

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Saturday, May 29, 1943, at 10:30 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. Goldenweiser, Director of the Division of Research and Statistics  
Mr. Dreibelbis, General Attorney  
Mr. Hansen, Special Economic Adviser in the Division of Research and Statistics  
Messrs. Gardner and Knapp, Senior Economist and Associate Economist, respectively, in the Division of Research and Statistics

Chairman Eccles stated that Mr. Byrnes, Director of the new Office of War Mobilization, called on the telephone this morning and referred to the offer made by the Board at the time of the creation of the Office of Economic Stabilization to make space available for Mr. Byrnes in this building. Mr. Byrnes stated, Chairman Eccles said, that there was not sufficient room available in the executive offices at the White House for the new Office of War Mobilization and the Office of Economic Stabilization which would be headed by Fred M. Vinson as Director, and that he would appreciate it very much if the Board could make available for Mr. Vinson five offices and a conference room in the Board's building. Chairman Eccles added that he told Mr. Byrnes that the Inter-American

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Defense Board was still occupying space in the building, and that if that space could be vacated the Board would be pleased to make it available to Mr. Vinson. He further stated that, if agreeable to the Board, he would call Under Secretary of State Welles and suggest that the Inter-American Defense Board release the amount of space desired for Director Vinson. All of the members of the Board stated that they were in agreement with this disposition of the matter.

During the course of the meeting Chairman Eccles was called from the room twice, the first time to talk to Mr. Welles and the second time to talk to Mr. Byrnes and Mr. Patterson, Under Secretary of War. Upon his return, Chairman Eccles stated that he had talked to Mr. Welles, who said that the War and Navy Departments had a greater interest in the activities of the Inter-American Defense Board than the State Department, but that following his (Chairman Eccles') comment that that had not been the case when the matter had been discussed with Mr. Welles last year the latter responded that he would take the matter up with Laurence Duggan, Adviser on Political Relations of the State Department, and talk to Chairman Eccles again on Monday, May 31. Chairman Eccles made the further statement that shortly thereafter Mr. Byrnes called and, upon being advised of the conversation with Mr. Welles, stated that he would talk to Mr. Welles. In a subsequent conversation with Mr. Byrnes, Chairman Eccles said, the former stated that he had talked to Messrs. Welles and Patterson and that it had been arranged that the Inter-American Defense Board would make five offices and a conference room (No. 1202)

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available to Mr. Vinson's organization, with the understanding that the Inter-American Defense Board would be at liberty to use the conference room twice a month for Defense Board meetings.

At the request of Mr. Szymczak, Mr. Knapp reviewed briefly the status of the material being prepared by the Division of Research and Statistics in accordance with the action taken at the meeting of the Board on February 4, 1943, for inclusion in the Military Government Handbook which was being written under the direction of the Division of Military Government of the War Department. Mr. Knapp stated that the work was substantially up to schedule and that with the addition of one more employee it was believed the Board's portion of the work would be ready to meet the deadline of September 1, 1943, set by the Military Government Division. A memorandum on this subject prepared by Mr. Knapp under date of May 26, 1943, has been placed in the Board's files. Mr. Knapp said that Colonel James H. Shoemaker from the Military Government Division, who in civilian life had been an economist with the Board of Economic Warfare, was reviewing currently the work being done by the members of the Board's staff and was thoroughly familiar with it. In Mr. Knapp's memorandum and in his comments, reference was made to a further statement which was to be submitted to the Board and which would recommend certain steps to give the Board a further role in reoccupation work that would involve, in particular, representation on a State Department committee which was dealing with civilian affairs in North Africa.

Mr. Szymczak then called on Mr. Gardner to make a statement with respect to an informal suggestion made by representatives of the State

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Department that members of the Board's staff undertake the preparation of the financial sections of an economic handbook which was being planned for use by the delegates of the United States to the peace conference to be held following the war. An informal memorandum prepared by Mr. Gardner on this matter under date of May 26, 1943, is in the files.

Mr. Gardner said that because of the lack of the necessary help the only way the Board's staff could undertake the task in the time available would be to do the work on a cooperative basis with the State Department on the more important countries or the more important issues. On this basis, he said, it would be necessary to add to the staff on a temporary basis at least one senior economist and two other qualified economists. Mr. Gardner made the further statement that the point to be decided at this time was whether the Board would be willing to undertake the work and to give an informal indication to the representatives of the State Department that the Board would be receptive to a formal request that it undertake the work, and that if such an indication were given a formal request would be made.

Mr. McKee stated that if the Board were willing to undertake the task it should be with the definite understanding that it would be upon condition that the Board was able to recruit the necessary staff.

At the conclusion of a discussion, it was unanimously agreed (1) that Mr. Gardner should indicate informally to the representatives of the State Department with whom the matter had been discussed that, on condition that it would be able to recruit the necessary staff, the Board would be willing to cooperate

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in the preparation of the financial sections of the economic handbook and (2) that Mr. Goldenweiser and the Division of Personnel Administration would take the necessary steps to obtain from university faculties or otherwise on a temporary basis the necessary trained men to do the work.

Mr. Szymczak then referred to the Board's action on May 19, 1943, in authorizing Mr. Triffin, Associate Economist in the Division of Research and Statistics, to serve as a member of a mission to Honduras and stated that consideration was being given to similar missions to other Latin American countries and that the question was before the Board whether it would wish to have members of its staff serve as members of these missions. Mr. Gardner's memorandum of May 25, 1943, which is in the files, lists the important phases of this problem.

The members of the Board present indicated that they would be agreeable to such representation, with the understanding that each case would be submitted to the Board for action with respect to its participation in the mission and the personnel of its representation.

Mr. Gardner then reviewed for the information of the members of the Board the discussions at recent meetings which he had attended, and which were also attended by representatives of the State and Treasury Departments, with respect to the preparation of a draft of an international stabilization program which would harmonize the differences in the Keynes and White plans. During a recent discussion, Mr. Gardner said, Mr. White, Director of Monetary Research of the Treasury Department, let it be known for the first time that there was to be a meeting on about

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June 8, in which representatives of the British and as many other Allied countries as possible would participate and which would last for several days, for a general discussion of the plans.

Mr. Szymczak said that, in view of the increased tempo with which plans for an international stabilization program were developing, the Board should be in a position to express an opinion on the important issues involved so far as they affect the Federal Reserve System, including the establishment and functions of a proposed world bank, so that members of the Board's staff in attendance at discussions relating to the program would be acquainted with the thinking of the Board on the matter.

Mr. Goldenweiser stated that there were two things of immediate importance, (1) who would operate the plan and (2) the amount of member bank reserves that could be created in this country through the operation of the plan. On the first question it was his opinion that central banks should be represented in the operation of the program, and on the second question he inquired whether the Board was in general agreement with the position that there should be limitations on the amount of the commitment on the part of the United States to extend credit or purchase gold and that the commitment should be understood to include both.

In this connection, reference was made to the letter addressed by Mr. Goldenweiser to Mr. White of the Treasury on December 16, 1942, in which it was stated that Chairman Eccles saw no reason why the draft plan for an international stabilization fund should not be accepted as a basis for discussion with foreign technicians, provided it was understood that

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the amount of dollars foreign countries would be able to demand under the plan would not exceed 2 or 2-1/2 billion dollars.

For reasons which he outlined, Mr. Hansen questioned the need for limitations on the commitment of the United States except for the purpose of getting approval of the plan.

Following a discussion of this point, the members of the Board indicated agreement with the position that at least at this stage any definition of a commitment by the United States to furnish dollars under the plan should include both credit and gold.

Thereupon the meeting recessed and reconvened at 2:45 p.m. with the same attendance as at the morning session except that Mr. Dreibelbis was not present.

There was a general informal discussion of the background of the proposed international stabilization plans and the purposes sought to be achieved by the plans. The members present were in agreement that the Board should be given whatever authority might be necessary to offset the effects of the operation of the plan as finally adopted on the domestic credit situation, that Mr. Goldenweiser's letter of December 16, 1942, to Mr. White "kept the door open" so far as the Board was concerned as to the amount of the United States commitment to furnish dollars, and that the Board should be prepared to offer suggestions on this question when the discussions of the plan reached a point where that was desirable. It was also agreed that there should be a further discussion on Tuesday, June 1, 1943, of specific questions presented by the Keynes and White

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plans, including the possible effects of such plans on the domestic credit situation.

At this point Messrs. Thurston, Goldenweiser, Hansen, Gardner, and Knapp 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 May 28, 1943, were approved unanimously.

Memorandum dated May 25, 1943, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that the basic salary of Mrs. Louise A. Frederick, a clerk in that Division, be increased from \$1,440 to \$1,620 per annum, effective June 1, 1943.

Approved unanimously.

Memorandum dated May 25, 1943, from Mr. Smead, Chief of the Division of Bank Operations, recommending (1) that Miss Charlotte M. Shaffer, a clerk in that Division, be permitted to take the balance of her accumulated annual leave and her current accrued annual leave during the period June 3 to 15, 1943, and that, in addition, she be granted six months' leave without pay beginning June 16, 1943, through December 15, 1943, and (2) that the Board continue its contributions to the retirement system on Miss Shaffer's behalf during her leave without pay provided she continues her own contributions for the same period.

Approved unanimously.

Memorandum dated May 26, 1943, from Mr. Van Fossen, Assistant Chief of the Division of Bank Operations, submitting the resignation of



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Miss Sybil E. Hainer as a secretary in that Division, to become effective as of the close of business on June 11, 1943, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

Letter to Mr. Paddock, President of the Federal Reserve Bank of Boston, reading as follows:

"Referring to your letter of May 24, the Board of Governors approves payment of salaries to the officers of the Bank for the year beginning May 1, 1943, at the following rates as fixed by your board of directors.

<u>"Name</u>	<u>Title</u>	<u>Annual Salary</u>
W. W. Paddock	President	\$25,000
William Willett	First Vice President	16,500
Krickel K. Carrick	Vice President, Secretary and General Counsel	15,000
Ellis G. Hult	Vice President	10,500
Carl B. Pitman	Vice President	10,500
John C. Hunter	Cashier	6,500
Roy F. Van Amringe	Assistant Cashier	5,500
Edward R. Murphy	Assistant Cashier	5,000
Robert B. Harvey	Assistant Cashier	4,500
John J. Fogg	Auditor	6,500
Archie C. Kennel, Jr.	Assistant Counsel	5,000

"The Board also approves payment of annual salary to Mr. Oscar A. Schlaikjer, Counsel, at the rate of \$9,000 per annum for the period beginning with his reporting for duty and ending with April 30, 1944.

"As requested, the Board approves the salaries of Messrs. Pitman, Hunter, and Harvey for the period beginning May 1, 1943, although the changes in their titles do not become effective until June 1, 1943."

Approved unanimously.

Letters to "The Farmers Savings Bank Company", Stony Ridge, Ohio, and the "First State Bank in Temple", Temple, Oklahoma, reading as follows:

"The Board is glad to learn that you have completed all arrangements for the admission of your bank to the Federal

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"Reserve System and takes pleasure in transmitting herewith a formal certificate of your membership.

"It will be appreciated if you will acknowledge receipt of this certificate."

Approved unanimously.

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

"Reference is made to your letter of May 20, 1943, submitting the request of The Bank of Westchester, Yonkers, New York, for permission to establish an additional branch in Larchmont, New York.

"In view of your recommendation and the information submitted, the Board approves the establishment and operation of an additional branch in Larchmont, New York, by The Bank of Westchester, Yonkers, New York, provided counsel for the Reserve Bank is to be satisfied as to the legal aspects involved."

Approved unanimously.

Letter to Mr. W. T. Daniel, Vice President and Cashier of The Bank of Waverly, Waverly, Virginia, reading as follows:

"The Board has given consideration to the request contained in your letter of May 22, 1943, for permission to accept a deposit of \$6,000 which was left by will to the trustees of the Dendron Methodist Church, and which is to be paid to such trustees at the rate of \$150 and interest each six months until the fund is exhausted.

"In view of the nature of the account and the manner in which it is to be handled, as set forth in your letter, the Board will raise no objection to the acceptance of this account by your bank, with the understanding that no other fiduciary business will be acquired without first obtaining the permission of the Board."

Approved unanimously, together with the following letter to Mr. Mercer, Vice President of the Federal Reserve Bank of Richmond:

"There is enclosed the Board's reply to a letter dated May 22, 1943, from The Bank of Waverly, Waverly, Virginia,

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"requesting permission for the acceptance of a deposit of \$6,000 which was left by will to the trustees of the Dendron Methodist Church. Unless you know of some reason why such reply should not be made, please forward the letter to the bank.

"There are enclosed for your files a copy of the bank's letter and the Board's reply."

Letter to Colonel John C. Mechem, Chief of the Special Financial Services Division, Office of the Fiscal Director, War Department, reading as follows:

"We have your memorandum of May 25, 1943, with reference to the letter addressed by Mr. Mark A. Brown, Vice President of the Harris Trust and Savings Bank, Chicago, Illinois, to Mr. Olson, Assistant Vice President of the Federal Reserve Bank of Chicago, under date of May 5, 1943. For your information in this connection there is enclosed a copy of a memorandum received from Mr. Coolidge, of the Navy Department, with regard to this matter.

"The positions taken by the War Department and Navy Department in these memoranda are not fully in accord, and, in order to avoid confusion in the matter, it seems to us desirable to answer Mr. Brown's inquiry with a letter which is acceptable to both Services. Accordingly, we suggest that we dispose of the matter at this time by sending the enclosed letter addressed to Mr. Olson. It will be appreciated if you will advise whether the transmittal of the letter to Mr. Olson in this form is agreeable to you."

Approved unanimously, together with a similar letter to Mr. William A. Coolidge, Assistant Chief of Finance Section, Navy Department, and the following letter to Mr. Olson, Assistant Vice President of the Federal Reserve Bank of Chicago, which it was proposed to transmit upon approval by the War and Navy Departments:

"This refers to your letter of May 6, 1943, with which you enclosed a copy of a letter from Mr. Mark A. Brown, Vice President of the Harris Trust and Savings Bank, Chicago, Illinois.

"We have discussed the questions raised by Mr. Brown with representatives of the War Department and the Navy Department. A copy of Mr. Brown's letter was also furnished to the Maritime

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"Commission, but we have not as yet had the benefit of its views with respect to the matter.

"With respect to the first question presented by Mr. Brown, it is the view of representatives of both the War and Navy Departments that applications containing a graduated scale of percentages of guarantee depending upon the portion of the commitment advanced to the Borrower will no longer be favorably considered.

"With respect to Mr. Brown's second question, it can only be said that the Services have not determined upon any definite policy which would be followed in the event a case such as that stated by Mr. Brown should arise. Executive Order No. 9112 contemplates the guarantee of loans which are necessary in order to obtain war production, and accordingly it will continue to be the policy of the Services as it has been in the past not to guarantee a loan if it appears that the Borrower has adequate working capital to finance his war production contracts. As regards guarantee agreements already executed, the Services feel that it would be inadvisable to attempt to make a definite statement at this time as to their procedure in the event a case such as Mr. Brown described should occur, and prefer to be free to consider any such case in the light of all its facts and the provisions of the particular guarantee agreement and loan agreement. In many cases, of course, restrictions in the guarantee agreement or loan agreement prohibit the use of the proceeds of the loan except for the purpose of performing war production contracts, and where this is true, the situation supposed by Mr. Brown's question would not be likely to arise, as the Borrower would be entitled to obtain funds only for the purpose of meeting obligations incurred in connection with the fulfillment of such war contracts.

"We regret that we cannot give a more specific answer to Mr. Brown's inquiry at this time but, as indicated, the Services have formulated no policy with respect to such cases. You may, if you desire, give a copy of this letter to Mr. Brown."

Letter to Mr. Walter B. French, Deputy Manager of The American Bankers Association, New York, New York, reading as follows:

"This refers to your letter of May 20, 1943, enclosing the final galley proof of the new war loans book about to be published by the American Bankers Association. We have not seen earlier drafts of the proposed book and, in view of the time limit stated in your letter, our consideration has necessarily been somewhat hurried.

"We have not undertaken to proofread the various documents contained in the proof and our review has been limited in general

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"to those portions of the proof which relate directly to guarantees under the Board's Regulation V and to the guarantee agreement. A memorandum of our comments with respect to these portions of the proof is enclosed. It is understood that you will also receive comments from the War and Navy Departments.

"It is noted that your committee has drafted forms of loan agreements containing provisions most commonly found in Regulation V loan agreements. These forms do not appear to be included in the proof, and it will be appreciated if you will furnish us with copies of them if you have them available."

Approved unanimously, together with letters to the War and Navy Departments transmitting copies of the Board's memorandum of comments.

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

"A number of inquiries have recently been received by the Board with respect to charges which may be made by banks for their services in cashing and collecting checks. Some of these inquiries have been sent to us directly while others have been addressed to members of Congress and by them transmitted to us. The question is asked with respect to Government checks as well as other checks and with respect to checks cashed for depositors as well as nondepositors.

"The question whether and in what amounts such charges may be made by banks depends upon the interpretation of the provisions of the first paragraph of section 13 of the Federal Reserve Act as amended June 21, 1917, and of the fourteenth paragraph of section 16 of the Federal Reserve Act. In answering certain inquiries previously received on this subject, the Board has taken the position that the charge made by a member or nonmember clearing bank for cashing and collecting a check drawn on another bank is subject to the limitations of the first paragraph of section 13. In the light of the numerous inquiries recently received on this question, the Board is reviewing its position in the matter but has reached no conclusion with respect either to the legal or practical questions involved.

"The Board feels that it will be helpful in its consideration of the matter to have the views of the Federal Reserve Banks with respect to the legal and practical aspects of the question. It will be appreciated, therefore, if you will

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"submit as soon as practicable a statement of the views of your Counsel on the question whether charges made by banks for their services in collecting for depositors or nondepositors checks drawn on other banks are subject to the provisions of the first paragraph of section 13 of the Federal Reserve Act or the fourteenth paragraph of section 16 of the Federal Reserve Act, or both, and as to whether the Board is authorized or required to prescribe rules or regulations with respect to such charges. The Board will also appreciate an expression of your views, in the light of the position taken by your Counsel and of the practices of the banks in your district, as to what may or should be done from a practical standpoint with respect to the matter and, if your Counsel feels that the Board has a regulatory authority, as to whether it would be possible to devise any regulations on the subject which would be practical and workable."

Approved unanimously, together with the following letter to Honorable W. Lee O'Daniel, United States Senate, similar letters also being sent to Honorable Lister Hill, United States Senate; Honorable K. M. LeCompte and Dewey Short, House of Representatives; Mrs. Oscar B. Jacobson, Norman, Oklahoma; Mr. Samuel Resnic, Attorney, Holyoke, Massachusetts; Mr. John F. Hedrick, De Land, Florida; and Mr. C. L. Marlin, Mobile, Alabama:

"This is in response to your letter of January 26, 1943, addressed to Chairman Eccles, with which you enclosed a letter written to you by Mr. A. A. McMillan of Hermleigh, Texas, regarding service fees charged by banks on out-of-town checks. We regret very much the delay which has occurred in replying to your letter. This has been due to the complexity of the problem presented and to the fact that the matter is under review in the light of Mr. McMillan's inquiry and a number of similar inquiries recently received by the Board.

"The answer to Mr. McMillan's inquiry depends upon the determination of certain questions as to the interpretation of the provisions of the first paragraph of section 13 and of the fourteenth paragraph of section 16 of the Federal Reserve Act. Both of these paragraphs of the law relate to the general subject of charges which may be made by banks in connection with checks, but their meaning in relation to one another is not clear. In addition to these legal questions, the subject involves some perplexing problems of a practical character. All of these are now being carefully considered by the Board of Governors, and the Federal Reserve Banks have been asked for their views with respect to the

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"practical aspects of the matter. When the replies have been received from the banks, the Board will endeavor to reach a conclusion in the matter as soon as possible.

"We are retaining a copy of Mr. McMillan's letter and are returning the original herewith."

Thereupon the meeting adjourned.

Chester Morrie  
Secretary.

Approved:

W. A. ...  
Chairman.