

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, November 16, 1943, at 10:30 a.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. Smead, Chief of the Division of Bank  
 Operations  
 Mr. Dreibelbis, General Attorney  
 Mr. Vest, Assistant General Attorney  
 Mr. Wyatt, General Counsel

Following the meeting with the Board yesterday, the Federal Advisory Council met in separate session and adopted a revised resolution with respect to the final settlement of terminated war contracts which was transmitted to the Board by Mr. Lichtenstein, Secretary of the Council, with a letter dated November 15, 1943, which read as follows:

"Attached hereto are copies of a resolution dealing with the problem of termination of war contracts which was adopted unanimously by the Federal Advisory Council at its meeting today.

"I am instructed by the Council to state that it is the understanding of the Council that the Board of Governors of the Federal Reserve System will transmit as soon as possible a suitable number of copies of this resolution to the members of the Joint Contract Termination Board, to Messrs. Byrnes and Earuch, to the Comptroller General of the

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"United States, and the War Production Board; also, if it should seem advisable to the Board to do so, copies might well be sent to the appropriate committees of the Congress.

"Furthermore, I am instructed to say that if the Board of Governors should desire to give publicity to the resolution, the Council wishes me to state that it would regard such action as helpful."

The revised resolution was in the following form:

"FINAL SETTLEMENT OF TERMINATED CONTRACTS.

"The larger part of the productive capacity of the country is now engaged in the production of war goods. When the war ends the task of converting this gigantic war economy to a peace economy will be a stupendous one, both for the Government and for business.

"Already some war contracts are being canceled. When peace comes a large percentage of contracts then outstanding will no doubt be canceled. Speedy and equitable settlement of these contracts will be essential if we are to avoid a disastrous business depression and mass unemployment. Millions of men discharged from military service and millions more now engaged in war plants will be looking for new jobs--and they will expect them promptly. If we delay in the transition from war to peace, if business is hampered one bit more than is unavoidable in its reconversion and in providing new jobs, mass unemployment and social distress will result, relief rolls will mount and the State and Federal treasuries will be subjected to the necessity of making huge grants for the relief of the unemployed.

"This must not and need not happen.

"Many factors are involved but the settlement of terminated war contracts is one of the most important.

"The Federal Advisory Council believes:

(1) That war contracts which are terminated must be settled and settled promptly and finally by negotiated agreements between the contractor and the procuring agency of the Government which negotiated the original contract.

(2) That settlements so negotiated should be final and not subject to review by any other agency except for fraud. Any amounts that might conceivably be saved the Government through a post-audit will fade into insignificance in comparison with grants for relief that will be necessitated by resulting delay, uncertainty, and unemployment.

(3) That if settlements of terminated contracts when negotiated by the procuring agencies are not final, or if they are made subject to subsequent audit, credit for working capital needed for reconversion after the war may, in many cases, be unavailable until the settlement does become final and the basis

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"of credit thereby becomes ascertainable. This applies particularly to those contractors whose capital is relatively small.

(4) That Congress should relieve contracting officers who negotiate settlements from personal responsibility, except for fraud.

(5) That Congress should enact legislation providing more adequate means of interim financing of contractors whose contracts have been canceled when for unavoidable reasons there is delay in final settlement and payment.

(6) That appropriate plans should be made in advance for the prompt removal of surplus Government materiel and facilities for\* plants whose contracts are terminated.

"In the opinion of the Federal Advisory Council, unless appropriate steps are taken by the Congress and the various Government agencies to relieve the minds of thousands of contractors large and small and to assure business that, when terminated, contracts will be settled fairly, quickly and finally, there is danger that war production will be hampered now and that peace production will be perilously delayed after the war.

"The Federal Advisory Council believes that these are risks that need not be taken."

It was voted unanimously to transmit the resolution as requested by the Council and to release it to the press with a statement that the resolution, in which the Board concurred, was adopted unanimously by the Federal Advisory Council and submitted to the Board of Governors at a joint meeting on November 15, 1943.

Secretary's note: Following the meeting it was determined that there was some question as to the formal status of the Joint Contract Termination Board, to which reference was made in Mr. Lichtenstein's letter, and Mr. Lichtenstein, after talking over the telephone with Mr. Harrison, Vice President of the Council, requested that the resolution be sent by the Board to Mr. Baruch, Director of War Mobilization Byrnes, Under Secretary of War Patterson, Under Secretary of the Navy Forrestal, United States Maritime Commission Chairman Land, War Production Board Chairman Nelson, Comptroller General Warren, and Messrs. Wagner and Steagall, Chairmen of the Banking and Currency Committees of the Senate and House, respectively. At Mr. Lichtenstein's request, additional copies were also sent to Mr. Baruch for submission by him to such other persons who were concerned with contract termination as he might feel should receive copies.

\*On November 22, 1943, Mr. Harrison stated to Mr. Morrill by telephone that this word should have been "from".

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At this point Mr. Leonard, Director of the Division of Personnel Administration, joined the meeting.

There was also presented a memorandum dated November 15, 1943, from Mr. Leonard which read in part as follows:

"CAUSE FOR MEMORANDUM:

"The Interdepartmental Committee on Employee Investigations has forwarded an F. B. I. report of investigation of an employee of the Seattle Branch of the Federal Reserve Bank of San Francisco from which it appears that the young woman who is an employee in the R.F.C. Custody Department, and whose salary is reimbursable, has been a member of the Young Communist League. The letter concludes with the statement that pursuant to Executive Order 9300 the Committee 'will be pleased to receive your report concerning procedures and action taken as soon as you have disposed of the case'.

"This raises some rather important questions as to policy and procedure:

1. The Executive Order is applicable to employees of the executive branch of the Federal Government. It is therefore not applicable to employees of the Federal Reserve Banks. Should, however, the policy of the Board and Reserve Banks in these cases be consistent with that of the Government?
2. It is possible that on general principles the Reserve Banks may resent any attempt to extend to their employees standards and procedures applicable to Government employees.
3. If a hearing is to be held and the employee to be dismissed, should the dismissal be made by the Reserve Bank as an administrative action, or should it be at the direction of the Board of Governors under such statutory powers as it may have?
4. Can a copy of the F. B. I. report be furnished the President of a Reserve Bank in view of the position taken by the Department of Justice that F. B. I. investigative reports should not be shown 'to any persons other than the officials of the Government who are officially concerned with the contents thereof'.

"RECOMMENDATION:

"It is recommended:

1. That the Interdepartmental Committee be advised that while Executive Order 9300 is not applicable to employees of the Federal Reserve Banks, the

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"Board will proceed generally as if the order were applicable.

2. That the Staff be authorized to discuss with the Interdepartmental Committee or the Department of Justice the procedures appropriate in handling cases of this kind relating to employees of the Federal Reserve Banks.

3. That, in the light of such discussions, this particular case be discussed informally with the President and Counsel of the Federal Reserve Bank of San Francisco, particularly as to whether, if the employee is to be dismissed, the action should be taken by the Bank on its own responsibility or upon direction by the Board in the exercise of its statutory powers."

Following the reading of the memorandum, the staff was authorized to discuss the matter with the Interdepartmental Committee or the Department of Justice with the understanding that thereafter it would be considered further in the light of developments.

With a memorandum dated November 4, 1943, Mr. Morrill submitted to the Board a list of committees of the Presidents' Conference revised in accordance with information received from the Secretary of the Conference. The memorandum stated that it was thought that the Board might wish to review the assignments of members of the Board and its staff as associates of certain of the committees as shown on the list and that the memorandum was being circulated prior to consideration at a meeting of the Board.

Upon motion by Mr. Szymczak, the list was referred to Chairman Eccles for such action as he might see fit with respect to the assignment of members of the Board and its staff as associates of Presidents' Conference committees.

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Before this meeting the attention of the members of the Board had been called to a draft of reply to a letter dated November 5, 1943, from President Young of the Federal Reserve Bank of Chicago in which he expressed a desire to continue Walter S. McLucas as a director of the Detroit Branch, notwithstanding the fact that at the end of this year he would have served continuously for six years. The draft of reply stated that the provisions of the Board's regulations relating to branches of Federal Reserve Banks which limited the service of branch directors to six consecutive years reflected a general policy which was applicable to directors appointed by the Board as well as directors appointed by the Federal Reserve Banks, that the policy was adopted because of the belief that a certain degree of rotation of membership on the directorates was desirable, and that the Board continued in that belief and did not contemplate a change in the provision at this time.

Mr. McKee had attached a memorandum to the file in which he outlined reasons why he felt it would be a great loss to the Detroit Branch if Mr. McLucas' services were not continued and requested that the matter be considered at a meeting of the Board for the purpose of determining whether the rule should be relaxed as had been done in connection with the service of Class C directors.

After a discussion of reasons underlying the six-year rule and the desirability of adhering to the rule under normal conditions, Mr. Szymczak moved that the Secretary be requested to advise the Chairmen of all the Federal Reserve Banks that the Board continued to be of the opinion that the principle involved in the six-year rule was

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sound and in ordinary times should be adhered to, but that, in view of the unusual conditions brought about by the war, including the unavailability of qualified individuals for appointment as directors and the absence of existing directors in connection with war work for the Government or otherwise, the Board had decided that, without making a formal change in its regulations, it would waive the rule in connection with the appointment of branch directors for terms beginning January 1, 1944, and that it would consider the matter again toward the end of next year and advise the Chairmen at that time of the conclusion reached with respect to terms beginning January 1, 1945.

This motion was put by the chair and carried unanimously.

At this point Messrs. Thurston, Smead, Dreibelbis, Leonard, Vest, 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 November 15, 1943, were approved unanimously.

The minutes of the meeting of the Board of Governors with the Federal Advisory Council held on November 15, 1943, were approved unanimously.

Letter to Mr. Dillard, Vice President of the Federal Reserve Bank of Chicago, reading as follows:

"This will acknowledge receipt of your letter of October 27, 1943, enclosing a copy of a letter dated October 22 from Mr. Walter A. Gatzert, Secretary and Treasurer of Spiegel, Inc., which describes their new policy adopted in order to eliminate violations of Regulation W in connection with mail orders.

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"As intimated in your letter, it appears that the new procedure will prevent the violations. However, it occurs to us that a simpler procedure would likewise result in compliance with the spirit and letter of the regulation and you may wish to call it to Mr. Gatzert's attention in case it may be convenient for him to use it.

"The problem, in essence, is to comply with the intention of the customer in placing a purchase either on time payment or charge account, and the principal objection to the old procedure was that the apparent intention of the customer was sometimes ignored with the result that a transaction which should have been on time payment was treated as a charge account. The customer's intention may be ascertained either from his direct statement, or, in the absence of a direct statement, from the fact that he encloses or does not enclose a deposit. Therefore, it might be possible to simplify the procedure along the following lines:

1. If the customer indicates on the order that the purchase is to be time payment, the purchase should be handled as time payment and the merchandise should not be shipped until the required down payment is received.

2. If the customer indicates on the order that the purchase is to be on charge account, the purchase should be handled accordingly whether or not a deposit is received.

3. If the customer does not indicate on the order which form of account is intended, the purchase should be handled as time payment if a deposit is received, or on charge account if no deposit is received. In a charge case of this kind no mention should be made of the possibility of conversion to time payment."

Approved unanimously.

Memorandum dated November 15, 1943, from Mr. Thomas, Assistant Director of the Division of Research and Statistics, recommending, for the reasons stated in the memorandum, that arrangements be made with Miss Erika Goldberg, a former employee of that Division, to type a special manuscript prepared by Dr. Paul Hermsberg in connection with the Civil Affairs Handbook on Germany, compensation to be at the rate of 30 cents for a double-spaced page. The memorandum stated that the manuscript might run to 50-60 typewritten pages.



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Approved unanimously, with the understanding that the appropriate item in the budget of the Division of Research and Statistics would be increased accordingly.

Thereupon the meeting adjourned.

Chester Morrie  
Secretary.

Approved:

W. C. ...  
Chairman.