

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, August 5, 1941, at 12:05 P.m.

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

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary

Mr. Szymczak made further reference to the proposed appointment of A. J. Mulroney as Vice President of the Federal Reserve Bank of Chicago in charge of examinations and stated that, in accordance with informal discussions between himself and President Young, the latter had tendered the position to Mr. Mulroney on the basis of salary at the rate of \$13,000 per annum and that Mr. Mulroney had said that he would consider the matter and advise Mr. Young in the course of the next few days of his decision. Mr. Szymczak said that he would be in Chicago on Thursday of this week when it was expected that Mr. Mulroney would also be there, that undoubtedly the question of the appointment of Mr. Mulroney would be discussed, that he believed that Mr. Mulroney had learned of the action of the directors of the Federal Reserve Bank in fixing a salary for him at the rate of not to exceed \$15,000 per annum, and that, therefore, the members of the Board should determine whether they would adhere to the position taken

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in informal discussions that Mr. Mulroney's salary should be at the rate of \$13,000 per annum.

In this connection, Mr. McKee called attention to the fact that the salary of the Chief National Bank Examiner in the seventh Federal Reserve District is \$15,000 per annum and stated that Mr. Mulroney had been offered that position by the Comptroller of the Currency and, therefore, might hesitate to accept the position at the Federal Reserve Bank at a lower salary.

Chairman Eccles stated that, in accordance with the action taken at the meeting on July 30, 1941, he had attempted to get Chairman Caldwell of the Federal Reserve Bank of Kansas City on the telephone but found that he had left for a two weeks' vacation so that the question of the appointment of a First Vice President at the Federal Reserve Bank of Kansas City would have to be deferred until Mr. Caldwell's return and that, inasmuch as the selection of a Vice President in charge of examinations at Chicago should be made as soon as possible, action on that appointment should be taken without waiting for a solution of the Kansas City situation.

Mr. McKee raised a question as to the desirability of discussing the matter with Mr. Mulroney before he and Mr. Szymczak go to Chicago, and the latter stated that he would prefer to discuss it with President Young and Mr. Mulroney in Chicago with the understanding that the Board approves a salary of \$13,000 per annum for Mr.

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Mulroney if fixed by the directors at that rate, but would not be willing to approve for him a salary in excess of that amount.

There was unanimous agreement that the matter should be handled as suggested by Mr. Szymczak and that, in the event Mr. Mulroney did not reach a prompt decision or was unwilling to accept the appointment, Mr. Szymczak should say to President Young that the Board was of the opinion that some other suitable person should be selected with the least possible delay.

Mr. Szymczak then referred to the discussion with President Peyton of the Federal Reserve Bank of Minneapolis at the meeting of the Board on July 31, 1941, of a plan for the payment of bonuses to employees of the Federal Reserve Bank if and when it seemed desirable to do so, and to the advice given to Mr. Peyton at that time that the Board would give further consideration to the proposal and he would be advised of any conclusions reached.

Mr. Draper suggested that the Board might wish to consider the matter as an experiment rather than as a precedent which the other Federal Reserve Banks might wish, or might be expected, to follow.

Mr. Szymczak read from an informal memorandum prepared in the Division of Bank Operations reasons which might be advanced for and against a bonus payment plan.

During the course of the discussion Messrs. Eccles and Ransom raised questions as to the advisability of the plan from the standpoint

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of its relation to the efforts of the Administration to combat price inflation as well as from the standpoint of the example that it might set, and they expressed the opinion that before a decision was reached the matter should be given careful consideration from all of these angles.

Messrs. McKee and Draper indicated that they would be inclined to favor the plan as an experiment with the understanding that it would not necessarily be a precedent to be followed by other Federal Reserve Banks.

Chairman Eccles stated that he would suggest that Mr. Peyton be advised that the members of the Board were divided in their opinion on the matter, that they felt that the idea was one that should be given considerable further study, that the Presidents of the other Federal Reserve Banks should have an opportunity to express their views from a System standpoint, and that in the circumstances the Board would like to have the Federal Reserve Bank of Minneapolis defer action on the plan until consideration could be given to it by the Presidents' Conference.

Chairman Eccles' suggestion
was agreed to unanimously.

Chairman Eccles then presented a letter addressed to him under date of July 30, 1941, by the President of the United States and reading as follows:

"In order to assure effective coordination of our economic defense efforts, I have today established an

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"Economic Defense Board under the Chairmanship of Vice President Wallace. A copy of the Order establishing the Board is attached.

"It is contemplated that the Board of Governors of the Federal Reserve System will have many active relationships with the Board in developing and carrying out economic defense plans. I have, therefore, under the terms of the Order, directed that the Board of Governors of the Federal Reserve System designate a responsible officer to represent it in its continuing relationships with this new agency.

"I shall be grateful for the full assistance and cooperation of the Board of Governors of the Federal Reserve System in facilitating the work to be undertaken by the Board."

Chairman Eccles stated that, if agreeable to the Board, he would defer definite action on the matter and in the meantime would handle any questions that might arise.

This suggestion was approved unanimously.

The meeting then recessed and reconvened at 2:30 p.m. with the same attendance as at the morning session except that Chairman Eccles was not present and Mr. Bethea, Assistant Secretary, was in attendance.

Mr. Szymczak referred to a letter dated August 1, 1941, from Chairman Coffey of the Federal Reserve Bank of Minneapolis acknowledging receipt of the Board's letter of July 29, 1941, with respect to maximum salaries for the positions of President and First Vice President at the Federal Reserve Banks, and stating that he could not feel happy over the maximum salaries fixed for these officers

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at the Federal Reserve Bank of Minneapolis and that, while he did not know all the reasons lying back of the Board's decision, it looked to him like a step backward. Mr. Szymczak stated that Mr. Morrill had acknowledged Mr. Coffey's letter and that the Board should decide whether it wished to take any further action with respect to it.

There was unanimous agreement that the letter did not call for a further reply and therefore should be filed without further action.

Mr. Szymczak then called attention to the letter addressed to Mr. McCabe, Chairman of the Federal Reserve Bank of Philadelphia, under date of July 25, 1941, by Chairman Caldwell of the Federal Reserve Bank of Kansas City with respect to the decision of the directors of the Kansas City Bank not to participate in the payment of the expenses involved in the study being made by Mr. Balderston and his associates in connection with the development of a career system for the officers and employees of the Federal Reserve Banks and the Board of Governors and to Mr. McCabe's reply under date of July 30, 1941. Mr. Szymczak inquired whether the members of the Board felt that there was any reason for action by the Board in connection with the decision of the St. Louis and Kansas City Reserve Banks not to participate in the payment of the cost of the study.

There was unanimous agreement that, inasmuch as the study was being made

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primarily under the direction of the Chairmen of the Federal Reserve Banks and was being carried on on the basis of participation in the expense by ten of the Federal Reserve Banks, the matter was not one that called for action by the Board at this time.

Mr. McKee stated that, in accordance with the request contained in the Board's letter of July 25, 1941, the Federal Reserve Bank of Chicago had advised the First National Bank of Arcola, Illinois, that the Board would be glad to give further consideration to the bank's application for trust powers after a review of the report of the next examination of the bank and of information to be submitted by the bank to the examiners as requested in the letter, and that, under date of July 29, 1941, Samuel B. Hicks, one of the directors of the national bank who owns controlling interest in the institution, addressed a letter to the Federal Reserve Bank expressing dissatisfaction with the Board's decision and stating that unless immediate action on the application were taken he would take steps to obtain such action. Mr. McKee also said that Mr. Diercks, Assistant Vice President of the Chicago Bank, replied to Mr. Hicks' letter on July 31 stating that his letter had been transmitted to the Board of Governors and that any information received from the Board in connection with the application would be transmitted to Mr. Hicks. He added that, in these circumstances, he was of the opinion that no further action by the Board was called for

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pending receipt of the next report of examination.

The other members of the Board concurred in Mr. McKee's opinion.

In connection with the above matter, Mr. Szymczak stated that he received a telephone call today from Congressman James M. Barnes of Illinois inquiring as to the status of the application of the First National Bank of Arcola for trust powers and that he stated to Mr. Barnes that he was not familiar with the case but would look into it.

There was agreement with Mr. Szymczak's suggestion that he advise Mr. Barnes that the Board had deferred action on the application pending receipt of the next report of examination of the bank for the purpose of determining whether information developed during the examination would justify approval of the application.

Mr. Ransom then referred to the application of the First National Bank of North Bergen, New Jersey, for permission to exercise trust powers and to a memorandum addressed to the Board under date of August 1 by Mr. Cagle, Assistant Chief of the Division of Examinations, in which it was recommended (1) that some member of the Board's staff be authorized to advise Mr. Gidney, Vice President of the Federal Reserve Bank of New York, by telephone that when, as, and if the national bank had taken steps to establish a trust department manned by an experienced and qualified trust officer, the Board would grant the trust powers applied for, provided that these

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steps were taken with reasonable promptness and that, of course, no further adverse facts came to light, and (2) that Mr. Gidney be requested to advise the bank accordingly.

In the discussion which ensued, Messrs. Ransom and McKee indicated that they favored approval of the above recommendations and Mr. Ransom moved that they be approved and that Mr. Cagle be authorized to communicate with Mr. Gidney as suggested in the recommendations.

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

Mr. Morrill stated that recently Commander Padgett of the Navy Department called on him and stated that he had been assigned the task of setting up a draft of a plan for censorship of cable and radio messages, that it was anticipated that the Federal Reserve System might be asked to participate in the operation of the plan, that the matter had also been discussed with Mr. Bell, Under Secretary of the Treasury, who had suggested that Commander Padgett prepare a memorandum regarding the matter which had been done, and that copies of the memorandum had been submitted to the Treasury and to us with the understanding that the matter would be studied for the purpose of seeing what part the Treasury and the Federal Reserve System should have in it. Commander Padgett also stated, Mr. Morrill said, that the Navy Department was under instructions to prepare for censorship of cable, wireless, and radio messages with the understanding that the War Department would handle censorship of the mails. Mr.

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Morrill added that he had talked to Mr. Bell regarding the matter who advised that it would be studied by members of the staff of the Treasury and suggested that it be studied also by members of our staff. Mr. Morrill suggested that it would be desirable if the subject were assigned to one of the members of the Board and stated that he had said to Commander Padgett that the Board would keep in close touch with Mr. Bell regarding the matter.

It was agreed unanimously that Mr. Draper should be designated for this purpose and he was authorized to call on such available members of the staff as may be necessary to assist him in the work.

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 August 1, 1941, were approved unanimously.

Memoranda dated July 30, 1941, from Mr. Paulger, Chief of the Division of Examinations, recommending that the salary of Joseph J. Connell, Federal Reserve Examiner, be increased from the rate of \$3,800 to \$4,000 per annum, and that the salary of Louis W. Zidek, Assistant Federal Reserve Examiner, be increased from the rate of \$1,620 to \$1,900 per annum, both effective as of August 16, 1941.

Approved unanimously.

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Bond in the amount of \$10,000 executed under date of July 26, 1941, by Thomas Arthur Segelhurst as Alternate Assistant Federal Reserve Agent at the Federal Reserve Bank of Dallas.

Approved unanimously.

Letter to the board of directors of the "Bank of White Sulphur Springs", White Sulphur Springs, West Virginia, 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 Richmond.

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

"The Board of Governors of the Federal Reserve System approves the application of the 'Bank of White Sulphur Springs', White Sulphur Springs, West Virginia, 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 Commissioner of Banking for the State of West Virginia for his information.

"The application was accompanied by a copy of the bank's original certificate of incorporation certified by the clerk of the County Court of Greenbrier County, West Virginia, on December 19, 1936, and your counsel stated in his memorandum of July 16, 1941, that 'apparently' there had been no amendments. In acting upon the application, it has been assumed that an appropriate

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"investigation was made of this matter, but the material accompanying the application did not contain such assurances as are desired by the Board that true and complete copies of all pertinent documents as shown by the records of the appropriate State official were submitted, and further advice will be appreciated. Also, the application was not accompanied by copies of the bank's certificate of authority to commence business and the form of capital debenture sold by the bank to the Reconstruction Finance Corporation, and it will be appreciated if you will furnish them in order to complete the Board's records."

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

"This refers to the telegram dated July 28, 1941, addressed by Mr. Dunn to Mr. Wyatt and raising the question how mutual savings banks should be classified for the purpose of electing directors of your bank.

"Section 4 of the Federal Reserve Act, with reference to the classification of member banks for the purpose of electing Class A and Class B directors, provides that each group shall consist 'as nearly as may be of banks of similar capitalization', and under this requirement it has been the practice to classify them according to the amount of their capital and surplus.

"A guaranty fund required by law to be provided or accumulated for the protection of the depositors of a mutual savings bank may be regarded as surplus of such bank for the purpose in question. Although a mutual savings bank has no capital stock, it is also believed that its capital notes and debentures held by the Reconstruction Finance Corporation may properly be considered as part of the capital of such an institution for this purpose, in view of the provisions of the first paragraph of section 9 of the Federal Reserve Act. On the other hand, on account of the requirement of the law as to 'similar capitalization' of banks in the same group and the practice with respect to other member banks, it is felt that undivided profits, reserves and other such items should not be included. To do so would require a change in previously existing practice and, it is believed, would present difficult questions in practical application.

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"In the circumstances, it is the view of the Board that a mutual savings bank should be classified for the purpose in question according to the amount of its surplus or guaranty fund and its capital notes or debentures, if any, purchased by the Reconstruction Finance Corporation."

Approved unanimously.

Thereupon the meeting adjourned.

Robert Morice
Secretary.

Approved:

W. C. ...
Chairman.