

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Saturday, March 17, 1945, at 10:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Szymczak
Mr. McKee
Mr. Evans

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Thurston, Assistant to the Chairman

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

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on March 16, 1945, were approved unanimously.

Memorandum dated March 13, 1945, from Mr. Parry, Director of the Division of Security Loans, recommending that Mrs. Virginia M. Robinson be appointed as a clerk-stenographer in that Division on a temporary basis for an indefinite period, with basic salary at the rate of \$1,680 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed satisfactorily the usual physical examination and subject to a satisfactory check of her references. It was understood that Mrs. Robinson would become a member of the Board's retirement system.

Approved unanimously.

Letter to the board of directors of the "Farmer's State Bank", Middletown, Indiana, stating that, subject to conditions of membership

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numbered 1 to 6 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 Chicago. The letter also contained the following special comment:

"The Board is prescribing the conditions of membership ordinarily prescribed for banks exercising fiduciary powers when they are admitted to membership, and it will not be necessary under condition of membership numbered 1 to obtain the permission of the Board before resuming the exercise of such powers."

Approved unanimously, together with a letter to Mr. Young, President of the Federal Reserve Bank of Chicago, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the 'Farmer's State Bank', Middletown, Indiana, 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 Director, Department of Financial Institutions for the State of Indiana, for his information.

"It is understood that in the State of Indiana trust funds deposited in the banking department of a bank are preferred claims in the event of liquidation of the bank. Therefore, you are authorized in accordance with the general authorization previously granted by the Board to waive compliance with condition of membership numbered 6 until further notice.

"It is noted that five directors are provided for in the bank's Articles of Association, whereas the actual number now serving, as indicated in the membership examination report, is seven. While the Indiana statutes provide that the 'exact number of directors to serve for each year shall be determined from time to time, in such manner as the

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"by-laws may prescribe', the number shall not exceed the 'maximum number fixed in the articles of incorporation.' It seems desirable to call this matter to the bank's attention so that appropriate corrective action may be taken."

Letters to the "Security Savings Bank", Birmingham, Alabama, and the "Bank of Amity", Amity, Oregon, reading as follows:

"The Board is glad to learn that you have completed all arrangements for the admission of your bank to membership in the Federal Reserve System and takes pleasure in transmitting herewith a formal certificate of your membership."

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

Approved unanimously.

Letter to Mr. Leach, President of the Federal Reserve Bank of Richmond, reading as follows:

"The Board of Governors of the Federal Reserve System has considered the recommendation of your Bank contained in Mr. Wayne's letter dated March 2, 1945, and, pursuant to the provisions of Section 19 of the Federal Reserve Act, grants permission to The National Capital Bank of Washington, Washington, D. C., to maintain the same reserves against deposits as are required to be maintained by banks located outside of central reserve and reserve cities, effective with the first semi-monthly reserve computation period beginning after the date of this letter."

"Please advise the member bank of the Board's action in this matter, calling its attention to the fact that such permission is subject to revocation at any time by the Board of Governors of the Federal Reserve System."

Approved unanimously.

Memorandum dated March 9, 1945, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that, for the reasons outlined in the memorandum, the Board authorize the allotment

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without charge of such space now assigned to the Division of Research and Statistics in the Board's building as may be necessary to house not to exceed four members of the staff of the National Bureau of Economic Research who would work on a study, being undertaken at the request of the Committee for Economic Development, of the flow of money payments. The memorandum stated that it was expected that work on the project would begin between the end of March and the middle of April and might continue for a year or more.

Approved unanimously, it being understood that the Division of Research and Statistics would furnish such ordinary office furniture as was available in the Division for use in the space allotted, that local telephone service (but not including long distance telephone or telegraph) and other ordinary services, such as light, heat, cleaning, etc., would also be furnished, but that the use of the duplicating, mailing, and other facilities in the building would be left for determination later in the event that question should arise.

Letter to Mr. Harry B. Mitchell, President, U. S. Civil Service Commission, reading as follows:

"In response to your letter of March 5, 1945 to Chairman Eccles, Mr. R. F. Leonard, Director, Division of Personnel Administration, has been designated as the representative of the Board to participate in the study of the Civil Service Retirement System and the method of reporting on Federal personnel, referred to in your letter. Mr. Leonard's telephone number is REpublic 1100, extension 433."

Approved unanimously.

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Letter dated March 17, 1945, to Honorable Elmer Thomas, United States Senate, prepared for the signature of Chairman Eccles and reading as follows:

"In my reply of January 31 to your letters of January 19, 1945, addressed to individual members of the Board of Governors regarding your bill S. 183, I indicated that the Board would like to have further time to review some of the controversial questions raised by your bill before expressing an opinion.

"The Board has considered these questions, and while it is in full sympathy with what appear to be your objectives, it feels that the measure is not at all necessary and that if it were pressed and made the subject of hearings and subsequent debate, the effects might be just the opposite of what I am sure you would desire. Instead of adding to public confidence in Government securities, it might very well be taken as an indication that the Government entertained some fears about its own credit and thus felt it necessary to put a legislative prop under a market that, in fact, needs none whatever.

"In 1938 the Federal bank supervisory agencies reached an agreement whereby uniform policies with regard to the valuation of banks' holdings of securities were adopted and have since been followed, not only by the Federal agencies but by most of the State bank supervisory authorities as well. In accordance with this procedure, banks are permitted to carry Government securities at the lower of book or amortized cost, and appreciation or depreciation based on current market fluctuations that may occur are disregarded. The same principle of appraising bank assets on their intrinsic merits rather than on fluctuating current quotations applies indiscriminately to all securities of an investment character, whether Government securities or others. Accordingly, there is no necessity for singling out Government securities by special legislative action.

"With regard to the incentive which you feel would be given to banks to acquire and hold Government securities, I wish to emphasize that no such stimulus is needed, and, in fact, to give any further stimulus to the banking system would have inflationary potentialities that are entirely undesirable. As you know, it has been the stated policy of the Government to sell as many securities as possible

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"to non-bank investors and to keep bank purchases to a minimum, since the process of relying upon bank financing of the war adds to the already redundant supply of money instead of utilizing existing funds. To this end, issues that banks are permitted to hold are restricted to the shorter term, lower yield securities and, likewise, offerings available for direct subscription by the banks have been limited. Nevertheless, the banks have been able to buy large amounts of outstanding issues in the market, and in recent weeks, particularly, their purchases of Government securities in the market have been so heavy that prices of outstanding issues have risen to substantial premiums.

"Accordingly, no legislation is needed to induce greater confidence on the part of the banks in Government securities. If, as is quite possible, your legislation were taken by the banks to mean that all Government securities, regardless of maturity, were in effect payable on demand through the facilities of the Federal Reserve System, the disposition of the commercial banks, already too accentuated, to purchase the longest maturities available with the highest yield would be undesirably stimulated and, incidentally, bank earnings which, on the whole, are at an all-time high would be still further increased through the revenue derived from Government securities.

"For these general reasons, the Board believes that the legislation you propose is not necessary because its desirable aims are already achieved under established policies and procedure and that enactment of such a measure at this time would not be desirable since it would accentuate trends in bank investment policy that tend to increase the cost of wartime financing."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

W. C. C. C.
Chairman.