

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, July 2, 1943, at 2:30 p.m.

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

There were presented telegrams to Mr. Brome, Assistant Secretary of the Federal Reserve Bank of New York, Mr. McCreedy, Secretary of the Federal Reserve Bank of Philadelphia, Mr. Hays, First Vice President of the Federal Reserve Bank of Cleveland, Mr. Dillard, Vice President of the Federal Reserve Bank of Chicago, Mr. Stewart, Secretary of the Federal Reserve Bank of St. Louis, Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, Mr. Stroud, First Vice President of the Federal Reserve Bank of Dallas, and Mr. Hale, Vice President 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 and San Francisco on June 29, by the Federal Reserve Banks of New York, Philadelphia, Cleveland, Chicago, Kansas City, and San Francisco on July 1, 1943, and by the Federal Reserve Bank of Dallas today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

7/2/43

-2-

Further discussion was had of the suggestion previously made by Mr. Szymczak and considered by the Board with respect to the transfer to the Personnel Committee of certain matters assigned to Mr. Szymczak for primary consideration with respect to Federal Reserve Bank personnel and to rotation of the membership of the Personnel Committee. The suggestion was discussed at some length in the light of the problems which prompted Mr. Szymczak to make the suggestion and with a view to working out a practical solution.

The members of the Board were in agreement that individual assignments were desirable, but indicated various ideas as to how to meet Mr. Szymczak's proposal, and at the conclusion of the discussion it was agreed that the matter should be left to Chairman Eccles for decision in the light of the views expressed.

Mr. Szymczak stated that recently Mr. Leland, Chairman of the Federal Reserve Bank of Chicago, following a visit at some of the branches of the Federal Reserve Banks, suggested that it would be helpful if a meeting of all the officers in charge of branches of the Reserve Banks could be held, possibly in Chicago, at some time in the near future. Mr. Szymczak also said that he expressed the opinion to Mr. Leland that the initiation of such a meeting should come from the Presidents of the Federal Reserve Banks or the Chairmen's Conference, and that he might wish to follow the matter up through those channels. The other members of the Board indicated agreement with that opinion.

Mr. McKee referred to a memorandum dated June 19, 1943, from Mr.

7/2/43

-3-

Goldenweiser, Director of the Division of Research and Statistics, recommending that Miss Doris B. Bernstein be appointed as an economic assistant in that Division on a permanent basis, with basic salary at the rate of \$2,000 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed satisfactorily the usual physical examination. The memorandum stated that Miss Bernstein would work in the International Section in connection with the preparation of economic and financial material for the Peace Conference, and that her position probably would be classified by the Board's Committee on Personnel Classification as P-1, with a salary range of \$2,000 to \$2,600 per annum. Mr. McKee pointed out that Miss Bernstein was only 20 years of age, and stated that, while she had a very high scholastic record and a good education in the field of economics, he questioned the necessity of employing persons with the limited background of Miss Bernstein at a salary of \$2,000 per annum, and that if the Board should decide to approve her employment it was necessary that it review the salaries being paid to its existing employees, particularly employees in the lower-salary groups and those who were in the service of the Board before the war, to make sure that no injustices were being done.

Other members of the Board expressed the opinion that it was necessary to pay salaries at rates of which the salary proposed for Miss Bernstein was an example, as these rates were being paid by other departments and agencies of the Government under classifications approved by the Civil Service Commission, and that if the Board was going to be able

7/2/43

-4-

to increase its staff to meet the demand that would be made on it during the war and postwar periods it would have to meet this situation. There appeared to be general agreement on the part of all the members of the Board with Mr. McKee's suggestion that there should be a review of salaries of its employees to determine the extent to which cases of individual merit might have been overlooked and adjustments might be advisable in order to rectify any discrepancies in pay that might be found, particularly between older and newer employees and between employees of different divisions.

At the conclusion of the discussion, Mr. Goldenweiser's recommendation with respect to the employment of Miss Bernstein was approved, Mr. McKee voting "no" and stating that he would vote "no" on all similar cases pending the general review of salaries referred to above.

Mr. McKee left the meeting at this point.

Before this meeting the attention of the members of the Board had been called to a memorandum dated June 17, 1943, from Mr. Dreibelbis in which he referred to previous discussions by the Board of the bill rendered by Mr. Ketchum, formerly Associate Counsel of the Federal Reserve Bank of Boston, in the case of Ford vs. Wilson, and stated that the Ketchum firm had now presented a final bill in the amount of \$7,067.42 covering other work done by the firm prior to the termination of the service of Mr. Ketchum as Associate Counsel, which, for the reasons set forth in the memorandum, it was felt was extremely modest in comparison with the bill in the Ford case. Mr. Dreibelbis stated that in all of the circumstances it was his recommendation that the payment of the bill

7/2/43

-5-

rendered in connection with the Ford case in the amount of \$14,752.27 and the final bill of \$7,067.42 presented by Mr. Ketchum, or a total of \$21,819.69, be approved by the Board.

Approved unanimously.

Chairman Eccles referred to the decision of the Board to employ an outstanding economist who would be an assistant director in the Board's Division of Research and Statistics and would have immediate direction of the regional research program of the System, including the coordination of the work of the Federal Reserve Banks in this field, and stated that he had had several conferences with Mr. Ralph Young in connection with his possible employment by the Board for this purpose but that it had not been possible to make a satisfactory arrangement with him. He said that he felt it was very important that a well-qualified man be employed by the Board to carry on this work, that some consideration had been given to, and some of the members of the Board had interviewed, Mr. T. W. Schultz, head of the Department of Economics and Sociology, Iowa State College of Agriculture and Mechanic Arts, Ames, Iowa, and that it appeared from all of the information that had been obtained that he would be an excellent choice. Chairman Eccles went on to say that Mr. Evans was planning a trip into the midwest next week and that it was suggested that the Board authorize him to discuss the matter with Mr. Schultz and ascertain whether he would be willing to accept appointment by the Board for the purpose stated, with basic salary at a rate of not to exceed \$10,000 per annum, it being understood that the

7/2/43

-6-

original appointment would be on a temporary basis but that if the arrangement proved satisfactory to both him and the Board it would be made permanent.

Chairman Eccles' suggestion was approved unanimously.

Mr. Szymczak then referred to the discussion with the Presidents at the meeting on June 29, 1943, of the following questions which had arisen in connection with the proposed revision of Regulation N and the statement of procedure with respect to foreign relationships of Federal Reserve Banks (X-9774) and inquired what action the Board now desired to take with respect to the matter:

1. Whether the Board should revoke its outstanding blanket permission to Federal Reserve Banks to open "one-way" accounts, purchase from or sell gold to a foreign bank or banker, and earmark gold or silver for a foreign bank or banker.
2. Whether the Board should require the other Federal Reserve Banks to participate in foreign accounts after their establishment by one Federal Reserve Bank is approved by the Board.

On the second question the conclusion was reached that, inasmuch as Mr. Paddock, President of the Federal Reserve Bank of Boston, had indicated at the meeting of the Board with the Presidents on June 29 that his Bank would participate in foreign accounts after Regulation N had been revised, the Board would be justified in continuing for the present the Federal Reserve Bank participation on a voluntary basis.

On the first question Mr. Szymczak called attention to the fact that, when Regulation N was adopted in its present form and the present

7/2/43

-7-

instructions thereunder were issued to the Federal Reserve Banks, no accounts were being opened at the Federal Reserve Banks with foreign governments, that since then legislation had been adopted providing for such accounts and that before any such account is opened the whole matter is submitted to the Board and the opening of the account is approved by the Board in each individual case, so that there had been a material change in the whole situation. It seemed to Mr. Szymczak, therefore, that it was inconsistent to continue the blanket permission to open "one-way" accounts for foreign central banks while requiring the submission for approval of individual cases of foreign governments, since there probably would be such close inter-relation in the future between foreign central banks and their governments that many of the same problems would have to be considered in either case, and that the Board's increasing contacts in Washington with these problems indicated a possibility that at times it would have information that might not have been available to a particular Federal Reserve Bank. He pointed out that it would be helpful to him as the member of the Board having primary responsibility in these matters if he could have the same opportunity to look into the case of a foreign central bank as in the case of a foreign government. The question of the desirability of revoking the outstanding blanket permission was discussed at some length.

Chairman Eccles said that it appeared to him that possibly a majority of the members would approve Mr. Szymczak's recommendation, and it was understood at the conclusion of the discussion that Mr. Dreibelbis

7/2/43

-8-

would confer again with the members of the legal subcommittee of the Presidents' Conference on the revision of Regulation N and the Board's instructions thereunder, on the basis of drafts which would discontinue the outstanding blanket permission to Federal Reserve Banks to open "one-way" accounts, to purchase from or sell gold to a foreign bank or banker, or to earmark gold or silver for a foreign bank or banker, but would not at this time contain a mandatory requirement that all Federal Reserve Banks should participate in foreign accounts after their establishment by one Federal Reserve Bank is approved by the Board. When such drafts have been completed, they are to be submitted to the Board for final consideration and action.

At this point Messrs. Thurston, Dreibelbis, and Wyatt 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 July 1, 1943, were approved unanimously.

Mr. Morrill reported that the Comptroller of the Currency today issued a call on all national banks for reports of condition as of the close of business on June 30, 1943, and that, in accordance with the usual practice, a call was made on behalf of the Board of Governors of the Federal Reserve System today on all State member banks for reports of condition as of the same date.

The call made on behalf of the Board
was approved unanimously.

Memorandum of this date from Mr. Morrill, submitting the

7/2/43

-9-

resignation of Lillian Holley as a cafeteria helper in the Secretary's Office, to become effective at 1:30 p.m. on July 1, 1943, and recommending that the resignation be accepted as of that time.

The resignation was accepted.

Letter to the board of directors of the "Riverside Trust Company", Hartford, Connecticut, stating that, subject to conditions of membership numbered 1 to 6 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 Boston.

Approved unanimously, together with a letter to Mr. Paddock, President of the Federal Reserve Bank of Boston, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the 'Riverside Trust Company', Hartford, Connecticut, for membership in the Federal Reserve System, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the Board of Directors of the institution. Two copies of such letter are also enclosed, one of which is for your files and the other of which you are requested to forward to the Bank Commissioner for the State of Connecticut for his information.

"Since the amount of estimated losses shown in the report of examination for membership is reported to have been charged off, the usual condition of membership requiring the elimination of losses has not been prescribed.

"It is assumed that you will follow the matter of the bank's bringing into conformity with the provisions of law and the Board's regulations the savings accounts listed on page 2(1) of the report of examination for membership."

Letter to Mr. Lewis, Manager of the Consumer Credit Department at the Federal Reserve Bank of St. Louis, reading as follows:

7/2/43

-10-

"Your letter of June 22 and enclosures relating to negotiations with Public Loan Corporation by the Federal Reserve Banks of Boston, Chicago, and St. Louis in connection with Regulation W have been read with interest. We note that the Reserve Banks reached the same conclusion which the Board (and its Staff) had previously reached in connection with detailed instructions prepared by other Registrants for their own use, namely, that the Board could not undertake to correct and approve such instructions but could merely offer certain general comments and suggestions. This would be particularly true in the case described in your letter where the instructions were apparently designed to travel as close to the line as possible. In the present case, the change to general instructions, which admonish the office managers to read the Regulation, appears to be a great improvement.

"The question which was raised regarding section 8(a) appears to have become moot, and consequently we shall not attempt to comment upon it in detail. A loan to pay interest or taxes is not generally exempt under this section, but it is true that where a loan is made to cover all or part of the purchase price of real estate, a portion of the proceeds may be employed by the purchaser to pay accrued taxes or accrued interest on an existing mortgage."

Approved unanimously.

Letter to Mr. Woolley, Vice President and Cashier of the Federal Reserve Bank of Kansas City, reading as follows:

"This is in response to your letter of June 28, 1943, addressed to Mr. Parry, relative to the Nebraska Official Used Car Survey.

"A short delay after July 1 in the issuance of the guide book will not invalidate its use. We would appreciate, however, being notified of changes in the content of the guide if any are to be made."

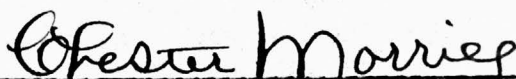
Approved unanimously.

Thereupon the meeting adjourned.

Approved:



Chairman.



Secretary.