

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, May 15, 1941, at 2:30 p.m.

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

Mr. Morrill, Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Clayton, Assistant to the Chairman  
Mr. Thurston, Special Assistant to the Chairman

There was presented a telegram dated May 9, 1941, from Mr. Neely, Chairman of the Federal Reserve Bank of Atlanta, in which it was stated that at the meeting of the board of directors of the Bank on April 23, and subject to approval by the Board of Governors, W. S. McLarin, Jr., was appointed President of the Bank and Malcolm H. Bryan was appointed First Vice President, each for the unexpired portion of the term of five years ending February 28, 1946, and at the meeting of the board of directors on May 9 the salaries of Messrs. McLarin and Bryan in their new positions were fixed at \$17,500 and \$10,500 respectively, for the period from May 9 to May 31, 1941, inclusive.

Mr. Szymczak moved that the Board approve the appointments of Messrs. McLarin and Bryan as President and First Vice President, respectively, of the Federal Reserve Bank of Atlanta for the term stated and that the Board also approve the salaries fixed for them for the period from May 9 to May 31, 1941, inclusive.

Mr. Szymczak's motion was put by the chair and carried, Mr. McKee voting "no".

Mr. McKee stated that his negative vote on the recommendations of the board of directors of the Federal Reserve Bank of Atlanta in connection with the election of a

5/15/41

-2-

President and First Vice President was based solely on the stand taken by the Board of Governors when presented recently with similar personnel circumstances surrounding the replacement of Presidents and First Vice Presidents at the Federal Reserve Banks of St. Louis and Kansas City. In these two instances, Mr. McKee stated, the Board of Governors in meeting with the committees representing the boards of both the St. Louis and Kansas City Banks argued for the career system as well as for the chief executive officer being one qualified to assume capably his responsibilities on the Open Market Committee.

There was then presented a draft of letter to Mr. Nardin, Chairman of the Federal Reserve Bank of St. Louis, reading as follows:

"We have deferred replying to your letter of April 24, 1941, until we could ascertain whether it would be possible for any of the members of the Board to be present at the meeting of the directors of your bank and its branches to be held in St. Louis on May 22nd.

"The members of the Board have asked me to inform you that they have gone over their plans very carefully in an effort to arrange their programs so as to enable them to attend the conference but, because of commitments previously made which cannot now be changed, it will not be possible for any of them to be present. They all regret the necessity of this reply to your letter and have expressed the hope that on the occasion of the next meeting of all of your directors they will be able to be present."

Approved unanimously.

Reference was also made to a letter dated May 10, 1941, from Mr. Neely, Chairman of the Federal Reserve Bank of Atlanta, in which it was stated that the regular June meeting of the board of directors of the Bank would be held in Atlanta on June 13 and 14 jointly with the boards of directors of the branches of the Bank, that at its May meeting the

5/15/41

-3-

board of directors voted unanimously to extend to each member of the Board of Governors an invitation to attend the two-day meeting, and that it was the hope that the Board and its staff would be represented.

Mr. Morrill was requested to advise Mr. Neely that the Board members were not able to say this far in advance whether they would be able to go to Atlanta for the meeting but that he would be advised if it were possible for any of them to make the trip.

Mr. Szymczak called attention to the renewal by the Chairmen at the recent Conference at White Sulphur Springs of the suggestion that the Board submit to the boards of directors of the Federal Reserve Banks for discussion important questions confronting the Federal Reserve System from time to time. Mr. Szymczak asked that consideration be given at this meeting to the desirability of asking the directors to consider topics, such as the question of installment credit control, which had been the subject of discussion by the Board.

In connection with Mr. Szymczak's comment, Chairman Eccles stated that recently he had a further conversation with Mr. Henderson, Administrator of the Office of Price Administration and Civilian Supply, with respect to whether the Federal Reserve System should be given responsibility in the field of installment credit control, at which time he (Chairman Eccles) stated that he felt the Board had done all it could in the matter without the support and cooperation of the Office of Price Administration and Civilian Supply, and that it was his suggestion that

5/15/41

-4-

Mr. Henderson assign an attorney and an expert in consumer credit to work with members of the Board and its staff in the preparation of an executive order or legislation, if it were felt that the latter were needed, together with a suggested program for carrying out the provisions of the executive order or legislation. Mr. Henderson agreed with that arrangement, Chairman Eccles said, and assigned Mr. Rolf Nugent, Director of the Department of Consumer Credit Studies of the Russell Sage Foundation and temporarily on the staff of Mr. Henderson's office, and an attorney who had met with members of the Board's staff for the purpose of preparing a program along the lines suggested.

Chairman Eccles made the further statement that, if the responsibility for administering installment credit controls were placed in the Board, it very likely would be necessary that there be added to the Board's staff someone thoroughly trained in the field of consumer credit, that Mr. Nugent appeared to be such a person having spent some fifteen years in that field, that he seemed to be thoroughly familiar with the problem from the standpoint of the Board's responsibility under the proposed executive order, and that, if the Board were given the responsibility, it might want to consider adding Mr. Nugent to its staff, which Mr. Henderson had indicated would be agreeable to him although he did not know whether Mr. Nugent would be willing to accept a position with the Board. Chairman Eccles added that he stated to Mr. Henderson that, in the event the Board were given authority over installment credit, it would expect to work in close cooperation

5/15/41

-5-

with Mr. Henderson's office, somewhat as it now cooperates with the Securities and Exchange Commission in connection with loans for the purpose of purchasing or carrying securities, and with the Treasury in connection with open market operations.

The further comment was made by Chairman Eccles that at the present time the representatives of the Board and Mr. Henderson's office were working on a memorandum and regulations which would outline the program of installment credit controls which the System would be expected to carry out under an executive order to be issued by the President, that it was expected that this would be sent to the Federal Reserve Banks for their comments and suggestions, and that the memorandum could also be discussed by the boards of directors of the Reserve Banks in accordance with the suggestion of the Chairman. It had also been proposed, Chairman Eccles said, that copies of the memorandum now in preparation should be submitted to representatives of the American Bankers Association and other interested parties for the purpose of getting their comments and suggestions before the program was put into effect.

During Chairman Eccles' statement Mr. Goldenweiser, Director of the Division of Research and Statistics, and Mr. Dreibelbis, Assistant General Counsel, joined the meeting and Mr. Dreibelbis reported on the progress being made in the preparation of the memorandum referred to by Chairman Eccles.



5/15/41

-6-

After some discussion, Mr. McKee moved that the question whether the topic of installment credit controls should be submitted to the boards of directors of the Federal Reserve Banks for discussion be left for determination by Messrs. Eccles and Szymczak after the memorandum above referred to had been prepared.

Mr. McKee's motion was put by the chair and carried unanimously.

There was then presented a memorandum dated May 2, 1941, from Mr. Goldenweiser which contained the following recommendations with respect to the printing of the base book of banking and financial statistics that had been under preparation by the Board's staff for some time:

- "1. That 10,000 copies be printed now with arrangements for additional copies later if they are needed;
- "2. That the National Capital Press be given the work, since it was the lowest bidder and has done satisfactory tabular work for us in the past;
- "3. That all the copies be bound in cloth in view of the size of the book\*;
- "4. That distribution be largely free, in view of the fact that the volume presents material formerly presented in the Annual Report. It is expected that the Correspondence and Publications Section of the Secretary's Office be authorized to furnish copies without charge to the following upon request:

Federal Reserve Banks, for their own use  
Members of Congress and of Government Departments

State Banking Departments

Libraries and educational institutions  
(teachers of economics)

Foreign central banks and governments

---

\* According to present plans, about half as thick as a bound volume of the Federal Reserve Bulletin, with the same size page, but thinner paper.

5/15/41

-7-

"The press

Subscribers to the Bulletin (paid and free)

The foregoing contemplates free distribution to the same groups as now receive the chart books free, and also to Bulletin subscribers in general. It is suggested that in restricted cases, copies be furnished upon our initiative, but that in the main they be sent only to those who ask for them.

- "5. That to others than those mentioned in the preceding paragraph, the book be sold at \$1 for single copies and 75 cents in quantities of ten or more. This is less than the printing cost, but it is believed that a price based on printing cost, which is \$1.67 per copy on a basis of 10,000, will discourage sales and produce possibly less return than a lower price.
- "6. That the title of the book be 'Banking and Monetary Statistics.'

"For budget purposes, it is recommended that the Board authorize the addition of funds to the Printing and Binding Account Classification of the Service Functions Budget of the Secretary's Office to cover the actual cost of publication, which will be approximately \$16,725.00.

"At one time there was under discussion a plan for cooperation of the Federal Deposit Insurance Corporation and the Comptroller's Office in the publication of this base book. More recently it has developed that their interest is primarily in the long-range historical material which is being worked up under the supervision of Mr. Blattner. The Corporation and the Comptroller are furnishing clerical assistance to this project. It is proposed to publish a separate volume when this work has been completed."

There ensued a discussion of the question whether the demand for the new book would be large enough to justify the printing of 10,000 copies and what the policy of the Board should be with respect to the distribution of free copies of the book.

At the conclusion of the discussion Chairman Eccles suggested that Mr. Goldenweiser be requested to look further into the number of copies which may be required and that the Board authorize the printing of up to 5,000 cloth bound copies of the book under the title "Banking

5/15/41

-8-

and Monetary Statistics", that the printing contract be awarded to the National Capital Press, that the book be distributed free only to public officials who request it in addition to the necessary copies to be furnished free to the Federal Reserve Banks, that in all other cases a charge be made in an amount to be determined by Messrs. Morrill, Goldenweiser, and Thurston, and that an addition to the Printing and Binding Account classification of the Service Functions Budget of the Secretary's Office be authorized in the amount necessary to cover the cost of printing and binding of the book.

Chairman Eccles' suggestion was approved unanimously, with the understanding that a notice with respect to the availability of the new volume would be included in the annual report of the Board for the year 1940.

In connection with the above matter there was read the following excerpt taken by the Board's examiner, at the time of the last examination of the Federal Reserve Bank of Philadelphia, from the minutes of the meeting of the board of directors of the Bank on January 3, 1941:

"There was reported the receipt of a letter (dated December 27, 1940, R-755) from the Board of Governors of the Federal Reserve System, enclosing a copy of a resolution levying an assessment upon the various reserve banks to defray the estimated expenses of the Board from January 1 to June 30, 1941. The payment of the assessment on this Bank amounting to \$94,886.65 was duly authorized. In view of the increases in these assessments, as reported to this Board, the question was raised as to whether or not these annual expenses are reviewed by



5/15/41

-9-

"any impartial body or official. It is understood that the books of the Board's Fiscal Agent are audited periodically by an Auditor of a Federal Reserve bank, but the thought was expressed that as a matter of public policy, it might be well if the Board of Governors would have a review made of the annual expenses of the Board by some independent body; i. e. by one of the Federal Reserve banks, or by some specially designated committee of reserve bank directors or officers."

It was stated that the suggestion contained in the above excerpt had not been submitted to the Board of Governors by the Philadelphia directors and that unless the Board desired to take some action in connection with it no action on the suggestion appeared to be called for at this time.

The suggestion was made by Mr. McKee that one way in which the Board might reduce expenditures would be by the elimination of the use of the long distance telephone whenever a telegram or other means of communication would serve the purpose. There was a discussion of the increases in the expenditures of the Board during the last several years and of the reasons therefor, including the additional responsibilities placed upon, and the additional activities undertaken by, the Board during that period.

Chairman Eccles suggested that at the next meeting of the Presidents of the Federal Reserve Banks he might state to the Presidents that the increased expenditures of the Board had been the subject of discussion, that the Board was conscious of the increase which was caused by the expanded responsibilities and activities of the Board and its staff, and that the matter was having close attention.

5/15/41

-10-

This suggestion was agreed to with the understanding that data would be prepared relating to the Board's expenditures which would show, if possible, some comparison with the growth of expenses at the Federal Reserve Banks, and that after this information was prepared consideration would be given to a suggestion made during the discussion of the advisability of sending a memorandum to the members of the Board and its staff calling attention to the necessity of keeping expenditures as low as possible consistent with the proper discharge of the Board's responsibilities.

During the discussion of the above matter Mr. Szymczak called attention to the offers of higher salaries being received by employees of the Board from other agencies of the Government and stated that if the Board was to maintain an efficient organization it undoubtedly would be necessary for it to pay higher salaries in some instances in order to retain its employees and that this would increase further the expenses of the Board.

In this connection, reference was made to recent newspaper comment with respect to the possibility of the President issuing an executive order prohibiting Government agencies from taking employees of other agencies and it was agreed that Chairman Eccles would discuss the matter with Mr. McReynolds, Liaison Officer for Personnel Management.

Messrs. Thurston, Goldenweiser, and Dreibelbis withdrew from the meeting at this point.

Mr. McKee stated that the Board's building committee had been giving consideration to the question whether the contract for the

5/15/41

-11-

construction of the addition to the Board's building should be on a lump sum or management fee basis, that the committee was not ready to make a recommendation to the Board, and that one of the important questions involved was that if the contract were let on a management fee basis orders for such things as the excavation, steel, and marble could be let very shortly which would result in a saving of two or three months' time.

Chairman Eccles expressed the opinion that under more ordinary conditions the Board probably would not be justified in letting the contract on other than a lump sum basis but that, in view of the present uncertain situation which would require that any reputable contractor protect himself against all possible contingencies and which would result in the cost of the building under a lump sum contract being considerably higher than on a management fee basis, consideration should be given to letting the contract on the latter basis. It was also stated that representatives of the Public Buildings Administration had recommended the management fee basis under present conditions and that several Government contracts had been let on that basis.

It was unanimously agreed that, although the members of the Board were inclined to favor the management fee basis of contract, the building committee should consider the matter further and make a recommendation to the Board.

Mr. McKee referred to copies of reports sent to the Board by the War Department on April 29 and 30, 1941, relating to (1) transfers

5/15/41

-12-

of large sums of money largely from New York via Panama to South Africa, and (2) the Bank of America National Trust and Savings Association and its president. In the discussion which followed, during which mention was made of the increased withdrawals of currency in this country apparently for the purpose of hoarding, Chairman Eccles suggested that the Board should make a study and be prepared to discuss with the Treasury the adoption of some program to counteract the hoarding of currency and prevent the use of currency and bank deposits in this country for the benefit of individuals or Governments unfriendly to the United States.

It was agreed unanimously that Mr. Szymczak, with the assistance of the staff, should prepare data with respect to the hoarding of currency in the United States with the understanding that the information would be available for use in a discussion with the Presidents, at the time of their next conference, of the matter referred to by Chairman Eccles.

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

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on May 14, 1941, were approved unanimously.

Bond in the amount of \$10,000 executed under date of May 6, 1941, by Kenneth Brockman Self as Alternate Assistant Federal Reserve Agent at the Federal Reserve Bank of Kansas City.

Approved unanimously.



5/15/41

-13-

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

"In accordance with the request contained in your letter of May 12, 1941, the Board of Governors of the Federal Reserve System hereby grants written consent, in accordance with the provisions of subsection (k)(2) of section 12B of the Federal Reserve Act, for examiners for the Federal Deposit Insurance Corporation to make an examination of the Floral Park Bank and Trust Company, Floral Park, New York, for the purpose of ascertaining the extent to which the corrections requested in your citation of April 5, 1941, have been effected."

Approved unanimously.

Letter to "The First National Bank of McCook", McCook, Nebraska, reading as follows:

"The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers under the provisions of Section 11(k) of the Federal Reserve Act, and grants you authority to act as trustee, when not in contravention of State or local law, the exercise of such right to be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System. A formal certificate of such authority is enclosed herewith.

"Your bank applied also for the right to act 'in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State in which the national bank is located.' The grant of this so-called 'general power' would permit the bank to exercise all of the specific powers which the Board is authorized to grant under the provisions of Section 11(k) of the Federal Reserve Act, provided competing State institutions are authorized by law to exercise such powers. In view of the scope of the 'general power', and inasmuch as the information submitted indicates that your bank has no need for authority to act in any fiduciary capacity other than as trustee, and does not have prospects for a sufficient volume of trust business to justify the employment of personnel qualified by training and experience to



5/15/41

-14-

"engage generally in fiduciary activities, the Board is unwilling at this time to grant your bank trust powers except as stated in the first paragraph of this letter. If a real need for additional powers should develop in the future, appropriate consideration can be given to these factors.

"Kindly acknowledge receipt of the enclosed certificate."

Approved unanimously for transmission through the Federal Reserve Bank of Kansas City.

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

"This refers to your letter of April 9, 1941, relating to the holding company affiliate status of Union County Trust Company, Elizabeth, New Jersey.

"On November 7, 1935, Union County Trust Company was determined by the Board not to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies, within the meaning of section 2(c) of the Banking Act of 1933. It is the Board's view that such a determination with respect to an organization continues in effect indefinitely in the absence of a contrary determination and that it governs the status of the organization as a holding company affiliate not only of the banks which were subsidiaries at the time of the determination but also of banks which become subsidiaries thereafter. While the Board retains the right to make a new determination at any time upon the basis of the then existing facts, there is no occasion for action by the Board where, as in this case, there is no change in the facts such as would indicate that the organization in question might be deemed to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies."

Approved unanimously.

Letter to Honorable Robert F. Wagner, Chairman of the Committee on Banking and Currency of the United States Senate, reading as follows:

5/15/41

-15-

"This refers to your letter of May 8, 1941, addressed to Chairman Eccles, in which you request an opinion as to the merits of the bill S. 1471, copy of which you enclose, which would amend section 16 of the Federal Reserve Act so as to extend until June 30, 1943 the period during which direct obligations of the United States may be used as collateral security for Federal Reserve notes.

"For the reasons hereinafter stated, the Board of Governors of the Federal Reserve System favors the passage of the bill S. 1471 and hopes that it may be possible for Congress to enact it before the date of the expiration of the existing authority, June 30, 1941.

"Section 16 of the Federal Reserve Act was amended by the Act of February 27, 1932, so as to provide that until March 3, 1933, the Board, if it deems it in the public interest, shall have authority, by an affirmative vote of not less than a majority of its members, to authorize the Federal Reserve Banks to offer, and the Federal Reserve agents to accept, direct obligations of the United States as collateral security for Federal Reserve notes. The Act was again amended by the Acts of February 3, 1933, March 6, 1934, March 1, 1937, and June 30, 1939, extending this authority, which will now expire on June 30, 1941, unless it is extended by the Congress.

"Gold certificates held by the Federal Reserve Banks and due from the United States Treasury now amount to over 20 billion dollars, of which about \$6.7 billion are pledged with the Federal Reserve agents as collateral for \$6.6 billion of Federal Reserve notes issued by the agents to the Federal Reserve Banks. This leaves a little over \$13 billion to cover the required reserve of \$5.7 billion against the \$16.2 billion of deposits of the Federal Reserve Banks and to supply the necessary collateral and reserves for additional note issues and deposits.

"No United States Government securities have been pledged with the Federal Reserve agents since May 28, 1938, and so long as conditions remain substantially as at present it will not be necessary for the Federal Reserve Banks to use United States Government securities as collateral for Federal Reserve notes issued to them by the Federal Reserve agents. There is no assurance, however, particularly in times like the present, that conditions will not change rapidly. In 1931 the System had the experience of being unable, owing to lack of authority to pledge United States Government obligations against Federal Reserve notes, to

5/15/41

-16-

"adopt an active policy of combating a deflation. It is clearly not in the public interest to run the risk of such a development happening again by permitting the authority to pledge Government securities against Federal Reserve notes to lapse."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie  
Secretary.

Approved:

W. C. ...  
Chairman.