

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, October 3, 1941, at 10:30 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
Mr. Wyatt, General Counsel
Mr. Smead, Chief of the Division of Bank Operations

In accordance with the action taken at the meeting of the Board yesterday, there was presented a revised draft of letter to the Presidents of the Federal Reserve Banks with respect to the payment by the Banks to their employees of supplemental compensation.

The letter was read and approved unanimously in the following form:

"The Presidents, at their Conference held in Washington on September 28, discussed with the Board their employment problems arising out of the present National emergency. The Board recognizes the necessity of taking steps to meet these problems. Therefore, it authorizes the Federal Reserve Banks to pay such supplemental compensation or allowance as their Directors deem necessary from time to time up to a maximum of 10 per cent per annum on the first \$1,800 of annual salary to members of their staffs receiving salaries of less than \$6,000, provided, however, that such supplemental compensation shall not increase total compensation beyond \$6,000 per annum.

"Such supplemental compensation may be made retroactive to September 1 if desired and may be paid monthly or at other intervals, if preferred. Supplemental payments should not be considered as a part of basic salary nor should they be referred to as bonuses and no contributions to the Retirement System should be made in respect thereto.

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"It is expected that each Bank, in fixing its own rates of supplemental compensation, will be guided by such factors as the local employment situation, including increasing opportunities for employment elsewhere at higher salaries, the policies being followed by other institutions in its area, the extent to which it may have increased salaries during recent months, and changes that have taken place in living costs.

"It should be understood that the Board reserves the right either to cancel or amend at any time the authority granted herein for the payment of supplemental compensation. The Board has given its approval to the above plan in the belief that it represents a better method of dealing with emergency conditions than would increases in basic salaries."

There was also presented a letter addressed to Mr. Ransom under date of September 23, 1941, by Mr. Sproul, President of the Federal Reserve Bank of New York, which referred to the draft of replies of the Federal Reserve Banks to the Wagner questionnaire which Mr. Sproul left with the Board on June 11, 1941, stated that it was felt that the Banks were under a duty to respond to the questionnaire, and suggested that the Board might wish to turn the replies back to the Presidents without committing the Board in any way. Mr. Ransom replied to Mr. Sproul's letter under date of September 24, 1941, and the file, together with a comparative digest of the draft of replies prepared by the Board's staff and of the replies of the Federal Reserve Banks, The American Bankers Association, and the Association of Reserve City Banks, had been circulated among the members of the Board at Mr. Ransom's request for consideration of the question raised by Mr. Sproul.

In the discussion of the question, the opinion was concurred in by all of the members of the Board present that the answers of the Banks

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should not be filed prior to the submission of the answers of the Board and other Government agencies, that in view of the complete lack of current interest on the part of the Wagner committee in the questionnaire little or no purpose would be served by the filing of answers to the questionnaire at this time, and that it would be advisable for the Board and the Banks to withhold their replies until interest in the matter was revived so that, if possible, when the answers were submitted they could be currently responsive to the matters in which the Wagner committee would be interested.

Upon motion by Mr. Szymczak, it was agreed unanimously that Mr. Sproul's letter should be held for discussion at the next meeting of the Presidents which would be following Mr. Ransom's return, and that Mr. Sproul should be advised accordingly.

There was submitted a memorandum dated September 19, 1941, from the Personnel Committee recommending that upon the expiration on December 31, 1941, of the appointment of Raymond C. Force as Class C Director and Chairman and Federal Reserve Agent at the Federal Reserve Bank of San Francisco he be not reappointed, and that if Henry F. Grady, President of the American Steamship Lines at San Francisco, would accept the position, he be appointed a Class C Director of the Bank for the three-year term ending December 31, 1944, and designated as Chairman and Federal Reserve Agent to succeed Mr. Force.

The recommendation of the Committee with respect to Mr. Force was approved, and it was understood that in order to

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ascertain whether Mr. Grady would be available for the position, Chairman Eccles would communicate with him by letter and suggest that the next time he is in Washington he call at the Board's offices for a visit.

Reference was then made to a memorandum dated September 19, 1941, from the Personnel Committee submitting a list of persons from whom a selection might be made for appointment as the director representing the United States on the board of directors of the Inter-American Bank. The memorandum proposed that at the appropriate time the Board recommend, in the order named, the appointment of Walter W. Stewart, of the Institute for Advanced Study at Princeton, New Jersey, and Alvin Hansen, Professor of Economics at Harvard University.

It was stated that the legislation providing for the creation of the Inter-American Bank had not yet been passed, that the matter was not receiving active consideration in Congress, and that it did not appear that any action by the Board with respect to the American director of the Bank was called for at the present time.

It was agreed unanimously that the recommendation of the Personnel Committee should be filed for consideration at such time as a recommendation by the Board might appropriately be made.

Consideration was then given to a memorandum addressed to the Board by Mr. Wyatt under date of September 17, 1941, and circulated among the members of the Board, which referred to the discussion at the meeting of the Board with the Federal Advisory Council on September 15

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with respect to bills introduced in the present session of Congress for the purpose of effecting major changes in the Federal Land Bank System, and stated that it had been ascertained subsequently that hearings on the proposed legislation before the House Committee on Agriculture were scheduled to begin on October 3, which raised the questions (1) whether the members of the Federal Advisory Council should be given this information, and (2) whether the Board wished to take any further action with respect to the proposed legislation. Mr. Wyatt stated that the hearings on the legislation were now in process, note of which had been taken by the newspapers, and that it did not appear that there was much likelihood of the legislation being passed at this session of Congress.

There was unanimous agreement that no action was called for by the Board in the matter at this time and that during the contemplated absence of Mr. Williams, Assistant Counsel, on vacation Mr. Cherry, Assistant Counsel, would keep in touch with the status of the legislation.

Attention was called to the fact that at the meeting of the Board with the Federal Advisory Council on September 15, 1941, Mr. Brown, President of the Council, advised that the Council had decided to withdraw its request that publicity be given to its recommendation that the Board of Governors immediately raise reserve requirements of member banks, and that it was hoped that, if the discussions with the Treasury were carried to a satisfactory conclusion, the recommendation would be released to the press shortly thereafter.

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The members of the Board were unanimously of the opinion that, inasmuch as action had been taken by the Board to increase reserve requirements and the recommendation of the Council would be published in the annual report of the Board for the year 1941, no purpose would be served in releasing the recommendation to the press at this time.

Before this meeting all of the members of the Board had seen a letter received under date of August 20, 1941, from Mr. Coffey, Chairman of the Federal Reserve Bank of Minneapolis, expressing disagreement with the policy set forth in the Board's letter of July 29, 1941, with respect to the establishment of maximum salaries for the positions as President and First Vice President at the Federal Reserve Banks. The letter had been acknowledged but a further reply thereto had been deferred pending consideration of the letter by all of the members of the Board.

There was unanimous agreement that no purpose would be served in undertaking to reply by letter to the comments made by Mr. Coffey, but that an invitation should be extended to him to discuss the matter with the Board the next time he is in Washington.

Mr. Szymczak referred to the memorandum addressed by him to the Board under date of July 29, 1941, with which was submitted certain information prepared by Mr. Smead for the purpose of discussion by the Board and later with the Presidents of the Federal Reserve Banks with a view to decreasing the expenses of the Federal Reserve Banks. He stated

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that the information referred to in the memorandum was given to the Presidents when they were in Washington last week, that it did not appear that anything further could be done by the Board about the matter at the present time, but that it would be watched carefully from time to time with a view to the elimination of any unnecessary expenses.

Mr. Szymczak also referred to the letter addressed by the Board on September 12, 1941, to Mr. LaGuardia, Director of Civilian Defense, in relation to the organization of a committee to consider matters connected with the protection of vital structures and facilities in the United States, and stated that on September 18, Mr. Smead attended a meeting of the committee during which he said that the System was interested in protecting the buildings occupied and owned by the Board and the Reserve Banks and would probably wish to get in touch at a later date with some committee or representative thereof with respect to these matters, that this matter was brought to the attention of Mr. Day as Chairman of the Presidents' Conference, on September 25 in a memorandum which suggested that he take the matter up with the Presidents, and that if any of them had problems with respect to the protection of their buildings which they wished to take up with the committee they so advise the Board, that it was understood that the matter was presented to the Presidents by Mr. Day, and that a copy of the memorandum to Mr. Day was sent under confidential cover to the President of each Bank.

Under date of September 25, 1941, Mr. Ransom addressed a memorandum

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to Mr. Szymczak in which he presented the question of the desirability of the selection by the Board of an informal group of individuals who would meet occasionally with the Board and give the Board the benefit of their opinions on questions of public interest in connection with Regulation W, Consumer Credit. Mr. Szymczak read the memorandum at this meeting and suggested that it be considered when other matters relating to Regulation W were taken up next week.

Telegrams to Mr. Young, President of the Federal Reserve Bank of Boston, Messrs. Sanford and Post, Secretaries of the Federal Reserve Banks of New York and Philadelphia, respectively, Mr. Bowman, Assistant Vice President of the Federal Reserve Bank of Atlanta, and Messrs. Dillard and Hale, Secretaries of the Federal Reserve Banks of Chicago and San Francisco, respectively, stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on September 30, by the Federal Reserve Banks of New York, Atlanta, Chicago, and San Francisco on October 2, 1941, and by the Federal Reserve Banks of Boston and Philadelphia today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

At this point Messrs. Wyatt and Smead 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 October 2, 1941, were approved unanimously.

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Letter to Mr. Hays, Vice President and Secretary of the Federal Reserve Bank of Cleveland, reading as follows:

"The Board of Governors approves the change in the personnel classification plan of your Bank as requested in your letter of September 29, 1941."

Approved unanimously.

Letter to Mr. Hitt, First Vice President of the Federal Reserve Bank of St. Louis, reading as follows:

"Receipt is acknowledged of your letter of September 19 in which you quoted a communication from Mr. R. W. Chubb, Counsel for the St. Louis Stock Exchange, in regard to a proposed fee for passing upon extensions of time.

"For your information in responding to this inquiry, there is enclosed a copy of a letter which the Board sent on March 26, 1937 to the President of one of the other Federal Reserve Banks on this general subject. It will be noted that the letter referred to the regulation in the form in which it was then in force but the views stated in the letter seem to be applicable to the question raised by Mr. Chubb and you are authorized to advise him accordingly."

Approved unanimously.

Telegram to the Presidents of all of the Federal Reserve Banks reading as follows:

"Reg. W-87. Butane, propane, or similar automatic gas systems or containers are included in Group E of the Supplement."

Approved unanimously.

Letter to Mr. Gilbert, President of the Federal Reserve Bank of Dallas, reading as follows:

"Mr. Ransom has brought to the attention of the members of the Board your very interesting letter of September

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"24, 1941, in which you inquire whether the Board would have any objection to your Bank preparing a question and answer radio script and pamphlet on consumer credit, for use by your Bank in the manner outlined.

"The Board would be very glad to see your Bank undertake the project of a radio script, and upon receipt of the drafts of the script and pamphlet which you state will be sent to the Board for review, to be of such assistance as it can in the matter."

Approved unanimously.

Letter to Mr. Hale, Vice President and Secretary of the Federal Reserve Bank of San Francisco, reading as follows:

"Receipt is acknowledged of your letter of September 24, 1941 and enclosed copies of correspondence relating to the question whether loans secured by chattel mortgages upon residences situated on leased ground are exempted by the provisions of section 6(a) of Regulation W.

"It is assumed that in order to escape the usual rule that a building becomes a part of the real estate, there is an agreement with the owner of the real estate which provides that the building shall not become a part of the real estate and may be made the subject of a chattel mortgage securing a loan by the bank. It is further assumed that the chattel mortgage is duly recorded, and that the chattel mortgage is a first lien upon the building.

"If these assumptions are correct, the chattel mortgage is a first lien upon what, under ordinary circumstances, would be a portion of the real estate. The lessor, who owns the land, could conceivably sell the land or mortgage it, but could do so only subject to the existing lease and subject also to the rights of the bank under the chattel mortgage.

"In the circumstances, the Board is of the opinion that the so-called chattel mortgage on the house is exempt under section 6(a) of Regulation W.

"The other point discussed in the correspondence is covered by W-48."

Approved unanimously.

Letter to the Comptroller of the Currency reading as follows:

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"It is respectfully requested that you place an order with the Bureau of Engraving and Printing, supplementing the order requested June 14, 1941, for the printing of Federal reserve notes of the 1934 Series, in the amounts and denominations stated for the Federal Reserve Bank of San Francisco:

Denomi- nation	Number of sheets	Amount
\$10	270,000	\$32,400,000
20	215,000	51,600,000
50	15,000	9,000,000
100	20,000	24,000,000
500	700	4,200,000
1000	2,500	30,000,000"

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

W. Steeles
Chairman.