

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, July 15, 1941, at 11:15 a.m.

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

Mr. Morrill, Secretary  
Mr. Bethea, 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 July 14, 1941, were approved unanimously.

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

"In view of the circumstances set forth in your letters of July 8 and 9, 1941, the Board of Governors, approves, effective July 1, 1941, the payment of salaries to six employees of your Bank in excess of the maximum annual salaries provided in the personnel classification plan for the positions occupied, as follows:

<u>Name</u>	<u>Department</u>	<u>Position</u>	<u>Annual Salary</u>
R. E. Coulter	Cash	City Paying and Receiving Teller	\$4,800
Elmer Shirey	Cash	General Clerk	3,600
Charles Herrmann	Auditing	Auditing Clerk Junior	2,640
Arthur Engelhardt	Bookkeeping and Federal Reserve Books	Record Clerk	2,640
Ruth Keefe	General Books	Government Transcript Clerk	2,060
Walter A. Rentzsch	Bookkeeping and Federal Reserve Books	Chief	3,700

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"In connection with the approval of the salary for Mr. Coulter, it is assumed that the position of Chief, Cash Department, \$5,000, provided for in your personnel classification plan, which position was unoccupied on January 1, 1941, will not be filled, so long as the Cash Department of your Bank is under the direct supervision of a junior officer and Mr. Coulter holds the position he now occupies."

Approved unanimously.

Letter to the Board of directors of "The Maplewood Bank and Trust Company", Maplewood, New Jersey, stating that, subject to conditions of membership numbered 1 to 6 contained in the Board's Regulation H, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of New York.

The letter also contained the following special comment:

"It appears that the bank possesses certain powers which are not being exercised and which are not necessarily required in the conduct of a banking and trust business, such as the powers to act as surety and to guarantee real estate titles. Attention is invited to the fact that if the bank desires to exercise any powers not actually exercised at the time of admission to membership, it will be necessary under condition of membership numbered 1 to obtain the permission of the Board of Governors before exercising them. In this connection the Board understands that there has been no change in the scope of the corporate powers exercised by the bank since the date of its application for membership."

Approved unanimously for transmission through the Federal Reserve Bank of New York.

Letter to Honorable Carl A. Hatch, Chairman of the Subcommittee of the Committee on the Judiciary of the United States Senate,

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reading as follows:

"The Board of Governors wishes to invite the attention of your Subcommittee to the effect of the administrative procedure bills, S. 674, S. 675, and S. 918, upon the exercise by the Federal Reserve System of its powers relating to national credit policies.

"From the standpoint of the broad public interest, these powers are the most important exercised by the Federal Reserve System, and some of the restrictions of these bills might seriously impede or render impossible their effective performance. It would seem clearly undesirable to require the Federal Reserve System to take the various steps provided in these bills before engaging in open market operations, changing discount rates, or taking other action necessary to meet rapidly changing conditions in the money market. Moreover, it would seem equally undesirable to require the System to announce the policies which it is currently following in these matters before putting them into effect.

"It is not believed that the powers of the Federal Reserve System in the national credit field fall within the general purposes of the administrative procedure bills and, in the circumstances, the Board of Governors earnestly hopes that your Subcommittee will give favorable consideration to an amendment, in form substantially as follows, which would make it clear that these powers of the System are not intended to be affected by the provisions of this legislation:

'Nothing contained in this Act shall apply to or affect in any way the exercise of the powers vested in the Federal Reserve System relating to open market operations, rates of interest or discount, margin requirements, reports, changing of reserve requirements, or the exercise of any other powers heretofore or hereafter granted for the purpose of effectuating national credit or monetary policies.'

"A memorandum is enclosed which states in somewhat more detail the reasons why such an amendment is important."

The memorandum referred to in the above letter read as follows:

"There are a number of provisions in the several

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"administrative procedure bills, S. 674, S. 675, and S. 918, which would make it difficult or impossible for the Federal Reserve System to exercise its powers relating to national credit policies in the manner contemplated by existing law. From the standpoint of the broad public interest, these are the most important powers exercised by the Federal Reserve System. They include, among others, the authority to change by regulation reserve requirements of member banks, to regulate the purchase and sale of securities on the open market by the Federal Reserve Banks, to review and determine rates of discount established by the Federal Reserve Banks, and to regulate the amount of credit that may be extended and maintained on securities registered on national securities exchanges.

"Some of these powers in the field of national credit control are required to be exercised through 'regulations' and therefore would be affected by all provisions of these bills regarding the issuance of regulations, unless there is some exception made. All of them might be considered to fall within the various provisions of the bills relating to rate making, the fixing of standards, the adoption of general policies, or the making of decisions, unless exempted by specific provisions.

"If any of these bills is enacted in a form which requires previous notice, formal hearings, or any other time consuming procedure before such powers can be exercised, or which prevents them from becoming effective until after the lapse of a specified length of time, the System would be seriously handicapped in the exercise of these important powers and it would be unable to act promptly enough to protect the public interest. In the field of credit control, action must be taken quickly and without advance public notice. When hostilities began in Europe in September 1939, the Federal Reserve System, in order to maintain an orderly market for United States Government securities, placed substantial buying orders at gradually declining prices, pursuant to a policy which had been previously adopted by the Federal Open Market Committee in anticipation of the possibility of need for action of this kind. These operations could not have been successfully carried out pursuant to this policy if it had been necessary to give notice in advance of the formulation of the policy and hold public hearings, or even if it had been necessary merely to announce the policy before putting it into effect.

"As indicated in the letter which this memorandum accompanies, it would seem clearly undesirable to require the

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"Federal Reserve System to take such steps as holding hearings before engaging in open market operations, changing discount rates, or taking other action necessary to meet rapidly changing conditions in the money market; and it would seem equally undesirable to require the Reserve System to announce the policies which it is currently following in these matters before putting them into effect. In this connection, attention is invited to the fact that under a requirement of existing law both the Board of Governors and the Federal Open Market Committee keep a complete record of action taken upon all questions of policy, and this is published, pursuant to a requirement of the statute, in the Board's annual reports to Congress.

"The danger of attempting to make the proposed administrative procedure requirements applicable to the powers of the Federal Reserve System relating to national credit policies is recognized in S. 918, section 900(d) of which exempts from the provisions of the bill any matter concerning or relating to 'fiscal and monetary operations of the Treasury and the Federal Reserve Board, including foreign funds control'. Neither of the other bills, however, contains a similar exemption, and it is not clear that the exemption contained in S. 918 is broad enough to cover all of the above powers. Thus it is doubtful whether the exercise of all of these powers would be considered 'fiscal and monetary operations'. Also the exemption would not make it clear that the actions of the Federal Open Market Committee in establishing and carrying out open market policies are not affected by the legislation.

"Under S. 675 it is required that all 'general policies' and regulations be made available to the public. While the bill does not specifically state when this is to be done, presumably the intention is that it be done promptly after adoption of the policies. From time to time important policies are adopted by the Federal Open Market Committee regarding its operations or by the Board of Governors with respect to other matters in the national credit field, which might be regarded as 'general policies' within the meaning of the bill, and a requirement that a policy which has been thus adopted be made available to the public before the various actions contemplated by the policy have been completed might defeat its purpose. The requirement, therefore, might seriously impede or render impossible the effective performance of these functions

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"of the Federal Reserve System in the national credit field."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie  
Secretary.

Approved:

W. C. C. C.  
Chairman.