

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, June 17, 1940, at 11:40 a.m.

PRESENT: Mr. Eccles, Chairman
 Mr. Ransom, Vice Chairman
 Mr. Szymczak
 Mr. McKee
 Mr. Davis
 Mr. Draper

Mr. Morrill, Secretary
 Mr. Bethea, Assistant Secretary
 Mr. Thurston, Special Assistant to the
 Chairman
 Mr. Wyatt, General Counsel
 Mr. Goldenweiser, Director of the
 Division of Research and Statistics
 Mr. Dreibelbis, Assistant General Counsel
 Mr. Gardner, Senior Economist in the
 Division of Research and Statistics
 Mr. Thompson, General Assistant in the
 Secretary's Office

Mr. Ransom stated that he desired to relate to the members of the Board the further developments in connection with the question which had arisen with respect to the request of the Banco Central de Bolivia that the Federal Reserve Bank of New York ship to it gold held by the New York Bank in the name of the Banco Central de Bolivia in regard to which the Banco Mercantil, La Paz, Bolivia, had made adverse claim to 150,000 gold sovereigns. He said that on Saturday, June 15, together with Messrs. Harrison, President, and Logan, Vice President and General Counsel, of the Federal Reserve Bank of New York, he and Messrs. Wyatt and Dreibelbis had gone to the State Department to discuss the matter with Under Secretary of State Welles, but that in view of Mr. Welles' being called to the White House, they

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had called on Mr. Feis, Adviser on International Economic Affairs, that Mr. Feis had asked that the Treasury be represented at the conference, and that the conference had convened with Messrs. Ransom, Harrison, Logan, Wyatt and Dreibelbis, representing the Federal Reserve System, Messrs. Cochran, Technical Assistant to the Secretary of the Treasury, and Bernstein, Assistant General Counsel for the Treasury Department, representing the Treasury, and Messrs. Feis, Collado, Donovan and one other representing the State Department.

The representatives of the State Department, Mr. Ransom said, seemed to be thoroughly familiar with the matter and inquired of Mr. Harrison whether there was any solution of the problem which had occurred to him other than those mentioned in his telegram of June 12, 1940, to the Board, none of which were felt by the State Department to be a satisfactory solution of the problem.

Mr. Harrison offered the suggestion, Mr. Ransom said, of the possibility of a credit being extended to Bolivia by the United States Government and being "blocked".

Mr. Ransom stated that, after considering all of the circumstances, it appeared that the only procedure which seemed to meet all of the difficulties involved in the problem that had been advanced would be for the Bolivian Government, through its Minister in Washington, to communicate with the State Department requesting that, for the reasons

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to be outlined in the letter, the gold be returned to the Banco Central de Bolivia and stating that he was authorized by the Bolivian Government to advise the Government of the United States and the Federal Reserve Bank of New York that the Government of Bolivia and the Banco Central de Bolivia agree with the Government of the United States and the Federal Reserve Bank of New York to hold the Federal Reserve Bank of New York free and harmless from, and to indemnify it against, any loss, liability or expense resulting from or in connection with the shipment of such gold to the Banco Central de Bolivia, and for the State Department to transmit such communication to the Federal Reserve Bank of New York with the advice that the Government of the United States, having duly recognized the Honorable Luis Fernando Guachalla as Minister of the Republic of Bolivia in Washington, accepted his authority to make the statements contained in the letter addressed by him to the State Department and recognized that the effect of the laws and decrees and the rights of the various parties with respect to the gold referred to in the letter were as stated by the Bolivian Minister in Washington in his letter. He said that it had been decided that something should be worked out along these lines which, assuming that the Bank was going to take the risk of proceeding along such lines, would be acceptable to Counsel for the Board and the New York Bank, and to the State and Treasury Departments, and that drafts of the proposed communications had been completed which he would like to present to the Board at this time.

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In considering this matter, Mr. Ransom said, the question of legislation to take care of this particular case and more important cases which will arise in the future was discussed at great length, that Mr. Wyatt had prepared a draft of proposed legislation in this connection which was handed to the representatives of the State and Treasury Departments at the meeting on Saturday, and that they were very favorable to such legislation and had said in effect that they would recommend such action to their respective departments. Mr. Wyatt stated in this connection that Mr. Collado had advised him that he had discussed the question of proposed legislation with Mr. Berle, Assistant Secretary of State, and that Mr. Berle would strongly favor the enactment of legislation of this kind.

Mr. Ransom then stated that he felt the Board should not take formal action on the matter at this meeting but should authorize either Chairman Eccles or him to advise the Federal Reserve Bank of New York that the Board not only interposed no objection to their releasing the gold to the Banco Central de Bolivia but believed it would be in order for them to do so.

At this point Mr. Clayton, Assistant to the Chairman, joined the meeting.

Mr. Dreibelbis stated that Mr. Logan had called him on the telephone today and that they had discussed three points which he would like to bring before the Board. The first he said was the

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request of Mr. Logan that a copy of the letter addressed to Chairman Eccles under date of June 13, 1940, by Under Secretary of State Welles be sent to the New York Bank. Mr. Dreibelbis said that he had mentioned the request to Mr. Collado who had advised that he would like to clear it with Mr. Welles but that he felt confident the Board could operate on the assumption that Mr. Welles would approve such action and that the Board could send a copy of the letter if it desired to.

Mr. McKee suggested at this point that it might be well to approve the proposed communications upon the condition that legislation will be presented to take care of similar problems in the future. It was the general consensus of the other members of the Board, however, that, while legislation on the subject matter was extremely desirable, it would be better not to include such a condition in the approval of the communications and Mr. Ransom requested that he be authorized to discuss the matter further with the State and Treasury Departments and to say that the Board of Governors is desirous of helping in the solution of this problem as speedily as possible, but that this particular instance was only a small part of a larger problem and that the Board would like to have their assurance that they would seek the immediate enactment of legislation dealing with the problem.

Mr. Dreibelbis left the meeting at this point to talk over the telephone to Mr. Logan who was calling from New York and upon his return stated that his second point in connection with the transmission

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of the Board's letter was that Mr. Logan thought it would be helpful, and he agreed, if the letter gave the New York Bank some support from the angle of public policy, for the reason that there is some question whether or not the courts of the United States, with respect to property located in this country, would consider themselves bound by a confiscatory law of another country if that law is against the public policy of this country, and for that reason Mr. Logan would like to have something in his record to show that the action that is being taken in this particular case is in line with, and represents, the public policy of the United States. Mr. Dreibelbis stated that he thought it was very important that the letter contain such support. His third point, Mr. Dreibelbis said, was that he had suggested to Mr. Logan the possibility of considering whether or not it would be well for the proposed letters of the Bolivian Minister and the State Department to be transmitted to the Federal Reserve Bank of New York through the Treasury Department and for the Treasury Department in its letter of transmittal to include a sentence substantially as follows: "that in view of the foregoing letters of the Bolivian Minister and the Secretary of State, it is apparent that the gold should be shipped to Bolivia to the Banco Central de Bolivia, and you are accordingly licensed to make such shipment", the implication being that a license to take any other action would be refused. He said that he had advised Mr. Logan that he felt it would be much better for Mr. Ransom or Mr. Harrison to discuss the matter with the Secretary of the Treasury, with which position Mr.

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Logan agreed, and that Mr. Logan's telephone call during this meeting was to say that Mr. Harrison would much prefer that Mr. Ransom discuss the matter with the Secretary of the Treasury. Following this discussion Mr. Dreibelbis stated that advice had just been received from Mr. Collado that it was all right to send to the Federal Reserve Bank of New York a copy of Mr. Welles' letter of June 13, 1940.

Mr. McKee then suggested that it might be desirable to ask the Chairmen of the Banking and Currency Committees of the Senate and House of Representatives to attend a meeting with the Board for a discussion of the present problem and to ascertain the chances of the immediate enactment of legislation dealing with future similar problems.

Chairman Eccles stated that, in his opinion, the Board should proceed with the program suggested by Mr. Ransom without the condition suggested by Mr. McKee regarding legislation, and then undertake to obtain a clearance from the Treasury and State Departments on proposed legislation, following which representatives of the Board and the State and Treasury Departments could call on Messrs. Wagner and Steagall, as Chairmen of the Banking and Currency Committees of the Senate and House of Representatives, respectively, and say to them that it was the unanimous feeling that legislation should be enacted immediately to meet the situation.

At the conclusion of the discussion, the Secretary was authorized to send to President Harrison, of the New York Bank, a letter to be approved by Chairman Eccles

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and Vice Chairman Ransom advising the New York Bank, in effect, that the Board understands from the discussions which have taken place that the State Department considers the return of the gold to the Banco Central de Bolivia to be of extreme importance to it in carrying out the policy of our Government and that its return will be in aid of and conformity with such policy; that further representations of the Bolivian Government concerning the effect of Bolivian law and of our State Department concerning its acceptance of such representations will be forthcoming; and that, accordingly, a copy of the communication from Under Secretary Welles is being transmitted to Mr. Harrison with the hope that the New York Bank, in the light of all the circumstances, will find it possible to proceed in accordance with the wishes of the Government.

In connection with this matter it was agreed unanimously that Mr. Ransom should discuss with the State and Treasury Departments the question of their cooperation in obtaining appropriate legislation at an early date.

At this point Mr. Dreibelbis left the meeting.

Chairman Eccles stated that a definite date for the continuation of hearings on bill S. 3839, which would amend section 13b of the Federal Reserve Act in regard to loans and discounts for industrial purposes, had not been set, that Senator Wagner, Chairman of the Senate Banking and Currency Committee, had advised that he would endeavor to arrange for a continuation of such hearings and advise Chairman Eccles as to the date on which he could appear before the Committee to present his views on the bill and in regard to the letter addressed to the Committee by Jesse H. Jones, Federal Loan Administrator, under

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date of June 14, 1940, with respect to the bill. Chairman Eccles said that a reply to Mr. Jones' letter was being prepared and that he would like to have it approved by the Board so that he could present it to the Senate Banking and Currency Committee as a reply of the Board of Governors.

Mr. Davis suggested that it might be well for the Board to give consideration to the proposed letter as soon as possible inasmuch as no definite date had been set for a continuation of the hearings, and, if approved, to send the letter to the Banking and Currency Committee and copies to the individuals to whom Mr. Jones' letter was sent. Mr. Draper urged that the whole matter be given prompt consideration.

There was unanimous agreement that the procedure suggested should be followed.

In this connection it was understood that copies of Mr. Jones' letter, together with copies of the Board's reply thereto addressed to the Chairman of the Senate Banking and Currency Committee would be sent to all Federal Reserve Banks, and that when copies of the testimony presented on the bill were available they would also be sent to all Federal Reserve Banks.

At this point Messrs. Davis, Thurston, Goldenweiser, and Gardner left the meeting.

There was then presented a letter dated June 15, 1940, from Mr. Parker, President of the Federal Reserve Bank of Atlanta, requesting approval by the Board, for the reasons stated in the letter, of certain changes in the rates on industrial advances under section 13b of the Federal Reserve Act.

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Following a discussion of the matter it was agreed unanimously that action on the proposed changes should be deferred pending further consideration.

In this connection it was understood that the Secretary would advise Mr. Parker by telephone of the Board's action.

At this point all those present except Messrs. Eccles, Ransom, Szymczak, McKee, Draper and Morrill withdrew from the meeting.

Chairman Eccles then read a letter dated June 12, 1940 which he had received from Mr. Owen D. Young, Chairman of the board of directors of the Federal Reserve Bank of New York, in regard to Mr. George L. Harrison, from which it appeared that Mr. Young had indicated to the officers of the New York Life Insurance Company his feeling that the New York Bank might wish to ask for an extension of time for the acceptance of the resignation of Mr. Harrison as President of the New York Bank, due to the prevailing uncertain conditions, and that Mr. Young had been advised that the directors of the Insurance Company would adjourn until after the 20th of June the meeting that was to have been held on the 12th, so as to enable the board of directors of the New York Bank to make a formal request to be permitted to retain Mr. Harrison in the Bank until January 1 next, if circumstances, in the judgment of the directors, warranted such a request.

After discussion, it was agreed unanimously to authorize Chairman Eccles to advise Mr. Young that, in the light of these developments and Mr. Young's desire for a communication from the Board of Governors indicating its position, the Board of Governors would be glad to have Mr. Harrison defer his departure from the Bank if the

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directors of the Bank decide to make the request for the extension of time, in accordance with Mr. Young's suggestion, and the New York Life Insurance Company acts favorably.

The action stated with respect to each of the matters herein-after referred to was then taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on June 15, 1940, were approved unanimously.

Memorandum dated June 12, 1940, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that Sherman J. Maisel be appointed on a permanent basis as an economic assistant in the Division, with salary at the rate of \$2,000 per annum, effective as of July 1, 1940.

Approved unanimously.

Memorandum dated June 15, 1940, from Mr. Davis to Mr. Morrill requesting that Lewis G. Davidson, who was appointed as a chauffeur for the Advisory Commission to the Council of National Defense, with salary at the rate of \$1,080 per annum, effective as of June 17, 1940, be placed on the Board's payroll with the understanding that as soon as funds were made available to the Commission by Congress he would be transferred to the payroll of the Commission and the Board would be reimbursed for any salary paid.

The employment of Mr. Davidson on the above basis was approved unanimously.

Letter to the board of directors of "The Peoples Bank", Canton, Ohio, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H and the following special

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condition, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Cleveland:

- "4. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$3,127.57, as shown in the report of examination of such bank as of May 15, 1940, made by an examiner for the Federal Reserve Bank of Cleveland."

Approved unanimously, together with a letter to Mr. Fleming, President of the Federal Reserve Bank of Cleveland, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of 'The Peoples Bank', Canton, Ohio, for membership in the Federal Reserve System, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the Board of Directors of the institution. Two copies of such letter are also enclosed, one of which is for your files and the other of which you are requested to forward to the Superintendent of Banks for the State of Ohio for his information.

"It is assumed that your office will follow the matter of the bank's bringing the savings accounts listed on page 16-1 of the report of examination for membership into conformity with the provisions of law and the Board's regulations."

Letter to the board of directors of "The Farmers and Merchants State Bank of Merrill", Merrill, Michigan, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Chicago.

Approved unanimously, for transmission through the Federal Reserve Bank of Chicago.

Letter to the board of directors of "The Farmers State Bank",

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Sweetser, Indiana, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Chicago.

Approved unanimously, for transmission through the Federal Reserve Bank of Chicago.

Letter to Mr. Knoke, Vice President of the Federal Reserve Bank of New York, reading as follows:

"Receipt is acknowledged of your letter of June 12, 1940 enclosing copies of documents concerning the opening and maintaining of accounts for the British and Netherlands' Governments. As was indicated informally to President Harrison in previous discussions of the matter, to which you refer, the Board interposes no objection to the action of the New York Bank."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

W. C. Sweetser
Chairman.