

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, November 24, 1944, at 10:30 a.m.

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

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Hammond, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Smead, Director, Division of Bank Operations
Mr. Vest, Assistant General Attorney
Mr. Thomas, Assistant Director, Division of Research and Statistics
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, Messrs. Leach and McLarin, Presidents of the Federal Reserve Banks of Richmond and Atlanta, respectively, Mr. Dillard, Vice President of the Federal Reserve Bank of Chicago, Mr. Stewart, Secretary of the Federal Reserve Bank of St. Louis, Mr. Powell, First Vice President of the Federal Reserve Bank of Minneapolis, Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, and Mr. Farhart, Vice President of the Federal Reserve Bank of San Francisco, stating that the Board approved the establishment without change by the Federal Reserve Banks of St. Louis and San Francisco on November 21, the Federal Reserve Banks of New York, Atlanta, Chicago, Minneapolis, and Kansas City on November 22, the Federal

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Reserve Bank of Richmond on November 23, 1944, and the Federal Reserve Bank of Boston today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Mr. Draper stated that under date of November 1, 1944, he received a letter from Senator Murray, Chairman of the special Senate committee to study problems of American small business, asking for a statement of views on the problem of reconversion loan financing of small business, including views on 10 points set forth in the letter in which the committee was particularly interested. The letter also stated that the committee would like to know whether Mr. Draper would be available to participate in public hearings if they were scheduled during the third or last week of November. Mr. Draper also said that he had requested the Division of Research and Statistics to prepare some material which would be used in a reply which he had intended to make to Senator Murray's letter, but that subsequently he learned that the same letter had been addressed to other members of the Board under date of November 15, 1944, and, therefore, he would like to suggest that the Board consider what response should be made to all of the letters that had been received.

There was unanimous agreement that Mr. Draper, with the assistance of such members of the staff as he desired to call upon, should have a draft of reply to the Senate committee letters prepared for consideration by the Board.

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Before this meeting there had been circulated among the members of the Board a memorandum dated November 1, 1944, from Mr. Vest with which was submitted a summary of a confidential print, prepared by the special Senate committee to study problems of American small business, of a small business loan-insurance act which would provide for making and guaranteeing small business loans by the Smaller War Plants Corporation. The summary called attention particularly to two provisions of the bill which would (1) authorize the corporation to make a "periodical review" of the operations of banks with respect to loans insured by the corporation, from which it would appear that the corporation would be authorized to make at least a limited examination of such banks, and (2) authorize the corporation to discount its paper with the Federal Reserve Banks or receive advances from them.

It was pointed out that the bill had not yet been introduced and it was unanimously agreed that, until a bill was offered in the Senate, no action was called for by the Board.

In connection with the above matter, Mr. Morrill called attention to an item appearing in the American Banker for November 24, 1944, which reported on a hearing before the Banking and Currency Committee of the House of Representatives on the bill authorizing an addition of \$200,000,000 to the funds available to the Smaller War Plants Corporation for direct and participation loans. The account quoted a comment made by the chairman of the Smaller War Plants Corporation, in

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response to an inquiry as to conflict with private banks, that "he knew of no substantial complaints from the bankers", and that "you couldn't help them making speeches once in a while". The account also stated that it was expected that the bill would be reported out at a meeting of the committee on November 25, 1944.

Mr. McKee inquired what was being done in connection with the understanding reached at the last meeting of the Board with the Presidents of the Federal Reserve Banks that at the time of the next meeting of the Federal Open Market Committee a special meeting of the members of the Board and the Presidents would be held for the consideration of such of the postwar studies being made under the direction of Mr. Goldenweiser as would be completed at that time. It was stated that copies of the studies prepared by the special committee on banking and credit policy had been sent to the members of the Board and the Presidents so that in accordance with the understanding at the last meeting with the Presidents the members of the Board and the Presidents would have time to read them before the next meeting of the Open Market Committee, which had been called for December 11.

In a discussion of the procedure that should be followed in considering the studies, it was agreed that the members of the Board should read the papers before December 8, 1944, and that on that date the Board would meet for a preliminary discussion of the questions presented by the studies.

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At this point Mr. Leonard, Director of the Division of Personnel Administration, joined the meeting.

Mr. Ransom referred to the recent action of the Board in connection with the service of Mr. Dennison, a director of the Federal Reserve Bank of Boston, as a member of the campaign committee organized by "Businessmen for Roosevelt, Inc.", and stated that, because of what seemed to him to be the inconsistent results that were made possible by the language of the resolution adopted by the Federal Reserve Board in 1915 with respect to directors of Federal Reserve Banks holding political or public office, he felt the Board should review the language of the resolution and determine whether it should be changed. Thereupon, he read the resolution and, after calling particular attention to the statement therein that directors of Federal Reserve Banks should not act as members of political party committees, stated that he felt that to permit a director of a Federal Reserve Bank in his personal capacity to take such part in a political campaign as he might wish, to raise funds, to campaign actively or otherwise, and at the same time to say that he could not do the same things as a member of a campaign committee, whether it was identified with a particular political party or not, was totally inconsistent. For that reason he felt that the language of the resolution was either too broad or too narrow and should be changed.

Chairman Eccles stated that during the recent national campaign

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Mr. Grady, Chairman of the Federal Reserve Bank of San Francisco, was asked to approach certain of his friends in California for contributions to the campaign, and that he had responded that he was prohibited from doing so by the Board's resolution. Chairman Eccles also said that he was asked the question whether there was any objection to such activity on the part of Mr. Grady and that he (Chairman Eccles) had taken the position that since any action that Mr. Grady might take would be in his personal capacity the Board could have no objection.

There was a discussion of the point raised by Mr. Ransom during which a majority of the members expressed the opinion that the resolution had been very effective in the past in preventing the Federal Reserve Banks from appearing to be identified with partisan politics and for that reason it should not be changed.

Mr. Ransom said that, if the Board should so desire, he was willing to let the matter drop but that he felt that the resolution in its present form did not furnish a satisfactory basis on which to decide the questions that arose under it.

No action was taken to change the resolution.

At this point Messrs. Smead, Leonard, Vest, Thomas, and Wyatt withdrew from the meeting.

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

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The minutes of the meeting of the Board of Governors of the Federal Reserve System held on November 23, 1944, were approved unanimously.

Letter to Mr. Rice, Vice President of the Federal Reserve Bank of New York, reading as follows:

"In view of the circumstances described in your letter of November 20, 1944, the Board of Governors approves for a further period of six months beginning December 1, 1944, the assignment of Mr. Joseph F. Delaney to an 'unassigned' position in the Cash and Collection Function, at his present salary of \$4,000 per annum."

Approved unanimously.

Letter to Mr. Leedy, President of the Federal Reserve Bank of Kansas City, reading as follows:

"The Board of Governors approves payment of salaries to Mr. George H. Pipkin as Vice President in charge of the Denver Branch, and Mr. Oliver P. Cordill as Vice President in charge of the Oklahoma City Branch, for the period January 1, 1945 to May 31, 1945, inclusive, at the rates of \$10,000 and \$8,500 per annum, respectively, which are the rates fixed by your Board of Directors as reported in your letter of November 15, 1944."

Approved unanimously.

Letter to the board of directors of the "First State Bank of Meriden", Meriden, Minnesota, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal

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Reserve Bank of Minneapolis.

Approved unanimously, for transmission through the Federal Reserve Bank of Minneapolis.

Letter to "The Souhegan National Bank of Milford", Milford, New Hampshire, reading as follows:

"The Board of Governors of the Federal Reserve System has given consideration to your supplemental application for fiduciary powers, and, in addition to the authority heretofore granted to act as trustee and registrar of stocks and bonds, grants you authority to act, when not in contravention of State or local law, as executor, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

"This letter will be your authority to exercise the fiduciary powers granted by the Board pending the preparation of a formal certificate covering such authority, which will be forwarded to you in due course."

Approved unanimously.

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

"Questions have been raised recently as to the application of section 8(m) of Regulation W to credit for the repair or installation of coal stokers. It has accordingly been considered desirable to consolidate and clarify certain previous rulings on this subject:

1. Credit for the repair of a stoker is exempt.
2. Credit for the replacement of a stoker that is worn out, damaged beyond repair, or destroyed is exempt.
3. Credit for a stoker that is to be installed in a heating system to be converted from oil to coal is exempt.

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- "4. Credit for a stoker that is to be installed in a heating system to be converted from hand-fired coal to stoker-fired coal is exempt.

"The last item modifies S-546 slightly. Since the coal for which stokers are designed and which is generally used for stoker-firing is of a different kind from that for which hand-fired furnaces are designed and which is generally used for hand-firing, the heating equipment can be said to be converted to the use of another fuel, even though in a few instances the kinds of coal used before and after the conversion may be similar."

Approved unanimously.

Letter to Mr. Hitt, First Vice President of the Federal Reserve Bank of St. Louis, reading as follows:

"This refers to your letter of November 8, 1944, requesting a ruling on the question whether notes of Commodity Credit Corporation are eligible as collateral for borrowings under the provisions of section 13 of the Federal Reserve Act.

"This question was raised in your letter of May 19, 1944, but the circumstances then existing did not appear to require a definite ruling. You now advise, however, that this question has been again raised by one of the directors of your bank with respect to notes which are expected to be issued by the Commodity Credit Corporation in the near future for the purpose of financing anticipated purchases of cotton at parity. It is also understood that such notes are to be payable upon demand, will bear interest at the rate of 1 per cent, and will be guaranteed as to principal and interest by the United States.

"Section 14(b) of the Federal Reserve Act authorizes the Federal Reserve Banks to purchase 'bonds, notes, or other obligations * * * which are fully guaranteed by the United States as to principal and interest' without regard to maturities either in the open market or directly from the United States. The eighth paragraph of section 13 authorizes advances by Federal Reserve Banks to member banks on their promissory notes secured by notes which are eligible for purchase by Federal Reserve Banks under

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"the provisions of the Federal Reserve Act. Accordingly, it is the Board's opinion that notes of Commodity Credit Corporation which are guaranteed as to principal and interest by the United States may properly be accepted as security for 90-day advances to member banks under this paragraph.

"The Board is further of the opinion that, since the notes in question are guaranteed as to principal and interest by the United States, advances on the security of such notes would be entitled to the rate of discount applicable to advances secured by Government obligations maturing or callable in one year or less."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

W. C. ...
Chairman.