

MINUTES OF MEETINGS
of the
FEDERAL ADVISORY COUNCIL

March 9-11, 1947

May 18-20, 1947

September 21-23, 1947

November 16-18, 1947

OFFICERS AND MEMBERS OF THE FEDERAL ADVISORY COUNCIL

For the Year 1947

OFFICERS:

President, Edward E. Brown
Vice President, Charles E. Spencer, Jr.
Director, W. Randolph Burgess
Director, David E. Williams
Director, John H. McCoy
Director, Robert V. Fleming
Secretary, Walter Lichtenstein
Acting Secretary, Herbert V. Prochnow

EXECUTIVE COMMITTEE:

Edward E. Brown
Charles E. Spencer, Jr.
W. Randolph Burgess
David E. Williams
John H. McCoy
Robert V. Fleming

MEMBERS:

Charles E. Spencer, Jr.	District No. 1
W. Randolph Burgess	District No. 2
David E. Williams	District No. 3
John H. McCoy	District No. 4
Robert V. Fleming	District No. 5
J. T. Brown	District No. 6
Edward E. Brown	District No. 7
James H. Penick	District No. 8
Henry E. Atwood	District No. 9
James M. Kemper	District No. 10
Ed H. Winton	District No. 11
Reno Odlin	District No. 12

BY-LAWS OF THE FEDERAL ADVISORY COUNCIL

ARTICLE I. OFFICERS

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 II. PRESIDENT AND VICE PRESIDENT

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

ARTICLE III. SECRETARY

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

ARTICLE IV. EXECUTIVE COMMITTEE

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

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

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

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

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

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

ARTICLE VI. MEETINGS

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

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

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

ARTICLE VII. ALTERNATES

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

ARTICLE VIII. AMENDMENTS

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

March 9, 1947.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

March 9, 1947

The first and organization meeting of the Federal Advisory Council for the year 1947 was convened in Room 336 of the Mayflower Hotel, Washington, D. C., on Sunday, March 9, 1947, at 2:10 P.M.

Present:

Mr. Charles E. Spencer, Jr.	District No. 1
Mr. W. Randolph Burgess	District No. 2
Mr. David E. Williams	District No. 3
Mr. John H. McCoy	District No. 4
Mr. Robert V. Fleming	District No. 5
Mr. J. T. Brown	District No. 6
Mr. Edward E. Brown	District No. 7
Mr. James H. Penick	District No. 8
Mr. Henry E. Atwood	District No. 9
Mr. James M. Kemper	District No. 10
Mr. Ed H. Winton	District No. 11
Mr. George M. Wallace (Alternate for Mr. Reno Odlin)	District No. 12
Mr. Herbert V. Prochnow	Acting Secretary

Absent:

Mr. Reno Odlin

Mr. W. Randolph Burgess was elected Chairman *pro tem* and Mr. Herbert V. Prochnow, Secretary, *pro tem*.

The Secretary *pro tem* stated that communications had been received from the twelve Federal Reserve banks certifying to the election of their respective representatives on the Council for the year 1947, in accordance with the above list:

The following officers were nominated and unanimously elected:

Mr. Edward E. Brown, President
Mr. Charles E. Spencer, Jr., Vice President
Mr. W. Randolph Burgess, Director
Mr. David E. Williams, Director
Mr. John H. McCoy, Director
Mr. Robert V. Fleming, Director
Mr. Walter Lichtenstein, Secretary
Mr. Herbert V. Prochnow, Acting Secretary

On motion, duly made and seconded, the Council voted unanimously to extend the indefinite leave of absence previously granted the Secretary of the Council in order, temporarily, for him to continue his services with the United States Government.

On motion, duly made and seconded, the salary of the Acting Secretary was fixed at \$2,500, which has been the Secretary's salary in previous years.

On motion, duly made and seconded, the Council adopted the existing by-laws which will be printed and attached to the formal printed minutes.

The Secretary presented his financial report for the year 1946, which had been audited by Mr. J. J. Buechner, Assistant Auditor of The First National Bank of Chicago. Copies of the report had been sent previously to the members of the Council. The report was approved and ordered placed on file. A copy of the report is attached and made a part of these minutes.

On motion, duly made and seconded, the minutes of the meetings of the Council on October 6-7, 1946, December 1-2-3, 1946, and of the meeting of the Executive Committee of the Council on November 6, 1946, copies of which had been sent previously to the members, were approved.

On motion, duly made and seconded, a resolution was adopted authorizing the Acting Secretary to ask each Federal Reserve bank to contribute \$350.00 toward the secretarial and incidental expenses of the Federal Advisory Council for the year 1947 and to draw upon it for that purpose.

The Council discussed the matter of preventive strike legislation. The Council also discussed the proposed bill S. 408.

Consideration was given to the question of whether margin requirements prescribed by the Board in its Regulation U for banks should be lower than those prescribed in Regulation T for brokers.

There was a discussion regarding the question of whether the Board of Governors should be given some definite, but limited regulatory authority in the field of consumer credit or whether there should be no federal regulation of consumer credit. It was the opinion of the Council that the Board of Governors should not be given the power to regulate consumer credit.

The Council considered legislation which the Board of Governors had recommended to make permanent the authority to make direct purchases up to \$5 billion from the Treasury.

There was a discussion at some length of proposed bank holding company legislation.

The Council discussed the desirability of a refunding bond issue.

A complete list of the items on the agenda for the meeting and the conclusions of the Council are to be found in the *Confidential Memorandum to the Board of Governors from the Federal Advisory Council*, which follows on pages 8 and 9.

The meeting adjourned at 6:15 P.M.

HERBERT V. PROCHNOW
Acting Secretary.

REPORT OF THE SECRETARY OF THE FEDERAL ADVISORY COUNCIL

For the Year Ending December 31, 1946

Balance on hand December 31, 1945.....	\$ 5,812.05	Salaries.....	\$ 2,500.00
		Conference Expenses.....	987.74
		Printing and Stationery.....	250.20
Assessments— 12 Federal Reserve Banks...	4,200.00	Postage, telephone and telegraph.....	51.51
		Miscellaneous.....	71.72
		Balance on hand December 31, 1946.....	6,150.88
	<u>\$10,012.05</u>		<u>\$10,012.05</u>

Chicago, Illinois
January 10, 1947

To the Federal Advisory Council:

I have audited the books, vouchers, and accounts of the Secretary of the Federal Advisory Council for the year ending December 31, 1946, and certify that the above statement agrees therewith.

Respectfully,

THE FIRST NATIONAL BANK OF CHICAGO,

(Signed) J. J. Buechner
Assistant Auditor.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

March 10, 1947

At 10:00 A.M., the Federal Advisory Council reconvened in Room 336 of the Mayflower Hotel, Washington, D.C.

Present: Mr. Edward E. Brown, President; Mr. Charles E. Spencer, Jr., Vice President; Messrs. W. Randolph Burgess, David E. Williams, John H. McCoy, Robert V. Fleming, J. T. Brown, James H. Penick, Henry E. Atwood, James M. Kemper, Ed H. Winton, George M. Wallace (alternate for Reno Odlin), and Herbert V. Prochnow, Acting Secretary.

Absent: Mr. Reno Odlin.

The Council reviewed its conclusions of the previous day regarding the items on the agenda and sent the memorandum which follows on page 8, listing the agenda items with the conclusions reached by the Council, to the secretary of the Board of Governors. The memorandum was delivered to the Secretary of the Board of Governors at 10:58 A.M. on March 10, 1947.

The meeting adjourned at 10:42 A.M.

HERBERT V. PROCHNOW
Acting Secretary.

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS FROM THE FEDERAL
ADVISORY COUNCIL RELATIVE TO THE AGENDA FOR THE JOINT MEET-
ING ON MARCH 11, 1947

1. Should the Council take a stand in having banks classified as essential to the public good in any preventive strike legislation which might be considered by Congress?

After a careful discussion of various aspects of this question, the Council recommends that it be dropped from the agenda.

2. In connection with the proposed Bill S. 408, it is suggested that consideration be given to the deletion of the following from the proposed bill: Section II, lines 14 and 15 and down to and including the word "prescribe" in line 16, and that line 14 start with the words "Any Federal Reserve Bank may guarantee."

The Council considered this item jointly with item 7 below. The majority of the Council favors Bill S. 408, subject to its being changed in two respects: (1) it should be restricted in its application not to "any financing institution" but to "chartered banking institutions;" and (2) guarantees and commitments should be made only after a showing that the loans could not be handled through normal banking channels.

A minority of the Council was opposed to Bill S. 408 even with these amendments.

The Council's support, with these amendments, of Bill 408 is given in the belief that some safety valve is desirable for emergency credit situations, and with the recommendation that the lending and guarantee powers of certain other government agencies, including the R.F.C., should be greatly curtailed, and in many instances should be terminated.

In this general connection, the Council has also considered H.R. 157 and would appreciate the Board's viewpoint on this bill. The Council is unanimously opposed to it.

3. Should the margin requirements prescribed by the Board in its Regulation U for *banks* be lower than those prescribed in Regulation T for *brokers*?

At the present time, and ordinarily, the Council would not favor a differential in margin requirements, but the Council can conceive conditions under which a differential might be desirable.

4. Consumer credit has practically reached the prewar level and probably will continue to rise. As the Council is aware, if regulation of this type of credit is to be permanent Congress will have to enact the enabling legislation. Should the Board be given some definite but limited regulatory authority in this field or should there be no Federal regulation of consumer credit?

The Council does not believe that the Board should be given power to regulate consumer credit. The Council believes the Board might be helpful in the matter of consumer credit if it regularly gave wide publicity to figures reflecting the outstanding volume of consumer credit.

5. The Board has recommended legislation to make permanent the authority to make direct purchases up to 5 billion dollars from the Treasury and would welcome the Council's support of this measure or an expression of the reasons for contrary views in case there is disagreement with the Board's recommendation.

The Council recommends that authority be given for a period of three years to make direct purchases up to 5 billion dollars from the Treasury. The Council believes that it would be advisable to review the matter again at the end of three years to determine if there had been any abuse of the power and also to determine whether the power should be further continued or be permitted to lapse. The Council cannot but be mindful of the fact that historically and in various countries direct borrowing by a government from the central bank has been a common vehicle of inflation.

6. It is expected that bank holding company legislation will be introduced at this session of Congress. The Board has discussed this subject with the Council and will be glad to give the Council any additional information it desires. The Board would also like to know the Council's general attitude toward the holding company legislation.

The Council appreciates the opportunity the Board has given the Council to examine the proposed bank holding company legislation. However, the effects of legislation of this character are so far-reaching, and the subject is one offering so many complicated problems that the Council will require more time to study the proposed legislation. The opinions of its members are widely divergent on the question. It will endeavor by the May meeting to see if it is possible for a majority of the Council members to agree on the principles which should govern holding company legislation.

7. It is suggested that the discussion of Bill S. 408 should concern itself with the whole question of the principle of the bill, and also with its relationship to the general policy regarding the R.F.C.

This item was discussed under item 2 above.

8. Would it be desirable to have a refunding bond issue?

The Council believes that it is desirable to have a refunding bond issue, and it suggests that the Board use its influence with the Treasury, as part of a continuing program gradually to transfer a large part of the debt to permanent investors, to bring out in the near future a refunding bond issue of not over two billion dollars, non-eligible to banks, and with restrictions on subscriptions along the lines of those suggested by the American Bankers Association Committee on Treasury borrowing.

MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

March 10, 1947

At 2:00 P.M., the Federal Advisory Council convened 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. W. Randolph Burgess, David E. Williams, John H. McCoy, Robert V. Fleming, J. T. Brown, James H. Penick, Henry E. Atwood, James M. Kemper, Ed H. Winton, George M. Wallace (alternate for Reno Odlin), and Mr. Herbert V. Prochnow, Acting Secretary.

Absent: Mr. Reno Odlin.

Dr. Woodlief Thomas, Director of Research and Statistics spoke on the subject, "Economic Prospects for 1947-1948".

The meeting adjourned at 3:15 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

March 11, 1947

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; Governors Ernest G. Draper, R. M. Evans, James K. Vardaman, Jr., and Lawrence Clayton; also, S. R. Carpenter, Secretary of the Board of Governors.

Present: Members of the Federal Advisory Council:

Mr. Edward E. Brown, President; Mr. Charles E. Spencer, Jr., Vice President; Messrs. W. Randolph Burgess, David E. Williams, John H. McCoy, Robert V. Fleming, J. T. Brown, James H. Penick, Henry E. Atwood, James M. Kemper, Ed H. Winton, George M. Wallace (alternate for Reno Odlin), and Herbert V. Prochnow, Acting Secretary.

Absent: Mr. Reno Odlin.

The President of the Council reported that a large majority of the Council favored Bill S. 408, with modifications in two respects:

1. It should be restricted in its application not to "any financing institution" but to "chartered banking institutions"; and
2. Guarantees and commitments should be made only after a showing that the loans could not be handled through normal banking channels.

The Chairman of the Board stated if the Council would make recommendations along these lines, the Board would present the views of the Council to the proper Congressional committee.

President Brown called attention to H.R. 157 and stated that the Council was opposed to the bill. The Chairman of the Board of Governors said that the Board was also opposed to this bill.

The President of the Council stated that the Council at present is opposed to a differential in margin requirements as between brokers and banks, but it can conceive that a differential may be desirable under different circumstances. The Chairman of the Board stated that there is nothing urgent about this matter but it deserves careful thought.

President Brown reported that in the judgment of the Council, the Board of Governors should not be given the power to regulate consumer credit.

Chairman Eccles said that the traditional credit controls are ineffective now and selective credit control, like Regulation W, is necessary in the opinion of the Board.

President Brown stated that the Council recommended that authority be given for a period of three years to make direct purchases up to \$5 billion from the Treasury. It

was the opinion of the Council that it would be advisable to review the matter again at the end of three years to determine if there had been any abuse of the power and also to determine whether the power should be further continued or should be permitted to lapse. The Council could not but be mindful that historically and in various countries, direct borrowing by the government from the central banks had been a common vehicle of inflation. Chairman Eccles stated that the Board has no objection to the three-year provision.

The President of the Council reported that the Council desired more time to give consideration to the proposed bank holding company legislation. The Chairman of the Board of Governors traced the history of the Board's effort to meet this problem.

There was a discussion of the desirability of a refunding bond issue. It was suggested by members of the Council that the Board use its influence with the Treasury, as part of a continuing program gradually to transfer a large part of the debt to permanent investors, to bring out in the near future a refunding bond issue of not over two billion dollars, non-eligible to banks, and with restrictions on subscriptions along the lines of those suggested by the American Bankers Association Committee on Treasury borrowing.

The Chairman of the Board of Governors reported that the buildings and facilities at many of the branches of the Federal Reserve banks are inadequate and he would appreciate the Council making some recommendation regarding present building provisions in the Federal Reserve Act.

The meeting adjourned at 1:25 P.M.

HERBERT V. PROCHNOW
Acting Secretary.

March 11, 1947

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

Present: Mr. Edward E. Brown, President; Mr. Charles E. Spencer, Jr., Vice President; Messrs. W. Randolph Burgess, David E. Williams, John H. McCoy, Robert V. Fleming, J. T. Brown, James H. Penick, Henry E. Atwood, James M. Kemper, Ed H. Winton, George M. Wallace (alternate for Reno Odlin), and Herbert V. Prochnow, Acting Secretary.

Absent: Mr. Reno Odlin.

After some discussion, the Council approved the following resolution which it was agreed should be sent to the Board of Governors with a covering letter from the President of the Council, both of which the Board might use publicly at Congressional hearings on the bill.

RESOLUTION

RESOLVED that the Federal Advisory Council of the Federal Reserve System approves Bill S. 408, subject to its being changed in two respects: (1) it should be restricted in its application not to "any financing institution" but to "chartered banking institutions"; and, (2) in line 21, page 2 of the bill, the period after the word "years" should be replaced by a comma, and the following words should be added to complete the sentence: "when it appears to the satisfaction of such Federal Reserve bank that the business enterprise is unable to obtain requisite financial assistance on a reasonable basis from the usual sources".

A copy of the letter which accompanied the resolution follows:

March 14, 1947

My dear Governor Eccles:

You will please find enclosed a resolution of the Federal Advisory Council on Bill S. 408. You may feel free to present this resolution and also this letter at any hearings of Congressional committees on the bill.

The Council's support of Bill S. 408, with the amendments suggested, is given in the belief that some safety valve is desirable for emergency credit situations, and with the recommendation that the lending and guarantee powers of certain other government agencies, including the R.F.C., should be greatly curtailed, and in many instances should be terminated.

Very truly yours,

(Signed) Edward E. Brown, President.

The Hon. Marriner S. Eccles, Chairman
Board of Governors of the
Federal Reserve System
Washington 25, D.C.

After a discussion of the inadequate facilities of various branches of the Federal Reserve banks, the Council approved the following preamble and resolution which it was agreed should be sent to the Board of Governors by the President of the Council with permission to use the preamble and resolution publicly at Congressional hearings on the subject.

PREAMBLE

It is within the knowledge of various members of the Federal Advisory Council that the working space and facilities of a number of the branches of the Federal Reserve banks are wholly inadequate and make it impossible for these branches to discharge their functions with efficiency and dispatch. These conditions cannot be corrected within the limited expenditures permitted under paragraph 9, Section 10, of the Federal Reserve Act.

RESOLUTION

RESOLVED, therefore, that the Federal Advisory Council recommends the repeal of paragraph 9, section 10 of the Federal Reserve Act.

A copy of the letter which accompanied the above Preamble and Resolution follows:

March 14, 1947

My dear Governor Eccles:

You will please find enclosed a preamble and resolution adopted by the Federal Advisory Council relative to paragraph 9, section 10 of the Federal Reserve Act. You may feel free to use this preamble and resolution in connection with the hearings of any Congressional Committee on this subject.

Very truly yours,

(Signed) Edward E. Brown, President.

The Hon. Marriner S. Eccles, Chairman
Board of Governors of the
Federal Reserve System
Washington 25, D.C.

The meeting adjourned at 3:15 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 March 9, 1947, at 2:10 P. M., in Room 928 of the Mayflower Hotel, Washington, D. C.

All members of the Federal Advisory Council were present except Mr. Reno Odlin for whom Mr. George M. Wallace served as an alternate.

On motion, duly made and seconded, Mr. W. Randolph Burgess was elected chairman pro tem and Mr. Herbert V. Prochnow, Secretary pro tem.

The Secretary pro tem stated that communications had been received from the twelve Federal Reserve Banks, certifying to the election of their respective representatives on the Council for the year 1947.

On motion duly made and seconded, the following officers were unanimously elected:

Mr. Edward E. Brown, President
Mr. Charles E. Spencer, Jr., Vice President
Mr. W. Randolph Burgess, Director
Mr. David E. Williams, Director
Mr. John H. McCoy, Director
Mr. Robert V. Fleming, Director
Mr. Walter Lichtenstein, Secretary
Mr. Herbert V. Prochnow, Acting Secretary

It was unanimously voted to extend the indefinite leave of absence granted the Secretary of the Council in order, temporarily, for him to continue his services with the United States Government. In the Secretary's absence, the Acting Secretary of the Council was given all the powers of the Secretary. The salary of the Acting Secretary was fixed at \$2,500 which has been the Secretary's salary in previous years.

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

The Secretary presented his financial report for the year 1946, copies of which had been previously given to the members of the Council. The report was approved and ordered placed on file. It will be printed and attached to the formal printed minutes.

The minutes of the meetings of the Council on October 6-7, 1946, December 1-2-3, 1946, and of the meeting of the Executive Committee on November 6, 1946, copies of which had been sent previously to the members, were approved.

A resolution was adopted authorizing the Acting Secretary to draw upon each Federal Reserve bank for \$350.00 toward the secretarial and incidental expenses of the Federal Advisory Council for the year 1947.

SHOULD THE COUNCIL TAKE A STAND IN HAVING BANKS CLASSIFIED AS ESSENTIAL TO THE PUBLIC GOOD IN ANY PREVENTIVE STRIKE LEGISLATION WHICH MIGHT BE CONSIDERED BY CONGRESS?

E. E. Brown asks Williams to comment on this item.

Williams states that after further consideration of the item, he believes it should be withdrawn from the agenda.

Burgess believes it is probably best not to ask for any special position for the banks.

Penick states that any attempt by the banks to get in a preferred position may give them trouble later.

Atwood feels the same.

E. E. Brown comments that if banks are declared essential to the public good, it may develop that we shall have some government agency regulating wages and still other phases of our operations.

Winton thinks it would not be desirable to seek a preferred position, and states it would be difficult to prove that banks are more essential than many industries.

E. E. Brown says that with Williams' consent, the item will be dropped from the agenda.

Williams agrees.

IN CONNECTION WITH THE PROPOSED BILL S. 408, IT IS SUGGESTED THAT CONSIDERATION BE GIVEN TO THE DELETION OF THE FOLLOWING FROM THE PROPOSED BILL: SECTION II, LINES 14 AND 15 AND DOWN TO AND INCLUDING THE WORD "PRESCRIBE" IN LINE 16, AND THAT LINE 14 START WITH THE WORDS "ANY FEDERAL RESERVE BANK MAY GUARANTEE".

E. E. Brown states that there are a number of highly controversial aspects of this legislation. There is, for example, the question of whether we may not end up with two agencies instead of one if the Federal Reserve System is given this authority and the powers of the R. F. C. are not curtailed.

Fleming asks why Williams wishes to delete the lines indicated.

Williams replies that he wishes the power taken from the Board and placed in the System.

E. E. Brown asks Williams his views on the bill generally.

Williams states that he would prefer having these powers in the Federal Reserve System rather than in the R. F. C. He would not like to see the powers in both agencies. If they cannot be obtained for the Federal Reserve System, then this bill should perhaps be dropped.

Burgess states he would like to see the R. F. C. chloroformed. The R. F. C. did do a good job under Jesse Jones, but it represents the Government in the banking business. The elimination of the R. F. C. might help to cut the budget \$1 billion. The budget situation is critical, and it may lead us in the wrong direction for years to come. There is some value in having a safety valve, and there is a fair chance to get rid of the R. F. C. The present bill has limitations in the amount that would be available and the local Federal Reserve banks also would be responsible for making the guarantees and commitments. It would be desirable to change the bill so that guarantees and commitments could be made only after an investigation indicated that the loans could not be obtained through normal banking channels. The loans should come only through banks. Burgess also believes that the guarantee should probably be less than 90 per cent.

E. E. Brown asks whether support of the bill should be predicated upon liquidation of the R. F. C.

Burgess believes it might be possible to get a verbal understanding with Wolcott regarding the liquidation of the R. F. C.

Wallace asks what should be done with the R. F. C.

E. E. Brown replies that Jesse Jones believes it should be liquidated. Brown thinks that the R. F. C. might be kept solely for emergency purposes, such as disasters.

Burgess says that if the R. F. C. is kept alive, there is always the possibility that its powers and activities in banking may increase.

Fleming would much prefer giving these powers to the Federal Reserve System. He calls attention to another bill, H.R. 157, which creates an agency for helping veterans who wish to go into business.

E. E. Brown understands that "Banking" magazine has endorsed H.R. 157 and he says that was a mistake.

Winton believes bill S. 408 should use the word "banks" and not "any financing institution". He does not believe in making Council support of the bill contingent upon liquidation of the R. F. C. He thinks it is better to talk with the proper authorities about liquidation of the R. F. C.

Spencer favors the bill without tying it up with liquidation of the R. F. C., but would talk with the proper authorities about liquidating the R. F. C.

Williams favors the bill with the suggestions by Burgess. He would not tie up the support of the bill with the liquidation of the R. F. C.

McCoy thinks that Eccles may have more in mind than what appears on the surface of this bill. It might be used as a means of injecting the Federal Reserve banks more into the banking business. Instead of two banks sharing a loan, one bank might go to the Federal Reserve bank and cut out its correspondent.

Burgess states this objection may be overcome by having the guarantee apply only to loans that could not be handled normally by banks.

Fleming shares essentially the same views as Burgess.

J. T. Brown holds substantially the same views as Burgess. He does not believe support of the bill can be tied up with the liquidation of the R. F. C.

Penick favors the bill with the suggestions that have been made for changes in the language of the bill.

Atwood favors the bill but would like to see the R. F. C. eliminated; however, he realizes it may not be possible to tie in support of the bill with the liquidation of the R. F. C.

E. E. Brown believes the term "chartered banking institutions" should be used.

Kemper states he has studied the bill carefully, and he hesitates to disagree with other members of the Council. However, he feels the Council may be putting the cart before the horse. If the Council approves the bill, it may merely be setting up another government agency. When the Council votes to socialize the banking

system, it may rue the day. He is inclined to feel it is a mistake to support the bill and that the R. F. C. will not be eliminated. The amount available for the Federal Reserve banks to loan is small and the politicians may, therefore, not vote to eliminate the R. F. C.

Wallace states he is against the bill. He agrees with Kemper.

E. E. Brown reports that nine members of the Council are in favor of the bill and two are opposed. The support of the majority of the Council is subject to the following changes in the bill: (1) it should be restricted in its application to chartered banking institutions; and (2) guarantees and commitments should be made only after a showing that the loans could not be handled through normal banking channels. Brown also states that unless there is an objection, he will report to the Board that the Council has considered Bill H.R. 157 and would appreciate the Board's viewpoint regarding the bill, as the Council is definitely opposed to it.

SHOULD THE MARGIN REQUIREMENTS PRESCRIBED BY THE BOARD IN ITS REGULATION U FOR BANKS BE LOWER THAN THOSE PRESCRIBED IN REGULATION T FOR BROKERS?

E. E. Brown states that, historically, brokers were placed under margin requirement regulations before the banks. He thinks that Eccles favors a differential.

Spencer does not like the idea of a differential. It might result in some of the customers of brokers running margin accounts in the banks.

Burgess believes there might be times when the Board would be justified in establishing a differential. However, he would not favor a differential now.

Wallace does not favor a differential.

McCoy does not favor a differential.

J. T. Brown does not favor a differential.

Fleming does not favor a differential.

Penick does not favor a differential.

Atwood does not favor a differential.

Kemper does not favor a differential.

Winton does not favor a differential.

Wallace does not favor a differential.

E. E. Brown reports that the entire Council is opposed to a differential at this time. Under other conditions, a differential might be desirable.

Burgess suggests that the Council report to the Board that at the present time, and ordinarily, the Council would not favor a differential, but the Council can conceive conditions under which a differential might be desirable.

E. E. Brown. The Council is in agreement on the matter.

CONSUMER CREDIT HAS PRACTICALLY REACHED THE PREWAR LEVEL AND PROBABLY WILL CONTINUE TO RISE. AS THE COUNCIL IS AWARE, IF REGULATION OF THIS TYPE OF CREDIT IS TO BE PERMANENT CONGRESS WILL HAVE TO ENACT THE ENABLING LEGISLATION. SHOULD THE BOARD BE GIVEN SOME DEFINITE BUT LIMITED REGULATORY AUTHORITY IN THIS FIELD OR SHOULD THERE BE NO FEDERAL REGULATION OF CONSUMER CREDIT?

E. E. Brown states that the Council has discussed this subject on many occasions and ordinarily there have been one or two members of the Council who have disagreed with the majority viewpoint.

Wallace believes the Board should not have the power to regulate consumer credit.

Winton agrees.

Kemper agrees.

Atwood agrees.

Penick agrees.

J. T. Brown agrees.

Fleming agrees.

McCoy agrees.

Williams agrees.

Spencer agrees.

Burgess agrees. He thinks the Board might be helpful in the matter of consumer credit if it regularly gave wide publicity to figures reflecting the outstanding volume of consumer credit.

E. E. Brown says that he is against giving the Board power to regulate consumer credit. Any regulation leads to more and more regulation.

THE BOARD HAS RECOMMENDED LEGISLATION TO MAKE PERMANENT THE AUTHORITY TO MAKE DIRECT PURCHASES UP TO \$5 BILLION FROM THE TREASURY AND WOULD WELCOME THE COUNCIL'S SUPPORT OF THIS MEASURE OR AN EXPRESSION OF THE REASONS FOR CONTRARY VIEWS IN CASE THERE IS DISAGREEMENT WITH THE BOARD'S RECOMMENDATION.

E. E. Brown reports that at the last meeting of the Council, the Council approved giving authority to make direct purchases up to \$5 billion from the Treasury, but this approval did not mean that the authority should be made permanent.

Spencer favors giving the authority but would suggest a three year limit.

McCoy asks why the \$5 billion should not be limited to temporary money. He thinks it would be best to limit it in this way.

E. E. Brown comments that if there should be some difficulty in floating a bond issue at the same time that war might be impending with a major power, it might be advisable to have this authority available.

Burgess states that in the A. B. A. committee, he voted in favor of \$3 billion instead of \$5 billion, and he will vote that way now to be consistent. He does not believe the point McCoy made presents a real danger.

Wallace thinks that with the size of the present debt, \$5 billion is not too large.

Fleming and E. E. Brown understand the Treasury does not object to three years.

Williams favors \$5 billion and three years.

McCoy favors \$5 billion and three years.

Fleming favors \$5 billion and three years. He does not believe the three-year authority will permit any abuses.

Penick favors \$5 billion and three years.

Atwood favors \$5 billion and three years.

Kemper asks why it could not be limited to \$3 billion.

Burgess. The practice of the Treasury borrowing from the central bank is a poisonous thing. The French and German financial troubles started that way. The Council might say it thinks that at the end of three years the amount should be reduced.

E. E. Brown believes the Council might state it favors \$5 billion with a three year limit, and that at the end of three years it would be possible to determine if there had been any abuses of the power and also whether the power should be continued or be permitted to lapse.

Burgess does not think Eccles' statement on the bill was a full statement of the facts.

Winton favors \$5 billion and three years.

Wallace favors \$5 billion and three years.

E. E. Brown suggests that Burgess make a preliminary statement to the Board when the Council presents its recommendation.

Kemper agrees to \$5 billion and three years.

E. E. Brown says that unless there are other views, he will state that the Council recommends that authority be given for a period of three years to make direct purchases up to \$5 billion from the Treasury. The Council thinks it would be best to review the matter at the end of three years to determine whether there had been any abuse of the power and also whether the power should be further continued or be permitted to lapse.

IT IS EXPECTED THAT BANK HOLDING COMPANY LEGISLATION WILL BE INTRODUCED AT THIS SESSION OF CONGRESS. THE BOARD HAS DISCUSSED THIS SUBJECT WITH THE COUNCIL AND WILL BE GLAD TO GIVE THE COUNCIL ANY ADDITIONAL INFORMATION IT DESIRES. THE BOARD WOULD ALSO LIKE TO KNOW THE COUNCIL'S GENERAL ATTITUDE TOWARD THE HOLDING COMPANY LEGISLATION.

E. E. Brown briefly reviews some of the features of the bill, confidential copies of which were given to the Council.

Atwood reports that those he knows who are familiar with this matter are not opposed to the bill.

E. E. Brown comments that some of the representatives of bank holding companies are inclined to believe that the 10 per cent figure, as given in Section 3 of the bill, should be raised to 15 per cent.

Winton understands that the 10 per cent may bring in insurance companies and other similar groups, and that this was one of the objections to the original bills.

E. E. Brown thinks certain conditions may make legislation of this kind desirable. However, many bank holding companies were most helpful in the 1930's in stabilizing banking situations in a number of states.

Atwood asks whether this is the same bill Amberg and Kurtz had.

E. E. Brown replies that it is not the same bill but is a new one.

Atwood comments that in view of the fact that it is a new bill, he will require more time to study it, as he had presumed it was the bill which had been considered previously.

Winton asks whether some committee of the Council should not study the bill over night and make recommendations to the Council tomorrow.

Fleming. Would it not be possible for the Council to say it favors bank holding company legislation but it wishes to study this bill more carefully and make a separate report.

Wallace. Is it not possible for the Council to say we favor bank holding company legislation but we need more time to study this bill?

Penick. In view of the fact that the Board gave us this bill to study, contrary to the policy the Board has followed in the past, would it not be desirable to say that we favor bank holding company legislation but require the period until the May meeting to study the bill and present a statement on it.

Winton asks whether that would be too late.

E. E. Brown replies that it would not be too late. It may take a year or so to pass the legislation. Certain matters such as the death sentence, freezing, limitations by states, Federal Reserve districts or Federal Reserve branch districts, and prohibiting bank holding companies from holding stock of non-banking companies are policy matters on which, perhaps, we might give an opinion today. Brown believes most Council members would be against a death sentence.

Wallace asks how the Treasury stood on the last bill.

E. E. Brown replies the Treasury believes it gave the Federal Reserve Board too much power.

J. T. Brown asks whether the Council could endorse the declaration of policy of the bill.

E. E. Brown does not like to endorse any language without more careful study.

Penick inquires whether the Council could agree on matters of policy in connection with bank holding company legislation.

E. E. Brown asks the Council to express its opinion on the death sentence and all members are opposed. All members also are opposed to freezing the holding companies. On the question of preventing bank holding companies from holding stock in other companies there was a long discussion, and Brown reports it is apparent there is unanimity of opinion.

Kemper believes the holding company against which this legislation may be primarily directed can get around it in various ways. The good holding companies would suffer and would have to liquidate. He believes it is necessary to freeze or kill to reach the situation it is desired to correct.

Wallace asks whether Kemper is against any bank holding company legislation.

Kemper thinks that once you start regulating anything, you proceed to more and more regulation. If this bill goes through, the interests of his family would come under the legislation.

Wallace states that this legislation would at least prevent further expansion. He asks whether Kemper could not set up two companies in connection with the family ownership he described.

E. E. Brown states he has always been concerned about holding company legislation which would in any way injure those who helped stabilize banking conditions in various communities. He asked Kemper whether he could not place his non-bank stock in a separate company.

Kemper replies that if he is able to do this then those against whom the legislation is aimed can get around it also.

Fleming asks how the problem can be met.

Kemper thinks a death sentence or limitation would be necessary.

E. E. Brown states that independent bankers on the Pacific coast are very much concerned about their situation.

Wallace confirms Brown's statement.

Winton believes banks can get too large to operate properly.

E. E. Brown states that he will say to the Board that the Council appreciates seeing this bill but that the Council needs more time to study it.

IT IS SUGGESTED THAT THE DISCUSSION OF BILL S. 408 SHOULD CONCERN ITSELF WITH THE WHOLE QUESTION OF THE PRINCIPLE OF THE BILL, AND ALSO WITH ITS RELATIONSHIP TO THE GENERAL POLICY REGARDING THE R. F. C.

This item was discussed under item 2 above.

WOULD IT BE DESIRABLE TO HAVE A REFUNDING BOND ISSUE?

Brown asks Burgess to comment on this item.

Burgess thinks there should be a refunding bond issue and suggests \$1 to \$2 billion.

Atwood asks whether the riders could be kept out.

Burgess replies that restrictions could be set up to keep out riders.

Fleming reports that Snyder apparently has not made up his mind regarding a refunding bond issue but desires to obtain the views of other groups.

Wallace asks what maturity the issue would have.

E. E. Brown suggests perhaps thirty years.

Fleming believes Burgess is right. Now is the time to lengthen the maturities.

Burgess says that Eccles is against it and some of those in the Treasury are also opposed to it.

E. E. Brown states that he will advise the Board that the Council favors a refunding bond issue of not over \$2 billion, non-eligible to banks and with proper restrictions.

* * * *

FEDERAL RESERVE BANK SERVICES

E. E. Brown states that Spencer has an item regarding which he desires the Council's opinion.

Spencer asks whether it would be a good time to suggest to the Federal Reserve banks that they increase their service to the member banks, in view of the ample profits which the Federal Reserve banks are making. Perhaps the Federal Reserve Board could have five or six operating men investigate the services rendered with a view to broadening them.

E. E. Brown is inclined to believe it would be better not to ask the Federal Reserve banks to increase their services as they will attempt more and more to render the services which banks in the large cities now give their correspondent banks.

Fleming thinks it is best not to suggest the idea to the Board, as the Board would use it in an effort to expand the services of the Federal Reserve banks to compete with banks rendering service to their correspondents.

POSTAL SAVINGS

Fleming asks whether the Council should request the Board to use its influence in getting the Postal Savings rate reduced.

E. E. Brown believes it is better to work with the Treasury on this matter. Other members of the Council agree.

The meeting adjourned at 6:15 P. M.

The Council reconvened at 10:00 A. M. on March 10, 1947, in Room 336 of the Mayflower Hotel, Washington, D. C.

All members of the Council were present except Mr. Reno Odlin, for whom Mr. George M. Wallace served as an alternate.

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The Council approved the attached memorandum, which it had prepared, to be sent to the Board of Governors relative to the agenda for the joint meeting of the Board and the Council on March 11, 1947. The memorandum was delivered to the Secretary of the Board of Governors at 10:58 A. M. on March 10, 1947. It will be noted that each item of the agenda is listed with the comments of the Council on the item.

The meeting adjourned at 10:42 A. M.

CONFIDENTIAL

MEMORANDUM TO THE BOARD OF GOVERNORS

FROM THE

FEDERAL ADVISORY COUNCIL

RELATIVE TO THE AGENDA FOR THE JOINT MEETING

ON MARCH 11, 1947

1. Should the Council take a stand in having banks classified as essential to the public good in any preventive strike legislation which might be considered by Congress?

After a careful discussion of various aspects of this question, the Council recommends that it be dropped from the agenda.

2. In connection with the proposed bill S. 408, it is suggested that consideration be given to the deletion of the following from the proposed bill: Section II, lines 14 and 15 and down to and including the word "prescribe" in line 16, and that line 14 start with the words "Any Federal Reserve Bank may guarantee".

The Council considered this item jointly with item 7 below. The majority of the Council favors bill S. 408 subject to its being changed in two respects: (1) it should be restricted in its application not to "any financing institution" but to "chartered banking institutions"; and (2) guarantees and commitments should be made only after a showing that the loans could not be handled through normal banking channels.

A minority of the Council was opposed to bill S. 408 even with these amendments.

The Council's support, with these amendments, of bill S. 408 is given in the belief that some safety valve is desirable for emergency credit situations, and with the recommendation that the lending and guarantee powers of certain other government agencies, including the R.F.C., should be greatly curtailed, and in many instances should be terminated.

In this general connection, the Council has also considered H. R. 157 and would appreciate the Board's viewpoint on this bill. The Council is unanimously opposed to it.

3. Should the margin requirements prescribed by the Board in its Regulation U for banks be lower than those prescribed in Regulation T for brokers?

At the present time, and ordinarily, the Council would not favor a differential in margin requirements, but the Council can conceive conditions under which a differential might be desirable.

4. Consumer credit has practically reached the prewar level and probably will continue to rise. As the Council is aware, if regulation of this type of credit is to be permanent Congress will have to enact the enabling legislation. Should the Board be given some definite but limited regulatory authority in this field or should there be no Federal regulation of consumer credit?

The Council does not believe that the Board should be given power to regulate consumer credit. The Council believes the Board might be helpful in the matter of consumer credit if it regularly gave wide publicity to figures reflecting the outstanding volume of consumer credit.

5. The Board has recommended legislation to make permanent the authority to make direct purchases up to 5 billion dollars from the Treasury and would welcome the Council's support of this measure or an expression of the reasons for contrary views in case there is disagreement with the Board's recommendation.

The Council recommends that authority be given for a period of three years to make direct purchases up to 5 billion dollars from the Treasury. The Council believes that it would be advisable to review the matter again at the end of three years to determine if there had been any abuse of the power and also to determine whether the power should be further continued or be permitted to lapse. The Council cannot but be mindful of the fact that historically and in various countries direct borrowing by a government from the central bank has been a common vehicle of inflation.

6. It is expected that bank holding company legislation will be introduced at this session of Congress. The Board has discussed this subject with the Council and will be glad to give the Council any additional information it desires. The Board would also like to know the Council's general attitude toward the holding company legislation.

The Council appreciates the opportunity the Board has given the Council to examine the proposed bank holding company legislation. However, the effects of legislation of this character are so far-reaching, and the subject is one offering so many complicated problems that the Council will require more time to study the proposed legislation. The opinions of its members are widely divergent on the question. It will endeavor by the May meeting to see if it is possible for a majority

of the Council members to agree on the principles which should govern holding company legislation.

It is suggested that the discussion of Bill S. 408 should concern itself with the whole question of the principle of the bill, and also with its relationship to the general policy regarding the R.F.C.

This item was discussed under item 2 above.

Would it be desirable to have a refunding bond issue?

The Council believes that it is desirable to have a refunding bond issue, and it suggests that the Board use its influence with the Treasury, as part of a continuing program gradually to transfer a large part of the debt to permanent investors, to bring out in the near future a refunding bond issue of not over two billion dollars, non-eligible to banks, and with restrictions on subscriptions along the lines of those suggested by the American Bankers Association Committee on Treasury Borrowing.

The Council reconvened in the Board Room of the Federal Reserve Building at 2:00 P. M. on March 10, 1947, to hear Dr. Woodlief Thomas, Director of the Division of Research and Statistics of the Federal Reserve System.

All members of the Council were present except Mr. Reno Odlin, for whom Mr. George M. Wallace served as an alternate.

* * * *

E. E. Brown presents Dr. Thomas, who speaks on the subject "Economic Prospects for 1947-48." A confidential copy of Dr. Thomas' remarks is attached.

* * * *

After Dr. Thomas' talk, the following brief discussion ensued:

Burgess. What effect would your conclusions have on the Federal budget for 1947-48?

Thomas states that he has not estimated the effect, but the budget should be lower.

E. E. Brown. When you state inventory accumulation has about reached its limit, your conclusion may apply to retail stores, but would you say that it applies to public utilities, railroads, and various other industries which seem to be short of equipment and other types of goods?

Thomas states that he has assumed a decline in the rate of increase. It will be a year or so before inventories level off. A decline in inventories does not initiate a depression. The depression starts before the inventory decline begins.

Burgess. Would this decline you are assuming be less than the decline in 1921?

Thomas replies that it might be less, but the 1920-21 pattern is a good one to use as a guide.

E. E. Brown. In connection with the decline in deposits, many bankers are wondering where their deposits have gone.

Thomas. The Treasury balances went up about \$2½ billion. Thomas says that a re-estimate of Federal receipts and expenditures, assuming the retirement of government obligations at the rate of \$1 billion in April and \$1 billion in June, might leave between \$2 billion and \$4 billion in the cash balance on June 30. The exact cash balance depends upon various items in the assumed estimates.

Burgess comments that apparently we may have the first balanced budget in fifteen years.

The meeting adjourned at 3:15 P. M.

ECONOMIC PROSPECTS FOR 1947-48

Statement by Woodlief Thomas at meeting of
Federal Open Market Committee,
February 27, 1947

Since the last meeting of the Open Market Committee in October, the American economy has been subjected to price inflation, the avoidance of which was one of the principal aims of governmental economic policy throughout the war. In the period of transition from a war to a peace status the country was faced with the alternative of further price inflation of a more serious nature than had occurred during the war or of rigid economic controls of a degree and character exceptional in our history. There was no other alternative, because at the controlled level of prices demand was certain to be in excess of available supplies that could be provided in any short period of time. An attempt was made to maintain controls but they were inadequate, and in the end the course of inflation was chosen. Controls were suspended last summer while new legislation was in process and were finally lifted in October.

Rise in prices

The price rise that has occurred may surely be called inflation. Prices of agricultural products rose to about 250 per cent of the prewar level. They rose more than during the last war; in fact the increase in the six months May to November was as great as in the three years from the middle of 1917 to the peak of 1920, and agricultural prices are now higher than at the 1920 peak. Wholesale prices of industrial products have risen by 25 per cent in the past year--mostly since June. The total rise in these

products since 1939--about 60 per cent--has not been anything like as much as the rise of over 150 per cent in the last war. Retail prices of food, clothing, and many other nondurable goods have risen by 75 per cent or more since 1939, with a large portion of the rise in the past year. Prices of durable goods have risen by over 50 per cent, while rents and many utility charges have shown little increase. The total consumer price index is 55 per cent above the prewar average. This is slightly above the peak reached in 1920, although the over-all increase during the war has been much smaller than that which has occurred during the first World War.

The price rise that has occurred in the past year might have been much greater if controls had been abandoned earlier. By the time they were abandoned production and available supplies had already increased considerably and the amount of the rise in prices necessary to bring demand, supply, and price into balance was not so great. It cannot be said as yet that the price situation is in a state of normal adjustment. Some time will be required for the entire price structure to become adjusted to a new level so drastically different from that formerly prevailing. It is highly dubious that this adjustment can be made without considerable declines in prices of many commodities. The last few months have been a period of further increases in some commodities which have been slow in advancing and of declines in others which had previously advanced most rapidly. Whereas for a while it was thought that the peak of the price inflation had passed, the strength in various markets during recent weeks indicates that new high levels may yet be reached. It is generally thought that prices of agricultural products will decline as soon as harvests are restored to a more normal level in the

rest of the world. When this decline occurs many related finished products will also decrease in price, and it is likely that the movement will spread throughout the price structure.

Increased production and incomes

Accompanying the price rise have been increases in production, employment, incomes, and consumption. Production of civilian goods and employment in civilian activities have risen to new high levels. The high dollar volumes of gross national product and incomes shown on the chart for the first half of 1947 correspond closely to those projected at the last meeting of the Open Market Committee in October. Prices are higher than were then projected, while the physical output is somewhat smaller. Yet the Board's index of industrial production is now about 190 per cent, practically all of which represents output of peacetime goods. The wartime peak of the index was about 240 in 1943, of which only about 80 points were estimated to be goods for civilian use.

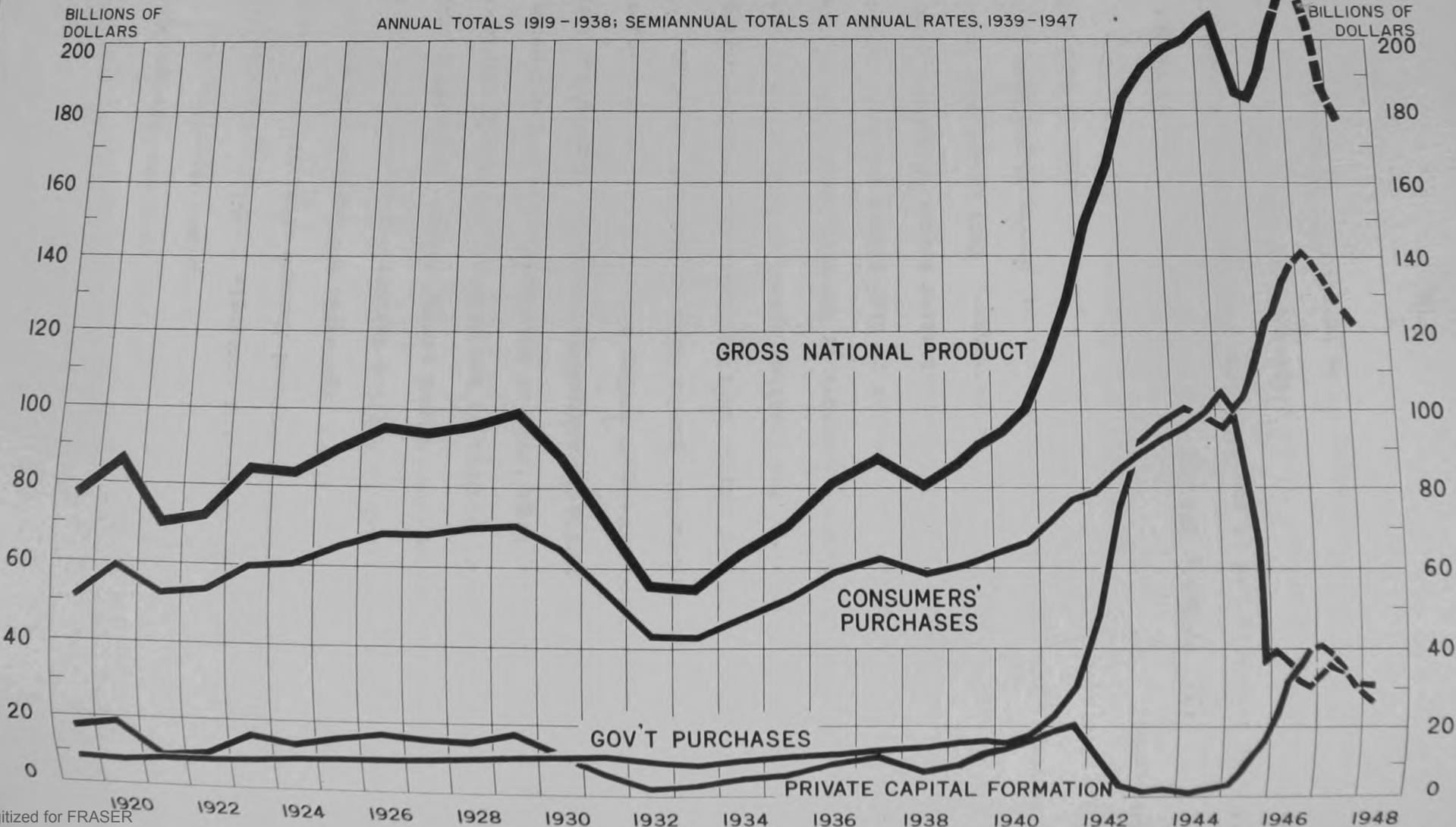
Consumer expenditures have continued to increase and it is now estimated that they are running at an annual rate of 140 billion dollars in the first quarter of this year, or about twice the best prewar year. Probably all of the increase of less than 15 per cent in the past year and much of the 25 per cent gain since early 1945 reflects the rise in prices. The volume of goods and services consumed, after adjustment for price changes, is probably only a little larger than a year ago.

Elements of weakness

While activity is now at a high level, there are a number of elements in the situation which point to a turn in the near future. There is some question as to whether the volume of consumption will be maintained at the present high level. Aside from other

GROSS NATIONAL PRODUCT AND COMPONENTS

ANNUAL TOTALS 1919-1938; SEMIANNUAL TOTALS AT ANNUAL RATES, 1939-1947



factors that may reduce the level of incomes, there are important forces that may tend to cause some curtailment in consumer expenditures.

(1) One of the important strategic factors in the situation is the narrowing margin between individual incomes after taxes and consumer expenditures. This margin, which represents net current savings, has now narrowed to a rate of about 14 billion dollars a year, or less than 10 per cent of disposable income--the common prewar ratio. Thus, while there continues to be a margin of saving, it has become a relatively narrow one, and it is probable that the high level of consumption has been supported in considerable part by drafts on accumulated savings. Many of the more urgent deferred demands which developed during the war have been met, especially for nondurable and semidurable goods, such as food and clothing.

(2) The second factor that may discourage consumer buying is the high level of prices. The limiting effect of high prices on the buying of durable goods is tempered somewhat by the very large deferred demands for these goods. Ordinarily in a period of high prices and large production consumers would have accumulated substantial stocks of durable goods and would be able to postpone further purchases. That is not true in this situation. Nevertheless, many consumers may decide to postpone purchases until more advantageous price or quality are obtainable, as is likely in a few months.

(3) Probably the most important strategic factors in the present economic situation and in the immediate outlook is the expansion of inventories that has occurred. It is estimated that inventories in all stages of the economy have been increasing at an annual rate of approximately 10

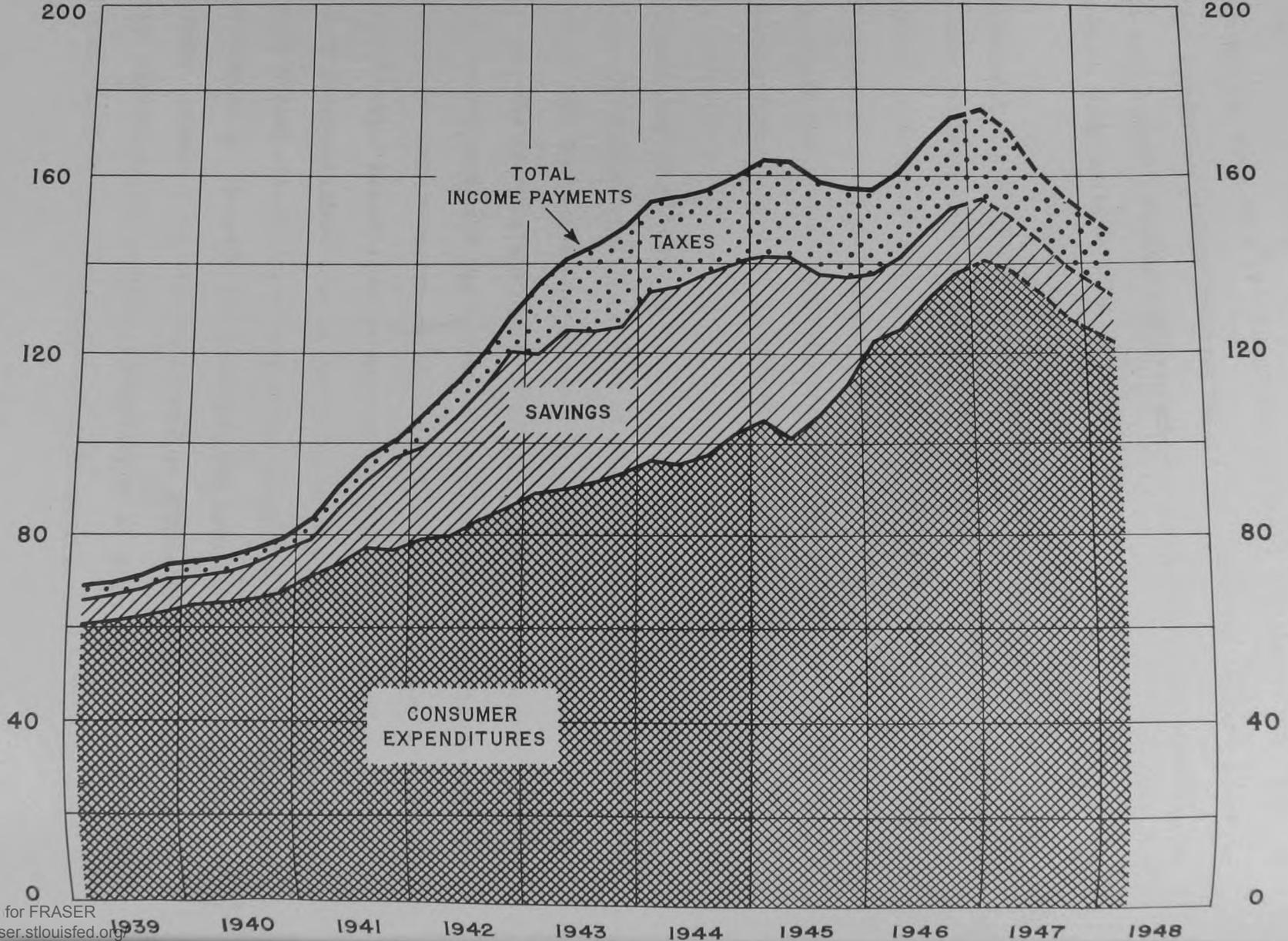
INDIVIDUAL INCOMES, EXPENDITURES, AND TAXES

SEASONALLY ADJUSTED, ANNUAL BASIS

QUARTERLY

BILLIONS OF DOLLARS

BILLIONS OF DOLLARS



billion dollars a year without including revaluation of existing stocks to the higher price level. This is an important factor providing current incomes without a corresponding supply of goods available for purchase. Inventories in most lines were inadequate and had to be replenished. It appears that they have by now reached levels which may be considered as more nearly normal. At department stores, for example, for which we have comprehensive figures, stock increased rapidly during 1946 and are now at their prewar relation to sales. Any further increase would give excessive inventories. Once the expansion in inventories slackens, an important element in the growth of current incomes will be reduced. This is a development that might begin at any time. Should inventory expansion cease entirely, current production will need to be reduced by about 10 billion dollars a year or consumption will have to be increased by approximately that amount. This adjustment may lead to some reduction in prices.

(4) Another element of some importance has been the development of a cash surplus in the Federal Government receipts and expenditures. Because of very large incomes and business profits during 1946 and currently, the Treasury revenue during recent months has been far in excess of estimates and of current expenditures. This is an anti-inflationary factor of some importance. It is evident, for example, in the marked decline in bank deposits and currency that has occurred in the last two months.

These various elements that might tend to bring about a reduction in consumer expenditures and perhaps also in individual incomes need to be balanced against the continued strong deferred demands for durable goods, housing, and industrial plant and equipment. At some stage the decline in agricultural prices, the slackening of inventory accumulation, and the

probable reduction of consumer expenditures will bring about a turn in the trend of prices, production, employment, and incomes.

Prospective developments

Projections shown on the charts indicate a pattern that might develop out of this situation. These projections should not be considered as precise forecasts. There are many possible patterns; the charts present one. It is not possible, for example, to predict with any degree of accuracy the level of peaks, the timing of turning points, or the extent of declines. It seems likely that there will be peaks, turning points, and declines and that they will occur sometime before the end of 1947. The charts present the likely trend in case the turning point comes around the middle of the year.

The more important developments shown by the charts or implicit in the trends depicted may be summarized as follows:

(1) Agricultural prices will decline by 30 per cent or more from the peak level reached last fall and probably again this week. A decline of this magnitude can occur without bringing agricultural prices in general below support levels and would still leave them nearly double prewar levels. Small harvests in this country or abroad can postpone this development. This decline in agricultural prices will mean a decrease in farm incomes, which, however, would continue above prewar levels.

(2) Prices of nonagricultural products would also decline somewhat, reflecting in large part the effect of the decrease in farm products. It is assumed, however, that the indexes of nonagricultural prices and cost of living will not fall below the level of last June.

(3) Inventory expansion will gradually slacken and cease by early 1948. No contraction in over-all inventories is assumed.

(4) Consumer expenditures will decline by about 10 or 15 per cent in dollar amount. A large part of this decrease will reflect a fall in prices. The level of consumer expenditures will probably continue above that of any year before 1946.

(5) In view of the recession in other lines, it is likely that there will be some curtailment in expenditures for construction and for industrial equipment. Only a small decline in construction is provided for in these estimates.

(6) The total national product, which is now at an annual rate of about 216 billion dollars a year, will probably decline to between 175 and 180 billion, annual rate, in the first half of 1948.

(7) Individual incomes now at an annual rate of about 175 billion dollars may decline to below 150 billion--about the level of the latter part of 1943 in dollar amount.

(8) Net current savings of individuals will decline only slightly further. Although incomes might decline to the level of 1943, it does not follow that consumer buying will decline to the level of that year; in 1943 consumption was kept down by the scarcity of goods and savings were tremendous. That situation was abnormal and could not continue in a normal period without serious deflation or very large capital investment or Government expenditures.

(9) Business profits, which are now abnormally large, will decline sharply. Corporate profits after taxes in the first half of 1948 will probably be about half of the present level. Net earnings of unincorporated businesses will also decline.

(10) Employment would decline and the number of persons unemployed might exceed 7 million at some time in the first half of 1948.

On the basis of these projections, annual averages for the year 1947 will be larger than those for 1946, but in view of the high levels now prevailing there would be a substantial recession in 1947. The first half of 1948 would be definitely lower.

The picture here presented may be called a recession, but by no means a depression and it is likely to be followed shortly by recovery. Serious depressions generally occur only after long periods of sustained production and buying of durable goods, and they also usually follow considerable expansion in types of credit that need to be liquidated. The downturn that is likely to develop this year will be primarily the result of temporary factors, namely a distorted price structure and an inventory accumulation that now appears to be excessive. The sharp expansion in private credit during the past year may have been excessive and some liquidation is to be expected. In view, however, of the general credit situation, it is unlikely that there will be much forced liquidation on the part of the banks or the credit authorities.

If the downturn occurs soon there will continue substantial unfilled demands for many types of durable goods and construction, and the public will also continue to hold large accumulated savings. These will be factors that should bring about a turning point in the recession as soon as some of the more serious distortions have been eliminated.

On March 11, 1947, 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. Reno Odlin for whom Mr. George M. Wallace served as an alternate.

The following members of the Board of Governors were present: Chairman Eccles; Governors Draper, Evans, Vardaman and Clayton; also Mr. Carpenter, Secretary of the Board of Governors.

SHOULD THE COUNCIL TAKE A STAND IN HAVING BANKS CLASSIFIED AS ESSENTIAL TO THE PUBLIC GOOD IN ANY PREVENTIVE STRIKE LEGISLATION WHICH MIGHT BE CONSIDERED BY CONGRESS?

E. E. Brown states that after a discussion of various aspects of this question, the Council recommends that it be dropped from the agenda.

IN CONNECTION WITH THE PROPOSED BILL S. 408, IT IS SUGGESTED THAT CONSIDERATION BE GIVEN TO THE DELETION OF THE FOLLOWING FROM THE PROPOSED BILL: SECTION II, LINES 14 AND 15 AND DOWN TO AND INCLUDING THE WORD "PRESCRIBE" IN LINE 16, AND THAT LINE 14 START WITH THE WORDS "ANY FEDERAL RESERVE BANK MAY GUARANTEE".

E. E. Brown reports that a large majority of the Council favors Bill S. 408 with modifications in two respects: (1) it should be restricted in its application not to "any financing institution" but to "chartered banking institutions"; and (2) guarantees and commitments should be made only after a showing that the loans could not be handled through normal banking channels. He comments that some of the disaster provisions of the R. F. C. and some lending and guarantee powers of other government agencies may have to be retained for the present.

Eccles states that the Board has considered the two modifications suggested for the bill by the Council. He says that the language follows that of the 13b bills, the R. F. C. bill, and also Regulation V. Eccles believes it is academic whether you say "chartered banking institutions" or "any financing institution," but politically you may be confronted with trouble because some of the other types of financing institutions would object. This business would originate almost entirely with the chartered banks, so Eccles believes it is unwise politically to raise the issue. The Presidents of the Federal Reserve banks felt that if there were any fly-by-night concerns set up to finance businesses, the Federal Reserve banks could refuse to make the commitments or guarantees. The Federal Reserve bank Presidents were somewhat divided on the other point which the Council suggested as a modification of Bill S. 408. However, the Board would like to leave the other suggested modification out of the

Act. If a small bank has a \$10,000 legal limit and has a \$50,000 loan, it would like to carry the whole \$50,000. The banks in the large cities would like to have the small bank carry this excess line with the larger city banks. Through its regulations the Board can ask the Federal Reserve banks to require that loans should first be considered through the regular banking channels. Eccles asks whether the entire country would be included if a phrase like "regular banking channels" should be used.

Fleming replies that the phraseology suggested by the Council says "normal banking channels".

E. E. Brown comments that Eccles' view may be all right so long as you have the present Board, but another Board may have a different view.

Eccles replies that actually the Board really can do nothing, as the local Federal Reserve bank board is in control of the situation. Eccles recommends that the Council pass a resolution supporting the bill with the two changes it has suggested. Thousands of country banks favor the R.F.C. and would support the R.F.C. if they thought this bill was set up in any way to hamper these banks. These banks would then oppose the bill. Eccles thinks the chances are nine out of ten that the R.F.C. will be extended. The Board naturally prefers the present bill which leaves it up to the Board and the Federal Reserve banks and their boards to meet any of the problems which may arise.

E. E. Brown asks other members of the Council to comment on the phrase "chartered banking institutions".

Eccles states that the Board actually would prefer that phrase and in fact would prefer even more the phrase "member banks", in order to make membership in the System worth something.

E. E. Brown remarks that this legislation is different than the emergency legislation of the 1930's. The term "any financing institution" covers building and loan associations, investment institutions, and many other types of organizations.

Fleming thinks the present Congress would look with favor upon the change suggested by the Council that guarantees and commitments should be made only after a showing that the loans could not be handled through normal banking channels. If this language is adopted, then the matter of using the words "chartered banking institutions" is less important.

Eccles states that if the Council will make its recommendations along these lines, the Board will present the views of the Council to the proper Congressional committee.

E. E. Brown calls attention to H.R. 157 and states that the Council is opposed to the bill. He asks for the Board's viewpoint.

Eccles replies that the Board is opposed to the bill and does not believe that Wolcott will ever urge its passage.

SHOULD THE MARGIN REQUIREMENTS PRESCRIBED BY THE BOARD IN ITS REGULATION U FOR BANKS BE LOWER THAN THOSE PRESCRIBED IN REGULATION T FOR BROKERS?

E. E. Brown states that the Council at present is opposed to a differential in margin requirements as between brokers and banks. The Council can conceive that a differential might be desirable under different conditions.

Eccles states that he does not know why the staff did not give the Council a memorandum of the statutory history of the regulations on margins. It was the intention of Congress to permit two types of regulations. There was a regulation covering brokers for two years before there was any regulation of banks. A margin regulation covering banks could be lower than one covering brokers and still work satisfactorily. The margin borrowers at brokers are the speculators. People throughout the country in smaller communities borrow from brokers who in turn obtain their funds largely from the call money market in New York. The bankers throughout the country furnish the deposits which find their way into the New York market, so that the country banker actually furnishes the money indirectly to the brokers to be used by the banker's customers for buying securities on margin. Eccles does not think that under the statute the Board could properly impose such a large differential that it would eliminate marginal trading and defeat the purposes of Congress. However, from the statutory and historical point of view it was assumed that there might be some differential.

Wallace thinks interest plays a bigger part than the margin.

Eccles. There is nothing of immediate importance about this topic, but it ^{is} one deserving some careful thought.

Fleming asks if Eccles were making a change, what differential he would suggest.

Eccles states that he does not have any figure in mind. The Board has not discussed the matter. Eccles' personal off-hand opinion is that if there should be a 50 per cent margin for the banks, then 65 per cent might be the right figure for brokers. If the figure for brokers should be 50 per cent, then the margin requirements might be eliminated for banks. However, Eccles states he does not wish to be bound by this statement, as it is a "horseback" opinion.

E. E. Brown says that if there should be a serious recession, a wide differential might be desirable.

CONSUMER CREDIT HAS PRACTICALLY REACHED THE PREWAR LEVEL AND PROBABLY WILL CONTINUE TO RISE. AS THE COUNCIL IS AWARE, IF REGULATION OF THIS TYPE OF CREDIT IS TO BE PERMANENT CONGRESS WILL HAVE TO ENACT THE ENABLING LEGISLATION. SHOULD THE BOARD BE GIVEN SOME DEFINITE BUT LIMITED REGULATORY AUTHORITY IN THIS FIELD OR SHOULD THERE BE NO FEDERAL REGULATION OF CONSUMER CREDIT?

E. E. Brown comments that the Council has had one or two members in the past who favored giving the Board the power to regulate consumer credit, but the Council is now unanimously against granting such power. Differences of opinion on this subject are perhaps largely a matter of different opinions regarding philosophies of government. One control, as the war showed, leads to another control. In the interest of our individual rights and an independent economy, we believe this power should end.

Eccles replies that from the standpoint of the Board he would like to get rid of the regulation. He has handled it in Ransom's absence and he is sick of it. However, with a large Federal debt it is necessary to have controls. It is necessary, for example, to control interest rates. It would be impossible to let interest rates move freely with the present large debt structure. The Treasury is opposed to higher rates because of the political problems involved. Installment credit may go from 10 to 25 or 30 billion dollars. The banks can sell \$1 in government securities and create \$6 in private credit, and the Board is helpless to act. Publishing the figures on the volume of consumer credit outstanding would not mean any more than publishing the figures on stock market speculation loans did in 1929. The traditional credit controls are ineffective now and selective credit control, like Regulation W, is necessary. The inflationary engine is here and it is wide open. The Open Market Committee and the Committee of Presidents of Federal Reserve Banks considered this subject. They feel that a continuation of Regulation W is essential. Sproul does not like it, but he feels it is necessary to continue. The Board has recommended that it be repealed if Congress does not give the Board statutory authority. Eccles has advised Tobey and Wolcott of the Board's views. He states that the bill on this matter has an accompanying statement from the Board pointing out the dangers of the present situation to the public. He received a telephone communication this morning from one of the White House secretaries, stating that the White House was receiving letters of complaint on Regulation W and would like to have a summarized statement of the present situation. He also received a letter from Kaiser saying that a less strict Regulation W would make the sale of cars easier. Eccles says easier terms would encourage high prices, whereas prices of many consumer durable goods should come down. The dealers are allowing less for used cars in order to make a larger profit on the new car sale.

Williams comments that Eccles stated Regulation W could not be eliminated so long as we had a national debt of the present size and asks for his further comment on this statement.

Eccles states that certainly in our lifetime it will not be possible to reduce the national debt sufficiently so that the traditional credit controls will be effective.

E. E. Brown says that the Council believes selective credit controls lead to more and more controls.

Burgess states that real estate financing (the 100% veterans' mortgages) is another area where there is no control. He asks whether the Board plans to do anything regarding veterans' mortgages.

Eccles reports that most of these do not fall within the area of the Board's responsibilities. He states that one of the insurance companies whose head has been most critical of the Board's policies is one of the worst offenders. The G. I. guaranteed loan situation is bad. Eccles talked about this with Wiggins. The banks make them and expect to turn them over to the R. F. C. Eccles would like to see the funds for this purpose eliminated from the R. F. C.

Fleming reports that the A. B. A. Committee on Treasury Borrowing recommended that funds for this purpose be eliminated. It is a highly inflationary factor.

Eccles states that there is a great difference between controlling mortgage credit and consumer credit. To regulate credit on mortgages means regulating the appraisal of every piece of property in the United States. With consumer credit you regulate specific goods, and this is a much simpler administrative problem. Eccles believes we should get away from regulating unsecured consumer credit. The great bulk of consumer credit is the title-retaining credit, and control of this is desirable. Eccles says that the Board is in a difficult situation about appearing before Congressional committees in connection with the R. F. C. In relation to the Wagner-Ellender-Taft bill the Board did write objecting to certain features of the bill that were inflationary.

E. E. Brown says that he knows of some banks that have made 50 or 60 loans, of which only 5 or 6 were taken by insurance companies and the rest were given to the R. F. C. This situation is bad for the veterans.

Eccles states that if the members of the Board should be called on to testify regarding the R. F. C. they would gladly do so.

THE BOARD HAS RECOMMENDED LEGISLATION TO MAKE PERMANENT THE AUTHORITY TO MAKE DIRECT PURCHASES UP TO 5 BILLION DOLLARS FROM THE TREASURY AND WOULD WELCOME THE COUNCIL'S SUPPORT OF THIS MEASURE OR AN EXPRESSION OF THE REASONS FOR CONTRARY VIEWS IN CASE THERE IS DISAGREEMENT WITH THE BOARD'S RECOMMENDATION.

E. E. Brown says he understands the three year limit was put in the bill by the Wolcott committee.

Eccles reports that he told Wolcott he had no objection to the three year provision, as it is Congress which will have to consider it every three years. Eccles told Wolcott it was possible to get along without this authority, but it is helpful to the Treasury and the money market to have it. Without this legislation the Treasury would insist on balances of 5 to 6 billion dollars. This would mean 5 to 6 billion more debt and 5 to 6 billion dollars more of the debt monetized. Actually it is more dangerous to have unlimited authority to buy in the open market than to have this authority. Another danger that is greater than the one proposed in this legislation is the danger of deficit financing by the Government. Educational work with Congress regarding the dangers of deficit financing would be highly desirable. The largest amount which has ever been used under this authority was \$1,300 million and that amount was only outstanding for one day. Thirty days is the longest time the authority has ever been used at one time.

Burgess asks whether the Council and the Board should come out with a joint recommendation that the budget be reduced \$5 billion.

Eccles replies that it depends upon where the \$5 billion is cut. During the war expenditures could probably have been reduced \$50 billion. If we take over the role of Great Britain in the world, no one knows what the costs will be. Perhaps \$4½ billion could be cut from the present budget, but it involves cutting the military. A cut of \$4½ billion plus such items as social security might make a total of \$8 billion, and this amount would probably cause a deflation. In that event taxes should be cut.

IT IS EXPECTED THAT BANK HOLDING COMPANY LEGISLATION WILL BE INTRODUCED AT THIS SESSION OF CONGRESS. THE BOARD HAS DISCUSSED THIS SUBJECT WITH THE COUNCIL AND WILL BE GLAD TO GIVE THE COUNCIL ANY ADDITIONAL INFORMATION IT DESIRES. THE BOARD WOULD ALSO LIKE TO KNOW THE COUNCIL'S GENERAL ATTITUDE TOWARD THE HOLDING COMPANY LEGISLATION.

E. E. Brown states that the attitude of the Council is that some legislation is desirable, but when an attempt is made to work out definite proposals there are disagreements. Brown understands that there is even disagreement among the government agencies.

Eccles traces the history of the Board's effort to meet the problem. As time went on the Board found that it did not have the powers to cope with a certain situation and reported to Congress in 1943 that its powers were not adequate. Nothing was done then, but finally, two years ago, a bill was drawn. The bill was drawn too fine and it applied to situations which it was not intended would be affected by legislation. For example, it applied to a man who might own two banks and a farm. Under the proposed bill at that time, this man would have been subject to the legislation. The Board would have had to investigate every case, and it was an impossible measure to administrate. A new bill was introduced last year, and the present bill is only a slight refinement of last year's bill. The western independent banks, some banks in the middle-west, and even some hold-

exists, together with the activities of possible new promotional groups, is a reflection on banking. The Attorney General favors the bill. The F. D. I. C. and the Comptroller are opposed. Eccles says the latter two agencies are opposed because the bill gives powers to the Board. The Treasury (Wiggins) says they will interpose no objections. Snyder has taken no time to study the legislation.

E. E. Brown. Will hearings be called?

Eccles does not know, but he wanted to get a bill into Congress.

Atwood. Will a statement be submitted by the Board for the bill?

Eccles replies that the Board did submit a statement but that the independent bankers could be more effective with Congress than the Board.

IT IS SUGGESTED THAT THE DISCUSSION OF BILL S. 408 SHOULD CONCERN ITSELF WITH THE WHOLE QUESTION OF THE PRINCIPLE OF THE BILL, AND ALSO WITH ITS RELATIONSHIP TO THE GENERAL POLICY REGARDING THE R. F. C.

This item was discussed under item 2 above.

WOULD IT BE DESIRABLE TO HAVE A REFUNDING BOND ISSUE?

E. E. Brown states that the Council favors a refunding issue as indicated in point eight of the memorandum the Council sent the Board.

Eccles replies that the Open Market Committee and the Committee of Presidents of the Federal Reserve banks are opposed to a refunding bond issue. They think it is thoroughly unsound. There is a chance of getting a raise in the short term rate if a long term $2\frac{1}{2}$ per cent refunding issue is not put out. Eccles believes that no more marketable issues should be put out for the public. The public should be given only E, F and G bonds. In the absence of legislation (as proposed in the Board's last annual report), Eccles might favor an increase in the short term rate, as this would take the pressure off for a long term $2\frac{1}{2}$ per cent issue, and he might favor issuing a long term security of the G bond type. With a debt of the present size, management is required. He believes that the best way to stop the present trend is to raise the short term rates and prevent banks from shifting out of short term obligations. He prefers the legislative program suggested in the Board's last annual report. If surplus funds accumulate, Eccles would favor placing a G bond on tap.

Wallace. Would you do away with the present G bond?

Eccles replies he would not but he would have the same type of bond, with perhaps a 20 or 25 year maturity.

* * * *

Eccles reports that the buildings and facilities at many of the branches of the Federal Reserve banks are inadequate, and he would appreciate the Council making some recommendation regarding the present building provisions in the Federal Reserve Act.

* * * *

It was agreed the next meeting of the Council would be on May 18, 19 and 20.

The meeting adjourned at 1:25 P. M.

The Council reconvened in the Board Room of the Federal Reserve Building at 2:30 P. M. on March 11, 1947

All members of the Council were present except Mr. Reno Odlin for whom Mr. George M. Wallace served as alternate.

BILL S. 408

E. E. Brown asks whether the Council wishes to give the Board of Governors a resolution on Bill S. 408 as Eccles has suggested.

* * * *

After discussing the matter, the Council approved the following resolution which it was agreed should be sent to the Board with a covering letter, both of which the Board may use publicly at Congressional hearings on the bill:

RESOLUTION

RESOLVED that the Federal Advisory Council of the Federal Reserve System approves Bill S. 408, subject to its being changed in two respects: (1) it should be restricted in its application not to "any financing institution" but to "chartered banking institutions"; and, (2) in line 21, page 2 of the bill, the period after the word "years" should be replaced by a comma, and the following words should be added to complete the sentence: "when it appears to the satisfaction of such Federal Reserve bank that the business enterprise is unable to obtain requisite financial assistance on a reasonable basis from the usual sources".

A copy of the letter which accompanied the resolution follows:

March 14, 1947

My dear Governor Eccles:

You will please find enclosed a resolution of the Federal Advisory Council on Bill S. 408. You may feel free to present this resolution and also this letter at any hearings of Congressional committees on the bill.

The Council's support of Bill S. 408, with the amendments suggested, is given in the belief that some safety valve is desirable for emergency credit situations, and with the recommendation that the lending and guarantee powers of certain other government agencies, including the R. F. C., should be greatly curtailed, and in many instances should be terminated.

Very truly yours,

(Signed) Edward E. Brown

The Hon. Marriner S. Eccles Chairman
Board of Governors of the
Federal Reserve System

President

Washington 25, D. C.

BRANCH FEDERAL RESERVE BANK BUILDINGS

E. E. Brown. The members of the Council have heard from the Chairman of the Board of Governors the problem which confronts the Federal Reserve System in connection with the inadequacy of its branch bank building facilities. All of the members are aware of the problems which confront many of the branch banks because they lack proper working space and facilities. Does the Council wish to take some action regarding this problem?

* * * *

After a discussion of the matter, the Council approved the following preamble and resolution which it was agreed should be sent to the Board of Governors with permission to use the preamble and resolution publicly at Congressional hearings on this subject.

PREAMBLE

It is within the knowledge of various members of the Federal Advisory Council that the working space and facilities of a number of the branches of the Federal Reserve banks are wholly inadequate and make it impossible for these branches to discharge their functions with efficiency and dispatch. These conditions cannot be corrected within the limited expenditures permitted under paragraph 9, Section 10, of the Federal Reserve Act.

RESOLUTION

RESOLVED, therefore, that the Federal Advisory Council recommends the repeal of paragraph 9, section 10 of the Federal Reserve Act.

The meeting adjourned at 3:15 P. M.

A copy of the letter which accompanied the above Preamble and Resolution follows:

March 14, 1947

My dear Governor Eccles:

You will please find enclosed a preamble and resolution adopted by the Federal Advisory Council relative to paragraph 9, section 10, of the Federal Reserve Act. You may feel free to use this preamble and resolution in connection with the hearings of any Congressional Committee on this subject.

Very truly yours,

(Signed) Edward E. Brown
President

The Hon. Marriner S. Eccles, Chairman
Board of Governors of the
Federal Reserve System
Washington 25, D. C.