

The meeting of the Board of Governors of the Federal Reserve System with the Presidents of the Federal Reserve Banks was reconvened in the offices of the Board in Washington on Wednesday, March 1, 1944, at 12:10 p.m.

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

Mr. Morrill, 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, Minneapolis, Kansas City, and Dallas, respectively

Mr. Clerk, First Vice President of the Federal Reserve Bank of San Francisco

Mr. Sienkiewicz, Secretary of the Presidents' Conference

Mr. Sproul read a report of action taken at the Presidents' Conference on a "Study of the Financial Needs of Industry" as follows:

"The Conference discussed the report and recommendations of the Research Committee relating to financial needs of business during the change-over from war to peacetime activity. This report deals with the cooperative arrangement with the Robert Morris Associates to undertake a study of prospective financing needs as may be indicated by financial statements obtained regularly by the Robert Morris Associates which represents credit officials of commercial banks. It is contemplated that the Reserve Banks will aggregate and analyze data in these statements as submitted to them by the Robert Morris Associates and then submitted to the Board's staff for analysis on the national level. It is one phase of the general subject with which the Research Committee on financial aspects of reconversion is concerned.

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"After consideration the Conference accepted and approved the report with the understanding that the recommendations of the Committee will be discussed with the Board of Governors at the joint meeting."

Mr. Williams said that the Robert Morris Associates are more active in some areas than in others and that some problems may arise in certain sections of the country where the organization is not particularly active. Consequently, there is some apprehension as to the effect upon public relations if it should become necessary for the System to supplement to any great extent the sample which would be provided by the Robert Morris Associates. That was the principal question that was raised by members of the Presidents' Conference during the discussion of this matter. The general feeling, however, was that if we could obtain a sample consisting of two or three thousand balance sheets and operating statements it would be very desirable to work out this arrangement because this is a subject that needs exploration and, if we don't do it, the chances are that some other group will get into the field.

Chairman Eccles raised the question whether the report was being submitted merely for the information of the Board or for the purpose of obtaining the Board's views. Mr. Sproul stated that it was desired to ascertain whether the Board had any different views or any objection, and that the Board's Division of Research and Statistics would necessarily participate in the project.

In response, Chairman Eccles said that he would like to have an

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opportunity for the Board to discuss it with members of its research staff and express its views later. Mr. Williams suggested the need for a prompt decision because the Robert Morris Associates would be doing some other work in the regular conduct of the affairs of their organization and that they could combine this project with their other work. Chairman Eccles said that he thought that the Board could consider the matter and take action very promptly.

Mr. Sproul then read a report of action by the Presidents' Conference on the subject "Deposits and Bank Investment Policy" as follows:

"The Conference considered the preliminary report of the Research Committee suggesting a study of the problems arising from expansion of deposits and investment policy of member banks. This report suggests two studies:

1. A study of present Treasury and Federal Reserve policies that have a bearing on bank deposits and investments, of the investment policies that banks are now following, and of the results that may be expected from a continuation of present policies and trends; and
2. A study of various policies that may be followed by the System and the Treasury in the post-war period, together with a determination of the bank and investment policies that would be appropriate in order to implement these policies.

"After consideration, the Conference voted to accept the report with recommendations and give general approval to the proposed studies, with the understanding that the subject be reviewed with the Board of Governors at the joint meeting."

Mr. Williams stated that Mr. Piser could inform the Board of Governors of the background of this item, and Chairman Eccles said that

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the Board would place the matter upon its agenda for consideration as soon as possible.

The next report of action at the Presidents' Conference, which Mr. Sproul read, was on the "Manpower Problem of Member banks" as follows:

"It appears that many member banks are losing their personnel to Governmental agencies and industries, and it is becoming difficult for them to perform various services requested by the Reserve Banks, the Treasury, and other Governmental agencies. As war financing progresses, this problem may become even more serious than at present, and it is therefore of some concern to the Reserve Banks. After consideration, the Conference decided to present the matter to the Board of Governors at the joint meeting for favorable consideration."

Mr. Leedy said that one of the directors of the Kansas City Bank had reported that the manpower situation was discussed at a meeting of the Denver Clearing House Association. The banks in Denver had been seriously handicapped because they were faced with competition both from war plants and from Government agencies in respect to salaries and the banks had not been able to make upward adjustments in salaries to an extent sufficient to hold their employees. Mr. Leedy felt that the problem was thoroughly understood by the Federal Reserve Banks and that they were faced with the question whether they were going to show sympathy for the situation of the banks and sufficient interest to try to do something about it. He said that his board of directors felt unanimously that it was a matter that the Reserve System should be interested in but that, at his suggestion, they took no formal action.

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Mr. Leedy, however, was committed to discuss the matter with the Presidents' Conference with a view to having it brought to the attention of the Board of Governors, and that was the reason for the action which had been quoted by Mr. Sproul.

Mr. Szymczak said that the problem was one with which the Board was acquainted, but that he doubted that favorable action would be forthcoming from the War Manpower Commission. Mr. Davis said that he felt that if there were some evidence of real interest on the part of the Board of Governors it would be very helpful in the public relations of the Federal Reserve Banks.

With respect to a question whether steps should be taken to get additional information showing the facts regarding competition between the banks and Government agencies and private enterprises, it was understood that there would be no formal request for information, but that any information informally obtained would be helpful to the Board. Summing up the discussion, Mr. Sproul said that he understood that the Board was favorably disposed with respect to the recommendation of the Presidents' Conference and would do whatever it could to forward the accomplishment of the purpose of that action.

Mr. Sproul then stated that the final question which he wished to bring to the attention of the Board of Governors in an informal way was the one of relationships between the Board and the Banks. He said that the Presidents felt that this was the time to utilize to the fullest extent all the resources of the Reserve System in all of its constituent

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parts and that we should avoid intra-System disputes based upon questions of jurisdiction or prerogative or lines of administration in so far as it was possible to do so. The Presidents had in mind, however, that there was involved in the problem the course of relations between the Board of Governors and the Presidents of the Banks and between the Board of Governors and the Chairmen of the Banks. He noted what had seemed to be a tendency on the part of the Chairmen's Conference to adopt policies for the System which could only be expressions of point of view on the part of that body without authority in and of itself to bind either the Board of Governors or the boards of directors of the Banks. Mr. Sproul said that the Presidents had in mind only the thought of bringing to the attention of the Board of Governors the general question which was in their minds with respect to the procedure involved in handling matters in this area of relations.

Chairman Eccles said that there could be no question about the need of working together and that it seemed to him that the way to meet the situation was to have an understanding as to the lines of authority and functions of the various groups, the Board, the Presidents, the Chairmen, etc. It was true, he said, that the Chairmen's Conference could not speak for the other directors of the Banks because the directors have statutory responsibilities, and he added that this was also true as to the Presidents' Conference. He said that it had been felt that meetings of the Chairmen's Conference from time to time would be helpful to the System, as had been the case with respect to the Presidents' Conference, for the purpose of exchanging views and discussing

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mutual problems.

Mr. Evans said that he did not think that it could be suggested to the Chairmen that they should not meet as a Chairmen's Conference. Mr. Sproul did not think that any of the Presidents had any thought of that sort and said that it was recognized that they had the same rights to meet as the Presidents and that the same good results might flow from such meetings.

Chairman Eccles said that the Chairmen's Conference had an executive committee and that they made up their own agenda of the matters they were interested in and which they wished to discuss among themselves and with the Board, just as was the case with the Presidents. The Board meets with them and hears what they have to present at their Conference and likewise the Board presents to them such subjects as it feels appropriate for their consideration. Therefore, the problem really gets down to the question of what is appropriate for the Chairmen's Conference to discuss with, and to present to, the Board and what is appropriate for the Board to discuss with, and present to, the Chairmen. He reviewed briefly the history of what had been done with respect to the change of status of the Chairmen from a full-time salary to an honorarium basis and the transfer of non-statutory functions from the Chairmen to the operating departments of the Federal Reserve Banks, in connection with which Chairman Eccles called attention to the letter which had been written to each Federal Reserve Bank in 1936 with special reference to the transfer of the research and examination

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work from the Chairmen to the operating departments of the Banks.

Mr. Sproul thought it was a question of understanding and an attitude of mind. He felt that a distinct step forward had been made after the Banking Act of 1935 with respect to the Chairmen at the Federal Reserve Banks and that the Board went as far as it possibly could under the statute to clear up a situation which had been troublesome at the Federal Reserve Banks. The point that he had in mind was that it would be undesirable to retrace any part of that ground or to permit the development of a situation which would confuse the lines of administration. He said that perhaps the only specific thing that he could mention was the thought that the Chairmen's Conference should not adopt policies for the System, and that after they met as Chairmen their function should be to carry back to their directors and discuss with them the views which had been considered at the Chairmen's Conference. Mr. Sproul added that, as he saw it, it was well understood that the Presidents were all working under their boards of directors and that anything they did was subject to the approval of their directors. As to this, Mr. McKee observed that that was likewise true of the Chairmen.

Mr. Evans said that, as he understood the situation, when the Presidents get back from a Presidents' Conference they make formal reports to the boards of directors, but that, when the Chairmen get back, while they may do likewise, the Presidents are not always aware

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what actions they have taken. At this point it was stated that as soon as possible after each Chairmen's Conference a full and complete report of the proceedings is sent to each Chairman so that he is in position to furnish an accurate report to the Bank.

Chairmen Eccles stated that it is necessary for the Board of Governors to work very closely with the Chairmen, and he referred to certain questions of policy which lie directly within the province of the Chairmen such as official salaries at the Banks and the question of selection of presidents and first vice presidents. He pointed out that it is quite difficult to get men of the calibre that the Board would like to have in the positions of Chairmen to take these positions and to give the time and attention to the responsibilities imposed upon them on what is virtually a gratuitous basis if we should then proceed to belittle their responsibilities.

In response to a comment by Mr. Davis that what really concerned the Presidents was what seemed to be a growing tendency to adopt what were regarded as final System policies at the Chairmen's Conference, which could not be done at a Presidents' Conference and which the Chairmen could not do without the authority of their directors, Chairman Eccles agreed that all the Chairmen could do was to adopt statements of policy as expressions of views of the Chairmen and then endeavor to get their directors to act in accordance with these views.

Mr. Sproul then said that there was some discussion but no

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action was taken by the Presidents and nothing would appear in the minutes with respect to the differential discount rate of 1/2%. The question was raised whether that rate should not be made available to nonmember banks and he said that one or two of the Presidents felt that it would still be desirable to extend it to nonmembers.

Mr. Leedy referred to the Brown Bill (relating to absorption of exchange and collection charges) and said that it had been argued that the smaller banks ought to be more fully invested and that if they followed such a policy there would be less need for exchange charges. He said that the point might be made against the Federal Reserve Banks that while they advocated this policy they were discriminating between the member and nonmember banks in their discount rate policy by giving a preferential rate to their own members without providing the same kind of assurance to nonmembers. As a practical matter, Mr. Leedy did not feel that it was important, but he did feel that there was a question of banking relations involved which might be met by removing the apparent discrimination.

Chairman Eccles commented that there was an inconsistency in that, prior to the establishment of this preferential rate, nonmember banks had been given the same consideration as member banks and that the mistake was made at that time when nonmember banks were treated the same as member banks. Chairman Eccles expressed the feeling that we had already gone too far with nonmember banks.

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The meeting recessed at 1:10 p.m. and resumed at 2:30 p.m., with the same attendance as at the morning session.

Chairman Eccles stated that in order that there might be no misapprehension on the question of legislation, which had been raised yesterday, it was true that he had agreed to send to the Presidents a copy of any legislation that the Board might propose with respect to loans to industry but that he did not want to have the impression created that a precedent had been established thereby or that the Board would necessarily do the same thing in all other cases. He said that the Board is an agency of Congress which is expected to represent the public interest; that Congress looks to the Board for reports and for recommendations; that the Board had therefore been able to maintain the position that the System should not be under the General Accounting Office or the Budget Bureau or the Civil Service Commission; and that the Board felt that it should continue to do everything possible to protect the independence of the System by reason of the fact that it was a public body directly responsible to Congress. He said that he had expressed that point of view on a good many occasions before committees of Congress and elsewhere. In addition, quite frequently the Board is engaged in the process of preparing replies to requests for reports and in drafting legislation that might be useful in carrying out such recommendations as it might make, and the Board from time to time has recommended or worked upon Executive Orders,

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but the circumstances were such that the Board could not be subject to an obligation always to advise the Presidents in advance or to furnish them with copies of its proposals. He illustrated this by reference to Regulations V and W, both of which were worked out over a considerable period of time but under restrictions of the utmost confidence, which made it impracticable to take them up with the Federal Reserve Banks.

With respect to the relations of the Board of Governors with the Presidents and with the Chairmen, he said that he felt that the problem was one of the most practical way of getting results and he was not interested so much in prerogatives although a strong argument could be made for taking up policy matters in the first instance with the Chairmen, who, in turn, would take them up with the boards of directors and they would determine the policies to be followed in their respective Banks. On the other hand, he felt that as a practical matter the best results in most matters were obtained by taking them up with the Presidents of the Federal Reserve Banks, with the understanding that there are some matters of policy which it is preferable to discuss with the Chairmen.

Reverting to the question of legislation, Chairman Eccles reviewed the circumstances surrounding the enactment of the Banking Act of 1935 and particularly the questions of organization involved in that legislation, with respect to which it could naturally be assumed that the Governors of the Banks would not have been in accord

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with the program that was carried out in that Act. He used this as an illustration to show that there was in the nature of the situation the possibility of conflicting interests for which the Board would have to take responsibility in presenting its views as to legislative action. He pointed out also that there were some proposals in which the Presidents of the Banks might be interested, such as the proposal with respect to section 13b, but which it would be undesirable to discuss with the directors of the Banks because of their private and possibly adverse interests. He referred to a recent request of the Federal Advisory Council for copies of proposed holding company legislation which the Board had not agreed to furnish and he explained the reasons for the Board's position in that respect.

Chairman Eccles concluded his expression of views by saying that he had discussed these subjects with the other members of the Board and that what he had said represented the unanimous opinion of the Board, both as to legislation and as to relations with the Chairmen and the Presidents.

In the subsequent discussion some of the Presidents emphasized the need for unity within the System and the desirability of avoiding developments which might result in the Presidents inadvertently expressing personal views without full knowledge of the positions that were being taken in Washington.

Chairman Eccles recognized this possibility but felt that it was inherent in a situation where numerous individuals were involved

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and said that the statements which he had made had been solely in the interest of avoiding any misunderstanding as to the Board's position. He did not feel that it involved any prospect of any different relations with the Presidents than had been the case, which he agreed should contemplate the continuance of the fullest possible exchange of views and understandings.

In the course of a discussion of the differing viewpoints and interests of the various classes of directors of the Federal Reserve Banks, Mr. Ransom referred to the recent experience of the Board in connection with the Brown Bill during which it had developed that there were two directors of a Federal Reserve Bank, one a Class A and one a Class B, who had come out in opposition to the Board's policy because of their individual outside interests, and that, while he did not like to contemplate possibilities of cleavages between directors and the Board of Governors, and he would like to think of them as having common objectives, he did not really think that it could be expected that this would be true in all situations. The Board's experience in this and other matters had led him to believe that the Board would very largely have to accept the responsibility for the handling of legislative proposals affecting the System in the national field.

Mr. Williams presented the view that it was not a question of terms of responsibility, authority, or jurisdiction, but rather one of preserving and developing the prestige and influence of the System.

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He thought that the Federal Reserve Banks had gained a great deal of prestige and influence in their respective districts and referred to the part that their administration of Regulation W had played in this field. He added that the Board might gain through the ability of the Federal Reserve Banks to extend to Washington the benefits of some of the influence which they had acquired in their districts. He referred to the fact that the Federal Reserve Bank had been asked by Mr. Kurtz of the Federal Advisory Council to comment on the Mead Bill and he thought that such a request illustrated the necessity for unity between Washington and the field.

Chairman Eccles agreed with Mr. Williams and said that it was not a question of prerogatives but it was a question of respective responsibilities and the desirability of having a clear understanding of what was required in order that the Board and the Banks could carry out their respective responsibilities to the best advantage.

Mr. Sproul stressed the point that there was need for maintaining a situation in the System in which all parts have strength. He believed that, if there should be a swing toward an accumulation of power in Washington with a corresponding loss in the field, the influence of the System would be reduced and correspondingly weakened. He did not wish to see the pendulum swing too far either way and he felt that there were two groups that were full-time public servants, one the Presidents of the Federal Reserve Banks in the field and the

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other the Board of Governors in Washington, between whom there should be the fullest confidence and the most complete exchange of information, so that there might be both strength and leadership in the field and strength and leadership in Washington.

At the conclusion of this discussion Chairman Eccles referred to the question of the insurance program of the System, as to which the Board had an important responsibility concerning which it felt very strongly. He reviewed to some extent the history of the consideration of the matter which had taken place and said that after discussing it with the other members of the Board during the recess he felt that he should say that the Board would make no further reference to the matter, but that if its understanding of its responsibility with respect to general supervision of the Banks were correct and if the program were not put into effect, the Board, after a specified period, should disapprove further payments of premiums for insurance.

Chairman Eccles then brought up the question of procedure in connection with meetings of the Federal Open Market Committee, and referred to the practice which had developed of holding meetings of the Presidents' Conference at points outside Washington immediately preceding a meeting in Washington. There was a general discussion and review of the various changes that had taken place, including the reasons for holding meetings of the Presidents' Conference outside Washington and the reasons for the enlargement which had taken place in the attendance at meetings of the Federal Open Market

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Committee. It was agreed that there were disadvantages and inconvenience in the practice which had grown up, and during the discussion the suggestion was advanced and agreed to that the matter should be referred to Messrs. Eccles and Sproul as Chairman and Vice Chairman, respectively, of the Federal Open Market Committee to work out a plan for future meetings. In that connection it was tentatively agreed that the attendance of economists at the meetings of the Federal Open Market Committee should be confined to not more than two, who would be expected to make reports. As to the extent of attendance on the part of others than the members and the official staff at meetings of the full Committee and the executive committee, respectively, it was understood that the Chairman and the Vice Chairman would have power to act.

In this connection, reference was made to the fact that the board of trustees of the Retirement System, of which all the Presidents are members, would be holding its annual meeting in Chicago on May 2, and it was agreed that it would be desirable to hold the next meeting of the Federal Open Market Committee sometime in May at a date to be determined later, the thought being that this might be the only meeting that would be necessary between this time and sometime in the fall.

The point was emphasized that meetings of the Presidents' Conference and meetings of the Presidents with the Board should be so arranged and scheduled that there would be ample time in each body for

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adequate consideration of the problems requiring its attention. It was agreed that there should also be a sufficient interval between a meeting of the Presidents' Conference and the succeeding joint session of the Presidents and the Board to enable the Board to be fully advised as to the actions taken at the Presidents' Conference and the subjects to be discussed with the Board so that it might have an opportunity to study the problems involved before discussing them with the Presidents.

Mr. Williams suggested that arrangements be made for setting aside some time when the Presidents were again in Washington for hearing Mr. Lawrence A. Appley, Deputy Chairman and Executive Director of the War Manpower Commission, on the general problem of executive development. Mr. Williams said that Mr. Appley had been giving a great deal of attention to this problem in connection with the Civil Service Commission and he thought that Mr. Appley could contribute very useful information on the subject.

Thereupon the meeting adjourned.

Chester Mowbray
Secretary.

Approved:

W. S. ...
Chairman.