

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, March 31, 1944, at 11:00 a.m.

PRESENT: Mr. Eccles, 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. Goldenweiser, Director of the Division of Research and Statistics
Mr. Leonard, Director of the Division of Personnel Administration
Mr. Vest, Assistant General Attorney

There were presented telegrams to Mr. Paddock, President of the Federal Reserve Bank of Boston, Messrs. Treiber and McCreedy, Secretaries of the Federal Reserve Banks of New York and Philadelphia, respectively, Mr. McLarin, President of the Federal Reserve Bank of Atlanta, and Messrs. Dillard, Stewart, and Hale, Secretaries of the Federal Reserve Banks of Chicago, St. Louis, and San Francisco, respectively, stating that the Board approves the establishment without change by the Federal Reserve Banks of St. Louis and San Francisco on March 28, by the Federal Reserve Bank of Atlanta on March 29, by the Federal Reserve Banks of New York, Philadelphia, and Chicago on March 30, 1944, and by the Federal Reserve Bank of Boston today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

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Before this meeting there had been circulated among the members of the Board memoranda dated March 21 and 22, 1944, from Mr. Goldenweiser recommending (1) that Harold Lubell be appointed as an economic assistant in the Division of Research and Statistics on a temporary indefinite basis, with basic salary at the rate of \$2,000, and (2) that Lloyd A. Metzler be appointed as an Associate Economist in the Division on a temporary indefinite basis, with basic salary at the rate of \$4,600 per annum, the appointments to be effective as of the respective dates upon which the proposed employees reported for duty after having passed satisfactorily the usual physical examination. On both memoranda Mr. McKee had indicated that he would vote "no" as in his opinion the proposed salaries were too high, and in the case of Mr. Lubell Mr. Draper had indicated that he would also wish to vote "no".

Mr. McKee stated that the reason for his position was that he felt that in all the circumstances salaries at the rates proposed were not justified for employees with the training and experience of Messrs. Lubell and Metzler, and that, even though such salaries might be paid by other Government departments and agencies, the Board, because of its special interest in the question of limiting salaries and wages as a means of combating inflation, should attempt to set an example in the salaries paid to its employees.

Mr. Draper stated that his objection to the employment of Mr. Lubell was that his selective service classification was 1A-L, that he

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was subject to call for military service at any time, and that if he were employed by the Board the question might arise as to whether deferment would be asked for him because of the work he was doing.

Mr. Goldenweiser stated that the employment of Mr. Lubell was recommended with the understanding that he might be drafted at any time but that there were specific assignments that could be given to him which would make good use of his services until he was called for military duty.

Mr. Evans stated that in considering the employment of Mr. Lubell it had been expressly understood by the Personnel Committee that deferment would not be asked for him under any circumstances.

At the conclusion of a discussion, Mr. Goldenweiser's recommendations were approved, Mr. McKee voting "no" on both recommendations and Mr. Draper voting "no" on the recommendation with respect to Mr. Lubell.

Thereupon Mr. Draper left the meeting.

Mr. Thurston presented a draft of the annual report of the Board for the year 1943 and stated that, with the exception of the question whether reference should be made in the report to two or three additional matters, the draft was ready for approval by the Board. One of the matters was a statement, which had been prepared by Mr. Goldenweiser in accordance with the understanding reached at the meeting of the Board on February 11, 1944, with respect to the

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levels of interest rates in the United States in the postwar period. Copies of the statement prepared by Mr. Goldenweiser had been sent to the members of the Board before this meeting.

Mr. Goldenweiser stated that, while he would like to retain the statement contained in the draft of the annual report that "adequate credit facilities, public and private, to meet the capital and current financial requirements of reconversion and the maintenance of stable and relatively low long-term interest rates to encourage enterprise should form a vital part of a postwar program", he did not think it would be wise to say anything in the report which would constitute a commitment that interest rates would not rise and that Government securities would not decline after the war. He felt that such a statement might be interpreted as an underwriting of Government securities which would result in the investing public buying only the long-term securities in order to obtain the highest possible return.

Mr. McKee suggested that he would favor quoting in the report the statement issued by the Board on December 8, 1941, and accompanying it with a further statement that the Board saw nothing to interfere with the continuation during the war and the postwar period of the policy referred to in that statement.

It was Chairman Eccles' suggestion that the basic factors in the situation which indicated the continuance of the present general level of rates be stated, and that it would be desirable to make it

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clear in the annual report that the powers of the System were entirely inadequate effectively to control inflationary or deflationary tendencies, that there were other factors, including fiscal policy, which were much more important, and that the control that was not exercised by the use of these factors in the future would have to be effected by action in the field of selective credit controls.

Mr. McKee said that he would also like to have included in the annual report a statement with respect to the holding company situation as well as a recommendation to Congress with respect to legislation which would provide that no insured bank would give to any depositor any information concerning the financial condition of the bank except such information as was contained in the bank's published reports of condition or was otherwise made available to all of the bank's depositors.

It was understood that statements for the annual report with respect to all three of the matters referred to above would be prepared and would be considered at a special meeting of the Board which would be called for that purpose at a time to be determined next week.

The members of the Board indicated that with the exception of these three matters they were prepared to approve the draft of the annual report for 1943 in its present form.

At this point Messrs. Thurston, Goldenweiser, Leonard, and Vest withdrew from the meeting, and the action stated with respect to each

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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 March 30, 1944, were approved unanimously.

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

"As requested in your letter of March 16, 1944, the Board of Governors approves payment of salary to Mr. John J. Clarke, Special Attorney, at the rate of \$6,500 per annum, effective January 1, 1944, and of salary to Mr. Lyon Boston, Special Attorney, at the rate of \$6,300 per annum effective January 1, 1944, and at the rate of \$6,500 per annum, effective July 1, 1944."

Approved unanimously.

Telegram to Mr. Hitt, First Vice President of the Federal Reserve Bank of St. Louis, reading as follows:

"In re your letter of March 18 requesting ruling as to holding company affiliate status of trustees of stock of Union Trust Company, East St. Louis, Illinois. On basis of facts submitted, it appears that trust would not be a holding company affiliate as it would not be a 'corporation, business trust, association, or other similar organization' within meaning of definition contained in section 2(c) of Banking Act of 1933."

Approved unanimously.

Telegram prepared for the signature of Mr. McKee to the Presidents of all the Federal Reserve Banks except Atlanta, reading as follows:

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"Your attention is directed to further activity on the part of F.D.I.C. examiners with respect to Regulation Q as evidenced by wire received today from Mr. McLarin quoting letter from a State member bank in the sixth district as follows:

'Sometime ago an examiner from the Federal Deposit Insurance Corporation came in the bank and said that he had been sent here to interrogate me in regard to my feelings regarding the action of the Federal Reserve Board in insisting on absolute and literal compliance with Regulation Q. He asked me further how much or how badly it would hurt our bank. My reply was that my best judgment was that it would cost us about \$150.00 per month but that we had increased our bond holdings enough to provide an additional income of an equivalent amount. I told him further that our relations with the Federal Reserve Bank of Atlanta were so close and cordial that they were not going to be disturbed, but that I thought that the Federal Reserve Board had made a mistake in agitating the matter at this time when we all have so many other things to worry us.

'Yesterday he came back with another examiner whose name I do not recall, and said that he wanted to look over our records for the past years so as to get positive evidence of what damage rigid enforcement of Regulation Q would cause us. Of course the F.D.I.C. has never examined us but I presume they have the authority to do so. He presented his credentials and we told him to go ahead and get whatever information he wanted. I asked him if he had been to the First State National Bank and he said he had not and had not been instructed to go there. I told him that I did not want him and his superiors to get the idea that enforcement of Regulation Q was going to wreck us, because it was not, and that I did not want our bank to be held up as a horrible example anywhere or at any time, of the baneful effects of Regulation Q. I thought it best to let you know these facts and they are given to you exactly as they occurred.'

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"If and when similar visitation is evidenced in your district, State member banks should be advised that they are not subject to examination or visitation by F.D.I.C. examiners without the written consent of the Board of Governors of the Federal Reserve System."

Approved unanimously, together with the following telegram prepared for Mr. McKee's signature to Mr. McLarin, President of the Federal Reserve Bank of Atlanta:

"Retel this date. Have assumed responsibility for quoting without disclosing name of individual or bank to all presidents of Federal Reserve Banks Vickers' letter to you adding the following paragraph at the end of quotation:

'If and when similar visitation is evidenced in your district State member banks should be advised that they are not subject to examination or visitation by FDIC examiners without the written consent of the Board of Governors of the Federal Reserve System.'"

Telegram to Mr. McLarin, President of the Federal Reserve Bank of Atlanta, reading as follows:

"Board has no objection to issuance and distribution of a supplement to your April Business Review as proposed in your wire this date."

Approved unanimously, it being understood that the supplement would contain only an article on the Brown-Maybank bills and their implications or an insert explaining the attitude of the Reserve Bank on the pending bills, and that it would be distributed to all banks in the district and to the Regulation W mailing list which includes practically every business of any consequence in the district.

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Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

W. S. ...
Chairman.