

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, March 14, 1941, at 11:30 a.m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman

The action stated with respect to each of the matters herein-
after referred to was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on March 13, 1941, were approved unanimously.

Telegrams to Messrs. Sanford and Hays, Secretaries of the Federal Reserve Banks of New York and Cleveland, respectively, Mr. Leach, President of the Federal Reserve Bank of Richmond, Messrs. Dillard and Stewart, Secretaries of the Federal Reserve Banks of Chicago and St. Louis, respectively, Mr. Powell, First Vice President of the Federal Reserve Bank of Minneapolis, Mr. Gilbert, President of the Federal Reserve Bank of Dallas, and Mr. Hale, Secretary of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Banks of St. Louis and San Francisco on March 11, and by the Federal Reserve Banks of New York, Cleveland, Richmond, Chicago, Minneapolis, and Dallas

3/14/41

-2-

on March 13, 1941, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated January 21 and 25, 1941, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending, for the reasons stated in the memoranda, that the following increases be made in salaries of employees in the Division of Research and Statistics.

<u>Name</u>	<u>Designation</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
J. Burke Knapp	Junior Economist	\$2,500	\$3,500
Philip M. Kaiser	Junior Economist	2,400	2,600
Bruce Waybur	Junior Economist	2,200	2,600
Eleanor S. Frase	Junior Economist	2,100	2,600
Haskell Wald	Junior Economist	2,000	2,600

Approved unanimously, effective as of March 16, 1941.

Telegram to Mr. Sanford, Secretary of the Federal Reserve Bank of New York, reading as follows:

"Relet March 13. In view of your statement that Board's letter of March 11 will be considered at meeting on March 20 of your board of directors Board approves payment for the period from March 1 to March 15, 1941, inclusive, of salaries for Messrs. Sproul and Rounds at the rates in effect for them on February 28, 1941, with the understanding that such salaries will be superseded as of March 1, 1941, by salaries fixed for these officers by your board of directors with the approval of the Board of Governors."

Approved unanimously.

3/14/41

-3-

Letter to Mr. Gregory, Deputy Chairman of the Federal Reserve Bank of Chicago, reading as follows:

"The minutes of the meeting of the board of directors of the Federal Reserve Bank of Chicago on March 7, 1941, which have been received from Vice President and Secretary Dillard, state that it was unanimously voted that Frank D. Williams be offered the post of Vice President of the Federal Reserve Bank of Chicago at a salary of \$21,000 per annum, succeeding Clifford S. Young and that the matter was referred to Mr. Williams for consideration.

"As you were advised in my letter of March 14, the Board has discussed the problems involved in further changes in the senior officers of the Chicago Bank and, with the thought of being helpful, suggests that, before final action is taken, consideration be given to how the principal functions in the Bank are to be distributed among the various officers of the Bank, what would be the duties that would be performed by Mr. Williams, and whether there would be need or justification for the retention of all of the existing officers.

"As you know, the examination function has heretofore been under the direct supervision of Mr. Young, as Vice President, with the Board's approval, but the situation with respect to organization and supervision of the research and statistical work remains unsatisfactory and unsettled. Both of these functions were formerly the responsibilities of the Chairman and Federal Reserve Agent, but following the enactment of the Banking Act of 1935, as Chairman Eccles explained during a discussion at a recent meeting at which you were present, were transferred by the Board to the banking department and thereby became a part of the general responsibilities of the chief executive officer. This transfer was upon the understanding that these functions would continue to be conducted under the general supervision of the Board of Governors, that the personnel and expenses would also continue to be subject to the approval of the Board of Governors, and particularly that the officers in charge would be designated only after consultation with and approval by the Board of Governors. In this connection, it was stated that these officers would report directly to the President of the Bank and not to a Vice President or other officer. The Board, therefore, as you will see, has a special interest in the determination of the question how these functions will be

3/14/41

-4-

"performed. Likewise, the President of the Bank, as chief executive officer of the Bank, has a responsibility for seeing that they are performed properly. The conditions governing the transfer of these functions to the banking department were set forth in a letter dated July 20, 1936 to President Schaller, copies of which are attached.

"With the promotion of Mr. Young to the presidency of the Bank it becomes necessary to place the examination function under a Vice President to be designated for that purpose after determining that he has the necessary qualifications and obtaining the approval of the Board of Governors. At the same time, the problem of organization and direction of the research and statistical work should be given attention without further delay.

"It seems to the Board, therefore, that it is appropriate and necessary for President Young, as a first order of business, to make a careful study of the organization and to submit his recommendations to the board of directors, following which, as soon as practicable and before any important addition is made to the official staff, the plan of organization should be discussed with the Board of Governors.

"Pending a study which will undoubtedly point the way to a redistribution of functions among the officers and may indicate the advisability of replacement or elimination of one or more officers in order to accomplish the best results, the Board feels that for the present a decision as to Mr. Williams should be deferred. It should also be stated that, in the absence of exceptional reasons, the Board would not be willing to approve a salary at the rate of \$21,000 per annum for a Vice President of the Chicago Bank.

"This letter is addressed to you as Deputy Chairman of the Board of Directors of the Federal Reserve Bank of Chicago because we have been informed that Chairman Lewis has returned to Florida. It will, therefore, be appreciated if you will advise Chairman Lewis and the other directors, as well as Messrs. Young and Williams, of the Board's position."

Approved unanimously.

Letter to Mr. Zurlinden, First Vice President of the Federal Reserve Bank of Cleveland, reading as follows:

3/14/41

-5-

"Reference is made to your letters of March 3 and February 14, 1941, concerning an item of \$732.31 for 'Interest earned—Mortgage loan account sale collateral to industrial advances' reported on your form F.R. 95 for 1940, but not included in form F.R. 418.

"It is understood that in 1935 your Bank, in participation with a member bank, made a mortgage loan to the Hamburger Distillery, Inc., under the provisions of Section 13b of the Federal Reserve Act, as amended; that in 1938 the borrower filed a petition for reorganization under the Federal Bankruptcy Act; but that no reorganization was ever effected, and the borrower was adjudicated bankrupt in the spring of 1940. It is further understood that, in order to effect liquidation of the borrower's assets and to protect the interests of the Bank, it was necessary to purchase the distillery premises covered by the mortgage, together with the borrower's trade-marks and certain warehouse storage accounts receivable; and that immediately following the confirmation by the Federal District Court of the purchase your Bank entered into a contract for the sale of the trade-marks and of the distillery premises.

"It is noted that the full amount of the consideration received for the sale of the distillery premises was applied on the loan of the bankrupt and that the purchase money obligation received in payment for the distillery premises was thereafter carried as a miscellaneous asset of your Bank for its own account and risk except as to the participation of the financing institution, which had agreed to the terms of the sale. It is also noted that the decision to carry this item as a miscellaneous asset of the Bank was reached after careful consideration in collaboration with counsel.

"This matter has been considered in the light of the circumstances outlined above, and as fully set out in your letters, and in view of the experience of the System with similar cases and of the Board's understanding with the Treasury Department, it is our opinion that the miscellaneous assets acquired from the bankrupt and those subsequently received in exchange therefor upon the sale by your Bank of the distillery premises should be included in computing the amount of funds advanced and under commitment under Section 13b of the Federal Reserve Act. Accordingly, we believe that an additional payment of \$224.16 as stated in the second paragraph of your letter of March 3 should be made to the Treasurer of the United States in connection

3/14/41

-6-

"with operations under Section 13b for 1940. Please submit a revised form F.R. 418 for December 1940 and, if necessary on account of the related receivables still held by your bank, for January and February of this year. As indicated in the last paragraph of your letter of March 3, the profit which will accrue from collection of the receivables should be included, when received, in form F.R. 418.

"It is suggested that the additional payment, in reality representing an adjustment of section 7 surplus at December 31, 1940, be charged to profit and loss. In your Bank's annual profit and loss statement submitted to the Board and in the Board's published earnings and expense statements of Federal Reserve Banks for 1941, we shall handle this adjustment by including the amount in the item 'Paid U. S. Treasury (sec. 13b)', which will decrease the item 'Transferred to surplus (sec. 7)' by \$224.16 at the end of the year."

Approved unanimously.

Letter to Mr. William S. Broughton, Commissioner of Public Debt Service, Treasury Department, reading as follows:

"There are enclosed three copies of tabular statements listing certain forms, records, literature, posters, correspondence, advertising matter, etc., relating to Liberty Loan and War Savings activities which are now held by the various Federal Reserve Banks as fiscal agents of the United States.

"We have been advised that the above-mentioned material is of no current use to the Federal Reserve Banks and is occupying space which might be utilized for other purposes. The June 11, 1936, report of the Committee on Destruction of Records maintained by the Federal Reserve Banks indicates that such papers may have some historical value, and it is understood that the Treasury may wish to offer them to the National Archives.

"It will be appreciated if you will advise us what disposition the Treasury Department desires to make of this material."

Approved unanimously.

Mr. Draper suggested that the Board authorize the payment of the cost of luncheons served in the Board's dining room today to Messrs.

3/14/41

-7-

Robert L. Mehornay, Director of Defense Contract Service, C. J. Myers, Assistant to Mr. Mehornay, and Geoffrey Smith, Assistant General Counsel of the Division of Priorities, of the Office of Production Management, Messrs. Albert M. Creighton and Thomas Gates, District Coordinators of the First and Third Federal Reserve Districts, respectively, and Mr. O. H. Bullitt and Mr. F. W. Hankins, Deputy District Coordinator and District Manager of the Third Federal Reserve District, respectively, of Defense Contract Service.

Approved unanimously.

Thereupon the meeting adjourned.

Chester Corrie

Secretary.

Approved:

W. S. ...

Chairman.