

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, September 20, 1940, at

11:15 a.m.

PRESENT: Mr. Ransom, Vice Chairman  
Mr. Szymczak  
Mr. McKee  
Mr. Draper

Mr. Morrill, Secretary  
Mr. Clayton, Assistant to the Chairman  
Mr. Thurston, Special Assistant to the  
Chairman  
Mr. Goldenweiser, Director of the  
Division of Research and Statistics  
Mr. Piser, Senior Economist in the  
Division of Research and Statistics

The members of the Board discussed informally some of the questions connected with a possible refinancing operation by the Treasury primarily involving its obligations which will mature in December 1940.

Following this discussion, at about 12:30 p.m., Mr. Davis entered the room and reported that he had been attending a meeting of the Advisory Commission to the Council of National Defense, during which there had been a thorough discussion of a plan of cooperation between the Government and private manufacturers for the construction and equipment of new plants and additions necessary for the production of defense supplies, which had been worked out by the staff of the Commission, and that the Commission had unanimously approved a draft of a letter to the Board of Governors to be signed by the Secretary of the Commission transmitting to the Board a copy of a draft of an "emergency plant facilities contract".

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Following this report consideration was given to a draft of a proposed telegram to be sent to each of the twelve Federal Reserve Banks and each Branch of a Federal Reserve Bank which would be accompanied by a copy of the letter from the Advisory Commission and a copy of the form of contract referred to in that letter.

Following the discussion the draft of telegram to the Federal Reserve Banks and their Branches was approved unanimously, and the Secretary was authorized to transmit it immediately upon receipt of the letter from the Advisory Commission to the Council of National Defense.

The Secretary was also authorized to transmit additional copies of the proposed contract to all Federal Reserve Banks and their Branches by air mail tonight.

The telegram to the Presidents of all Federal Reserve Banks approved by the Board read as follows:

"For your information there is attached a letter from the National Defense Advisory Commission describing a plan of cooperation between the Government and private manufacturers for the construction and equipment of new plants and additions necessary for the production of defense supplies, which has been worked out by the National Defense Advisory Commission. The Board of Governors believes that the adoption of this plan will afford the banking system an opportunity to be of assistance in financing the national defense program.

"Every effort is being made to expedite the determination of the final details of the plan and contract which, in certain respects, are dependent upon pending legislation. In the meantime, the Board has offered the cooperation of the Federal Reserve System and it has been suggested that the Board obtain, through the 12 Federal Reserve Banks and through their 24 branches, indications of the extent to which representative banks or groups

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"of banks will stand ready to finance the needs of the contractors, together with an indication of the rates at which such advances may be made, on the assumption that the use of the proposed contract will be made possible by passage of the pending legislation. It is not, however, the purpose of the proposed survey to obtain at this time firm or binding commitments. In order to avoid duplication in any national total, interested banks, in reporting amounts, should base their replies only on their own funds which they would be willing to make available. It is assumed that contractors will continue to follow the usual procedure of going to their regular banking connections for such financing as they may need and it is hoped that as much as possible of the necessary financing will be done by local banks or groups of banks, although the contractor's bank or banks may also call upon its correspondents for additional funds. It may be added that the ability of the Federal Reserve Banks to assist banks in their districts by advances or discounts where desired might be an important consideration in the attitude of the lending banks toward such financing.

"The Board therefore suggests that, either directly or through the local clearing house associations, as you may find expeditious, you and your branches obtain the views of representative banks in your district. While the Board and the National Defense Advisory Commission desire to obtain a substantial indication of the ability of the banking system to finance the national program of plant expansion, it is not necessary that you endeavor to contact at once all of the banks in your territory but simply that you reach at this time representative ones quickly available to you at or near the head office and branch cities. The Board and the National Defense Advisory Commission will be glad later to receive indications of the attitude of additional banks when the information becomes available to you.

"If any question should arise upon which additional information is needed, the Board will be pleased to assist in obtaining such information upon receipt of a wire from you stating the question.

"The contents of this wire, the attached letter from the Advisory Commission, and the proposed contract form are being transmitted to you over the Federal Reserve telegraph system. Copies are being wired also to each branch of a Federal Reserve Bank in order to save time but with the

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"request that no action be taken by any branch in your district until instructions are received from you. Mimeographed copies of the proposed contract form will also be airmailed to each head office and branch tonight. It will be appreciated if you will wire to the Board of Governors not later than the close of business Tuesday, September 24, a summary of the results of your survey, indicating the number of banks participating, the amount of funds reported to be available for the contemplated financing, and the rates which may be charged, for your district as a whole, and for each branch territory, if practicable.

"As soon as the Board receives the replies from the Federal Reserve Banks, the Board will advise the National Defense Advisory Commission of the results of the survey and will endeavor to inform you in advance of the contents of any announcement that may be made from Washington so that you will be prepared to handle such local announcement as may be desirable."

The telegram to all Managing Directors of Branches contained the following introductory paragraph and quoted the foregoing telegram:

"In order to save time, there is quoted below a communication from the Board of Governors to the President of your Bank. You will note, however, that it is requested that you take no action on this communication until instructions are received from your head office:"

Secretary's Note: The Secretary subsequently received from Mr. McReynolds, the Secretary of the Advisory Commission, the letter referred to in the foregoing minutes and thereupon transmitted to the Federal Reserve Banks and their Branches the telegrams as approved by the Board.

At this point Messrs. Thurston, Goldenweiser, and Piser left the meeting and the action stated with respect to each of the matters hereinafter referred to was then taken by the Board:

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Federal Reserve System held on September 19, 1940, were approved and the actions recorded therein were ratified unanimously.

Telegrams to Mr. Treiber, Assistant Secretary of the Federal Reserve Bank of New York, Messrs. Post and Dillard, Secretaries of the Federal Reserve Banks of Philadelphia and Chicago, respectively, and Mr. West, Vice President of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on September 17, and by the Federal Reserve Banks of New York, Philadelphia, Chicago, and San Francisco on September 19, 1940, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Thereupon the meeting adjourned.

Walter Brown  
Secretary.

Approved:

Donald H. Brown  
Vice Chairman.