

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, November 1, 1945, at 10:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. McKee
Mr. Draper
Mr. Evans

Mr. Carpenter, Secretary
Mr. Connell, General Assistant,
Office of the Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Chairman
Mr. Leonard, Director of the Division
of Personnel Administration
Mr. Thomas, Director of the Division
of Research and Statistics
Mr. Vest, General Attorney
Mr. Wyatt, General Counsel

Mr. Ransom referred to the appearance of Mr. Snyder, Director of the Office of War Mobilization and Reconversion, before the subcommittee of the House Judiciary Committee on October 26, 1945, in connection with proposed legislation which would extend for a further period certain provisions of the Second War Powers' Act, and stated that he (Mr. Ransom) and Mr. Goldenweiser had testified briefly at the hearing giving the reasons for the extension for at least one year of Title IV of the Act under which the Reserve Banks have authority to purchase obligations directly from the Treasury. Mr. Ransom also said that several of the members of the subcommittee had indicated a feeling that they should recommend permanent legislation instead of an extension, but since he did not know at the time whether the Treasury would support permanent legislation, he thought it advisable to point out

11/1/45

-2-

to the subcommittee that it might not be possible to have permanent legislation enacted before December 31, 1945, and that, therefore, an extension at this time would be more desirable.

Following Mr. Snyder's testimony, he asked of Mr. Ransom that the Board furnish him with a memorandum of the reasons supporting the request that Title IV of the Act be extended for another year so that the statement could be incorporated in the report which the subcommittee had requested Mr. Snyder to make. A draft of the letter prepared by Mr. Ransom in response to this request was presented during the meeting. Chairman Eccles said that Mr. Snyder had asked for the views of the Treasury and the Federal Deposit Insurance Corporation as to the desirability of extending the exemption of war loan deposit accounts from reserve requirements and Federal Deposit Insurance Corporation assessments as permitted under the Act of April 13, 1943, and that Mr. Bell had read to him over the telephone the letters written by the Treasury to Mr. Snyder recommending that the exemption and the authority of the Federal Reserve Banks to purchase up to \$5 billion of Government securities from the Treasury, be continued until the end of 1946. In connection with the matter of direct purchases from the Treasury, Mr. Eccles said that the Treasury would like that provision of the law to be made permanent and the \$5 billion limitation removed, but for the present considered it advisable to ask only for an extension of one year.

11/1/45

-3-

Mr. Goldenweiser entered the meeting at this point.

During the discussion which followed, it was suggested that the Board send letters to Mr. Snyder recommending the extension of Title IV of the Second War Powers' Act and the exemption of war loan deposit accounts from reserve requirements.

Upon motion by Mr. McKee, it was voted unanimously to authorize Chairman Eccles to send two letters to Mr. Snyder setting forth the reasons for the extension of the two provisions of law until the end of 1946.

The letters sent by Chairman Eccles in accordance with this action were as follows:

Letter Regarding Extension of Title IV

"I have been advised by Mr. Ransom of the suggestion which you made after your testimony before the Subcommittee of the House Judiciary Committee that we send you a memorandum of the reasons supporting the request that Title IV of the Second War Powers Act be extended for at least a year.

"While we may at some later date ask that this authority, which was sponsored by the Board of Governors and is administered by the Federal Open Market Committee, be placed on a permanent basis, it may not be appropriate at this time to make such a request. The authority should, however, be kept in force at least during the coming year. I am advised by Dan Bell that the Treasury has recommended its extension for a period of one year.

"Since Mr. Ransom is preparing to go out of town, I am sending you herewith a brief memorandum of reasons for such an extension."

Letter Regarding Exemption of War Loan Deposits

"In another letter I am writing you regarding the proposed extension of Title IV of the Second War Powers Act. I understand from Ronald Ransom's report regarding the hearing before the Subcommittee of the House Judiciary Committee that a question was raised regarding other war-time legislation that might be expiring, and therefore I am writing you regarding the Act of April 13, 1943.

11/1/45

-4-

"This Act provided that deposits in member banks payable to the United States and arising solely as the result of subscriptions for United States Government securities (commonly known as war-loan deposits) shall not be included in deposits against which reserve balances must be maintained by member banks with Federal Reserve Banks. The same Act also provided in effect that such war-loan deposits in banks whose deposits are insured by the Federal Deposit Insurance Corporation should not be subject to the ordinary assessments against deposits. These exempting provisions, however, will expire six months after the cessation of hostilities as determined by proclamation of the President or concurrent resolution of the Congress. I understand that the FDI Corporation has advised you of its wishes regarding the continuance of the exemption as to insurance assessments.

"We feel that the exemption of war-loan deposits from reserve requirements should be continued until the end of 1946, and Dan Bell has informed me that the Treasury desires such an extension. If this exemption should be terminated suddenly while Treasury balances continue to be large, the imposition of reserve requirements upon them would cause considerable disturbance to member banks of the Federal Reserve System and would likely result in the dumping on the market of substantial amounts of Government securities in order to enable member banks to meet the additional reserve requirements necessitated by their war-loan deposits. Consequently, the Board of Governors feels that it would be desirable to allow a definite period, until the end of 1946, within which Treasury balances may return to more nearly normal proportions, so that member banks will be in better position to meet the reserve requirements upon them."

Prior to this meeting there had been circulated among the members of the Board a letter dated October 15, 1945, from Mr. Prochnow, Acting Secretary of the Federal Advisory Council, requesting a list of topics which the Board wished the Council to discuss at its next meeting on November 18-19, 1945.

It was agreed unanimously that the Secretary should send a telegram to Mr.

11/1/45

-5-

Prochnow suggesting the following topic for consideration by the Council:

"There is increasing discussion of the cost of Government debt with special reference to the part of the debt held by banks. What is your opinion as to how best to meet the issues that may be raised?"

Reference was then made to a memorandum dated October 19, 1945, from Mr. Leonard, Director of the Division of Personnel Administration, to which was attached a letter from Mr. Williams, President of the Federal Reserve Bank of Philadelphia, addressed to Mr. Szymczak, under date of October 18, 1945, in which it was stated that the Bank proposed to initiate rather promptly a thoroughgoing study of job classifications and salary rates at the Bank and for that purpose to employ, in a consultant capacity, Mr. C. Canby Balderston, who had prepared the report on executive development in the Federal Reserve Banks and who was now a Class C director of the Philadelphia Bank. The memorandum (which discussed the questions raised by the proposal) and letter had been circulated to the members of the Board before this meeting.

Mr. Draper questioned the propriety of a director of a Federal Reserve Bank being employed on a retainer basis for any purpose.

Mr. Leonard stated that Mr. Szymczak, who was unable to be present at this meeting because of an engagement in New York City, had asked him to say to the Board that, although he considered it inappropriate for a director of a Reserve Bank to accept such an assignment, he recognized Mr. Balderston's particular qualifications as a possible

11/1/45

-6-

basis for an exception in this case, but that if it were the decision of the majority of the Board that such an arrangement should not be made he would concur in that view.

In the discussion which ensued, all of the members present questioned the propriety of the proposed arrangement with Mr. Balderston and concurred in the suggestion that Mr. Williams be advised that the revision of the personnel classification plans of the Reserve Banks involved problems that should be considered on a System basis and that the Board would take up with the Banks promptly the question of the procedure to be followed.

In accordance with this decision, Mr. Leonard was requested to prepare a draft of letter to President Williams for consideration by the Board and to make a recommendation as to the procedure to be followed by the Reserve Banks and the Board in reviewing the existing classification plans and developing plans which would be in the direction of greater uniformity at all Federal Reserve Banks.

At this point Mr. Leonard left the room, and Messrs. Robinson and Villard, Economists in the Division of Research and Statistics, joined the meeting.

There was then presented a memorandum dated October 22, 1945, from Mr. Thomas, Director of the Division of Research and Statistics, reading as follows:

"On March 21, 1944 the Board authorized an expenditure of between \$5,000 and \$15,000 for an exploratory

11/1/45

-7-

"survey of individual ownership of currency, deposits, war bonds and other liquid funds to be undertaken by the Division of Program Surveys of the Department of Agriculture. At that time it was decided 'that when the results of the exploratory surveys were available the Board would consider the matter further and determine whether it should authorize payment of costs necessary to complete the surveys on a nationwide basis.' The results of this preliminary survey were transmitted to the Board about two months ago and an article summarizing them was published in the Federal Reserve Bulletin for September 1945.

"Notwithstanding the limited scope of the exploratory survey, the results obtained have been in great demand; it is generally agreed among experts in the field that the methods employed provided dependable results. In view of the great importance of the subject at this time, there is need for a broader survey. Accordingly, it is recommended that the Board authorize a further survey along the lines outlined below at a cost not to exceed \$60,000.

"During the present transition period between a war economy and normal peacetime operations, information regarding assets is of special importance, as the possibilities for inflation are now more real and imminent than they have been heretofore. Other agencies of the Government, particularly the Bureau of the Census and the Bureau of Labor Statistics, are planning to seek appropriations from Congress for nationwide surveys of income and consumer expenditures, but none of these projects can be expected to go forward for at least a year. In this interval, the need for better data as to the holders of liquid assets and their attitudes towards the assets they hold is particularly critical. The Interdepartmental Subcommittee on Consumer Expenditures and Savings, which reports to the Budget Bureau, has officially recognized the positive value of the survey already sponsored by the Board and has recommended that it be extended. We have also had a request from the staff of the O. W. M. R. that we obtain additional information on this subject.

"While the survey gave disappointing results as to location of currency in circulation, indicating that satisfactory information on this aspect can probably not be obtained, it did yield useful information as to holdings of other assets and unexpectedly significant data on people's attitudes toward the use of their liquid assets. A large proportion, for example, indicate an intention to hold

11/1/45

-8-

"their assets as security against future economic or personal difficulties, even if this involves purchasing consumer durable goods on the instalment plan. Further careful questioning along these lines could probably obtain some quantitative information on the extent to which people intend to draw upon their liquid assets in order to make various types of expenditures during the next year, which would in turn shed light on a major potential source of inflation. By emphasizing questions where results were found to be fruitful and eliminating questions found to be less important, I feel that the proposed survey could give us not only more accurate national estimates of liquid asset ownership but also improved and extended information on people's intentions regarding such assets.

"It is agreed among the technicians that the survey may well be extended to cover approximately 3,000 persons located in about 30 to 40 different urban, village and rural areas, spread over the whole country. The cost of coverage at this level would be in the range of \$50,000 to \$60,000. Actual interviewing would start not later than next January and preliminary results could be expected early in March. The results of this survey, together with the shape of economic developments, would determine whether there should be a recommendation for further surveys of this sort and whether they should be undertaken by the Reserve System or by some other agency of Government."

During the discussion, reference was made to a letter dated October 23, 1945, from Mr. Snyder, Director of the Office of War Mobilization and Reconversion, urging that the expanded survey as outlined in Mr. Thomas' memorandum be made.

It was pointed out that when this matter was discussed by the Board on March 21, 1944, an expenditure of between \$5,000 and \$15,000 was authorized for the pilot or exploratory surveys, upon the understanding that when the results of the preliminary surveys were available, the Board would consider the matter further and determine whether

11/1/45

-9-

it should authorize the payment of the costs necessary to pursue the surveys on a nation-wide basis.

Upon motion by Mr. Evans, it was voted unanimously to authorize Mr. Thomas to work out the necessary details for the proposed survey with the Department of Agriculture with the understanding that when the plans were completed they would be submitted to the Board for final approval.

At this point Messrs. Thomas, Vest, Wyatt, Goldenweiser, Robinson and Villard withdrew from the meeting.

The actions 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 October 31, 1945, were approved unanimously.

Memorandum dated October 26, 1945, from Mr. Bethea, Director of the Division of Administrative Services, submitting the resignation of Donald A. Hurst (who was ordered to report for duty in the Armed Services on October 25, 1945) as a clerk in that Division, and recommending that the resignation be accepted effective as of the close of October 24, 1945, and that payment be made to Mr. Hurst of one month's unearned salary (one-twelfth of his annual salary) in accordance with the policy adopted by the Board on June 16, 1943, with respect to the payment of military benefits to temporary indefinite employees who enter military service.

Approved unanimously.

11/1/45

-10-

Memorandum dated October 29, 1945, from Mr. Paulger, Director of the Division of Examinations, recommending that Louis W. Zidek, who has been on military leave, be reinstated in his position as Assistant Federal Reserve Examiner in that Division, with salary at the rate of \$2,980 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination.

Approved unanimously.

Memorandum dated October 31, 1945, from Mr. Bethea, Director of the Division of Administrative Services, recommending that Mrs. Josephine Boswell be appointed as a charwoman in that Division on a temporary basis for a period of not to exceed two months, with salary at the rate of \$1,440 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination. The memorandum stated that it was not contemplated that Mrs. Boswell would become a member of the Board's retirement system.

Approved unanimously.

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

"In accordance with the recommendation contained in your letter of October 25, 1945, the Board of Governors extends to January 15, 1946, the time within which the First State Bank of Corpus Christi, Corpus Christi, Texas, may accomplish membership."

Approved unanimously.

11/1/45

-11-

Letter to the Presidents of all the Federal Reserve Banks reading as follows:

"At the joint meeting on October 18, 1945, of the Presidents' Conference with the Board of Governors, as you will recall, some questions arose regarding the present margin rules in Regulations T and U, and the Board agreed at that time to send to all the Presidents a clarifying statement concerning these rules. Such a statement is enclosed."

Approved unanimously.

Letter to Mr. L. M. Sales, Sales Furniture Company, Louisville, Kentucky, reading as follows:

"We very much appreciate your letter of October 18, 1945, giving your thoughts about the future of consumer credit regulation.

"A number of people feel, like you, that the Government should have power to regulate consumer credit, as a permanent part of a program to promote economic stability. Others, as you know, take a different view, frequently on the general ground that economic controls are likely to interfere with the attainment of full production under a private enterprise system.

"The Board has taken no position on the question of permanent authority. Its present authority continues during the national emergency declared by the President on May 27, 1941. This emergency period has no specific termination date but will end upon a declaration by the President. Congress, of course, can take action either to terminate the authority or to adopt permanent legislation.

"In order to carry out the purposes which Regulation W was designed to accomplish, the Board is of the opinion that the regulation, modified from time to time as required by changing conditions, should remain in effect until the danger of inflation has diminished, that is, until consumers' goods come on the market in sufficient supply to meet demands. In view of the low production during the war of goods for which credit is used, this time should be some months in the future."

Approved unanimously.

11/1/45

-12-

Telegram to Mr. Berge, Secretary and Assistant Counsel of the Federal Reserve Bank of Boston, reading as follows:

"Re your letter October 29 to Vest. Understand that State Street Investment Corporation is an open-end investment trust not now engaged in issuing or offering any of its stock for sale nor is it now engaged in any of the other activities described in section 32 of Banking Act of 1933. Also understand that Corporation wishes to distribute to its shareholders a capital gains dividend and in connection therewith issue to its shareholders 30-day transferable rights to reinvest at asset value not more than the amount it will pay to them as capital gain dividends; that it will issue about 123,000 shares on this basis; that there are 1,234,115 shares now outstanding; and that the offering will be limited to 30 days. Board will not consider that the intended action of State Street Investment Corporation as stated above would bring the Corporation within the purview of section 32 but it should be made clear to the Corporation that any future offering of its stock will make necessary further consideration of the question whether the Corporation is primarily engaged in the securities business within the meaning of section 32."

Approved unanimously.

Letter to Mr. Creighton, Chairman of the Federal Reserve Bank of Boston, reading as follows:

"Referring to your letter of October 23, 1945, since notices have already been given to tenants to vacate the building at 99-111 Milk St. the Board has no objection to your beginning the demolition of the building prior to the end of this year."

Approved unanimously.

Letter to Mr. Luther Evans, Librarian of Congress, reading as follows:

11/1/45

-13-

"This will acknowledge receipt of your letter of October 23 in regard to excess stocks of printed and processed reports and other documents of which distribution has hitherto been restricted for reasons of security.

"We do not have any excess copies of such material for distribution. Accordingly, there appears to be no need for the designation of an officer in this organization for the purpose outlined in your letter. However, if you should desire any further information, please communicate with us again."

Approved unanimously.

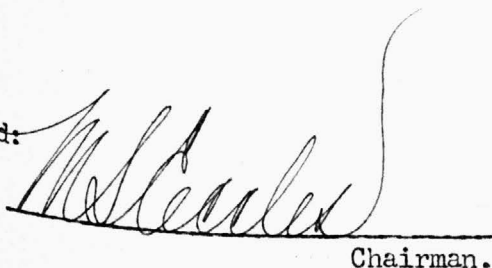
Memorandum dated October 30, 1945, from Mr. Paulger, Director of the Division of Examinations, recommending that \$100 be added to the 1945 budget for that Division to cover postage and expressage.

Approved unanimously.

Thereupon the meeting adjourned.


Secretary.

Approved:


Chairman.