

A meeting of the Board of Governors of the Federal Reserve System with the Presidents of the Federal Reserve Banks in Executive Session was held in the offices of the Board in Washington on Friday, September 22, 1944, beginning at 2:10 p.m.

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

Mr. Morrill, Secretary

Messrs. Sproul, Williams, Gidney, Leach, McLarin, Young, Peyton, Leedy, Gilbert, and Day, Presidents of the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, Minneapolis, Kansas City, Dallas, and San Francisco, respectively.

Mr. Sienkiewicz, Secretary of the Presidents' Conference

Chairman Day of the Presidents' Conference stated that the Presidents during the sessions of the Presidents' Conference held earlier this week had agreed upon eleven items which they wished to bring to the attention of the Board of Governors at this meeting. Copies of a memorandum containing the statement prepared for the information of the Board of Governors on these eleven items had been furnished to the members of the Board on September 21, 1944. A copy of this statement, bearing the caption "Notes on Topics for Joint Meeting of the Board of Governors and the Presidents' Conference", is attached to these minutes. Each item was taken up in the order set forth in the statement and will be referred to in these minutes

9/22/44

-2-

by number and caption.

1. Insurance--Loss Sharing Agreement.

Chairman Day called attention to the fact that the recommendation that the effective date for the agreement be set for January 1, 1945 had been accepted and approved by the Presidents' Conference and said that it had been suggested that the Insurance Committee explore the advisability of employing a competent full-time manager.

Chairman Eccles asked for further information regarding this proposal in view of the fact that the Board had been advised that there was a proposal that the Insurance Committee employ Marsh & McLennan, Incorporated, insurance brokers at Chicago, in a professional advisory capacity at \$10,000 a year. In the discussion which followed, it appeared that such an arrangement had not been consummated, that the proposed compensation of Marsh & McLennan might be greatly reduced, and that the whole matter was in the realm of exploration. There was some indication that it was thought unnecessary to employ both Marsh & McLennan and a full-time manager, but that if Marsh & McLennan were employed it would be on a temporary basis which might lead to the employment of a full-time manager at a later date. The principal purpose of the proposal to employ Marsh & McLennan was to obtain their services in a temporary and advisory capacity with a view to reaching a conclusion as to the best method of meeting the responsibilities of the Insurance Committee.

9/22/44

-3-

At the conclusion of the discussion Chairman Eccles indicated that the action of the Presidents' Conference with respect to the report of the Committee on the insurance and loss sharing agreement was satisfactory.

2. Revision of Regulation J on Check Collection Circulars.

There was no discussion. Chairman Eccles indicated that the recommendation that for the present no change be made in Regulation J and check collection circulars, pending further developments and study, was satisfactory.

3. Personnel Selection and Training.

Chairman Day said that it was felt that the situation with respect to the lower grades was satisfactory but that it was not equally so in respect to the higher grades where we were losing men, and that the most serious problem was in respect to the development and retention of competent senior officers. It was the feeling of the Presidents that this was primarily due to the restrictions upon salaries and retirement benefits and generally upon the powers and authority of the Federal Reserve Banks.

Chairman Eccles said that, without undertaking to speak for the other members of the Board, he felt that we were restricted by the Government's salary-stabilization policies during the war and that we had gone about as far as we could within the framework of these policies. He referred to the fact that at the time these policies were

9/22/44

-4-

established there was in effect a classification of salaries at the Federal Reserve Banks under which there were maximum rates for all positions and that it would be impossible to get any clearance for rates above those maximum figures at this time, although arrangements and undertakings had been worked out whereby some latitude was permitted with respect to adjustments. In all the circumstances he believed that there was nothing more that could be done at this time. He observed that before the war is over there would probably be a considerable number of competent men coming back from the military service and that the difficulty of obtaining and retaining able men in the service of the Federal Reserve Banks would be very much relieved.

Mr. McKee added the comment that it was not only the Federal Reserve Banks that were suffering but also commercial banks and that it was to be expected that when men of exceptional ability developed in the Federal Reserve Banks there would be the risk of losing them to the commercial banking system in the next two or three years.

Chairman Day stated that it was felt that it would be necessary to do something in the way of giving these men increased responsibility or other reasons to encourage them to remain with the System. Mr. Sproul expressed a strong feeling against arbitrary limitations on salaries of officers of the Federal Reserve Banks, the chipping away of powers, influence and authority of the Federal Reserve Banks,

9/22/44

-5-

and the decreasing of their responsibilities and their share in the more important matters with which the Federal Reserve System is concerned.

Chairman Eccles responded with an expression of the feeling that the situation of the Federal Reserve Banks was different from that of private or commercial banks, that we would be extremely fortunate if we were able to keep the Federal Reserve personnel out of Federal budgetary, civil service and general accounting control, and that it appeared to him that the real issue presented was whether increased responsibilities should be given to the Federal Reserve Banks and correspondingly taken away from the Board of Governors, but that he felt that it would be necessary to rely upon the Board of Governors as the agency of Congress to maintain an appropriate balance.

4. Overtime payment under the Fair Labor Standards Act of 1938.

Chairman Eccles offered the suggestion that the problem presented under this heading be referred to a special committee designated by the Presidents' Conference of, say, two members, to confer with Mr. Leonard and Mr. Dreibelbis of the Board's Staff for the purpose of making a very thorough study and analysis of the situation and a report. Chairman Day saw no objection to this suggestion. He added, however, that all the Presidents had been apprised of the situation which had developed in the Twelfth District because of the fact

9/22/44

-6-

that an investigator for the Wages and Hours Administration had gone into the Seattle Branch and it appeared that as a result of his investigations the Federal Reserve Bank might be called upon for back overtime pay to the extent of some \$45,000, plus penalties which would make the total claim amount to about \$90,000.

In response to an inquiry by Mr. Ransom as to the experience of the other Federal Reserve Banks, Mr. Sproul said that at New York there had certainly been no wilful violations and that there was no knowledge of any violations whatsoever, although there had been two examinations by the Wages and Hours authorities, and up to the present time the New York Bank had received a clean bill of health. Consequently, if any change occurred in the situation, the New York Bank would expect to resist any claims. At this point Chairman Day said that of course the San Francisco Bank would resist any claims, that if any were made it would keep the matter open by appealing to headquarters in the Wages and Hours Administration, and that it would be glad to keep the other Federal Reserve Banks advised as to what happened.

In response to a further question by Mr. Ransom, Mr. Leedy stated that there were three Federal Reserve Banks that were facing the situation presented by the first problem mentioned relating to cases where payment for overtime had been computed on basic salary only, exclusive of supplementary compensation, but that the San

9/22/44

-7-

Francisco situation came under the second problem where certain employees or classes of employees formerly considered by the Bank as exempt under the standards established by the Act were subsequently considered to be non-exempt. Mr. Leedy felt that this was important to all of the twelve Federal Reserve Banks, as it was a question of fact as to how well each Bank had determined the classification of exempt employees and there was a possibility that any Federal Reserve Bank would be confronted with the problem at any time. He felt, however, that the question of payment of overtime based on supplemental compensation was in a different category, as the problem exists only at three of the Reserve Banks and the facts involved at each Bank, which would apparently determine liability, are not the same. He said that the Kansas City Bank was one of the three involved, the others being St. Louis and Boston; that the Board of Directors of his Bank had carefully explored the problem in the light of legal advice of counsel for the Bank and was satisfied with the conclusions that had been reached. He accordingly questioned the need of referring this problem to a System committee. The other problem he felt might well be studied by a special committee.

Chairman Day expressed the reservation that when an investigator came into these Banks it might be found that there was some difference of opinion and that the Banks' policy might not be sustained in all respects.

9/22/44

-8-

Mr. Ransom expressed the opinion that there was a System problem and that nothing could be done at this meeting in the light of the discussion. Chairman Day stated that there was no objection to the procedure suggested by Chairman Eccles. Mr. Williams said that such a procedure would be helpful in bringing together the various interpretations at all Federal Reserve Banks and comparing them and keeping the Federal Reserve Banks informed.

It was understood as the result of the discussion that the Chairman of the Presidents' Conference would appoint a committee which would advise with Messrs. Leonard and Dreibelbis and then report to the Presidents.

5. Research Policy and Program.

Chairman Day called upon Mr. Williams as Chairman of the Presidents' Research Committee to make a statement.

Mr. Williams said that he thought the statement presented to the Board of Governors expressed the views of the Conference. He called attention to the fact that the last paragraph of the statement raised a question of procedure, referring to the phrase "it was, therefore, agreed that hereafter the recommendation of the System Research Advisory Committee should be made both to the Board of Governors and to the Research Committee of the Presidents' Conference" and that the latter Committee would confer with the Board of Governors. He said that this would give the individual Presidents an opportunity to consult



9/22/44

-9-

with each other concerning matters of research policy and also would create an opportunity to confer with the Board of Governors before final decisions were reached. He stated that the Presidents' Conference had reduced the size of the Research Committee to three members so that it would be feasible for the members of the Board and of that Committee to discuss implications of the research policy which was being suggested by the Advisory Committee, and that there was no question of jurisdiction involved.

Chairman Eccles stated that upon reading the statement it had appeared to the Board that perhaps the Presidents' Conference had not made itself entirely clear because, if the Board's understanding of the language used were correct, it would have some objection to the proposal. He pointed out that the Research Advisory Committee consisted entirely of staff members of which Dr. Goldenweiser is chairman and that among these staff members were members of the Subcommittee of the Research Committee of the Presidents' Conference. He stated that, of course, there was no objection on the part of the Board to the establishment by the Presidents' Conference of any committee or committees that it thought desirable and that this was perfectly proper. As the Board did not feel that it should be represented in the Presidents' Conference committees, Chairman Eccles outlined the purpose of the establishment of the Research Advisory Committee from the point of view of the

9/22/44

-10-

Board of Governors. He stated that this Committee, when they developed a proposed policy or program, should furnish to the Presidents copies of the reports that they submitted to the Board of Governors, that the Board would give to the Committee an opportunity to discuss with it their recommendations and their program, and that, on the basis of the proposals and the discussions, the Board would formulate the System policy. The Chairman said, however, that it would appear from the language of the statement, unless it had been misinterpreted, that the Presidents' Conference was proposing to give to the Research Committee of the Presidents' Conference the power to act in formulating System research programs after conferring with the Board, but the Board felt that the determination of policy in the research field was a responsibility of the Board of Governors.

Chairman Day said that it appeared that a program had been formulated at Minneapolis without any of the Presidents knowing anything about it and that it embraced a series of topics which had been assigned to members of the research staffs of the Federal Reserve Banks without ascertaining the views of the Presidents.

Mr. Williams said that what was meant by the statement of the Presidents' Conference was "power to act for the Presidents' Conference". Referring to the Minneapolis situation as a case in point, Mr. Williams said that this illustrated the need for an opportunity for discussion on the part of the Presidents, so that if there were any objection the

9/22/44

-11-

Research Committee of the Presidents' Conference could take the matter up directly with the Board of Governors in an attempt to formulate a program that would be satisfactory to everybody.

Chairman Eccles said that it appeared that Mr. Williams' point was that when the Research Advisory Committee had developed a program the Presidents' Conference Committee should receive a copy of that program before it is put into effect. Messrs. Day and Williams agreed with this statement, adding that the opportunity for review and discussion was necessary in order that the Presidents could exercise proper supervision and could confer with the Board if there were any objections. Chairman Eccles said that that was satisfactory, but that when the matter had been discussed the decision as to the policy to be followed should be made by the Board.

Mr. Williams then said that there was involved in the reference to the meeting at Minneapolis the fact that certain assignments of subjects were made at Minneapolis to individuals in the employ of the Federal Reserve Banks, not only in the case of men who were present at the meeting, but also in the case of men who were not present, and that the Presidents and the men to whom assignments were made were notified simultaneously concerning their assignments, without any opportunity being afforded to the Presidents to be informed about the assignments before this was done and consequently without any opportunity to discuss the matter with the Board of Governors, regardless

9/22/44

-12-

of whether the individual assignments might or might not have been good ones.

Chairman Eccles commented that the discussion had brought out the fact that it might not be feasible in the limited time available at this meeting to formulate a clear and satisfactory statement as to the meaning which the Presidents' Conference had intended to convey by its statement and, therefore, suggested that the Presidents' Conference Research Committee and a committee representing the Board of Governors, say, Governor Evans and Dr. Goldenweiser, confer and draft a statement which would meet the views of both the Presidents' Conference and the Board. He pointed out that what the Board wished to have clearly recognized was the responsibility of the Board of Governors for formulating System research policy.

Mr. Sproul said that he thought that question was inherent in the discussion and that there were two conceptions that had been expressed by Chairman Eccles that were contrary to Mr. Sproul's understanding. First was the conception that the Research Committee was a committee of the Board--he thought it was a committee of the System, and that the System included the twelve Federal Reserve Banks as well as the Board of Governors. Second, that the Board alone would formulate System policy, whereas he thought that the System, comprising the Banks as well as the Board, upon recommendation of the System Research Advisory Committee would formulate System research policy. He objected

9/22/44

-13-

vigorously to the idea that a man working in the New York Bank, under him as President of that Bank, could be told what he was to do in that field without reference to the President.

Mr. Ransom raised the question whether that difficulty could not be overcome by determining where final responsibility for System research policy rests. Mr. Sproul said that he thought research policy could be determined by consultation between the Presidents' Conference Research Committee and the Board of Governors. Chairman Eccles said that he did not agree with that view and that there was evidently a fundamental difference. He stated that it was his view of the matter that the Board of Governors, as the agency of Congress, was publicly responsible for the actions of the System and its statements, and it seemed to him that the Board would have to take the responsibility for System research policy.

Mr. Sproul said that he did not understand the conception implied in the expression "agency of Congress", because it seemed to be based upon the supposition that the Board of Governors was the sole instrument of Congress, whereas the twelve Federal Reserve Banks were also created by Congress under the same statute as that which created the Board and that they also had statutory responsibilities. He felt that there was a System composed of both the Board and the Banks.

Chairman Eccles stated that he did not agree with Mr. Sproul, that the Board is charged by Congress with the responsibility of the general supervision of the Federal Reserve Banks, that the members

9/22/44

-14-

of the Board are appointed by the President and confirmed by the Senate, that the Board is required to make an annual report to the Congress, and that from time to time committees of Congress call upon the Board for information and for advice with respect to the affairs of the System and matters in which the System is interested. He did not see how it would be practicable to divide the responsibility for formulating policy with the twelve Federal Reserve Bank Presidents, who, in turn, are each responsible to nine directors, 108 in all. He added that the Presidents' Conference was a wholly voluntary body without statutory authority or functions, while the Board of Governors is a statutory body with statutory authority and functions. He felt that the Presidents' Conference could formulate its views in regard to policies and could express them to the Board, that the Board could work with the Presidents' Conference in connection with policies and that it should do so, and that there should be full confidence and cooperation, but that there was no escape, in his opinion, from the conclusion that the final responsibility must rest with the Board of Governors.

Chairman Day expressed the opinion that what was desired was a practical working arrangement and he believed that the suggestion that the Presidents' Research Committee meet with Governor Evans presented an opportunity for working out such an arrangement. Chairman Eccles said that that would be satisfactory to him, stating that the

9/22/44

-15-

members of the Board had discussed the whole matter before this meeting and were in agreement.

Mr. Williams said that the immediate problem was how to handle the situation where national, regional and local research intermingled, which presented practical problems. Chairman Eccles said that, so far as local research was concerned, he felt that that was a matter strictly within the prerogatives of the Presidents, but that, when it came to the national domain, the work should be done after consultation with and advice of the Presidents' Research Committee, stating that the national program would have to be based upon a consolidation of the local programs so that the Board had to be the place for final decisions upon which the Presidents' Research Committee should be an advisor after having had an opportunity to be fully informed. Mr. Williams added the thought that the two fields were interwoven into a fabric that would be destroyed if an attempt were made to distinguish, but that as a practical working matter he felt that no serious problem should arise.

Mr. Ransom commented that the language which had been used in the statement received from the Presidents' Conference raised the problem by using the phrase "with power to act in formulating System research programs" in such a manner as to appear to place that power in the Research Committee of the Presidents' Conference. He felt that it would be possible to work out the practical aspects of the

9/22/44

-16-

problem but that, as to the issue which had been raised in the discussion between Chairman Eccles and Mr. Sproul, he was in full agreement with Chairman Eccles. He suggested that the practical aspects of the problem could be worked out through language that would not be as precise as that formulated by the Presidents' Conference, without raising the issue of jurisdiction.

Chairman Day concluded the discussion by saying that the matter would be left to the proposed consultation between the Presidents' Research Committee and the representatives of the Board of Governors.

#### 6. Commitment Fees under Section 13b and Regulation V.

Chairman Eccles said that the Board agreed with the suggestion that certain rates under section 13b of the Federal Reserve Act be modified, and that appropriate action should be taken by the Federal Reserve Banks and by the Board of Governors to carry out the recommendations.

#### 7. Reserve Ratios of the Federal Reserve Banks.

It was agreed that the subject had been fully discussed in other conferences.

#### 8. Objectives of Postwar Monetary Policy.

Mr. Williams stated that, after the monographs which were in course of preparation had been finished, it would seem desirable for the Board of Governors and the Presidents to meet in an all-day session devoted exclusively to these monographs, at which the authors would discuss their papers and there could be an exchange of views. He thought that an appropriate time for such a meeting might be immediately following the next meeting of the Federal Open Market



9/22/44

-17-

Committee. A question was raised as to whether all of the material would be available by that time, and it was the consensus of the meeting that the authors should understand that they would be expected to complete their material a sufficient time in advance of the next meeting of the Federal Open Market Committee to enable the Presidents and the members of the Board of Governors to read the material and be prepared for a discussion at that time.

9. Treasury Financing.

It was agreed that no discussion was necessary in view of the fact that the whole subject had been given exhaustive consideration at the meeting of the Federal Open Market Committee earlier this week in which the Presidents participated.

10. Modification of Section 13b.

Chairman Eccles referred to the portion of the statement to the effect that "there are fundamental questions inherent in the provision changing the location of the Fund". He stated that the location of the fund now is in the Treasury, that it had never heretofore been possible to move it from there, and that the present arrangement had proved to be unsatisfactory because of the position which the Treasury had taken with respect to the manner in which the fund could be used and the conditions under which it could be drawn upon. He added that the proposal which had been laid before Congress was to put the fund with the Board of Governors in substantially the capacity

9/22/44

-18-

of trustees of an insurance fund. He pointed out that under the proposal which had been laid before Congress the present section 13b would be entirely repealed, thus terminating any authority on the part of any Federal Reserve Bank to make any loans and substituting authority only to guarantee financing institutions against loss and to make commitments to purchase from financing institutions loans made by them, the operations of the Federal Reserve Banks to be conducted under regulations by the Board of Governors.

Chairman Eccles said that there had developed a considerable misconception of the entire proposal and that the Board's position in relation to it had been misrepresented. He explained that in his view of the matter the Board would not be an operating body and that, contrary to statements emanating from other sources, the Federal Reserve Banks would not be engaged in competition with commercial financing institutions, because by the repeal of the present section 13b they would be entirely without authority to make loans in the first instance, and that any loans which they guaranteed must be initiated by commercial banking institutions. He said that one reason for placing the fund with the Board was in a precedent which had already been established in the case of the Reconstruction Finance Corporation, so that the Board might see that the Fund was invested in Government securities which would yield an income which would help to meet any losses that might be chargeable against the fund.

9/22/44

-19-

Chairman Eccles reviewed in detail the history of the development of the proposal, referred to a letter which had been received from Mr. Sproul, and a reply which had been made by Mr. Draper, and also referred to the position which had been taken by the American Bankers Association and other groups representing commercial bankers. He said that he had been pleased that the Treasury interposed no objection to the legislation, which he had not altogether expected. However, he said that he felt that this was the result of an extensive conference which he had had with Under Secretary Bell, in which Mr. Bell did not raise any question about the transfer of the fund to the Board, but did raise other questions, which were met to the satisfaction of the Treasury and which were covered by amendments which he (Chairman Eccles) proposed when he first appeared before the House and Senate Committees at the time when they were considering these bills.

He said that Mr. Bell raised the question as to what would happen when there was no longer any need for the fund and whether the proposal was just another way of getting the money permanently into the hands of the Federal Reserve Banks. He had assured Mr. Bell that that was not the intention and that he would propose an amendment to make it clear that the money would be returned to the Treasury.

Another question raised by Mr. Bell was with respect to the absence of any limit upon the amount of guaranties that might be made by the Federal Reserve Banks and he agreed with Mr. Bell to propose

9/22/44

-20-

that the total amount of guaranties be limited to not exceeding four times the amount of the fund. That was satisfactory to Mr. Bell.

An objection advanced by Mr. Bell was that the bill would permit 100 per cent guaranties and it was pointed out to him that it was the intention to cover this by regulation, as there was no intention of authorizing 100 per cent guaranties. Mr. Bell objected to the absence of the limitation in the bill, and it was agreed that an amendment should be proposed to limit it to 90 per cent. There was also an objection on the ground that there was no termination date stated in the bill, and consequently it was agreed that a limit of five years should be proposed.

Chairman Eccles added that, upon the basis of these agreements, Mr. Bell expressed himself as entirely satisfied and subsequently reported to Congress that the Treasury had no objection to the bill. During the course of these discussions no objection was made by the Treasury to the transfer of the fund to the Board of Governors and no question was raised concerning this aspect of the matter at any time during the course of the hearings which were held. On the other hand, Chairman Eccles felt that serious objection would have been raised had it been proposed that the control be transferred to the Federal Reserve Banks or to the Presidents of the Federal Reserve Banks or to any group representing the Federal Reserve Banks as such. He pointed out that the fund, in order to be effective, had to be pooled, that the Board

9/22/44

-21-

had the responsibility of making the regulations governing its use and also the responsibility of reporting to Congress and that, consequently, it seemed appropriate to place the fund under its control. He said that, it was obvious that it could not be split up into twelve funds because that would seriously handicap the Federal Reserve Banks, some of which might need a larger share of the total fund than others.

Mr. Sproul said that there were two aspects of the matter that concerned various Presidents, some being concerned with one and others with the second. One aspect was the question of procedure. He reviewed the circumstances connected with the manner in which the bill had been submitted to the Presidents, the brief time that was allowed them for reporting their views, and the fact that some of the Presidents proposed amendments and that none of these amendments appeared in the bill as presented to Congress, which led some of them to feel that possibly their recommendations had not been considered by the Board. In this connection Mr. Sproul referred to the fact that the Presidents had been informed that the submission of this particular bill to the Presidents' Conference should not be taken as a precedent for future submissions to the Presidents' Conference of bills in which the Board was interested. He stated that the Presidents had been informed that, although the bill had been introduced, there would be ample time for further discussion, but that the next thing that the Presidents learned was that there had been hearings at which the Chairman appeared and

9/22/44

-22-

that amendments had been offered of which they had not been informed, so that they were again deprived of an opportunity for discussion and expression of their views. He said that the aspect of the matter which he had been discussing was one which bothered some of the Presidents, while there was another aspect that bothered some of the Presidents but not altogether the same ones--the second aspect was the proposal that the Board in effect should be the custodian of the fund, which was regarded by some of the Presidents as being a step into the field of operation of the System, which should be left to the Federal Reserve Banks because it did not properly fall in the field of general supervision and coordination exercised by the Board of Governors. He said that in the view of some of the Presidents, if there were a clarification of the ambiguous provisions of the law with respect to the utilization of the fund, it could well be left in the Treasury as a common pool which could be drawn on by the Federal Reserve Banks with the Board's approval to meet losses and that that would be a better proposal from the standpoint of System organization and might be of some aid in the passage of the legislation even though the Treasury had not expressed any opposition to the transfer to the Board of Governors. He added that he knew that some concern had been expressed about the proposed transfer to the Board and felt that some opposition might be eliminated by leaving it in the Treasury.

Chairman Eccles said that there had been no mention either by

9/22/44

-23-

the Treasury or by any member of either committee in Congress during the course of the hearings of any such opposition and that he had not seen it in any article or heard any other criticism except that advanced by the Presidents.

Mr. Sproul added to his previous statement that he did not think the idea of investing funds and utilizing the interest in meeting losses, which is really an accounting device for transferring funds from one pocket to another, is a matter of importance.

Mr. Draper reviewed at length the circumstances surrounding the reference to the Presidents of the proposed bill for comments and suggestions, the letter which the Chairman had received on this subject, and the reply which Mr. Draper had made to Mr. Sproul. He supplemented what the Chairman had previously said on this subject, stating that all of the points brought up in the Presidents' suggestions were carefully reviewed by himself and Chairman Eccles, and, in fact, had been given full consideration previously. He also referred to the fact that the Board had not initiated the introduction of the bill at the particular time, as it had not thought that anything would be done before election and that its introduction was entirely due to a decision by Senator Wagner, who thought the time was propitious.

Chairman Eccles at this point again reviewed the history of the bill, going back to the Baruch-Hancock Report, and took the position that the Presidents, from the time of the publication of the

9/22/44

-24-

Baruch-Hancock Report, had had ample opportunity to express their views and recommendations to the Board of Governors.

With respect to the position that the reference of this particular bill to the Presidents should not constitute a precedent, Chairman Eccles reiterated his view that the Board would have to decide in each case whether legislation which it might propose should be first submitted to the Banks, as there might be situations in which it would be inadvisable to discuss the legislation in advance.

In the course of the discussion, Chairman Eccles stated that in the recommendations that had been received from the Federal Reserve Banks there was no unanimity, and the Board could not possibly have adopted all of the recommendations, because they were conflicting, and added that the Presidents had lost no opportunity to present their views by reason of the fact that their suggestions had not been incorporated in the bill before it was introduced.

Mr. McKee stated that he would like to express his opinion because he had not favored this particular legislation, although he did not intend by that statement to have it implied that he would favor turning the fund over to the Federal Reserve Banks to handle. He thought the Treasury requirements had been a hardship ever since the enactment of the present section 13b, and he was opposed to those restrictions. But he was also opposed to the Board having any operating authority or having anything to do with operating the fund. He felt



9/22/44

-25-

that money could not be loaned without creating liabilities and without subjecting someone to litigation and he did not feel that that was any part of the proper functions of the Board of Governors. He said that he did not have in mind any particular solution of the problem but that he did not like the idea of a policy-making board created by Congress being vested with the responsibility of attempting to operate and manage a fund like this.

Chairman Eccles said that in order to avoid any erroneous impression of his position in the matter, he wished it understood that the legislative proposal had been reviewed carefully by the Board's General Attorney, that every legal aspect had been thoroughly considered, that no part of the fund was to be loaned to anyone, and that no part of the Reserve Banks' funds was to be loaned in the first instance. He stated that under this proposal the Federal Reserve Banks would act solely as guarantors of loans which were initiated and made in the first instance by commercial banks, just as was the case in the V and T loan procedure, the initiation of which rests with private banks. He said that the entire proposal had been reviewed very carefully from a practical banking standpoint as well as from the standpoint of legal aspects. He said, however, that he had been prepared to compromise with the Treasury if the Treasury had offered any objection and that, as previously recited, he had met every objection in a manner satisfactory to the Treasury and that the idea that the Board should have

9/22/44

-26-

the proposed trusteeship over the fund was not one to which the Treasury offered any objection. He saw no reason why it would be better for the Presidents to have trusteeship over the fund than for the Board to do so and, on the other hand, he thought that Congress would not be willing to approve such a proposal.

Mr. Williams said that he felt, however, that there would be several advantages to such a proposal and referred to the great interest which the Directors of the Philadelphia Bank had taken in every question which had arisen under section 13b. He added that the proposal had been interpreted by some as a further move in the direction of centralization and referred to the experience which had been encountered with the controversy which had developed under Regulation Q along that line.

Chairman Eccles then reviewed the position of the A.B.A. on lending by governmental agencies, and read at length from a statement entitled "Legislation to Finance Business in the Post-War Period", copies of which were distributed to all of the Presidents during the meeting.

During the course of the reading of the statement, Chairman Eccles said that Mr. Silverman, Legislative Counsel of the Smaller War Plants Committee of the Senate, had called up on the telephone with reference to a proposal that they were thinking of incorporating in the bill with respect to the Smaller War Plants Corporation, making

9/22/44

-27-

loans by that Corporation eligible for discount by the Federal Reserve Banks and making it mandatory for the Federal Reserve Banks to accept such paper. He said that that had great political appeal to some people as a means of getting money for the use of a corporation without an appropriation by Congress and the argument was made that they were entitled to this consideration from the Federal Reserve Banks when private banks could get money that way. Chairman Eccles pointed out to Mr. Silverman the reasons why such a proposal would be entirely objectionable to the Federal Reserve System. He added that of course the Board would have to fight any such proposal if it were advanced. He also said that Mr. Maury Maverick had criticized the 13b program on the ground that it did not take care of small business and had likewise criticized the V and VT program for the same reason. Chairman Eccles asked that every President, following the meeting, review very carefully the contents of the memorandum from which he had been reading.

Mr. Williams said that the Presidents' Conference had a legislative committee which had had a great deal of experience, and that he thought that the problem presented was one of procedure or technique in considering legislative problems, with respect to which it would be advisable to take advantage of the machinery which had been established as a means of consultation. Mr. Sproul stated that he felt Chairman Eccles was following a very poor procedure if he took the

9/22/44

-28-

position that he could not consult or confer with all the elements in the System because they might not agree with or support the legislation that the Chairman thought desirable; he felt that consultation and conference would always be useful because it would very likely develop important considerations that should be taken into account in any legislative program, which might not be forthcoming under the Chairman's conception of the procedure that might be followed.

Chairman Eccles said that he was not taking the position that the Board should not confer with the Presidents or their committees and get System support and that the sole position which he was taking was that he did not want to be put in the position of saying that there was an obligation on the part of the Board to confer in all matters because he did not believe that to be true. He stated that the Board does confer very freely and is likely to continue to confer freely, that so far as the particular legislation under discussion was concerned, the Presidents had had ample opportunity to present their views and the fact that the bill was introduced under the particular circumstances did not mean that they had not had their opportunity to present their views either before or subsequently.

Mr. Sproul reiterated that there was a difference between having an opportunity to express views and having an opportunity to consult and to discuss and to present arguments and to obtain clarification of positions before commitments were made. Chairman Eccles

9/22/44

-29-

said that he had discussed this whole matter fully with Mr. Sproul, had told him about the amendments that had been agreed to and had explained to him why the amendments which he had proposed were not acceptable.

Mr. Leedy raised the question whether any consideration had been given to a suggestion as to the possible value of retaining the Federal Deposit Insurance Corporation stock and not surrendering it to the Treasury. Chairman Eccles said that he could not see any value in such a suggestion, pointing out that the stock had been charged off by the Federal Reserve Banks. Mr. Sproul said that the point involved was that, whenever the question of supervision of banks and authority of the various Federal agencies arose, there might be some advantage, even though it was small, in the Federal Reserve System having retained ownership of the stock in taking the position that the System should absorb the Federal Deposit Insurance Corporation rather than the Federal Deposit Insurance Corporation taking over the System. Chairman Eccles expressed the view that this point would carry no weight.

11. International Finance--Monetary Fund and Bank for Reconstruction and Development.

Chairman Eccles read a statement which had been prepared entitled "Federal Reserve Policy with Respect to the Proposed International Monetary Fund and Bank for Reconstruction and Development".

9/22/44

-30-

Copies of this statement were distributed to the Presidents.

Chairman Eccles said that this statement was the unanimous view of the Board, except Mr. McKee, who had voted "No". At the conclusion of his reading of the statement, Chairman Eccles said that he would like to supplement it by saying that he had personally hoped that the Bretton Woods Conference would not be held until after election and that there were certain aspects of the program which he did not like, but that he also had difficulty in accepting any alternative that he had seen. He felt that the System could not well be left out of the Conference, but that the System played no greater part, in fact possibly a lesser part, than most of the central banks of other countries. He said that the Board had taken the position that the results of the Conference were public property and it seemed to him that, certainly on the part of the officers of the Federal Reserve Banks, it would be bad taste to go out and oppose the program. He said he recognized the fact the situation was different as to individual directors of the Federal Reserve Banks, but that it seemed to him that we had to do our part in cooperating hereafter. He felt that there was no doubt that the opposition to the Plan had been fully expressed by many who had discussed it and that it had had a very wholesome effect because the Plan as finally developed was greatly influenced and improved. He said that the fundamental difference was on the question whether there should be a key country approach or an international approach

9/22/44

-31-

and that that was settled by the outcome of the Bretton Woods Conference which had been accepted by the representatives of all the countries participating in the Conference.

Mr. Sproul said that he could not accept the view which had been expressed by Chairman Eccles, that he did not think that there had been a day in court, and that he did not like the way the matter had been handled, although that was really a minor aspect of the matter now. He did not think that this was an agreement which had been accepted otherwise than in the sense that it was a recommendation to the various governments, that, so far as he was concerned, in a matter of this importance, until it became the law of the land as adopted by the Congress of the United States, if he had any view contrary to that expressed by the delegates at the International Conference, he had a duty to express his view and that, if it became a question of such an expression being damaging to the System, then he would have to decide whether to leave the System, but that he could not agree with the view that the officers of the System from here on should be muzzled, because he felt that that would lead to the destruction of the System.

Chairman Eccles said that the Board was not undertaking to put on a muzzle, but that it was stating its position as to the consequences of publicizing any position on the part of the officers of the Banks which might be contrary to the Bretton Woods program even though he personally did not like all the aspects of the matter. Mr.

9/22/44

-32-

Peyton, who found it necessary to leave the conference at this point, stated that he was in agreement with Mr. Sproul's position. Chairman Eccles said that it seemed to him that to the extent that there were conflicting views among the Federal Reserve Banks they were perfectly at liberty to express them but that what he was trying to point out was that it would not be constructive for the System to indulge in public controversy on the subject, and to follow that course would merely result in the elimination of the System as at present constituted.

At this point Chairman Eccles and Chairman Day left the meeting because of previous arrangements for leaving Washington and, by unanimous agreement, Mr. Ransom took the chair.

Mr. Williams raised the question as to what our position should be if the Treasury asks those Reserve Bank men who participated in the Bretton Woods Conference to go out and sell the plans to the banks and the public in their districts. No discussion developed as several participants already had left to make train connections.

Mr. Leedy stated that the subject of the Fund and the Bank has been under discussion with the directors and branch directors of his Bank; that as a part of a program to inform these groups as fully as possible Mr. Edward E. Brown has recently discussed the proposals with them; that Mr. John Williams has been invited to present his views, and that it is contemplated that Dr. Goldenweiser and perhaps others will be asked to participate in the discussions. He expressed the hope that



9/22/44

-33-

nothing would interfere with carrying out that program. His own views concerning the proposed plans, he said, were not in accord with those of Mr. Sproul, but regardless of individual views, he feels that the Reserve Banks should seek the best answers they can get to the questions involved and that the proposed plans are entitled to be examined sympathetically.

Mr. Leach said that the plans for the Fund and the Bank as agreed upon at Bretton Woods may be satisfactory, but he can not subscribe to the idea of instructing anyone as to the position he should take before these plans are approved by the legislature. Mr. McKee saw no harm in expressing personal views and convictions but felt that it would be well not to talk much about the matter.

The meeting adjourned at 4:10 p.m.

Chester Morrie  
Secretary.

Approved:

W. C. Leach

Chairman.

9/22/44

NOTES ON  
TOPICS FOR JOINT MEETING OF THE  
BOARD OF GOVERNORS AND THE PRESIDENTS' CONFERENCE

1. Insurance - Loss Sharing Agreement

The report of the Committee on the insurance and loss sharing agreement was discussed. The Conference indicated its general approval of the report on the loss sharing agreement as presented by the Insurance Committee, through the Committee on Operations, subject to certain minor changes.

The Committee's recommendation that the effective date for the agreement be set for January 1, 1945 was accepted and approved. It was suggested that the Insurance Committee explore the advisability of employing a competent, full-time manager to carry on the work of the Committee under its supervision and general direction. It was deemed impractical for the chairman of the Committee to devote the necessary time to the administrative work.

2. Revision of Regulation J on Check Collection Circulars

Consideration was given to the report of the subcommittee on Regulation J and the cash collection circulars, dealing with possible acceptance of conditional remittances for cash letters. Reasons for and against amending Regulation J and check collection circulars were discussed. It was decided to accept and approve the recommendation of the Committee on Operations to the effect that for the present no change be made, pending further developments and study.

3. Personnel Selection and Training

The Conference reviewed the progress that is being made by the Reserve Banks in personnel training programs. Various methods are followed by the Banks but most of them include educational encouragement, staff meetings, rotation, participation of officers and employees in the life of the Reserve Districts, and continued appraisal of the development of promising men.

Under present conditions, few of the Banks have been able to attract young men of real promise. All of the Banks have lost many capable men to the armed services and some have lost or are in danger of losing men of unusual qualities to commercial banks, industries, and services that are offering greater opportunities for advancement.

9/22/44

-2-

While a certain volume of turnover in this area is to be expected, the problem of attracting and keeping promising persons is becoming increasingly difficult and requires continued consideration of the subject by the Board of Governors and the Presidents, if the System is to acquire, retain, and develop the kind of key personnel that would eventually provide the necessary leadership in the Reserve Districts.

#### 4. Overtime Payment under the Fair Labor Standards Act of 1938

In response to the Board's request in its letter of September 8, 1944, the Conference considered the problems facing some of the Reserve Banks in connection with the payment retroactively of overtime under the standards established by the Fair Labor Standards Act of 1938. Specific problems that have arisen dealing with wage adjustments under two conditions are:

1. Where payment for overtime has been computed on basic salary only, exclusive of supplemental compensation; and
2. Where certain employees or classes of employees formerly considered by the Bank as exempt under the standards established by the Act are subsequently determined to be non-exempt.

These problems are becoming particularly acute at the Federal Reserve Bank of San Francisco, which may have to face a legal issue involving not only payment of claims for overtime in the past but also a penalty in the like amount in cases of violation. Because this subject is of direct concern to all Reserve Banks the Conference desires to discuss it with the Board of Governors.

#### 5. Research Policy and Program

The Conference reviewed interim developments in the field of research as recently broadened by the Reserve System authorities. Despite difficult conditions, all Federal Reserve Banks have strengthened their research staffs and enlarged their scope of activity. A considerable improvement has been noted in the research product and method of conveying it to banks, business and the public through monthly bulletins, special publications, conferences, and addresses. Demands for this product, as well as participation in conferences and meetings, from leaders in banking and business have increased substantially.

9/22/44

-3-

In one way or another the Reserve Banks are participating to an increasing degree in special outside activities at all levels--national, district, and local. Included in these activities are participation in the Monetary Conference at Bretton Woods; participation in the work of the Committee for Economic Development; assistance to the special legislative committee on postwar economic policy and planning; assistance to various state and local banking committees; promotion of educational activities, and otherwise initiating, developing, or participating in seminars or discussion groups among bankers and business men.

The Conference considered the progress now being made by the Banking and Credit Policy Committee established (a) to appraise the present and future position of banking in the light of prevailing policies of the Reserve System and the Treasury, and (b) to survey possible postwar problems and suggest credit policies appropriate to the then prevailing conditions. It appears that the investigation of this Committee may provide a real opportunity to evolve a comprehensive research program in the field of primary interest to the System in discharging its monetary and credit responsibilities. The Conference desires to have continued review of these possibilities with the Board of Governors at their joint meetings. Furthermore, it is prepared to hold a special session for the purpose of discussing the findings of the Committee when its work is completed.

Because of the strategic importance of the System in the national and regional economies and its unique relationship to public and private agencies, institutions or establishments, it is felt that broad research policies of the System should be among the primary responsibilities of the Board of Governors and of the Presidents' Conference. It was, therefore, agreed that hereafter the recommendations of the System Research Advisory Committee should be made both to the Board of Governors and to the Research Committee of the Presidents' Conference, and that the Research Committee of the Presidents' Conference, after consultation with the Presidents whenever necessary, should confer with the Board of Governors, with power to act in formulating System research programs.

#### 6. Commitment Fees under Section 13b and Regulation V

The Conference considered the existing rate schedule for advances and commitments made under section 13b in relation to rates charged under Regulation V in connection with T loans. The Reserve Bank rate schedule provides for a minimum commitment charge of 1/2 per cent, whereas the maximum commitment charge that can be made on loans granted under Regulation V is 1/4 per cent. Inasmuch as it is

9/22/44

-4-

possible, even though unlikely, for the Reserve Banks to enter into commitments on loans guaranteed under Regulation V, it was suggested that certain rates under section 13b be modified, and it was the view of the Conference that the subject be discussed with the Board of Governors as a preliminary to some uniform action by all Reserve Banks.

It was suggested that the problem might be met by adding a footnote to the existing section 13b rate schedule, as follows:

"With respect to any loan as to which a guarantee is issued under the Contract Settlement Act of 1944 or Regulation V, the commitment fee will be not in excess of whichever is the higher of  $\frac{1}{4}$  of 1% per annum or \$50."

The Conference also desires to discuss with the Board of Governors certain developments under the T-loan program, one of which is the sponsoring of clinics conducted by the Ordnance Corps of the Smaller War Plants Corporation. In these clinics, representatives of the Corps explain the facilities for financing contractors and subcontractors on termination but make only scant reference to interim financing under the T-loan program.

#### 7. Reserve Ratios of the Federal Reserve Banks

Consideration was given to the current problem of declining reserve position of individual banks and to the longer-range implication of this decrease. The consensus was that the decline in individual bank ratios can be adjusted through the Open Market Account but that the general question of the decline in the System ratio probably involves legislative action. The System ratio at present has not yet reached the danger point but may approach it at the turn of the year.

The sense of the Conference was that as the ratio approaches the legal limit it would be desirable to seek amendment to the Federal Reserve Act reducing the present reserve requirement to, say, 25 per cent uniformly against notes and deposits, and that the present distinction in the requirements against notes and deposits should be eliminated as unrealistic. It was also felt that the opportune time for legislative action in this respect might be when a renewal of authority to use Government securities as collateral against Federal Reserve notes is sought before June 30, 1945.

#### 8. Objectives of Post-War Monetary Policy

There was a general discussion of banking and credit problems

9/22/44

-5-

that are likely to arise during the transition period and afterward. While it was recognized that under current conditions present policy and operation of the System and the Treasury in general coincide, this may not be the case after the war. It was also pointed out that there prevails a good deal of skepticism among the bankers and the public with respect to the future position of the System and its ability to carry out its present monetary commitments, should they remain in effect after the war.

Inasmuch as the Committee on Banking and Credit Policy is now working on the project that embraces many of the postwar monetary and credit problems, the Conference agreed that it may be desirable for the Board of Governors and the Conference to continue the discussion on objectives of postwar monetary policy in a separate session when the work of the Committee becomes sufficiently advanced to crystallize its findings.

#### 9. Treasury Financing

The Conference reviewed various developments during the Fifth War Loan Drive. Particular attention was given to the speculative and indirect purchases of marketable securities by commercial banks during and at the close of the drive. The consensus was that the memorandum dated August 11, 1944, from the Executive Committee of the Federal Open Market Committee to the Secretary of the Treasury clearly stated the different aspects of the problem and suggested appropriate remedies. The Conference, therefore, subscribes to the analysis and the recommendations contained in this memorandum.

#### 10. Modification of Section 13b

The proposal for modifying section 13b of the Reserve Act was discussed and various provisions of the bill now pending before the Congress reviewed.

The Conference is in sympathy with the underlying purposes of the pending legislation designed to modify section 13b of the Reserve Act, but there are fundamental questions inherent in the provision changing the location of the fund which should be discussed with the Board of Governors.

Eleven Presidents voted for this resolution.

Mr. Young, of Chicago, voted against it, stating that he is in favor of the bill now before the Congress and that this resolution

9/22/44

-6-

is inadvisable because it may be construed as opposing the proposed legislation.

11. International Finance--Monetary Fund and Bank for Reconstruction and Development

Consideration was given to the proposals for the establishment of the International Monetary Fund and of the International Bank for Reconstruction and Development as agreed upon at the Monetary Conference held at Bretton Woods last July. All members of the Conference agreed with the underlying purposes and objectives of the proposals but they expressed divergent views as to the best means of achieving them.

Views Against Current Proposal for the Monetary Fund

There was a feeling, on the one hand, that the proposed Monetary Fund is not a practical way of obtaining international currency stabilization during immediate postwar years and that it has defects for longer-run use. There does not appear to be an urgent need for the Fund so that the plan agreed upon at Bretton Woods seems premature. A more desirable approach would be to deal directly with the problems that are bound to arise in the transition period. For this purpose the proposed International Bank could be made more useful and meanwhile provide a concrete step toward currency stabilization. The United States and Great Britain should get together to consider suitable arrangements for pound-dollar stabilization, including the problem of unfreezing or funding blocked sterling balances.

According to this view, it would be desirable to consider separately the Bank and the Fund without imposing mandatory membership in both. The Bank, which is now designed to supply long-term capital could be adapted to the solution of the problems arising during the transition period. It would also serve to develop two things which it is desirable to salvage from the International Fund proposal. The Bank could provide a meeting place for international consideration of exchange problems and rates and, with some modification, the Bank could provide exchange stabilization loans when exchange controls can be relaxed and international currency stabilization is possible. The procedure in developing the proposed monetary and credit plans is to be regretted because it excluded consideration of alternative approaches and involved moral commitment by the United States before general public acceptance was obtained.

9/22/44

-7-

Views Favoring Current Proposal for the Monetary Fund and Bank

Several Presidents, on the other hand, expressed diametrically opposite views. They recognized most of the difficulties that surround the proposed plans but stated their belief that the difficulties would be present under any other plan, or in the absence of any organized plan. They felt that, in the absence of other concrete plans, the current proposals should be given a fair trial. The present provisions can still be modified whenever is deemed necessary. It was pointed out that the proposed organization creates a "nerve center" where problems of currency stabilization can be handled in the open by all nations. One of the most valuable features of the plans is the provision for continuous information in the central spot. It was held that the purposes of the Fund and the Bank are different, particularly since the provisions of the two institutions have been clarified in the final drafts at Bretton Woods.

While originally there was considerable skepticism about the inclusive approach to the problem, it is now becoming clearer that this approach is preferable to that of the key countries. The Conference at Bretton Woods showed that many nations could reach a definite agreement for setting up international monetary mechanisms.

It was felt that under the proposed arrangements the interest of the United States will be amply protected and that by rejecting the present proposals the eventual cost to this country might be increased. It was also believed that in the final adoption of the plans certain disclaimers might be adopted, such as giving notice to other participating countries of the limit of our obligation in the Fund.

Some of the proponents of this view also criticized the procedure followed in the development of the plans but felt, nevertheless, that at this stage there is moral commitment on the part of this country to submit them for legislative approval. Balancing all considerations, they favored the adoption of the proposals for the Fund and the Bank even if some modifications may have to be made when the plans reach the legislative consideration.

Because of the vital importance of international monetary arrangements to the Reserve System for the transition period and afterward and of the prevailing differences in views, the Conference desires to discuss with the Board of Governors at the joint meeting current monetary and banking proposals, as well as other related aspects of the problem bearing on the restoration of international trade relations.