

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, April 18, 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. Goldenweiser, Economic Adviser,
Division of Research and Statistics
Mr. Parry, Director of the Division of
Security Loans
Mr. Thomas, Director of the Division of
Research and Statistics
Mr. Brown, Assistant Director of the
Division of Security Loans
Mr. Townsend, Assistant General Attorney
Mr. Chase, Attorney

Mr. Draper referred to the discussions at the meeting of the Board on March 21 and April 13, 1945, with respect to possible action by the Board to increase the margin requirements prescribed in Regulations T, Extension and Maintenance of Credit by Brokers, Dealers and Members of National Securities Exchanges, and U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange, and suggested that, as a preliminary to a further consideration of the matter, Mr. Parry review developments in the stock market since the earlier date.

Mr. Parry presented charts showing the course of market prices and the volume of trading which indicated that prices had reached a

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point above the March high and above any point reached during the last eight years, but that customers' debit balances had declined from \$1,120,000,000 at the end of February to \$1,060,000,000 (preliminary) at the end of March. Mr. Parry thought that the decline was largely if not entirely due to a decrease in the volume of credit extended by brokers to their customers for the purpose of purchasing or carrying Government securities and that if current figures were available there would be a net increase of customers' debit balances. In presenting this information, however, Mr. Parry emphasized his thought that it would be seldom if ever that action by the Board should depend on developments in the market over a period of a few days.

In response to inquiries from Mr. McKee, Mr. Parry expressed the opinion that there was no abuse of credit for the purpose of purchasing or carrying securities at the present time, but that if the trend continued upward the amount of credit used might become excessive. He also said that he thought the trend of market prices was upward, that the general opinion was that the underlying trend over the next two years would be in that direction, that prices were likely to be higher on the basis of earnings, interest rates, etc., that any action by the Government at this time within its powers would not prevent this trend, but that what might be done would be to keep the market from making an unhealthy advance or from "overshooting the mark" as it did in 1927-29 and in 1936-37.

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By further comments Mr. McKee indicated that he questioned the advisability of action to increase margin requirements at this time.

Mr. Draper stated that, in view of developments since the previous discussions of the matter by the Board, he had come to the conclusion that it was time for the Board to act and that he would suggest that extension margin requirements be increased to 70 per cent after determining that such action would meet with the approval of Mr. Vinson as Director of Mobilization and Reconversion and Mr. Davis as Director of Economic Stabilization. He felt that such action would be taken as an indication that the next step would be an increase in requirements to 100 per cent. He did not favor action at this time with respect to "bring-up" or maintenance margins except to the extent of amending the existing regulation to provide that when securities were sold from an account which was held on a lower margin the customer could not withdraw more cash than he had put into the account, and that if he made purchases with the proceeds of sales in the account a margin of 70 per cent would have to be provided in connection with such purchases.

During a discussion of Mr. Draper's suggestion, Chairman Eccles said that a meeting of the Economic Stabilization Board was to be held tomorrow morning, at which there was to be a further discussion of steps to be taken to curb inflationary tendencies in real estate and

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securities, and that undoubtedly the question what action the Board proposed to take with respect to margin requirements would come up again. There was a discussion of the arguments that might be advanced to increase margin requirements and of action directed at the whole problem of inflation, including the situation in the real estate field where it was most serious, and what Chairman Eccles should say if the question of action on margin requirements were raised at the meeting of the Economic Stabilization Board.

Mr. Szymczak stated that if the Board were to take action as a part of an over-all program to combat inflation he would like to know what the rest of the program of the Government was to be and whether action by the Board in fact would fit into the anti-inflationary program of the present administration. The reasons for that action and possibly the extent of the action would be different from what they would be if the action were taken independently, based solely on conditions in the stock market.

During a discussion of Mr. Szymczak's point, Chairman Eccles suggested that the Board defer any action until after the meeting of the Economic Stabilization Board tomorrow.

Mr. Ransom asked for Mr. Goldenweiser's comments, and he in turn inquired of Mr. Parry whether, aside from the general inflationary situation resulting from the war, there was anything in the present market situation that would call for action by the Board. Following

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Mr. Parry's response in the negative, Mr. Goldenweiser concurred and stated that there appeared to be no justification for action except on the basis of the general inflationary situation but that action on that ground was fully justified and he would be glad to see it taken provided it was clear that such action would fit into the over-all program and would be regarded as supporting that program.

Mr. Thomas suggested that no credit expansion for speculative purposes that could be prevented should be permitted to occur at this time and that that position should be taken with respect to expansion in all fields including real estate.

It appeared from further discussion that all of the members of the Board with the exception of Mr. McKee would be willing to take action to increase margin requirements if it were clear that the action would be in harmony with the general anti-inflationary policies of the administration and was agreeable to Messrs. Vinson and Davis.

Chairman Eccles stated that if the matter came up at the meeting of the Stabilization Board tomorrow he would make it clear that the Board did not think any action that it could take at this time with respect to margin requirements would have more than a temporary effect on the trend of market prices and that there was a question whether and to what extent action by the Board would be appropriate as a part of an over-all program of the administration against inflation.

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Mr. Ransom stated that, if further consideration of the matter resulted in a request from the Director of Economic Stabilization that the Board increase margin requirements, he (Mr. Ransom) would like to see it framed so that the matter could be discussed in terms of percentage increases for the reason that he believed that action in two or more steps to increase margin requirements to 100 per cent would be more effective than a single increase which would exhaust the Board's authority.

Thereupon, Messrs. Carpenter, Hammond, Goldenweiser, Parry, Brown, Townsend, and Chase left the room, and Mr. Leonard, Director of the Division of Personnel Administration, came into the meeting, which continued in executive session.

Mr. McKee said that he would like to discuss the over-all situation in our organization in view of recent recommendations concerning personnel matters in the Division of Research and Statistics. He said that what disturbed him most was that it seemed to him that, after making great efforts to find people to do the work of the Research Division, we loan them to somebody else. He used as an example the case of Miss Giese and said that there was a question in his mind whether it would not have been better to transfer her to the State Department and then when they no longer had any need for her services we might review the question of reemployment, in the light of conditions at that time, because he felt that, even though

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the request came to us on the basis of a loan, the State Department might want to keep her for some period after the San Francisco Conference. In this connection, Mr. McKee also referred to a pending recommendation with respect to Mr. Gerschenkron, who had been employed on a temporary indefinite basis and with respect to whom there was pending a request for his services at the Office of Strategic Services on a loan basis. He thought that in some cases we had loaned people and then found a need to hire somebody else to perform similar services. Consequently, he raised the question how far the Board could go with a policy of accommodating other agencies of Government while finding itself shorthanded. The position had been taken, he said, that we needed these people in the first instance because their work was necessary, and then we loaned them to somebody else, so that a question arises as to whether we really needed their services as badly as had been stated. He also said that he recognized that there were cases, of course, where we might feel it desirable to lend people, but there would still be the problem of how to get our own work done.

Mr. Eccles said that it was his understanding that the Board had a definite policy and that there had been only a very few cases in the last couple of years in which we had approved a loan of personnel.

Mr. Leonard referred to the case of Mr. Hagen who was loaned for a short period of time to Mr. Davis when he was Chairman of the

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War Labor Board for the purpose of participating in a study of the cost of living index which fitted in with our own work on the same subject, and recently the case of Mr. Goodman whose services were loaned to the Philippine Government. As to the latter case, Mr. McKee commented that that matter had been brought to the attention of the Board and fully discussed.

Mr. Thomas added that there was a case involving Mr. Adler whose services had been requested by the Secretary of the Navy for the purpose of helping him in the preparation of a memorandum in regard to shipping, which would require his services for only two or three days, but that it had taken two weeks to get approval. Mr. Thomas said that he would like to have authority when requests of that sort are received to comply with them if they did not appear to be unreasonable, and that he would be perfectly willing to clear all such cases with Mr. Leonard, but that it seemed to him that cases of that sort should not require the attention of the Board.

In connection with Miss Giese, Mr. Thomas said that the State Department was getting together a considerable force; that Miss Giese was known to the man in the State Department who was handling certain questions involving international law; that Miss Giese had had experience in international law, in addition to which she spoke German and Spanish and was familiar with other languages. In view of the fact that the State Department had found it necessary to call upon many agencies of Government for assistance, Mr. Thomas felt that it

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would be perfectly proper for the Board to lend one person, especially in view of the fact that he felt that Miss Giese's subsequent services to the Board would be rendered more valuable by this experience.

Board Mr. Eccles said that he had not considered that the policy with respect to loans to other agencies should affect a case such as that first mentioned by Mr. Thomas involving an assignment of only two or three days.

Chairman Mr. McKee said that he felt that was all right if we were able to carry on the work in the absence of the persons whose services were loaned.

Mr. Thomas said that the Division would not be replacing Miss Giese, and Mr. Eccles called attention to the fact that the Division of Examinations was not replacing Mr. Goodman.

Mr. Szymczak added that he understood that Miss Giese had been employed as a part of the program of expansion of the International Section, that she would be needed in that Section, but that, in view of the fact that the Section had not been able as yet to obtain all the people that were needed, the Section could get along temporarily without Miss Giese. Mr. Thomas said that Miss Giese was working on a long-term project under Mr. Grove involving a study of the Uruguayan situation, but that it was not a project that must be finished immediately; consequently, her part of the work could be suspended temporarily.

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Chairman Eccles also called attention to the fact that in connection with the Bretton Woods meetings staff members had been drawn from many Governmental agencies, including members of the staff of the Board of Governors and of several Federal Reserve Banks, and he felt that the San Francisco Conference was in a somewhat similar category.

It seemed to Chairman Eccles that the cases which had been mentioned were not in conflict with the Board's general policy because that policy had been adopted in the light of cases where members of the Board's staff had sought temporary assignments to other agencies but at the same time wished to maintain their own security by retaining their positions with the Board, to which they would be able to return. In other words, the loans had really been initiated by the employees involved, whereas in the cases which had been mentioned during this discussion that did not appear to be the case and moreover they were short-term loans for somewhat urgent purposes.

The Chairman felt that the only cases to which the Board should give favorable consideration were cases where it was not primarily to the interest of the employee but rather to the interest of the Board, and where the Board had been requested by another important agency of the Government to make a temporary loan for a definite period of time. Then the Board should give consideration and decide whether the work that the employee was doing for the Board was so urgent that he could not be spared for a temporary period.

Mr. Evans said that such a policy would be satisfactory to him.

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In response to an inquiry from Mr. Evans regarding the Gerschenkron case, Mr. Thomas said that it would be definitely to our advantage to have Gerschenkron take the temporary assignment because it would add to our ability in the future to make contacts and obtain information that would be helpful. Mr. Thomas, however, said that he had made it plain that he would not consent to such an arrangement for more than one month, although, as stated in his recommendation to the Board, he would like to have the privilege of extending it for an additional month or two months if it should seem desirable to do so, but that he would not advise the Office of Strategic Services in advance of this possibility. Mr. Thomas also said that Gerschenkron would continue to be in Washington where he could be reached in case we wished to call upon him for any help.

Mr. McKee questioned how much value he would be to the Office of Strategic Services for such a short period of time and Mr. Thomas said that his value arose out of the fact that he was already familiar with the problems with which he would have to deal and that the Office of Strategic Services would be delighted to hire him on a permanent basis if they could get him.

Mr. Eccles said that, as he understood the matter, the action requested would be on the basis that the loan would be in the interest of the Board; that it would not be in conflict with the established policy of the Board in regard to indefinite loans; and that he would be available to us if we needed to call on him. Mr. Thomas agreed.

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Mr. Szymczak, again referring to the Giese case, said that many other agencies of Government were lending people for the San Francisco Conference, and that she would be more useful here when she came back as a result of the experience at that Conference. With respect to Gerschenkron, Mr. Szymczak said that he was doing necessary work here and that the kind of work that he would be called upon to do was in the same field as that which he was doing for us and that his experience with the Office of Strategic Services would render him more useful to the Board when he returned.

Mr. McKee said that it seemed to him that Gerschenkron was likely to remain more than one month if he served a useful purpose and that he thought the Board ought to consider the whole subject and restate its position for the future.

Mr. Eccles said that he did not favor a change of the Board's existing policy.

Mr. McKee suggested that it might be changed to the extent that in the case of a temporary need for a particular man for a few days to meet a special situation such as that which Mr. Thomas had mentioned involving the loan of somebody's services to write a speech or to furnish factual information, as long as the employee was not identified with the project, Mr. Thomas should have freedom of action.

Mr. Eccles said that, as he understood the matter, such a case would not involve a leave of absence but merely a temporary loan for a very

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brief period, and he did not think that the Board need be called upon in such a case to take formal action, but that Mr. Thomas and Mr. Leonard should understand that discretion must be exercised, and that such cases should not be of indefinite duration. Mr. McKee said that he understood that both Mr. Gardner and Mr. Thomas agreed that they would not need to employ anybody to take Gerschenkron's place during the loan of his services to the Office of Strategic Services.

Upon motion by Mr. Ransom, and by unanimous vote, the recommendation as submitted by Mr. Thomas in his memorandum of April 13, 1945, in the Gerschenkron case was approved.

With respect to proposed increases for Messrs. Furth, Dernberg, and Adler, referred to in Mr. Thomas' memorandum of April 5, 1945, Mr. McKee said that he wished to raise the question as to the need not only for continuing these people in the services of the Board after having performed the functions for which they were originally employed, but also for increasing their salaries, after having been originally employed on a temporary basis for other purposes.

Mr. Eccles said that he was ready to approve the recommendations as to these three men with the understanding that these men had been found extremely useful and competent; that we felt the need to keep ourselves informed with reference to the European situation; that the Division of Research did not know of any more suitable persons who would be available to take their places, and that the salaries proposed

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were lower than would have to be paid for other competent people who might be found to take their places.

Mr. Draper said that, so far as Mr. Furth was concerned, he had approved the increase because he had reviewed some of Mr. Furth's work and it seemed to be exceptionally good, but that with respect to Messrs. Dernberg and Adler he was not equally clear and he wondered whether other men might not be found who would be more suitable and equally competent. He raised the question whether it was advisable not only to extend their appointments, but in doing so to increase their salaries, because this might give them a feeling of security of position which would be embarrassing if and when other men with satisfactory backgrounds returning from military service in Europe became available.

Mr. Eccles said that he did not understand that we would continue these people on a permanent basis, but simply on a temporary indefinite basis which would enable us to terminate their services at any time, and that there would be nothing to prevent us from making a change whenever we found better men.

Both Mr. McKee and Mr. Draper said that they had no objection to continuing at this time the temporary indefinite employment of all three men.

Upon motion by Mr. Ransom, the recommendation, so far as it related to the continuance of the three men on a temporary indefinite basis, was approved unanimously.

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Upon motion by Mr. Ransom, the recommendation with respect to the proposed increase for Mr. Furth from \$4,500 to \$4,800 per annum, effective May 1, 1945, was approved, Mr. McKee voting "no".

Upon motion by Mr. Ransom, the recommendation with respect to the proposed increase for Mr. Dernberg from \$3,800 to \$4,200 per annum, effective May 1, 1945, was approved, Messrs. McKee and Draper voting "no".

Upon motion by Mr. Ransom, the recommendation with respect to the proposed increase for Mr. Adler from \$3,600 to \$4,000 per annum, effective May 1, 1945, was approved, Messrs. McKee and Draper voting "no".

Mr. McKee then raised the general question as to how the Board's action in approving such increases could be reconciled with the Government's stabilization or "hold the line" policy. Mr. Eccles asked how the increases in salaries for members of our staff compared with increases at the Reserve Banks.

Mr. Szymczak said that the Reserve Banks were in the process of sending in their recommendations at the present time; that the Board had approved increases in salaries at two banks; and that several more were pending and under consideration. Mr. Szymczak felt that on the whole the Federal Reserve Bank increases in salaries were more than ours; that in some cases it was necessary to go through the certification procedure; and that they had been approved. He added that there had been no trouble in these cases with the Governmental agencies concerned.

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Mr. McKee said he wished to emphasize the fact that he was raising the over-all question rather than a question as to the particular individuals that had been discussed during this meeting.

Mr. Eccles said that he did not think that our people should be put at a disadvantage as compared with other Governmental agencies and with Federal Reserve Banks. He thought it would be false economy.

Mr. Thomas said that he felt that the increases that had been recommended were not inconsistent with the stabilization program, and added that, upon a review of increases that the Board had granted in the 20's when there were no wartime conditions affecting the problem, the increases currently being made were not out of line.

Upon motion by Mr. Ransom, the increases recommended in Mr. Thomas' memorandum of April 2, 1945, for six employees were approved as follows, effective May 1, 1945, Mr. McKee not voting:

<u>Name</u>	<u>Designation</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
C. Richard Youngdahl	Economist	\$4,200	\$4,600
David L. Grove	Economist	3,800	4,200
Randall Hinshaw	Economist	3,500	3,800
Harold F. Chapin	Economist	3,200	3,400
Lyndall C. McCloud	Economist	3,200	3,400
Mary Gumbart	Economist	2,600	2,900

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 April 17, 1945, were approved unanimously.

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Letter to the "State Bank of Mansfield", Mansfield, Texas,
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.

Telegram to Mr. Ernesto Bosch, President, Banco Central de la Republica, Buenos Aires, Argentina, reading as follows:

"The Board acknowledges with thanks your kind telegram of April 13 on the occasion of President Roosevelt's death and appreciates deeply this evidence of your friendship."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

W. Scales
Chairman.