

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, December 7, 1945, at 11:00 a.m.

PRESENT: Mr. Eccles, Chairman  
 Mr. Ransom, Vice Chairman  
 Mr. McKee  
 Mr. Draper  
 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. Smead, Director of the Division  
 of Bank Operations  
 Mr. Leonard, Director of the Division  
 of Personnel Administration  
 Mr. Bethea, Director of the Division  
 of Administrative Services  
 Mr. Wyatt, General Counsel

There were presented telegrams to Mr. Flanders, President of the Federal Reserve Bank of Boston, Messrs. Treiber and McCreedy, Secretaries of the Federal Reserve Banks of New York and Philadelphia, respectively, Messrs. Leach and McLarin, Presidents of the Federal Reserve Banks of Richmond and Atlanta, respectively, Mr. Dillard, Vice President of the Federal Reserve Bank of Chicago, Messrs. Stewart and Powell, Secretaries of the Federal Reserve Banks of St. Louis and Minneapolis, respectively, Mr. Gilbert, President of the Federal Reserve Bank of Dallas, and Mr. Earhart, Vice President of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Banks of St. Louis and San Francisco

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on December 4, by the Federal Reserve Banks of Richmond and Atlanta on December 5, by the Federal Reserve Banks of New York, Philadelphia, Chicago, Minneapolis, Dallas, and San Francisco on December 6, 1945, and by the Federal Reserve Bank of Boston today of the rates of discount and purchase in their existing schedules.

Approved unanimously.

In response to inquiry by Mr. McKee as to whether the elimination of the preferential discount rate now in effect at the Federal Reserve Banks should be taken up again with the Treasury, Mr. Eccles suggested, and all of the members of the Board agreed, that inasmuch as the executive committee of the Federal Open Market Committee had the whole matter of Treasury financing and System open market policy under consideration it would not be advisable to raise the question of the preferential discount rate until the Board was prepared to discuss other phases of the policies for the postwar period.

Mr. Eccles then read a letter which he had received from Mr. Sproul, President of the Federal Reserve Bank of New York, under date of November 16, 1945, in response to the Board's letter of November 8, 1945, suggesting that Mr. Burke Knapp, Special Assistant to the Chairman, be asked to serve as Chairman of the informal staff group for the consideration of plans and procedures for handling questions in the foreign field. He also read a reply which he had sent to Mr. Sproul under date of November 28, 1945, and said that while he was

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in New York last week he had discussed the matter with Mr. Sproul and that it was agreed that Mr. Knapp should serve as Chairman of the staff group.

Reference was made to the announcement in the press with respect to the British loan agreement and Chairman Eccles said that he had sent the press release regarding the agreement to the Presidents of the Federal Reserve Banks by wire and that copies of additional documents and the United States' proposals relating to an international trade organization were sent by mail. Copies of all of this information had been furnished to the members of the Board. Chairman Eccles also said that an analysis of the proposals was being prepared in the Board's Division of Research and Statistics and would be distributed to the members of the Board early next week and that a second statement was being written which would be available later and which would review the history of the negotiations and the positions which he had taken during the conferences. He did not know when the necessary legislation to make the proposals effective would be introduced or the form that it would take except that, because of the appropriations that would be necessary, it would be a bill rather than a treaty. It was hoped, he said, that there would be a prompt decision on the matter in Congress.

Chairman Eccles then made substantially the following statement for the purpose of informing the members of the Board of his talks in New York last week with Mr. Sproul, President, and Mr. Ruml, Chairman,

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of the Federal Reserve Bank of New York, relating to (1) the part time service of John H. Williams as Vice President of the Bank, (2) the Board's position regarding Mr. Sproul's testimony on the Bretton Woods' proposals, and (3) Mr. Ruml's public expressions on taxation and other matters:

With respect to the first matter, I let Mr. Sproul read a draft of letter which had been prepared in accordance with an informal understanding of the Board on September 24, 1945, but which had not yet been approved by the Board. Mr. Sproul responded that he regretted the position that the Board had taken and he was sure that the directors of the Bank would not accept it and that they would make an issue of it. I said I did not see that they could make an issue of it, and that the Board was not willing to continue to approve a salary for Mr. Williams under the existing arrangement in which he attended the meetings of the board of directors of the Bank and of the Federal Open Market Committee and claimed complete freedom to do as he pleased on the outside with respect to speeches, books, and articles on matters of interest to the System. I referred particularly to his testimony on Bretton Woods, and Mr. Sproul said that as President of the Bank he was able to control Mr. Williams' outside activities. I replied that he would control what Mr. Williams said only as long as he did not agree with Mr. Williams' position and that otherwise he would be permitted to say what he pleased. I also said that as long as the present arrangement continued it would cause trouble and would be detrimental to the relations between the Federal Reserve Banks and the Board and to the position of the System.

I also said that the Board had been dissatisfied with the arrangement for a long time, that it was going to take action on it, but that it would not send a letter which would embarrass Mr. Williams or the Bank as it was expected that he would continue until next summer or fall when arrangements were made for the new academic year. I made it clear that the Board would have no objection to Mr. Williams serving as Vice President of the Bank on a

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full time basis. Mr. Sproul thought that it would be a mistake to disturb the present arrangement and that Mr. Williams was an extremely valuable man to the Bank.

Later I talked to Mr. Ruml, and he agreed that the arrangement with Mr. Williams was not satisfactory, for reasons which he stated, and that it should be discontinued.

During my discussion with Mr. Sproul I told him of the consideration which the Board had given to his action in testifying on the Bretton Woods proposals and of the position the Board had taken at its meeting on October 16, 1945. Mr. Sproul did not say anything when I had finished but when we were ready to leave the Bank after talking about other things he said he was glad to talk with me as it had been helpful, that he hoped the System could be effective and he recognized it would be faced with tremendous problems, but that he did not want the Board to think that because he did not say anything in response to my statement about his testimony on the Bretton Woods proposals that he was receding from his position because he was not, that if he had the decision to make again he would do the same thing, and that he would not agree that in the future he would not take a similar position--that he was making no commitment. I replied that I was not asking him to make a commitment but was telling him how the Board felt, that if in the future he insisted on taking a public position in opposition to the Board it would raise an issue which would be bad for the Board and for the System, but that he could reserve the right to take such action and the Board would reserve the right to refuse to approve his appointment as President of the Bank, which would also be bad for the System. I added that I hoped he would be wise enough to avoid such a cleavage. His comment was that he hoped so too but that he did not want the Board to get the impression that he regretted what he had done or was committing himself to a different position than he had taken with the Board in the past.

(At this point the meeting recessed for luncheon and reconvened at 2:30 p.m. with the same attendance as at the morning session, and Chairman Eccles' statement continued as follows):

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I had lunch with Mr. Ruml on Saturday, December 2, and talked to him first about Mr. Williams with the results that I have already stated. I then referred to the difficulty which sometimes was created by his public statements and appearances before various committees of Congress on controversial subjects, and how difficult it was for the public to distinguish whether the views he expressed on such matters were views which he entertained as Chairman of the Federal Reserve Bank of New York or as an executive of Macy's. I said that we had been considering whether it was in the best interests of the System for the Board to have a representative at a Federal Reserve Bank who desired to express himself as freely as he did on controversial subjects as his views might be contrary to the position that might be taken by the Treasury, the Administration, or the Board, and that our relations with the Treasury had not been helped by the positions he had taken in the field of taxation. His response was that the Board had appointed him and could remove him, but that he would not want to be embarrassed by having to resign because of an issue. He also said he had never taken a position contrary to the Board and that if the Board would state its views, objectives, or policies on these national issues he would assure us that he would stay within the policies expressed by the Board. He added that it was not the policy of the Board to express its views on many public questions and asked if he was to be estopped from talking about a subject because the Board does not state its position. He did not think the Board could object to his discussing questions when it had no position on them. I told him that we did not think that, as a central banking agency, it was necessary or proper for us to take a public position on all of these controversial issues, that although it might be desirable to state what our opinions are on matters affecting fields in which we have responsibility, that did not mean that we should develop a tax program and get into a controversy with the Treasury regarding it as he did. I said I doubted that we should take a position on such problems as labor, wages, and other controversial questions. He asked why, in that situation, the Board should object to his expressing himself on these matters and I told him that it was because when he spoke as Chairman of the New York Bank it appeared that the System was taking a position when in fact it was not. His response was

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that if the Board felt that way it should rescind the position it had taken on the resolution adopted by the Chairmen of the Reserve Banks at White Sulphur Springs in 1941 regarding the position of the Reserve Banks as centers of enlightenment and that nothing he had done was contrary to that position.

Mr. Ruml does not want to resign as a member of the New York Board and asked if he could come down and talk to the members of the Board. I told him that some of the members were away and that I did not know whether a meeting with the Board would be possible until after the first of the year. He asked if there was any hurry about a decision and suggested that if he was to resign it would be better if he went off the New York Board during, rather than at the end, of a year. I told him there was no urgency about it as we did not have any one in mind to take his place, but that I was raising a question which we thought should be raised. He said he was willing to discuss the matter further to see if something could be worked out.

He called me up day before yesterday and I am to see him here in Washington tonight. I will talk with him again and report to the Board what he has to say.

Mr. McKee presented a draft of a letter to Mr. McLarin, President of the Federal Reserve Bank of Atlanta, advising him that action upon the request contained in his letter of October 23, 1945, for authority to purchase two tracts of land in Jacksonville for the purpose of constructing a new Federal Reserve Branch building, would be deferred pending receipt of the information asked for in the Board's letter as to the need for abandoning the present property and erecting a new branch building.

On motion of Mr. Ransom, the letter was approved.

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Reference was then made to a memorandum dated December 4, 1945, from Mr. Smead, Director of the Division of Bank Operations, to Chairman Eccles on the subject of contingent reserves of Federal Reserve Banks. The memorandum, copies of which were furnished to other members of the Board prior to this meeting, stated that on several occasions in the past the desirability of adopting a policy with respect to the establishment of contingent reserves at Reserve Banks had been taken up with the Board several times, and that on at least two occasions the matter had been referred by the Board to the Presidents' Conference which recommended that the determination of amounts of such reserves should be left to the individual Federal Reserve Banks. For reasons stated in the memorandum, it was Mr. Smead's view that the question should be raised again so that if a change in policy was to be made at an early date the matter could be taken up with the Federal Reserve Banks by wire so that the change could be discussed by the directors of the Federal Reserve Banks at their December meetings.

Chairman Eccles expressed the view that the Board should establish a System policy on this matter and questioned whether in view of the provisions of Section 7 of the Federal Reserve Act any contingent reserves should be established beyond the needs for self insurance, losses on loans, and other foreseeable losses. In view of the character of the securities in the System open market account and the conditions under which they were bought and sold, he saw no justification

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for providing reserves for losses on such securities.

There was a discussion of the extent to which the establishment and maintenance of contingent reserves could be justified, and at the conclusion of the discussion the question was referred to Chairman Eccles with power to act after consultation with Mr. Smead.

There was then presented a memorandum dated November 15, 1945, from Mr. Bethea, Director of the Division of Administrative Services, recommending that Seaton Dyson, a messenger in that Division, be retained in active service at his present salary of \$1,900 per annum for a period of not to exceed one year beginning January 1, 1946, his continuance on a temporary basis during that period to depend upon the need for his services and his ability to render them satisfactorily. Dyson reached retirement age on July 4, 1942, and his retention in active service during the intervening years had been approved by the Board.

In connection with this matter, Chairman Eccles expressed the view that the Board should advise the Federal Reserve Banks that, in view of the return of servicemen to civilian life and their need for employment, the Board and the Federal Reserve Banks should return as promptly as possible to the policy followed before the war of providing for the retirement of employees by the end of the year in which they reach 65. He also suggested that it would be desirable to suggest to the Reserve Banks that they establish the necessary procedures to

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assure that applications of veterans are given full consideration.

The other members of the Board concurred in this suggestion, and it was understood that Mr. Leonard would prepare a draft of letter on the subject for consideration by the Board.

Upon motion by Mr. Draper, Mr. Bethea's recommendation with respect to Dyson was approved unanimously.

At this point Messrs. Smead, Leonard, Bethea, and Wyatt withdrew from the meeting.

The action stated with respect to each of the matters hereinafter 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 December 6, 1945, were approved unanimously.

Memorandum dated December 5, 1945, from Mr. Bethea, Director of the Division of Administrative Services, submitting the resignation of Mrs. Marguerite K. Dwyer, a stenographer in that Division, and recommending that the resignation be accepted effective as of the close of business December 19, 1945, and that a lump sum payment be made for any accrued annual leave remaining to her credit at that time.

The resignation was accepted as recommended.

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

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"Retel December 6. Board approves designation of John O. Barrows, Walter R. Dewar, and Charles E. Turner as special assistant examiners for Federal Reserve Bank of Boston."

Approved unanimously.

Letter to Mr. Sproul, President of the Federal Reserve Bank of New York, reading as follows:

"The Board approves the establishment of the position of Special Assistant in the Foreign Department without established maximum annual salary under the personnel classification plan of your Bank, as proposed in your letter of November 23, 1945.

"For ready reference, the Board has added the following note to Form A Page No. 253-1a as submitted, and in order that the copies of the personnel classification plans be uniform suggests that the same note be added to the pages in the Bank's copies of the plan:

Position was established without a maximum annual salary with the understanding that prior approval of the Board of Governors will be obtained for payment of salary in excess of \$6,000."

Approved unanimously.

Letter to Mr. J. M. Rice, Vice President of the Federal Reserve Bank of New York, reading as follows:

"Receipt is acknowledged of your undated letter enclosing a list of the positions under the personnel classification plan of the Federal Reserve Bank of New York and the Buffalo Branch showing maximum annual salaries adjusted to include supplemental compensation heretofore authorized.

"It is noted from your letter that the adjusted maximum annual salaries are to become effective January 1, 1946, and the Board's copy of your personnel classification plan will be changed accordingly as of that date."

Approved unanimously.

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

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"This will acknowledge your letter of November 29, 1945 advising of the retirement, effective December 1, 1945, of Gideon W. Shadle, an assistant examiner for the Federal Reserve Bank of Philadelphia.

"It is noted that you desire to retain Mr. Shadle's services for a limited period and, in accordance with your request, the Board approves the reappointment of Mr. Shadle as an assistant examiner for the Federal Reserve Bank of Philadelphia. Please advise us of the date upon which the appointment becomes effective."

Approved unanimously.

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

"The Board of Governors approves the changes in the personnel classification plan of the Federal Reserve Bank of Chicago as submitted with your letter of October 30, 1945, with the exception of the proposed increase in the maximum annual salary for the position of Assistant Auditor.

"In accordance with your telephone request, action by the Board with relation to the position of Assistant Auditor has been deferred pending further advice from you."

Approved unanimously.

Telegram to Russell L. Dearmont, St. Louis, Missouri, reading as follows:

"Board of Governors of Federal Reserve System has appointed you as Class C director of Federal Reserve Bank of St. Louis for unexpired portion of term ending December 31, 1946, and will be pleased to have your acceptance by collect telegram."

Approved unanimously.

Telegram to Mr. Woolley, Vice President of the Federal Reserve Bank of Kansas City, reading as follows:

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"Relet December 4. Board approves appointment of Otto W. Beaman as assistant examiner for the Federal Reserve Bank of Kansas City. Please advise effective date of appointment."

Approved unanimously.

Letter to Mr. William G. Kunz, Second Vice President and Cashier, The Chase Bank, New York, New York, reading as follows:

"This will acknowledge with thanks your letter of November 5, 1945, advising that the Hongkong Branch of your Bank is again under your supervision and is once more open for business.

"It is understood from your telephone conversation with Mr. Goodman of the Board's Division of Examinations that, when the officer in charge of the Branch makes his report to your office as contemplated by Regulation M, a copy of that report will be transmitted to the Federal Reserve Bank of New York. In the meantime, it will be appreciated if you will inform us as to the date operations were resumed at the Hongkong Branch."

Approved unanimously.

Memorandum dated December 3, 1945, from Mr. Paulger, Director of the Division of Examinations, recommending that the Board continue to allow a per diem of \$7 for the period January 1, 1946, to December 31, 1946, inclusive, for examiners who participate in the examinations of the Federal Reserve Banks, with the understanding that, should conditions become more nearly normal at any time during that period and apparently justify a return to the \$6 per diem established in the Board's travel regulations for such personnel, the matter would be reviewed and a report promptly submitted to the Board.

Approved unanimously.

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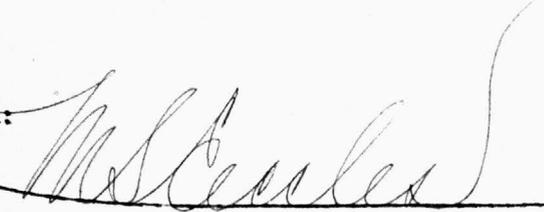
Memorandum dated December 4, 1945, from Mr. Smead, Director of the Division of Bank Operations, recommending that the Board's authorization of an increase from \$6 to \$7 in the per diem allowance for employees in that Division who visit the Federal Reserve Banks for the purpose of reviewing operating costs, which will expire on December 31, 1945, be continued in force for the calendar year 1946.

Approved unanimously.

Thereupon the meeting adjourned.

  
Secretary.

Approved:

  
Chairman.