

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, February 26, 1943, at 10:30 a.m.

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

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary

Chairman Eccles reviewed the discussions which had taken place during the last several days between representatives of the Treasury and of the Victory Fund Committees, including himself and Messrs. Sproul, Williams, and Young, Presidents of the Federal Reserve Banks of New York, Philadelphia, and Chicago, respectively, with respect to the organization to be set up for the next Treasury financing drive which it was contemplated would be made in April. He said that the Federal Reserve representatives had suggested that the war savings staff be used to carry on the sales of Series E war savings bonds through pay-roll deduction plans and that all other financing activities be placed under the direction of a new committee, but that on February 22, 1943, the Secretary of the Treasury sent a telegram to the Federal Reserve Banks stating that on March 1 he proposed to announce to the war savings staff, the Presidents of the Federal Reserve Banks, and the Executive Managers of the Victory Fund Committees that he was requesting the President of each of the 12 Federal Reserve Banks to serve as Chairman of a United States Treasury War Finance Committee in his district on which would be represented the Victory Fund and war savings organizations, both of which would sell all

2/26/43

-2-

types of securities offered during the drive. It was also stated that yesterday a second telegram was sent to the Presidents of the Federal Reserve Banks which was intended to make it clear that they had full responsibility as Chairmen of the War Finance Committees to direct the drives in their respective districts.

Chairman Eccles also said that, although representatives of the System had expressed their views to the Secretary of the Treasury on several occasions as to the organization that should be established to conduct Treasury financing drives, they had not presented their views as a group in writing, and that for that reason he had suggested that the Presidents of the Federal Reserve Banks meet in Washington on Monday morning, March 1, 1943, for the purpose of considering the advisability of making formal recommendations to the Treasury, with the thought that whatever funds were needed by the Treasury in April in addition to those received from savings bonds, tax notes, and bills should be raised by offerings designed for bank subscription, and that the financing drive should be postponed until May to allow sufficient time to perfect the necessary organization. With that in mind, he said, he had asked Messrs. Sproul and Williams to prepare for discussion at the meeting with the Presidents on March 1 a draft of statement as to the organization that should be established and the reasons therefor, as well as a statement of what the preferred alternatives might be if the suggested organization were not acceptable to the Treasury.

2/26/43

-3-

Chairman Eccles then referred to the expanded program of regional research by the Federal Reserve System which was instituted last year following discussions with representatives of the National Resources Planning Board and stated that he was not satisfied with the progress that was being made generally in carrying out the project and by some of the Federal Reserve Banks in setting up the necessary organizations to handle the job. He said that he felt that, in addition to the responsibilities of the Federal Reserve Banks in the field of research to meet the Banks' own needs, they also had responsibility for participation with the Board's research organization in the development of information upon which System policies could be based, and that, therefore, the Board should give active direction to the program and see that it was effectively carried out. In this connection, he referred to the action taken at the meeting of the Presidents' Conference on January 22-24, 1943, to request that a member of the Board be associated with the Presidents' Conference Committee on Research and Statistics and that the director of the Board's Division of Research and Statistics be associated with the Conference subcommittee, and stated that, in view of the responsibility of the Board for the direction of the research work of the System, he felt that it should be made clear to the Presidents that the Board was of the opinion that as a matter of good organization the direction of the System's program should come from the Board.

Chairman Eccles made the further statement that at the conference of members of the Board and its staff with representatives of some

2/26/43

-4-

of the Federal Reserve Banks on February 2 and 3, 1943, at which State and local financial problems were discussed, he made an extemporaneous statement in which he outlined his views as to the responsibilities of the System in the field of research and how these responsibilities should be met, that a revision of the statement had been prepared, and that with the approval of the Board he would like to read the revision at a meeting which would be held with the Presidents of the Reserve Banks while they were in Washington next week.

The memorandum, a copy of which has been placed in the Board's files, was then read by Chairman Eccles together with excerpts from a confidential report received by him recently from the Office of War Information. This report indicated that not more than 2 per cent of the American public recognized the imminent danger of inflation and its causes and pointed out the urgent need for a program of education as to what the effects of inflation would be on the economic life of the nation and the steps needed to prevent it. He also said that the Office of War Information had in preparation a booklet on the subject of inflation which was intended to be used as a handbook by editors, speakers, and others, and that he had received a request from the Office that he send copies of the booklet to all member banks with a letter of transmittal, which he had agreed to do.

Mr. Morrill stated that he had been advised that advance copies of the booklet would be sent to the Board's offices on March 1 or 2, which would be several days in advance of its release for publication.

2/26/43

-5-

Chairman Eccles added that it was his understanding that the booklet was a factual statement and that in sending it out the Board would assume no responsibility for its contents.

Questions were raised by the members of the Board in connection with the statement proposed by the Chairman to be read to the Presidents next week, and Chairman Eccles stated that, as set forth in the memorandum, he felt the Board should obtain the services of the best qualified economist it could find who, under the supervision of Mr. Evans, would coordinate the research work of the Federal Reserve Banks. He said that the reason he was bringing the matter up at the present time was because he felt that the problem of inflation was approaching an emergency situation and that no agency in Government had a more direct interest or was better qualified to undertake to present to the public the dangers of inflation and the necessity for public support of anti-inflationary measures.

Members of the Board indicated agreement with Chairman Eccles' suggestion but felt that if a new man were employed he should be a part of the Division of Research and Statistics under the Director of the Division, with the understanding that the new man would have immediate direction and coordination of the regional research program which would be carried on under the supervision of Mr. Evans.

Chairman Eccles went on to say that the System was in a position to be of considerable assistance to the Office of Economic Stabilization, that Mr. Byrnes, Director of Economic Stabilization, had expressed the

2/26/43

-6-

thought that the System's facilities were not being utilized as fully as they might be in the present situation, and that he (Chairman Eccles) had suggested to Mr. Byrnes that he write a letter to the Board to the effect that the System could be of considerable assistance in combating inflation. Some of the members of the Board expressed the opinion that the Board had responsibility entirely aside from any assistance that it might render to the Office of Economic Stabilization or other agency of Government and should proceed with the development of its program on that basis.

At the conclusion of the discussion, it was understood that Chairman Eccles would not read his written statement at the meeting with the Presidents next week but would make an oral statement which would (1) emphasize the need for expediting and coordinating the System's program of regional research and the need of educating the public as to the causes of inflation and how they might be met and (2) inform the Presidents that the Board proposed to employ an outstanding economist who would be in the Board's Division of Research and Statistics and would have immediate direction of the program for the System, including the coordination of the work of the Federal Reserve Banks.

It was also understood that Chairman Eccles would discuss the program with Mr. Goldenweiser.

At this point the meeting recessed and reconvened at 3:35 p.m. with the same attendance as at the morning session.

It was agreed that in accordance with the usual order of rotation Messrs. Ransom and Evans should be nominated to serve with Chairman Eccles beginning March 1, 1943, as members of the executive committee of the Federal Open Market Committee and that Messrs. McKee, Szymczak, and

2/26/43

-7-

Draper should be nominated to serve as alternates, in the order named.

By unanimous vote, Messrs. Szymczak and Draper were appointed as members of the Personnel Committee for the year commencing March 1, 1943.

Mr. Szymczak said that the executive committee of the Conference of Chairmen of the Federal Reserve Banks planned to meet in Washington on March 3, 1943, and that he would like to know the views of the Board as to when the next meeting of the Conference should be held. The members of the Board present agreed that they had no topics to suggest for consideration by the Chairmen at a meeting in the near future and that, therefore, if agreeable to them, the Chairmen might omit a meeting this spring.

Mr. Morrill presented a memorandum dated February 23, 1943, from Mr. Goldenweiser stating that the expansion, location, and ownership of deposits have an important bearing on planning Victory Fund campaigns as well as on tax programs, inflationary trends, and bank investment policies, that there was, however, little information available on the subject, and that a report submitted by the subcommittee on research and statistics of the Presidents' Conference had suggested (1) that the Federal Reserve Banks make an exploratory survey among a small number of selected member banks (20 or 30 banks in each district) to find out what information might be obtained regarding the ownership of deposits and to obtain such data as the banks covered were able and willing to give at this time, and (2) that, to the extent that the exploratory survey indicated that the reporting of such data was feasible, measures

2/26/43

-8-

should be considered for obtaining regular information on the subject, probably by adding a simple classification to the call report. The memorandum also stated that the value of the information would be enhanced if all of the Reserve Banks participated in the survey, and that unless the Board objected it was recommended that they do so.

Mr. Evans stated that when this matter was presented to him he felt that it should be considered by the Board because of the desire of the Government generally to reduce the number of reports obtained from the field, but that if there were no objection from that standpoint he believed it would be desirable to make the exploratory survey.

It was unanimously agreed that Mr. Goldenweiser should be requested to present the matter to the Presidents of the Federal Reserve Banks at the meeting to be held with them next week, for the purpose of ascertaining their views as to the desirability of the survey at this time.

There were presented telegrams to Messrs. Treiber and Hays, Secretaries of the Federal Reserve Banks of New York and Cleveland, respectively, Mr. Leach, President of the Federal Reserve Bank of Richmond, Messrs. Dillard, Stewart, and Powell, Secretaries of the Federal Reserve Banks of Chicago, St. Louis, and Minneapolis, respectively, Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, Mr. Gilbert, President of the Federal Reserve Bank of Dallas, and Mr. Hale, Secretary of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Banks of St. Louis

2/26/43

-9-

and San Francisco on February 23 and by the Federal Reserve Banks of New York, Cleveland, Richmond, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas on February 25, 1943, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

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 25, 1943, were approved unanimously.

Letter to Mr. Hitt, First Vice President of the Federal Reserve Bank of St. Louis, reading as follows:

"In accordance with your request the Board of Governors approves the change in the personnel classification plan of the Federal Reserve Bank of St. Louis, involving the establishment of a new position of Maid, Banking House Department, as submitted with your letter of February 23, 1943."

Approved unanimously.

Letter to Mr. Koppang, First Vice President of the Federal Reserve Bank of Kansas City, reading as follows:

"In accordance with your request the Board of Governors approves the pages covering newly created positions and the revisions of the duties of certain positions now provided for in your personnel classification plan, as submitted with your letter of January 30, 1943."

Approved unanimously.

Telegram to the Presidents of all the Federal Reserve Banks, reading as follows:

2/26/43

-10-

"All Federal Reserve Banks have advised that payment their respective shares of \$2,162,958 required to bring the annuity accumulation account to 3 per cent base will be made this month. This payment should be treated in same manner as similar payment in December, i.e., as a deduction from earnings."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

W. S. [Signature]
Chairman.