A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, February 23, 1945, 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. Thurston, Assistant to the Chairman
Mr. Goldenweiser, Economic Adviser,
Division of Research and Statistics
Mr. Thomas, Director of the Division of Research and Statistics
Mr. Vest, Assistant General Attorney
Mr. Gardner, Chief, International Section,
Division of Research and Statistics

There were presented telegrams to Messrs. Treiber and Clouse, Secretaries of the Federal Reserve Banks of New York and Cleveland, respectively, Mr. Leach, President of the Federal Reserve Bank of Richmond, 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, 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 change by the Federal Reserve Banks of St. Louis and San Francisco on February 20, by the Federal Reserve Banks of New York,
Cleveland, Chicago, Minneapolis, and Kansas City on February 21, by
the Federal Reserve Bank of Richmond on February 22, 1945, and by the
Federal Reserve Bank of Dallas today, of the rates of discount and pur-
chase in their existing schedules.

Approved unanimously.

With a letter dated January 12, 1945, a draft of the policy
record covering actions taken by the Federal Open Market Committee
during the year 1944 was sent to each of the representative members
of the Federal Open Market Committee for any suggestions that they
might wish to make. The only suggestion was offered by Mr. Sproul,
Vice Chairman of the Committee, who proposed that, instead of includ-
ing in the policy record the text of the statement of terms upon which
the Federal Reserve Bank of New York will transact business with brokers
and dealers in United States Government securities for the System open
market account and the instructions of the executive committee of the
Federal Open Market Committee to the Federal Reserve Bank of New York
in connection with the statement of terms, the substance of the policy
record should be that the Federal Open Market Committee decided to as-
sume formal responsibility for and to set forth the general terms of
the relations between the Bank selected to execute transactions for
the System open market account and the market, a responsibility and
oversight which it had exercised without formal definition of its
role in the past.
After a discussion, during which a majority of the Board members expressed the opinion that the statement of terms should be published either in the policy record or in the text of the Board's annual report, Mr. McKee moved that the matter be referred to Chairman Eccles for discussion with Mr. Sproul, with the understanding that, if after such discussion Chairman Eccles was of the opinion that some change should be made in the draft, the Board would consider the matter again, but that otherwise the draft of the open market policy record would be published in its present form in the appendix to the Board's annual report for 1944.

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

Chairman Eccles reviewed briefly for the information of the members of the Board the discussions at a meeting which he attended at the Treasury on the afternoon of Monday, February 19, which was attended by Mr. Brown, President of the Federal Advisory Council, Mr. Vinson, Director of Economic Stabilization, Mr. Crowley, Administrator of the Foreign Economic Administration, and representatives of the Treasury. The purpose of the meeting, Chairman Eccles said, was to discuss the forthcoming hearings before the Banking and Currency Committees of the Senate and House on the enabling legislation in connection with the Bretton Woods Agreements.

Mr. Szymczak stated that he had been informed that it was expected that the hearings would be held by the House Banking and Currency Committee first.
Chairman Eccles also said that, during the meeting, Secretary Morgenthau inquired what the Federal Reserve Banks proposed to do with respect to lending support to the Bretton Woods Agreements, and that he had stated to the Secretary that, inasmuch as the Board of Governors was the agency appointed by Congress to speak for the System and since the Board favored the Bretton Woods Agreements, he did not think the Banks should be asked to express their views on the Agreements, particularly since at least one of the Banks was opposed to the Agreements and if the Reserve Banks were asked to express their views it would emphasize the difference of opinion that exists within the System. Chairman Eccles added that he had pointed out that some of the Banks had been able to do a considerable amount of quiet work in their respective districts in support of the Agreements. Chairman Eccles concluded his comment on this matter with the statement that Under Secretary of the Treasury Bell was in agreement with the opinion he had expressed to Secretary Morgenthau.

In connection with the bill which had been introduced in the Senate and House of Representatives to reduce the reserves required to be maintained by the Federal Reserve Banks and to make permanent the authority to pledge Government securities as collateral for Federal Reserve notes, Chairman Eccles stated that he had spent Tuesday, February 20, testifying before the Senate Banking and Currency Committee on the bill, and that he understood that in an executive
session of the Committee following the hearing Senator Taft suggested that no action be taken by the Committee until it had had an opportunity to hear from the opposition, that Senator Taft called Mr. Burgess, President of the American Bankers Association, and that the Association had decided to have a representative testify on the bill. It was Chairman Eccles' further understanding that the Association was planning to suggest that the reserves required to be maintained by the Federal Reserve Banks be fixed at 30 per cent instead of 25 per cent, that the authority to pledge Government securities as collateral for Federal Reserve notes be extended for only two years, and that the authority to issue Federal Reserve bank notes and the authority contained in the Thomas amendment to issue up to $3 billion of United States currency be discontinued.

Chairman Eccles went on to say that he had discussed the matter over the telephone with Mr. Burgess, outlining the reasons why it would be undesirable to suggest amendments to the bill at this time, principally because it might open the bill to a number of undesirable amendments. He said that he told Mr. Burgess that he did not object to the repeal of the authority to issue Federal Reserve bank notes, that the repeal of the authority to issue currency under the Thomas amendment would be desirable, but that it was inconsistent to suggest that the required reserve be placed at 30 per cent on the theory that a lower figure would allow too much leeway, because the required
reserve would have to be changed when necessary in relation to the
nation's monetary gold stock, and that the authority to pledge Govern-
ment securities as collateral for Federal Reserve notes was a neces-
sary part of our monetary legislation and, if the Federal Reserve Act
was now being adopted for the first time, such a provision would be
made a part of the permanent legislation. Mr. Burgess was of the
opinion, Chairman Eccles said, that the bill as now proposed would
be a step in the direction of easy money and removal of restraints,
that there should be a periodic review of these matters, and that the
changes which the American Bankers Association proposed were desir-
able for that reason. Mr. Burgess also said during the conversation
that, instead of considering only the problem of the required reserves
of the Federal Reserve Banks and collateral security for Federal Re-
serve notes, there should be a study of the whole problem of the in-
flationary dangers arising from the expansion in the Government debt
and that the American Bankers Association proposed to suggest to the
Banking and Currency Committees that they request the Federal Reserve
Board, as an agency of Congress, to make a complete study and report
on the whole field of inflation, employment, etc., the reason for this
suggestion being that there was no other agency in the Government that
was in as satisfactory a position as the Board to make this study.

Chairman Eccles said that the conversation concluded with the
understanding that Mr. Burgess would discuss with representatives of
the American Bankers Association a suggestion that proposed amendments to the present bill be confined to the repeal of the authority to issue Federal Reserve bank notes and United States currency under the Thomas amendment.

Referring to the schedule for hearings on the bill before the Banking and Currency Committee of the House, Chairman Eccles related the substance of a telephone conversation which he had had with Chairman Spence in which it was agreed that Chairman Eccles would testify before the House Committee on the bill on the morning of Tuesday, February 27, 1945.

Chairman Eccles then reviewed informally the discussions of Treasury financing in which he had participated at meetings of the Treasury this week with representatives of the Treasury and the Bankers' Committee on Treasury War Borrowing. He also said that he was having prepared a memorandum outlining a suggested program of Treasury financing, copies of which would be available for discussion at the meeting of the Federal Open Market Committee next week.

For the information of the other members of the Board Chairman Eccles stated that he had attended a meeting of the Economic Stabilization Board this week at which the suggestion was made that the Board should increase to 100 per cent the margin requirements prescribed in Regulation T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, and Regulation U, Loans
by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange, Chairman Vinson stating he thought it would be difficult to justify asking Congress for additional authority to control inflation when the existing statutory powers had not been used. In a discussion at that meeting of the question whether such action by the Board would be effective in controlling speculation in securities Mr. Purcell, Chairman of the Securities and Exchange Commission, expressed the opinion that it would since approximately 50 per cent of all trading in securities involved the use of credit, the elimination of which would reduce the volume of activity particularly in the lower price securities, which were purchased to a considerable extent by small investors. Chairman Eccles said that he asked Mr. Vinson why he, as Director of Economic Stabilization, did not write a letter to the Board suggesting that it take action to increase to 100 per cent the margin requirements prescribed by the Board, and that Mr. Vinson responded that that was a good idea and he would write such a letter immediately.

In connection with the above matter, Chairman Eccles referred to the visit to the Board's offices on Wednesday of this week of Mr. Schram, President of the New York Stock Exchange, who evidenced some concern about the market, expressing the opinion that, although action by the New York Stock Exchange to require 100 per cent margin on securities selling below a stated figure would be
helpful, it would not solve the problem because it would not affect other exchanges or credit available from other sources.

It developed at the meeting of the Economic Stabilization Board, Chairman Eccles said, that the Treasury was preparing to make a study of inflation in the capital market and the various steps that might be taken to meet the situation and that Mr. Bowles, Director of the Office of Price Administration, and Mr. Davis, Chairman of the War Labor Board, were strongly of the opinion that if prices of securities and real estate were allowed to continue their advance it would be impossible for the Office of Price Administration and Federal labor authorities to hold down prices of commodities and wages.

Chairman Eccles said that he pointed out the fact that the Board had no authority to control the use of credit in real estate transactions and that because of the wide use of individual credit in connection with real estate transactions it would be next to impossible effectively to control the use of credit in this field. He also pointed out some classes of cases which would seem to justify the use of credit for reasons wholly apart from speculation.

In a discussion of the suggestion that the margin requirements prescribed by the Board be increased to 100 per cent, Mr. Draper suggested that as a preliminary step the increase might be to 70 per cent as there was real danger that an increase to 100 per cent might disrupt the securities market and might be unjustified if the present
trend in the securities market were reversed following the termina-
tion of the German phase of the war.

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

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

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on February 22, 1945, were approved unani-
mosously.

Memoranda dated February 20, 1945, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that the fol-
lowing increases in basic annual salaries of employees in that Division be approved, effective at the beginning of the first pay roll period following approval by the Board:

<table>
<thead>
<tr>
<th>Name</th>
<th>Designation</th>
<th>Salary Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beatrice Bulla</td>
<td>Economist</td>
<td>$3,500 to $3,700</td>
</tr>
<tr>
<td>C. R. Harley</td>
<td>Economist</td>
<td>3,200 to 3,500</td>
</tr>
<tr>
<td>Mary S. Painter</td>
<td>Economist</td>
<td>2,600 to 2,900</td>
</tr>
<tr>
<td>Mary Jane P. Roberts</td>
<td>Economist</td>
<td>2,600 to 2,900</td>
</tr>
<tr>
<td>Margaret R. Garber</td>
<td>Clerk</td>
<td>1,920 to 2,040</td>
</tr>
<tr>
<td>Esther G. Crews</td>
<td>Clerk</td>
<td>2,040 to 2,160</td>
</tr>
<tr>
<td>Ruth F. Gould</td>
<td>Clerk</td>
<td>1,440 to 1,620</td>
</tr>
<tr>
<td>Isabel Dolores Loyd</td>
<td>Clerk-Stenographer</td>
<td>1,620 to 1,800</td>
</tr>
<tr>
<td>Lois M. Leatherwood</td>
<td>Clerk-Stenographer</td>
<td>1,440 to 1,560</td>
</tr>
<tr>
<td>Florence R. Cox</td>
<td>Clerk-Typist</td>
<td>1,680 to 1,800</td>
</tr>
</tbody>
</table>

Approved unanimously, effective March 1, 1945.
Telegram to Mr. Young, President of the Federal Reserve Bank of Chicago, reading as follows:

"Board understands from telephone conversation with Mr. Diercks that Lincoln State Bank, Milwaukee, Wisconsin, desires to have inserted in parenthesis at the end of membership condition numbered 3, the wording of present footnote numbered 10 as appears on page 6 of Regulation H as follows:

'This condition does not apply to the sale of mortgages covered by insurance under the provisions of the National Housing Act.'

Board has no objection to such insert if applicant bank still desires it."

Approved unanimously.

Letter to the board of directors of the "Bank of Amity", Amity, Oregon, 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 Reserve Bank of San Francisco. The letter also contained the following special comment:

"It has been noted that the bank has outstanding $25,000 par value of common capital stock and $2,500 face amount of capital debentures, the total of which is in excess of the figure at which the amount of capital is shown on the books of the bank. The Board feels that the bank should, as soon as practicable, take such action within its power as may be necessary to cause the common stock and debentures to be shown at their par and face amounts."

Approved unanimously, together with a letter to Mr. Day, President of the Federal Reserve Bank of San Francisco, reading as follows:
"The Board of Governors of the Federal Reserve System approves the application of the 'Bank of Amity', Amity, Oregon, for membership in the Federal Reserve System, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the Board of Directors of the institution. Two copies of such letter are also enclosed, one of which is for your files and the other of which you are requested to forward to the Superintendent of Banks for the State of Oregon, for his information.

"In order that our files may be complete, it will be appreciated if you will forward a copy of the form of capital debentures issued to the Reconstruction Finance Corporation by this bank."

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

"For your information and guidance there is enclosed a copy of a memorandum received from the War Department, dated February 15, 1945, signed by Colonel Paul Cleveland, in regard to expenses incurred by Federal Reserve Banks acting as fiscal agents for the War and Navy Departments pursuant to Executive Order 9112.

"In some cases salary receipts have not been furnished for employees who devote their entire time to War Department work. This is a requirement of the General Accounting Office, and if your records indicate any such receipts have not previously been furnished, you may wish to forward all of them at one time.

"We understand informally that when an employee cannot be located to procure a manually signed salary receipt, the General Accounting Office will accept photostat copies, face and reverse, of the cancelled check or photostat copies of a receipt for cash, supported by a statement of an officer of the Bank that a salary receipt on the prescribed form cannot be obtained because the address of the payee is unknown."

Approved unanimously."
Thereupon the meeting adjourned.

Chester Horridge
Secretary.

Approved: 

Chairman.