

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, February 27, 1942, at 10:45 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice 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. Thurston, Special Assistant to
the Chairman
Mr. Wyatt, General Counsel
Mr. Smead, Chief of the Division of
Bank Operations
Mr. Vest, Assistant General Counsel
Mr. Wingfield, Assistant General Counsel

Chairman Eccles presented a letter addressed to the Board of Governors under date of February 26, 1942, by Mr. Creighton, Chairman of the Federal Reserve Bank of Boston, confirming informal advice given by him over the telephone yesterday that, effective March 31, 1942, Roy A. Young had resigned as President of the Reserve Bank to accept the presidency of the Merchants National Bank of Boston, and that effective April 1, 1942, the board of directors of the Federal Reserve Bank had appointed W. W. Paddock as President and William Willett as First Vice President, each for the unexpired portion of the term of five years ending February 28, 1946. The letter also stated that the matter of making adjustments in the salaries of the two new officers had been deferred for action at a later meeting of the board of directors

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of the Bank.

The action of the directors of the Boston Bank was discussed in the light of the informal consideration given to the matter by the members of the Board yesterday following the telephone conversation with Mr. Creighton, and upon motion by Mr. Szymczak, it was voted unanimously to approve the appointment of Mr. Paddock. No action was taken on the appointment of Mr. Willett, it being understood that this appointment would be discussed at a later date. The Secretary was requested to advise Mr. Creighton by telegram of the Board's action, it being understood that the Federal Reserve Bank of Boston would make immediate announcement of the appointment of Mr. Paddock and that no announcement would be made by the Board.

Reference was made to a telegram dated February 26, 1942, from Mr. Dillard, Secretary of the Federal Reserve Bank of Chicago, stating that the board of directors of the Bank had voted to establish a rediscount rate of 1 per cent on advances and rediscounts under sections 13 and 13a of the Federal Reserve Act, except the last paragraph of section 13, effective the first business day following that on which approved by the Board of Governors, and that no other change had been made in the Bank's existing schedule of rates of discount and purchase.

Upon motion by Mr. McKee, and by unanimous vote, the rate of 1 per cent established by the directors of the Chicago Bank for discounts and advances under sections 13 and 13a of the Federal Reserve Act, except the last paragraph of section 13, to become effective February 28, 1942, and the establishment without change of

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the remaining rates of discount and purchase in the Bank's existing schedule, were approved unanimously.

Upon motion by Mr. McKee, unanimous approval was also given to telegrams to Mr. Hays, Secretary of the Federal Reserve Bank of Cleveland, Mr. Leach, President of the Federal Reserve Bank of Richmond, Messrs. Stewart and Powell, Secretaries of the Federal Reserve Banks of St. Louis and Minneapolis, respectively, Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, Mr. Stroud, First Vice President of the Federal Reserve Bank of Dallas, and Mr. Hale, Secretary of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on February 24, and by the Federal Reserve Banks of Cleveland, Richmond, St. Louis, Minneapolis, Kansas City, and Dallas on February 26, 1942, of the rates of discount and purchase in their existing schedules.

Attention was directed to the two resolutions which were adopted by the Federal Advisory Council and presented at the meeting of the Council with the Board on February 16, 1942, in which the Council (1) expressed the opinion that reserve requirements of member banks should remain as stable as possible and (2) suggested the desirability of the Treasury considering favorably an increase in the amount of Treasury bills to be issued each week.

By unanimous vote, it was agreed that the resolution relating to Treasury bills should be brought to the attention of the Federal Open Market Committee at its meeting on Monday, March 2, 1942,

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and that copies of both resolutions should be sent to the Secretary of the Treasury for the confidential information of the Treasury.

Before this meeting there had been circulated among the members of the Board a memorandum dated February 12, 1942, from Mr. Szymczak, to which was attached a letter dated February 6, 1942, from Mr. Davis, Chairman of the Presidents' Conference Committee on Supplemental Compensation, in which he submitted the unanimous request of the Presidents' Conference that the Board modify the restriction set forth in its letter of October 3, 1941, so as to permit the payment by the Federal Reserve Banks of supplemental compensation to employees on the first \$3,000 of annual salary. The letter also suggested that, if the request were approved by the Board, no publicity be given to the action either by the Board or the Federal Reserve Banks.

After reviewing the action taken by the Federal Reserve Banks since the date of the Board's letter of October 3, 1941, with respect to salary increases and supplemental compensation for their employees, Mr. Szymczak's memorandum recommended that the Board approve the Presidents' request with the understanding (1) that the supplemental compensation paid by the Banks shall not increase the total compensation of any employee beyond \$6,000 per annum, and (2) that there would be no further requests for changes in the authority to pay supplemental compensation for a period of at least six months. In the discussion

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which ensued, members of the Board expressed agreement with Mr. Szymczak's recommendation but suggested that, in order to avoid a possible implication that requests for additional authority were anticipated, the authority recommended should not be made subject to the understanding that no further requests for changes in such authority would be made for six months.

Mr. Szymczak moved that the Board authorize the Federal Reserve Banks to pay such supplemental compensation or allowances as the boards of directors of the respective Banks deem necessary from time to time up to a maximum of 10 per cent per annum on the first \$3,000 of annual salary to members of their staffs receiving salaries of less than \$6,000, provided, however, (1) that such supplemental compensation shall not increase the total compensation of any employee beyond \$6,000 per annum, and (2) that prior to March 1, 1942, supplemental compensation payments shall be limited to the first \$1,800 of annual salary as authorized in the Board's letter of October 3, 1941.

Mr. Szymczak's motion was put by the chair and carried, Mr. Ransom voting "no".

In connection with this action, it was understood that the letter to the Federal Reserve Banks advising of the new authority would request that no publicity be given to any action taken by the Banks thereunder.

During the discussion of the above matter Mr. Goldenweiser entered the room and at its conclusion Mr. Thurston left the meeting.

Reference was made to a draft of letter to the Civil Service

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Commission in which it was stated that the Board was considering a number of questions with regard to the effect of the Act of January 24, 1942, amending the Civil Service Retirement Act, and would appreciate an expression of the views of the Commission with respect to the questions (1) whether members of the Board of Governors were automatically brought within the coverage of the Civil Service Retirement Act by the Act of January 24, 1942, (2) whether certain full-time employees and temporary or special employees of the Board who were not members of the Retirement System of the Board of Governors were also brought within the coverage of the Civil Service Retirement Act by the Act of January 24, (3) whether persons hereafter entering the employ of the Board were required to be members of the Civil Service Retirement System notwithstanding the provisions of the regulations governing the Retirement System of the Federal Reserve Banks, and (4) whether, if arrangements should be made, through whatever changes in the Retirement System of the Federal Reserve Banks as might be appropriate, to discontinue the membership of Board employees in that System, they would then be automatically within the coverage of the Civil Service Retirement Act.

A discussion ensued of the various aspects of this problem as outlined in a memorandum from the Staff Personnel Committee under date of February 9, 1942, which, together with the draft of letter referred to above, had been brought to the attention of the members of the Board before this meeting.

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Mr. McKee suggested that no action by the Board was necessary at this time because he thought that circulars would be issued by the Civil Service Commission in due time which would answer the questions presented in the draft of letter.

Mr. Goldenweiser said that he felt it would be inadvisable to ask the questions referred to in the letter until the Board decided what it would like to see done but that he saw no particular objection to the submission of the first two questions. In a subsequent statement, Mr. Wyatt concurred in the position taken by Mr. Goldenweiser except that he thought it was essential that answers to the first two questions be obtained.

It was stated that it was the opinion of counsel that, as a matter of law, it was reasonably clear that the first two questions referred to in the letter to the Civil Service Commission should be answered in the affirmative but that the decision with respect to these questions was a matter within the province of the Civil Service Commission. The statement was also made that the amounts which would be deducted from the salaries of the members of the Board and of the full-time and temporary or special employees who were not members of the Retirement System of the Federal Reserve Banks or the Civil Service Retirement System were being deducted for the period commencing January 24, 1942, and impounded by the Board pending a decision on the disposition of the funds.

Mr. Szymczak said that, in view of the provisions of the

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Act of January 24, 1942, he had filed an application with the Civil Service Commission for admission to the Civil Service Retirement System, and it was stated that action by the Commission on this application would furnish an answer to the first question contained in the proposed letter to the Commission. The suggestion was made, however, that Mr. Szymczak's application probably would be one of many similar applications and might not receive as prompt attention as a letter from the Board.

Mr. Ransom referred to the amendment to the Act of January 24, 1942, now pending before Congress, which it was understood would exclude the President, the Vice President, members of the legislative branch of the Government, and members of the Cabinet from the provisions of the Civil Service Retirement Act, and he raised for consideration the question whether the Board should seek legislation which would exclude members of the Board from the provisions of that Act.

It was agreed unanimously that this should not be done.

Mr. Morrill stated that one of the important questions before the Board was what the responsibility of the Board would be for impounded funds deducted from the salaries of members of the Board and members of the staff and, in this connection, what the position of the Board would be if, while these funds were impounded, one of

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the persons from whose salary the deductions had been made should die or become totally disabled. In the discussion of these questions, Mr. Clayton expressed the opinion that, in view of the possible liabilities that might arise from any delay in the payment of these funds, they should be turned over to the Treasury in the usual course with advice to the Civil Service Commission of this action.

Mr. Szymczak moved that the letter to the Civil Service Commission be approved in an amended form which would include only the first two questions contained in the draft.

This motion was put by the chair and carried unanimously.

The letter as thus approved read as follows:

"The Board of Governors has noted the provisions of the Act of January 24, 1942, Public No. 411, amending the Civil Service Retirement Act, and has received copies of your Retirement Circular No. 100, dated January 29, 1942, with reference to this subject; and it is now considering a number of questions with regard to the effect of the recent Act upon its members and employees.

"As you know, employees of the Board of Governors of the Federal Reserve System and of the Federal Reserve Banks are included in the Retirement System of the Federal Reserve Banks which was established March 1, 1934. The regulations governing this Retirement System provide in effect that every employee of the Board must be a member of the System as a condition of his employment, except that employees in the service of the Board on the date of the establishment of the Retirement System were given an option as to whether to become members thereof. The regulations permit the exception of temporary or special employees under certain conditions. The regulations also provide that 'no employee shall be a contributing member of the Civil Service Retirement and Disability Fund and of this System at the same time.' For your information there is enclosed a copy of the rules and

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"regulations of the Retirement System of the Federal Reserve Banks. The compensation of all Board employees and contributions by the Board to the Retirement System of the Federal Reserve Banks are derived from the Board's assessments against Federal Reserve Banks and not from appropriations by Congress.

✓"There are now on the rolls of the Board of Governors 17 employees who are members of the Civil Service Retirement System. These were transferred to the Board from classified Civil Service positions. A few of them were transferred to the Board before the establishment of the Retirement System of the Federal Reserve Banks, while the others have been transferred since that time. In addition, the Board has a few temporary or part-time employees who are not members of any retirement system.

"In connection with its consideration of the effect of the recent legislation upon its members and employees, the Board will appreciate an expression of the views of the Civil Service Commission with respect to each of the questions listed below.

"(1) The members of the Board of Governors of the Federal Reserve System are appointed by the President by and with the advice and consent of the Senate, pursuant to the provisions of section 10 of the Federal Reserve Act. Since their compensation is fixed by statute, they are not members of the Retirement System of the Federal Reserve Banks. The question is raised whether members of the Board of Governors were automatically brought within the coverage of the Civil Service Retirement Act by the Act of January 24, 1942.

"(2) When the Retirement System of the Federal Reserve Banks was established in 1934, there were eight employees of the Board who did not elect to join the System, of whom four are still employed by the Board in a regular full time capacity and are not members of the System. In addition, the Board has certain temporary or special employees who are not members of the System. The question is thus presented whether the four employees mentioned and the temporary or special employees of the Board who are not members of the Retirement System of the Federal Reserve Banks were automatically brought within the coverage of the Civil Service Retirement Act by the Act of January 24, 1942.

"The Board will be very glad to have an expression of your views on these points."

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In a further discussion of the question whether the salary deductions being impounded by the Board should be sent to the Treasury, Mr. Ransom said that the members of the Board could agree to continue to impound the deductions from their own salaries but that he doubted whether the Board had the right to continue to withhold the deductions from the salaries of employees, and that in order to avoid liability to these employees the deductions from the salaries should be sent to the Treasury notwithstanding the fact that if it should be decided that they were not covered by the Civil Service Retirement Act there might be some technical difficulties in obtaining the return of the funds.

Mr. McKee moved that the impounded funds of employees who, in the opinion of counsel, are subject to the Civil Service Retirement Act be transferred to the Treasury and that the Civil Service Commission be advised of this transfer.

This motion was put by the chair and carried unanimously.

It was also understood that, in accordance with the present policy of the Board and in the absence of further developments, employees hereafter added to the staff who were not members of the Civil Service Retirement System would be required to become members of the Retirement System of the Federal Reserve Banks.

In connection with this action, it was stated that it was not the policy of the Board to include in the Retirement System of the Federal Reserve Banks certain temporary or special employees, and Mr. Ransom suggested that a similar policy be followed with respect

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to the exclusion of such employees in the Civil Service Retirement Act and that appropriate action be taken to request their exclusion. No action was taken on this suggestion.

Mr. Ransom stated that, in view of the more favorable retirement benefits that would be provided for a large percentage of the Board's employees by the Civil Service Retirement System, as compared with the Retirement System of the Federal Reserve Banks, he felt the Board should consider whether its staff should have a voice in determining whether steps should be taken to place the entire staff under the former system, expressing preference for giving the staff a voice in the decision.

Mr. Clayton suggested that consideration should also be given to the question whether, in view of the more liberal benefits provided by the Civil Service Retirement System, the Board was under any responsibility to provide somewhat comparable allowances for its lower-paid employees under the Retirement System of the Federal Reserve Banks. It was pointed out that, if the Retirement System of the Federal Reserve Banks were liberalized, the same benefits would have to be provided for the employees of the Federal Reserve Banks as well as for the employees of the Board, and some of the members of the Board indicated that they would have no objection to taking that step.

It was understood that the Staff Personnel Committee would study this matter and discuss it with the Board's Personnel Committee.

Thereupon the meeting recessed and reconvened at 2:45 p.m.

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with the same attendance as at the end of the morning session except that Messrs. Wyatt, Goldenweiser, Smead, Vest, and Wingfield were not present.

During a discussion of the matters that might be discussed with the Presidents of the Federal Reserve Banks at their forthcoming conference, Mr. McKee raised the question whether earmarked gold held in safekeeping at the Federal Reserve Bank of New York should be moved to some of the interior Federal Reserve Banks. This matter was discussed but no decision was reached.

Following a discussion of suggestions made by Chairman Eccles, it was agreed unanimously (1) that the Presidents should be advised that, if established by the board of directors, the Board of Governors would approve a discount rate of 1 per cent for rediscounts and advances under sections 13 and 13a of the Federal Reserve Act for any Federal Reserve Bank that had a rate above 1 per cent; (2) that the authority of the Federal Reserve Banks to make advances to member banks secured by Government obligations, for periods up to 90 days under the last paragraph of section 13 of the Federal Reserve Act, and the authority to make such advances up to 15 days under the eighth paragraph of section 13, should be discussed with the Presidents on Monday, March 2, 1942; and (3) that, inasmuch as a program had not been developed with respect to legislation (a) to amend section 12A of the Federal Reserve Act to regroup the Federal Reserve Banks for the purpose of selecting representative members of the Federal Open Market Committee and (b) to amend section 19 of the Federal

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Reserve Act to authorize the Board to change reserve requirements for member banks in central reserve cities, these matters should not be discussed with the Presidents but that, in the event the occasion for the submission of such legislation to Congress should arise, the Presidents of the Federal Reserve Banks should be advised and given an opportunity to comment.

Chairman Eccles stated that, in order that action might be taken at the meeting of the Federal Open Market Committee on Monday, March 2, 1942, with respect to the selection of members of the executive committee of the Federal Open Market Committee for the ensuing year, the Board should determine at this meeting which of its members should serve as members of its Personnel Committee for the year commencing March 1, 1942. In this connection, it was stated that Rudolph M. Evans, of Virginia, had been appointed as a member of the Board for the unexpired portion of the 14-year term beginning February 1, 1940, and that, in the event he was confirmed by the Senate and qualified for office, he would be available for service as a member of the Personnel Committee.

Mr. Ransom stated that, while in the regular order of rotation he might be expected to serve as a member of the Personnel Committee during the coming year, he would appreciate it if some other arrangement could be made for a period of at least three months so that he could give more attention to problems arising under Regulation W.

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By unanimous vote, and subject to his confirmation and qualification as a member of the Board, Mr. Evans was appointed to serve as a member of the Personnel Committee during the year commencing March 1, 1942; Mr. McKee was appointed to serve as a member of the Committee for the six-months period beginning March 1, 1942; and Mr. Ransom was appointed a member of the Committee for the six-months period beginning September 1, 1942.

Before this meeting, the attention of the members of the Board had been called to a draft of letter to the Presidents of all of the Federal Reserve Banks except Boston in which reference was made to a letter received by the Board from President Young of the Boston Bank suggesting that Regulation R, Relationships with Dealers in Securities under Section 32 of the Banking Act of 1933, be amended so as to permit officers, directors, and employees of open-end investment trusts to serve as officers, directors, or employees of member banks under certain conditions. The draft of letter to the Presidents of the Federal Reserve Banks enclosed a copy of a portion of Mr. Young's letter, a copy of a memorandum dated June 18, 1941, submitted therewith, and a copy of a memorandum prepared in the Legal Division under date of January 14, 1942, and stated that the Board would appreciate receiving any comments that the Presidents or counsel for the Federal Reserve Banks might wish to make with respect to the desirability of such amendment, as well as its form.

This matter had been discussed by Mr. Clayton with Chairman

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Eccles and, at the latter's request, Mr. Clayton had attached a memorandum to the file under date of February 26 stating that, for reasons set forth in the memorandum, Chairman Eccles felt that the matter should not be submitted to the Federal Reserve Banks and that he would favor advising those concerned that the Board saw no good reason for amending the regulation in the manner suggested.

It was agreed unanimously that Regulation R should not be amended at this time, that the letter to the Federal Reserve Banks should not be sent, and that Mr. Morrill should advise Mr. Young by letter of the Board's decision.

The action stated with respect to each of the matters herein-after 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 26, 1942, were approved unanimously.

Memorandum dated February 21, 1942, from Mr. Nelson, Assistant Secretary, recommending that Robert W. Rieseberg, an accounting clerk in the Secretary's Office, be granted leave of absence without pay beginning March 23, 1942, so that he might enter active duty with the United States Navy, and that he be granted the benefits provided in the policy adopted by the Board on November 14, 1940, and amended August 20, 1941, for all employees entering military service.

Approved unanimously.

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Memorandum dated February 23, 1942, from Mr. Paulger, Chief of the Division of Examinations, recommending that the Board grant Clarence S. Barker, an Assistant Federal Reserve Examiner, per diem in lieu of subsistence during a period of illness from November 17 to December 15, 1941, inclusive.

Approved unanimously.

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

"Receipt is acknowledged of your letter of February 16 regarding an advertisement published by a furniture store offering a \$25 United States Defense Bond with every purchase of a complete room outfit amounting to \$200 or more.

"You inquire whether this case is different from those in which the store offers Defense Savings Stamps, because Defense Savings Stamps may be redeemed immediately and therefore are equivalent to a return of a portion of the required down payment, whereas the bond cannot be converted into cash until 60 days after its issue.

"In general the same principles are applicable in both cases because where the seller gives the Defense Bond to the purchaser at the time of the purchase, he is in effect arranging a means by which the purchaser can, if he wishes, skip one of the early instalments.

"Of course the seller may give the purchaser a bonus, in bonds or even in cash, when payment for the article has been fully made.

"In connection with the general question of giving Defense Bonds and Stamps as bonuses, you may be interested in the enclosed copy of a letter which we have received from the Treasury Department under date of February 2, 1942."

Approved unanimously.

Letter to Mr. A. E. Kraus of the Government Employees Finance

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Corporation, Washington, D. C., reading as follows:

"Receipt is acknowledged of your letter of February 17 inquiring whether it is necessary for you to obtain a Statement of the Borrower in connection with a loan of \$1,500 or less as your regular application forms contain all the information required in that Statement.

"Section 5(d) of the Regulation provides that, with certain exceptions, 'no Registrant shall make any extension of instalment loan credit' without first obtaining such a Statement, and therefore in the case to which you refer the Statement should be obtained (unless the extension of credit is a renewal or revision under section 8(a) or is excepted by section 6).

"The administration of the Regulation has been decentralized, and therefore it is suggested that you direct any further inquiries which you may have to the Federal Reserve Bank of Richmond, Richmond, Virginia."

Approved unanimously.

Letter to Mr. J. W. Traegler, Assistant Cashier of The First National Bank of Princeton, Princeton, New Jersey, reading as follows:

"Receipt is acknowledged of your letter of February 21 regarding the procedure to be followed under Regulation W in connection with loans to college professors and school teachers.

"The loan should not have a maturity of more than 18 months, and the payments should therefore be of a sufficient amount to liquidate the note in 15 instalments in the example which you give. It is assumed that the omission of the payments is appropriate for the purpose of facilitating repayment in accordance with the seasonal nature of the obligor's main source of income. The 18-month limit is, as you know, qualified by the provision of section 9(b) of the Regulation which permits an adjustment of not more than 15 days in the maturity date, and, in addition, the 18-month limit is subject to change by amendment to the Regulation.

"The administration of the Regulation has been decentralized and it is therefore suggested that you address

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"any further inquiries which you may have to the Federal Reserve Bank of Philadelphia, Philadelphia, Pennsylvania."

Approved unanimously.

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

"One of the Federal Reserve Banks has, with reference to letter S-411 of December 22, 1941, on the subject of exemption from the Federal transportation tax of Federal Reserve directors, officers and employees, raised the question whether, in view of the fact that the Bank reimburses the member of the Federal Advisory Council for his traveling expenses to and from Washington, such travel should be considered exempt from the Federal tax and the member supplied with Form F. R. 158.

"The principle involved in exempting officers, employees and directors of Federal Reserve Banks from the transportation tax would seem to be equally applicable to a member of the Federal Advisory Council whose traveling expenses are reimbursed by a Federal Reserve Bank, and we know of no reason why a member of the Federal Advisory Council should not use Form F. R. 158 in obtaining exemption from the transportation tax in connection with travel performed in his official capacity."

Approved unanimously.

Letter to Mr. George Howe, Acting Commissioner of Public Buildings of the Federal Works Agency, reading as follows:

"We are in receipt of your letter of February 20, 1942, advising us that the Federal Works Agency has been charged with the development of plans for the safeguarding of public buildings and their contents as set forth in an attached copy of a letter dated January 12, 1942 from the President, in which you ask the Board to designate someone to serve with the group of representatives of interested government Agencies to be known as the Advisory Committee on Subversive Activities to cooperate

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"with the Protective Construction Unit in the Public Buildings Administration.

"The Board has designated Mr. J. Watson Belt, Mechanical Superintendent, who is now in immediate charge of the Board's building, to serve on the Committee."

Approved unanimously.

Thereupon the meeting adjourned.

Hester Morrie
Secretary.

Approved:

W. J. Watson Belt
Chairman.