

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, December 1, 1944, at 10:30 a.m.

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

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Hammond, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the Chairman
Mr. Goldenweiser, Director of the Division of Research and Statistics
Mr. Paulger, Director of the Division of Examinations
Mr. Dreibelbis, General Attorney
Mr. Leonard, Director of the Division of Personnel Administration
Mr. Vest, Assistant General Attorney
Mr. Thomas, Assistant Director of the Division of Research and Statistics
Mr. Gardner, Chief, International Section, Division of Research and Statistics

There were presented telegrams to Messrs. Treiber, McCreedy, and Clouse, Secretaries of the Federal Reserve Banks of New York, Philadelphia, and Cleveland, respectively, Mr. Dillard, Vice President of the Federal Reserve Bank of Chicago, Mr. Stewart, Secretary of the Federal Reserve Bank of St. Louis, Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, Mr. Gilbert, President of the Federal Reserve Bank of Dallas, and Mr. Earhart, Vice President of the Federal Reserve Bank of San Francisco, stating that the Board approved the establishment without

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change by the Federal Reserve Banks of St. Louis and San Francisco on November 28, the Federal Reserve Banks of New York, Philadelphia, Cleveland, Chicago, and Kansas City on November 30, 1944, and the Federal Reserve Bank of Dallas today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

There were distributed among the members of the Board copies of a draft of memorandum prepared in connection with the recent acquisition of the controlling stock interest of the Pan American Trust Company of New York, New York, by the central bank of Mexico. Mr. Szymczak stated that Messrs. Rounds, First Vice President, Knoke, Vice President, and Tiebout, Assistant General Counsel, of the Federal Reserve Bank of New York, came to Washington this week and participated in drafting a memorandum which had been prepared for use as a basis of discussion of what, if any, action should be taken through the State Department or otherwise with respect to the matter. The memorandum suggested, for the reasons set forth therein, that the matter be discussed with the State Department to determine whether the Department would concur in representations being made to the Bank of Mexico.

After a discussion, Mr. Draper moved that the matter be referred to Messrs. Szymczak and McKee with the understanding that they would be authorized to present the matter to the State Department in such manner as appeared to them to be desirable, that arrangements would be made to have a representative of the Federal Reserve Bank of New York attend such conference as might

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be held with the State Department, and that such changes as Messrs. Szymczak and McKee would approve might be made in the memorandum.

Mr. Draper's motion was put by the chair and carried unanimously.

During the consideration of the above matter, Chairman Eccles stated that last week he talked over the telephone with Under Secretary of the Treasury Bell with respect to the adequacy of the provision in the Second War Powers Act authorizing the purchase by the Federal Reserve Banks of Government securities directly from the Treasury, that during the conversation he informed Mr. Bell of the purchase by the central bank of Mexico of stock of the Pan American Trust Company, and that Mr. Bell agreed that there should be legislation giving the Board of Governors power to require that foreign central banks and governments, or the agencies or instrumentalities thereof, carry all of their balances in this country with the Federal Reserve Banks. Mr. Bell also expressed the opinion during the conversation that the purchase by the central bank of Mexico of the stock of the member bank was unwise and inappropriate and should not be permitted.

Chairman Eccles also said that Mr. Bell took the position that the limitation on the authority contained in the Second War Powers Act for direct purchases by the Federal Reserve Banks of Government securities from the Treasury should be removed, but that any suggested amendments to the Second War Powers Act in its present form might result in its failing to be renewed at this session of Congress, and that, therefore, no such suggestions should be made.

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Following the discussion at the meeting of the Board on October 17, 1944, of the suggestion made by Mr. McKee that the Board consider the policy to be pursued in the future with respect to the reappointment of Class C directors and the designation of Chairmen of Federal Reserve Banks, the Personnel Committee prepared a memorandum under date of October 26, 1944, submitting drafts of legislative amendments which would (1) authorize the separation of the offices of Chairman and Federal Reserve Agent, and (2) limit the terms of Class A, B, and C directors. Copies of the memorandum had been sent to each member of the Board and contained the suggestion that any member of the Board who had any proposals regarding (a) Board policy with respect to limitations of terms of Class C directors or rotation in the office of Chairman, or (b) amendments regarding separation of the offices of Chairman and Federal Reserve Agent and limitation on the terms of Class A, B, and C directors, submit them in written form for discussion of the whole matter at a meeting of the full Board. Copies of a memorandum prepared by Mr. Draper under date of November 3, 1944, in accordance with this suggestion were sent to the members of the Board before this meeting.

Mr. Ransom stated that the Personnel Committee had prepared its memorandum of October 26 as one possible solution of the problems discussed at the meeting on October 17, 1944, but that the committee would not be prepared to vote for such a solution.

The suggestion was made that the only real solution to the problem was legislation in some form, but that inasmuch as legislation could

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not be obtained at this time the Board should continue the present policy as outlined in the statement published on page 881 of the September 1942 Bulletin that the Board had concluded to dispense with any fixed rule as to the length of service of Class C directors and would be governed by the situation at a particular Federal Reserve Bank, but that the Board would adhere generally to the policy of limiting the service of Class C directors.

Mr. Ransom said that the Personnel Committee would prefer to follow that procedure and there was general concurrence in the suggestion made by Mr. McKee that, as long as there was no limitation on the length of time that A and B directors could serve, the situation with respect to the appointment of Class C directors should be as elastic as possible so that the Board could retain the C directors who were doing a good job and replace those who, because of age or otherwise, were not as effective as other appointees who might be available.

Mr. McKee referred again to the possibility of some rotation in the designation of Class C directors as Chairman and Deputy Chairman of a Federal Reserve Bank but it appeared to be the feeling of the other members that, because of the fact that in most cases the residence of the Deputy Chairman or the third Class C director would not be in the Federal Reserve Bank city, that might not be a practicable arrangement.

At this point Mr. Paulger left the meeting.

There were then distributed copies of a memorandum submitted by Messrs. Eccles and Szymczak in accordance with the action taken at the

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meeting of the Board on November 21, 1944, and reading as follows:

"BOARD PROGRAM ON BRETTON WOODS

"1. Board statement

"The Board will publish a brief statement supporting the Bretton Woods agreements and indicating the special interest of the Federal Reserve System.

"2. Federal Reserve Bank activities

"The Board will raise with the Federal Reserve Banks, other than New York, the question of what they can do to inform their banking community with regard to the Bretton Woods plans, and offer to send people from the Board to meet with their officers, directors, and key member bankers if that would help.

"3. Enabling legislation

"The Board desires to have three provisions embodied in the enabling legislation.

"Three-agency committee: The legislation should establish a committee composed of the heads (or their alternates) of the State Department, the Treasury Department, and the Board of Governors of the Federal Reserve System. It should be specified in the legislation that the United States Governors and Directors on the Fund and Bank must keep the committee fully informed of developments in the two institutions and that they must consult the committee on all major policy questions in connection with the Fund and Bank. The United States Governors and Directors should be required to meet with the committee at least once a month and make a report.

"Form of United States subscription to Fund: A portion of the 2,750 million dollar United States subscription to the Fund may take the form of securities as provided in Art. III, Sec. 5 of the Fund Agreement. The legislation should provide that any portion of the U.S. subscription which is not in that form should be provided so far as possible from the 2 billion dollars now in the U.S. Stabilization Fund and that the remainder should come out of the regular revenues of the Government.

"Under present legislation the U.S. Stabilization Fund expires June 30, 1945. Its life should be extended only until the United States subscription to the International Monetary Fund becomes due, or until June 30, 1947, if the Fund agreement is not adopted by this Government before that date. Upon expiration of the U.S. Stabilization Fund any of its

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"net resources which have not already been employed in subscribing to the International Monetary Fund should be earmarked for that purpose.

"Federal Reserve control of official foreign balances here: The enabling legislation should give the Board of Governors of the Federal Reserve System power to require the dollar balances of foreign central banks and governments to be held on deposit with the Federal Reserve Banks.

"Or, alternatively, the legislation should give the Board power to require these official balances to be held on deposit with the Federal Reserve or member banks and to require that the member banks hold 100 per cent reserves against such deposits.

"4. Procedure on Board's proposals

"The Chairman will invite Dean Acheson and his financial advisor, Mr. Collado, to lunch with a few Board people for the purpose of discussing the Board's proposals on the enabling legislation. This discussion may lead to some modification of our ideas. The proposals will then be sent to the Presidents of the twelve Federal Reserve Banks for discussion at the December 12 meeting. Finally a memorandum embodying the proposals will be sent to the Treasury."

Copies of a draft of a public statement of the kind contemplated in the first paragraph of the memorandum were also distributed and the memorandum and statement were read.

In the ensuing discussion of the proposed statement Chairman Eccles suggested that the statement might create the impression that the Board was of the opinion that the International Stabilization Fund and the Bank for Reconstruction and Development would be more effective and would work more smoothly in solving the problems with which it had to deal and was a more ideal mechanism than might actually turn out to be the case and that he would like to see the statement revised to cover that point and to make it clear that, while the Fund and the Bank would

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have shortcomings and there were other controlling factors in the situation, the Bretton Woods proposals were the best solutions available for a difficult problem.

After considering how Chairman Eccles' suggestion could be met the discussion turned to the steps to be taken in connection with the memorandum and proposed statement, and Chairman Eccles expressed the opinion that it was important that the matters referred to in the memorandum which would affect enabling legislation be placed before, and discussed with, representatives of the Treasury and State Departments at the earliest possible moment so that they could be considered before the legislation was crystalized.

There was also a discussion of whether the proposed statement should be released before the conferences with the Treasury and State Departments, and Chairman Eccles suggested that the form of the public statement and the decision of the Board with respect to its release might be affected by the outcome of the discussion with respect to the matters to be covered in the enabling legislation, and, therefore, he would prefer to send the proposed statement to the Treasury and State Departments as a tentative one that was under consideration by the Board.

During the course of the discussion, Mr. Evans moved that the whole matter be referred to Messrs. Eccles and Szymczak with power to act along the lines suggested by the Chairman.

Thereupon, Chairman Eccles said that what he would like to do

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would be to prepare letters to the Secretaries of the Treasury and State Departments in which the questions with respect to the enabling legislation would be presented and to which the proposed public statement in a form agreed upon would be attached as a tentative statement that was being given consideration by the Board for publication in the Federal Reserve Bulletin or for release to the press as the position of the Board, and that when the letters were signed he would send copies to Under Secretary of the Treasury Bell and Assistant Secretary of State Acheson, and would call them on the telephone and advise them that the letters were being placed in the mails. He also said that copies of the letters to the State and Treasury Departments and the proposed statements could be handed to the Presidents of the Federal Reserve Banks when they arrived for their conference in Washington on December 8 and the matter could be discussed with them while they were here.

Mr. Szymczak suggested that under that arrangement the proposed public statement would not be released until after a decision had been reached on the questions with respect to the enabling legislation that were of interest to the Board.

At the conclusion of the discussion Mr. Evans' motion was put by the chair and carried, with the understanding that following the discussion with the State and Treasury Departments Messrs. Eccles and Szymczak would submit a recommendation to the Board as to the statement to be made and as to its publication.

On this action Mr. McKee asked to be recorded as "not voting".

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The meeting then recessed and reconvened at 2:40 p.m. with the same in attendance as at the end of the morning session except that Messrs. Thurston and Vest were not present.

Before this meeting the attention of the members of the Board had been called to a memorandum dated November 13, 1944, from Mr. Goldenweiser recommending that the basic salary of Miss Cornelia B. Rose, Jr., an economist in the Division of Research and Statistics, be increased from the rate of \$3,800 to \$4,200 per annum, effective November 16, 1944. The Personnel Committee had considered the recommendation and indicated approval by the initials of the members (Mr. Clayton initialing for Chairman Eccles). Mr. Szymczak had also approved; Mr. McKee had noted on the memorandum that he wished to vote "no"; and Mr. Draper had handed the memorandum to Mr. Eccles with the statement that he would prefer to vote "no" on the increase but would defer to Chairman Eccles' judgment as Chairman of the Personnel Committee in the matter. Chairman Eccles had requested that the memorandum be placed on the docket for consideration at the next meeting of the Board.

At this meeting Chairman Eccles stated that when the memorandum came to him, and he noted the work that Miss Rose was doing in connection with the civil affairs handbooks for the War Department, it raised a question in his mind as to the status of the handbook project as well as the work being done for the State Department in connection with the peace conference. He said these two projects were undertaken for a

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limited period, that they had taken more time than had been anticipated when they were begun, and that the question might be asked whether the Board was justified in continuing them and, if not, the services of Miss Rose might be no longer necessary.

Mr. McKee stated that the reason for his vote on the recommended increase was related to the question of general policy of the Board with respect to salary increases, that he was under the impression that salaries were higher in relation to the work done, that substantial increases were granted more readily in the Division of Research and Statistics than in other Divisions of the Board's staff, and that he did not want to approve salary increases in the Division of Research and Statistics as long as it appeared that there was greater freedom with respect to salary levels and salary increases in one Division than in another.

In connection with Mr. McKee's comment, the Chairman stated that the primary responsibility for recommending salary changes rested with the respective Division heads. Mr. Leonard said that when the Division of Personnel Administration was created he understood that one of the responsibilities of the Division was to watch the recommendations submitted to the Board, with a view to substantial uniformity in salaries of comparable positions in the different Divisions of the staff, and that in the discharge of that responsibility he had discussed salary recommendations actually made by Division heads and in some cases had suggested that proposed adjustments be delayed and in other cases that

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certain salaries be reviewed to see if they should be adjusted upward. He also said that in his opinion the salaries paid in the Board's organization below those of heads and assistant heads of divisions were generally about on a level with salaries paid in other Government organizations with possibly some exceptions which might be slightly below that level.

Mr. McKee raised the question whether it was still expected that there would be a periodic review of the salaries of all members of the Board's staff and it was stated that the instructions issued by the Board to the heads of all divisions of the staff to review all salaries in the respective divisions at least once during each calendar year, for the purpose of insuring that all employees within the respective divisions received proper consideration, had not been changed and were still outstanding.

In connection with the status of the civil affairs handbooks and the studies for the State Department in connection with the peace conference, Mr. Goldenweiser stated that the former project was now rapidly nearing completion, that several of the handbooks had been completed and were being given wide circulation by officials of the War Department who were very appreciative and spoke very highly of the work done by the Board's staff, and that substantially all that had to be done on the remaining studies was the final typing and duplicating. He also said that it was his thought that, because of their intimate knowledge of the countries on which they had prepared material, the

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services of employees who had worked on the handbooks would be very valuable in connection with the studies being made for the State Department and in connection with the regular work of the Division, and that, therefore, with the exception of some individuals who might voluntarily leave earlier, their services should be continued until the expiration of their temporary appointments, at which time there should be a determination of whether they should be assigned to other work or whether their employment should be terminated. He added that the work for the State Department was something that the staff of the Division would have had to do in any event, that it had been very helpful in creating closer relationships with persons working on foreign matters in other offices of the Government, and that for these reasons it should be continued on some permanent basis.

With respect to Miss Rose, Mr. Goldenweiser stated that it had been his intention to recommend that her appointment be made permanent for the reason that when her work on the civil affairs handbooks was completed her specialized training could be used to good advantage in the International Section, particularly in connection with the preparation of current comments on foreign developments similar to the current comments prepared in the Division of Research and Statistics on domestic economic and financial matters.

At the conclusion of the discussion, the salary increase recommended by Mr. Goldenweiser for Miss Rose was approved to become effective December 1, 1944, Mr. McKee voting "no".

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Chairman Eccles stated that Congressman Patman had called him on the telephone this week to say that as soon as the new Congress convened after the turn of the year he proposed to introduce a new bank holding company bill along the lines that had been suggested by the Board.

At this point Messrs. Goldenweiser, Dreibelbis, Leonard, Thomas, and Gardner withdrew from the meeting.

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

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on November 30, 1944, were approved unanimously.

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

"There have been forwarded to you today under separate cover copies of form F. R. 107, to be used by State member banks in submitting their reports of earning and dividends for the calendar year 1944. The form is the same as the one used in submitting reports for the calendar year 1943.

"Reimbursements received for services in redeeming United States savings bonds should, as stated in the Board's letter of September 30, 1944 (S-795), be reported in earnings and dividends reports against item 1(e), other service charges, commissions, fees, and collection and exchange charges."

Approved unanimously.

Memorandum dated November 27, 1944, from Mr. Bethea, Director of the Division of Administrative Services, recommending that the following

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increases in basic annual salaries of employees in that Division be approved, effective December 1, 1944:

<u>Name</u>	<u>Designation</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Marylou Arason	Stenographer	\$1,800	\$1,920
Karl J. Steger	Guard	1,620	1,680

Approved unanimously.

Memorandum dated December 1, 1944, from Mr. Bethea, Director of the Division of Administrative Services, recommending that Mrs. Elizabeth N. Chumbris be appointed as a cafeteria helper in that Division on a temporary basis for a period of not to exceed 60 days, with basic salary at the rate of \$1,080 per annum, effective December 1, 1944, and with the understanding that she would not become a member of the retirement system during the period of her temporary employment.

Approved unanimously.

It was stated that from time to time requests were received from the Federal Reserve Banks that the Board designate someone from its staff to witness the mutilation of a signature plate bearing the name of an officer of a Federal Reserve Bank which had been used in signing checks drawn in the capacity of the Bank as fiscal agent of the United States, and it was suggested that Mr. John DeLaMater in the Board's Division of Bank Operations and Mr. R. E. Sherfy in the same Division, as his alternate, be designated to serve until December 31, 1945, as the representative of the Federal Reserve Banks to witness the mutilation of these plates.

Approved unanimously.

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Thereupon the meeting adjourned.

Chester Morley
Secretary.

Approved:

W. S. Coates
Chairman.