A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, March 19, 1945, at 2:30 p.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. Thurston, Assistant to the Chairman
Mr. Goldenweiser, Economic Adviser, Division of Research and Statistics
Mr. Parry, Director of the Division of Security Loans
Mr. Leonard, Director of the Division of Personnel Administration
Mr. Thomas, Director of the Division of Research and Statistics
Mr. Vest, General Attorney
Mr. Brown, Assistant Director of the Division of Security Loans
Mr. Wyatt, General Counsel

Mr. Szymczak referred to the decision of the executive committee of the Chairmen's Conference in January to postpone the Chairmen's Conference which had been called for March 12 and 13, and stated that at the time that decision was reached Mr. Creighton, Chairman of the Conference, advised the other Chairmen that a meeting of the executive committee of the Conference would be held in Washington on April 16, when the whole situation would be reviewed again and a decision reached as to when a meeting of the Chairmen should be held. Mr. Szymczak also said that Mr. Creighton expressed the opinion that there was no point in the executive committee of the Conference meeting on the date stated if the Board of Governors were still of the opinion that a Conference of Chairmen should not be held because of the restrictions on travel and that he would like to be informed as to what the attitude of the Board was on the matter.

There was unanimous agreement that the suggestion should be made to Mr. Creighton that he ascertain from the Chairmen whether they would prefer that a meeting be held in May or early June, in the fall, or at a time later in the year, and that a decision be reached with respect to the meeting in accordance with the wishes of the majority of the Chairmen. It was understood that the Board would accommodate its program to whatever decision was reached by the Chairmen.

Before this meeting there were distributed among the members of the Board copies of a memorandum dated March 17, 1945, from Mr. Leonard submitting a letter dated March 15, from Mr. Sproul, President of the Federal Reserve Bank of New York, to which was attached a list of salaries for the officers of the Federal Reserve Bank of New York for the salary year beginning April 1, 1945, as fixed by the board of directors of the Bank, subject to the approval of the Board of Governors. The memorandum stated that there were 46 officers at the head office and Buffalo Branch, one of whom would retire May 1, 1945, and would be replaced by the promotion of another employee to an official position, that the proposed salaries reflected increases aggregating $12,700 for 17 of the 46 officers, and that all proposed increases were for officers below the rank of Vice President.

After a discussion of the matter in the light of the information contained in Mr. Sproul's letter and Mr. Leonard's memorandum, during which favorable comment was made regarding the effectiveness with which the New York Bank was carrying out an executive development program, upon motion by Mr. Szymczak, unanimous approval was given to the salaries proposed for the officers of the New York Bank, beginning April 1, 1945, and to a letter to Mr. Sproul reading as follows:

"The Board of Governors approves the payment of salaries to the officers of the Federal Reserve Bank of New York and the Buffalo Branch, for the year beginning April 1, 1945, at the following rates, which are the rates fixed by your Board of Directors as submitted with your letter of March 15, 1945:

Name	Title	Annual Salary
Allan Sproul	President	$45,000
Leslie R. Rounds	First Vice President	34,000
J. Wilson Jones	Vice President	16,000
L. Werner Knoke	Vice President	20,000
Walter S. Logan	Vice President and General Counsel	25,000
Arthur Phelan	Vice President	15,000
James M. Rice	Vice President	17,500
Harold V. Roelse	Vice President	15,000
Robert G. Rouse	Vice President	21,000
John H. Williams	Vice President	22,000*

*During period of part-time service to the bank, the salary paid Mr. Williams will be at a rate equal to that proportion of his regular annual salary which the number of days a week spent by him at the bank bears to 5. It is understood that under this arrangement when Mr. Williams serves on a part-time basis of less than 5 days a week his daily pay will be at the rate of one-fifth of his weekly salary at the regular annual rate, that when he serves on a full time basis of five or more days a week he will continue to be paid his weekly salary at the regular annual rate, and that overtime will not be paid when he works more than 5 days a week.

3/19/45

"Name	Title	Annual Salary
Valentine Willis	Vice President	$15,000
Reginald B. Wiltse	Vice President	15,000
Harold A. Bilby	Assistant Vice President	10,000
Felix T. Davis	Assistant Vice President	10,000
Edward O. Douglas	Assistant Vice President	11,000
Herbert H. Kimball	Assistant Vice President	12,000
Silas A. Miller	Assistant Vice President	12,500
Horace L. Sanford	Assistant Vice President	10,000
William F. Sheehan	Chief Examiner	14,000
John H. Wurts	Assistant Vice President	9,500
Todd G. Tiebout	Assistant General Counsel	13,000
Rufus J. Trimble	Assistant General Counsel	13,500
William F. Abrahams	Manager, Security Custody Department	6,250
Loren B. Allen	Manager, Accounting Department	8,000
Dudley H. Barrows	Manager, Cash Department	10,000
Curtis R. Bowman	Manager, Credit Department	7,000
Harry M. Boyd	Manager, Savings Bond Redemption Dept.	8,000
Wesley W. Burt	Manager, Government Bond Department	9,500
James J. Carroll	Manager, Planning Department	7,000
Norman P. Davis	Manager, Foreign Funds Control Department and Security Loans Department	9,000
Paul R. Fitchen	Manager, Cash Custody Department	6,000
Marcus A. Harris	Manager, Securities Department	8,500

"Name	Title	Annual Salary
William A. Heinl	Manager, Personnel Department	$ 7,500
Daniel J. Liddy	Manager, Foreign Department	7,250
Michael J. McLaughlin	Manager, Service Department	7,000
Franklin E. Peterson	Manager, Bank Relations Department	7,200
Ralph W. Scheffer	Manager, Check Department	7,000
Charles N. Van Houten	Manager, Safekeeping Department	9,000
Roy E. Wendell	Manager, Government Check Department	7,000
Robert H. Brome	Assistant Counsel and Assistant Secretary	8,500
William F. Treiber	Assistant Counsel and Secretary	10,500
William H. Dillistin	General Auditor	15,000
Donald J. Cameron	Assistant General Auditor	10,000
	Buffalo Branch	
Insley B. Smith	Managing Director	9,000
Halsey W. Snow	Cashier	7,500
George J. Doll	Assistant Cashier	6,000

"While approval of salaries is given at the rates shown above for the salary year beginning April 1, 1945, the approval is subject in each case to the reappointment of the officer upon the expiration of his term, which is February 28, 1946 in the case of the President and First Vice President, and the first meeting of the directors of the Bank in January 1946, in the case of the other officers.

"You have advised that Mr. Frederick Stocker, Manager, Cash Custody Department, will retire April 30, 1945. The Board approves continuation of salary to Mr. Stocker at the present rate of $6,000 per annum for the month of April."

At this point Mr. Leonard left the meeting.

Chairman Eccles stated that it appeared that, as a result of the testimony given during the hearings now being held before the House

Banking and Currency Committee on the Bretton Woods Agreements, the opposition to the Agreements had been very considerably weakened, and that it had been proposed that unless the witnesses for opposition made a strong case when they appeared before the Committee this week it might be best to adjourn the hearings at the conclusion of the testimony of the opposition, in which event Chairman Eccles or some other representative of the Board would not testify but a statement of the Board's position might be filed with the Committee for inclusion in the record of the hearings. Chairman Eccles also said that in anticipation of his appearance before the Committee there had been prepared a draft of a brief formal statement which he might read as the official position of the Board, and that in that event he would expect to make a supplementary statement of his own which, of course, would be consistent with the position taken in the Board's statement. Copies of the statement were distributed to the members of the Board and it was the consensus that in the event Chairman Eccles did not appear before the Committee this week a statement of the Board's position should be filed with the Committee before the end of the week.

> It was agreed that a meeting of the Board should be held on Wednesday, March 21, 1945, for the purpose of taking action on the proposed statement.

In taking this action it was pointed out that Mr. Szymczak would not be in Washington on Wednesday. Mr. Szymczak said that the statement in its present form was acceptable to him, that it would be agreeable to take action in his absence, and that he would join in the approval by the Board of a statement along the lines of the present draft.

There was then presented a memorandum dated March 10, 1945, from Mr. Thomas to which was attached a voucher submitted by Ernest J. Hopkins, Economic Specialist in the Division of Research and Statistics, covering travel and per diem expenses incurred in connection with a trip which he made to Chicago and Milwaukee and return during the period from January 28 to February 4, 1945. The memorandum stated that present conditions were such that ordinary living expenses in large cities exceeded the amount that would be reimbursable to Mr. Hopkins on the customary basis of $6 per diem, that in order to avoid penalizing Mr. Hopkins financially because of the nature of his special duties which involved a considerable amount of travel it was recommended that the Board approve an increase in the per diem allowance for Mr. Hopkins from $6 to $8 during the period of his present temporary appointment which expires August 16, 1945, and that the Board approve the voucher submitted with the memorandum which was computed on the basis of a per diem of $8.

When the memorandum was circulated among the members of the Board it was pointed out that the Board's present regulations permit a per diem allowance for employees other than heads and assistant heads of divisions of $6, that specific exceptions to these regulations had been allowed in the case of examiners and certain members of the Division of Bank Operations who visited the Federal Reserve Banks and who were allowed $7 per diem, and that the standardized Government regulations allow only $6 per diem for official travel and do not allow reimbursement on an actual expense basis.

Mr. McKee, as a member of the Personnel Committee, had attached a memorandum to the file suggesting that the voucher raised important questions that should be considered by the Board and that he would recommend that, if the Board approved the voucher, immediate consideration be given to the per diem allowance to the road force of the Examining Division.

> Upon motion by Mr. McKee, it was agreed unanimously (1) to approve a per diem allowance of $7 for Mr. Hopkins whenever he was absent from Washington on official business of the Board, this arrangement to continue during the period of his present temporary appointment which expires on August 16, 1945, and (2) to approve the voucher referred to above when adjusted on that basis.

Chairman Eccles referred to the letter that had been received by the Board under date of March 14, 1945, from Mr. Hernandez, Secretary of Finance of the Philippine Government, requesting that the Board make the services of Glenn Goodman, an Examiner in the Division of Examinations, available to the Philippine Government for a period of from three to six months for the purpose of making a survey of the banking situation in the Philippines. Chairman Eccles stated that he had received a personal letter dated March 16, 1945, from J. Weldon Jones, of the Bureau of the Budget, urging that the Board grant the request.

There ensued a discussion of the basis upon which the arrangement with respect to Mr. Goodman might be made, having in mind the position as to policy taken by the Board in the case of Mr. Triffin's mission to South America; that is, whether the Board should pay his salary and all or part of his other expenses. In this connection Mr. McKee pointed out that it was necessary to take into consideration Mr. Goodman's rights in the retirement system.

> At the conclusion of the discussion unanimous approval was given to Mr. McKee's recommendation that the services of Mr. Goodman be loaned to the Philippine Government for a period, if necessary, of approximately six months.
>
> The arrangement to be made with the Philippine Government with respect to Mr. Goodman's expenses was referred to the Personnel Committee with power to act.

In accordance with the request made at the meeting of the Board on March 9, 1945, Mr. Vest, under date of March 15, 1945, submitted an opinion with respect to the power of the Board to prescribe 100 per cent margin requirements under 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. It was Mr. Vest's opinion that the Board was authorized to prescribe 100 per cent margins, either for the initial extension or for the maintenance of credit, or both, and that it might do so with respect to credit extended by brokers and dealers or by banks or by both if it deemed it necessary or appropriate to do so to prevent excessive use of credit to finance transactions in securities. The memorandum of opinion also stated that it must be recognized, however, that this conclusion was debatable and a formidable argument to the contrary might be made especially on the basis of the legislative history of the law, and that for this reason the Board would be in a stronger legal position if, instead of prescribing 100 per cent margin requirements, it prescribed a somewhat lesser percentage, such as 90 or 95 per cent. A copy of the opinion was sent to each member of the Board before this meeting and all of the members of the Board stated that they had read it.

At Mr. Draper's request there was read the following memorandum prepared by him for presentation at this meeting:

"In the fall of 1916--29 years ago--402 selected stocks reached 86, on the basis of the 1935-1939 level being equal to 100.

"In the fall of 1925, 20 years ago, the same 402 stocks reached 109.

"On March 7th, 1945, the same 402 stocks reached 115. This is a rise, over a 20 year period of 6 points, or 5½%, "and a rise, over a 29 year period, of 29 points, or 34%.

"When we consider the enormous increase in bank deposits and currency since we entered this war, the surprising fact about present day stock market prices is not that they are so high but that they are so relatively low, when compared with the same prices in 1916 and 1925.

"About the same situation holds true in stock market credit. It is a fact that stock market credit has doubled in the last 3 years--and this is a most unfavorable factor, in my opinion--but it is also true that the total--about 1 billion 50 million--is a relatively modest amount, when compared with the situation in 1916 and in 1925.

"Unfortunately we have no figures on customers' debit balances in 1916 and 1925, but we do have figures for those years on brokers' loans. In the fall of 1916 brokers' loans were about 1 billion 200 million. In the fall of 1925 they were about 3 billions. In March, 1945, they are about 1 billion 50 million.

"All this evidence points to the fact that while present inflationary forces possess great potential danger, this danger has not yet appeared actively in the stock market, nor has it affected directly and unduly the course of stock market prices as a whole.

"In spite of this evidence of an apparently healthy situation, I do not believe this evidence can be construed as an argument in favor of a do-nothing policy indefinitely. On the contrary, I believe conditions in the near future may favor a restrictive policy of rather severe proportions. However, there is no conclusive evidence that an over-drastic policy which would probably bring about a considerable impairment of liquidity is necessary at this time. So much for the immediate and near future situation.

"If we base our action upon an administration policy of tightening up controls all around, the course to pursue, I believe, is to recognize that fact and proceed accordingly, in case conditions become more inflationary in the stock market. We did that in 1938, but in reverse, when we reduced reserve requirements about 13%. If we followed a similar, co-operative course, in case the market resumes its rise and becomes feverishly active, a raise of margin requirements to the 65% or 70% level would be much more "than a gesture. It would probably be about as effective as a raise to 100% and it would have the added advantage of not being so extremely drastic as to jolt severely the normal processes of stock market operation.

"If events should prove these conclusions to be wrong, we would then be on solid ground in proceeding to the 100% level without undue delay.

"In my opinion, the wisest way to steer our course in this difficult situation is to move deliberately and coolly. We have a great public responsibility in this matter and we cannot afford to act hastily, no matter what action we finally decide to take.

"Finally, I believe that our first raise in margin requirements, if necessary, to the 70% level rather than to the 100% level would meet with approval of the majority of Congress because it would show them that we were using the power they gave us to control credit in an orderly way and not primarily to knock down stock market prices regardless of the effect upon credit or the frame-work of present stock market machinery."

There was a discussion of a question raised by Chairman Eccles whether the use of any credit for the purpose of purchasing or carrying securities during the war should not be regarded as excessive. There was also further discussion of the conditions under which action would be justified to increase margin requirements to 100 per cent, or to prescribe maintenance margins and "bring up" margins.

In the course of the discussion, during which there was read a memorandum prepared by Mr. Parry under date of March 19, 1945, in which he presented briefly the extent of the authority of the Board to prohibit the extension of credit by brokers and dealers and by banks, it became apparent that there was a difference of opinion among the members of the Board as to the action that would be justified at this time.

Toward the end of the discussion, Chairman Eccles stated that there would be another meeting of the Economic Stabilization Board on Thursday of this week and that undoubtedly the question of action by the Board with respect to margin requirements would be raised again at that time.

It was unanimously agreed that further consideration should be given to the matter at the meeting of the Board to be held on Wednesday, March 21, 1945.

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on March 17, 1945, were approved unanimously.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

M S Eccles
Chairman.