A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, July 24, 1941, at 10:45 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. McKee
Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the Chairman
Mr. Wyatt, General Counsel
Mr. Goldenweiser, Director, Division of Research and Statistics
Mr. Hansen, Special Economic Adviser, Division of Research and Statistics
Mr. Gardner, Senior Economist, Division of Research and Statistics
Mr. Weyl, Junior Economist, Division of Research and Statistics
Mr. Hammond, Chief, Correspondence and Publications Section, Secretary's Office
Mr. Bach, Special Assistant, Correspondence and Publications Section, Secretary's Office

The meeting was called primarily for the purpose of discussing with representatives of the Division of Research and Statistics "Problems of international trade and exchange", which is topic number II on the agenda presented by Mr. Goldenweiser at the informal meeting of the Board on July 14, 1941. The topic has three subheadings, namely, "Inter-American Bank", "Frozen funds", and "Balance of payments with Canada".

Mr. Gardner led the discussion by reviewing the developments
looking to the creation of the Inter-American Bank and reported on
the status of the legislation relating thereto now pending in Congress.
He stated that the legislation was being held in abeyance by the Senate
Banking and Currency Committee largely because Senator Glass had cer-
tain reservations as to the effect the creation of such a bank would
have on the Federal Reserve System and possibly upon member banks op-
erating branches in Latin America. He said that Mr. Berle, Assistant
Secretary of State, had informally asked that the Board render any as-
sistance it could in having the legislation reported out of the Senate
Banking and Currency Committee and that the Board is confronted with
the question whether it desires to play an active role with respect
to the Inter-American Bank or whether it should continue in the some-
what passive role that it has assumed up to this time.

Mr. Goldenweiser said that the question propounded by Mr.
Gardner might properly be divided into three parts, namely, (1) what
action, if any, should the Board take to facilitate passage of the
pending legislation, (2) what steps, if any, should the Board take
at this time to locate men whom it would be willing to recommend
for appointment as United States director and president, respectively,
of the bank, and (3) what contribution, if any, should the System make
in furnishing capital funds in connection with the organization of
the Bank.

Chairman Eccles expressed the view that it was too far in
advance to give any consideration to the part the System might play in the capitalization of the Inter-American Bank if and when it is established. However, in response to a question raised by Chairman Eccles, Mr. Wyatt expressed the opinion that the System could purchase debentures issued by the Inter-American Bank but stated that such action would come under the jurisdiction of the Federal Open Market Committee.

Following a lengthy discussion of the other two points mentioned by Mr. Goldenweiser, the Board unanimously agreed that (1) Chairman Eccles should call Mr. Berle on the telephone and advise him that if the Administration felt that it was desirable to press for the passage of the bill, the Board thought that it would be more effective if the President or Secretary Hull would communicate with Senator Glass and advise him as to the part that the Inter-American Bank was designed to play in hemispheric defense, and (2) that the question of finding men whom the Board would be willing to recommend to the Inter-Departmental Committee for appointment to the positions of United States director and president, respectively, in the management of the Inter-American Bank should be referred to the Board's Personnel Committee with the understanding that any member of the Board or staff who has any suggestions would submit them to Messrs. Szymczak and Draper.

The meeting recessed at 1:15 p.m. and reconvened at 3:00 p.m. with the same attendance as at the morning session except that Messrs. Hammond and Weyl were not present and Mr. Knapp, Junior Economist, Division of Research and Statistics, was in attendance.

Mr. Goldenweiser stated that on the subject of "Frozen funds"
he wished to report that representatives of the Division of Research and Statistics had recently been asked to sit in meetings of the Inter-Departmental Committee, consisting of representatives from the State, Treasury, and Justice Departments, on the question of "Foreign funds control". He said that he had recently discussed with Mr. Bell, Under Secretary of the Treasury, the Board's interest in keeping abreast of developments in this field and that the Treasury had extended an invitation, with the approval of Secretary Morgenthau, to have someone from the Board's organization attend meetings of the committee. He said that Mr. Foley, General Counsel of the Treasury, presided at the meetings and that Mr. Acheson, Assistant Secretary of State, and Mr. Shea, Assistant Attorney General, were the other regular representatives. He also said that Mr. Pehle, Assistant to the Secretary of the Treasury, who has immediate charge of the foreign funds control work, presented specific cases for discussion and that the policy was formulated on the basis of discussion of concrete cases. He said further that Mr. Knapp will attend such meetings regularly and will be accompanied by either Mr. Gardner or himself.

Chairman Eccles raised a number of questions as to the procedure followed by the committee and the efficiency with which the work is being conducted. He inquired particularly regarding the competency of the personnel working under Mr. Pehle. Mr. Knapp stated that the Treasury had been able to obtain competent technicians from
the foreign exchange market in view of the fact that it was dead at present and that it was his understanding that about 75 per cent of the men working on foreign property control matters had been obtained from this source. Mr. Knapp also said that the criticism made by some of the Federal Reserve Banks that cases which they had approved were frequently turned down by the Department without giving reasons for the action taken had been frequently discussed and was one of the reasons why the Treasury called the recent conference which was attended by representatives from all of the Federal Reserve Banks. He added that the Treasury was endeavoring to bring about better coordination in this work and the recent conference had been very helpful in bringing about better understanding on the part of men working in the field. He also said, in response to a question by Mr. McKee, that the Treasury Department's decisions in handling this work had not as yet been challenged in the courts.

At this point Mr. Kindleberger, Associate Economist, Division of Research and Statistics, entered the room.

Mr. Goldenweiser then asked Mr. Hansen to discuss the sub-topic, "Balance of payments with Canada", by reporting briefly on the work of the Canadian and United States Joint Economic Committees. Mr. Hansen stated that these committees had been created last June as an outgrowth of the agreement reached by President Roosevelt and Prime Minister Mackenzie King at Hyde Park on April 20, 1941, for
the purpose of exploring the possibility of a greater degree of economic cooperation between Canada and the United States. Mr. Hansen said that the members of the United States Committee, in addition to himself, were William L. Batt, of the Office of Production Management, Harry D. White, of the Treasury Department, and E. Dana Durand, of the Tariff Commission, although it was understood that Mr. Berle, Assistant Secretary of State, would sit with the committee from time to time as occasion may render desirable. He added that Mr. Kindleberger was serving as Secretary of the United States Committee. Mr. Hansen also reported that the members of the Canadian Committee were R. A. C. Henry, Professor W. A. Mackintosh, J. G. Bouchard, and Alex Skelton, with H. L. Keenleyside, of the Department of External Affairs, sitting with the committee from time to time as occasion may require.

Mr. Hansen stated that the committees had been instructed to study and report to their respective governments on the possibilities of (1) effecting a more efficient and more coordinated utilization of the combined resources of the two countries in the production of defense requirements, and (2) reducing the probable post-war economic dislocation consequent upon the changes which the economy in each country is presently undergoing. He said that the committees had decided to prepare three kinds of reports, (1) continuous reports on our purchases in Canada for the defense effort, (2) reports with respect to researches undertaken regarding materials, resources, and
export control in both countries, and (3) reports concerning long
range studies looking to the post-war period largely relating to the
economics, agricultural policy, etc., of the two countries. He stated
that the joint committees would meet at least every four weeks, that
they had met here in Washington on July 15-16, 1941, that the next
meeting was scheduled to take place in Ottawa on August 8-9, and that
thereafter meetings will be held at intermediate points convenient to
both the Canadian and American committees. He said that during the
time between joint meetings the respective committees plan to meet
once each week.

At the conclusion of Mr. Hansen's report members of the Board raised the
question whether it would be possible to obtain reports periodically regard-
ing the activities of the joint commit-
tees and it was understood that such
reports would be furnished to the Board
from time to time in the future by the Division of Research and Statistics.

Mr. Ransom inquired whether it was the intention of the Board
to meet next Wednesday to continue the discussions of the topics on the
agenda submitted at the informal meeting on July 14, 1941, by Mr. Gold-
emweiser.

After some discussion it was agreed that the Board would meet on Wednesday,
July 30, at 10:30 a.m., and on Wednesday, August 6, at the same hour, with the under-
standing that topic IV, "Problem of borrowing by Government. Methods of financing and
role of the F. R. System", would be dis-
cussed at the meeting on July 30 and that
topic III, "Program for housing during and after defense", would be discussed on August 6.

At this point Messrs. Thurston, Goldenweiser, Hansen, Gardner, Kindleberger, Knapp, and Bach left the meeting.

Mr. Szymczak reported that Mr. Williams, President of the Federal Reserve Bank of Philadelphia, had advised him that, in the absence of objection on the part of the Board, the Philadelphia Bank intended to employ Karl R. Bopp to take charge of personnel at a salary of $6,000 per annum.

Mr. Szymczak recommended that the Board approve the action proposed by Mr. Williams, if taken by the directors of the Philadelphia Bank.

The Board unanimously approved Mr. Szymczak's recommendation, with the understanding that Mr. Szymczak would advise Mr. Williams by telephone of the Board's action.

(Secretary's note: Mr. Szymczak subsequently advised the Secretary's Office that he had called Mr. Williams and advised him accordingly.)

Mr. Szymczak presented a memorandum dated June 18, 1941, from Mr. Morrill, submitting for consideration by the Board a letter dated June 2, 1941, from Mr. Wilson, Chief of the Secret Service Division of the Treasury, requesting that the Board give serious consideration to the preparation and distribution to all banks in the United States of an index, planned by the Division, of counterfeit currency which has appeared since the size of the currency was changed in 1929. The memorandum briefly reviewed the work done and expense incurred by the Board
heretofore in rendering assistance gratis to the Secret Service Division and stated that it was estimated that the necessary materials and labor for printing the 1,300,000 cards comprising the original index would cost approximately $2,500, to which would have to be added the cost of wrapping and mailing the cards which would take a considerable amount of time. It also stated that in the future there would be the cost of printing and distributing a card for each new counterfeit that appeared, and that, if the original index were printed at such times as would not interfere with the regular work of the Board's duplicating section, the printing could be done without any addition to the present force, but inasmuch as it would be desirable to issue future notices immediately so as to inform banks and others as promptly as possible of new counterfeits, that work might interfere with the regular work of the Duplicating and Mail Section. The memorandum stated further that the Secret Service Division has been very well satisfied with the work done for it by the Board's staff in the past, and that this, together with the fact that the Secret Service appears to have difficulty in getting prompt service from the Treasury's duplicating section and does not appear to have sufficient funds to pay for the paper or the printing of the proposed index, undoubtedly has led to this further request of the Board.

Mr. Szymczak said that he had discussed the matter over the telephone with Mr. Bell, Under Secretary of the Treasury, as well as with Mr. Wilson, and had suggested that, as Congress had given the
Treasury the specific responsibility for detecting and suppressing counterfeiting, the Department should bear the expense in connection therewith. He stated that in each case he was assured that due to appropriation limitations the Secret Service could not pay for the materials or printing of the index although Mr. Wilson did agree that he would make arrangements to maintain the index once it has been established. Mr. Szymczak said that, after going into the matter fully, he was disposed to recommend that the Board authorize the Secretary's Office to undertake the preparation and distribution of the original index at the Board's expense with the understanding that no work will be performed by the Board's organization in connection with the maintenance of the index unless arrangements are made to reimburse the Board for the expense involved.

Mr. Szymczak's recommendation was approved unanimously, it being understood that, while the Board does not wish to take credit for the index, there might be included on the cards at some appropriate place a statement to the effect that they were printed and distributed through the cooperation of the Federal Reserve System. In this connection, the Board authorized an increase of $2,300 in the Printing and Binding account of the Service Functions budget of the Secretary's Office to cover the cost of materials which will be used in preparing and distributing the index.

At this point Mr. Wyatt left the meeting and the action stated with respect to each of the matters hereinafter 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 July 16, 1941, were approved unanimously.

The minutes of the meetings of the Board of Governors of the Federal Reserve System held on July 17, 18, 21, 22, and 23, 1941, were approved and the actions recorded therein were ratified unanimously.

Letter to the board of directors of "The Onida Bank", Onida, South Dakota, a State institution organized to succeed "The Onida National Bank", stating that, effective if and when the successor bank is duly authorized to commence business by the appropriate State authorities and is entitled to the benefits of insurance under Section 12B of the Federal Reserve Act, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H and the following special conditions, 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 Minneapolis:

"4. At the time of its admission to membership, such bank shall have a paid-up and unimpaired capital stock of not less than $25,000 and a surplus of not less than $5,000, and shall have assets and liabilities substantially the same in amount and character (with due allowance for the contemplated retirement of preferred stock, the proposed write-down in fixed assets, and for changes arising from the ordinary course of business) as shown in the report of examination of The Onida National Bank, Onida, South Dakota, as of June 2, 1941, made by examiners for the Federal Reserve Bank of Minneapolis."

"5. In the acquisition of the assets of The Onida
"National Bank, banking house and furniture and fixtures shall not be set up on the books of the bank in an amount in excess of $12,000."

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

"The Board of Governors of the Federal Reserve System approves the application of 'The Onida Bank', Onida, South Dakota, a State institution organized to succeed The Onida National Bank, for stock in the Federal Reserve Bank of Minneapolis, effective if and when the successor bank is duly authorized to commence business by the appropriate State authorities and is entitled to the benefits of insurance under Section 12B of the Federal Reserve Act, 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 South Dakota for his information.

"As you know, the new bank is not eligible for membership in the System unless it is entitled to the benefits of deposit insurance. The Board has received a copy of a letter dated July 23, 1941, from the Federal Deposit Insurance Corporation to the bank, a copy of which is enclosed, setting forth the conditions upon which the State bank has been approved for deposit insurance. We will advise you promptly upon receipt of advice from the Federal Deposit Insurance Corporation that such conditions have been complied with and arrangements may then be made for completion of the bank's admission to membership.

"Before issuing stock in the Federal Reserve Bank of Minneapolis to the new State institution, you are requested to satisfy yourself that its capital stock of $25,000 has been paid in, and that all agreements and contracts entered into between it and The Onida National Bank covering the purchase of assets from, and the assumption of liabilities of, that bank and any and all other agreements and contracts between such bank and the stockholders and/or directors or other individuals or concerns, incident to the organization of the new State institution, have been considered
"by your counsel and that he is satisfied as to their legal aspects. It is requested that a copy of the opinion of your counsel given in this connection together with copies of any such agreements or contracts, be forwarded to the Board as soon as possible."

Telegram to Mr. Sproul, President of the Federal Reserve Bank of New York, reading as follows:

"Following cablegram is being referred to you for reply in accordance with discussions of Logan with Dreibelbis over telephone: 'July 23 Capetown Beg to inform you that several orders of payment on behalf Greek diplomatic agents and functionaries as well as other urgent orders in execution of liabilities remain unexecuted owing to demand that Bank of Greece should nominate representative United States with unlimited powers control and dispose of all assets of Bank of Greece. As such procuration is contrary our statutes and if necessary can be given only after authorization by law would be grateful if you would urgently intervene for immediate execution our orders pending settlement of above question. Situation created most disagreeable as Greek diplomatic representatives in several countries remain without any funds. We have found no such difficulty in any other country Many thanks Varvaressos Governor Bank of Greece!"

Approved unanimously.

Thereupon the meeting adjourned.

Approved:

Chairman.

Approved:

Secretary.