

A meeting of the Board of Governors of the Federal Reserve System with the Chairmen of the Federal Reserve Banks was held in Washington on Tuesday, December 10, 1940, at 11:30 a.m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Smead, Chief of the Division of
Bank Operations
Mr. Paulger, Chief of the Division of
Examinations
Mr. Myrick, Technical Assistant in the
Division of Bank Operations

Messrs. F. H. Curtiss, T. B. McCabe, G. C. Brainard, R. Lassiter, F. H. Neely, W. T. Nardin, W. C. Coffey, R. B. Caldwell, J. H. Merritt, and R. C. Force, Chairmen of the Federal Reserve Banks of Boston, Philadelphia, Cleveland, Richmond, Atlanta, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco, respectively

Mr. McCabe stated that the Chairmen had spent yesterday and since 9:00 o'clock this morning considering the report prepared by Messrs. Balderston, Bopp and Newman covering their survey of official compensation at the Federal Reserve Banks and that, while it had been the intention of the Chairmen to be prepared at this time to discuss the broad phases of the report with the Board and leave the report with the Board for its consideration, the Chairmen felt, as a result of their discussion, that it was advisable to make some further changes

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in the report and it had been referred back to Dr. Balderston for that purpose. (In addition to the Chairmen listed above, Mr. Ruml, Deputy Chairman of the Federal Reserve Bank of New York was present at the meeting of the Chairmen yesterday, although absent today, and Mr. Wood, Chairman of the Chicago Bank was present at the meeting earlier this morning, although absent yesterday.)

Mr. McCabe also said that it was now expected that the revised report would be completed by the end of the year and submitted to the special committee consisting of himself and Messrs. Young and Wood, following which it would be reviewed by the Executive Committee of the Chairmen's Conference consisting of Messrs. McCabe, Curtiss, and Lassiter, and then submitted to the Chairmen by mail with the hope that they would be able to accept the report so that it would not be necessary to call another meeting in January or February. The further statement was made by Mr. McCabe that the Chairmen understood that the Board would not begin the discussion of official salaries at the Federal Reserve Banks until March and that he felt certain the revised report would be in the hands of the Board in ample time for its consideration before that time.

Mr. McCabe then reviewed the procedure which was followed in the outlining and preparation of the report and stated that, although the Chairmen felt that in the main the report was an excellent one, there were some phases of it that called for the exercise of judgment

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on the part of the Chairmen, that it was with respect to these portions of the report that the Chairmen had asked that certain changes be made by Dr. Balderston and his associates, that, while the Chairmen regretted they were not able to submit the report at this time, it was felt that the changes were of such vital importance that the report should not come to the Board in its present form, and that it was the hope of the Chairmen that when the report was submitted it would be in a form that had their unanimous approval.

Mr. Szymczak called attention to the fact that the members of the Board and of its staff had not seen the report or any part of it. He suggested that it would take some time for the Board to study the report and for that reason it should not be expected that a prompt decision with respect to it would be made.

Chairman Eccles referred to the difficulties which had been experienced by the boards of directors of the Federal Reserve Banks and the Board of Governors in passing upon salaries of officers at the Banks and to the reasons which had prompted a study of the matter by the Chairmen, and he expressed the opinion that if a procedure for fixing and approving official salaries could be worked out which would be satisfactory to the Chairmen and the Board, it would constitute a real achievement. He also referred to the recent passage of the Ramspeck Civil Service Bill and the trend toward extending the civil service to employees of the Government and its agencies and to the

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possibility of the extension of the civil service to the Board, and, conceivably, by an amendment to the law, to the Federal Reserve Banks. He added that, in the absence of such a development, the responsibility for the salaries of officers of Federal Reserve Banks rests with the boards of directors of the Banks and the Board of Governors, and that care should be taken to discharge the responsibility adequately bearing in mind the public character of the Federal Reserve Banks.

Mr. McCabe then referred to the authorization of an expenditure of not to exceed \$12,000 for the survey conducted under the direction of Dr. Balderston and stated that up to the present time expenditures have been approximately \$200 within that budget, that in order to complete the revised report a further expenditure of \$2,000 or \$3,000 might be necessary, and that it was assumed there would be no objection on the part of the Board to that additional cost and its distribution among the Federal Reserve Banks on the same basis as the original expenditure was authorized. He added that the matter would be submitted to the Board in the regular way for approval but that he wanted to bring the matter to the attention of the Board at this time. The members of the Board indicated they would have no objection to the additional expenditure if required to complete the report.

Reference was then made by Mr. McCabe to the resolution adopted at the last meeting of the Federal Advisory Council with respect to the rotation of membership on the Council. He stated that the Chairmen concurred in the suggestion and would undertake to set up a schedule

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which would carry out the proposal contained in the resolution that three new members of the Council be appointed each year. He added that, while there was a rather strong sentiment among the Chairmen for the appointment of four new members each year, thereby providing for a maximum continuous service of three years instead of four, it was finally decided to follow the procedure suggested in the Council's resolution.

Chairman Eccles stated that, if the Chairmen felt strongly that service on the Council should be restricted to a three-year period, there was no reason why that arrangement should not be adopted.

Mr. McKee referred to the discussion at the last meeting of the Federal Advisory Council of the suggestion that in the future, instead of appointments of members of the Federal Advisory Council being made on a calendar year basis, they be made to become effective as of the date of the first meeting of the Federal Advisory Council during the calendar year and to terminate when the respective successors were appointed and assumed their duties. It was explained that this suggestion grew out of the possibility that the work being done by a special committee of the Council, which was working with a committee of the Board on the preparation of a statement which could be submitted to Congress, might extend beyond the first of the ensuing year and Mr. Ransom expressed the opinion that the committee's work was important enough to justify an arrangement

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which would enable the members of the committee to continue as members of the Council until that work was finished.

Mr. Lassiter stated it had been proposed in his district to meet the situation by an arrangement under which the member of the Council from the district would accept reappointment with the understanding he would be free to resign when the work of the committee was completed.

The discussion which followed indicated agreement on the part of those present that a similar arrangement would be desirable in the other districts where representatives were serving as members of the special Council committee.

Upon inquiry from Mr. Force, Chairman Eccles stated that the Board was in sympathy with the principle of rotation of membership on the Federal Advisory Council and Mr. Ransom stated that the Board had been advised that the Council's resolution had been proposed by Messrs. Steele and Loeb, the two oldest members of the Council in point of service.

Mr. McCabe inquired (1) whether anyone other than bankers should be considered for appointment as members of the Council and (2) whether a member of the board of directors of a Federal Reserve Bank might serve as a member.

Mr. Ransom said that the report of the Glass Committee on

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the original Federal Reserve Act stated that the Federal Advisory Council was to represent the banking interests, and he felt that before any change was made in the membership of the Council, attention should be given to the purpose of Congress in creating the Council. Subsequently, Mr. Ransom read an extract from the Glass report indicating that the function of the Council was wholly advisory and that that body would be a means of expressing banking opinion. The excerpt also stated that it was believed that the Council would give to the banking interests of the several districts ample power to make their views known, and, so far as they deserved acceptance, to secure such acceptance.

Chairman Eccles expressed the opinion that, in the absence of fundamental changes in the law, it would be inadvisable to make a change in the character of the membership of the Council.

With respect to the second question raised by Mr. McCabe, Chairman Eccles stated that if a director of a Federal Reserve Bank were appointed a member of the Federal Advisory Council it would be necessary, in order to maintain representation of banks on the Council, to appoint a Class A director; that there was an ample number of qualified bankers in each district to serve as Class A directors and as members of the Council without the simultaneous service of one individual in both positions; and that it would appear inadvisable from the standpoint of policy to appoint a director of a Federal Reserve Bank as a member of the Council.

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Mr. McCabe then stated that the Chairmen felt that the conference held at Sea Island, Georgia, in April of this year had been very conducive to better understanding by the Chairmen of their problems and had helped to create a much better feeling and understanding throughout the System, and that the Chairmen would like to be advised as to the attitude of the Board with respect to such conferences in the future.

After some discussion during which the Chairmen indicated that they had in mind holding one such conference each year, the members of the Board indicated that they could see no objection to an arrangement which would provide for one meeting a year at a location other than Washington or than a Federal Reserve Bank city and for at least one meeting a year in Washington.

Chairman Eccles suggested that any meeting held outside of Washington be at a location which would be no farther away than overnight from Washington, as otherwise it would not be possible for all of the members of the Board to be present. He suggested that such meetings might well be held at White Sulphur Springs, West Virginia, or Hot Springs, Virginia, in May. He also suggested that if two meetings were held each year, one should be in the spring and the other in the fall.

Mr. Curtiss inquired whether any study was being made by the Board of the question of a change in the representation of the Federal

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Reserve Banks on the Federal Open Market Committee. Chairman Eccles replied that, while that question was raised in the Wagner Questionnaire and answers to the questionnaire have been prepared, the Board has not had an opportunity to study the answers or to determine what action it would take with respect thereto.

At this point Messrs. Clayton and Thurston entered the room.

Mr. McKee requested the views of the Chairmen with respect to the policy of the Board of not reappointing Class C directors (other than Chairmen and Federal Reserve Agents) and directors of branches of Federal Reserve Banks after they have had six consecutive years of service. He also referred to the expiration on February 28, 1941, of the present appointments of Presidents and First Vice Presidents of Federal Reserve Banks and inquired whether, in view of the fact that the Retirement System of the Federal Reserve Banks contemplated that other officers and employees of the Banks would be retired at age 65, appointments of Presidents and First Vice Presidents for a five-year term should be approved when the appointees would be nearing 69 or 70 at the end of the five-year term.

The last question raised by Mr. McKee was discussed and during the discussion he referred to the smaller benefits provided for the beneficiary of an employee of the System in the event of the employee's death in active service after reaching age 65 as compared with the benefits to which the beneficiary would be entitled in the event of death of the employee shortly after retirement at age 65.

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Chairman Eccles reviewed the circumstances surrounding the action of the Board in February, 1936, when it was determined that it would not approve appointments of persons as Presidents or First Vice Presidents of Federal Reserve Banks who had reached or who would be 65 years or more of age at the time of the proposed appointment.

Mr. McCabe stated that without some understanding on the part of the board of directors as to the policy that should be followed in cases of the kind referred to by Mr. McKee, it would be extremely difficult to take action which would deprive the officer of the benefits to which he would be entitled if he remained in the position until he reached the age of 65.

Question was raised whether, in the event a President or First Vice President would become 70 before the expiration of the five-year term, the appointment could be made with the understanding that he would resign upon reaching age 70.

Chairman Eccles expressed the opinion this would not be possible under the law which provides expressly for a five-year term. He also said that he would be opposed to relaxing the policy adopted by the Board in 1936 and adhered to since that time, but that he would favor an amendment to the law which would provide for the appointment of Presidents and First Vice Presidents of Reserve Banks for a period of only one year.

Mr. Curtiss stated it had been his experience that if a definite retirement age limit is adhered to in an organization the officers

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and employees of the organization will make their plans accordingly, but that, if exceptions to the age limit are made, injury is done to the morale of the whole organization.

The meeting then recessed and reconvened at 2:35 p.m., with the same attendance as at the end of the morning session, except that Messrs. Neely, Paulger, and Myrick were not present, and Mr. Wyatt, General Counsel, and Mr. Wingfield, Assistant General Counsel, of the Board of Governors, and Mr. Donald Nelson, Director, and Mr. R. L. Mehornay, Deputy Director, of small business Activities for the National Defense Advisory Commission, were in attendance.

Chairman Eccles referred briefly to the meeting which was held in Washington on November 12-13, 1940, with representatives of the Federal Reserve Banks in connection with the plan for facilitating the participation of small business concerns in the national defense program and to the part Mr. Draper was taking in supervising the activities of the Federal Reserve Banks and their branches in carrying out the plan.

After a brief introductory statement by Mr. Draper, Mr. Nelson expressed appreciation of the cooperation which the Federal Reserve System had given in carrying out the plan, and stated that his office was beginning to see the results of the Reserve Banks' activities. He said that the principal objective of the plan was to develop information with respect to the facilities that might be made available

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for the production of defense needs so that the armed services would have access to all of these facilities. He said that he believed there were many small concerns throughout the United States which had good managerial ability and which could do a good job in producing defense materials if they were informed how to go about doing the work. In many of these cases, he said, the concerns would need bank loans as well as advice from time to time as to how to proceed, and that it had been his feeling that the Federal Reserve Banks and their branches were the ideal agencies to give advice and to put the concerns in touch with banks which could supply the needed financing. He said he had nothing but the highest praise for the work the System had done, that of necessity, the program was developing slowly as had been expected, but that the Reserve Banks had exhibited a great deal of interest and he was certain that before long it would be demonstrated that the activity was absolutely essential in developing information with respect to the availability of facilities which would be required for defense if bottlenecks were to be avoided.

He referred, in this connection, to the policy adopted in England of requiring primary contractors to farm out at least 35% of primary contracts to smaller concerns and said that, while this practice could not be followed here, he believed that the situation could be met if there were adequate information as to the production facilities that were available. He made the further statement that this procedure would perform an economic service which would be as helpful

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to the country as any other single thing that was being done by the Defense Commission, that it would tend to prevent the removal of skilled labor to the Atlantic and Pacific seaboards where additional facilities would have to be provided for the manufacture of defense needs and for housing, and that it would help to hold labor in its home localities where it would work with existing facilities, which, following the emergency, would cause a minimum amount of dislocation of labor and facilities in adjusting to peace-time operations. He also expressed the opinion that strength would be added to the nation as a result of getting smaller business concerns into the picture as distinguished from looking only to the larger manufacturing concerns for defense needs. He concluded with the statement that he was convinced that the plan being followed was the most effective procedure available under the circumstances and that its value would be demonstrated as soon as the armed services could adjust their procedures to fit the program.

Mr. Draper called on Mr. Mehornay who reviewed briefly some of the difficulties that were being encountered in putting the plan into operation and adjusting the procedures of the services to enable a utilization of the facilities of small business concerns. He stated that the latter problem was one of the reasons why it had been necessary to proceed slowly and why all of the information that had been promised to the Federal Reserve Banks had not yet been sent out, but

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that the preparation of the information was progressing and it would be available soon.

Mr. McCabe inquired of Mr. Nelson whether the Federal Reserve Banks were effectively cooperating in the activity and Mr. Nelson replied that they were, that his office had been getting excellent cooperation, and that it would not be possible effectively to move faster.

There was a discussion of various circumstances which made it difficult for the activity to get under way more rapidly and Mr. Szymczak inquired whether it was Mr. Nelson's thought that the representatives of the Banks would be called into Washington again in order that they might keep in touch with the latest developments. Mr. Nelson replied that that was contemplated.

Mr. Brainard stressed the point that it would be extremely helpful to the men in the field if the Defense Commission could get into their hands as promptly as possible full information with respect to the supplies and materials that the armed services are going to buy. He also stated that an effort should be made to give the public information with respect to Army and Navy purchasing procedures.

Mr. Mehornay said that the printing of bulletins on these procedures had been delayed in the Government Printing Office but would be available shortly.

Mr. Nelson stated that information had come to his office that there were many cases where the participation of the Federal

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Reserve System had resulted in more active consideration by banks of applications for loans to finance defense production. He added that he felt that the need for small business facilities that would be made available through the plan would become apparent as the demand for defense materials increased beyond the point where they could be produced by the larger business concerns. He made the further statement that the philosophy behind the whole program was that the Commission was not going to start allocating production or issuing priorities as long as there were facilities available in the country to make the materials needed.

At this point Mr. Goldenweiser entered the room.

The discussion was concluded with a statement by Mr. McCabe that it should be made clear to the small business man that he had a real job to do in preparing his business to produce defense materials when the time came and that the job of making this preparation was not going to be done for him.

At this point Mr. Neely entered the room and Messrs. Nelson and Mehornay withdrew.

Mr. McCabe stated that all of the Chairmen were interested in knowing whether the Federal Reserve Banks were organized to carry out their responsibility of effectively cooperating with the Defense Commission and he asked whether the Board would advise the Chairman of a Federal Reserve Bank in the event his Bank was not doing what

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it should to meet its responsibility.

Mr. Draper stated that the Board recently inaugurated with the Federal Reserve Banks a weekly progress report in order that the Board would be in a position to know what each of the Banks was doing, that up to the present time the reports had been very favorable, and that he did not see any criticism that could be made.

Mr. Curtiss inquired whether an arrangement was being made for the distribution to other Banks of suggestions and procedures found to be helpful in the different Federal Reserve Districts, and Mr. Draper replied that it was hoped that such an arrangement could be developed. He also stated it was anticipated that another meeting of the representatives of the Federal Reserve Banks would be held in the near future for the purpose of reviewing their experiences.

Mr. McCabe made a brief statement of the reasons why he felt that it was important that the Federal Reserve System do an effective job in achieving the objectives contemplated by the National Defense Commission and he expressed the hope that the Board would not hesitate at any time to let the Chairmen know if it was felt the Banks were not measuring up to this opportunity.

There was a further discussion of the reasons for the delay in the offices of the National Defense Commission in sending essential information to the Federal Reserve Banks and Mr. McKee suggested that if the Banks felt they were not getting needed information

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promptly they communicate with Mr. Draper or someone designated by him so that the necessary follow-up work could be done at this end.

At Mr. Draper's request there were distributed to the Chairmen copies of the letter received from the Defense Commission by the Board under date of October 25, 1940, asking for the cooperation of the Board in carrying out the plan for the participation of small business concerns in the defense program; the Board's reply to the Commission under date of October 26; the statement for the press released by the Commission and the Board of Governors under date of November 13, 1940; and the letter, with enclosures, addressed by Mr. Draper to the Federal Reserve Banks under date of November 16, 1940.

Mr. McCabe referred to the consideration given recently by the Philadelphia Bank to an application by a business concern for a loan under Section 13(b) of the Federal Reserve Act, to finance the production of defense materials under a Government contract and to the procedure set up by the Reserve Bank when the loan was made to assure itself that the contract would be carried out. He stated that he felt the Federal Reserve Banks, with their existing organization, were in an advantageous position to make industrial loans and were justified in taking reasonable risks in making such loans for defense purposes since the Banks were in a position to service the loans more effectively than other Government agencies and thereby

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reduce the risks involved.

Chairman Eccles referred to the letter addressed by the Board to the President in June offering the facilities of the Federal Reserve System in connection with furthering the national defense program and stated that the request of the Defense Commission for the cooperation of the System was the result of that offer and that he felt the System should be certain to do everything it could to do an effective job so that it could not be said that it had done less than its best. He questioned whether it would be possible for the United States to achieve a maximum defense effort until a better organization was established and emergency powers granted to deal with the situation and said that in the meantime all that could be asked of the System was that it do the best it could.

Thereupon the meeting adjourned.

Chester Morris
Secretary.

Approved:

W. A. Eccles
Chairman.