A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, July 30, 1941, at 9:45 a.m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary

Chairman Eccles reported that Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, called him on the telephone yesterday and stated that due to the pressure of work at the Reserve Bank it was necessary to dispose of the question of selecting a President at the earliest possible date. Mr. Caldwell said he had about exhausted all possibilities and candidates which were acceptable to some of his directors were not acceptable to others. He had finally concluded that the only solution on which unanimous action might be had would be the election of Mr. Leedy as President, and that Mr. Woolley, now Assistant Cashier, might be promoted to First Vice President. Chairman Eccles stated that he advised Mr. Caldwell that if Mr. Leedy were made President he felt that it would be important to have an able man from outside the Bank go in as First Vice President, in which event he would not be adverse to recommending that the Board approve Mr. Woolley's promotion from his present position as Assistant Cashier to Vice President in charge of the examination function.

At the conclusion of a lengthy discussion, the Board agreed unanimously that, if

the directors of the Federal Reserve Bank of Kansas City elected Mr. Leedy President, it would be willing to approve the appointment with a salary at the rate of $18,000 per annum, if fixed at that rate by the directors, and also approve action by the directors of the Reserve Bank in electing Mr. Woolley as Vice President in charge of examinations with salary at the rate of $9,000 per annum, if fixed at that rate by the directors, action in each case, however, being contingent upon the election by the directors of the Kansas City Bank of a First Vice President from outside the Bank who would be satisfactory to the Board. It was understood in this connection that Chairman Eccles and Mr. Szymczak would consult Mr. Koppang over the telephone regarding this situation and in the event the information which they obtained from him was satisfactory Chairman Eccles would advise Mr. Caldwell of the Board's attitude regarding the personnel situation at the Kansas City Bank.

Mr. Szymczak referred to the action taken by the board of directors of the Federal Reserve Bank of Chicago on July 24, 1941, in electing A. J. Mulroney Vice President of the Bank in charge of the examination function and stated that he had talked with President Young over the telephone today and suggested to him that any announcement with regard to the election of Mr. Mulroney should be withheld for at least two weeks and then only after contacting Mr. Szymczak.

The action taken by Mr. Szymczak met with the unanimous approval of the Board.

Chairman Eccles reported that on yesterday he had discussed with the President the question whether the Board should proceed with

its program for building an addition to its present building. He said that he had indicated to the President that the Board felt it might be severely criticized if it undertook to construct an addition unless it had satisfactory assurances as to who would occupy it after it had been completed. Chairman Eccles said that he told the President, however, that if the President thought that under the circumstances we should go ahead, and advised that we do so, and that in doing so we would be constructing the building for a specific purpose, we of course, would be glad to go ahead. Chairman Eccles said that the President agreed. Chairman Eccles also said that he had taken with him to the White House for the President's convenience a draft of a memorandum addressed to himself as Chairman which the President might sign, if he saw fit to do so, advising the Board to proceed. Chairman Eccles read a copy of the memorandum which he had handed to the President, to the effect that the plans and specifications have been completed for the Federal Reserve Building addition; unless there is some assurance that it would be used for housing the other bank supervisory agencies of the Government, the Board questions whether it should proceed with the construction at this time and desired the President's advice; regardless of the question of consolidation or reorganization of these agencies, it is obvious that their work could be carried on to greater advantage if they were located in the same buildings; this would also be a convenience to the public; the proposed addition, together with such offices as the Board could

make available in its present building, would accomplish these desirable purposes; the addition would not require any appropriation by Congress; it would release office space in the Treasury and elsewhere that is urgently needed for other purposes; the President thinks the Board would be justified in going ahead without delay; and the President will recommend that the other banking agencies occupy these quarters instead of constructing or leasing other space. Chairman Eccles said that the President read the memorandum and indicated that he was in agreement with the statements contained therein, that there was nothing in it that he objected to, that the building would be a fine thing, and that the banking agencies should be housed together, and that the President made a note to take the matter up with Harold D. Smith, Director of the Budget, and have him clear it. Chairman Eccles concluded by saying that he expected to be advised as to the President's decision next week and that if no advice is received he would follow it up with the Director of the Budget.

Chairman Eccles also reported that, in accordance with the understanding reached at the meeting of the Board on July 24, 1941, he had telephoned Mr. Berle, Assistant Secretary of State, regarding the question of facilitating passage of the pending legislation with respect to the Inter-American Bank. He said that Mr. Berle agreed with the position taken by the Board and indicated that he would take it up with Secretary Hull with a view to getting him or the President to take it up with

Senator Glass. Chairman Eccles said that he had offered to have a memorandum prepared by the Board's staff summarizing the purposes to be served and the functions to be performed by the Inter-American Bank if Mr. Berle desired to have such a memorandum for the use of the President or Secretary Hull in discussing the matter with Senator Glass, and that Mr. Berle indicated that he would let the Board know if he wished to avail himself of this offer.

At this point Messrs. Clayton, Assistant to the Chairman; Wyatt, General Counsel; Hammond and Bach, Chief and Special Assistant, respectively, Correspondence and Publications Section, Secretary's Office; and the following representatives of the Division of Research and Statistics entered the room:

Mr. Goldenweiser, Director
Mr. Hansen, Special Economic Adviser
Mr. Piser, Senior Economist
Miss Burr, Senior Economist
Mr. Kennedy, Associate Economist
Mr. Longstreet, Associate Economist
Mr. Musgrave, Associate Economist
Mr. Roland Robinson, Associate Economist
Mrs. Anderson, Junior Economist

Mr. Goldenweiser stated that the representatives of the Division of Research and Statistics were present for the purpose of discussing the "Problem of borrowing by Government. Methods of Financing and role of F. R. System", which is topic IV on the agenda which he had presented at the informal meeting of the Board on July 14, 1941, and at his request Mr. Kennedy distributed a statement dated July 24, 1941 showing

"Estimated Treasury requirements, fiscal year 1942", which had been prepared on the basis of available information.

Mr. Goldenweiser said that there were a great many unknown factors in the picture, such as the amount of the tax yield and the amount of tax anticipation notes that will be purchased, but that the best guess of the Division was that the Treasury would have to obtain about $12 billion in new money in addition to $4 1/4 billion for the purpose of meeting maturities. He estimated that about $6 billion of the new money would be obtained from the sale of Defense Savings Bonds, tax anticipation notes and special issues to trust accounts, and the remaining half would be financed through open market or other issues. He also said that during the past year the banks had bought about four-fifths of all open market issues and, according to this pattern, a large part of new securities sold in the market will go to banks unless policies for preventing this are adopted.

Mr. Goldenweiser stated that in his opinion it would be desirable for the Treasury to put out one very long term, registered, non-negotiable issue, with a fixed rate, a bond which could be purchased at any time, possibly a "tap" issue, redeemable at a graduated discount at any time prior to maturity on three months written notice, and without limitation on the amount that might be purchased. It should not be available to banks, however. Such an issue could very well be supplemented by a two-year note designed to absorb temporarily idle funds of corporations and wealthy individuals not drawn out by tax anticipation notes, redeemable before maturity at a rate graduated by six month periods. He indicated

that the fundamental reasons why it is undesirable to have banks buy Government securities are to avoid an increase in bank deposits and to absorb funds that might become dangerous. The recent diminution in excess reserves, he said, has not been helpful and has been caused by a large increase in cash in circulation, an increase in required reserves, and a temporary reduction in Treasury balances. Mr. Goldenweiser stated that the only way reserves could be reduced in a helpful way would be through an outflow of gold, which is not likely to occur, and the prospects are that the United States will continue to acquire all gold produced, amounting to about $1 1/4 billion a year. He said that in his judgment it would also be helpful if the Federal Reserve System would actively underwrite Government securities and maintain the rate on each issue until the Treasury closes its books with respect thereto. To make the program complete he indicated that control of member bank reserves would be essential.

In conclusion Mr. Goldenweiser stated that there were four lines of criticism of the program which he had proposed, namely, (1) that the maintenance of the market for Government securities should be a Treasury function, except to the extent that our open market operations might be carried on for the purpose of avoiding unnecessary fluctuations, (2) that, since the supply of money has been proved not to be a decisive factor in the situation, why do anything in a monetary way; let the situation be controlled by more direct methods such as taxation, rationing, priorities, and price control; let the money situation take care of itself, (3) that the Treasury is perfectly competent to handle the situation and the Federal Reserve System should not inject itself

into the picture by doing something about reserves, thus making it more difficult for the Treasury, and then offer our help to get the Treasury out of a difficulty that we created, and (4) that, if the Federal Reserve System says that it is going to maintain a fixed interest rate such a position is inconsistent with the System's duty to combat inflation. Mr. Goldenweiser discussed briefly each of these criticisms.

Mr. Hansen stated that he thought inflation could be controlled by taxation, rationing, licensing investment, etc., although monetary action might be useful. In general, he said that he agreed with Mr. Goldenweiser's views. He added that the mopping up of excess reserves would have a desirable psychological effect and might check excessive speculation, although if the System should do this now it would have to exercise care to avoid making the Treasury's job more difficult through increasing the interest rate.

There followed a round table discussion and the meeting recessed at 1:15 p.m. to reconvene at 2:30 p.m. with the same attendance as at the morning session except that Chairman Eccles and Mr. Robinson were not present.

Mr. Goldenweiser opened the afternoon session by requesting members of his staff who held views different than those already expressed to state their positions.

Mr. Piser responded by stating that he thought that it would be impossible for the System simultaneously to pursue a vigorous restrictive credit policy and to maintain the present level of interest

rates. He said that we had a supply of securities on the one hand and a demand on the other, that if bank reserve funds were to be reduced they would be less likely to buy and that if their excess reserves were eliminated entirely they might stop altogether and might have to borrow or go on the selling side. He referred to the experience in 1937 when reserve requirements were increased and the market dropped and to the experience in 1938 when reserve requirements were lowered and the market went up. He said that if a substantial reduction in excess reserves should result in a large decline in the Government securities market the System would be faced with two alternatives -- one, to allow the rate on Government securities to advance and the other, to go into the market and buy enough securities to maintain the previous rate. The latter course might restore excess reserves and would add to bank deposits, which would be just the reverse of a restrictive credit policy. He did not know what amount of purchases would be necessary and said that at first we might find it possible to get along with a relatively small amount of purchases but that perhaps in a period when excess reserves were eliminated it would be necessary to buy approximately equal amounts. He said that what he would suggest would be, in the first place, for the System not to commit itself either to maintain a very restrictive credit policy or to maintain the existing level of rates but perhaps to proceed on the policy of increasing reserve requirements by small amounts, watching the effect of that on the Government security market and trying to balance the two policies as well as could be done

by having a chance to observe the effects that they had on the market. So far as the program for financing was concerned he agreed with Mr. Goldenweiser, with the suggestion that since nonbanking investors had not been buying a very large amount of securities at present rates it might be desirable to increase the rate on the long-term bonds and that there might be given the right on the part of purchasers to convert into other securities that might become available at a later date.

Miss Burr stated that in her opinion sufficient attention had not been given to the practical problem of making Government issues attractive to individuals. It was her impression, she said, that possibly two-thirds of existing idle money is in the hands of individuals as against roughly one-third held by corporations.

Mr. Musgrave made the suggestion that if the Treasury would issue a bond in terms of purchasing power based on a cost of living index there would be a real incentive to individual savers and that a security of this type would in his opinion attract large amounts of idle funds and keep the cost to the Treasury very low.

At this point Messrs. Wyatt, Goldenweiser, Hansen, Piser, Kennedy, Longstreet, Musgrave, Hammond, and Bach, and Miss Burr and Mrs. Anderson left the meeting and the action stated with respect to each of the matters hereinafter 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 July 24, 1941, were approved unanimously.

The minutes of the meetings of the Board of Governors of the Federal Reserve System held on July 25, 28, and 29, 1941, were approved and the actions recorded therein were ratified unanimously.

Memorandum dated July 28, 1941, from Mr. Nelson, Assistant Secretary, recommending that, for the reason stated in the memorandum, Miss June E. Ayers be appointed as a stenographer in the Office of the Secretary, with salary at the rate of $1,620 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed satisfactorily the usual physical examination.

Approved unanimously.

Memorandum dated July 28, 1941, from Mr. Nelson, Assistant Secretary, recommending that, for the reason stated in the memorandum, Pinar Crane be appointed on a temporary basis for an indefinite period as a guard in the Building Operation and Maintenance Section of the Secretary's Office with salary at the rate of $1,380 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed satisfactorily the usual physical examination, with the understanding that if his work is satisfactory during the next six months, a further recommendation will be submitted asking that his salary be increased to $1,500 per annum.

Approved unanimously.

Telegram to Mr. Davis, President of the Federal Reserve Bank of St. Louis, reading as follows:

"Members of Board have learned, with sincere regret,

"of death of Harvey C. Couch, and will appreciate your expressing their deepest sympathy to the members of his family in their bereavement."

Approved unanimously.

Letter to the board of directors of the "Bank of Rockville Centre Trust Company", Rockville Centre, New York, 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.

Approved unanimously, together with a letter to Mr. Sproul, President of the Federal Reserve Bank of New York, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the 'Bank of Rockville Centre Trust Company', Rockville Centre, New York, for membership in the Federal Reserve System, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the Board of Directors of the institution. Two copies of such letter are also enclosed, one of which is for your files and the other of which you are requested to forward to the Superintendent of Banks for the State of New York for his information.

"In view of the fact that substantially all of the losses classified in the report of examination for membership, except a relatively small amount in other real estate and in other assets, were eliminated subsequent to the examination and the fact that the bank has a program of regularly depreciating its other real estate annually, the usual condition of membership regarding the elimination of losses has not been prescribed. This is in accordance with the recommendation of the Reserve Bank.

"Standard condition numbered 6 has been prescribed in order that its provisions may be invoked at any time in the future, if necessary, but as in other cases and in accordance

"with general authorization previously granted by the Board, you are authorized to waive compliance with the condition until further notice insofar as the condition applies to funds which are given statutory preference in the State of New York."

Letter to the board of directors of the "Seminole State Bank", Seminole, Texas, stating that, subject to conditions of membership numbered 1 to 3 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 Dallas.

Approved unanimously for transmission through the Federal Reserve Bank of Dallas.

Memorandum dated July 25, 1941, from Governor McKee, reading as follows:

"The Committee on Defense Savings Bonds, appointed pursuant to the resolution adopted at the Presidents' Conference on June 11, 1941, and composed of Presidents Sproul, Williams, and Davis, and myself as your representative on the Committee, met (Mr. Davis being absent) with Under Secretary of the Treasury Bell on the morning of July 21 and with Mr. Bell and the Secretary of the Treasury the same afternoon. At this meeting Mr. Sproul, Chairman of the Committee, offered, in behalf of the Federal Reserve System, the services of the Federal Reserve Banks, as well as of the Board of Governors, in the promotion of the sale of Defense Savings Bonds, explaining that this offer was intended to go beyond the functions performed by the Banks as Fiscal Agents of the Government.

"As a result of this meeting, it was agreed that each Bank would appoint an officer to supervise contacts and relationships in connection with the promotion of the sale of Defense Savings Bonds, and that the Board would establish a liaison officer between the Banks and the Treasury. Through

"such a system it was thought that an acceleration of information from the Treasury to the field could be accomplished and, further, that actual participation in an active campaign to sell these bonds, now being promoted by the Treasury through State representatives, should aid materially.

"In connection with the liaison representative of the Board, I wish to recommend that Mr. L. P. Bethea, Assistant Secretary, be so designated, with Mr. L. S. Myrick of the Division of Bank Operations as his alternate, and that all communications in connection with Defense Savings Bonds be directed to Mr. Bethea as Assistant Secretary.

"For your further information, Mr. Sproul, President of the Federal Reserve Bank of New York, has advised that the representative of the New York Bank assigned to this responsibility is Mr. Robert G. Rouse."

Approved unanimously.

Letter, in accordance with the action taken at the meeting of the Board on July 24, 1941, to Mr. Frank J. Wilson, Chief of the U. S. Secret Service Division of the Treasury Department, reading as follows:

"Reference is made to your letter of June 2, 1941, (file #75 staff) requesting that the Board give serious consideration to the preparation and distribution to all banks in the United States of an index, planned by the Secret Service Division, of counterfeit currency which has appeared since the size of the currency was changed in 1929.

"As Mr. Szymczak advised you over the telephone recently, the Board has given careful consideration to your request and has authorized the preparation of the original index at the Board's expense with the understanding that no work will be performed by the Board's organization in connection with the maintenance of the index unless arrangements are made to reimburse the Board for the expense involved.

"The Board has been glad to cooperate with the Secret Service Division in the past and will continue to have an interest in the problem of counterfeit money since it is connected with the operation of the Federal Reserve Banks and member banks. However, the Board must of necessity

"keep in mind the diminishing margin between the System's income and its necessary expenditures and it has agreed to undertake this latest task with the distinct understanding that in accordance with your informal assurances to Mr. Szymczak you will make arrangements to maintain the index once it has been established or in lieu thereof to obtain the funds necessary to reimburse the Board for any expense which it may incur in performing this work for the Secret Service Division.

"The suggestion contained in your letter of June 2, 1941, that 'the Board might well prefer to have such an index issued under its name' is appreciated. However, as Mr. Szymczak advised you informally, the Board does not wish to take credit for the index. On the other hand, there might be included on the cards at some appropriate place a statement to the effect that they were printed and distributed through the cooperation of the Federal Reserve System. I have asked Mr. Nelson, the Assistant Secretary exercising general supervision over the Board's duplicating and mail section, to get in touch with you regarding this aspect of the matter at an early date."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

M S Eccles
Chairman.