

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, December 10, 1941, at 11:12 a.m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the
Chairman
Mr. Wyatt, General Counsel
Mr. Goldenweiser, Director of the Division
of Research and Statistics
Mr. Vest, Assistant General Counsel
Mr. Gardner, Senior Economist, Division of
Research and Statistics
Mr. Hansen, Special Economic Adviser, Divi-
sion of Research and Statistics
Mr. Kindleberger, Associate Economist,
Division of Research and Statistics

ALSO PRESENT: Mr. Adolf A. Berle, Jr., Assistant Secretary
of State

Mr. Goldenweiser stated that the joint economic committees of Canada and the United States had been discussing certain problems which had arisen in connection with maintaining an adequate supply of dollar exchange in Canada, that Mr. Hansen, Chairman of the United States Committee, and Mr. Berle, who is an occasional member of that Committee, had been discussing the matter, and that this meeting had been called to afford Mr. Berle an opportunity to discuss some of his personal views as to how the problem might be met.

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Mr. Berle stated that there were in existence agreements between the United States and Canada which were undertaken to keep the economies of the two countries in balance during the period of the emergency and possibly thereafter, that one of the purposes of these agreements was to try to prevent the Canadian currency situation from getting out of balance in relation to our own, that it became apparent to the joint committee after considering the matter both from a near-range and a long-range viewpoint that a situation might readily arise in which Canada would lack dollar exchange, and that when the war ended the condition might become a serious one. He said that the Canadian position was that it did not wish to borrow money abroad or to avail itself of lend-lease aid, but that it did not have any objection to issuing additional Canadian bonds, that this policy had had certain undesirable results, including the almost complete stoppage of travel in the United States by Canadians because of the unavailability of exchange for that purpose, and that if Canada had to draw increasingly on the United States for war supplies it would have either to increase its foreign debt which it had tried to avoid, depreciate its currency, or run out of dollar exchange altogether. Mr. Berle added that, on the basis of present information, the problem was not a pressing one except for such things as the restriction of Canadian travel in this country, that the reason for his bringing the matter up at this time was so that this country could be prepared to meet the problem before it arose,

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and that in the circumstances the suggestion had been made by the Joint Committee that an endeavor be made to explore ways and means by which the situation could be met in the light of the Canadian policy of not wishing to incur further foreign debts and the fact that a substantial source of dollar exchange comes from Canada's gold production which might be shut off by the war. He felt that because of the close relations between the two countries the most effective action would be to amalgamate the currency systems of both, that this, of course, would be impossible politically, that in these circumstances the question might be explored whether anything could be done by the Federal Reserve System through open market operations in Canadian securities, and that a suggestion had come from another source that if the Canadian securities were payable in gold the purchase of such securities by the Federal Reserve Banks might conceivably be within the present powers of the System to deal in gold and bullion.

During the course of his statement, Mr. Berle made it clear that in this entire matter he was speaking as a member of the joint committee and not as a representative of the State Department. He also said that he had not discussed the matter with the Treasury Department which was represented on the Joint Committee and was cognizant of the problem. He added that he felt an approach might be made to the problem in one of the ways suggested in a limited way

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as an experiment without raising at this time the broad long-range aspects of the problem that might be involved.

Mr. Hansen expressed the opinion that if a beginning could be made along the lines proposed it might have very broad possibilities of developing machinery through the central banks and be extremely important as a means of meeting post-war problems.

Chairman Eccles expressed the feeling that the central banking mechanism in this country, with its privately-owned Reserve Banks, would have to undergo some very fundamental changes which would bring the System into closer collaboration with the Government, that until that occurred the problem under consideration could not be handled satisfactorily by the System, and that what was proposed by Mr. Berle might require legislation which would meet with strong opposition.

Mr. Berle expressed the personal opinion that during the war the North American continent might well become one for all economic purposes, and perhaps for all political and military purposes as well, that if Canada should get into trouble from an economic standpoint the United States would have to lend assistance, which probably would be in the form of some kind of loan by the Treasury the funds for which would be borrowed in the form of bonds in the American market, so that substantially the same result would be obtained as by his proposal except by a more circuitous route.

Chairman Eccles said that so long as there were two sovereign

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powers it would not be possible to have a single monetary system, that without that the problem would have to be met by an extension of credit or a provision of funds in some other manner, and that it was not the place of the Federal Reserve System to undertake to meet that problem. In response to an inquiry from Mr. Berle as to why the problem could not be met by the central bank, Mr. Eccles stated that the System did not have the funds with which to make an advance which might not be repaid, and that the whole question was related to the economic relations of the two countries and involved the questions of tariff policy, exchange rates, and other matters over which the System had no control.

In response to an inquiry from Mr. Goldenweiser as to the amounts that might be needed to provide Canada with dollar exchange, Mr. Kindleberger stated that on the assumption that gold production would be maintained it had been estimated by a subcommittee of the Joint Committee as of September 30, 1941, that there would be a deficit of 36 million dollars in the fiscal year ending April 1942 and a deficit of 88 million dollars in the fiscal year ending April 1943, but that if certain orders for Canadian goods were continued the amount required in the fiscal year 1943 might be substantially smaller or eliminated entirely.

In response to an inquiry from Chairman Eccles, Mr. Berle stated that if the United States should make advances against holdings

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in Canada of American securities the immediate situation would be met for some time to come, but that that would only delay rather than solve the problem.

Chairman Eccles referred to the effect that the purchase of Canadian securities by the Federal Reserve Banks might have on the American credit situation and to the lack of the necessary funds in the Federal Reserve System for transactions of this kind, and suggested that the matter should be handled through the stabilization fund operated by the Treasury. He added that the question in his mind was whether the Federal Reserve System should undertake any operations of the kind under discussion when the responsibility for stabilization of foreign exchanges was in the Treasury. He felt that if the Federal Reserve System had the responsibility for operating the stabilization fund the problem might well be handled by the System but that under the present arrangement action by the System would result in two agencies of Government operating in the field of exchange stabilization to which the Treasury would object.

In response to an inquiry from Mr. Berle as to whether study was being given to the changes that should be made in the central banking structure to enable it to handle problems arising under the new conditions that were developing, Chairman Eccles stated that he did not feel that sufficient work was being done in that field.

Mr. Berle said that he felt the System was a magnificent instrument which could be used to meet some of these problems, that it

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should be given added powers to check inflation to the extent that that was not being done by taxation and other means, and that consideration might be given to a bill which would remove the Federal Reserve Banks from private ownership if it was felt that that needed to be done.

Mr. Goldenweiser expressed the opinion that the stabilization fund was available for experiments such as that proposed by Mr. Berle, that in these circumstances it would not be wise for the Federal Reserve System to act in the matter without conferring with other agencies of Government, but that there should be some joint decision on the matter and the respective roles of the different agencies of Government assigned for meeting the situation.

Mr. Berle stated that the Joint Committee had taken the matter up with the Board first because it seemed to be a matter in the System's field, and that it would be taken up with the Treasury.

There followed a discussion of the powers of the Federal Reserve Banks to make advances to foreign central banks in the form of purchases of acceptances and bills of exchange, and Mr. Wyatt stated that in the 20's that was done by the New York Bank for the purpose of assisting certain European countries to return to the gold standard and that the authority was clearer for action in this form than in any other.

Mr. McKee inquired whether it was expected that similar questions would arise in connection with nations south of the United States, and Mr. Berle replied that the Inter-American Bank was designed to meet

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that situation and that at the moment there was no problem there because the volume of war purchases had been such that there was ample dollar exchange in the southern countries.

In a further discussion of whether the purchase of bankers' acceptances or bills of exchange would satisfactorily meet the situation, Mr. Berle made the statement that he felt that that would be a means of meeting the present problem but that eventually a satisfactory solution would have to be found for the major problems involved.

Chairman Eccles pointed out that if a substantial amount of funds were placed in the money market through the purchase of securities or acceptances it would be necessary for the System to have the necessary powers to control the inflationary effects of that action, and that such powers were an essential part of any program that might be adopted.

Mr. McKee inquired whether, if Mr. Berle intended to talk with the Treasury and possibly others about the matter, it would be helpful to him to have a memorandum of what the System could do under its existing powers, and Mr. Berle replied that such a statement would be very helpful and that if prepared it should be sent to Mr. Hansen as Chairman for the Committee for the United States.

It was understood that Messrs. Goldenweiser and Wyatt would undertake the preparation of such a memorandum.

Mr. Berle made the further statement that he felt a solution of the problem should be sought now for the reason that it was possible

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that it would arise in other quarters and that if it were not adequately met our military position might be very seriously affected.

Chairman Eccles commented that the central banking mechanism would be the best possible mechanism for use in this situation as it is a continuing organization in a position to carry out a program in conjunction with the Administration without having to get special legislation for everything that is done, but that in order to take action in this field it should have the necessary powers to meet the international monetary situation as well as the effects of action in the domestic picture, and that up to the present time these powers were divided between the Treasury and the Federal Reserve System.

Mr. Berle concluded his comments with the suggestion that it might be possible to meet the immediate problem without being in a position of adopting a program to meet all of the questions that might arise, and that, if the problem of a shortage of dollar exchange could not be met in the case of Canada, which is so much like the United States from an economic and political standpoint, it would be difficult to meet it anywhere.

Chairman Eccles concurred in Mr. Berle's statement but felt that the possibilities should be looked into as fully as possible for the reason that it would not be possible to work out a program that would be adequate without foreseeing the possible implications of that program, and that he was referring to that phase of the matter at this time, not

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because he was opposed to taking any action until the System had the necessary powers to meet the situation fully, but to indicate the need for some fundamental changes in the central banking mechanism and in the approach to the whole problem.

The discussion was concluded with statements by members of the Board that they appreciated very much Mr. Berle's interest in the matter and that they would be glad to cooperate in the solution of the problem.

Thereupon, Messrs. Berle, Hansen, and Kindleberger left the meeting.

Mr. Wyatt referred to the letter addressed by the Board on October 16, 1941, to the Presidents of all Federal Reserve Banks enclosing a copy of a letter sent to Chairman Eccles by the Attorney General of the United States requesting advice as to any measures in connection with the defense activities of the Federal Reserve System which we could foresee would require State action. Mr. Wyatt stated that complete replies to the Board's letter had not yet been received, and that another letter had been received under date of December 4, 1941, from Lawrence M. C. Smith, Chief of the Special Defense Unit of the Department of Justice, requesting (1) copies in draft form of legislative proposals relating to national defense which the Board might wish to offer, and (2) that, in the event State legislation or State administrative action is suggested by the Board, someone in the Board's organization be designated to work with representatives of the Council of State Governments and the Cooperating Committee. Mr. Wyatt stated further that it was doubtful whether any of the suggestions received

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from the Federal Reserve Banks were of sufficient importance to take them up at this time but that a letter might be addressed to Mr. Smith which would request an opportunity to present suggestions later in the event occasion should arise in which it would be desirable to do so.

Mr. Wyatt concluded his statement with a comment that yesterday afternoon he telephoned Mr. Hamilton, General Counsel of the Reconstruction Finance Corporation, with reference to the matter and was advised by him that the Corporation would have no legislation to propose.

Mr. McKee suggested that Mr. Wyatt might also confer with the General Counsel for the Federal Deposit Insurance Corporation to see what, if any, action was being taken by that agency in the matter.

At the conclusion of the discussion, upon motion by Mr. Ransom, it was agreed unanimously that a letter along the lines proposed by Mr. Wyatt would be sent to Mr. Smith upon approval by Mr. Szymczak.

Secretary's note: The letter sent to Mr. Smith today in accordance with the above action was in the following form:

"This will acknowledge receipt of your letter of December 4, 1941 with reference to the offer of the Council of State Governments to assist Federal agencies in securing State legislative or administrative action considered by them to be helpful in relation to the national defense effort.

"Upon receipt of the Attorney General's letter of October 7, 1941 on this subject, the Board addressed letters to the Presidents of all Federal Reserve Banks requesting advice of any problems arising in their districts in connection with the defense program which might be alleviated by State legislation or administrative action on the part of

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"the State authorities, and particularly whether it would be possible to suggest any State legislation which would facilitate the financing of subcontractors having subcontracts arising out of the defense program. This was done because the operations of the Federal Reserve System are decentralized on a regional basis through the twelve Federal Reserve Banks, which are, therefore, in more direct contact with problems of this nature than is the Board of Governors and because, at the request of the Advisory Commission to the Council on National Defense and the Executive Director of the Supply Priorities and Allocation Board, the Federal Reserve Banks have been assisting those organizations and the War and Navy Departments in connection with the placing and financing of contracts arising out of the defense program.

"In response to the Board's inquiry, the Federal Reserve Banks have suggested several items of State legislation which might be of some assistance in facilitating the financing of contractors and subcontractors in connection with the national defense program; but complete responses to the Board's inquiry have not yet been received from all the Federal Reserve Banks and the Board has not had an opportunity to give sufficient consideration to the suggestions which have been received to enable it to determine whether any of them have enough merit to warrant a definite recommendation that they be adopted.

"The Board will give further consideration to this subject and may desire to communicate with you further if it decides to recommend State legislation or administrative action in connection with the national defense program. If the Board decides to submit any such recommendation, it will at that time designate a member of its staff to be available to work with the representatives of the Council of State Governments and the Committee of your office in the further consideration of such recommendations."

At this point Messrs. Thurston, Wyatt, Goldenweiser, Vest, and Gardner 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 December 9, 1941, were approved unanimously.

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Memorandum dated December 3, 1941, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that the following increases in salaries of employees in that Division be approved:

<u>Name</u>	<u>Designation</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Baur, Helene F.	Clerk	\$2,200	\$2,300
Dyer, Helen R.	Library Assistant	2,200	2,300
Vincent, Helen	Clerk	2,200	2,300
Reehling, Ruth H.	Clerk	2,100	2,200
Taylor, Alice M.	Clerk	2,100	2,200
Evans, Ethel L.	Clerk	2,040	2,200
Robinson, Harvey A.	Library Assistant	2,000	2,160
Fishburn, Judith M.	Clerk	1,980	2,500
Wills, Norma F.	Clerk-Stenographer	1,980	2,100
Tewksbury, Elizabeth P.	Clerk	1,920	2,040
Ford, G. Elizabeth	Clerk	1,900	2,200
Scott, Mavis N.	Clerk-Stenographer	1,900	2,040
Burgess, Caroline M.	Library Assistant	1,860	1,980
Esser, Eleanor M.	Library Assistant	1,860	2,040
Barnett, Lucille	Clerk	1,800	1,920
Barnett, M. Elizabeth	Clerk	1,800	2,000
Counts, Catherine M.	Clerk	1,800	1,980
Evans, Louise E.	Clerk-Stenographer	1,800	1,980
Glaser, Vera R.	Stenographer	1,800	1,980
Schwartz, Rose H.	Clerk-Stenographer	1,800	1,980
Swindlehurst, Alice	Clerk	1,800	1,920
Bertolini, Josephine	Clerk	1,440	1,560
Bohlin, Mary Hedda	Clerk	1,440	1,680
Faulkner, Kathryn Stevens	Clerk	1,440	1,620
Gaither, Anna Margaret	Clerk	1,440	1,620
Hague, Cora Jean	Clerk	1,440	1,620
Harrington, Mary Jane	Library Assistant	1,440	1,620
Hill, Gretchen	Clerk	1,440	1,620
Johnston, Margaret	Clerk	1,440	1,620
Kelly, Nancy B.	Clerk-Stenographer	1,440	1,680
Larson, Louise H.	Clerk-Stenographer	1,440	1,620
Morelle, Wilhelmy	Clerk	1,440	1,620
Nelson, Elsie T.	Clerk	1,440	1,680
Rhodes, Isabelle N.	Clerk	1,440	1,620
	Clerk	1,440	1,620

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<u>Name:</u> (Continued)	<u>Designation</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Rumsey, Elizabeth V.	Clerk	\$1,440	\$1,620
Stewart, Maxine Glad	Clerk	1,440	1,620
Wilson, Lucile	Clerk-Stenographer	1,440	1,620
Van Brakle, Raymond	Messenger	1,320	1,440
Newton, James Harvie	Messenger	1,200	1,260

Approved unanimously, with the understanding that the increases would become effective on December 16, 1941.

Memorandum from Mr. Wyatt, General Counsel, recommending that approval be given to an extension of annual leave of not to exceed ten days for Miss Mary F. Tesh, a stenographer in the Office of General Counsel, with the understanding that the leave will be deducted from leave that will accrue in 1942.

Approved unanimously.

Letter to Mr. McLarin, President of the Federal Reserve Bank of Atlanta, reading as follows:

"The Board of Governors approves the change in the personnel classification plan of your New Orleans Branch as requested in your letter of December 5, 1941."

Approved unanimously.

Letter to the board of directors of the "Bank of Lake Mills", Lake Mills, Wisconsin, 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.

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Letter to Mr. Fleming, President of the Federal Reserve Bank of Cleveland, reading as follows:

"Mr. Hays recently sent us the letter of November 24, 1941, from the President of the Ohio Association of Insurance Agents, Inc., addressed to you in regard to section 4 (f) (5) of Regulation W, which states that the amount of any insurance premium for which credit is extended and of any finance charges or interest by way of discount included in the principal amount of the obligation, or the sum of these amounts, must be set forth in a written statement, of which a copy is required to be given to the obligor.

"Mr. Dakin drew the conclusion from this that the Federal Reserve System is sanctioning a procedure which the Insurance Department of the State has condemned and stated that the membership of the Ohio Association of Insurance Agents had adopted a resolution urging an amendment to the regulations to require the setting forth of the insurance premium as a separate amount. He also called attention to certain rulings issued by the Superintendent of Insurance of Ohio.

"As you know, one of the underlying thoughts of the Board with respect to Regulation W was that it should not be used as a means for the imposition of requirements upon registrants which were not necessary to the accomplishment of the main objectives of the Executive Order and it was in this spirit that this and other provisions of the Regulation were drawn. On the other hand, it was not the intention of the Board that its Regulation should be treated as sanctioning improper practices or, in the instant case, as justifying a failure to furnish to the buyer the information as to insurance which appears to be required by the State authorities. Therefore, it has occurred to us that you might take the matter up with the State Superintendent of Insurance for the purpose of ascertaining his views concerning the position taken by the Ohio Association of Insurance Agents and of making the Board's general approach to the matter clear to him if it is not already understood.

"It may be added also that when the question of further amendments to the Regulation is taken up, the matter of requiring an itemization of all charges is one of the

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"subjects which, for these and other reasons, will be given special attention. You might say also to Mr. Dakin that, if he has any suggestions to make, you will be glad to receive them and pass them on to the Board."

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks, transmitting forms and instructions in connection with the next call for condition reports of State member banks and their affiliates.

Approved unanimously.

Letter to Mr. James Fox, Sheboygan, Wisconsin, reading as follows:

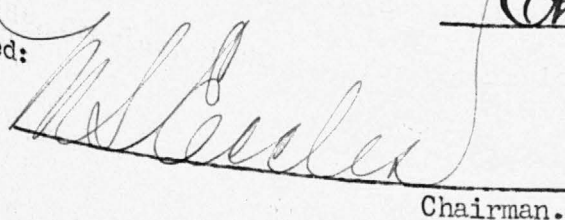
"This is in reply to your letter of November 10, inquiring about certain studies now being made of probable post-war economic problems.

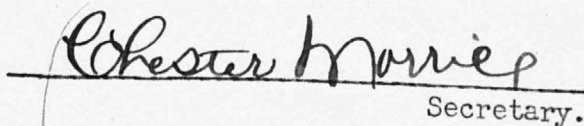
"As you realize, the Board is continuously making studies of various matters relating to the financial and economic situation and the studies being made of post-war problems is one phase of that program. It is not possible at this time to state whether any of the results of these studies will be published by the Board but in the event they are released they will appear, or will be referred to, in the Federal Reserve Bulletin which is issued monthly by the Board of Governors. It is understood that the Twentieth Century Fund has prepared a survey of institutional research on American post-war problems which contains a selected bibliography and it may be possible for you to obtain a copy of this publication."

Approved unanimously.

Thereupon the meeting adjourned.

Approved:


Chairman.


Secretary.