

A meeting of the Board of Governors of the Federal Reserve System with the Presidents of the Federal Reserve Banks was held in the offices of the Board of Governors on Tuesday, March 2, 1943, at 12:00 noon.

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

Mr. Morrill, Secretary
 Mr. Carpenter, Assistant Secretary
 Mr. Clayton, Assistant to the Chairman
 Mr. Thurston, Special Assistant to the Chairman
 Mr. Goldenweiser, Director of the Division
 of Research and Statistics
 Mr. Dreibelbis, General Attorney
 Mr. Wyatt, General Counsel
 Mr. Thomas, Assistant Director of the Division
 of Research and Statistics
 Mr. Berntson, Clerk in the Office of the Secretary

Messrs. Paddock, Sproul, Williams, Fleming, Leach, McLarin, Young, Davis, Peyton, Leedy, and Gilbert, Presidents of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City and Dallas, respectively

Messrs. Bryan and Clerk, First Vice Presidents of the Federal Reserve Banks of Atlanta and San Francisco, respectively

Messrs. John H. Williams and Rouse, Vice Presidents of the Federal Reserve Bank of New York, and Messrs. Sienkiewicz and MacKenzie, Vice Presidents of the Federal Reserve Banks of Philadelphia and Cleveland, respectively

Mr. Edmiston, Assistant Vice President of the Federal Reserve Bank of St. Louis

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Mr. Rice, Manager of the Research and Statistical Department of the Federal Reserve Bank of Dallas

Chairman Eccles, after reviewing the circumstances under which the Board in 1936 transferred from the Agents' departments to the operating departments of the Federal Reserve Banks the research and statistical activities of the Banks, made substantially the following statement:

For a considerable period the Board has been desirous of having the Federal Reserve Banks that have not already done so build up strong research and statistics divisions. With the problems confronting the System at the present time it is more important than ever before that such action be taken by the Federal Reserve Banks. The Federal Reserve Banks, through their research departments, have a dual function to perform, first, in advising the Presidents and boards of directors as such and the Presidents when they are members of the Federal Open Market Committee, and second, in developing information for the use of the Board and the System as a whole in connection with the determination of System policies. It is the feeling of the Board that in order to obtain the best results from the research activities of the System it will be necessary for the Board to select an outstanding man, who will be in the Board's Division of Research and Statistics, to direct the coordination of the work of the Board and the Federal Reserve Banks in the field of research. The System has a vital interest in monetary and fiscal policies, and in forces which lead to inflationary developments, and in seeing that at least the leaders of public thought are informed as to the dangers of inflation and its effects on the nation's economy.

This matter has been brought very forcibly to my attention by my experience as a member of the Economic Stabilization Board, and it has occurred to me that the System might not be doing all that it should in this field. The successful work that the System has done on consumer credit is an indication of what the System, with its regional organization, is capable of doing in comparison with a new organization that might be created to handle such a task.

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I recently received from the Office of War Information a copy of a confidential report which deals with the problem of inflation and which indicates that the American people, while recognizing that prices have increased, have no knowledge of the causes of inflation or a realization of the present dangers of inflation or what it would mean to the living standards of our people and the economic life of the country. It is necessary, therefore, that someone undertake an educational campaign in this field for the purpose of acquainting at least the leaders of public thought with the present situation concerning the possibilities of inflation so that they may intelligently support and cooperate with the Government anti-inflationary program.

I feel that the System has a duty and obligation to make its influence felt in a very direct way in this situation. While it has no authority outside of the credit field, it should be recognized that if inflation should occur the public would place the blame largely at the door of the banking and monetary system of the country, and for that reason the System should not place itself in the position where it could be charged with not realizing the dangers of inflation or, if it did recognize the dangers, of not saying anything about them.

I recently gave Mr. Byrnes, Director of Economic Stabilization, a brief report of the accomplishments of the System in the field of consumer credit. He was very much impressed, and I told him that the System was very much concerned with the development of inflationary pressures in the present situation, that if it could be helpful in meeting the problem it would be glad to do so, and that it was believed the System could do something in the way of pointing out the dangers of inflation and the necessity for counteracting them. Although the System does have some responsibility in this field, I felt that it would be desirable to have a letter from Mr. Byrnes which would clarify the position of the Board in relation to the Office of Economic Stabilization and I so stated to him. As a result of that suggestion, I received the following letter from Mr. Byrnes under date of February 27, 1943:

"You are aware, I know, of the tremendous need for public education on the whole stabilization program. The reports of the Office of War Information on public opinion disclose profound and widespread misunderstanding or lack of understanding of the reasons for taxation, buying bonds, curtailing credit, and other important steps of the program. Manifestly, without general public understanding it is impossible to hope for acceptance of necessary measures and without acceptance, this

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"office cannot hope to succeed in its program for economic stabilization. As I need not remind you, this undertaking is vital to the welfare of the country, both in winning the war and in the peace that is to follow. We need a united front to achieve success on the domestic front as much as we need it on the fighting front. Politics and partisanship have no part in it whatsoever.

"The Federal Reserve System, as a public institution, is singularly well adapted by reason of its regional organization and its freedom from special or partisan interests, to help in the vast educational task that needs to be done. Through your Banks and branches and under the direction of your Board, I feel that much could be accomplished in helping to bring about better understanding on the part of the public, especially through enlisting the aid of bankers and business men who are leaders in their respective communities, and are, in turn, able to help in informing and guiding the general public in comprehending the reasons for measures that are in their own and the country's best interest.

"I am, therefore, writing to request that the Federal Reserve System lend whatever assistance it can in this important educational work to bring about a wider public knowledge of the elements of economics which underlie the measures that are vitally necessary for the country's welfare."

I believe that this is the most important job that the System has to do at the present time and that, for that reason, the Board should obtain the services of an additional economist to work with a small committee of three or four research men from the Federal Reserve Banks to develop an outline of a program which can be carried out by the System, with the details to be filled in by each Federal Reserve Bank in such a manner as it deems best in the light of the situation in its district. The outline would not make specific recommendations but would set forth the causes of inflation and in general terms the necessity of finding effective measures to prevent their developing.

I made an extemporaneous statement at the meeting which was attended by representatives of some of the Federal Reserve Banks in Washington on February 2 and 3, 1943, with respect to the responsibilities of the System in the field of research, and at the time I said I would prepare a summary of the statement and the views which I expressed in a subsequent discussion during the meeting and send them to the Reserve Bank representatives who were present at that meeting. Such a statement has been prepared as an expression of my own views and

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copies will be made available to you.

The Board would appreciate knowing whether the Presidents of the Federal Reserve Banks would be in agreement with a program along the lines that I have indicated.

Mr. Sproul stated that the dual position of the Federal Reserve Banks and the Presidents, to which Chairman Eccles had referred at the beginning of his statement, did not in any way reduce the need for having Presidents of the Federal Reserve Banks who were men of competence and good judgment, capable of leadership in their respective districts and in the formulation of national policies, and that it would be a backward step if the dual nature of the Federal Reserve Banks should be interpreted to mean that the Presidents were only branch managers who would carry out policies determined for them by the Board of Governors in Washington. Similarly, he said, the economists at the Federal Reserve Banks should be men of independent judgment who were competent to work with the director to be selected by the Board on an equal basis and not as subordinates who would be given a program that they would be expected to carry out. He felt that the System would promptly lose the eminent position that it now occupied if the research departments of the Federal Reserve Banks were placed in the position of taking orders from a national director. He added that he wanted to make his position clear for the reason that the impression had been obtained from the statement made by Chairman Eccles at the meeting on February 2 and 3, 1943, that he might have something in mind in the direction of subordination of the research departments at the Reserve Banks.

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Mr. Sproul went on to say that the Presidents' Conference had appointed a Committee on Research and Statistics for the purpose in part of meeting problems such as that referred to by Chairman Eccles, that the committee could be brought together quickly for consultation with the Board, and that it would be available to work with the Board in carrying out the highly important program referred to by Chairman Eccles.

Chairman Eccles made it clear that neither he nor the Board had any thought of carrying on the research work of the Federal Reserve Banks on other than a basis of mutual cooperation, and that to try to do it on the basis of dictation from Washington would utterly fail to obtain the results that were essential if the efforts of the System were to be successful. He said he was not unmindful, however, that there was a place for leadership on the part of the Federal Reserve Banks and that there was likewise an area in which the Board should provide leadership on a national scale, but that this should not be an occasion for conflict if the Federal Reserve Banks and the Board were frank in the expression of their views and realized that on matters of national policy the Federal Reserve Banks could not operate as separate institutions and that the Board had a responsibility to take the leadership in connection with questions of national policy. He recognized fully that the Presidents and the research men at the Federal Reserve Banks must be men of independent judgment and capable of leadership in order to win support for the national and local policies and programs that would have to be carried out in their respective districts.

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Messrs. Szymczak and McKee supplemented Chairman Eccles' statement with the comment that the System was interested in the effective coordination of its research activities and that it was important that the Banks cooperate with the Board of Governors and the Board with the Banks.

Speaking as Chairman of the Presidents' Conference Committee on Research and Statistics and as one who had 25 years' experience in academic work, Mr. Alfred H. Williams said that he felt the Presidents could subscribe vigorously and unanimously to Chairman Eccles' proposal, and that, while there was great need for an educational campaign on the dangers of inflation which should be approached by the Board of Governors and the Federal Reserve Banks in the spirit of complete cooperation, it was necessary that care be exercised to avoid a situation in which the program would be determined in Washington and handed to the men in the field to be carried out without any independent thought on their own part. Such a situation could be avoided, he said, not by debate but only by a sympathetic approach and understanding on the part of everyone concerned and collaboration in the conception of the program, having in mind that the Federal Reserve Banks had responsibility for winning support in the various Federal Reserve districts for any program that might be undertaken.

Chairman Eccles referred to the suggestion made at the last Conference of Presidents that a member of the Board be associated with the Presidents' Conference Committee on Research and Statistics, and he

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said that, if it were anticipated that the member of the Board in effect would be a member of the committee, the Board would not favor such an arrangement for reasons which he outlined, but that if it was expected that the association would be in a liaison capacity the Board would be glad to designate Mr. Evans for that purpose.

Mr. Sproul explained that the Presidents had adopted a policy of having only Presidents serve as members of Presidents' Conference committees and of associating others with the committees in a liaison capacity, and that that would be the situation in this case.

Chairman Eccles then said that the development of inflationary possibilities was proceeding so rapidly that time was of the essence in anything that the Board might do, and that an agreement should be reached as promptly as possible on the procedure to be followed.

In response to a suggestion by Mr. McKee that the Presidents be asked for their views, all of the Presidents indicated agreement with the comments made by Messrs. Sproul and Alfred H. Williams and stated that in the light of these statements they were strongly in favor of undertaking to develop a program. Mr. Clerk said that the Federal Reserve Banks should have some advice from the Board as to the extent to which they would be justified in incurring expense in expanding their research departments and that a procedure should be worked out that would avoid duplication of activity. Mr. Leach pointed out that, because of limitations on the research facilities of the Federal Reserve Banks and the manpower shortage, there should be a determination of the projects to be given preference.

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There was unanimous agreement that the program proposed by Chairman Eccles was of primary importance and should be placed at the top of the list.

During the course of the discussion, there were distributed to the Presidents copies of the summary of Chairman Eccles' extemporaneous comments made at the meeting of representatives of some of the Federal Reserve Banks on February 2 and 3, 1943.

The meeting then recessed and reconvened at 4:00 p.m. with the same attendance as at the close of the morning session except that Messrs. Rice and Berntson were not present and Mr. Bethea, Assistant Secretary, Mr. Smead, Chief of the Division of Bank Operations, and Mr. Leonard, Director of the Division of Personnel Administration, were in attendance.

Mr. Sproul stated that the Presidents' Conference held a meeting last night and discussed the following topics on which action was taken as indicated below:

1. Changes in the Retirement System of the Federal Reserve Banks. There had not been sufficient time since the last meeting of the Presidents' Conference to prepare the final cost estimates of the increased benefits proposed to be provided through the retirement system, to consider the report submitted by the Retirement Committee, or to obtain figures as to the cost of providing the same benefits through an insurance company. It was decided, therefore, to defer action on this matter, with the understanding that a meeting of the Presidents' Conference would be held at an early date at which only that matter would be discussed.
2. Classification of Federal Reserve Banks as essential war agencies. It was the consensus of the Presidents' Conference that this was, and would continue to be, an urgent matter so far as the Federal Reserve Banks were concerned. The Presidents again urged that further action be taken to secure the classification of the Federal Reserve Banks as essential war industries and expressed a desire to be heard by the War Manpower Commission,

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through the medium of a committee of Presidents, if such a procedure were consistent with what had already been done in placing this matter before the Commission.

3. Quotas for the April financing drive. The Conference discussed the report of the subcommittee of the Committee on Research and Statistics. While no one was satisfied with the quotas as suggested in the report, it was agreed that the report was about as good a job as could be done under the circumstances. It was suggested that the quotas be submitted by the subcommittee to the Treasury for its consideration in connection with the financing drive, with the understanding that it was possible that the Presidents' Conference would wish to suggest such refinements as might be worked out before the April drive began. It was the feeling of the Conference that quotas should be fixed for the April drive, and with that in mind it was decided to submit the report of the subcommittee to the Treasury for the purpose of providing a starting point for the determination of a possible basis upon which quotas would be determined. The Conference favored the adoption of over-all quotas which would include quotas for banks as well as others.
4. Survey of the ownership of bank deposits. The Conference considered the report submitted by its subcommittee on this subject and the need for additional information with respect to the ownership of bank deposits as well as possible means by which the information might be developed, and the report was referred to the Committee on Research and Statistics of the Presidents' Conference for recommendation.

Mr. Sproul said that the only matter that needed to be given consideration at this time was the question of the classification of Federal Reserve Banks as essential industry.

At the request of the Board, Mr. Leonard reviewed the circumstances leading up to the Board's wire of February 8, 1943, in which the Federal Reserve Banks were requested to submit lists of positions in their respective Banks which might be regarded as key positions and classified as essential. He stated that replies had been received from nine of the

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Banks and that when all of the replies were received it was his thought that they would be consolidated into one list and sent to the War Manpower Commission with a letter of transmittal which would restate the work being done by the Federal Reserve Banks which was regarded as essential to the war effort.

Mr. Leonard went on to state that question had been raised whether, if the Federal Reserve Banks were declared to be essential to the war effort, that classification would require the employment of all new employees to be handled through the United States Employment Service, and that he had just been advised, upon inquiry on that point, that that would not be the case, that, while in certain critical areas certain critical occupations were supposed to be handled through the Employment Service, the Federal Reserve Banks would not be required to follow that procedure, and that they could obtain employees through the Service and also take employees from other agencies which were not essential activities or from essential activities with a release by the employer.

Mr. Ransom stated that it had been made clear by the representative of the War Manpower Commission with whom the matter had been discussed that commercial banks were regarded as being in a different category from the Federal Reserve Banks. The representative of the War Manpower Commission stated at this conference that it was their view that probably 82 per cent of work in this country could be performed by women and that it was important that as much womanpower as possible be substituted for manpower to release the maximum amount of the latter for the armed services. He also seemed to think that a classification of commercial banks as "an essential industry" was very unlikely but did

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not express the same view about the Federal Reserve Banks, although making no commitment at the time of the conference.

Mr. Szymczak raised the question as to what the next step would be, and Mr. Leonard suggested that it would be extremely helpful if, in connection with the consolidation of the lists of key positions submitted by the Federal Reserve Banks, a small committee of operating officers from the Federal Reserve Banks could be appointed to assist in preparing the master list.

Mr. Sproul stated that the Presidents' Conference would be glad to appoint such a committee.


Mr. Alfred H. Williams raised the question as to the designation of the Federal Reserve Banks as such as essential industry, stating that the designation of certain key positions would not relieve the Banks of pressure being placed on their employees to get into essential war positions.

This point was discussed, and Chairman Eccles expressed the opinion that it would be a mistake to undertake to have the Federal Reserve Banks as such classified as essential and that the consolidated list of key positions to be submitted to the War Manpower Commission should be as short as possible so as to expedite its acceptance by the Commission.

Thereupon the meeting adjourned.

Approved:


Chairman.


Secretary.