

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, July 11, 1945, at 10:30 a.m.

PRESENT: Mr. Ransom, Vice Chairman  
Mr. Szymczak  
Mr. McKee  
Mr. Evans

Mr. Carpenter, Secretary  
Mr. Hammond, Assistant Secretary  
Mr. Connell, General Assistant, Office  
of the Secretary  
Mr. Morrill, Special Adviser  
Mr. Thurston, Assistant to the Chairman  
Mr. Parry, Director of the Division of  
Security Loans  
Mr. Vest, General Attorney  
Mr. Thomas, Director of the Division of  
Research and Statistics

Mr. Evans stated that in accordance with the action taken at the meeting of the Board on July 9, 1945, he talked over the telephone with Mr. Sproul, President of the Federal Reserve Bank of New York, about the proposed employment of Professor Seltzer for the summer months, and had ascertained that when Mr. Seltzer was in New York some time ago attending the meeting of the National Bureau of Economic Research the matter of his employment had been discussed with him and he was told that the Bank would like to have him undertake the job, that it was thought that clearance of the matter with the Board under the circumstances would be routine, that Mr. Seltzer had already sketched an outline for the study and was going to the Bank on July 16 to make a report on the work he had already done and to check the outline with members of the Bank's staff, and that Mr. Sproul felt that a definite commitment had been made and was of the opinion that Mr. Seltzer would

7/11/45

-2-

be "put out" and the Bank would be embarrassed if the arrangement were not carried out. Mr. Evans also said that he had asked Mr. Sproul if he felt this matter should have been cleared in advance with the System Research Advisory Committee and whether the committee would approve it, and that Mr. Sproul's response was that the proposed study was an extremely worth-while project and the Bank would have done the work itself except for the fact that it did not have available at the time a man as competent as Mr. Seltzer to undertake it. A memorandum prepared by Mr. Evans under date of July 11, 1945, containing a more detailed account of his telephone conversation with Mr. Sproul has been placed in the files.

Mr. Evans said if the matter were before the Board without any commitment on the part of the New York Bank he would be reluctant to approve it but since a commitment had been made it was his thought that the Board had no alternative except to interpose no objection and that he would so recommend, with the understanding that Mr. Thomas or someone else whom he might designate would go to New York while Mr. Seltzer was there next week for the purpose of going over the outline of the study to be sure that it would fit into the System research program.

Mr. Thomas stated that he would be in New York on Monday and Tuesday of next week on another matter and could easily arrange to do that.

Mr. Ransom expressed the opinion that something should be done to correct any impression that the Federal Reserve Banks might have that

7/11/45

-3-

approval by the Board of arrangements of this kind is a routine matter or need not be obtained. He said that he had learned recently that the Federal Reserve Bank of Atlanta had employed a man to do research work and that among his other duties was an assignment of writing articles for the Reserve Bank's monthly Review, two of which dealt with the subject of consumer credit. Mr. Ransom regarded published material on such matters as being of major importance, from the standpoint of the System as a whole, and said that he would like to see a procedure established under which these matters would not be regarded as routine.

It was stated that when the System Research Advisory Committee was set up it was understood that that Committee would make recommendations with respect to the System research program which would be passed on by the Board of Governors before any definite arrangements were made and that if the two cases above referred to had been handled in this manner they would have come to the attention of the System Research Advisory Committee in advance.

Mr. McKee raised for consideration the question whether the study being made by Mr. Seltzer on an important national problem should be made by the Board rather than by a Federal Reserve Bank and whether the arrangement of the New York Bank with Mr. Seltzer could be transferred to the Board.

In connection with this same thought, Mr. Szymczak said that the Board was the one principally interested in the proposed study as a System matter and if it were a necessary study Mr. Seltzer might be put on the Board's pay roll.

Mr. Thomas stated that he did not agree with the comment that had

7/11/45

-4-

been made that the Board should make all studies of problems which are national in scope and that studies at the Federal Reserve Banks should be confined to regional matters, and that he was sure that the Federal Reserve Banks would not be willing to accept such an arrangement, principally for the reasons that the Presidents, who served as members of the Federal Open Market Committee, were entitled to whatever information they desired with respect to national problems, the directors and officers were entitled to have information and advice on such matters, and the Federal Reserve Banks were important instruments of public education and the Board should not be in the position of saying that the Banks could not develop information on national and international problems but that they must get such information from the Board. If such a position were taken, Mr. Thomas said, and the research men at the Reserve Banks were limited in their studies to local or regional problems, it would be impossible to get or hold the services of qualified employees in the Research Departments of the Banks. Mr. Thomas agreed that the Federal Reserve Bank of New York should have cleared the Seltzer study with the System Research Advisory Committee in accordance with the established procedure, particularly since it related to a subject which the committee had undertaken as a System study.

Mr. Ransom said that he was more concerned with the use that might be made of studies undertaken independently by the Federal Reserve Banks since they might result in a crystallization of ideas before the matter could be considered on a System basis and that, therefore, the

7/11/45

-5-

final decision as to the circumstances under which such studies would be made must rest with the Board. For that reason, he said, there should be an understanding between the Board and the Banks as to how such studies were to be made so that in the future the Board would not learn about them, as it did in the New York case, after embarrassing commitments had been made.

Mr. Thomas concurred in Mr. Ransom's statement and said that there were two uses that might be made of material prepared in the research department of a Reserve Bank, (1) for information of directors and officers of the Bank only (many studies are made expressly for this purpose as technical background material and as the basis for the information which the directors of research at the Banks give to the directors and operating officers), and (2) for distribution outside the Bank. He felt that the latter use was something which the Board could control and that, if any Federal Reserve Bank proposed to distribute any study outside the Bank, the Board could take the position that it should not be published until it was clear that it was in conformity with System policy. He felt that the way to exercise this control was not to prevent studies being made in accordance with the program worked out by the System Research Advisory Committee with the approval of the Board, but to determine the distribution to be made of the studies after they were completed.

Mr. Ransom said he had no fundamental difference with that view, that there was no desire to obscure points of view, that very broad use

7/11/45

-6-

of studies within the System would meet with his entire approval, but that the possible distribution of such studies outside the System was of concern to the Board.

In response to an inquiry from Mr. Morrill, Mr. Thomas stated that, while he did not like the arrangement that had been worked out with Mr. Seltzer for the reason that the best results could be obtained only if he were at the Reserve Bank and readily available for frequent consultation, that, therefore, he would prefer not to have the arrangement with Mr. Seltzer transferred to the Board, but that if the Board felt that that should be done he would be glad to undertake it.

There was agreement that the matter had gone so far that nothing would be gained by making such a change in the arrangement with Mr. Seltzer.

Mr. Szymczak expressed the thought that if the System was going to perform an effective function it was necessary that the Board be eternally vigilant, that if a job of national scope needs to be done it should be done by the Board rather than by a Federal Reserve Bank and the necessary additions to the staff should be made for that purpose, and that one of the things that impressed representatives of the Office of the Coordinator of Inter-American Affairs and South American officials most with respect to the visit of Mr. Triffin to South America was that he was from the staff of the Board and represented the System rather than an individual Federal Reserve Bank. He felt that sooner or later the question would arise where a particular study was made and that many

7/11/45

-7-

questions which might affect the value of the study could be avoided if it were made under the direction of the Board.

In a further discussion it was suggested that if approval were given by the Board to the Seltzer study it should be with the understanding that it would be made in accordance with the program worked out by the System Research Advisory Committee, and that the final determination of the use to be made of the study would rest with the Board.

At the conclusion of the discussion, upon motion by Mr. Evans, unanimous approval was given to the following wire to Mr. Sproul, with the understanding (1) that Mr. Thomas would go over the outline of the study with Mr. Seltzer as suggested by Mr. Evans and (2) that a draft of letter to the Federal Reserve Banks would be prepared for consideration by the Board setting forth the procedure that should be followed in the future in connection with studies relating to matters of national or international scope so as to remove any misunderstanding that the Federal Reserve Banks might have at the present time with respect thereto:

"Your letter June 25 re temporary arrangement with Professor Seltzer. The Board feels this is a matter that should have been cleared with the System Research Advisory Committee as well as this Board before commitment was made to Seltzer. However, inasmuch as commitment has been made, Board will interpose no objection to arrangement outlined in your letter, subject to the condition that the study will be integrated in the System program by the System Research Advisory Committee and that use to be made of the study will be determined by Board in the light of such recommendations as may be made by the System Research Advisory Committee in accordance with established procedure."

Mr. Ransom reported that Mr. Dillard, Vice President of the Federal Reserve Bank of Chicago, and Mr. Townsend, Assistant General Attorney, had reported by telephone that the conference with representatives

7/11/45

-8-

of the Consumers Home Equipment Company of Detroit had been a satisfactory one, that it appeared that the Company would submit to a consent injunction, and that the representatives were to reach a decision by Tuesday, July 17, at which time there would be another meeting in Detroit to be attended by representatives of the Company and the Chicago Bank and by Messrs. Townsend and Brown representing the Board. In the event the Consumers Home Equipment Company should refuse to agree to the injunction, Mr. Ransom said, it was expected that the Board would institute a proceeding to revoke the Company's license.

The replies received thus far to the Board's wire of July 7, 1945, to the Reserve Banks with respect to the preferential discount rate were read, and after a general discussion it was agreed that another meeting of the Board should be held for further consideration of the matter on Monday, July 16, 1945, at 3:30 p.m., when the replies from all of the Banks would have been received.

At this point Messrs. Vest, Parry, and Thomas left 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 July 10, 1945, were approved unanimously.

Letter to the Secretary of State reading as follows:

"Following the informal communication by your Department of the Dominican Republic's request for the services of Dr. Robert Triffin of the Board's staff, we received a direct request to the same effect from the Dominican Embassy here in Washington. A photostat of this request is enclosed. The



7/11/45

-9-

"Board has approved compliance with this request. It has also arranged for Mr. Triffin to be accompanied in his work for the Dominican Republic by Mr. Henry C. Wallich of the Research Department of the Federal Reserve Bank of New York. It will be appreciated if you will inform the Dominican Embassy and the Government of the Dominican Republic that arrangements are being made for Mr. Triffin and Mr. Wallich to leave as soon as possible for that country."

Approved unanimously.

Letter to Mr. Meyer, Assistant Cashier at the Federal Reserve Bank of Chicago, reading as follows:

"The Board of Governors approves the change in the personnel classification plan of the Federal Reserve Bank of Chicago, involving an increase in the maximum annual salary for the position of Fireman, as submitted with your letter of June 30, 1945."

Approved unanimously.

Letter to the board of directors of "The Cynthiana State Bank," Cynthiana, Indiana, stating that subject to conditions of membership 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 St. Louis.

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

"The Board of Governors of the Federal Reserve System approves the application of The Cynthiana State Bank, Cynthiana, 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

7/11/45

-10-

"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."

Letter to Mr. Gilbert, President of the Federal Reserve Bank of Dallas, reading as follows:

"The Board has reviewed the information submitted in connection with the application of the McAllen State Bank, McAllen, Texas, for membership in the Federal Reserve System, and certain additional information made available by the Office of the Comptroller of the Currency and the F.D.I.C.

"According to the information available, the principal sponsors of the applicant, Messrs. C. W. Murchison and T. L. Wynne, have widely diversified interests and activities, and their indebtedness as individuals, direct and indirect, and the direct and intercompany borrowings of their many interests, appear to be substantial. The information submitted regarding the financial condition and operations of the individuals involved and their partnership and corporate interests, together with intercompany relationships, is incomplete and inconclusive, and it is understood that the principals have refused to furnish further and more complete information.

"In the circumstances the Board does not feel that it could act on the application at the present time and will defer action until such time as satisfactory and complete information is furnished."

Approved unanimously.

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

"We are enclosing copies of correspondence with Mr. S. D. Nichols, 1410 Washington Avenue, St. Louis, Missouri, concerning questions Mr. Nichols has raised which he thinks

7/11/45

-11-

"relate to Regulation T. It is clear from the nature of his questions that his problems arise under the rules of some stock exchange, probably either the New York Stock Exchange or the New York Curb Exchange, since it makes no difference under Regulation T whether the stocks are under \$5, between \$5 and \$10, or over \$10.

"It would be much appreciated if you could have someone on your staff call Mr. Nichols and explain to him that his questions do not relate to our rules, but to stock exchange rules, for which we are not responsible and which we cannot undertake to interpret. This procedure seems to us to be all the more desirable because in the interval since Mr. Nichols raised his questions both the Board and the New York Stock Exchange have changed their rules."

Approved unanimously.

Letter to Mr. George H. Phillips, Denver, Colorado, reading as follows:

"This is in reply to your letter of July 4, relating to the recent changes in the margin requirements prescribed by the Board.

"In the case you outline, it would appear that the customer has, with a given broker, a long position in certain securities and a short position in certain others. For the purposes of Regulation T, the two positions must be treated as belonging to a single account. A sale of securities held long would presumably release margin held against the long position and permit the margin released to be allocated to the short position. In technical terms, the customer's 'adjusted debit balance' would be reduced by the transaction, not increased, and nothing in the recent changes in Regulation T would put any obstacle in the way of such an outcome.

"If you wish some further explanation, we suggest that you consult the Federal Reserve Bank of Kansas City or its Denver Branch, inasmuch as the administration of the Board's Regulations T and U has been decentralized and the Kansas City Bank has charge of it in your territory."

Approved unanimously.

Letter to Mr. Fred A. Gibson, Birmingham, Alabama, reading as follows:

7/11/45

-12-

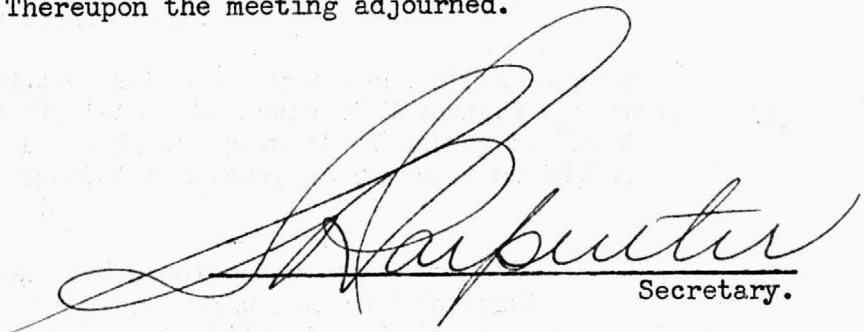
"Your letter of June 26 to Congressman Patrick has been referred to us, with the suggestion that we make reply directly to you.

"You state in your letter that you built a five-room house last fall under an FHA priority and are now interested in obtaining credit for adding an additional room. The question is whether Regulation W, as recently amended, would require this credit to be repaid within 18 months. The answer will depend in part on circumstances which are not recited in your letter, such as whether the new credit would be consolidated with an old one and whether the combined obligation would exceed \$1,500. In that event, the 18-month limitation would not apply.

"Since the administration of Regulation W has been decentralized among the Federal Reserve Banks and their branches, we suggest that you take up this case with the Birmingham Branch of the Federal Reserve Bank of Atlanta. They will be glad to go into the matter with you quite fully."

Approved unanimously.

Thereupon the meeting adjourned.

  
Secretary.

Approved:

  
Vice Chairman.