

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, August 18, 1944, at 10:40 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Draper

Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Leonard, Director of the Division
of Personnel Administration
Mr. Vest, Assistant General Attorney
Mr. Wyatt, General Counsel

There were presented telegrams to Mr. Flanders, President of the Federal Reserve Bank of Boston, Mr. Treiber, Secretary of the Federal Reserve Bank of New York, Mr. Hill, Vice President of the Federal Reserve Bank of Philadelphia, Mr. McLarin, President of the Federal Reserve Bank of Atlanta, Mr. Hodge, Assistant General Counsel of the Federal Reserve Bank of Chicago, Mr. Stewart, Secretary of the Federal Reserve Bank of St. Louis, and Mr. Mangels, Vice President of the Federal Reserve Bank of San Francisco, stating that the Board approved the establishment without change by the Federal Reserve Bank of San Francisco on August 15, by the Federal Reserve Banks of Atlanta and St. Louis on August 16, by the Federal Reserve Banks of New York, Philadelphia, and Chicago on August 17, 1944, and by the Federal Reserve Bank of Boston today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Before this meeting the attention of the members of the Board

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present had been called to a circular received from the Bureau of the Budget under date of August 1, 1944, which was a revision of an earlier circular requesting that copies of any recommendations or reports concerning proposed or pending legislation be sent to the Bureau of the Budget for clearance. The amended circular provided in addition that, whenever any department or establishment proposed to include in an annual or special report a recommendation for an appropriation or for new or amendatory legislation, such proposal should first be submitted to the Bureau of the Budget for ascertainment of its relation to the program of the President.

There was a discussion of the extent to which the amended circular would apply to the annual or special reports of the Board to Congress, and in that connection reference was made to a letter received by Mr. Thurston under date of August 11, 1944, from the Office of War Information calling attention to the fact that the annual report of the Board should receive clearance from the Office of War Information regarding the format and distribution of the report even though the report itself might be required by law. The letter, copies of which had been furnished to all members of the Board, stated that in view of the continuing paper shortage such reports should be held to a minimum or, if possible, discontinued entirely for the current year and that a legal requirement that a report be made was not a requirement that it be printed or processed.

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At the conclusion of the discussion, it was agreed that the two letters did not call for action by the Board at this time but that the communications should be borne in mind in connection with the Board's annual report covering operations during the year 1944.

Under date of August 7, 1944, Mr. Leonard addressed a memorandum to the Board relating to the possible effects on the Board's personnel procedures of the Veterans Preference Act of 1944 and regulations issued by the Civil Service Commission pursuant thereto. The purpose of the memorandum was to acquaint the Board with the situation resulting from the enactment of the Veterans Preference Act so that consideration might be given to the steps that should be taken by the Board in all the circumstances. The matter was discussed in the light of statements contained in Mr. Leonard's memorandum and the supplementary comments made by him to the effect that the Civil Service Commission had not issued regulations under the Act applicable to positions in the unclassified Civil Service, and that it appeared from two preliminary drafts of such regulations that the Civil Service Commission had given a very broad interpretation to its powers under the law and contemplated the issuance of a regulation the legality of which had been challenged by various Government agencies and which the Board's Legal Division felt was based on an unwarranted construction of the provisions of the Veterans Preference Act. The question before the Board, Mr. Leonard said, was whether it wished to take any action in

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the matter at this time or to await the issuance of the regulations in final form.

Mr. Leonard was requested, upon the return of the absent members of the Board, to inform them of the developments in connection with this matter, it being understood that no action would be taken by the Board pending the issuance by the Civil Service Commission of its regulations relating to positions in the unclassified Civil Service and clarification of the legal question referred to above and that in the meantime the Board would proceed in accordance with the spirit of the Veterans Preference Act of 1944 without the promulgation of a formalized procedure.

There was then presented a draft of letter to Mr. Lichtenstein, Secretary of the Federal Advisory Council, prepared in the light of discussions at the meeting of the Board on July 29, 1944, and reading as follows:

"This letter is in response to yours of August 8, 1944, asking for a list of the subjects which the Board wishes the Federal Advisory Council to discuss at its meeting at Washington on September 17-19, 1944.

"A question has arisen in connection with the plan proposed by the Postwar Small Business Credit Commission of the American Bankers Association as a means of providing credit for small business under which a group of banks in New York would become associated for the purpose of participating in commercial and industrial loans originating, and made by outlying correspondent banks, throughout the country. The plan contemplated that such loans would be passed upon by a committee representing the participating banks, the members of which would consist of officers of the banks, and each member of the committee in addition to authority to commit his own bank would be given, by a resolution adopted by the board of directors of another participating bank, authority to commit the second bank as

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"well. It was expected that the plan would be so drawn that it could be adopted by any group of banks in any of the principal cities of the United States, but that it would be used first by an association of banks which were members of the New York Clearing House.

"In the discussion of the plan, its sponsors said their attorneys had advised that a legal question was involved because under the arrangement as proposed the officer of one bank with authority to commit the second bank might be an officer of the second bank under the applicable provisions of the Clayton Act, and his service in that capacity would be in violation of the law and the Board's Regulation L, Interlocking Bank Directorates under the Clayton Act. In these circumstances, the representatives of the banks inquired of members of the Board of Governors whether the Board would be willing to amend its regulation to permit such service, as it would have authority to do under section 8 of the Clayton Act.

"There is some question here whether, for the purposes of the Clayton Act, the officer of the one bank would be an officer or employee of the second bank, but aside from that question the Board would appreciate it if the Council would consider and advise the Board whether it would be advisable to amend Regulation L in the manner proposed.

"There may be one or more additional items which the Board would like to have the Council discuss at the forthcoming meeting. In that event you will be informed in time to bring the matters to the attention of the members of the Council before the date of the meeting."

Approved unanimously.

At this point Mr. Thomas, Assistant Director of the Division of Research and Statistics, and Mr. Gardner, Chief of the International Section of that Division, joined the meeting.

Mr. Ransom called attention to a memorandum addressed to the Board by Mr. Gardner under date of August 17, 1944, with the concurrence of Mr. Thomas, and reading as follows:

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"Mr. Triffin has written to inquire regarding his program after leaving Paraguay. The relevant excerpt from his letter of July 28 is attached. Originally it was intended that he should work a month in Brazil after leaving Asuncion and then return to Washington. Brazil is considering establishment of a genuine central bank and has indicated that it may wish to call upon the Federal Reserve System for assistance. It is important that our study of Brazilian banking be completed as soon as possible. No change is recommended in this assignment.

"Subsequently, while Mr. Triffin was in Asuncion, Mr. Pena, the General Manager of the Central Bank of Costa Rica, who has several times been a visitor at the Board, wrote to Chairman Eccles asking that Mr. Triffin stop on his way back to assist in the preparation of new monetary and central bank legislation. The Chairman replied that we should be glad to accede to Mr. Pena's request. Mr. Triffin has already spent some weeks in Costa Rica and is familiar with the situation there, so that his work on this occasion might be limited to about a month. Brazil and Costa Rica would constitute the major jobs on the return trip.

"In his letter of July 28, however, Mr. Triffin proposes that before going to Brazil he should undertake brief assignments in Montevideo and Buenos Aires. The General Manager of the central bank of Uruguay wishes to discuss the Paraguayan project with him with a view to possible modifications of the Uruguayan law. Mr. Grove, Mr. Triffin's assistant, has already been instructed by the Board to proceed to Uruguay at an appropriate time in order to gather the basic statistics and information needed for our study of Uruguayan banking; and Mr. Triffin suggests that the two of them go directly to Montevideo where Mr. Triffin could hold his discussions with the General Manager, get Mr. Grove properly started on his work, and then go on to nearby Buenos Aires.

"Mr. Triffin's reasons for visiting Buenos Aires are developed in some detail in the attached excerpt. His chief purpose is to consult Mr. Prebisch, who was manager of the central bank of Argentina until the Government of colonels forced him to resign. Mr. Prebisch is certainly the outstanding figure in central banking in Latin America. He is a keen economist as well as an unusually able administrator. Mr. Triffin wants to go over the Paraguayan

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"project with him from the standpoint of Paraguay and of our further work in Latin America. He also wants to get the staff of the Bank, with whom he is well acquainted, to supply him with the material necessary to complete our study of Argentine banking.

"I have consulted Mr. McGurk, Deputy Director of the Office of American Republics in the State Department, on what the attitude of that Department would be toward a visit of Mr. Triffin to Buenos Aires under existing conditions. The non-political character of the visit was made clear to him, and after he had talked with others in the Department he called me back to state that they had no objection providing Mr. Triffin would keep the Embassy in Buenos Aires informed and be guided in his contacts by its suggestions.

"Both the Uruguayan and the Argentine visits appear to be eminently worthwhile from the standpoint of the Federal Reserve System. I would, therefore, recommend that Mr. Triffin be authorized when he leaves Asuncion about September 15 to spend a week or two in both Uruguay and Argentina, a month in Brazil, and a month in Costa Rica. This would bring him back to Washington early in December."

This matter was discussed in the light of the original purpose of Mr. Triffin's visit to South America and participation by the Board in missions to Latin American countries and whether, because of the disturbed conditions in South America at the present time, and particularly in Argentina, Mr. Triffin should continue his journey as proposed in Mr. Gardner's memorandum or whether he should be instructed to return home upon completion of his work in Paraguay.

In response to an inquiry from Mr. Ransom, Mr. Gardner stated that Mr. Triffin's visits to Uruguay, Argentina, Brazil, and Costa Rica were primarily (1) to complete the information available to the Board on the banking and monetary situations in those countries and (2) to

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put the Board in a position to lend assistance in connection with revisions of the monetary and banking laws of Uruguay, Brazil, and Costa Rica.

Chairman Eccles stated that the participation of the Board in the Latin American missions was based on the "good neighbor" policy of the United States and that the only way the Board could be helpful in these situations was to develop information relating to the Latin American countries and to assist this country in establishing trade and financial relationships with the South American nations and assist them in budgetary and central banking matters.

In this connection it was emphasized that Mr. Gardner had discussed Mr. Triffin's proposed trip to Argentina with representatives of the State Department and that Mr. Gardner had been informed that there was no objection on the part of the State Department provided Mr. Triffin would keep the American Embassy in Buenos Aires informed and be guided in his contacts by its suggestions.

There was unanimous agreement that in these circumstances there should be no objection to Mr. Triffin continuing his trip as proposed, and unanimous approval was given to the following cable to be sent to him over the signature of Mr. Thomas:

"Board authorizes proposed work in Uruguay, Argentina, Brazil and Costa Rica. Return Washington December. In view of disturbed conditions be closely guided in each country by American Embassy. Letter follows."

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Chairman Eccles reviewed the informal discussions which had been had with the Director of Contract Settlement and representatives of the War Department, the Navy Department, and the Maritime Commission with respect to commitments and loans to be made in financing terminated war contracts pursuant to the Contract Settlement Act of 1944. He said that it was anticipated that upon the cessation of hostilities in Europe from 40 to 70 per cent of existing war contracts would be canceled and that at that time there would be an urgent need on the part of subcontractors, particularly those below the first tier, for bank loans to release their funds for use in converting their facilities to peacetime production. It was clear, he said, that all of the necessary interim financing could not be handled at the same time and, in order to encourage banks to enter into commitments in advance, he had suggested that the lending bank in each case be permitted to charge a commitment fee of $3/8$ per cent or a flat fee of not to exceed \$100, whichever was larger, to cover the bank's costs in making the necessary investigations and arrangements to set up the credit. Chairman Eccles said that in some cases subcontractors would be able to get along without exercising their right to obtain loans under their commitments although the banks would have been required to do just as much work as if loans had been taken down in the first place. He felt that, if his proposal were not adopted, the necessary commitments would

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not be made to small subcontractors and that upon the termination of the war in Europe it would not be possible expeditiously to meet the credit requirements of such concerns.

Mr. Draper stated that he was not in favor of the flat commitment fee of not to exceed \$100 as it appeared to him to be a discrimination against the small borrower. For instance, he said, it would force a small borrower to pay as high as 7 per cent, figuring yearly interest at 5 per cent plus a commitment fee of \$100 if the loan were for \$10,000 and paid off at the end of six months. This would compare with 5-3/8 per cent interest and commitment fee for the larger borrower. Mr. Draper added that it was true that many of these smaller commitments might never materialize into loans but, even so, he felt that the differential between the small and the larger borrower seemed too great.

Chairman Eccles' proposal was discussed at some length, and Mr. Ransom indicated that he was in agreement with it. However, no action was taken.

At this point Messrs. Leonard, Vest, Wyatt, Thomas, and Gardner withdrew from the meeting, and the action stated with respect to the following matter was then taken by the Board:

Letter to Mr. Meyer, Assistant Cashier of the Federal Reserve Bank of Chicago, reading as follows:

"The Board of Governors approves the change in the personnel classification plan of the Federal Reserve Bank of Chicago, involving the establishment of the position

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"of Senior Credit Analyst, as requested in your letter
of August 14, 1944."

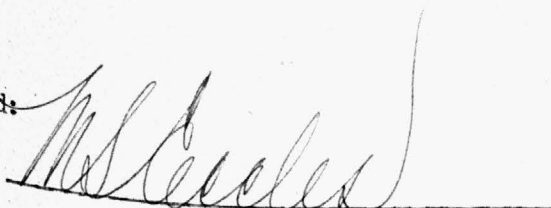
Approved unanimously.

Thereupon the meeting adjourned.



Assistant Secretary.

Approved:



Chairman.