate the reserve city designations of the 24 cities in which there are no Federal Reserve Banks or branches. The Board had hoped that the member banks concerned, in expressing their reasons for their position upon the proposal, would offer suggestions which might serve as a basis for arriving at a formula or set of principles which could be used hereafter in determining what cities should be designated as reserve cities if the pending proposal proved to be unsatisfactory.

In the course of the discussion during the meeting with the executive committee of the Council, Mr. Brown suggested possible tests for determining reserve city designations, and the Board will be glad if the Council will consider this matter more fully at its next meeting and suggest to the Board of Governors a formula or set of principles which could be used under the existing provisions of section 19 of the Federal Reserve Act as a satisfactory basis for determining what cities should be classified as central reserve cities and reserve cities, respectively.

The Board is asking the Presidents of the Federal Reserve Banks to consider this question and to submit their recommendations at an early date. A copy of this letter is being sent to them.

The comment was made during the course of the meeting of the executive committee with the Board that many banks in the 24 reserve cities were disturbed by the possibility that the Board already had reached a decision to discontinue the reserve city designations of cities other than those in which the Federal Reserve Banks or branches are located. While the Board has felt for a long time that the present classification is inconsistent and illogical, it has not made a decision on what should be done to meet the problem. Before reaching a decision the Board will make a study of the whole matter, giving consideration to the views which are being received from member banks and the comments and suggestions to be submitted by the Federal Advisory Council and the presidents of the Federal Reserve banks. In the meantime, the Federal Reserve banks and the members of the Council are at liberty to advise any member banks as to the present status of the matter and that the Board will not take any action until the study referred to above has been completed.

Very truly yours,

(Signed) S. R. Carpenter,
Secretary

Winton states that Fort Worth wishes definitely to retain its designation as a reserve city.

Bradshaw advises that of twenty-two banks in the Tenth District which would be affected by Eccles' proposal, twenty-one are against it and only one bank is for it.

Brown. The present situation may be illogical, but the proposal the Board of Governors makes for reserve cities is even more illogical. Any city which is now a reserve city and wishes to retain the classification should be permitted to do so. Any city which wishes to be declassified should be permitted to give up its classification, if the volume of its correspondent bank business and the volume of its demand deposits arising from outside the city are small. If a city wishes to be declassified and the Board finds it has a substantial volume of correspondent bank business and commercial business arising outside of the city, it should be required to retain the classification. Brown states that Sproul is opposed to the Board's proposal, and believes it is inadvisable to bring up the matter at the present time.

Traphagen reports a similar discussion with Sproul. Traphagen believes it is unwise to bring up the subject at this time.

Brown believes the Council should be very careful in any suggestions it makes regarding a formula, for if the formula submitted is not workable, Eccles may easily prove it is not a good one and substitute his proposal for it. Brown doubts the advisability of suggesting a formula now, but he believes the classification of reserve cities should be based upon the general tests he has outlined.

Wiggins states that the Federal Reserve Act recognized the difference between time and demand deposits. The reserve principle should be based on the character of deposits and the idea of reserve cities is more or less outmoded. It is not so much the location of the bank as it is the character of the deposits. What is the purpose of the reserves, and what is the need for reserves, are two questions which must be considered.

Traphagen agrees with Wiggins but believes that obtaining this information would require extended study and until that is done it is better not to make any change.

Baird agrees that an extended study is necessary and so the basis of classification should not be changed at present.

Brown asks what should be done with the immediate problem of Grand Rapids, with which the Board is confronted.

Baird thinks Eccles is against the whole idea of correspondent bank relationships.

McCoy has the impression that all the banks in Grand Rapids, except one, wish to retain the classification.

Bucklin. There is no problem regarding this matter in New England, but we are interested in it because it affects the other parts of the country. One of the questions is the exposure which certain banks face in times of stress. Forty per cent of the deposits of his bank come from outside of New England. Any reserve city which wishes to retain the classification should be allowed to do so. A city which wishes to give up the classification should be carefully analyzed to determine the nature of its deposits. It is important to know whether a city requesting declassification has a large percentage of its deposits of a character likely to be withdrawn quickly.

Wiggins. Reserves are helpful in meeting a decline. As deposits go down, the bank draws on its reserves to meet part of the withdrawals. This whole subject is more than a matter merely of a city giving up or requesting the reserve city classification. It is a subject which requires a broad and comprehensive study. In the meantime, no hurried action should be taken.

Traphagen doubts whether extensive changes in relation to reserves in the Federal Reserve System will be made now and he believes the Board is more interested in its certificate plan.

Brown states that reserves should be based also on the right to use them with certain penalties. Reserves should be available for use in need, but there should be a penalty attached. Brown reports in connection with the certificate plan that Sproul had informed him Eccles was less enthused about it at present and would probably not emphasize it strongly in any report to Congress.

McCoy reports that Vardaman told him the Board was going to make a complete study before doing anything. McCoy asks whether the Council, or perhaps the Reserve City Bankers Association should have a representative associated with those who make the study for the Board.

Baird doubts whether the Board would agree to have a representative work with them on the study.

Wiggins believes that any study will necessitate investigating what happened to deposits during the wars, booms, and depressions of the last thirty-three years.

Loeb states that it is difficult to define deposits and he does not believe the banks run any risk in a thorough investigation of the whole question of reserves.

McCoy thinks the Council should have a representative assist in the investigation.

Brown believes that Baird is correct in his assumption that the Board would not permit a representative.

Traphagen does not believe the Council should attempt to present a formula and he believes the Board is tending to making a mountain out of a mole hill.

Bradshaw does not believe in a formula.

Wiggins states that the character of the deposits should be the basic principle.

Odlin. There is an arrangement now in effect and there is no urgent reason for changing this arrangement at present.

Penick. Any change might force some deposits into New York and Chicago.

Winton asks whether Eccles may not have something else in mind, perhaps a divide and conqueror idea. He believes Eccles does not like the correspondent bank system and desires to do away with it. If the Council gives Eccles a formula, he may use it as a basis for forcing through other ideas, possibly the certificate plan. Winton thinks that cities which wish to remain as reserve cities should be allowed to do so, and that those that wish to give up their classification should be permitted to do so unless there is a sound reason for retaining them as reserve cities. Fort Worth bankers believe it would be detrimental to them to be declassified. They Have obtained correspondent bank balances because the city is a reserve city. Wiggins does not favor a formula. He has discussed the matter at length with Fleming and states that Fleming wrote a letter urging the continuance of Washington as a reserve city.

Baird thinks that some members of the Board may not agree with Eccles regarding his proposal and it would be worth while for the Council to discuss this matter with other members of the Board so that they understand the views of the Council thoroughly.

Brown believes the presidents of the Federal Reserve banks are against Eccles' proposal. There is no logic in Eccles' plan. Brown summarizes the Council's views as follows: (1) cities which wish to remain as reserve cities should be permitted to do so; (2) cities which wish to be declassified and which have little correspondent bank business and business outside of their cities should be allowed to give up the classification; (3) cities which wish to give up the classification but have substantial correspondent bank balances and deposits arising from outside their cities should be required to retain the classification. No formula should be presented to the Board.

Odlin favors emphasizing to the Board the viewpoints Brown has expressed in his summary.

REVISED BANK HOLDING COMPANY BILL

Brown feels confident that Congress will not take up this bill before next fall. He has learned that Senator Wagner is opposed to any bank legislation now because of wide differences of opinion on banking problems and because of unsettled conditions. He does not believe the Treasury and the F.D.I.C. have made any agreement to work for the bill.

Traphagen asks whether it is a workable bill.

Baird thinks certain features of the bill are not workable.

Loeb has heard reports that banks are springing up in a mushroom manner in some sections of the country.

Odlin thinks the bill should have some changes but believes it would be helpful in the Pacific Coast situation. The continued purchase of non-banking enterprises by a bank holding corporation has dangerous possibilities. Odlin does not think that, in general, the bill is too restrictive. There may be some features which will have to be ironed out. West Coast banks would undoubtedly favor the bill.

Bucklin. This bill has fewer bad features than any bill so far.

Loeb asks whether the Pacific Coast situation is not a menace to the whole banking system.

Odlin reports that it is definitely dangerous.

Traphagen inquires whether West Coast banks are opposed only to bank holding companies going into non-banking activities.

Odlin. No, many of them are concerned also with their extension in banking.

Brown comments about situations where industrial concerns assisted in starting banks in the 30's and were generally helpful to the banking situation then. He would not like to see any measure which would make it impossible for corporations to be helpful in similar situations. He also raises the question of what would happen in the event a bank in a trust capacity had 10 per cent or more of the stock of some bank. He wonders whether some members of Congress might try also to get a death sentence. He states that it would be most unfortunate if some of the good bank holding corporations would be injured.

Odlin believes that it would be possible to work out a bill which would satisfactorily take care of a situation such as Brown describes where a large industrial concern wishes to be of assistance in a particular banking situation.

Loeb asks whether the death sentence would not be inevitable if a crash came.

Traphagen. If the situation is as serious as indicated on the Pacific Coast, perhaps the good holding companies will wish to work for a satisfactory bill.

Baird states that until they are sure where the Administration stands on the death sentence, they are not anxious to advocate any measure and find themselves caught in the middle.

Wiggins understands that even Morgenthau was not for a death sentence, but supported it because President Roosevelt wished it.

Odlin believes all those who are interested in good banking should give this problem earnest and serious thought because of the Pacific Coast situation.

Brown reports that no one expects anything will be done by Congress until fall at the earliest.

Wiggins agrees.

Baird states that the provision in the bill relative to dividends is an undesirable feature from their standpoint.

Brown. The Council appears to be in sympathy with the general objectives of the bill although it would favor some amendments. The Council believes that no action will be taken by Congress at least until fall. In the meantime, perhaps the American Bankers Association and representatives of the good holding companies as well as others may study the bill.

Wiggins thinks the American Bankers Association would give favorable consideration to the bill if bankers representing good holding companies would help work out a satisfactory bill.

Traphagen believes that bankers will have to take cognizance of the situation which Odlin has described.

Wiggins states that there are many good group bankers, but he believes that some government action is necessary in this instance because of the situation on the Pacific Coast. He further believes that it would be desirable to approve the general objectives of the bill and work out amendments satisfactory to the good banking groups.

Traphagen thinks the Board would like to have the good banking groups approve the bill.

Baird states that McKee always wanted their help. Baird would want an understanding on the death sentence.

Wiggins suggests that Baird may wish to talk with Vinson who will listen to reasonable and fair suggestions. If bankers wait until a dangerous situation develops, they may later get a bill they really do not like.

Brown states that the Council should emphasize it does not favor a death sentence.

Odlin believes the Council should state that as a matter of principle the activities of bank holding companies should be confined to banking. There are good and bad groups and branch systems. The bill now introduced has much in its favor, but it needs some amendments. He recommends continued study and the making of changes necessary for a good bill. He believes the Board should then obtain the cooperation of the Treasury as well as the F.D.I.C. and other interested groups.

Bucklin asks who has charge of the bill. He believes McKee formerly had charge.

Loeb thinks perhaps Szymczak has now.

Brown reports that the bank holding companies in the middlewest did a great deal in the 30's to save the banking situation in Wisconsin and in Iowa, for example, and he does not wish to do anything which would injure these good groups.

Odlin thinks a bank holding company bill will definitely be brought in and he favors taking the lead.

Baird believes it is a question of tactics.

Odlin. If the Reserve City Bankers Association, the American Bankers Association and others help to work out a satisfactory measure, the bankers will be taking the lead.

Wiggins moves that the Council express to the Board its approval of the general objectives of the bill, recommending it be given further study, and reserving the right to make amendments.

Traphagen seconds the motion and all members of the Council are in agreement.

MANAGING THE GOVERNMENT DEBT.

Brown believes the Council should commend the Board for its action on the elimination of the preferential discount rate and on the policy of reducing war loan deposits and retiring the debt. At the moment, perhaps everything has been done in relation to the debt that is possible unless it is the issuance of some bond similar to a "G" bond, eligible to insurance companies and similar groups. He points out the confusion that has arisen from the recent Treasury order allowing banks to have trading accounts in certain non-bank bond issues. He reports that a great many banks in the Seventh District wired the Federal Reserve Bank of Chicago asking the bank to buy bonds for them under this ruling. The Treasury has since indicated that only banks doing actual trading are expected to avail themselves of the privileges accorded under this new ruling. He suggests it might be possible for the Federal Reserve banks to deny the safekeeping privileges to the banks in order that the regulation may work out in the way it was intended.

Loeb asks whether the banks could use these bonds for borrowing.

Brown believes they could.

Traphagen thinks that the action of the Board has been generally for the good as it relates to the preferential rate, the reduction of war loan accounts and the retirement of a portion of the debt. He believes perhaps the Federal Reserve has agreed with the Treasury not to let bonds fall below a certain figure and perhaps the Council should know what, if any, commitments the Federal Reserve has made to the Treasury.

Wiggins understands that the Secretary of the Treasury said recently that the Board had agreed to help keep an orderly market, which meant a pattern of rates from 7/8 per cent on certificates up to $2\frac{1}{2}$ per cent on long-term bonds.

Brown states that at the last meeting of the Executive Committee with the Board he had suggested the possibility of eliminating the 8/32nds limitation on government bond prices. Eccles had not favored its removal but a few days later it was eliminated. Brown questions whether the Council should ask Eccles about any commitment the Federal Reserve may have made to the Treasury as Eccles has always taken the position that he could not give information of a confidential nature to the Council.

Traphagen. If the Open Market Committee is to be restrained by an agreement between the Board and the Treasury, it might be bad. However, perhaps it would be better not to ask for the information and thereby embarrass the Board and perhaps the Council, if the information should be refused.

Baird asks whether Sproul had indicated why he had apparently supported the certificate plan some time ago.

Brown. Sproul may now think that with the debt being retired as it is, the pressure may not be so great at present for such a plan.

Traphagen. As he understands Eccles' plan, the banks might have to keep as much as 65 per cent of their deposits in certificates. Thus, with 20 per cent in cash and 65 per cent in certificates, only 15 per cent would be available for a bank to loan or invest. Consequently, the banking system would tend to be socialized.

Brown understands that under the suggested plan, the banks might have to keep up to 50 per cent or 60 per cent in short time paper; at least they would always be constantly facing that possibility.

Baird points out that the Seltzer and Eccles plans tend to magnify both expansion and contraction in the banking system.

Brown. If the Board had authority to force the banks to hold 50 per cent or 60 per cent in short-term paper, plus the cash reserve, it would greatly limit the scope of management. It is probably not desirable to bring up this proposal at this meeting with the Board.

REORGANIZATION BILL

Brown asks whether Wiggins has heard anything on this matter.

Wiggins. No, everyone seems more interested in the fall elections.

Brown thinks it would be advisable to ask the Board about the present status of any reorganization proposals. Vinson has said he opposes Eccles' idea of using bank examinations as a means of controlling credit.

RELATIONSHIP BETWEEN THE FEDERAL ADVISORY COUNCIL AND THE BOARD OF GOVERNORS.

Brown asks Wiggins to comment on this matter.

Wiggins states that he has learned of some of the discussions which took place eight years or more ago on this matter and he has noted that the question is not a new one.

Bucklin believes the powers of the Council are quite broad.

Brown states that Eccles has in the past advocated the abolition of the Council and has in various ways hindered its work. Brown states that the Council has perhaps performed largely a negative function in that it has prevented certain undesirable measures from being adopted. However, he states that this is not an unimportant function.

Loeb comments that the Council has contributed in many important ways, over the years, to the development of the banking system.

EXAMINATION OF THE FEDERAL RESERVE BANKS

Brown states that the Executive Committee, at its April meeting, discussed the following question raised by one of the members:

"Is it possible for the R. F. C., the Federal Reserve Bank and the Federal Reserve Board examiners to examine the Federal Reserve banks and their branches in a common examination rather than having the examinations separately as is now done?"

The Executive Committee felt that this was an internal problem of the Federal Reserve System.

Penick expects to discuss the situation with Vardaman when he visits Little Rock.

FEDERAL RESERVE SYSTEM MEMBERSHIP

Brown reports that the Executive Committee at its April meeting also discussed the question of whether non-member banks should be denied the privileges and benefits of the Federal Reserve System. He states that these privileges were established a number of years ago in connection with the extension of par clearance and to assist in the better operation of the banking system. The Executive Committee felt it was not desirable to prohibit non-member banks from carrying accounts as these accounts made for greater facility in the operation of the banking system.

The meeting adjourned at 6:10 P. M.

On May 20, 1946, at 10:53 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 except that Mr. Walter S. Bucklin served as alternate for Mr. Charles E. Spencer, Jr., Mr. Howard A. Loeb served as alternate for Mr. David E. Williams, and Mr. James A. Robinson served as alternate for Mr. Robert Strickland.

The following members of the Board of Governors were present: Chairman Eccles; Governors Szymczak, Draper, and Evans; also, Messrs. Thurston, Carpenter, Hammond, Vest, Townsend, Thomas, Young, Paulger, Horbett, Parry, and Bethea.

Brown. The Board of Governors has asked the Council to consider the question of the reclassification of reserve cities, based on a proposal that cities in which a Federal Reserve bank or branch is located are to be designated as the reserve cities. The Board has also asked the Council to work out a possible formula for the designation of reserve cities. The Council believes that the present system of designating reserve cities is probably not logical, but it believes that the proposal of the Board for the location of reserve cities is even less logical. The Council believes the classification of reserve cities should depend on the character of the deposits in a city and specifically (a) on the percentage of the demand deposits which represent correspondent bank balances and (b) on the percentage of the demand deposits which are represented by out-of-town business. The cities which are now reserve cities and wish to remain reserve cities should be allowed to do so. Reserve cities that wish to drop the classification and have a small amount of correspondent bank and out-of-town business should be allowed to give up the classification. Cities that wish to give up the classification but have a substantial volume of correspondent bank and out-of-town business should be required to retain the classification. Any effort to work out a formula would require a long period of study to have any merit. The Council has tried various formulas and it is difficult, if not impossible, to develop a rigid formula that will apply to all cities in all the Federal Reserve districts. The Council sees no real merit in disturbing the situation now when so many other more pressing problems face the banking system and our economy today. Brown states that the Board must appreciate now the great concern which many banks have shown regarding the Board's proposal. The Board's idea of classifying reserve cities would actually add to the reserves instead of tightening reserves. The Board with the assistance of the Federal Reserve banks should have no difficulty in working out the problem of classification where it may exist in one or two cities.

Szymczak asks whether the Council has any further suggestions.

Eccles states it is obvious the Council has no further suggestions.

Szymczak reports he has found that bankers object to the word "formula" and perhaps the word "basis" is better.

Thomas suggests a "set of principles" instead of "formula".

Brown submits as principles the two tests he has previously given: (1) the percentage of the demand deposits represented by correspondent bank balances; (2) the percentage of the demand deposits which come from outside the city.

Eccles. The larger the reserves which are required, the less flexible is the bank. Actually, if the Board requires more reserves because a bank has more correspondent bank deposits, then the bank is made less flexible and less liquid. There was some reason for high reserves before the Federal Reserve System. Now, however, a bank can go to a Federal Reserve bank with its government bonds and rediscountable paper and obtain funds for urgent needs.

Brown states that it might have been better if the Federal Reserve Act had provided for the use of the cash reserves in an emergency but with a penalty.

Eccles states that bankers never desire any change.

Traphagen comments that it will work a hardship on some banks if the reserve city classifications are changed now as some banks will lose correspondent bank business.

Eccles. The records show that cities have gone into and out of the reserve city classification without the banks losing business. Many banks not in reserve cities have more correspondent bank business than those in reserve cities.

Brown. No reason has been given in our discussions for the Board's selection of cities with Federal Reserve banks and branches as reserve cities.

Eccles. With few exceptions, those cities are trade area cities. The Federal Reserve banks and branches were established on the basis that trade flowed to those communities. Banks in a city with a Federal Reserve bank or branch have some advantages. However, banks outside such cities actually would be helped because their reserve requirements would be reduced. If the Board had tried to change non-reserve cities to reserve cities, some criticism might have been expected. However, the Board was proposing to lessen reserves and did not expect criticism.

Brown. No one would select Louisville in preference to Indianapolis as a trade center. Tulsa is more important than Oklahoma City.

Eccles. It is a question of the total trade in a city.

Szymczak. Another even greater problem is that of changing the Federal Reserve branches from one city to another.

Eccles. Cities like Newark, New Jersey, are very important but they are so near to New York City that they would not be considered as reserve cities. Some New England cities are non-reserve cities, but the banks in these cities get along very well and obtain correspondent bank business.

Bradshaw. The fact that those cities have not been reserve cities means that they would not be affected like Tulsa and Fort Worth which have had the reserve city classification a long time. If the latter cities should lose the classification, it would injure them.

Eccles. It would not affect their deposits

Baird. It is the judgment of the bankers that it would.

Eccles. The next time new banking legislation is considered Eccles may bring up the whole matter of reserve requirements. He would recommend New York as the only central reserve city; there cannot be two central reserve cities. He points out that the New York banks do not carry substantial balances in other cities and New York should be the one central reserve city.

Brown. Many of the New York banks carry substantial balances in Chicago.

Bucklin states that many of them also carry balances in Boston.

Brown agrees that if it is a matter of legislation, then the whole question of the reserve requirements might be examined. However, at present it is merely a matter of proposed action by the Board, and this proposed action would result in cities like Tulsa and Fort Worth losing balances.

Eccles states that a banker in a city which lost its classification could tell his correspondent bank and out-of-town business accounts that the Federal Reserve System had permitted the bank to use most of its balances instead of tying them up in reserves.

Bucklin. That is a difficult argument to sell.

Winton asks why at this time it is necessary to penalize cities like Fort Worth and Tulsa. If these cities had never had this designation they might not suffer, but they have had the designation as reserve cities and have built business on the basis of it which business they would now lose. Fort Worth would have more difficulty in competing with Dallas only thirty-three miles away. Winton sees no advantage in lessening reserves in these unsettled times when the discussion recently has been in the direction of tightening reserves. He believes it would be a serious mistake to change the reserve city classifications now.

Eccles. Each banker thinks only of his bank and does not have the national viewpoint.

Winton asks specifically why it is important to change now.

Eccles states that there is never a time which bankers find appropriate for change. He adds that in banking and in democracy we always postpone and put off decisions.

Winton comments that he did not wish to leave the impression that there would ever be an appropriate time to change the Fort Worth classification. Fort Worth has grown substantially and has become more and more important. If it comes to legislation, Fort Worth is willing to take its chance with Congress.

Bradshaw states that in the Tenth District, twenty-one out of twenty-two banks which would be involved in the change expressed themselves against it.

Eccles reports that when the Banking Act of 1935 was considered it met with all kinds of objections from the banks, particularly in connection with reserve requirements and open market activities. As it later developed, these objections did not mean that the bankers were right. Bankers are quite frequently emotional in obstructing change. However, this issue is one of minor importance.

Winton asks why it should not be forgotten if it is not important.

Eccles. That does not solve the problem.

Szymczak. The problem comes up periodically and it was hoped that some basis might be developed for meeting the problem whenever it arises.

Wiggins states that the whole matter is greater than shifting designations of cities and requires more study.

Eccles asks whether some cities would like to be called central reserve cities.

Loeb points out that bankers have been willing to discuss banking problems, to cooperate, and where necessary, to compromise in order to make progress.

Eccles states that he read at some length the criticisms which bankers made in 1913 before the Federal Reserve Act was adopted and in 1934 before the Banking Act of 1935 was adopted. The criticisms in 1934 were identical to those which were made in 1913. This matter of the classification of reserve cities is a minor issue. Eccles states there was a time when he enjoyed conflict, but now he and other members of the Board are tending more and more to seek the course of least resistance and not argue at great length on problems.

REVISED BANK HOLDING COMPANY BILL

Brown reports that the Council favors the general objectives of the bill but recommends that it be given further study and reserves the right to make some amendments. The Council suggests that in giving the bill further study the good holding companies might be asked to help work out any undesirable features of the bill. It is appreciated that something should be done in view of the Pacific Coast situation. Members of the Council also do not know what the views of Congress, the Treasury and others might be regarding the death sentence.

Eccles does not believe the Treasury wishes a death sentence. Morgenthau desired a death sentence but Eccles does not believe those in the Treasury now wish a death sentence. He states the Board proposed a freezing provision but the Treasury felt that would be freezing the situation to the advantage of the present holding companies. He states that there is nothing inherently bad in holding companies. However, a company today can be a bank holding company, subject to regulation of the Board, but it can also be an investment company with the investment activities entirely without regulation by the SEC or the Board of Governors. The investment company operations have been without supervision. The large company on the Pacific Coast can buy assets of a bank and merge them with another bank. Under this bill, approval must be obtained. There is no more fertile field today than to buy up stocks of banks whose liquidating value is much above the market value of the stocks. Anyone today can do on a national scale what is being done on the Pacific Coast. Consequently, a bill like this is necessary. The other banking agencies would probably have no objection to this bill at all if they were to administer it. The other agencies desired a provision that a holding company could not acquire more than 25 per cent of the stocks of banks in any one state, but a provision of that character was not practical. The real test is whether the holding company activity tends toward monopoly in any one locality. In California, fifty per cent of the banking offices are owned by one company and that is bad. But is even worse when you consider the company can own insurance companies and other businesses and industrial concerns. There is no way to stop this development and Eccles is amazed that someone else has not started similar operations, perhaps on a national scale. The Independent Bankers Association is worried. They do not wish to present a bill themselves, but they will probably attempt to organize the independent bankers of the country in support of this bill. Congress is pressed with other matters now and undoubtedly will not consider this bill until fall at the earliest. It is not desirable to offer any testimony on the bill now if it is not to be seriously considered until fall.

Bucklin asks whether the Independent Bankers Association would want a death sentence or a freezing provision.

Eccles replies that they probably would, but if they could get this bill they might be satisfied. They know a death sentence is impossible, and it may be necessary to compromise on a freezing provision.

Odlin. What is the Treasury's attitude?

Eccles. The Treasury is definitely in favor of dealing with the situation. Any Treasury opposition is based mainly on the idea that the Treasury would like to administer the measure.

Odlin. Some independent bankers might favor a death sentence or freezing provision, but a great many would not. They would be satisfied with this bill.

Townsend. The independent bankers of the Pacific coast have approved this bill and the Department of Justice has no objection to the bill. The Department of Justice does not wish monopoly rigidly defined.

Eccles. It is permissible for a holding company to continue to hold companies directly related to and a part of the banking business, such as a company doing installment financing. However, a bank holding company should not be used for the purpose of holding companies not related to the banking business. We propose to separate bank holding company activities from investment company operations.

Brown. How does the F.D.I.C. stand on the bill?

Eccles. They are against it. The F.D.I.C. has always opposed Federal Reserve bank membership for banks. The F.D.I.C. thinks in terms of all banks as insured banks and they would only favor a measure which the F.D.I.C. would administer.

Baird. Is the F.D.I.C. in favor of a death sentence?

Eccles. Yes, they want the death sentence.

Brown doubts that Crowley wanted the death sentence.

Eccles states that publicly Crowley may not have been for it, but at heart he favored the death sentence. Eccles understands that the company from the Pacific Coast is in Washington now trying to acquire a Washington, D. C. bank. He states that the attorneys for the Board will be pleased to discuss features of the revised bank holding company bill with attorneys of the good holding companies.

Wiggins asks the Chairman of the Board to note that the bankers favor the general objectives of the bill in contrast to the idea of the Chairman that bankers always oppose everything.

Eccles replies that even on this measure they have some reservations.

MANAGEMENT OF THE GOVERNMENT DEBT

Brown commends the Board on the action taken on the preferential discount rate and on the policy of reducing war loan deposits and retiring the debt. He points out the confusion that has arisen from the recent Treasury order allowing banks to have trading accounts in certain non-bank issues.

Eccles states that he told the Treasury every bank would take the limit in bonds and set up a trading account. He states that Sproul and others in New York favor the Treasury order. Many banks have had people come in and request that the banks buy their bonds and some delay has been necessary before the transactions could be completed. The Treasury order was issued in order to be helpful. It was not intended that banks would go out and buy their limit of the bonds.

Brown states that some banks may nevertheless do just that.

Eccles. In that event, some corrective measure may have to be taken.

Brown suggests that possibly the Federal Reserve banks and branches could advise the banks in their districts that they would not take the bonds for safekeeping or as collateral for loans.

Eccles believes the suggestion regarding loans is not so important as banks have other bonds they may use as collateral. The whole matter amounts approximately to only $400 million. Eccles states that he was not so much in favor of the Treasury order but he had no good argument to offer against it. He felt the former system which made persons holding bonds wait a day or two for their disposal was not satisfactory. However, he does not wish investors to consider bonds the same as ready cash or money.

McCoy asks whether a license is required.

Eccles replies that no license is required.

Loeb inquires about the total amount which might be involved.

Eccles states again that it will probably not exceed $400 million. He states that the borrowing feature is not significant but that Brown's suggestion regarding safekeeping is important. The Board will check with the Treasury to get their approval on the safekeeping suggestion and may send wires to the Federal Reserve banks regarding safekeeping.

Brown comments that some bond traders thought this move might have been made to stop the decline in long-term ineligible bonds.

Eccles replies that the Treasury has not been concerned with the decline and the measure had been discussed even before Bell left the Treasury.

Brown asks whether anything has been done to force out speculative holders of Government securities.

Eccles Yes, the Board has a draft of a letter on this matter ready to go to the banks. Competition forced some banks to make speculative loans. The banks that violated the rule profited. The banks that did not make speculative loans lost profits.

Loeb. It would be necessary to differentiate in the case of various types of loans. Some loans may have been for speculative purposes; on the other hand a company may have borrowed to buy bonds knowing it was coming into funds. In the latter case, the company would not be a "rider".

Eccles believes that a bank which is a party to speculative loans should not have borrowing privileges at the Federal Reserve bank.

Loeb. What is the volume of "free riders"?

Eccles. It is estimated that the amount involved is about $4 billion.

Brown. In those communities where there is considerable borrowing by the banks, the loss of borrowing privileges would result in the banks reducing their speculative loans.

REORGANIZATION BILL

Brown asks whether there are any new developments on this matter as it relates to the consolidation of banking agencies.

Eccles replies that there are no new developments and he does not believe anything will be done until next fall or next year.

The meeting adjourned at 1:00 P. M.

The Council reconvened in the Board Room of the Federal Reserve Building at 2:25 P. M. on May 20, 1946 to hear Dr. Woodlief Thomas, Director, Division of Research and Statistics of the Federal Reserve System.

All members of the Council were present except Mr. John C. Traphagen and Mr. Howard A. Loeb who was serving as an alternate for Mr. David E. Williams.

* * *

Brown introduces Thomas who speaks to the Council on the current monetary situation.

A summary of the discussion by Dr. Thomas follows:

The economy is now being subjected to powerful inflationary forces due to the excess of buying power over the goods available for purchase. This condition exists despite the fact that there is a relatively large volume of production and consumption.

Consumer buying power is larger because of current incomes and accumulated savings. However, current incomes, after the payment of taxes, are no longer much in excess of the current production of consumers' goods. The Government deficit, which was the most important reason for the difference between the buying power and the goods available for purchase, has practically disappeared. There are at present some activities for which our people receive income but in connection with which they cannot purchase goods. For example, there is the production of some goods not available for consumer purchase. Business plant and equipment and inventory accumulation are being financed in part out of corporation cash or borrowings. New housing is being financed by borrowing. We also have an export balance. These are activities for which people are paid but in connection with which they are not able to purchase goods. Private credit expansion could be an important factor but it is not at present.

The current savings of individuals have declined from an annual rate of $40 billion to less than $20 billion and they are expected to be half of that rate for the balance of the year. This constitutes a low rate of current net savings. Some people will continue to save but others will draw on their past savings to satisfy deferred demands. The accumulated savings held in liquid form are tremendous when judged by all past standards. Individual liquid assets have increased by $100 billion during the war to an amount three times their pre-war level. Business holdings are more than triple the pre-war figure and have increased from around $20 billion to $75 billion during the war period. These increases were the result of war financing and were partly unavoidable.

The foregoing facts describe the situation which now exists. What can be done about it? The conditions arose out of the war. Perhaps wars can be financed differently, but they never have been in any country in the world. The wartime forces for monetary expansion have drastically changed in recent months.

There are four new factors in the present situation:

1. We have reached the end of the expansion in the public debt and the budget is nearly in balance. There is no more need for bank credit expansion to supply the Treasury with funds. This condition also removes the factor of excess incomes which accounted for the growth of liquid assets.

2. The war loan drives have been discontinued. There is no more shifting of securities by individuals to the banks in order to subscribe for new bond issues. There is no large-scale release of bank reserves by a shift of deposits.

3. The retirement of the debt has actually begun. War loan deposits and bank holdings of Government securities are being reduced. Holdings of the Federal Reserve banks also are being reduced. There is a small increase in required reserves unless investors replace securities by buying from bank holdings.

4. There is a narrower spread now between short-term and medium term rates which reduces the profit from shifting and diminishes the encouragement for a further expansion in bank holdings.

There was a sharp decline in long-term and medium-term rates early this year which was a continuation of wartime tendencies. Banks had available reserves and bought eligible issues. Other investors sold eligible issues to banks and bought restricted issues. This movement was influenced by the prospects for no future increase in the supply of issues as well as by the spread in rates.

The elimination of the preferential discount rate has probably discouraged some borrowing by banks and has increased their sales of certificates to the Federal Reserve banks since April. This does not represent any change in the policy of maintaining low short-term rates but it is a discouragement to borrowing.

From March 1, 1946 to May 1, 1946, approximately $6.4 billion of securities were retired; of this amount $4 billion were held by the banks and $1.2 billion by the Federal Reserve System. Four billion dollars more will be retired in June. It is possible to retire another $10 billion or so during the rest of the year. In summary, it is possible to retire $20 billion of the debt this year and that amount in all probability will be retired.

Bank holdings of Government securities have declined. The reporting member banks show a decline of $4 billion in Government securities from the end of the year. The holdings of Federal Reserve banks have declined $1.5 billion. Other holders show a retirement of less than a billion dollars. Country banks show little evidence of a decline in their Government bond holdings so this retirement of other holders probably represents a decrease in the holdings of corporations.

These trends may mean that there will be no further expansion in the bank deposits of the public.

Considering the contraction of the war loan accounts to retire the debt, the total bank credit contraction might be $15 billion this year. There was some market reaction in April but it was probably largely a speculative reaction, although a tighter money market situation may be a partial factor.

In connection with the current situation and outlook, there is an abundance of money with strong inflationary pressures because of the reduced supplies of goods and the high current incomes. Many of the wartime factors causing credit expansion and declining long-term interest rates no longer exist. Some forces for expansion, however, continue and the restrictive elements are weak, although they are stronger than they were during the war. The public and banks with large holdings of short term Government securities have ready access to Federal Reserve credit at low rates. The market mechanism of varying interest rates does not work, or would not if there was any great demand for credit. Banks can still sell short and buy long and create additional reserves. Some $23 billion of eligible Treasury bonds are not held by the banks. Banks are actively seeking loans and other investments. They can expand indefinitely by selling short-term securities to the Federal Reserve System. This expansion would be fully as inflationary as an increase in Governments. An important question to which we do not know the answer is whether banks will seek to reduce short-term holdings in order to expand other assets. If so, credit expansion will continue. There will also be continued pressure for a decline in longer-term rates.

In relation to the non-bank investment demand, it is to be noted that the cash holdings of individuals and corporations are in excess of current needs. Individual savings will be reduced but will continue in excess of capital investment by individuals. Consequently, individual holdings of liquid assets will probably expand somewhat. There is a question whether they will increase their holdings of deposits or will be in the market for securities.

Corporations will undoubtedly reduce their liquid assets, most of the tax notes and some certificates being retired. They have already drawn down deposits and these funds go to individuals. Whenever a corporation reduces its deposits, it is almost a certainty that individuals will receive the deposits. If corporations dispose of securities for cash, the cash paid out generally goes to individuals.

Institutional investors will continue to have a flow of funds.

Government trust funds will absorb some of the available securities. Insurance companies and mutual savings banks should absorb a billion or more of Government securities.

Consequently, there seems to be very little basis for a rise in long-term interest rates unless some positive action is taken to force higher rates.

If there should be an expansion in bank credit, there are several possible methods by which efforts might be made to check the expansion.

1. The Federal Reserve System could stop an expansion by an absolute refusal to purchase any more securities. This measure would be drastic, especially in view of the fact that $70 billion in Government securities come due within a year. This would affect Treasury refunding. It would also result in a very erratic market. With a large volume of public debt outstanding and the use of securities for liquid purposes by individuals, institutions and businesses, such a course is out of the question.

2. It would be possible to raise the rates at which purchases are made. It is questionable whether this would check any expansion except that resulting from "playing the pattern of rates". Banks could still make loans, perhaps at higher rates. It would probably simply increase the earnings of banks and the interest cost to the Treasury without checking credit expansion. It might be asked if higher rates would induce any more non-bank purchases of securities.

3. Another possible method of checking the credit expansion would be to raise reserve requirements. If the

banks had no reserves, this move would result in a shift of more securities from the banks to the Federal Reserve banks. It would have little effect on the money supply at present. It would reduce the potential expansion on the basis of a given amount of reserves. In the event of an inflow of gold or an inflow of currency, raising reserves would be helpful.

4. A fourth possibility is to require banks to hold certain amounts of Government securities in addition to cash reserves. This proposal would place definite limits on the accessibility to Federal Reserve bank credit and would not raise interest rates. It is difficult to work out a satisfactory and logical formula that could be applied to all banks.

5. Another proposal for limiting bank credit expansion is to limit the amount of long-term securities banks might hold. This limitation has been used in Canada and Great Britain by tradition and agreement. However, it is difficult to apply here by agreement or by tradition It is also difficult to evolve a satisfactory formula that could be applied to all banks.

6. An additional possibility for checking bank credit expansion would be for the Treasury to offer more securities to non-bank investors and retire bank holdings. This measure would have to be accompanied by restrictions on the sales of outstanding issues to banks.

Perhaps the situation will take care of itself, and by using the existing instruments moderately it may be found that they are adequate to keep further expansion within bounds. However, there is no assurance that this can be done. There have been drastic changes in the banking and credit system that may require new instruments of control. As long as the banks have free access to the Federal Reserve System, the authorities do not have control over the market.

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Baird asks whether Thomas estimates the purchases of large insurance companies and savings institutions at only $1 billion a year.

Thomas believes the figure is probably closer to $2 billion.

Wiggins inquires whether excess reserves of country banks have declined.

Thomas replies that they have declined very little.

Wiggins asks how country banks meet the decline in war loan deposits.

Thomas reports that their other deposits increased. Country banks are apparently still gaining funds from the larger city banks.

Wiggins believes that situation will not continue indefinitely.

Winton. If there are $4 billion in securities held by "riders", what will happen if the Board sends banks a letter, aimed at speculators, along the lines Eccles has suggested? Who will absorb the issues if life insurance companies and savings institutions only take $2 billion in securities? How many bonds are there in the hands of corporations which may move if they need funds?

Thomas states that if there is approximately $20 billion retirement in the Government debt this year, $12.7 billion will come from the banks, $5.5 billion from non-bank investors and $4 billion from the Federal Reserve. He therefore believes that corporations can meet all their needs from this retirement plus their tax notes.

Baird. Do you share the view of Chairman Eccles that if strikes continue there may be a budget deficit?

Thomas states that he does not know. He has estimated there would be no deficit in 1947. There may be a decrease in profits and therefore in taxes.

Brown. Many corporations are showing deficits for the first quarter.

Thomas believes it is hardly possible for the country to have a $190-$200 billion economy without business showing profits.

Wiggins comments that we have never had labor so powerful.

Odlin states that the recipients of wage increases pay little taxes, and if wage rates continue to rise, companies may have small profits and less to pay in taxes.

Bucklin asks whether Thomas believes commercial borrowing will increase in the next six months.

Thomas states that with a rise in the price level, commercial borrowings and commercial credit should expand.

Robinson asks whether Thomas has any definite figure in mind where controls should be instituted on credit expansion.

Thomas has no definite figure in mind. Any expansion in the total credit outstanding would be undesirable.

Brown. The contraction of war loans has been offset by credit expansion in other ways. If companies have to increase inventories, especially at higher prices, borrowing may be necessary.

Thomas. That also helps to increase prices.

Odlin asks whether bank loans which help to increase production are really undesirable. He states that to the extent that they increase production, they help stop inflation.

Thomas comments that every one is now employed and there is some question of how much production can be increased.

Baird asks Thomas whether he has an opinion regarding the extent of possible price increases during the balance of the year.

Thomas states that he does not know, but there could be a 10 per cent to 20 per cent increase in the price level by the end of the year and it might even be more the way things are now going. The price situation is not hopeful.

Robinson wishes to know whether Thomas distinguishes between brokers' loans and loans for the production of goods.

Thomas replies that there is a distinction.

Thomas left at 3:30 P. M. at which time the meeting adjourned.

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After the adjournment it was agreed in informal discussion that the holding company bill should be carefully studied and an attempt should be made to work out any unsatisfactory features of the bill, particularly in cooperation with representatives of the good holding companies. It was suggested that a bill might be worked out which all bankers could approve.