

5/9/44. A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, May 9, 1944, at 3:15 p.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. Goldenweiser, Director of the
Division of Research and Statistics
Mr. Dreibelbis, General Attorney
Mr. Leonard, Director of the Division
of Personnel Administration
Mr. Thomas, Assistant Director of the
Division of Research and Statistics
Mr. Wyatt, General Counsel

Mr. Dreibelbis stated that two directors of the Paterson National Bank of Paterson, New Jersey, Messrs. John Agnew and F. O. Fayerweather, who were also employees of the firm of Eastman, Dillon & Co., a dealer in securities within the meaning of section 32 of the Banking Act of 1933, had been informed by the Comptroller of the Currency that the interlocking relationships were contrary to the law and the Board's Regulation R, Relationships with Dealers in Securities under Section 32 of the Banking Act of 1933, but that the two men had refused to discontinue the relationships. The matter had been discussed by Mr. Gidney, Vice President of the Federal Reserve Bank of New York, with officers of Eastman, Dillon & Co. and the Paterson National Bank with no satisfactory results, and the Comptroller of the

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Currency was considering certifying the facts to the Board for a proceeding under section 30 of the Banking Act of 1933 for removal of the two men as directors of the national bank.

Mr. McKee reviewed briefly the efforts that had been made to find another and more satisfactory solution of the matter and stated that at the present time there appeared to be no course open other than a proceeding under section 30 of the Banking Act of 1933. He also said that, while no action was called for by the Board at the present time, if the case were certified to the Board, it would be his recommendation that a trial examiner be appointed to determine the facts of the case in the same manner as was done in the case of the Pine Lawn Bank and Trust Company, Pine Lawn, Missouri.

There was then presented a memorandum addressed to the Board under date of May 8, 1944, by Messrs. Goldenweiser, Thomas, and Gardner of the Division of Research and Statistics, which was in the following form:

"As may be recalled, special research work in international finance was undertaken last summer by the Division of Research and Statistics at the request of the Department of State. The work has proved to be very valuable and has been greatly appreciated by the State Department and other Government agencies. The State Department officials particularly concerned with international financial problems, -- Mr. Hawkins, Director of the Office of Economic Affairs under Dean Acheson, and Mr. Collado, Chief of the Division of Financial and Monetary Affairs, -- have assured us that they have need for the work we are doing and expect to make increasing

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"use of it during the next year. The problems covered by the studies will become of increasing importance as the war approaches an end and the need for peacetime adjustments develops. (A list of reports and memoranda prepared to date is attached).

"This memorandum is for the purpose of recommending that the work be continued because of its value to the Government and its bearing on the Board's direct responsibilities. A decision by the Board is necessary at this time in order to make arrangements with the personnel.

"Specifically, we make the following recommendations:

1. That the Board authorize continuance of this work until June 30, 1945, with the understanding that the question of further continuance will be considered prior to that time.
2. That the appointment of Mr. Howard Ellis, which expires in September, be continued until June 30, 1945. Mr. Ellis would be given specific responsibility for this project, under the general direction of the three undersigned. He is very much in demand but is interested in carrying on his present work. He wishes to take off one day a week to teach a course at Columbia University. It is our recommendation that he be permitted to take this time off without deduction from his salary of \$8,000 (plus overtime). This would take the place of an advance in salary which would otherwise be recommended.
3. That an arrangement be made with Mr. Haberler, who must return to Harvard University on July 1, to be available for special jobs at a rate of compensation of \$30* per day worked, plus traveling expenses and a subsistence allowance of \$8.00 per day when in Washington.
4. That the appointment of Mr. Foa, who has proved to be an especially capable and valuable person, be extended for another year at his present salary of \$6,500 per annum, plus overtime compensation.

*It is contemplated that this will be \$30 flat without any allowance for 15% additional compensation under the provisions of the War Overtime Pay Act of 1943."

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In response to an inquiry by Mr. McKee, Mr. Goldenweiser stated that the System was performing an excellent service through the medium of the studies referred to in the memorandum, that, while the studies were helping officials of the State Department with their work, they were sent to various interdepartmental committees of the Government having to do with the problems involved, and that, since it was known they were prepared by the Board's staff, they served to maintain contacts and to keep the System in a position to contribute to the solution of postwar problems to an extent that might not otherwise be the case. Upon further inquiry by Mr. McKee, Mr. Goldenweiser stated that copies of the studies had been sent to the members of the Board only to the extent that they had indicated that they would be interested in seeing them.

Upon motion by Mr. Szymczak, the recommendation contained in paragraph numbered 1 of Mr. Goldenweiser's memorandum was approved, Mr. McKee not voting.

Upon motion by Mr. Evans, the remaining recommendations contained in the memorandum were approved, Mr. McKee not voting on the recommendation contained in paragraph numbered 2 and voting "no" on the recommendations contained in paragraphs numbered 3 and 4.

At this point Mr. Leonard left the meeting.

Mr. Szymczak stated that he and Chairman Eccles had discussed what the position of the Board should be in the event an international

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conference were called to consider the plans for the international stabilization fund and the bank for reconstruction and development and the Board were invited to be represented on the American delegation to the conference. Mr. Szymczak said that, because of the Chairman's expected absence in Utah for two or three weeks, it was felt that the matter should be considered by the Board before he left.

There was a general discussion of various aspects of the problem and, although no formal action was taken, all of the members of the Board with the exception of Mr. McKee felt that if such an invitation were received the Board could not decline to designate such a representative even though such action might result in the Board being committed to some extent to the plan that would be worked out by the conference. Mr. McKee felt that no conclusion should be reached by the Board on the matter until the conference was actually called and the question was presented to the Board for decision.

At this point Messrs. Goldenweiser, Dreibelbis, Thomas, 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 May 8, 1944, were approved unanimously.

Memorandum dated May 5, 1944, from Chairman Eccles, recommending that the basic salary of Miss Mabel Goepfert, secretary to

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Mr. Clayton, be increased from \$2,400 to \$2,600 per annum, effective May 16, 1944.

Approved unanimously.

Memorandum dated May 6, 1944, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that the basic salary of Miss Pauline Marcou, a clerk in that Division, be increased from \$1,560 to \$1,680 per annum, effective May 16, 1944.

Approved unanimously.

Letter prepared for the signature of Chairman Eccles to Honorable Daniel W. Bell, Under Secretary of the Treasury, reading as follows:

"Following up our telephone conversation about the matter and in reply to your letter of April 10, I am enclosing herewith a brief memorandum of the more important reasons why it appears inadvisable to the Board that any action be taken at this time to permit immediate withdrawal, with interest, of time and savings deposits for the purchase of Government securities. A number of other reasons could be advanced, but the enclosed memorandum, I think, is ample justification for our conclusions in the matter."

Approved unanimously.

Letter to Mr. Hays, First Vice President of the Federal Reserve Bank of Cleveland, reading as follows:

"This refers to your letter of May 1 enclosing copies of correspondence between your bank and Mr. Rude of the Cleveland office of the Universal CIT Credit Corporation regarding section 8(a) of Regulation W.

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"The advice which you have given Mr. Rude appears to be entirely correct. The only possible question regarding it would be whether he has used the term 'Mechanic's Lien' in its technical sense. He speaks of a Mechanic's Lien executed by the customer pursuant to an agreement between the customer and the dealer, and an assignment of the lien to the Credit Corporation. Is it possible that he may be talking about a short-form mortgage rather than a statutory Mechanic's Lien? A short-form mortgage, of course, would be covered by section 8(a) if it met the other requirements of that section."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

W. S. ...
Chairman.