

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, September 19, 1944, at 11:15 a.m.

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

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Smead, Director of the Division of
Bank Operations
Mr. Dreibelbis, General Attorney
Mr. Wyatt, General Counsel

Mr. McKee referred to a question that had been raised by Under Secretary of the Treasury Bell as to the desirability for a program of gradually reducing the orders for printing Federal Reserve notes in order to avoid the accumulation of such large stocks, that it would be necessary to drastically to reduce the staff of the Bureau of Engraving and Printing when the demand for currency declined following the war.

Chairman Eccles said that the matter came up during the absence of Messrs. Szymczak and McKee, that he had taken it up with President Young who was Chairman of the Presidents' Conference Committee on Currency Hoarding, and that arrangements had been made to discuss it with the Treasury.

Mr. McKee referred to the possibility of eliminating larger denominations and stated that he and Mr. Smead, with the Presidents' Conference Committee, were to attend a meeting at the Treasury on the

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matter this afternoon, and that he would like to know whether the members of the Board had any views in connection with it.

Chairman Eccles said that some suggestions as to changes in existing forms had been made in order to make it easier to detect any counterfeit American currency that might reach this country from abroad and that thereafter the outstanding currency be retired more rapidly in order to decrease the volume of outstanding currency that might have been counterfeited. He also said that the Bureau of Engraving and Printing was concerned with the large stock of notes now on hand and the probable decline in circulation following the war, which might result in such a decrease in printing orders for additional currency as to make it necessary to dismiss a large part of the trained staff of the Bureau, thereby adding to the unemployment problem that might exist after the war. It was Mr. Bell's thought, Chairman Eccles said, that orders should be reduced gradually and that had been arranged.

In that connection, Mr. Smead said that the printings were being cut down at the rate of 250,000 sheets of notes per month, and that by next March or April they would be down to a level where they could not be reduced further unless there was a large return of fit currency from circulation.

Chairman Eccles suggested that at the meeting of the Treasury there might be a discussion of the problem of hoarding and the use of currency in the black markets and for tax evasion. He felt that this

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problem might be attacked by (1) discontinuing the issue of large denomination bills and (2) adopting the more drastic step of requiring the surrender, for credit or for bills of smaller denominations, of all bills of the larger denominations. When the large bills were turned in, the name of the persons presenting them would be taken and turned over to the Bureau of Internal Revenue for investigation, and a failure to turn in the large denomination notes would subject the offender to a penalty.

Mr. McKee thought that there might be some merit in newspaper comments to the effect that anyone holding bills in denominations above \$50 after a certain date would be required to give his name when he passed the bills on.

After the discussion of this matter, Mr. Smead left the meeting and Chairman Eccles referred to the consideration given at the meeting of the Board on September 15 to the policy to be adopted with respect to public statements by representatives of the System in connection with the Bretton Woods Agreement, and stated that he had had a statement prepared which, with the approval of the Board, he would like to present to the Presidents of the Federal Reserve Banks while they were in Washington. He then read the statement which was in the following form:

"Before I was designated as a member of the American Delegation the Board of Governors had taken no position with respect to the tentative plans which were then in the

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"course of being drafted as a basis for establishment of the proposed International Monetary Fund and International Bank for Reconstruction and Development. Members of the staff, however, had informally given their assistance and advice to the members of the Treasury staff who were engaged in this work and had kept the Board informed. In addition, the proposed plans had been the subject of a considerable amount of discussion, both inside and outside the Federal Reserve System, and it was recognized that there had been differences of opinion among the officers and directors of the Federal Reserve Banks. From time to time the Board received communications from the Federal Reserve Banks on the subject and the Board's conference with representatives of the Presidents' and Chairmen's conferences and others on June 6, 1944, brought out very clearly some of these different views. Following this conference, the Board invited such further advice as the officers and directors of the Banks might wish to submit.

"Towards the last of May I was advised informally by the Secretary of the Treasury that the President wished me to serve as a member of the American Delegation, which would attend and participate in the United Nations Monetary and Financial Conference to be held at Bretton Woods, beginning July 1, for the purpose of considering the proposed plans. It was made clear, as I would naturally assume anyhow, that the President's request was addressed to me in my official capacity as Chairman of the Board of Governors of the Federal Reserve System in recognition of the Board's responsibility as an agency of Congress in the field of national credit and monetary policy. Therefore, I took the matter up with the Board and it was pointed out in the discussion that the only reason I could present for not accepting the appointment would be a position on the part of the Board that it was opposed to the plan and did not want to be represented at the conference. It was felt, however, that this would be very difficult to explain and that it would indicate a fundamental cleavage between the System and the Treasury. Moreover, it would very likely result in the complete exclusion of the Board thereafter from any participation in the development of the plan or in its workings if it were put into effect. After careful consideration, the Board expressed the opinion that the adoption of a plan within the framework of the joint statement would be desirable and that I should attend the conference as a representative of

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"the Board of Governors. At the conclusion of the discussion the Board approved my attendance at the international conference at Bretton Woods as a member of the American Delegation representing the Board of Governors. Accordingly, I accepted the invitation and subsequently received from the Secretary of State formal advice of the President's approval, together with a copy of the President's instructions to Secretary Morgenthau, as Chairman of the Delegation, which contained, among other things, the following statement:

'The responsibility which you and the other delegates of the American Delegation will undertake is the responsibility of demonstrating to the world that international postwar cooperation is possible. I am confident that you will do your best to accomplish the purposes of the conference.'

"In these circumstances, additions were made to the members of the Board's staff who had been assisting the Treasury and they participated in the drafting work that was done at Atlantic City in preparation for the conference, together with several officers of the Federal Reserve Banks, and a substantial number of the members of the Board's staff and officers of the Federal Reserve Banks participated as technicians in the work of the conference at Bretton Woods. Governor Szymczak accompanied me to the conference and I participated in the deliberations of the American Delegation which, together with the delegations representing all the other nations at the conference, unani- mously approved the plans as finally evolved for the Inter- national Monetary Fund and International Bank for Recon- struction and Development.

"At the conclusion of the conference the President of the United States sent a message to the representatives of the 44 nations conveying congratulations on the successful completion of their difficult task and containing the fol- lowing statement:

'They have prepared two further founda- tion stones for the structure of lasting peace and security. They have shown that the people of the United Nations can work together to plan the peace as well as fight the war.'

"In the light of these circumstances it seems clear to me that the Board is committed to the principle involved

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"in these plans and to cooperate in helping to carry them out. Moreover, it is evident that if they should be put into effect, the Federal Reserve Banks, as the central banking system of the country, would be called upon to play some part. I may add that in a letter under date of August 5, 1944, which was received from Secretary Morgenthau, the following statement appears:

'We still have before us the task of bringing to the attention of the people and of Congress the importance of the work done at Bretton Woods and the necessity of participation by the United States in the International Monetary Fund and the International Bank for Reconstruction and Development.

'There is still much to be done before the Conference will have achieved its ultimate purpose. We need the help of every member of the United States delegation in carrying the program of the Conference to a successful conclusion.'

"For these reasons it seems to me that the Board has accepted a responsibility as the Governmental agency at the head of the Federal Reserve System for cooperating in the further development of this program and while the exchange of views and information among the Banks and the Board should continue so that they may be fully advised, the public expression of an adverse attitude, if any, on the part of any of the Federal Reserve Banks and their officers would be likely to impair the usefulness of the System in its relations to the problems growing out of the conference.

In explanation, Chairman Eccles said that he felt the Board was committed to the program approved at Bretton Woods; that the Board became committed by agreeing to have him attend the conference as a delegate; that the Board was obligated to support the plans outlined in the agreement; and that those who opposed it had had an ample opportunity to state their position. In these circumstances he felt that if the Board approved the suggested statement, the Presidents should be informed of the Board's position in the matter.

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For purposes of discussion, Mr. Ransom moved that the statement be approved as read by Chairman Eccles.

During the ensuing discussion, Mr. McKee questioned the wisdom of presenting any such statement at this time. He did not think the Board had any right, or that it would be fair, to ask those who were opposed to the agreement not to speak against it if those in favor of it were to be left free to make public statements. He said that he would not be opposed to the memorandum if it meant that there were to be no public statements either for or against the plan, but that, otherwise, he could not approve it and he did not believe the Presidents would agree to it.

The other members of the Board indicated the feeling that the justification for the position set forth in the memorandum was that the Board was committed to the plan, that, while it was not obligated to "carry the torch" for the plan, it was obligated to support it and to speak for it whenever occasion required, and that nothing would destroy the System more quickly than to have officers of the Federal Reserve Banks talk against the position taken by the Board as the policy making body for the System on matters of this kind.

At the conclusion of the discussion, Mr. Ransom's motion was put by the chair and carried, Mr. McKee voting "no" and stating that, if the memorandum were read to the Presidents, he would want to make a statement regarding it.

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Chairman Eccles said that it appeared from the minutes of the last Conference of Presidents that it was not clear to the Presidents what the attitude of the Board was with respect to members of the Board's staff being associated with committees of the Presidents' Conference. He also said there appeared to be no objection to present arrangements for the association of members of the Board's staff with certain of the Presidents' Conference committees, but that, as long as there was in existence a System Research Advisory Committee which should be the steering committee, he felt there was no need of Messrs. Goldenweiser and Thomas being associated with the subcommittee and executive committee of the subcommittee of the Presidents' Conference Committee on Research and Statistics.

It was agreed that Messrs. Eccles and Evans should discuss the matter with Mr. Goldenweiser and reach a decision regarding it.

At this point Messrs. Dreibelbis and Wyatt withdrew from the meeting.

The action stated with respect to each of the matters herein-after referred to was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on September 18, 1944, were approved unanimously.

The minutes of the meeting of the Board of Governors of the Federal Reserve System with the Federal Advisory Council held on

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September 18, 1944, were approved unanimously.

Telegram to the Presidents of all the Federal Reserve Banks reading as follows:

"Board does not contemplate making a fall call for condition reports upon State member banks. You may so advise State banking departments for their confidential information. Understand Comptroller's office has advised them that no such call for reports upon national banks is contemplated."

Approved unanimously.

Memorandum from Mr. Morrill recommending (1) that Mrs. Geraldine May be appointed as a cafeteria helper in the Secretary's Office on a temporary basis for an indefinite period, with basic salary at the rate of \$1,200 per annum, effective September 19, 1944, and (2) that the salary of Mrs. Blanche Broadhurst, a cafeteria helper in the Secretary's Office, be changed from the rate of \$1,200 per annum to \$1,080 per annum plus overtime of 15 per cent, effective September 19, 1944, with the understanding that she will work on a six-hour day basis instead of a full-time basis.

Approved unanimously.

Letters to "The Bridgeport-City Trust Company", Bridgeport, Connecticut, and the "State Bank of Spring Green", Spring Green, Wisconsin, reading as follows:

"The Board is glad to learn that you have completed all arrangements for the admission of your bank to the

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"Federal Reserve System and takes pleasure in transmitting herewith a formal certificate of your membership.

"It will be appreciated if you will acknowledge receipt of this certificate."

Approved unanimously.

Letter to the Presidents of all the Federal Reserve Banks reading as follows:

"In connection with the execution of guarantees under Executive Order No. 9112, there is enclosed a photostat of a letter received by the Board from the United States Maritime Commission, dated September 15, 1944, signed by Mr. A. J. Williams, Secretary, advising that the Maritime Commission has approved the revised form of guarantee agreement identified as '1944 V-Loan Guarantee Agreement' and bearing the date of September 15, 1944, for use in the execution of guarantee agreements on behalf of the Maritime Commission pursuant to such Executive Order.

"There is also enclosed a photostat of a letter received by the Board from Mr. R. E. Anderson, Director of Finance, United States Maritime Commission, dated September 14, 1944, requesting the Board to notify each Federal Reserve Bank of the Maritime Commission's approval of the above-mentioned guarantee agreement and of the Commission's concurrence in the Explanatory Notes relative thereto.

"Upon receipt of these letters, the Board addressed a letter to the Maritime Commission enclosing a copy of the 1944 V-Loan Guarantee Agreement and a copy of the Explanatory Notes relative thereto, both bearing the date of September 15, 1944, in the form as enclosed with our letter of September 12, 1944 (S-788); and the Secretary of the Maritime Commission in a letter to the Board has stated that the form of guarantee agreement enclosed with the Board's letter to the Commission is the guarantee agreement referred to in Mr. Williams' letter of September 15, 1944, and that the Explanatory Notes also enclosed with the Board's letter to the Commission are the Explanatory Notes referred to in Mr. Anderson's letter of September 14, 1944."

Approved unanimously.

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Letter to Colonel L. S. Hitchcock, GSC, Secretary General,
Inter-American Defense Board, reading as follows:

"Chairman Eccles has asked me to acknowledge with thanks the message conveyed in your letter of September 15, 1944, and to inform you that it has been brought to the attention of all of the members of the Board.

"We are happy to know that we were able to assist the Inter-American Defense Board in its efforts on behalf of Hemisphere defense, and assure you that we appreciate the pleasant relations with your organization during its occupancy of the Federal Reserve Building."

Approved unanimously.

Thereupon the meeting adjourned.

Wesley Morris
Secretary

Approved:

W. Eccles
Chairman.