

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, November 24, 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. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the Chairman
Mr. Dreibelbis, General Attorney
Mr. Leonard, Director of the Division of Personnel Administration
Mr. Vest, Assistant General Attorney
Mr. Thomas, Assistant Director of the Division of Research and Statistics
Mr. Hammond, Chief of the Correspondence and Publications Section of the Secretary's Office
Messrs. Gardner and Knapp, Senior Economists, Mr. Triffin, Associate Economist, and Miss Wooster, Junior Economist, in the Division of Research and Statistics

Messrs. Hammond and Triffin reported on their recent trip to certain of the South American countries and reviewed in particular the work done during their two months stay in Paraguay in connection with the new monetary and banking laws of that country. At the conclusion of their statements the members of the Board commended Messrs. Hammond and Triffin for their interesting and well organized reports, which indicated that they had rendered a very valuable service, particularly to Paraguay, and to the relationships of the System with the foreign central banks which they had visited, and had established a basis for correspondence, exchange

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of statistical and other information, and contacts which in the future should be extremely valuable to the System.

Thereupon the meeting recessed and reconvened at 2:30 p.m. with the same attendance as at the morning session except that Messrs. Vest, Hammond, Gardner, Knapp, and Triffin and Miss Wooster were not present and Mr. Smead, Chief of the Division of Bank Operations, was in attendance.

Reference was made to a memorandum submitted by the Division of Research and Statistics under date of November 15, 1943, recommending the temporary appointment of Mr. Alexander Gerschenkron, a citizen of Germany, to assist in the work being done for the State Department on international financial conditions in preparation for the peace conference. The memorandum stated that the recommendation had been delayed until it could be ascertained whether an American citizen could be found to do the work or whether Mr. Gerschenkron was the best noncitizen available, but that no one else had been found with the necessary qualifications. In connection with the consideration of this case, reference was also made to the suggestion made by Mr. Thomas in a memorandum dated October 27, 1943, to Mr. Leonard that Mr. Bruno Foa, a citizen of Italy, be employed on a temporary basis to assist in the same work.

Mr. Szymczak stated that he had asked that these cases be considered by the Board for the reason that Messrs. Gerschenkron and Foa were not citizens of the United States. He also said that Messrs. Haberler and Ellis, who had been engaged to work on the State Department project, were very much in need of the assistance that Messrs. Gerschenkron

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and Foa were qualified to give, and that, if the work were to be done and if the Federal Bureau of Investigation reports that would be requested were satisfactory, it would appear that the Board should give serious consideration to their employment.

In the discussion which ensued it was stated that Mr. Thomas and others on the Board's staff were meeting weekly with representatives of the State Department in connection with the studies being made in preparation for the peace conference, that responsible officials in the State Department were in charge of the work of the Department in this connection and were relying definitely on the studies being made by the Board's staff in the financial field.

Mr. McKee inquired as to the status of the work on the Military Government Handbook, and Mr. Thomas stated that, while that work was nearing completion, only one or two men who had worked on that project would be considered for work on the material being prepared for the State Department.

At the conclusion of the discussion, there was unanimous agreement that in engaging the necessary temporary staff for the State Department studies the Board should adhere to a policy of employing citizens of the United States whenever possible but that, if qualified citizens could not be found and noncitizens with the required ability, training, and experience to do the work were available, they might be employed, on condition in each case (1) that the Federal Bureau of Investigation report was satisfactory and (2) that satisfactory evidence of a bona fide intention to become a citizen of the United States was present.

In connection with the possible employment of Mr. Foa, Mr. Thomas

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stated that Mr. Foa's salary in the Office of the Coordinator for Inter-American Affairs was at the rate of \$6,500 per annum and that it was not likely that the Board would be able to obtain his services at a basic salary of less than \$5,600 per annum. It was suggested that if he were employed he should not be paid more than that amount, having in mind the salaries which would be paid to other temporary and permanent employees in the Division.

Following the discussion of the two cases referred to above, there was presented a memorandum addressed to the Board by Mr. Thomas under date of November 13, 1943, recommending the employment for a period of not to exceed three months of Mr. Horst Mendershausen (whose application to become a citizen of the United States is pending), with basic salary at the rate of \$4,000 per annum, to assist in work in the Domestic Business Conditions Section of the Division of Research and Statistics on certain technical research projects in the field of index number construction. It appeared that Mr. Mendershausen had the required qualifications and that the only question was whether, in view of the fact that he was not a citizen, he should be engaged even on a temporary basis in connection with the regular work of the Board.

It was agreed that this case should be decided on the basis of the policy decided upon earlier in this meeting with respect to the employment of noncitizens.

In connection with the recommendation with respect to Mr. Mendershausen, Mr. Leonard had raised the question in a separate memorandum dated November 22, 1943, whether, in view of the fact that Mr.

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Mendershausen would not be engaged on confidential work, it would be necessary to require the usual Federal Bureau of Investigation report on noncitizens, and the members of the Board expressed the opinion that if his employment were approved such an investigation should be made.

Thereupon the files with respect to Messrs. Gerschenkron, Foa, and Mendershausen were referred to the Personnel Committee for further consideration and recommendation to the Board in the light of the discussions at this meeting.

Mr. Ransom referred to the letter approved by the Board on November 12, 1943, to Admiral Land, Chairman of the United States Maritime Commission, in reply to a letter from Mr. Anderson, Director of Finance for the Commission, with respect to salary and dividend payments of borrowers on Regulation V loans guaranteed by the Commission, and stated that his attention had just been called to a draft of a second letter which he understood was to supersede the first letter and which had been written at the request of Mr. Anderson, who felt that the first letter would meet with decidedly unfavorable reaction within the Commission. Mr. Ransom said that, while he had felt that the position taken in the first letter might be the cause of some difficulty, he was not in fundamental disagreement with the position taken therein and had approved it for that reason, and that, although he had no material objection to the contents of the second letter, he did not believe the Board should be placed in the position of sending the letter in response to a request of the member of the staff of the Maritime Commission who had not submitted the first letter to the Commission.

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Mr. McKee stated that members of the staff of the Commission had discussed the matter at some length with Mr. Smead, that the second draft was prepared with the hope that it might be the means of avoiding difficulties with the Commission, that it would be made clear in the record that the first letter had not been recalled by the Board, and that the second letter was written to take the place of the first at the request of Mr. Anderson. Mr. McKee also said that the second letter did not change the policy set forth in the first letter, and if the Commission should take the position that the second letter was not responsive to the Commission's original request reference could be made to the first letter as stating the Board's position. The draft of second letter to the Commission was as follows:

"Since receipt of Mr. Anderson's letter of October 30, 1943, addressed to the Acting Administrator, War Loans Committee, with respect to salary and dividend payments of borrowers on Regulation V loans guaranteed by the Maritime Commission, the matter has been considered by the members of our War Loans Committee and by the Board of Governors.

"As you are aware, it has always been the practice of the Federal Reserve Banks to analyze carefully each application for a Regulation V guaranteed loan. Careful consideration is given to the condition of the applicant, the quality of its management, its prospects of successfully performing the contracts financed, and of paying off borrowings under guaranteed loans. In this connection, the Federal Reserve Banks have from time to time made recommendations with respect to both salary and dividend payments. Where salaries appeared to be excessive in relation to the character and volume of business done, recommendations have been made with respect to their limitation or subordination to the loan. Likewise, in certain cases recommendations have been made that a guarantee be authorized on condition that no dividends be paid by the borrower, or that dividends be limited to specified amounts, during the life of the loan. Furthermore, guarantee agreements contain the standard conditions adopted by the Maritime

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"Commission on May 14, 1943, and forwarded by us to the Federal Reserve Banks, the first two of which read as follows:

'1. The borrower shall pay no dividends unless the same are approved by the financing institution.

'2. Present executive officers' salaries, fees, bonuses, commissions, etc. are deemed to be reasonable by the financing institution and shall not be increased.'

"After a thorough review of this matter, the Board's War Loans Committee and the Board itself feel that the present procedure followed by financing institutions and the Federal Reserve Banks is adequate from a credit standpoint and in substance accomplishes what the Commission has in mind. Accordingly, we are writing a letter to the Federal Reserve Banks again calling their attention to the necessity of carefully scrutinizing salaries, particularly those in the higher brackets, and dividend payments in acting upon or making recommendations with respect to Regulation V loans to be guaranteed on behalf of the Maritime Commission. A copy of the Board's letter to the Federal Reserve Banks is enclosed."

After discussion, Mr. McKee moved that Mr. Smead be authorized to advise Mr. Anderson that the Board had considered the matter and was of the opinion that the second letter should not be sent, it being understood, however, that if the Maritime Commission should have any objection or question in connection with the first letter the Board, at the request of the Commission, would be willing to send a letter to the Federal Reserve Banks along the lines of the draft accompanying the second letter set forth above.

This motion was put by the chair and carried unanimously.

Before this meeting the attention of the members of the Board had been called to a draft of the title page and introduction of a new book by Mr. Hansen, Special Economic Adviser in the Division of Research and Statistics, on the subject "State and Local Finance in the National Economy". The title page stated that Mr. Hansen was Littauer Professor of Political Economy at Harvard University and Special Economic Adviser

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to the Board of Governors of the Federal Reserve System, and that the co-author of the book was Mr. Harvey S. Perloff, formerly an economist with the Board of Governors of the Federal Reserve System. The introduction contained a statement that Mr. Hansen was deeply indebted to the Board for placing at his disposal the efficient services of its library and its ample research resources and that the authors assumed full responsibility for the opinions expressed in the book and for errors which might have inadvertently escaped their attention. It appeared that Mr. Hansen had discussed with the individual members of the Board the question whether his connection with the System should be shown on the title page, and that the members of the Board had taken various positions regarding the matter.

The matter was discussed on the basis of what the policy of the Board should be with respect to persons in the service of the Federal Reserve System showing their connection with the System in published books and articles written by them.

At the conclusion of the discussion Mr. McKee moved that Mr. Hansen be advised that it was the view of the Board that his connection with the Board should be deleted from his forthcoming book.

This motion was put by the chair and lost, Mr. McKee voting "aye" and the other members voting "no".

Thereupon Mr. Ransom moved that Mr. Hansen be advised that the Board had considered the matter of his connection with the System being shown in his book and was favorable to his giving credit to the Board as proposed in the introduction to the book and to his identifying himself as being a Special Economic Adviser on the Board's staff.

This motion was put by the chair and carried, Mr. McKee voting "no."

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At this point Messrs. Thurston, Smead, Dreibelbis, Leonard, and Thomas 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 23, 1943, were approved unanimously.

Memorandum dated November 20, 1943, from Mr. Thomas, Assistant Director of the Division of Research and Statistics, recommending, with the concurrence of the Secretary's Office, that Mrs. Vera M. Sherrill, a page in the Secretary's Office, be transferred to the Division of Research and Statistics as a library aid, with no change in either the status of her appointment on a temporary indefinite basis or her present basic salary at the rate of \$1,440 per annum, effective December 1, 1943.

Approved unanimously.

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

"Since March 31, 1943 weekly reporting member banks in New York City have been reporting separately loans to brokers and dealers for the purpose of purchasing or carrying United States Government obligations. In accordance with a request of the Treasury, it has been decided to ask all weekly reporting member banks to report separately the amounts of loans for the purpose of purchasing or carrying United States Government obligations made to brokers and dealers and to others, respectively. The weekly report form (F. R. 416) has been revised accordingly, and a copy thereof is enclosed. Reports on the revised form should be obtained beginning Wednesday, January 5, 1944. In order that the reporting banks may have time to make the necessary arrangements to compile the additional information, it is suggested that they be given advance notice of the change being made in the form of weekly report. No corresponding change in the form of call report is being contemplated.

"The definitions of items 5 and 6 of Schedule A of the call report, contained in the general instructions governing

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"the preparation of such reports, should be used as a guide in determining what loans should be reported against items 1-b(1), 1-b(2), 1-c(1), and 1-c(2) of the revised weekly report. The determination whether or not a given secured or unsecured loan was made for the purpose of purchasing or carrying United States Government obligations may be made on the basis of such information as the reporting bank has available. If information is not available as to the purpose of a loan secured by such obligations, the loan may be presumed to be (1) 'commercial, industrial, and agricultural' if the borrower is a business enterprise or a farmer, and (2) for the purpose of purchasing or carrying the securities, if the borrower is not a business enterprise, a farmer, or a bank."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

W. C. Lewis
Chairman.