

9/4/46 A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, September 4, 1946, at 10:30 a.m.

PRESENT: Mr. Ransom, Vice Chairman
Mr. Draper
Mr. Vardaman

Mr. Carpenter, Secretary
Mr. Smead, Director of the Division of
Bank Operations
Mr. Thomas, Director of the Division of
Research and Statistics
Mr. Nelson, Director of the Division of
Personnel Administration
Mr. Townsend, Assistant General Counsel

In connection with an informal consideration of the possible appointment of Mr. J. P. Redman of Cairo, Illinois, as a Class C Director of the Federal Reserve Bank of St. Louis for the unexpired portion of the term ending December 31, 1948, Mr. Vardaman referred to one or two occasions recently where it had not appeared possible to get suggestions for satisfactory appointees by the Board as Class C Directors and Directors of branches of Federal Reserve Banks from the usual sources and major reliance for such suggestions had been placed on the Presidents of the Banks. He felt that the Board should give consideration to the desirability of establishing other means of contacting possible appointees, and that since the Presidents could not and should not be expected to select directors of the Banks, the Board's appointments should be made after consultation with the Chairmen and others rather than with the Presidents of the Banks.

Mr. Ransom stated that he was satisfied that the other members of the Board were in agreement with Mr. Vardaman's suggestion, that it

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had not been the policy of the Board to consult the Presidents except in the few cases where the names of possible appointees had not been presented from other sources.

Mr. Vardaman stated that if, by the time he returned from the convention of the American Bankers Association in Chicago on September 22-25, 1946, no satisfactory names were proposed for appointment by the Board to fill the vacancy on the board of directors of the Pittsburgh Branch, he would go to Pittsburgh to see if he could find a man whom he could recommend for the appointment.

Reference was made to a letter received by the Board from Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, under date of August 19, 1946, in reply to the Board's letter of August 15, with which was enclosed a copy of President Truman's letter to various departments and agencies of the Government with respect to the reduction of expenditures. Mr. Peyton's letter expressed the opinion that it would be in the best interests of the Board of Governors, the Federal Reserve Banks, and the System if the manpower now employed by the System in gratuitous examinations of registrants under Regulation W were reduced to the examiners necessary to follow up complaints and investigate situations where there was evidence of evasion.

Mr. Vardaman stated that he had suggested that the letter be placed on the docket for a discussion of the reasons for Mr. Peyton's comment. Mr. Ransom said that the letter was an evidence of the opinion

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which Mr. Peyton had held for a long time and of his disagreement of the position taken by the Board and some of the other Federal Reserve Banks with respect to the steps necessary to enforce compliance with Regulation W, that the matter had been discussed with him on several occasions, and that there was nothing in the situation that would appear to call for action by the Board. In a discussion of the matter it was stated that, while Mr. Peyton personally was not in sympathy with the current program for the enforcement of Regulation W, the program was substantially being carried out by the Minneapolis bank.

Mr. Vardaman then referred to the paper which was written by Walter F. Stettner of the Division of Research and Statistics, and which appeared in Postwar Economic Studies No. 6 under the title "Public Works and Services in the Postwar Economy". He stated that the article had been the occasion for considerable unfavorable as well as favorable comment and had been interpreted as advocating the expenditure annually of a large sum for public works, and that he questioned whether articles which did not relate directly to the field of the Board's responsibility should be published by it. He felt that the preface to the studies, which made it clear that there was no official endorsement by the Board of any of the opinions or proposals of the authors, did not meet the situation adequately and that if the Board was going to publish material of this kind it should either approve the papers or state specifically that it did not agree. He felt that

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under any other circumstances the publication of the papers carried an implication of approval by the Board.

Mr. Thomas outlined briefly the background for the decision of the Board to publish the studies and Mr. Ransom stated why it was felt, and why it was his view, that because of the relationship of monetary and credit policies to the entire economy of the country it was necessary for the Board to have specialists on its staff in these various fields so that it might have expert advice regarding the possible effects of System actions on the different parts of the economy. He also said that it was not possible to prepare papers of this kind which would express the views of the authors and at the same time meet with the approval of all of the members of the Board, and that it was the belief of the Board the publication of the papers might occasion further discussion which would be helpful in ultimately finding the most satisfactory solution of some of the difficult problems with which the country was faced and that in that situation the best procedure was to publish the articles with a disclaimer of Board approval rather than not to publish them at all.

In a discussion of Mr. Stettner's paper and of the extent to which the Board might be justified to publish material of this kind, Mr. Vardaman expressed the opinion that, in the absence of a request from the Congress or the President, no agency of the Government should publish material dealing with fields in which the agency did not have

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responsibility, and that material prepared by the staff of the Board and the Federal Reserve Banks in these various fields should be for the information of the System only. He did not mean by that that he would restrict the research work of the System as he realized that it was necessary, but he doubted that it was ever intended by Congress that the results of such studies should be published when they related to matters regarding which the Board had no responsibility for policy or other action.

Mr. Ransom referred briefly to some of the questions that had arisen as to the scope of the Board's responsibility, particularly as discussed in the annual report of the Board for 1938, and stated that it would be difficult, if not impossible, for the Board to determine what its credit policies should be without a study of the whole economic picture and that while such studies had not been specifically assigned to the Board by Congress it was believed that they were a part of the System's responsibility.

Mr. Vardaman stated that he understood that it was proposed to publish, as No. 8 in the Postwar Economic Studies, a pamphlet under the title "Federal Reserve Policy", and that he felt that the papers contained in the pamphlet should not be released until after they had been discussed fully at a meeting of the Board. The other members of the Board present concurred in Mr. Vardaman's suggestion and it was understood that it would be followed.

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Consideration was then given to a letter dated August 28, 1946, from Mr. Davis, President of the Federal Reserve Bank of St. Louis, relating to the desire of the United States Employment Service in St. Louis to renew the lease for space occupied by it in the Nugent property owned by the Federal Reserve Bank.

It was agreed that Messrs. Carpenter and Smead should prepare a reply to the letter for consideration by the Board.

Mr. Vardaman stated that he had requested Messrs. Smead and Leonard, and such members of the staffs of their respective Divisions as they might think advisable, to attend the meeting of the State Bank Supervisors to be held in Cleveland on September 18-20, 1946.

At this point Mr. Parry, Director of the Division of Security Loans; Mr. Bethea, Director of the Division of Administrative Services; Mr. Leonard, Director of the Division of Examinations; Messrs. Young, Morse and Knapp, Assistant Directors of the Division of Research and Statistics; Messrs. Garfield, Dembitz, Gerschenkron, Musgrave, Grove, Alter, Renner, Koch and Youngdahl of the Division of Research and Statistics; and Messrs. Gardner and Triffin, formerly of the Division of Research and Statistics and now members of the staff of the International Monetary Fund, joined the meeting and Mr. Thomas made an informal report on the conference of experts on central bank problems which he and other representatives of the System attended in Mexico City during the last half of August.

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At the conclusion of Mr. Thomas' statement, all of the members of the staff with the exception of Mr. Carpenter withdrew from the meeting and the action stated with respect to each of the matters herein-after referred to was taken by the Board:

Memorandum dated August 28, 1946, from Mr. Leonard, Director of the Division of Examinations, submitting the resignation of Miss Frances M. Jenkins, a stenographer in that Division (who has been on temporary loan to Governor Szymczak's office since June of this year and who had submitted her resignation to accept a position as secretary on Mr. Szymczak's staff in Berlin, Germany), to become effective as of the close of business on the date immediately prior to that when her employment with the War Department became effective. The memorandum further recommended that appropriate payment be made for the accumulated annual leave remaining to her credit at that time.

The resignation was accepted as recommended.

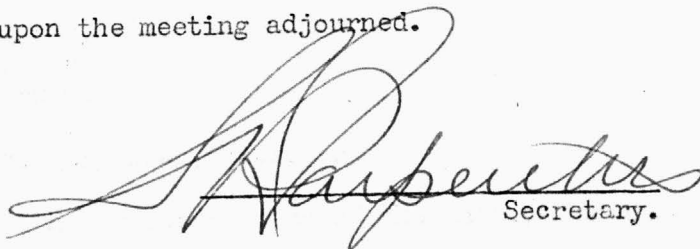
Memorandum dated August 30, 1946, from Mr. Nelson, Director of the Division of Personnel Administration, submitting the resignation of Miss Mary Ellen Hallett, a Clerk-Typist in that Division, and recommending that the resignation be accepted, effective, in accordance with her request, at the close of business September 6, 1946 and that appropriate payment be made for the accumulated annual leave remaining to her credit at that time.

The resignation was accepted as recommended.

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Thereupon the meeting adjourned.


Secretary.

Approved:


Vice Chairman.