

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, February 17, 1942, at 10:40 a.m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the
Chairman
Mr. Smead, Chief of the Division of Bank
Operations
Mr. Paulger, Chief of the Division of
Examinations
Mr. Vest, Assistant General Counsel

Consideration was given to a memorandum submitted to the Board by Mr. Goldenweiser under date of February 2, 1942, recommending that Robert E. Menze be appointed as an economic assistant in the Division of Research and Statistics on a temporary basis for a period of six months, with a salary at the rate of \$2,400 per annum, effective as of the date he reports for duty after having passed the necessary physical examination. The memorandum stated that a salary of \$2,000 per annum had originally been suggested to Mr. Menze but that it was no longer feasible to obtain his services on that basis in view of offers which he had received from other governmental agencies. The file attached to Mr. Goldenweiser's memorandum indicated that Mr. Menze had not filed the usual form of application required of applicants for positions with the Board and contained a copy of a telegram which Mr. Goldenweiser had sent to Mr. Menze on January 30, 1942, stating that

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he was prepared to recommend for Board approval his appointment for six months at \$2,400 per annum and asking that he wire whether he would accept the position if his appointment were approved by the Board.

Chairman Eccles stated that Mr. Clayton had advised him that Mr. McKee was not willing to approve the recommendation, although Messrs. Szymczak and Draper had indicated a willingness to do so partly because it was their feeling that Mr. Goldenweiser had so conducted the negotiations with Mr. Menze that a commitment had been made.

Chairman Eccles said that he thought that a division head should not advise an applicant that he would recommend a salary at a stated figure because of the misunderstanding and embarrassment that would result if the Board did not approve the recommendation.

A discussion ensued from which it appeared that the record was not satisfactory in this case. Mr. Ransom suggested, however, that the case be inquired into further and considered on its merits from the standpoint of whether the person recommended would make a desirable addition to the staff of the Division of Research and Statistics and, if so, at what salary, and that the Board's Personnel Committee be asked to consider all the facts and to make a recommendation to the Board as to the action which it should take in the matter.

It was unanimously agreed that the case should be referred to the Board's Personnel Committee for further consideration and the submission of a recommendation to the Board as to the action to be taken.

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There was a discussion of a proposal to regroup the Federal Reserve Banks for the purpose of selection of their representatives as members of the Federal Open Market Committee. This would require an amendment to section 12A of the Federal Reserve Act which contains the statutory requirements for the selection of such representatives. The essence of the proposal was that one representative of the Federal Reserve Banks be the president of the New York Bank or that provision be made whereby one representative of the Federal Reserve Banks be selected annually as a "member at large" who, as a practical matter, would be the president of the Federal Reserve Bank located in the principal money market, which is New York. The remaining four representatives of the Federal Reserve Banks, who would also be Reserve Bank presidents, would be elected annually by designated groups of the boards of directors of the eleven Reserve Banks outside of the money market.

Mr. McKee stated that, while he was not opposing the proposal, he had some reservations as to the wisdom of endeavoring to obtain legislation on this subject at present. He said that the sponsorship of any such proposal might place the Board as a whole on record as being satisfied to have presidents of the Federal Reserve Banks serve on the Federal Open Market Committee as representatives of the twelve Federal Reserve Banks and also in the position of asking for special representation for the Federal Reserve Bank of New York.

Mr. Ransom reviewed the history of the legislation on this

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subject contained in the Banking Act of 1935 and said that as he saw the problem there were three parties which had a vital interest in all open market operations, namely, the Treasury, the Board, and the Federal Reserve Bank located in the money market. He said that while the money market was now in New York it was not inconceivable that at some time in the future it might be in Chicago or some other Reserve Bank city. In other words, he said, it was important to the proper functioning of the Federal Open Market Committee that the president of the Reserve Bank located in the money market serve at all times as a member of the Committee.

Mr. Draper suggested that the proposal be cleared with the President. He said that on principle he thought the Federal Reserve Bank of New York should be treated on the same basis as any other Federal Reserve Bank but that, of course, he realized that it was important to have a representative of the Federal Reserve Bank located in the money market on the Open Market Committee. He went on to say that, in view of the influence which the New York Bank had brought to bear on affairs of the Federal Reserve System in the past and the shift in responsibility from New York to Washington with the passage of the Banking Act of 1935, he would prefer to see the law remain as it stands.

Chairman Eccles said that he did not think the matter was of sufficient importance to take up with the President under present conditions.

Mr. Draper was called out of the meeting at this point.

Mr. Ransom said he recognized that the practical application

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of the existing statutory requirements had created a situation which made it difficult for the Federal Reserve Bank of Boston to have its president serve on the Federal Open Market Committee. He also said that, while it was essential in his opinion to have the president of the New York Bank serve continuously as a member of the Committee, the enactment of legislation along the lines proposed would be a realistic solution of Boston's problem.

Chairman Eccles stated that he thought the failure to have the president of the New York Bank serve as a member of the Federal Open Market Committee in effect would give the Federal Reserve Banks six representatives on the Committee. He explained that the Treasury would insist upon consulting the New York Bank in connection with any important operations as its fiscal agent and that any decisions reached would be influenced by the president of the New York Bank even though he were not serving as a member of the Federal Open Market Committee. He suggested that it might be well for him to discuss the proposal with the Treasury and, if he found the Treasury favorably disposed toward it, to obtain the reaction of Congressional leaders and others who would be concerned. He also said that, if it appeared there would be no objection from these quarters, it might be desirable to take the matter up with the Federal Reserve Banks for the purpose of obtaining their reaction before having the proposed legislation introduced in Congress.

Chairman Eccles' suggestions were approved unanimously.

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Mr. McKee pointed out that member banks in central reserve cities and in reserve cities in which Reserve Banks or branches were located computed deficiencies in reserve balances on the basis of average daily net deposit balances covering semiweekly periods, but that member banks in reserve cities other than those in which a Federal Reserve Bank or branch was located, with few exceptions, were required to compute such deficiencies on a weekly basis, while country banks were permitted to average their reserves over a semimonthly period. He said that he would favor an amendment to Regulation D which would permit member banks in central reserve cities or in other cities in which a Federal Reserve Bank or branch was located to average their reserves on a weekly basis instead of on a semiweekly basis as at present. Further discussion disclosed that members of the Board were unanimously in favor of such a change, and Mr. McKee suggested that the Board send a telegram to all Federal Reserve Banks stating that the Board was favorable to such a proposal and inviting an expression of their opinion with respect thereto.

Messrs. Draper and Wyatt entered the meeting at this point.

The Board unanimously approved Mr. McKee's suggestion and authorized the Secretary to send the following telegram to the presidents of all Federal Reserve Banks:

"Board is favorably considering amending first two sentences of paragraph (1) of subsection (a) of section 3 of Regulation D to read substantially as follows:

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"Deficiencies in reserve balances of member banks in central reserve cities and in reserve cities shall be computed on the basis of average daily net deposit balances covering weekly periods.' Minor changes in wording of certain other provisions of regulation in order to conform to this amendment would, of course, be necessary. The Board will appreciate your comments on this proposal by wire."

The Board also agreed that, in the event the reaction of the Federal Reserve Banks was favorable, the staff should prepare an appropriate amendment to Regulation D, together with a press release covering the substance thereof, and circulate them to the Board for approval.

Mr. McKee referred to the Act of Congress approved by the President on January 30, 1942 (Public Law 424--77th Congress) to amend section 3 of the Subsistence Expense Act of 1926, as amended, to read as follows:

"Sec. 3. Civilian officers and employees of the departments and establishments, while traveling on official business and away from their designated posts of duty, shall be allowed, in lieu of their actual expenses for subsistence and all fees or tips to porters and stewards, a per diem allowance to be prescribed by the heads of the departments and establishments concerned at a rate not to exceed \$6 within the limits of the continental United States, and not to exceed an average of \$7 beyond the limits of the continental United States."

He said that, since the field force of the Division of Examinations was almost continuously in a travel status, he had discussed the matter with Mr. Paulger and had concluded that it would be desirable for the Board to change its own travel regulations so that the Board's employees now allowed \$5 per diem when traveling on official business of the Board, would be allowed \$6 per diem.

Upon motion by Mr. McKee, and by unanimous vote, the Board amended, effective March 1, 1942, paragraph 3 of

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its travel regulations dated December 15, 1937, to read as follows:

"3. All other persons traveling on official business of the Board pursuant to proper authorizations shall be allowed actual necessary transportation expenses and a per diem in lieu of subsistence not to exceed \$6."

Mr. McKee presented a letter addressed to the board of directors of the University State Bank, Houston, Texas, stating that, subject to conditions of membership numbered 1 to 3 in the Board's Regulation H, the Board approved 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. He explained that the applicant bank would have a capital of only \$100,000 whereas a bank in Houston, Texas, would ordinarily be required to have a capital of not less than \$200,000 in order to be eligible for membership inasmuch as the city had a population in excess of 50,000. However he said that the location of the applicant bank was to be approximately six miles from the heart of downtown Houston, apparently at the corporate limits of the city, and that banks located in outlying districts of a city were eligible for membership with a capital of \$100,000. Mr. McKee said that it was his recommendation that the bank be granted permission to maintain the same reserves against deposits as were required of banks not in reserve or central reserve cities, but that, since the statute required the affirmative approval of five members of the Board in taking such action, he wanted to bring the matter specifically to the attention of the other members of the Board.

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Upon motion by Mr. McKee the Board unanimously approved the letter referred to above, together with a letter to Mr. Gilbert, President of the Federal Reserve Bank of Dallas, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the 'University State Bank', Houston, Texas, 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 Texas for his information.

"Pursuant to the provisions of Section 19 of the Federal Reserve Act, the Board of Governors grants permission to the subject bank to maintain the same reserves against deposits as are required to be maintained by banks not in reserve or central reserve cities. This permission is subject to revocation at any time by the Board of Governors.

"It is understood that present plans are to open the bank about April 1, the exact date being contingent upon completion of the banking house now under construction. In view of the circumstances, instead of the usual 30 days the bank is being given 90 days within which membership may be accomplished."

Mr. Szymczak withdrew from the meeting at this point.

Reference was made to Mr. Wyatt's memorandum addressed to the Board under date of February 11, 1942, submitting a letter addressed to him by Mr. Oscar Cox on behalf of the War Legislation Committee, copies of which were furnished to members of the Board prior to this meeting, requesting information as to any additional legislation which the Board thought necessary for the war effort. It was pointed out that there had been some unfavorable reaction in Congress to the procedure whereby wholly unrelated proposals were included in the so-called War Powers

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Acts and that it might be preferable in the event additional legislation was desired to have it cleared with the Bureau of the Budget and introduced in Congress in the usual way. Following a discussion of the legislative situation, Chairman Eccles suggested that the Board authorize Mr. Wyatt to advise Mr. Cox that at this time it had no additional legislation related to the war effort which it desired included in another War Powers Act.

The Board unanimously approved Chairman Eccles' suggestion, and Mr. Wyatt was requested to proceed accordingly.

Chairman Eccles reported for the information of the other members of the Board that he had written a letter to Mr. Donald Nelson, Chairman of the War Production Board, with a brief covering letter to Sidney Weinberg in Mr. Nelson's office, regarding the proposed legislation with respect to the establishment of a Federal Industrial Credit Corporation. Chairman Eccles read the letters which he had sent and explained that he had avoided committing the Board inasmuch as time did not permit a full discussion of the course which he felt it was desirable to pursue. He said that both the War and Navy Departments were very much in favor of the proposal but that, since Mr. Nelson had been given full charge with respect to Army and Navy procurement, it seemed unnecessary to ask for a formal expression of the views of those departments until he had received something in writing from Mr. Nelson which would confirm statements which had been made informally last month. However, Chairman Eccles said that he had sent copies of the letter which he had written to Mr. Nelson

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to Under Secretary of War Patterson and Under Secretary of the Navy Forrestal for their information.

In this connection, Mr. Ransom stated that a routine request had been received from Senator Wagner for a report on Senate Bill 2250, introduced on February 5, 1942, by Senator Murray on behalf of the Senate Committee on Small Business, "To mobilize the productive facilities of small business in the interests of successful prosecution of the war, and for other purposes." He said that he thought consideration should be given to whether a report should not be made on this bill. He added that Mr. Vest was preparing a draft of such a report and that he assumed, in the event it was decided to submit it to the Senate Banking and Currency Committee it would have to be cleared with the Bureau of the Budget because it was contemplated that the report would propose the substitution of the Chairman's proposal for that contained in the Murray bill.

At this point, Messrs. Thurston, Wyatt, Smead, Paulger, and Vest 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 February 16, 1942, were approved unanimously.

The minutes of the meeting of the Board of Governors of the Federal Reserve System with the Federal Advisory Council held on February 16, 1942, were approved unanimously.

Memorandum dated February 10, 1942, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that Charles R. Harley be appointed on a permanent basis as an economic

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assistant in that Division, with no change in his present salary at the rate of \$2,600 per annum, effective as of the expiration of his temporary appointment at the close of business on March 17, 1942, and that he become a member of the retirement system on March 16, 1942.

Approved unanimously.

Memorandum dated February 16, 1942, from Mr. Goldenweiser, Director of the Division of Research and Statistics, submitting the resignation of Mrs. Melva Lischinsky as a clerk-stenographer in that Division, to become effective as of the close of business on January 31, 1942, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

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

"In accordance with the request contained in your letter of February 10, 1942, the Board approves the designations of John L. Hart and Elihu B. Washburne as special assistant examiners."

Approved unanimously.

Letter to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, reading as follows:

"Referring to your letters of January 26 and February 6, 1942, the Board of Governors approves payment of salaries to the following officers of the Bank for the period February 1, 1942, to May 31, 1943, inclusive, as fixed by your Board of Directors, at the rates indicated:

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<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
A. W. Mills	Cashier and Secretary	\$7,000
H. C. Core	Personnel Officer	6,750
O. R. Preston	Assistant Vice President	7,000
H. G. McConnell	Assistant Vice President	6,000
E. B. Larson	Assistant Cashier	4,500
W. H. Turner	Assistant Cashier	4,700
M. E. Lysen	Operating Research Officer	5,000
O. W. Ohnstad	Auditor	4,000

"The salaries fixed by your Directors for the remaining officers of the Bank for the period June 1, 1942, to May 31, 1943, inclusive, are approved by the Board as follows:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
J. N. Peyton	President	\$25,000
O. S. Powell	First Vice President and Secretary	15,000
E. W. Swanson	Vice President	10,000
H. I. Ziemer	Vice President	9,000
A. R. Larson	Assistant Cashier	5,500
W. E. Peterson	Assistant Cashier	5,500
T. H. Hodgson	Assistant Counsel	5,500

Helena Branch

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
R. E. Towle	Managing Director	\$8,000
A. W. Johnson	Assistant Manager	4,120
C. J. Larson	Assistant Manager	4,250

"The Board of Governors approves payment of a retaining fee at the rate of \$9,000 per annum to Sigurd Ueland, Counsel, for the period January 1, 1942, to May 31, 1943."

Approved unanimously.

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

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"In view of the circumstances set forth in your letter of February 10, 1942, the Board of Governors approves the payment of a salary at the rate of \$3,600 per annum, effective November 1, 1941, to Mr. John Johnson, Alternate Assistant Federal Reserve Agent.

"With reference to Mr. Earl B. Larson, the Board of Governors approves the payment of a salary to him as Alternate Assistant Federal Reserve Agent at the rate of \$4,120 per annum for the period November 1, 1941 to January 31, 1942. You will be advised in a separate communication regarding the payment of salary to Mr. Larson as Assistant Cashier."

Approved unanimously.

Thereupon the meeting adjourned.

Charles Morley
Secretary.

Approved:

W. H. C. [Signature]
Chairman.