

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, February 11, 1943, at 10:30 a.m.

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

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. Dreibelbis, General Attorney
 Mr. Wyatt, General Counsel
 Mr. Smead, Chief of the Division of Bank
 Operations
 Mr. Leonard, Director of the Division of
 Personnel Administration

Mr. Evans stated that the Personnel Committee had been informed that Mr. Fleming, President of the Federal Reserve Bank of Cleveland, was planning to retire around the middle of next year, that Mr. Zur Linden, First Vice President, was in poor health and therefore would retire in the near future, and that Mr. Fleming had suggested that Mr. Hays, Vice President, be made First Vice President with a view to becoming President when Mr. Fleming would retire. Mr. Evans also said that a committee of directors of the Bank desired to meet with the Board of Governors for a discussion of the matter and that a conclusion should be reached by the Board as to what its position would be with respect to the proposed elevation of Mr. Hays.

Mr. Szymczak said that Mr. Brainard, Chairman of the Cleveland Bank, had been in his office earlier in the week in connection with a

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proposed meeting of the executive committee of the Chairmen's Conference and had stated that a committee of directors of the Cleveland Bank, consisting of Messrs. Brainard, Klages, Millsop, and McDowell, would like to meet with the Board of Governors on February 22, 1943, at 9:30 a.m. for the purpose of discussing the question of official personnel at the Federal Reserve Bank of Cleveland. In addition to the problem of a President and First Vice President of the Bank, Mr. Szymczak said, the committee felt that the Bank was in need of an additional Vice President who would be paid a salary at the rate of \$12,000 per annum, and the directors would like to know whether the Board would look with favor upon such an appointment and whether, if the appointment were made, the Board would be willing to grant Mr. Hays a salary increase in an amount which would raise his present salary of \$11,000 per annum to somewhat above the salary of the new Vice President.

There ensued a general discussion of the official personnel problem at the Cleveland Bank and of men who might be considered for the position of President and First Vice President.

There was general agreement that at the meeting on February 22, 1943, the committee of directors should be advised substantially as set forth below. Mr. McKee felt that it would be preferable to avoid any commitment with respect to the First Vice President of the Bank so that the new President would have an opportunity to make a recommendation.

The Board would not be willing to approve the appointment of Mr. Hays as President of the Bank upon the retirement of Mr. Fleming, but it would be willing, if a satisfactory individual could be agreed upon to serve as President,

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to approve the appointment of Mr. Hays as First Vice President. In view of the fact that the responsibilities of the System are predominantly public in character, the position of President at the Cleveland Bank should be filled preferably by someone thoroughly familiar with the System and its operations or, if such a person is not available, by someone who has had broad training in the field of public service. Among the men who appear to have such qualifications are Mr. Stroud, First Vice President of the Federal Reserve Bank of Dallas, and William I. Myers, head of the Department of Agricultural Economics and Farm Management at Cornell University.

Should the directors decide to appoint another Vice President of the Bank, the Board would be willing to approve a salary up to \$12,000 per annum for a properly qualified individual and to approve an appropriate adjustment in the salary of Mr. Hays as Vice President.

Mr. Ransom called attention to Senate Bill S. 575 which was introduced by Senator McKellar on January 25, 1943, and which would require that officers in the executive branch of the Government who receive compensation at a rate in excess of \$4,500 per annum be appointed by the President, by and with the consent of the Senate. Mr. Ransom stated that he was bringing the matter to the attention of the Board because of the possibility that, if passed, the statute might be held to apply to Board employees.

In response to a request from Mr. Ransom, Mr. Dreibelbis stated that, as a matter of statutory interpretation, it was believed that the bill in its present form would not apply to the Board's employees but that the question was one on which the opposite conclusion might conceivably be reached. The reasons for Mr. Dreibelbis' opinion are set forth in a memorandum dated February 1, 1943, from Mr. Shay, Assistant Attorney, with respect to the effect of the McKellar bill on the Board's employees.

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There was general agreement that there was nothing for the Board to do in the matter at the present time but that Mr. Dreibelbis should be asked to follow the progress of the bill and keep the Board informed as to any important developments in connection with it.

Mr. Leonard withdrew from the meeting at this point.

In connection with the above matter, reference was made to Senate Bill S. 658 which was introduced by Senator Taft on February 4, 1943, and which would repeal the authority of the Federal Reserve Banks as contained in paragraph 6 of section 18 of the Federal Reserve Act to issue Federal Reserve Bank notes and would require all outstanding Federal Reserve Bank notes to be presented promptly to the Treasury for payment and retirement. It was stated that a routine request had been received from Chairman Wagner of the Senate Banking and Currency Committee for a report on the bill and that a draft of report was in the course of preparation.

Question was raised as to whether the report should make reference to two other matters which were currently before the Board, i.e., the further extension of the authority of the Federal Reserve Banks to pledge Government securities as collateral for Federal Reserve notes and the repeal of the provision of paragraph 3 of section 16 of the Federal Reserve Act requiring that, when Federal Reserve notes issued by one Federal Reserve Bank are received by another, they shall be promptly returned for credit or redemption to the Federal Reserve Bank through which they were originally issued or, upon direction of such Federal Reserve Bank, forwarded direct to the Treasurer of the United States for retirement.

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In this connection, reference was made to a memorandum prepared under date of January 18, 1943, by Mr. Smead, which was submitted to the Board by Mr. Szymczak with a memorandum dated January 22, 1943, in which the suggestions were made that the Board request Congress to extend to June 30, 1948, the authority of the Federal Reserve Banks to pledge Government securities as collateral for Federal Reserve notes and that the provision of paragraph 3 of section 16 above referred to be eliminated.

It was agreed that a draft of a report on Senate Bill S. 658 should be submitted to the Board for approval in accordance with the conclusions outlined during the discussion and that separate letters to the Chairmen of the Banking and Currency Committees of the Senate and the House of Representatives with respect to the two amendments to the law relating to Federal Reserve notes should be prepared by the Legal Division for consideration by the Board, it being understood that these letters would suggest that the authority to pledge Government securities as collateral for Federal Reserve notes be made permanent.

Mr. Ransom referred to a letter received from Assistant Attorney General Thurman Arnold under date of January 22, 1943, in which a request was made for permission for one or more representatives of the Antitrust Division of the Department of Justice to inspect certain information furnished by money lenders in compliance with Regulation W to the Federal Reserve Banks of Atlanta, Dallas, St. Louis, Chicago, and Philadelphia. He stated that he had discussed the matter over the telephone with Attorney General Biddle and, at his request, had asked Mr. Arnold to come over to lunch with Mr. Dreibelbis and Mr. Ransom, that they had spent two hours discussing the matter on February 4, that Mr. Arnold had expressed the feeling that there was in existence a group

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which was exercising a control or domination over a substantial portion of the small loan business in the United States and that data in the hands of the Federal Reserve Banks might disclose sufficient information with respect to such an organization to enable the Department of Justice to bring an indictment as a means of developing a more complete picture of any control or domination that might exist. Mr. Ransom made the further statement that representatives of the Antitrust Division were now occupied with investigations relating to this matter in Atlanta, Dallas, St. Louis, Chicago, and Philadelphia and apparently were leaving with the Federal Reserve Banks in these cities memoranda of the kind of information they would like to obtain from the Reserve Banks. It was Mr. Ransom's opinion that, in view of the pending appointment of Mr. Arnold as a Federal judge and the fact that when that appointment was made Mr. Pearce, Special Assistant to the Attorney General who was conducting the investigations above referred to, probably would be assigned to other work, it would be better to defer a reply to Mr. Arnold's letter until it could be determined whether the need for the data requested in the letter would actually arise.

There was unanimous agreement that pending further developments the reply to Mr. Arnold's letter should be deferred.

In accordance with the action taken at the meeting of the Board on January 19, 1943, there had been prepared in the Legal Division and circulated among the members of the Board alternative drafts of letters to Mr. Paddock, President of the Federal Reserve Bank of Boston, with

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respect to the attorneys' fees in connection with the case of Ford vs. C. E. Wilson & Company, Inc.

Mr. Szymczak stated that, when Mr. Paddock was in Washington in connection with the meeting with the Presidents of the Federal Reserve Banks, he had discussed this matter with him, and that Mr. Paddock was very desirous of retaining the present relationship with Mr. Ketchum, Associate Counsel of the Bank. The matter had also been discussed, Mr. Szymczak said, with Mr. Creighton, Chairman of the Federal Reserve Bank of Boston, when he was in Washington recently.

The alternative drafts of letters were read and the longer draft was approved unan-
imously in the form set forth below. Mr. Ran-
som stated that he was in full agreement with
the proposed letter and the position taken by
the Board on the subject of the payments for
legal services in the present instance and was
approving the letter for this reason. He said
that he again wished to state that, for reasons
previously explained by him, he was not in
agreement with the Board's general policy of
favoring the employment by the Federal Reserve
Banks of inside counsel, and that his vote in
approving the letter to Mr. Paddock should
not be regarded as indicating a reversal of
his previous and continuing position on this
question.

"This is in response to your letter of December 9, 1942, enclosing for approval the bill of Mr. Phillips Ketchum for \$14,752.27 for professional services and cash disbursements in connection with the suit of Howard W. Ford vs. C. E. Wilson & Company, Inc., and the Federal Reserve Bank of Boston.

"This bill, together with previous bills rendered and approved by the Board, covers the services of three firms and, if approved, would result in the payment of the following fees in the matter:

Mr. Ketchum	\$10,500
Brickley, Sears & Cole, Boston, Massachusetts	7,000
Gross, Hyde & Williams, Hartford, Connecticut	<u>1,500</u>
Total	\$19,000

In addition, the expenses of the litigation have been close to \$1,000.

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"It appears from the Board's files that the suit was instituted for \$20,000 but, since the purchase price of the merchandise on account of which the plaintiff was suing and the judgment which the plaintiff finally obtained against C. E. Wilson & Company were only slightly in excess of \$17,000, the amount in issue as between the plaintiff and the Federal Reserve Bank of Boston could hardly be regarded as more than the latter sum. Furthermore, while the Board recognizes that there were other creditors who may have been guided by the judgment, the questions involved in the litigation were not novel but, on the contrary, were the kind 'more or less inherent in safeguarding or servicing industrial loans of a certain type'.

"No part of the fee is credited against Mr. Ketchum's annual retainer of \$2400. Nor does it take into account the \$1610 fee previously paid for advice in connection with the loan to C. E. Wilson & Company which must have included advice on some of the questions subsequently at issue in the litigation which followed.

"In all the circumstances, the Board does not feel that it can approve the payment of the bill.

"In reviewing the bill the Board has also looked into the matter of the legal expenses of the Boston Bank generally. You will recall that in 1934 Mr. Carrick was made 'General Counsel' of the bank. At the present time a substantial part of his salary is allocated to his activities as 'General Counsel'. In addition, the bank in 1934 employed Mr. A. C. Kennel, Jr., now Assistant Counsel. He was originally employed at a salary of \$2500 and is now receiving \$5,000 which would indicate the satisfactory nature of his work. These facts raise the question of the necessity of continuing the position of 'Associate Counsel' and continuing to pay a retainer of \$2400 a year for routine advice which it would seem should be obtainable from the legal staff which the bank maintains on a full-time basis. Discontinuance of this service would be consistent with the practices followed and expenses incurred by other Federal Reserve Banks in comparable situations. This does not mean that the Board does not recognize that it may be necessary from time to time for a Federal Reserve Bank to employ outside counsel in connection with litigation or legal matters of a special nature.

"The Board will appreciate an expression of your views in the light of these comments."

There was then presented a memorandum dated February 3, 1943, from Mr. Szymczak submitting an interim report prepared by Mr. Gardner,

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Senior Economist in the Division of Research and Statistics, relating to the developments that had taken place in connection with a plan proposed by the Treasury for a world stabilization fund. The file had been circulated among the members of the Board, and Mr. Draper had asked that consideration be given at a meeting of the Board to the advisability of the Board having a representative present at discussions of technical phases of the plan by representatives of the State and Treasury Departments with representatives of other countries. Chairman Eccles stated that he had discussed the matter with Messrs. Goldenweiser and Gardner, and that it would be his suggestion that Mr. Thurston be requested to prepare a draft of a memorandum which could be used by him (Chairman Eccles) in taking the matter up personally with the Secretary of the Treasury.

It was unanimously agreed that this course should be followed.

At this point, Messrs. Thurston, Dreibelbis, Wyatt, and Smead withdrew from 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 February 10, 1943, were approved unanimously.

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

"Referring to your letter of February 6, 1943, Board approves the action of the executive committee of the board of directors of your Bank on February 4, 1943, authorizing the officers of your Bank, subject to the approval of the Board

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"of Governors, to open and maintain a Canadian dollar account in the name of the Federal Reserve Bank of New York on the books of the Bank of Canada, Ottawa, with the understanding that the normal balance in such account, as shown by the books of the Federal Reserve Bank of New York, will not exceed the equivalent in Canadian dollars of approximately U. S. \$100,000.

"Your letter also states that, if the opening of the account is approved, your Bank will offer a participation in the account to the other Federal Reserve Banks. The Board approves the participation in the account by the other Federal Reserve Banks and they are being so advised."

Approved unanimously, together with a letter to the Presidents of all the Federal Reserve Banks except New York transmitting a copy of the above telegram and advising them of the Board's approval of their participation in such account.

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

W. C. C. C.
Chairman.