

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, June 18, 1946, at 10:30 a. m.

PRESENT: Mr. Eccles, Chairman
Mr. Szymczak
Mr. Draper
Mr. Evans

Mr. Carpenter, Secretary
Mr. Hammond, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Chairman
Mr. Smead, Director of the Division of
Bank Operations
Mr. Vest, General Counsel

As stated in the minutes of the meeting of the Board on June 12, 1946, Mr. Vardaman was absent on official business.

Mr. Szymczak referred to a memorandum prepared by Mr. Smead under date of May 8, 1946, in accordance with the action taken by the Board at its meeting on March 5, 1946, with respect to the elimination from circulation of Federal Reserve notes of the \$500 denomination and above. The memorandum reviewed the consideration given to this matter by the Board and the Federal Reserve Banks and recommended that the Board either (a) instruct the Federal Reserve Banks to discontinue paying out Federal Reserve notes in denominations of \$500 and above and retire those received from circulation, or, (b) advise the Federal Reserve Banks that the Board adheres to the position heretofore taken that it would request no further printings of notes in these denominations but would offer no objection to the Federal Reserve Banks paying out such notes as long as the present stocks of the individual Reserve Banks last. The memorandum also recommended that the Treasury be advised

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of the Board's decision to discontinue further printings of Federal Reserve notes in denominations of \$500 and above and of any further action looking toward the elimination of such notes from circulation.

In the ensuing discussion question was raised as to the attitude of the Treasury toward the proposed action and Mr. Smead referred to the comment in his memorandum to the effect that in a letter dated March 18, 1946, Mr. Bartelt, Fiscal Assistant Secretary of the Treasury, submitted, without comment, a memorandum prepared at his request by Mr. Haas, Director of the Division of Research and Statistics of the Treasury, in which it was stated that while the objectives which the proposal was designed to obtain were desirable it was doubtful that it would achieve them, that the amount of money in circulation was not likely to be decreased, that black market transactions and efforts to evade taxes would continue and fear of currency might result, and that in view of these considerations it was his recommendation that the proposal be postponed until conditions were much more stable or until it could be inaugurated as a minor part of a larger program of currency alteration. Mr. Smead also said that the Treasury had taken no official position on the matter. It was pointed out that the Treasury program of requiring banks and other financial institutions to submit monthly reports of currency transactions in unusual amounts was still in effect and it was suggested that as long as that program continued the Board would be justified in authorizing the issuance of existing stocks of the higher denomination notes.

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At the conclusion of the discussion, upon motion by Mr. Szymczak, it was voted unanimously to request Mr. Smead to prepare a draft of letter to the Federal Reserve Banks advising that the Board would request no further printings of the higher denomination notes but would offer no objection to the Reserve Banks paying out such notes as long as the present stocks of the individual banks last.

In taking this action it was understood (1) that, if the Treasury should discontinue the program of requiring reports of currency transactions in unusual amounts, the Board should consider the matter again, and, (2) that when the letter to the Federal Reserve Banks was sent, the Treasury would be advised of the Board's action.

At the joint meeting of the Board and the Presidents of the Federal Reserve Banks on June 11, 1946, it was understood that the Presidents would send to the Board a statement of their views regarding the program of the Reconstruction Finance Corporation with respect to its blanket participation agreement and that when the statement was received, Chairman Eccles would take it, with such endorsement or supplemental statement as the Board might wish to make, to the Treasury, and call attention of the Treasury to the unsound and inflationary effects of the Corporation's program. The statement referred to was received by the Board in a letter dated June 13, 1946, from Mr. Sproul, as Chairman of the Presidents' Conference, which was read and discussed at this meeting of the Board.

Reference was made particularly during the discussion to the question whether the Board should take the position that a guarantee by

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an agency of the Government should be available only when the bank and its correspondent were not willing to extend the credit and not in cases where a bank could not make or did not feel justified in making the loan itself. It was pointed out that if such a position were taken it would amount to forcing banks to make loans in participation with one or more correspondent banks even though the initiating bank would prefer to make the loan itself with a guarantee from a Federal agency. Mr. Draper stated that he would not interpret an endorsement of the statement received from the Presidents as an agreement with that position.

After consideration of this point, Mr. Draper moved that the Board concur in the position taken in the letter from Mr. Sproul and that Chairman Eccles be requested (1) to present the letter to Mr. Snyder, Director of the Office of War Mobilization and Reconversion and Secretary of the Treasury designate, with the statement that the letter expressed the views of the Presidents of the Federal Reserve Banks in which the Board concurred, and (2) in the conference with Mr. Snyder to amplify the letter as he saw fit in the light of the discussion at this meeting.

Mr. Draper's motion was put by the Chair and carried unanimously.

Mr. Evans raised the question as to the timing of any action by the Board to increase reserve requirements of central reserve city banks and Chairman Eccles expressed the opinion that if the market continued to maintain its present stability no action should be taken in that connection until after the current program of debt retirement of the Treasury was completed but that if conditions should change at any time it might be desirable to consider action at an earlier date.

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Mr. Carpenter stated that just before this meeting Mr. Creighton, Chairman of the Federal Reserve Bank of Boston, called to say that Mr. Flanders, former President of the Bank, who, effective March 1, 1946, was retained by the Bank as a consultant to the board of directors, was running for election as United States Senator from Vermont and Mr. Creighton inquired whether the situation thus created would come within the scope of the Board's resolution of December 23, 1915, with respect to officers and directors of the Federal Reserve Banks holding political and public office.

It was agreed unanimously that Mr. Carpenter should advise Mr. Creighton informally that when the arrangement with Mr. Flanders was made, active participation by him in party politics was not contemplated, and that while he was not an officer or employee of the Bank in the usual sense, it was felt that the continuation of the arrangement would be contrary to the purpose of the Board's resolution and, therefore, should be discontinued.

Mr. Vest outlined briefly for the information of the members of the Board some of the changes in Board procedures that would be required by the Administrative Procedure Act which was signed by the President on June 11, 1946, and the principal provisions of which will become effective on September 11, 1946.

Chairman Eccles stated that Mr. Leland, Chairman of the Federal Reserve Bank of Chicago had returned from Panama and would be in the Board's offices today, that it was assumed there was no change in the

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position taken by the Board in connection with the letter sent to Mr. Leland on February 1, 1946, and that, in the absence of objection, he (Chairman Eccles) proposed to say to Mr. Leland that the Board felt that, in view of all the circumstances, he should terminate his connection with the Federal Reserve Bank of Chicago at such time as he might wish between now and the expiration at the end of this year of his present designation as Chairman and Federal Reserve Agent at the Bank.

All of the members of the Board present concurred in Chairman Eccles' statement and agreed that Mr. Leland should be advised accordingly.

At this point Messrs. Smead and Vest withdrew from the meeting and 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 June 17, 1946, were approved unanimously.

Memorandum dated June 13, 1946, from Mr. Thomas, Director of the Division of Research and Statistics, submitting the resignation of Mr. Evsey D. Domar, an Economist in that Division, and recommending that the resignation be accepted effective, at Mr. Domar's request, at the close of business June 14, 1946, and that proper lump sum payment be made to him for any annual leave remaining to his credit at that time.

The resignation was accepted as recommended.

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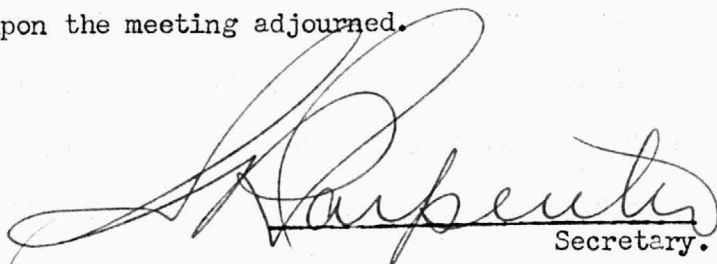
Memorandum dated June 13, 1946, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that a leave of absence without pay be granted to Mrs. Maria L. Nikonenko, a Clerk in that Division, for a $2\frac{1}{2}$ - month period, from July 15 to September 30, 1946, inclusive. The memorandum also stated that Mrs. Nikonenko was a participant in the Board of Governors Plan without death benefits, and that therefore she would not make any contributions to the retirement system during the period of leave without pay.

Approved unanimously.

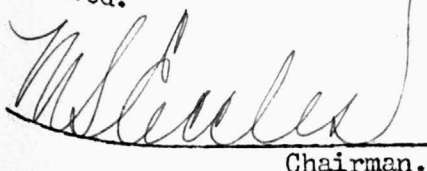
Memorandum dated June 17, 1946, from Mr. Bethea, Director of the Division of Administrative Services, recommending that for the reasons stated therein, and effective immediately, Miss Ruth M. Smallwood, a stenographer in Mr. Szymczak's office, be re-transferred to the Division of Administrative Services as a stenographer without change in her basic annual salary at the rate of \$2,166 per annum.

Approved unanimously.

Thereupon the meeting adjourned.


Secretary.

Approved:


Chairman.