

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, July 17, 1944, at 11:00 a.m.

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

Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the Chairman
Mr. Thomas, Assistant Director of the Division of Research and Statistics
Mr. Bergelin, Economist in the Division of Research and Statistics

ALSO PRESENT: Mr. Fitzgerald Hall, Class B Director of the Federal Reserve Bank of Atlanta
Mr. Thomas W. Martin, President of the Alabama Power Company and Chairman of the Southern Research Institute

This meeting had been called to afford the Committee on Research, Planning, and Public Relations of the Federal Reserve Bank of Atlanta, consisting of directors Fitzgerald Hall, Thomas K. Glenn, and J. F. Porter, an opportunity to present to the Board of Governors a matter on which the board of directors of the Reserve Bank had taken action. Mr. Hall stated that Mr. Porter's wife passed away last week, which made it impossible for him to attend this meeting, and that Mr. Glenn had found at the last minute that he could not be present.

Mr. Hall then made substantially the following statement:

Over a year ago our Bank employed an expert to help in the development of something specific in the way of a

7/17/44

-2-

postwar plan which it was hoped might be distributed to business and industry in the Sixth Federal Reserve District for the purpose of helping small business concerns which were unable to do research work for themselves. However, the project did not work out very well and after a few months the services of the expert were discontinued. Since that time we have tried to find some practicable way to meet this need in the South. Except for railroad ties and coal, practically everything that the railroads in the South buy is made in the North and the East or by plants the ownership of which is not in the South. We have no criticism of the North and East, but we would like to bring about a situation in which a reasonable proportion of the things we use in the South would be produced by southern industry. When you start to make such things as are made by Pullman, American Locomotive, General Motors, and others, you are confronted by the fact that practically all of the experts in the United States are on the staffs of these large corporations or the large research institutions which are doing research work. The Mellon Institute in Pittsburgh is an example of such an institution.

For some time we have been trying to see if we could work out a solution to the problem, and at the same time a group of businessmen in Birmingham, Alabama, had reached somewhat the same conclusions as we had as to the need of such a project. They formed a corporation called the Alabama Research Institute, which was to be financed by people in Alabama and which was to be patterned after the Mellon Institute, to start in a small way in the beginning on the theory that they would get subscriptions to finance the work of the institute over a three-year period. They talked to the railroad people about it and that is the way I learned of it. I went back to the Reserve Bank and told our directors that I thought it would be a mistake for us to undertake separate projects when, by combining our efforts, we could do a much better job. Our directors considered the matter and invited Mr. Martin and others to come over and discuss it with us. When the institute asked the railroads to contribute money, we told them that if the institute were going to operate only in Alabama the railroads would be asked to make contributions to similar organizations in every other State,

7/17/44

-3-

that that would be a waste of money, and that there should be a combination of effort which would serve all of the South. I was designated to try to work out something of that sort.

At the meeting of the board of directors of our Bank on May 12, the directors voted unanimously to make an appropriation to the Alabama Research Institute (or its successor in name) in the amount of \$25,000 a year for three years, subject to the approval of the Board of Governors of the Federal Reserve System, with the understanding that an officer or director of the Reserve Bank would be appointed a member of the board of trustees of the institute and have the right and power to help direct both the policies and work of the institute. As a condition to making the appropriation, it was understood that the name of the institute would be changed to the Southeastern Research Institute or a name having a similar import and that the scope of the operations of the institute would be expanded to include the southeastern States. I was designated to represent the board of directors in presenting the matter to the Board of Governors and was authorized to take with me to the meeting with your Board anyone familiar with the program and plans of the Alabama Research Institute or any director of the Bank whose interest was such that he might want to attend the meeting with the Board.

The Alabama Research Institute accepted these conditions, the name was changed to the Southern Research Institute, and we are here to express the very earnest hope that the Board will approve the unanimous decision of our Bank to make the contribution. Our Bank is spending some \$51,000 this year for research work, but that does not touch the problem we are presenting here. Contributions have already been pledged to the institute in the amount of \$374,000 for payment over a three-year period, which does not take into account the proposed contribution by the Federal Reserve Bank of Atlanta. That would give us a fund of \$150,000 a year, and we could not intelligently spend more than that at the present time. We plan to move slowly and follow as closely as we can the methods of the Mellon Institute, but eventually, if the plan is a success, we will need a great deal of money.

7/17/44

-4-

In response to an inquiry from Mr. McKee as to how the Mellon Institute had functioned, Mr. Martin outlined briefly the history of that organization and stated that it had developed slowly on the "fellowship" theory that when a concern or an industry had a scientific problem it would turn the problem over to the institute for a solution and would pay for the out-of-pocket costs of the study and something in addition to cover overhead, that the institute had served most of the great industries of the country at one time or another, and that it had been responsible for many of the basic scientific ideas that were in use today. He also said that the organization of such an institute in the South had been urged by colleges and others, that steps looking to the creation of such an organization were begun four years ago in Alabama, that efforts were begun last year to raise money, and that he was satisfied that a considerable amount of additional funds would be raised relatively easily. He added that it was proposed, after consulting with Mr. Weidlein, director of the Mellon Institute, and possibly one or two others, to employ one of the very best available young research scientists in the country to have charge of the Southern Research Institute and to start modestly on the "fellowship" principle to work on the many scientific problems with which southern industry was concerned. It was realized, he said, that the solution of these problems could not all be undertaken at once but rather that the institute would be a modest undertaking as a beginning in the field of

7/17/44

-5-

technology and applied science in the South.

Mr. Hall distributed copies of a pamphlet descriptive of the Southern Research Institute and mimeographed sheets showing the officers and trustees of the institute and the subscriptions and pledges of funds that had been made to the organization. In that connection he stated that, with the exception of contributions made by railroads, all of the funds contributed were from the Birmingham area and that no effort had been made to obtain funds from other sections of the South which were also interested and which he was satisfied would contribute as readily as concerns had done in the Birmingham area.

In response to a request from Mr. Ransom that he comment on the possible relationship of the work proposed for the Southern Research Institute to the research work now being conducted by the Federal Reserve System, Mr. Thomas stated that up to the present time all of the System's research work had been more or less directly related to the monetary and credit situation, that neither the Board nor the Federal Reserve Banks had done any research work in the physical and chemical sciences, and that the Mellon Institute had never done anything in the field of economics, from which it would appear that the work of the System and the institute was in separate fields. He expressed the opinion that action by the Board approving the proposed contribution by the Atlanta Bank would constitute a departure from

7/17/44

-6-

what had been done in the past and for that reason should not be considered in any sense as a substitute for the existing economic research program of the System.

There was a general discussion of the objectives that might be achieved through the Southern Research Institute and other methods that might be adopted to accomplish the same results, including the possibility of contributions being made to colleges which might have, or be able to create, qualified staffs to handle this work. During this discussion Messrs. Hall and Martin expressed the hope that the institute would eventually become self-sustaining and emphasized the intention to have the institute start on a modest scale and expand its activities on the "fellowship" principle previously referred to of having the costs of specific studies, plus an amount in addition to such costs, paid for in each case by the company or industry submitting the problem.

Chairman Eccles suggested that problems of the kind proposed to be handled by the institute would develop very rapidly after the war and that it would have to get a rather substantial amount of funds fairly quickly if its services were to be made available for small concerns in the South which would be in need of assistance and which otherwise would not be able to compete with the larger concerns which had their own research laboratories. He also said that, while the creation of the institute undoubtedly was thoroughly justified and

7/17/44

-7-

would be valuable to the South, there was a question in his mind as to the basis upon which a contribution by the Federal Reserve Bank of Atlanta could be justified and whether the Bank had legal authority for such a contribution. There was the further question, he said, of the precedent that might be established by the contribution and whether the Board should approve similar contributions by other Federal Reserve Banks. He outlined briefly the organization of the System and the responsibility of the Board for expenditures of the Federal Reserve Banks, and stated that, while in the light of the Board's responsibility to Congress it could justify the expenditures for the research work being done by the System in the monetary and economic field, he questioned whether expenditures could be justified for research outside of that field. He thought that this was a matter which the Board would have to consider carefully on the basis of all the facts involved.

During Chairman Eccles' comment Mr. Dreibelbis, General Attorney, joined the meeting.

Mr. Hall stated that counsel for the Federal Reserve Bank of Atlanta had expressed the opinion that the proposed contribution by the Bank was authorized under the law, and added that there was a crying need for a solution to many of the technological problems of the South, that the work done by the institute would afford a more sound basis for the extension of credit by the banking system, that

7/17/44

-8-

the Federal Reserve Bank of Atlanta stood very high in the district, and that in addition to the cash contribution from the Reserve Bank those interested in the development of the institute wanted to be in a position to say that an officer or director of the Bank would be a trustee of the institute and would help to guide and direct everything that it did.

Mr. McKee inquired whether consideration had been given to the establishment of a branch of the Mellon Institute somewhere in the South. Mr. Martin stated that, while he had thought of that, it had not been discussed with the Mellon Institute and that he did not think it would be a satisfactory solution to the problem.

There was a discussion of the question raised by Chairman Eccles with respect to the propriety and legal authority of contributions by the Federal Reserve Banks such as that proposed by the Atlanta Bank, and Mr. Ransom inquired of Mr. Dreibelbis whether there was a legal problem involved in the proposed payment. Mr. Dreibelbis replied in the affirmative, stating that a Federal Reserve Bank had the implied powers to carry out any express powers conferred upon it by law, that if a Reserve Bank had authority to make such a payment it would have to be found in its implied powers, and that its implied powers in matters of this kind undoubtedly would be more limited than in the case of an ordinary private corporation because of the provision of law that upon liquidation of a Federal Reserve Bank any surplus remaining after the payment of all debts and other obligations should

7/17/44

-9-

become the property of the United States. He also said that there was no question about the authority of the Federal Reserve Banks to make expenditures for the purpose of carrying on the activities for which they were created but that such authority did not give the Banks the implied power to finance projects that were not related to such activities.

At the conclusion of the discussion, Mr. Ransom stated that two of the members of the Board were absent at the present time but that the action of the Atlanta Bank in authorizing the proposed contribution to the Southern Research Institute of \$25,000 a year for three years would be considered as promptly as possible and Mr. Hall informed of the decision reached.

In a further discussion, Chairman Eccles suggested that one of the most effective ways to help small businesses would be to make available to them the services of a technological research organization, thereby increasing their ability to fill an economic need, rather than, as was being proposed in several quarters at the present time, to extend credit to them at low rates of interest which would only serve to place them further in debt without solving the more basic problems which would enable them to compete with the larger concerns which had their own research organizations. He added that instead of Congress appropriating a large sum of money for the purpose of furnishing capital to small business the funds might be made available for research in the fields which would enable small business concerns to compete more effectively, in which case they would have no difficulty in obtaining

7/17/44

-10-

the necessary credit to supply them with working capital.

Mr. McKee suggested that Chairman Eccles' proposal might be submitted to Congress in the form of a special report. It was also suggested by Chairman Eccles that the proposal might take the form of a further amendment to section 13b of the Federal Reserve Act. The members of the Board present indicated a feeling that this was a matter which should have further consideration by the Board.

Toward the end of the discussion, Mr. Hall stated that the use of the name of the Federal Reserve Bank of Atlanta and membership of an officer of the Bank on the board of trustees of the institute was regarded as being more important than the suggested financial contribution, and Mr. Martin stated that while the institute could and would go ahead without the support of the Federal Reserve Bank it did not want to do so.

At the conclusion of the discussion, Messrs. Thurston, Dreibelbis, Thomas, Bergelin, Hall, and Martin 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 July 5, 1944, were approved unanimously.

The minutes of the meetings of the Board of Governors of the Federal Reserve System held on July 6, 7, 8, 10, 11, 12, 13, 14, and 15, 1944, were approved and the actions recorded therein were ratified unanimously.

7/17/44

-11-

Letter to Colonel Paul Cleveland, Chief of the Advance Payment and Loan Branch, Special Financial Services Division, Office of the Fiscal Director, War Department, reading as follows:

"As you know, the Contract Settlement Act of 1944 provides that, subject to such regulations as the Board of Governors of the Federal Reserve System may prescribe with the approval of the Director of Contract Settlement, any Federal Reserve Bank may act on behalf of the contracting agencies as fiscal agent of the United States in carrying out the purposes of the Act.

"Accordingly, we have prepared, in consultation with representatives of the War Department, Navy Department and Maritime Commission, a proposed revision of the Board's Regulation V, relating to guarantees of loans pursuant to Executive Order 9112, so as to cover guarantees made both under the Executive Order and under the Contract Settlement Act of 1944. In accordance with the provisions of the Act, this revised regulation must be adopted by the Board of Governors with the approval of the Director of Contract Settlement before it becomes effective. A copy of the revision is enclosed.

"It will be appreciated if you will advise the Board whether the proposed revised regulation in the form enclosed is satisfactory to the War Department."

Approved unanimously, together with similar letters to Mr. William A. Coolidge, Chief of the Finance Section of the Office of Procurement and Material, Navy Department, and to the United States Maritime Commission.

Thereupon the meeting adjourned.



Assistant Secretary.

Approved:



Chairman.