A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, April 23, 1940, at 10:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. Davis
Mr. Draper

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the Chairman
Mr. Wyatt, General Counsel
Mr. Smead, Chief of the Division of Bank Operations
Mr. Dreibelbis, Assistant General Counsel
Mr. Leonard, Assistant Chief of the Division of Examinations

Mr. Davis stated that a member of the Committee on Agriculture of the House of Representatives called him on the telephone this morning and stated that it was planned that the Committee would hold an executive session tomorrow on the Jones Farm Credit Bill and that he proposed to suggest that the Committee request Mr. Davis to appear before the Committee and testify on the bill. The other members of the Board present expressed the opinion that, in the event Mr. Davis received such a request from the Committee, he should comply with the request.

Mr. Szymczak stated that President Young of the Federal Reserve Bank of Boston called on him this morning and submitted the recommendations which his salary committee proposed to make to the board of directors of the bank with respect to officers' salaries for the year beginning May 1, 1940, and that the recommendations contemplated the following salary increases:

Name	Title	Present Salary	Proposed Increase
W. W. Paddock	First Vice President	$20,000	$2,000
W. Willett	Cashier	14,000	500
K. K. Carrick	Secretary and General Counsel	13,500	500
E. G. Hult	Assistant Cashier	8,250	500
C. B. Pitman	Assistant Cashier	8,000	500
A. C. Kennel, Jr.	Assistant Counsel	4,500	500

Mr. Szymczak said that the salaries proposed for Messrs. Paddock, Hult and Pitman were in excess of the maximum salaries provided for the respective positions in the tentative classification of official salaries adopted by the Board but as there were no assistant vice presidents at the bank and at least part of the work performed by such officers at other Federal Reserve Banks was handled by Messrs. Hult and Pitman, assistant cashiers, it would be his recommendation that Mr. Young be advised informally that, with the exception of the salary for Mr. Paddock, the Board will approve the salaries as proposed, if fixed by the directors at those rates, and that the Board will also approve a salary at the rate of $20,000 per annum for Mr. Paddock if fixed by the directors at that rate. Mr. Szymczak added that President Young had made the statement that if the Board was not willing to approve all of the proposed salaries he would like to discuss the matter with the Board.

It was agreed unanimously that Mr. Szymczak should advise Mr. Young that the members of the Board who were available would be willing to meet with him at 2:30 p.m. today for that purpose.

Before this meeting the attention of the members of the Board had been called to a letter received from Mr. Lichtenstein, Secretary of the Federal Advisory Council, under date of April 16, 1940, in which it was stated that the next meeting of the Council would be held in Washington on May 19-21, 1940, and that it would be appreciated if the Board would send to him a list of topics which the Board of Governors desired the Council to discuss at that time.

> It was agreed unanimously that the Secretary should advise Mr. Lichtenstein that the Board suggests the following topics for consideration at the forthcoming meeting of the Council:

1. The Council has urged upon the Board the "modification of the policy of extreme easy money". The Board would like to have the opinion of the Council as to the more important causes of the "easy money" conditions; as to what actions within the power of the Board of Governors would be desirable and effective in the public interest; and as to the probable consequences of such actions.
2. What are the business prospects for the next 90 days, and in the Council's opinion do such prospects justify any change in the System's present banking and monetary policies?

Mr. Wingfield joined the meeting at this point.

In accordance with the action taken at the meeting of the Board on April 9, 1940, Mr. Paulger had prepared a revision of the draft of letter to the Presidents of all Federal Reserve Banks requesting information with respect to the general condition of member banks. The revised letter, copies of which had been sent to all of the members of the Board, read as follows:

"In order that the Board may have a nation-wide picture of the general condition of member banks of the Federal Reserve System, based upon data submitted by the Reserve Banks as of a date which will be as nearly current as practicable, it will be appreciated if you will have prepared and submitted to the Board as soon after May 15, 1940, as convenient, the information requested in the attached memorandum. If the data obtained by the survey are as informative as is anticipated, it is contemplated that similar reports will be requested annually as an aid in following the trend and developments from year to year in the general condition of member banks as a whole. These periodic surveys do not call for supplemental reports regarding developments with respect to individual national banks in the interim.

"It is anticipated that the data requested with respect to national as well as State member banks may be supplied from the information regularly obtained and currently maintained by the Reserve Banks, and that it will not be necessary to request information from the Chief National Bank Examiners specially for the purpose of this survey."

During the discussion of the letter Chairman Eccles suggested that, inasmuch as in any period of crisis the condition of nonmember banks becomes as important as that of member banks from the standpoint of the banking situation as a whole and the Federal Reserve System in the past has found it necessary or desirable to extend assistance to nonmember banks, steps might well be taken to obtain current information with respect to the condition of nonmember banks as well as member banks. Mr. Leonard stated that after the information received from the Federal Reserve Banks in response to the letter set forth above had been analyzed, if it appeared to be desirable, the Board could request the Federal Deposit Insurance Corporation to furnish information with respect to insured nonmember banks so that information with respect to all insured member and nonmember banks would be available to both the Board and the Federal Deposit Insurance Corporation.

> Upon motion by Mr. Szymczak the revised letter as prepared by Mr. Paulger was approved unanimously with the understanding that it would not be sent until approved by Mr. McKee following his return to Washington.

Chairman Eccles stated that yesterday he called Congressmen Ford of California on the telephone and advised him of the position taken by the Board at its meeting on April 19, 1940, with respect to his request for an expression of opinion on S.3343 which would amend Section 13b of the Federal Reserve Act relating to industrial loans. He also said that Congressman Ford agreed that the matter could best be handled in the manner suggested by the Board and stated that he had discussed the bill with Chairman Steagall of the Banking and Currency Committee of the House of Representatives, and with Senator Mead, who introduced the Senate bill and that a meeting was to be arranged with the President and if he would indicate that he would like to see the bill passed it was not anticipated that there would be any difficulty in getting it through either House of Congress.

Reference was made to a memorandum addressed to the Board by Mr. Smead under date of April 20, 1940, in which he stated that some of the Federal Reserve Banks had raised a question whether expenses incurred by them under the recent Executive Order issued by the President and regulations issued by the Treasury, relating to transactions in foreign exchange, were reimbursable by the Treasury.

The memorandum stated that Mr. Smead had discussed the matter with Mr. Heffelfinger, Assistant to the Under Secretary of the Treasury, who advised that the Department had no appropriation from which reimbursement could be made, that he (Mr. Smead) had proposed to Mr. Heffelfinger that a telegram be sent to the Federal Reserve Banks suggesting that they submit vouchers at the end of the month covering the foreign exchange expenses incurred with the understanding that the Treasury would then be in a position to determine whether means could be found to make reimbursement, and that Mr. Heffelfinger had stated that if a copy of the wire were sent to him before it was sent to the Federal Reserve Banks he would clear it promptly with Under Secretary of the Treasury Bell. The memorandum submitted a draft of telegram to Mr. Hays, Assistant Vice President of the Federal Reserve Bank of Cleveland, for consideration by the Board in this connection.

In the discussion which followed, Mr. Ransom raised a question as to the capacity in which the Federal Reserve Banks act under the Executive Order and regulations of the Treasury and in order to make it clear that the Banks were acting as agents, the draft of telegram was changed to read as follows:

> "Referring your April 19 wire, understand that Treasury Department now has no appropriation with which to reimburse Federal Reserve banks for expenses incurred by them as designated agencies under President's executive orders and recent regulations relating to transactions in foreign exchange, etc., but that if Federal Reserve banks submit separate vouchers at end of month for reimbursement of such expenses, the Treasury Department will review matter to determine whether means can be found to effect reimbursement."

Upon motion by Mr. Ransom the telegram was approved unanimously with the understanding that before it was sent it would be submitted by Mr. Smead to Mr. Heffelfinger as requested by him and that when cleared by Mr. Bell similar telegrams would be sent to the other Federal Reserve Banks.

Mr. Ransom stated that he had just received a telephone call from Under Secretary of the Treasury Bell in which the latter stated that counsel for the Guaranty Trust Company of New York had questioned the authority of the Treasury to rule as it did on April 19, 1940, that the Executive Order issued by the President on April 10, 1940, and the regulations issued by the Treasury thereunder prohibited transfers of stock certificates and securities in the names of nationals of Norway and Denmark, that in order to remove any possible doubt on the matter the Treasury proposed to ask for an amendment to the Trading With The Enemy Act, that Mr. Bell had made appointments with Chairman Steagall of the Committee on Banking and Currency of the House of Representatives for tomorrow morning and with Chairman Wagner of the Committee on Banking and Currency of the Senate for tomorrow afternoon to present the matter to the respective Congressional committees in executive session, and that Mr. Bell would like to have the Board represented at those meetings as evidence that it was cooperating with the Treasury in the matter. Mr. Bell also stated, Mr. Ransom said, that copies of the proposed amendment were being sent to the Board's offices and that President Harrison of the Federal Reserve Bank of New York was being requested to have a representative of the New York Bank present at both meetings.

After discussion of the question whether, since the Board had not been requested for an expression of its opinion as to the desirability of the proposed legislation, it would be appropriate for the Board to be represented at the meetings of the two Committees, it was agreed unanimously that Messrs. Wyatt and Dreibelbis should study the proposed amendment and that if it were thought advisable that the Board be represented at the meetings of the two Committees, Mr. Ransom, together with such members of the staff as he desired to have accompany him, should represent the Board.

At the suggestion of Mr. Ransom, Mr. Wingfield stated that the exchange of correspondence with the Securities and Exchange Commission relating to the proposed amendment to the Investment Company Act of 1940, which was discussed at the meeting of the Board on April 19, 1940, had taken place and that the letter to Senator Wagner, Chairman of the Banking and Currency Committee of the Senate, enclosing copies of the Board's letter to the Securities and Exchange Commission and the Commission's reply, was sent under date of April 22, 1940.

There was then presented a draft of reply to a letter dated April 19, 1940, from Mr. Lowell Mellett, Director of the Office of Government Reports, requesting that he be advised whether the Federal Reserve System would participate with other Government departments and agencies in furnishing personnel for the information booths in the Federal Building at the New York World's Fair which opens on May 11, 1940.

It was agreed unanimously that, for the reasons stated therein, the reply should be sent in the following form:

"I have before me your letter of April 19 to Chairman Eccles in which you refer to a request from the New York World's Fair Commission for the assistance of Federal departments and agencies in supplying personnel at the information booths.

"The position in which we find ourselves is like that of last year when the same question was presented. The organizations of the Federal Reserve Bank of New York and of the Board of Governors in Washington are necessarily geared to the requirements of their regular work and consequently do not have an excess of personnel available for other purposes. Moreover, the type of people who would be qualified for the purpose to which you refer are among those whose services are most needed in meeting the current requirements of the Federal Reserve System and it would be difficult if not impossible to replace them, as would be necessary if their services were loaned to the World's Fair.

"In the circumstances, we again would like to be excused from making such an assignment. We shall, however, be glad to furnish you full information as to publications which are available for distribution and a supply of copies when desired, in accordance with a separate request which we have received from the United States Information Service. In addition, persons who make inquiries at the information booths about the Federal Reserve System can be advised that any Federal Reserve Bank or the Board of Governors at Washington will be glad to respond to any requests for information that may be directed to them at their respective offices."

Mr. Ransom stated that Messrs. Piser and Edmiston, Senior Economists in the Division of Research and Statistics, had been following the practice of visiting banks, insurance companies, dealers and others in New York every three months and banks and other interested parties in other cities principally in the northern and eastern part of the United States less frequently, for the purpose of obtaining information as to the policies of large holders of Government securities with respect to investment in such securities and other matters affecting the Government securities market, and that recently the suggestion had been made by Mr. Rouse, Vice President of the Federal Reserve Bank of New York, that in order that such visits by representatives of the Board and the New York Bank will not be made so frequent as to be a burden on the persons visited, the visits of the Board's representatives be not oftener than every six months with the understanding that similar visits would be made by the representatives of the New York Bank during the alternate three months' period and reports thereof made to the Board.

The members of the Board expressed the opinion that it was desirable that it continue to have the benefit of the visits made by Mr. Piser to New York but that an invitation might be extended to Mr. Rouse to accompany Mr. Piser if he desired to do so. It was understood that Mr. Ransom would telephone Mr. Rouse and advise him accordingly.

The suggestion was also made in this connection that it would be desirable if a member of the Board would accompany Mr. Piser on one of his trips to New York for the purpose of obtaining the cooperation of persons whom Mr. Piser should visit in furnishing information desired by the Board, that it would be helpful to Mr. Piser in his work if he were given a title more indicative of his duties, and that consideration might be given to the question whether his salary is in line with his responsibilities and salaries paid to employees of other organizations in comparable positions.

At 1:15 p.m. the meeting recessed and reconvened at 2:40 p.m. with Messrs. Ransom, Szymczak, Davis, Draper, Morrill, Bethea, Carpenter, Smead and Roy A. Young, President of the Federal Reserve Bank of Boston, present.

President Young reviewed the considerations which prompted the recommendations as to officers' salaries proposed to be made by the salary committee of the Federal Reserve Bank of Boston as outlined by Mr. Szymczak at the meeting this morning and stated that he hoped the Board would be willing to approve the recommendations, and that if the Board felt for any reason that the recommendations should not be approved the salary committee would not submit them to the board of directors of the Bank as the committee did not want to be in the position of having any of its recommendations disapproved by the Board of Governors. Following his statement President Young withdrew from the meeting and Mr. Szymczak renewed the recommendation made by him during the morning session that President Young be advised informally that the Board would be willing to approve the salaries proposed for the officers of the Bank, with the exception of the salary of $22,000 per annum proposed for First Vice President Paddock and that it would be willing to approve a salary at the rate of $20,000 per annum for him if fixed by the board of directors at that rate.

Mr. Szymczak's recommendation was approved unanimously.

At this point Mr. Smead withdrew and Messrs. Eccles, Wyatt, Dreibelbis, Parry, Chief of the Division of Security Loans, Thomas, Assistant Director of the Division of Research and Statistics, and

Morse, Senior Economist, joined the meeting.

Mr. Wyatt stated that the draft of amendment to the Trading With The Enemy Act proposed by the Treasury to which reference was made by Mr. Ransom at the meeting this morning and which was in the form of a joint resolution had been received from Mr. Bell. In explanation of the problem Mr. Wyatt said that the Executive Order issued by the President on April 10, 1940, was in the form of an addition to the Executive Order of January 15, 1934, regulating transactions in foreign exchange, transfers of credit, and the export of coin and currency which had been issued under the authority of the Trading With The Enemy Act as amended by the Emergency Banking Act of March 9, 1933; and that the later order prohibited, except as specifically authorized under regulations or licenses, all transfers of credit between "banking institutions" within the United States, all transfers of credit between any "banking institution" within the United States and any "banking institution" outside of the United States, all payments by any "banking institution" within the United States, all transactions in foreign exchange by any person within the United States, and the export or withdrawal from the United States or the earmarking of gold or silver coin or bullion or currency by any person within the United States, if any of the foregoing involved property in which Norway or Denmark, or any nationals thereof or any political subdivisions, agencies, or instrumentalities thereof, has at any time on or since April 8, 1940, any interest of any nature whatsoever.

Following the issuance of the Executive Order and regulations, Mr. Wyatt said, a question was raised as to their application to stocks and bonds and the Treasury on April 19, 1940, issued a ruling which held that the Executive Order and regulations prohibited, except under licenses, (a) the transfer by a banking institution within the United States of stock certificates from or into the names of "nationals" of Norway or Denmark, and (b) the delivery out of custody accounts or the receipt in custody accounts by a banking institution within the United States of securities held or to be held in custody for "nationals" of Norway or Denmark, and it was this ruling that attorneys for the Guaranty Trust Company of New York had questioned, claiming that, based on the legislative history of the act, the law is not broad enough to authorize the President to regulate transactions in stocks and bonds. Mr. Wyatt added that the joint resolution to amend the Trading With The Enemy Act now proposed by the Treasury is for the purpose of making it clear that the President has authority to prohibit transfers of stocks and bonds but that the amendment goes much farther than that and authorizes the President to prohibit any transfer, withdrawal or exportation of, or dealing in, by any person within the United States or any place subject to the jurisdiction thereof, any property in which any foreign state or a national or political subdivision thereof, as defined by the President, has any interest. Mr. Wyatt made the further statement that the joint resolution would also approve and confirm the Executive Order of April 10, 1940, and the regulations and general rulings issued thereunder by the Secretary of the Treasury.

The possible effects of the joint resolution were discussed and Chairman Eccles stated that the matter to be considered by the Board was whether, in the light of the fact that as the question before the Congressional Committees was one relating to the foreign policy of the United States which was outside of the field of responsibility of the Board of Governors, the Board should be represented at the meetings of the Committees.

Mr. Wyatt said he believed it to be the consensus of the members of the staff who had considered the matter since the meeting this morning that there was no reason why the Board should express an opinion regarding the policy question involved and that as the Federal Reserve Banks had been called upon to act as agencies to administer the regulations issued by the Treasury the Board was interested only in seeing that the authority under which the Reserve Banks act was sufficiently broad to enable them to discharge their agency responsibilities effectively. He also said that if Congress were going to enact legislation on this matter at this time it might be well to suggest that the Treasury get authority to pay the expenses of administering its regulations.

The opinion was generally concurred in that if the Board were represented at the meetings of the Congressional Committees it should be made clear that it had not taken a position on the question of policy involved, but, that decision having been made, the Board felt the joint resolution might be helpful to the Federal Reserve Banks in the discharge of their responsibility as agencies in the administration of the Treasury regulations.

Mr. Wyatt stated that he had talked with Mr. Logan, General Counsel for the Federal Reserve Bank of New York, regarding the request received by that Bank that it be represented at the meetings of the Congressional Committees, and that Mr. Logan advised that officers of the Bank were considering the matter this afternoon. Mr. Wyatt added that another question for consideration by the Board was whether, if the Board is not represented at the meetings of the Congressional Committees, the Federal Reserve Bank of New York should have representatives present.

Mr. Davis suggested that the Board's representative might say at the meetings that the Board had expressed no opinion on the question of foreign policy involved as that was not within the field of the Board's responsibility, that the joint resolution appeared to grant the authority desired by the administration and that the Board was interested in being represented at meetings of the Committees only because the Federal Reserve Banks would act as agencies in the administration of regulations issued under the authority of the legislation. He also suggested that a statement of the Board's position, which would avoid being critical of the proposed legislation, should be prepared so that, if an opportunity were not presented to state that position at the meetings of the Committees, the prepared statement could be filed for the record.

During the consideration of Mr. Davis' suggestion, Mr. Morrill stated that he had just talked to Mr. Logan over the telephone who stated that Mr. Harrison, President of the Federal Reserve Bank of New York, had discussed the matter with Mr. Bell and the decision had been reached that the Bank would not be represented at the meetings tomorrow. Mr. Logan indicated the personal opinion, Mr. Morrill said, that the joint resolution went unnecessarily far in covering not only the questions raised by the attorneys for the Guaranty Trust Company of New York but also authority to prohibit transfers of any kind of property whatsoever.

Chairman Eccles stated that the situation was one in which the Board had not been asked to express an opinion, that the fundamental question involved was one for determination by the Treasury and not by the Board and one in which the Federal Reserve System has no responsibility, and that inasmuch as the proposed legislation goes far beyond the point necessary to enable the Federal Reserve Banks to carry out their duties as designated agencies to administer the regulations, there seemed to be no reason why the Board should be represented at the meetings of the Congressional Committees.

Following some further discussion, Chairman Eccles made the suggestion that Mr. Ransom call Mr. Bell on the telephone and state to him that the Board had not been asked, and did not feel that it was in a position, to express an opinion on the question of policy involved, that, since the responsibility of the Federal Reserve Banks is only one of administering the Treasury regulations, the Board does not feel that it could accomplish anything by being represented at the meetings, but that if desired it would be willing to have a representative attend the meetings with the understanding that he would state the Board's position or leave with the Committees a prepared statement of that position.

Chairman Eccles' suggestion was approved unanimously and the staff was requested to prepare a statement of the Board's position which, upon approval by Mr. Ransom, would be sent by him to Mr. Bell before the meeting tomorrow morning with the Banking and Currency Committee of the House of Representatives.

(Secretary's note: Following the meeting Mr. Ransom talked to Mr. Bell over the telephone and advised him of the Board's position and Mr. Bell stated that, in the circumstances, he felt that no purpose would be served by the Board being represented at the meetings. Following his conversation with Mr. Bell, Mr. Ransom advised the staff that it would not be necessary to prepare immediately the suggested statement of the Board's position.)

At this point Messrs. Wyatt, Dreibelbis, Parry, Thomas and Morse left 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 meetings of the Board of Governors of the Federal Reserve System held on April 19 and 22, 1940, were approved unanimously.

Memorandum dated April 17, 1940, from Mr. Smead, Chief of the Division of Bank Operations, submitting an undated letter from Mr. Day, President of the Federal Reserve Bank of San Francisco, which requested approval by the Board of a change in the personnel classification plan of the Bank to provide for an increase in the maximum salary for the position of "Chief, Division of Research" from $6,600 to $7,000 per annum. The memorandum stated that the proposed change had been reviewed and recommended that it be approved.

Approved unanimously.

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

"Reference is made to the report of examination of the 'Mid-City Trust Company', Plainfield, New Jersey, as of January 13, 1940, and to the supplementary information submitted in connection therewith.

"The unsatisfactory features of the bank's condition are set forth on page 2 of the report of examination where the examiner again suggests that the directors consider the matter of deferring further retirements of the preferred stock until adequate provision has been made for all losses as well as the establishment of valuation reserves against the contingency of losses in troublesome loans. It is felt that the examiner's suggestions are entirely in accordance with the principles of conservative banking practice.

"Since the sale by the bank in January 1935 of $50,000 preferred stock to the Reconstruction Finance Corporation retirements of $15,000 of such stock have been made and while the common stock of the bank has been increased by stock dividends the net effect of these transactions has been to use earnings for the retirement of the preferred. Although the bank has, according to its statement, been making quarterly charge-offs in its holdings of stock of the Plainfield Title and Mortgage Guaranty Company in accordance with an understanding with the State Banking Department, the fact that the examiner does not allow any value for this stock which is carried on the bank's books at $15,000 raises a question as to how the bank can show current earnings available for the retirement of preferred stock without first making provision for the depreciation in these holdings.

"It is observed that in your letter of January 30, 1940, to Vice President Gaffney you expressed the view that it would be good policy to defer the proposed retirement of $5,000 of preferred stock mentioned in his letter of January 26, 1940 until the bank's capital funds were somewhat increased but that the retirement was completed, however, on April 9, 1940. Your position is considered sound and entirely consonant with the general condition of the bank."

Approved unanimously.

Letter to Mr. John Nichols, Chief, Division of Examination, Federal Deposit Insurance Corporation, reading as follows:

"The corporate existence of 'The Mohawk State Bank', Mohawk, Indiana, a member bank, will expire on June 2, 1940, and the Board has been informed that it is contemplated that a new bank will be organized to take over all of the assets and assume all of the liabilities of The Mohawk State Bank, with no change in the official staff, shareholders, directors, or capital structure of the bank. It is also understood that the successor bank desires to open for business as a member bank. Since the new bank will have a capital stock of only $25,000, it will not be eligible for membership in the Federal Reserve System unless it is entitled to the benefits of insurance under section 12B of the Federal Reserve Act, at the time of admission to membership. It is understood that the Corporation considers it mandatory to examine the successor bank or its predecessor before admitting the new bank to the benefits of insurance.

"In accordance with the informal suggestion of Mr. Sailor, therefore, the Board of Governors of the Federal Reserve System hereby grants written consent, under the provisions of subsection (k)(2) of section 12B of the Federal Reserve Act, for examiners for the Federal Deposit Insurance Corporation to make such examination of The Mohawk State Bank, Mohawk, Indiana, as may be required in connection with an application for insurance on behalf of the bank to be organized to succeed such bank."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved: M S Eccles
Chairman.