

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, May 1, 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. Hammond, Assistant Secretary  
Mr. Thurston, Assistant to the Chairman  
Mr. Vest, General Attorney  
Mr. Thomas, Director of the Division  
of Research and Statistics  
Mr. Wyatt, General Counsel

Under date of April 11, 1945, the Board received a letter from Mr. Lichtenstein, Secretary of the Federal Advisory Council, requesting a list of the subjects which the Board wished the Council to discuss at its meeting in Washington on May 13-14, 1945. The letter had been circulated among the members of the Board, and Mr. Evans had suggested that the Council be asked to consider (1) any suggestions it might have to aid in the enforcement of Regulation Q, Payment of Interest on Deposits, and (2) what should be done now to fortify the economic stabilization program.

Mr. Evans stated that he did not agree with the procedure frequently followed by the Board of suggesting no topics for consideration by the Federal Advisory Council at its meetings, and that he thought the relations with the Council could be improved if the Board would suggest for discussion by the Council at each of its meetings two or

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three topics which were currently of interest to the Board. He also said that there probably were several questions that might be discussed with the Council and that the two which he had proposed were offered merely as illustrations of what he had in mind as to the kind of topics on which the advice of the Council should be asked when they meet with the Board.

While a discussion of the above matter was in progress a request was received from Mr. Williams, Chairman of the Presidents' Conference Committee on Research, for an opportunity for him and Mr. Flanders, President of the Federal Reserve Bank of Boston who is also a member of the Presidents' Conference committee, to discuss with the Board informally the procedure being followed in connection with the proposed publication of certain of the papers prepared by System economists on economic problems and policies in the postwar period. Thereupon, Messrs. Williams and Flanders were invited into the meeting.

Mr. Williams stated that he had thought it would be well to take advantage of Mr. Flanders' presence in Washington to discuss with Mr. Evans and the other members of the Board questions that had arisen in connection with the proposed publication of papers prepared by the economists and that, while he had talked by telephone with Mr. Davis, President of the Federal Reserve Bank of St. Louis, who is the other member of the Presidents' Conference committee, the latter could not arrange to be here for the discussion.

Mr. Williams went on to say that his committee was concerned

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about the possible adverse reaction in the field to the publication under the joint sponsorship of the Board and the Federal Reserve Banks of the economists' papers in anything like their present form either as a series of pamphlets on related subjects or in one or more volumes, and that it was believed that such publication would make the problem of public relations of the Federal Reserve Banks with bankers and business men in their districts much more difficult. He suggested that one way of meeting the situation would be for the papers to be published by the Board rather than by the Board and the Federal Reserve Banks and he thought that that might well be done.

Following a discussion of the procedure being followed in preparing the papers for publication, Mr. Williams explained that what his committee was concerned about was not merely possible disagreement with the bankers on the subjects discussed, as that was to be expected from time to time, but that the Federal Reserve Banks had to live with the banks in their districts and the proposed papers as a group seemed to be based upon a particular economic philosophy which if attributed to the Federal Reserve Banks would make their bank relations more difficult.

In response to an inquiry from Mr. Draper as to how the matter should be handled, Mr. Williams suggested that there should be an opportunity for a full discussion by the Board and the Presidents as to the content, approach, and form of the papers before they were published, and that if it were decided to publish them in anything like

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their present form they could very properly be published by the Board, rather than by the System as a whole.

Mr. Flanders stated that the substance of the statements and their sponsorship were tied together and that if the publication were sponsored by the System his committee would be more concerned about the substance of the statements than if they were published by the Board.

Chairman Eccles stated that the subjects covered by the papers were unavoidably controversial, that the papers were merely expressions of the views of the author economists, and that it should be made very clear in the publication of the papers that they were the results of studies made by the authors and that they in no way expressed the views of the Board or the Federal Reserve System.

Mr. McKee inquired of Mr. Flanders whether he thought the papers should be published in their present form, and Mr. Flanders responded that, while there undoubtedly were differences of opinion on that point, there was some material in the statements that he would take great exception to, and that he thought there was a comparatively small amount of material which most of the Presidents and most of their research staffs would take exception to. In reply to an inquiry from Chairman Eccles as to whether the applicable portions of the statements could be modified, Mr. Flanders said that the statements should

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not be "watered down", for the reason that if that were done nothing worth while would be left.

Mr. Evans stated that Mr. Goldenweiser, Director of the Division of Research and Statistics, would welcome any suggestions that any of the Presidents or anyone else might have to offer with respect to any of the papers. On this point Mr. Thomas commented that it was expected that dissenting opinions and different points of view on important points would be adequately represented in the papers as published and that John H. Williams, Vice President of the Federal Reserve Bank of New York, had been asked to contribute a paper to the series of studies but had declined because of the pressure of other work.

Mr. Williams stated that he had understood from the letter which had been sent to the heads of research at all of the Federal Reserve Banks by Mr. Goldenweiser on April 23, 1945, that the decision of the authors and the editors of the respective papers would be final. Mr. Thomas then read the entire contents of the letter referred to.

Mr. McKee inquired of Mr. Flanders, who had to leave the meeting at 11:30 a.m. to catch a train, whether he would prefer to have a decision on the publication of the papers deferred until the Board had familiarized itself with the content of the papers.

Mr. Flanders replied that the primary question was one of sponsorship, that the question of publication was in the hands of

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the Board, provided it sponsored the publication, but that if there were to be System sponsorship he would want to follow a different procedure than if the publication were sponsored by the Board.

Mr. McKee then asked whether it was the idea of the Presidents that there would be System sponsorship, and Mr. Williams said that his committee had not conferred with the Presidents on the matter.

Chairman Eccles said that it was recognized that the Federal Reserve Banks had to get along with bankers and others in their respective districts, that no purpose would be served in making the relationships of the Federal Reserve Banks more difficult, and that, therefore, he saw no reason why the Board of Governors should not accept the suggestion of the Presidents' Conference Committee on Research and publish the papers under the sponsorship of the Board.

Mr. Thomas asked Mr. Williams whether his suggestion would mean that the economists at the Federal Reserve Banks could not participate in the preparation and discussion of the papers, and Mr. Williams responded in the negative.

At this point Mr. Flanders withdrew from the meeting.

Mr. McKee inquired what the situation would be if an economist from one of the Federal Reserve Banks contributed a paper and the President of the Reserve Bank or the Presidents of all of the Reserve Banks did not want the paper published under the name of the economist. Mr. Williams stated that if that position were taken by

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any of the Presidents it would not be possible to keep qualified economists on the pay roll of the Banks. Mr. McKee then asked whether, if the Board wanted to publish such a paper, there would be any objection on the part of the Presidents. Mr. Williams said that for the purpose of good administration the matter should be cleared through the President as the chief executive officer of the Bank, but he did not think that if an economist wanted to contribute a paper there would be any objection to that on the part of a President.

Mr. Evans inquired what procedure Mr. Williams thought should be followed in connection with the matter from this point on, and Mr. Williams replied that in Mr. Goldenweiser's letter of April 23, 1945, it was stated that the decision had been made to publish the papers.

In that connection Mr. Morrill called attention to the action of the Board on March 23, 1945, when Mr. Goldenweiser was directed, when all necessary steps to make ready for publication such of the studies as in his judgment were appropriate for publication had been taken, to submit the final plan for publication to the Board for action.

Mr. Williams responded that he had had the mistaken understanding that the final decision to publish had been made. He also stated that letters had been written directly to the economists in the Federal Reserve Banks who had prepared papers, and they had taken the letters to the respective officers in charge of research or the Presidents of

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the Banks to ascertain what should be done.

Mr. Evans stated that a letter was sent to the heads of research at all of the Federal Reserve Banks with respect to procedure to be followed prior to publication, and Mr. Williams commented that he thought it would have been better if in the beginning the procedure had been worked out with the Presidents' Conference committee at the policy level.

Mr. Thomas stated that it was his understanding that that was what had been done, and that Mr. Evans talked with Mr. Williams and wrote him a letter before anything was done. Mr. Williams said that he did not have that understanding and inquired whether it would not be possible for Mr. Evans to meet with the Research Committee of the Presidents' Conference to discuss the matter before a decision was reached by the Board.

Chairman Eccles questioned whether, if the members of the Board and the Presidents reviewed the papers and they were revised to meet their suggestions, the authors would be willing to attach their names to them. Mr. Williams recognized that point but said that it would be well worth while to have a joint meeting of the Board and the Presidents so that, if the decision were made to publish the papers, the Board and the Banks would know what was being done and what effect the publication would have on the public relations of the Federal Reserve Banks.



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Following a question by Mr. Ransom, there was a discussion of the character of the responsibility assumed by the System or the Board in the publication of papers which discussed controversial points in such a way as to indicate an economic philosophy. There was also discussion of the necessity for maintaining freedom of expression on the part of the System economists in order to retain personnel who were capable of producing work of high quality and accuracy.

At the conclusion of the discussion of these points, Mr. Ransom expressed the view that if the Presidents of the Federal Reserve Banks were to be joint sponsors of the papers it would be necessary for them to take a more active part in the matter than they had up to this time.

After some further discussion, Mr. Williams left the meeting.

It was agreed by all the members of the Board that no action need be taken by the Board with respect to the publication of the economists' papers until the submission of the plan for publication by Mr. Goldenweiser in accordance with the action taken at the meeting of the Board on March 23, 1945.

In connection with the suggestion that the Federal Advisory Council be asked to consider the question of enforcement by the Board of Regulation Q, Payment of Interest on Deposits, Mr. McKee reviewed developments since the action of the Board on February 19, 1945, when

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a procedure was agreed upon under which the Federal Reserve Banks and the Comptroller of the Currency sent letters to banks which were believed to be violating the law and the Board's regulation through the absorption of exchange and collection charges. Mr. McKee's statement was followed by a discussion of the legal steps that were available to the Board to enforce compliance with Regulation Q and of legislation that might be recommended to Congress to give the Board authority to take more appropriate legal steps to bring about enforcement.

At the conclusion of the discussion it was agreed that, until the results of the Board's efforts to bring about compliance with the law and the Regulation could be more fully appraised, the matter should not be suggested for consideration by the Federal Advisory Council

Following a further discussion of matters to be considered by the Federal Advisory Council at its forthcoming meeting, Mr. Morrill was requested to prepare a letter to Mr. Lichtenstein suggesting that the Council consider (1) To what extent is the practice being followed by large depositors of asking their depository banks for more detailed information regarding the condition of the banks than is shown in their regularly published reports of condition, and what further action should be taken by the bank supervisory agencies in connection with it? (2) What is the opinion of the Council as to the progress being made by the "credit pools" organized by banks in various sections of the country upon the recommendation of the American Bankers Association? (3) How should the inflationary developments in farm and urban real estate and other capital assets be dealt with?

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Mr. McKee referred to a memorandum addressed to Mr. Smead by Mr. Connell of the Division of Bank Operations under date of April 26, 1945, with respect to borrowings from the Federal Reserve Banks by member banks during the year 1944, and stated that the memorandum indicated the possibility that an increasing number of member banks were borrowing from the Federal Reserve Banks as a means of increasing borrowed capital in order to reduce or avoid excess profits taxes and that, in his opinion, the Bureau of Internal Revenue should issue a ruling which would close that loophole.

Mr. Vest stated that when this matter came up several months ago he discussed it informally with a representative of the Bureau of Internal Revenue who stated that the Bureau would be willing to rule on the matter only in specific cases and not as a general proposition because it did not want to discourage the sale of Government bonds and on the other hand did not want to close its eyes to efforts to evade excess profits taxes.

Chairman Eccles expressed the opinion that the way to meet the situation was for the Federal Reserve Banks to decline to extend credit to member banks for this purpose, rather than for the Internal Revenue Bureau to issue a ruling. In this connection attention was called to the fact that it appeared from the minutes of the last meeting of the Presidents' Conference that the Presidents had discussed the matter and were in agreement that the practice should be discouraged and that recently the Board had written them a letter on the subject.

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The matter was discussed but no further action was taken.

At this point Messrs. Vest, Thomas, and Wyatt 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 April 30, 1945, were approved unanimously.

Letter to Mr. Willett, First Vice President of the Federal Reserve Bank of Boston, reading as follows:

"In accordance with the request contained in your letter of April 28, 1945, the Board approves the appointment of Francis J. Suckfull as an assistant examiner for the Federal Reserve Bank of Boston. Please advise us of the date upon which the appointment becomes effective."

Approved unanimously.

Letter to Mr. Peterson, Vice President of the Federal Reserve Bank of St. Louis, reading as follows:

"In accordance with the request contained in your letter of April 25, 1945, the Board approves the designation of the following as special assistant examiners for the Federal Reserve Bank of St. Louis:

Head Office

W. O. Behle

R. C. Fein

P. W. Boll

H. Johnson

C. G. Crause

R. Tentschert

C. Eccles

F. Weisel

Louisville Branch

Memphis Branch

J. E. Bald

B. F. Jones

Paul P. Heichelbech

John W. Menges

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"In connection with the matter of continuing approval of the foregoing list of employees, reference is made to the Board's letter X-9858 dated April 3, 1937 (Loose-Leaf Service #9183). You will note that approval, once given, will be continuing approval, good until revoked."

Approved unanimously.

Letter to Mr. Koppang, First Vice President of the Federal Reserve Bank of Kansas City, reading as follows:

"The Board of Governors approves, effective April 1, 1945, the changes in the personnel classification plan of the Federal Reserve Bank of Kansas City and its Denver and Omaha Branches as submitted with your two letters of March 29, 1945, and supported by the certificate submitted with your letter of April 20."

Approved unanimously, together with a letter to the Wage Stabilization Division, National War Labor Board, transmitting a certificate of the Federal Reserve Bank of Kansas City with respect to salary increases at the Bank.

Telegram to Mr. Evans, Vice President of the Federal Reserve Bank of Dallas, reading as follows:

"Relet 27. Board extends to June 2, 1945, time within which Harlingen State Bank, Harlingen, Texas, may accomplish membership."

Approved unanimously.

Letter to Mr. Young, President of the Federal Reserve Bank of Chicago, reading as follows:

"This refers to Mr. Diercks' letter of April 20, 1934, with regard to the application of the 'Citizens Bank', Hebron, Indiana, for permission to act as guardian.

"In view of the information at hand, and in accordance with Mr. Diercks' recommendation, the Board of

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"Governors of the Federal Reserve System grants the applicant bank permission, under the provisions of its condition of membership numbered 1, to act as guardian. This permission is given subject to the standard trust conditions heretofore accepted by the applicant when it was granted permission to act as executor and administrator of estates.

"In this connection, the Board raises no objection to the bank continuing to act as trustee of the one account designated as 'Trustee for Building Ownership', which it understands the bank inadvertently acquired without first obtaining the Board's permission.

"Please advise the Citizens Bank, Hebron, Indiana, of the Board's action in the foregoing matters."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie  
Secretary.

Approved:

W. S. Charles  
Chairman.