

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

December 1, 1946

The fourth statutory meeting of the Federal Advisory Council for 1946 was convened in Room 336 of the Mayflower Hotel, Washington, D.C., on Sunday, December 1, 1946, at 10:15 A.M. and continued (except for one hour for luncheon) until 6.29 P.M. of the same day, when the Council adjourned to meet at 9:00 A.M. on December 2, 1946, adjourning at 12:30 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. 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

Absent:

Mr. J. T. Brown	District No. 6
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On motion, duly made and seconded, the Council unanimously approved the following revisions in its by-laws:

ARTICLE I—OFFICERS

The present Article I was changed to read as follows:

“The officers of this Council shall be a President, Vice President, four Directors and a Secretary, all of whom, except the Secretary, shall also serve as the Executive Committee.”

ARTICLE IV—EXECUTIVE COMMITTEE

The present Article IV was changed to read as follows:

“The Executive Committee, as indicated in Article I of the by-laws, shall consist of the President, Vice President and the four Directors.”

ARTICLE V—DUTIES OF THE EXECUTIVE COMMITTEE

The following paragraph was added to the present Article V.

“The Executive Committee shall have full power, as officers of the Council, to act for the Council between meetings of the Council.”

The Council discussed fully the statement which Chairman Eccles had made on behalf of the Board of Governors to the Executive Committee on November 6, 1946, with respect to the meetings of the Federal Advisory Council and the Board.

On motion, duly made and seconded, the Council unanimously approved the statement which its members prepared in response to the statement made by Chairman Eccles.

The statement of the Council, as it was finally approved both by the Council and the Board, appears at the end of these printed minutes.

The Council discussed briefly the following subjects: credit policy and debt management; war loan accounts; margin trading in securities; Regulation W; time schedules for check collection; sales of war bonds; and the Revised Bank Holding Company Bill.

The Council was unanimously in favor of recommending to the Board of Governors that the authority of the Treasury to borrow up to \$5 billion directly from the Federal Reserve System should be extended. This specific authority is given in Section 14b of the Federal Reserve Act.

The Council also was in unanimous agreement with the viewpoint the Executive Committee expressed to the Board in November to the effect that banks should not be permitted to invest more than ten per cent of their capital and surplus in securities of the International Bank for Reconstruction and Development.

The meeting adjourned at 12:30 P.M., December 2, 1946.

HERBERT V. PROCHNOW
Acting Secretary.

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

December 3, 1946

At 10:40 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 Ernest G. Draper, R. M. Evans and James K. Vardaman, Jr.; also, Chester Morrill, Special Adviser to the Board of Governors; Leo H. Paulger, Special Adviser to the Board of Governors; S. R. Carpenter, Secretary of the Board of Governors; Merritt Sherman, Assistant Secretary of the Board of Governors; George B. Vest, General Counsel; J. Leonard Townsend, Assistant General Counsel; Edward L. Smead, Director, Division of Bank Operations; and Carl E. Parry, Director, Division of Security Loans.

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, James H. Penick, Julian B. Baird, A. E. Bradshaw, Ed H. Winton, Reno Odlin and Herbert V. Prochnow, Acting Secretary.

Absent: Mr. J. T. Brown.

The President of the Federal Advisory Council read the statement of the Council prepared in response to the statement made by Chairman Eccles on behalf of the Board of Governors to the Executive Committee of the Council on November 6, 1946.

The joint meeting adjourned for one hour at 11:00 A.M. and reconvened at 12:07 P.M.

A slight clarification was made in point two of the statement so this point read as follows:

II. That the Board submit to the Council in advance of its meetings, or at least by noon of the day the Council meets by itself in Washington, questions of importance upon which the Board desires the advice of, or discussion with, the Council so that the Council can advise as a body upon them after an opportunity of discussion among its members.

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Final consideration and approval of the statement was deferred until after luncheon.

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Chairman Eccles stated that Congress will have an opportunity to decide whether any part of Regulation W should be maintained permanently in our economy. He stated that the Board had not gone on record as favoring continuance of Regulation W as a permanent part of our economy, but the Board believed Congress should have the right to pass upon the question.

President Brown stated that the Council recommends that Section 14b of the Federal Reserve Act giving the Treasury authority to borrow up to \$5 billion directly from the Federal Reserve banks should be extended for a sufficient number of years to carry the Treasury over the financing problems closely related to the war. However, the Council is not ready to recommend that this provision should necessarily be made permanent.

Chairman Eccles stated that legislation may be introduced for the repeal of Section 13b. He also advised that the Board of Governors may recommend the amendment of Section 13 to give the Federal Reserve banks power to guarantee loans made by banks.

The meeting adjourned at 1:40 P.M.

HERBERT V. PROCHNOW
Acting Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

December 3, 1946

At 2:38 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, James H. Penick, Julian B. Baird, A. E. Bradshaw, Ed H. Winton, Reno Odlin and Herbert V. Prochnow, Acting Secretary.

Absent: Mr. J. T. Brown.

The following slight clarification was made in point three of the Council's statement read to the Board at the joint meeting of the Board and the Council at 10:40 A. M. today:

III. That the Secretary of the Council will, as heretofore, send the Secretary of the Board questions which any member of the Council thinks should be discussed or on which he desires information. The Council fully understands the desire of the Board to have the Council's questions submitted in advance of the meetings and a memorandum incorporating the results of the separate discussion of the Council, any recommendations that it might wish to make, and a statement of any additional information that it might wish to have from the Board, will be submitted to the Board early on the following morning. The joint meeting may be held the same afternoon or the following morning. To maintain the effective position of the Council it reserves the right, as contemplated in the Act, to discuss with the Board other matters which may arise.

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The Chairman of the Board of Governors advised the President of the Federal Advisory Council that the Board joins the Council in unanimously approving the Council's statement which is attached.

The meeting adjourned at 3:50 P.M.

HERBERT V. PROCHNOW
Acting Secretary.

The Federal Advisory Council has carefully considered the statement made by Chairman Eccles on behalf of the Board of Governors before the Executive Committee of the Council on November 6.

The Council believes that in connection with its statement, Section 12 of the Federal Reserve Act should be considered, since this section provides for the Council and defines its powers. This section reads as follows:

CREATION, MEMBERS, AND MEETINGS

"Sec. 12. There is hereby created a Federal Advisory Council, which shall consist of as many members as there are Federal reserve districts. Each Federal reserve bank by its board of directors shall annually select from its own Federal reserve district one member of said council, who shall receive such compensation and allowances as may be fixed by his board of directors subject to the approval of the Board of Governors of the Federal Reserve System. The meetings of said advisory council shall be held at Washington, District of Columbia, at least four times each year, and oftener if called by the Board of Governors of the Federal Reserve System. The council may in addition to the meetings above provided for hold such other meetings in Washington, District of Columbia, or elsewhere, as it may deem necessary, may select its own officers and adopt its own methods of procedure, and a majority of its members shall constitute a quorum for the transaction of business. Vacancies in the council shall be filled by the respective reserve banks, and members selected to fill vacancies shall serve for the unexpired term. (12 U.S. Code 261).

POWERS

The Federal Advisory Council shall have power, by itself or through its officers,

- (1) to confer directly with the Board of Governors of the Federal Reserve System on general business conditions;
- (2) to make oral or written representations concerning matters within the jurisdiction of said board;
- (3) to call for information and to make recommendations in regard to discount rates, rediscount business, note issues, reserve conditions in the various districts, the purchase and sale of gold, or securities by reserve banks, open-market operations by said banks, and the general affairs of the reserve banking system. (12 U.S. Code 262.)"

The statement by the Chairman on behalf of the Board of Governors with respect to the meetings of the Federal Advisory Council and the Board raises more fundamental questions than the procedure at meetings. The real questions are the statutory powers and duties of the Advisory Council and the relationship between the Council and the Board of Governors.

The Federal Advisory Council was set up under the Act that created the Federal Reserve System and is part of the structure of the system. Its duties, powers and authority are fixed by law. It is not subject to control or direction by the Board of Governors. Its members are elected under the statute by the Boards of Directors of the twelve Federal Reserve Banks.

The powers of the Council are primarily advisory—as its name implies. It is empowered to confer as a council or through its officers “directly with the Board of Governors of the Federal Reserve System” and “to make oral or written representations concerning matters within the jurisdiction of said Board.” In order that the Council may keep fully informed on the affairs of the Federal Reserve System, it is authorized and empowered “to call for information and to make recommendations in regard to . . . the general affairs of the reserve banking system.”

It was the clear intent of Congress that the Federal Advisory Council should be currently advised of developments affecting the Federal Reserve System and should place at the disposal of the Board of Governors representations as to actions, policies and programs on any “matters within the jurisdiction of said Board.”

The Federal Advisory Council in performing its duties recognizes that the Board of Governors is not required to approve, accept or act upon any of the advice given.

The matter of procedure in meetings between the Board and the Council is incidental to the larger question of the co-operation between the Board and the Council in finding answers to the many and difficult questions affecting the operations of the reserve banking system and the effectiveness of the system in performing its duties to the Government and the people of the United States.

The Board and the Council could and should discuss all important problems of the Federal Reserve System in mutual good faith and good will. It is the belief of the Council that an informality and flexibility of procedure enhances the benefits that come from their joint meetings. To straight-jacket the contacts of the two groups in formal written communications would largely destroy the effectiveness of the Council as well as its value to the Board.

Unless and until the Congress changes the law, the Council will continue to exercise the powers given it to the best of its ability in the interest of the national welfare as it sees it. While the Council realizes its function is advisory, it will insist on its statutory right to confer with the Board of Governors, to make oral or written representations, to make recommendations, and to ask for information which the law entitles it to have. It reserves the right to make its recommendations public if it so desires. Within these limitations it desires to co-operate with the Board of Governors to the end that whenever possible the Council can support the Board's position publicly and in banking circles. Obviously, if the Council is not to be given information as to matters of proposed legislation or regulatory action until after the Board has formally recommended the legislation or adopted the regulation, the possibility that the advice of the Council might affect the Board's decision is greatly lessened, if not absolutely destroyed. If the Council should disagree with actions or proposals of the Board taken without any discussion with the Council, and if the Council is to carry out the purpose given it by Congress, it may feel obliged to take issue publicly with the Board's actions or proposals. This would be unfortunate, and we sincerely believe that free and frank discussion between the Council and the Board would in many cases result in an agreement on proposed legislation or a regulation. Cases undoubtedly will arise where the Board and Council would have to disagree publicly, but the number of such cases would be minimized.

As to the procedure, which the Board declares to be a departure from the purposes and functions of the Federal Advisory Council, the minutes of the joint meetings of the Council and the Board reveal that most of the matters discussed between the Board and the Council have been submitted in writing to the Board in advance of the meetings. Many of the Council's suggestions have been adopted by the Board in whole or in part. In recent years the Board has submitted in advance to the Council, for its opinion or advice, very few matters, and during the past two years only two questions which it was considering.

Coming to question of future procedure the Council believes:

I. That the meetings of the Board and the Council should be confined to the members of the Board and the Council, with only a secretary present for each body. The present practice which has grown up in recent years of a dozen or more of the Board's staff being present at meetings constrains free discussion and frank expression on both sides. While the presence of the Staff has the advantage of making technical information immediately available and was undoubtedly adopted for this reason, we strongly feel that any advantage of the staff's presence is outweighed by the constraint its presence imposes on discussion.

II. That the Board submit to the Council in advance of its meetings, or at least by noon of the day the Council meets by itself in Washington, questions of importance upon which the Board desires the advice of, or discussion with, the Council so that the Council can advise as a body upon them after an opportunity of discussion among its members.

III. That the Secretary of the Council will, as heretofore, send the Secretary of the Board questions which any member of the Council thinks should be discussed or on which he desires information. The Council fully understands the desire of the Board to have the Council's questions submitted in advance of the meetings and a memorandum incorporating the results of the separate discussion of the Council, any recommendations that it might wish to make, and a statement of any additional information that it might wish to have from the Board, will be submitted to the Board early on the following morning. The joint meeting may be held the same afternoon or the following morning. To maintain the effective position of the Council it reserves the right, as contemplated in the Act, to discuss with the Board other matters which may arise.

IV. That the practice be discontinued of holding monthly meetings of the Executive Committee of the Advisory Council and the Board between Council meetings at dates fixed in advance. That instead, the Board and the Executive Committee meet when either the Board or the Committee so requests. It is not contemplated that such meetings will be requested unless one or the other feels some development between the regular meetings of the whole Council renders such a meeting desirable. The monthly meetings of the Board with the Executive Committee between the quarterly meetings of the Council were agreed upon as desirable during the war period and the Council believes served a useful purpose with the rapidly changing war conditions.

Since the establishment of the Federal Reserve System it has been the custom of the Executive Committee of the Council to meet with the Board in times of emergency. The powers given the Council specifically provide that they may be exercised "by itself or through its officers". The members of its Executive Committee are its "officers". The Council has amended its by-laws to that effect.

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Both the Council and the Board have serious obligations to the nation under the laws of their creation and powers. They have obligations to one another in dealing with the problems of the Federal Reserve System in a spirit of mutual confidence, respect and good will.

The Federal Advisory Council pledges that co-operation to the fullest extent that the Board of Governors will make possible.

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 in Room 336 of the Mayflower Hotel, Washington, D. C., which began at 10:15 A. M. on December 1, 1946 and continued (except for one hour for luncheon) until 6:29 P. M. of the same day, when the Council adjourned to meet at 9:00 A. M. on December 2, 1946, adjourning at 12:30 Noon.

All members of the Federal Advisory Council were present except Mr. J. T. Brown.

PREPARATION OF THE STATEMENT OF THE FEDERAL ADVISORY COUNCIL IN RESPONSE TO THE STATEMENT MADE BY CHAIRMAN ECCLES ON BEHALF OF THE BOARD OF GOVERNORS BEFORE THE EXECUTIVE COMMITTEE OF THE COUNCIL ON NOVEMBER 6, 1946.

BROWN asks each member of the Council to express his opinion fully regarding the statement made by Chairman Eccles on behalf of the Board of Governors before the Executive Committee of the Council on November 6, 1946. (The statement of Chairman Eccles and the tentative reply which had been drafted by President Brown were then the subject of thorough discussion.) Brown says that it is clearly the unanimous opinion of the members of the Council that the Council in its reply should strongly state its position and its determination to discharge its responsibilities and exercise its powers as stated in the Federal Reserve Act.

BY-LAWS

BROWN calls attention during the course of the discussion to the necessity of revising the by-laws.

On motion duly made and seconded, the following changes in the Council's by-laws were unanimously approved, prior to the completion of the Council's reply to the statement of the Board of Governors:

ARTICLE I - OFFICERS

The present Article I was changed to read as follows:

"The officers of this Council shall be a President, Vice President, four Directors and a Secretary, all of whom, except the Secretary, shall also serve as the Executive Committee."

ARTICLE IV - EXECUTIVE COMMITTEE

The present Article IV was changed to read as follows:

"The Executive Committee, as indicated in Article I of the by-laws, shall consist of the President, Vice President and the four Directors."

ARTICLE V - DUTIES OF THE EXECUTIVE COMMITTEE

The following paragraph was added to the present Article V.

"The Executive Committee shall have full power, as officers of the Council, to act for the Council between meetings of the Council."

BROWN says that a motion will now be entertained to approve of the Council's completed statement. On motion duly made by Williams and seconded by Traphagen, Bradshaw and Wiggins, the Council unanimously approved the statement which its members had prepared in response to the statement made by Chairman Eccles on behalf of the Board of Governors before the Executive Committee of the Council on November 6. (The Acting Secretary delivered the statement of the Council to the Secretary of the Board of Governors at 12:53 Noon, on December 2, 1946.)

CREDIT POLICY AND DEBT MANAGEMENT

BROWN asks Traphagen to comment on this subject and several other topics which he wishes to present.

TRAPHAGEN. Now that the program of paying off the debt out of accumulated balances has been completed (with refunding of the December 15 notes), we enter a new phase in which debt reduction will depend upon an excess of cash income over cash outgo. This raises old questions about credit policy and new questions about the speed and direction of debt retirement. The management of the debt can be used either as a deflationary or as an inflationary factor. It is possible to retire the government securities held largely by the commercial banks with (1) funds obtained when cash revenues exceed cash expenditures and (2) with funds obtained from non-bank investors

through (a) savings bond sales, especially "E" bonds; and (b) the sale of special long-term bonds to savings institutions, pension funds and other investors of this type.

EXTENSION OF AUTHORITY OF TREASURY TO BORROW UP TO \$5 BILLION DIRECTLY FROM FEDERAL RESERVE SYSTEM. PRESENT AUTHORITY EXPIRES MARCH 31, 1947.

TRAPHAGEN suggests that this authority be extended. Publicity is given to the borrowings and \$5 billion is not large in relation to the financing operations of the government with a \$262 billion debt. It would be better to extend the present authority rather than to have new legislation which might provide for a larger amount. There were no limits up to 1935. There are temporary situations over tax dates when funds are needed.

BROWN asks the opinion of the Council regarding the matter of extending the Treasury's authority to borrow up to \$5 billion directly from the Federal Reserve System and the Council is in favor of recommending to the Board of Governors that the authority be extended. The specific authority is given in Section 14 b of the Federal Reserve Act.

WAR LOAN ACCOUNTS

TRAPHAGEN states that under the existing law, the exemptions from reserve requirements and the F.D.I.C. assessment expire six months after the cessation of hostilities as determined by a proclamation of the President or a concurrent resolution of the Congress. After December 15, the Treasury deposits with banks may not be over \$1½ billions to \$2 billions.

BROWN states that in view of the probable small amount of the Treasury balances, he does not believe the matter sufficiently important to bring up with the Board of Governors at this time.

MARGIN TRADING IN SECURITIES

TRAPHAGEN asks whether, in view of the fact that the market has tended to become stabilized within rather narrow limits for about one and one-half months, there would be any advantage in asking the Board to review the present margin requirements.

BROWN says that the Board may consider the question of changing the margin requirements a confidential matter. However, regardless of what action the Board may take, there is bound to be criticism.

LEGISLATION

TRAPHAGEN. Would it be desirable to maintain consumer credit regulation in its present more limited scope as a continuing authority to enable the Federal Reserve System to maintain some restraint in boom periods and to permit more liberal use of consumer credit in particular fields as sellers' markets give way to buyers' markets?

BROWN believes there is some question about the advisability of discussing Regulation "W" with the Board at the present time. He doubts whether the new Congress would give the Board permanent power over consumer credit. He asks whether the Council believes the Board should be given permanent regulatory power over consumer credit. All members of the Council, but one, were opposed to giving the Board such permanent control.

WINTON states he is definitely in favor of getting away from all controls.

TRAPHAGEN says that he also dislikes controls, but consumer credit has shown a very rapid expansion in the last six months or year and it may be a factor in accentuating the next depression. Some control over consumer credit expansion may make it possible to avoid even worse legislation after the next depression.

BROWN reports that the Board has already been informed regarding the Council's view in connection with the matter of giving the Board some form of permanent control over consumer credit.

TRAPHAGEN comments that legislation amending Sections 13 and 13b of the Federal Reserve Act, as well as legislation relating to bank holding companies may likewise require the Council's consideration.

TIME SCHEDULE FOR CHECK COLLECTION - FLOAT

TRAPHAGEN states that the Federal Reserve Bank of New York has had a considerable demand for the reduction of the time schedule for check collections and the bank is doing everything to speed collections.

BROWN comments that Saturday closing may have been a factor in preventing greater speed in collections.

COMMERCIAL BANK PARTICIPATION IN FINANCING INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT OPERATIONS

TRAPHAGEN. One problem in connection with the activities of the International Bank is the question of whether banks should be permitted to invest up to ten per cent of their capital funds in these securities or should be permitted to go to twenty per cent, which some bankers favor. There is also the question of whether banks should be permitted to act as dealers in securities of the International Bank. He understands Aldrich may favor going to twenty

per cent, especially for banks dealing in the securities. Both Sproul and Aldrich believe that the banks can serve a useful purpose in distributing these securities. Both men believe these securities should eventually be purchased by investors. If all the banks took up to ten per cent of their capital funds, he believes it would amount to less than \$700 million.

BROWN does not think it is advisable to discuss this matter with the Board as the N. A. C.'s views are known, and the Executive Committee of the Council made a recommendation on this matter at the meeting with the Board on November 6, 1946. The full meeting of the Council today apparently is in agreement with the viewpoint the Executive Committee expressed in November to the effect that banks should not be permitted to invest more than 10 per cent of their capital and surplus in securities of the International Bank.

SALES OF WAR BONDS

ODLIN believes if there is to be any continuing sale of war bonds, someone must direct it. As it is now, the program may "fall apart". If it is worth while to keep it going, then perhaps the Council should offer its encouragement.

BAIRD asks why the promotion of war bond sales should not be transferred to the Federal Reserve banks.

ODLIN is not against passing these responsibilities to the Federal Reserve banks, but something should be done to encourage the program.

TRAPHAGEN reports that in New York there are some good men on the Treasury Staff promoting war bond sales.

WINTON states that the Treasury does not have adequate funds for promoting war bond sales. He believes it would be a mistake to move the war bond sales work from the Treasury to the Federal Reserve banks as the Treasury has higher public recognition than the Federal Reserve banks.

BROWN Eccles has always been opposed to the issuance of a special bond for insurance companies. Brown has favored it. He believes the Treasury has a better chance than the Federal Reserve banks to get funds for promoting the program. He thinks it is a Treasury responsibility.

BAIRD states that the Federal Reserve Banks are the fiscal agents of the Treasury.

TRAPHAGEN believes the Council should make a careful study of the whole matter before making any recommendation as it involves the entire subject of the demonetization of the debt.

BROWN does not think it desirable, at least at present, to bring up the matter of the Treasury bond selling program with the Board.

BANK HOLDING COMPANY BILL

WIGGINS believes the Council should make a study of the Bank Holding Company bill and be ready to report when the next Council meets in March.

BROWN asks what the ABA is doing on the Bank Holding Company Bill.

WIGGINS states he may be able to find out tomorrow.

BROWN asks Wiggins what specifically can be done about studying the Bank Holding Company Bill.

WIGGINS states that a technical man is needed to make the study. Then the technical man might present at least alternative methods of handling the problem.

BAIRD points out the difficulty of preparing even a definition of a holding company that will meet general agreement.

WIGGINS reports he will talk with the ABA tomorrow to see what they may have done.

The meeting adjourned at 12:30 noon, December 2, 1946.

On December 3, 1946, at 10:40 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 Mr. J. T. Brown.

The following members of the Board of Governors were present: Chairman Eccles; Vice Chairman Ransom; Governors Draper, Evans and Vardaman; also, Messrs. Morrill, Paulger, Carpenter, Sherman, Vest, Townsend, Smead and Parry.

THE STATEMENT OF THE FEDERAL ADVISORY COUNCIL IN RESPONSE TO THE STATEMENT MADE BY CHAIRMAN ECCLES ON BEHALF OF THE BOARD OF GOVERNORS BEFORE THE EXECUTIVE COMMITTEE OF THE COUNCIL ON NOVEMBER 6, 1946.

BROWN states that at the last meeting of the Executive Committee, the Chairman of the Board of Governors read a statement he did not wish to discuss with the Executive Committee of the Council but would discuss with the full Council. Brown then reads the Council statement. He states also that the Council stayed over an extra day in order to make every effort to have its reply ready. The Acting Secretary of the Council delivered a copy of the statement to the Secretary of the Board of Governors before 1:00 P. M., on December 2, so the Board could consider it.

ECCLES says that he has not had an opportunity to discuss the Council's statement with the Board. However, he states he is ready himself to discuss it now, but would like to get the sentiment of the Board.

EVANS indicates he had the statement yesterday afternoon.

RANSOM reports he received the statement yesterday afternoon.

VARDAMAN states he received his copy of the statement at 3:00 P. M. and is ready to discuss it now.

ECCLES suggests that the meeting adjourn for one hour, and says that would be adequate time for the Board to form its joint conclusion.

The meeting adjourned at 11:00 A. M. and reconvened at 12:07 noon.

ECCLES states that there is no grave difference or serious cleavage between the Council and the Board. There is no difference that cannot be resolved. The Board's statement was meant to develop more fully the relationship between the Council and the Board. The Board accepts the statement of the Council, except that points II and III of the procedure outlined in the statement may need some clarification. He suggests that point II read as follows:

- II. That the Board submit to the Council in advance of its meetings, or at least by noon of the day the Council meets by itself in Washington, questions of importance upon which the Board desires the advice of, or discussion with, the Council so that the Council can advise as a body upon them after an opportunity of discussion among its members.

ECCLES further suggests that the Secretaries of the two bodies work out a clarification of a portion of one sentence in point III.

BROWN believes that mutual good will and a desire to cooperate on the part of both groups will enable the Council and the Board to establish a practical and helpful relationship.

ECCLES thinks this frank discussion has been helpful and he stresses that the one thing the Board wishes to avoid is any cleavage with the Council. The world has sufficient cleavages now without developing one between the Board and the Council. He then mentions several matters of possible legislation which may come up with the new Congress. Congress will have an opportunity to decide whether any part of Regulation "W" should be maintained in our economy permanently. Another matter is the expiration of the power of the Treasury to borrow \$5 billion directly from the Federal Reserve System. The Board and the Treasury both favor the extension of this authority. Bank holding company legislation will, in all probability, come up for consideration and the Board will welcome the Council's recommendations. Legislation may be introduced for the repeal of Section 13b and the turning back of the funds (\$138 million) to the Treasury. Eccles mentions that the Board may recommend the amendment of Section 13 to give the Federal Reserve banks power to guarantee loans made by member banks up to 90 per cent. The Board thinks that in getting rid of Section 13b, Section 13 could serve as a standby. The amended Section 13 would provide a permanent form of standby.

BROWN states that the Council recommends that Section 14b of the Federal Reserve Act giving the Treasury authority to borrow up to \$5 billion directly from the Federal Reserve banks should be extended for a sufficient number of years to carry the Treasury over the financing problems related closely to the war. However, the Council is not ready to say that this provision should necessarily be made permanent. Brown asks the Board what its position is regarding the matter of making the controls on consumer credit a permanent part of our economy.

ECCLES and RANSOM both state that the Board has not gone on record as favoring its continuance as a permanent part of our economy, but the Board believes Congress should have the right to pass upon this question.

BAIRD asks whether in amending Section 13 it would apply only to member banks.

ECCLES replies that it would apply to all banks. He states that unless there is some alternative program to the RFC it will be difficult to do anything about the RFC, as small business men tend to support it. Eccles states that the Board will be subject to the call of the Council any time during the afternoon should there be any need for further discussion regarding the Council's statement.

The meeting adjourned at 1:40 P. M.

The Council reconvened in the Board Room of the Federal Reserve Building at 2:38 P.M. on December 3, 1946.

All members of the Council were present except Mr. J. T. Brown.

BROWN asks the Council for its opinion on the Council's statement with the slight clarification suggested by the Board in points II and III of the procedure outlined in the Council's statement. Point III as clarified reads as follows:

III That the Secretary of the Council will, as heretofore, send the Secretary of the Board questions which any member of the Council thinks should be discussed or on which he desires information. The Council fully understands the desire of the Board to have the Council's questions submitted in advance of the meetings and a memorandum incorporating the results of the separate discussion of the Council, any recommendations that it might wish to make, and a statement of any additional information that it might wish to have from the Board, will be submitted to the Board early on the following morning. The joint meeting may be held the same afternoon or the following morning. To maintain the effective position of the Council, it reserves the right, as contemplated in the Act, to discuss with the Board other matters which may arise.

On motion duly made and seconded, the Council unanimously approved the Council's statement with the slight clarification in points II and III of the procedure outlined in the statement.

BROWN then confers with Eccles, as the Board of Governors had indicated at the close of the morning session that the members of the Board would be available for the Council's call at any time during the afternoon. Brown reports that Eccles advises him the Board of Governors has approved the Council's statement with the slight clarification in the language in points II and III in the procedure. Brown states it was agreed that the statements of both the Council and the Board will be confidential and will not be for publication. These statements are not to be read to, or filed with, the Board of Directors of Federal Reserve banks, and copies are not to be given to anyone. The members of the Council may give information to the Boards of Directors of the Federal Reserve banks regarding the four points of the procedure enumerated in the Council's statement. The statement of the Federal Advisory Council as approved by the Council and the Board of Governors is attached. There is also attached a copy of the state-

ment made by Chairman Eccles on behalf of the Board of Governors before the Executive Committee of the Council on November 6, 1946.

The meeting adjourned at 3:50 P. M.

* * * *

The Council agreed to hold its next meeting on March 9, 10 and 11, 1947, which dates were also acceptable to the Board. The joint meeting of the Council and the Board has been tentatively set for 10:30 A. M. on Tuesday, March 11.

The Federal Advisory Council has carefully considered the statement made by Chairman Eccles on behalf of the Board of Governors before the Executive Committee of the Council on November 6.

The Council believes that in connection with its statement, Section 12 of the Federal Reserve Act should be considered, since this section provides for the Council and defines its powers. This section reads as follows:

CREATION, MEMBERS, AND MEETINGS

"Sec. 12. There is hereby created a Federal Advisory Council, which shall consist of as many members as there are Federal reserve districts. Each Federal reserve bank by its board of directors shall annually select from its own Federal reserve district one member of said council, who shall receive such compensation and allowances as may be fixed by his board of directors subject to the approval of the Board of Governors of the Federal Reserve System. The meetings of said advisory council shall be held at Washington, District of Columbia, at least four times each year, and oftener if called by the Board of Governors of the Federal Reserve System. The council may in addition to the meetings above provided for hold such other meetings in Washington, District of Columbia, or elsewhere, as it may deem necessary, may select its own officers and adopt its own methods of procedure, and a majority of its members shall constitute a quorum for the transaction of business. Vacancies in the council shall be filled by the respective reserve banks, and members selected to fill vacancies shall serve for the unexpired term. (12 U. S. Code 261).

POWERS

The Federal Advisory Council shall have power, by itself or through its officers,

- (1) to confer directly with the Board of Governors of the Federal Reserve System on general business conditions;
- (2) to make oral or written representations concerning matters within the jurisdiction of said board;
- (3) to call for information and to make recommendations in regard to discount rates, rediscount business, note issues, reserve conditions in the various districts, the purchase and sale of gold, or

securities by reserve banks, open-market operations by said banks, and the general affairs of the reserve banking system. (12 U. S. Code 262)."

The statement by the Chairman on behalf of the Board of Governors with respect to the meetings of the Federal Advisory Council and the Board raises more fundamental questions than the procedure at meetings. The real questions are the statutory powers and duties of the Advisory Council and the relationship between the Council and the Board of Governors.

The Federal Advisory Council was set up under the Act that created the Federal Reserve System and is part of the structure of the system. Its duties, powers and authority are fixed by law. It is not subject to control or direction by the Board of Governors. Its members are elected under the statute by the Boards of Directors of the twelve Federal Reserve Banks.

The powers of the Council are primarily advisory - as its name implies. It is empowered to confer as a council or through its officers "directly with the Board of Governors of the Federal Reserve System" and "to make oral or written representations concerning matters within the jurisdiction of said Board." In order that the Council may keep fully informed on the affairs of the Federal Reserve System, it is authorized and empowered "to call for information and to make recommendations in regard to the general affairs of the reserve banking system."

It was the clear intent of Congress that the Federal Advisory Council should be currently advised of developments affecting the Federal Reserve System and should place at the disposal of the Board of Governors representations as to actions, policies and programs on any "matters within the jurisdiction of said Board."

The Federal Advisory Council in performing its duties recognizes that the Board of Governors is not required to approve, accept or act upon any of the advice given.

The matter of procedure in meetings between the Board and the Council is incidental to the larger question of the cooperation between the Board and the Council in finding answers to the many and difficult questions affecting the operations of the reserve banking system and the effectiveness of the system in performing its duties to the Government and the people of the United States.

The Board and the Council could and should discuss all important problems of the Federal Reserve System in mutual good faith and good will. It is the belief of the Council that an informality and flexibility of procedure enhances the benefits that come from their

joint meetings. To straight-jacket the contacts of the two groups in formal written communications would largely destroy the effectiveness of the Council as well as its value to the Board.

Unless and until the Congress changes the law, the Council will continue to exercise the powers given it to the best of its ability in the interest of the national welfare as it sees it. While the Council realizes its function is advisory, it will insist on its statutory right to confer with the Board of Governors, to make oral or written representations, to make recommendations, and to ask for information which the law entitles it to have. It reserves the right to make its recommendations public if it so desires. Within these limitations it desires to cooperate with the Board of Governors to the end that whenever possible the Council can support the Board's position publicly and in banking circles. Obviously, if the Council is not to be given information as to matters of proposed legislation or regulatory action until after the Board has formally recommended the legislation or adopted the regulation, the possibility that the advice of the Council might affect the Board's decision is greatly lessened, if not absolutely destroyed. If the Council should disagree with actions or proposals of the Board taken without any discussion with the Council, and if the Council is to carry out the purpose given it by Congress, it may feel obliged to take issue publicly with the Board's actions or proposals. This would be unfortunate, and we sincerely believe that free and frank discussion between the Council and the Board would in many cases result in an agreement on proposed legislation or a regulation. Cases undoubtedly will arise where the Board and Council would have to disagree publicly, but the number of such cases would be minimized.

As to the procedure, which the Board declares to be a departure from the purposes and functions of the Federal Advisory Council, the minutes of the joint meetings of the Council and the Board reveal that most of the matters discussed between the Board and the Council have been submitted in writing to the Board in advance of the meetings. Many of the Council's suggestions have been adopted by the Board in whole or in part. In recent years the Board has submitted in advance to the Council, for its opinion or advice, very few matters, and during the past two years only two questions which it was considering.

Coming to questions of future procedure the Council believes:

I. That the meetings of the Board and the Council should be confined to the members of the Board and the Council, with only a secretary present for each body. The present practice which has grown up in recent years of a dozen or more of the Board's staff being present at meetings constrains free discussion and frank expression on both sides. While the presence of the Staff has the advantage of making technical information immediately available and was undoubtedly adopted for this reason, we strongly feel that any advantage of the staff's presence is outweighed by the constraint its presence imposes on discussion.

II. That the Board submit to the Council in advance of its meetings, or at least by noon of the day the Council meets by itself in Washington, questions of importance upon which the Board desires the advice of, or discussion with, the Council so that the Council can advise as a body upon them after an opportunity of discussion among its members.

III. That the Secretary of the Council will, as heretofore, send the Secretary of the Board questions which any member of the Council thinks should be discussed or on which he desires information. The Council fully understands the desire of the Board to have the Council's questions submitted in advance of the meetings and a memorandum incorporating the results of the separate discussion of the Council, any recommendations that it might wish to make, and a statement of any additional information that it might wish to have from the Board, will be submitted to the Board early on the following morning. The joint meeting may be held the same afternoon or the following morning. To maintain the effective position of the Council it reserves the right, as contemplated in the Act, to discuss with the Board other matters which may arise.

IV. That the practice be discontinued of holding monthly meetings of the Executive Committee of the Advisory Council and the Board between Council meetings at dates fixed in advance. That instead, the Board and the Executive Committee meet when either the Board or the Committee so requests. It is not contemplated that such meetings will be requested unless one or the other feels some development between the regular meetings of the whole Council renders such a meeting desirable. The monthly meetings of the Board with the Executive Committee between the quarterly meetings of the Council were agreed upon as desirable during the war period and the Council believes served a useful purpose with the rapidly changing war conditions.

Since the establishment of the Federal Reserve System it has been the custom of the Executive Committee of the Council to meet with the Board in times of emergency. The powers given the Council specifically provide that they may be exercised "by itself or through its officers". The members of its Executive Committee are its "officers". The Council has amended its by-laws to that effect.

* * * * *

Both the Council and the Board have serious obligations to the nation under the laws of their creation and powers. They have obligations to one another in dealing with the problems of the Federal Reserve System in a spirit of mutual confidence, respect and good will.

The Federal Advisory Council pledges that cooperation to the fullest extent that the Board of Governors will make possible.

Statement made by Chairman Eccles on behalf of
the Board with respect to the meetings of the
Federal Advisory Council and the Board

For some time past the impression has been growing upon the Board that the relations of the Council and the Board have been drifting away from the original conception of the basic function of the Advisory Council. There are, therefore, two questions which the Board feels should have consideration, one relating to the function of the Council as such and the other to the periodic meetings of the executive committee.

With respect to the first point, there is no doubt that the Congress intended the Council to be an advisory body (see attached quotation from House Committee Report). The Council was to be a means of informing the Reserve Board as to conditions in the various districts, expressing banking opinion, and serving as a source of information upon which the Board might draw. It was to give the banking interests an official channel through which to make their views known to the Board. It grew out of a controversy which was settled by President Wilson when he decided against banker representation on the Board and proposed as an alternative that there should be a separate body composed entirely of bankers, known as the Federal Advisory Council.

A procedure has developed, however, which seems to us to be a departure from this purpose. The meetings of the Council and its executive committee with the Board have tended to become a medium for interrogation of members of the Board to an extent beyond what the Board believes was the intended scope of inquiries by the Council, rather than a medium for conveying the Council's advice and recommendations to the Board. The practice of submitting formal recommendations and discussing them has practically disappeared. Instead, the Council has very largely confined itself to a procedure of asking questions, which frequently relate to what members of the Board may be thinking about prospective legislation or possible actions in the field of policy or regulatory matters.

For the Council to undertake to ascertain the view of the Board as to future actions seems to us to be "putting the cart before the horse". What the Board might do at some future time with regard to proposed legislation or regulatory action, for example, we believe lies outside the field of the factual information for which the Council may call when necessary to supplement its own knowledge as a background for advice to the Board.

While the Board welcomes the Council's advice and recommendations as representing the banking point of view, and feels free to seek the opinion of the Council on matters of common interest, the Board feels that it should not be called upon to express views or answer questions as to actions which have not been taken or which the Board feels justified in regarding as confidential.

The Board does, however, desire to follow a procedure which will result in giving the Board the benefit of the Council's considered views on the important subjects which are of mutual interest and concern. As a practical means of accomplishing this purpose, it is believed that a procedure similar to that which has been worked out in meetings with the Presidents of the Federal Reserve Banks might well be adopted for future meetings of the Council with the Board. Under this procedure, the Presidents, in their separate sessions, review the subjects which they might wish to discuss with the Board, they obtain any factual information which they may desire in addition to what they already have, they formulate written statements, and they furnish copies of these written statements to the Board in advance of the joint session. A sufficient period of time is allowed to intervene before the joint session in order to enable the Board to review and consider these statements which the Presidents expect to present when they meet with the Board. As this procedure has proved to be satisfactory, the Board feels that a similar procedure might well be considered for future meetings of the Council and the Board.

With respect to the meetings of the executive committee of the Council, it is our view that, since the war is over and the process of reconversion is well under way, the periodic meetings of the Board with the executive committee should be discontinued and that future meetings should be confined to those with the Council as a whole. Although the text of the law provided that the Council might confer with the Board through its officers as well as directly, it is clear that the primary intent was that the Council as a whole meet with the Board. We do not believe it was contemplated that there would be an executive committee and especially not one which conducts regular meetings with the Board. The executive committee itself has recognized that it could not necessarily speak for the Council and, consequently, the questions and expressions of the executive committee have been those of the group of individuals, never more than half the Council, who constituted the executive committee.

It is therefore our view, as a peace-time procedure, that the periodic meetings of the Board with the executive committee should be discontinued and that future meetings should be confined to those of the entire Council at regular intervals, which ordinarily need not be more than the customary four times a year that prevailed before the war.

Attachment

The Report of the Banking and Currency Committee of the House of Representatives on the original Federal Reserve Act contained the following on pages 47 and 48 with respect to the creation of a Federal Advisory Council:

"Section 13 provides for the creation of a Federal advisory council which is to consist of as many members as there are Federal reserve districts, each such district electing through the board of directors of its Federal reserve bank a representative of that bank. The functions of this board are wholly advisory and it would amount merely to a means of expressing banking opinion, informing the reserve board of conditions of credit in the several districts, and serving as a source of information upon which the board may draw in case of necessity. The desirability of such a body as a source of information and counsel is obvious, and it is believed that it gives to the banking interests of the several districts ample power to make their views known, and, so far as they deserve acceptance, to secure such acceptance."