A meeting of the Board of Governors of the Federal Reserve System with the Presidents of the Federal Reserve Banks was held in Washington on Monday, March 2, 1942, at 12:40 p.m.

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

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Wyatt, General Counsel
Mr. Goldenweiser, Director of the Division of Research and Statistics
Mr. Piser, Chief, Government Securities Section, Division of Research and Statistics

Messrs. Sproul, Williams, Leach, McLarin, Young, Davis, Leedy, Gilbert, and Day, Presidents of the Federal Reserve Banks of New York, Philadelphia, Richmond, Atlanta, Chicago, St. Louis, Kansas City, Dallas, and San Francisco, respectively

Messrs. Paddock and Zurlinden, First Vice Presidents of the Federal Reserve Banks of Boston and Minneapolis, respectively

Mr. Sienkiewicz, Secretary of the Presidents' Conference
Mr. Rouse, Manager of the System Open Market Account

Chairman Eccles stated that the rate on rediscounts for and advances to member banks under sections 13 and 13a of the Federal Reserve Act, except the last paragraph of section 13, was 1 per cent at the Federal Reserve Banks of Boston, New York, and Chicago, and 1-1/2 per cent at the other Federal Reserve Banks, and that the members of the Board felt that there was no satisfactory reason at the present time for a difference in these rates at the Banks. He also said that it would be helpful if a condition could be created in which the member banks would again be willing to borrow from the Federal Reserve Banks and that, as a step in that direction and as one of the measures that might be used to avoid a situation in which it might become necessary to reduce reserve requirements, the Board would like to suggest that the Presidents present to the boards of directors of their respective Banks the desirability of the establishment of a 1 per cent rate.

Reference was also made by Chairman Eccles to the policy adopted by the System in 1939 of making advances to member and nonmember banks on the security of Government obligations at par. He stated that during a discussion at the Treasury recently members of the Treasury staff, who had been under the impression that the Federal Reserve Banks could make such advances to member banks for periods of only 15 days or less, had taken the position that this short period was a deterrent to the use by member banks of this privilege and that, therefore, the authority should be broadened and the rate at which the advances would be made reduced below 1-1/2 per cent at the Banks where that rate is in effect. Chairman Eccles added that it had been pointed out subsequently that, under the last paragraph of section 13 of the Federal Reserve Act, Federal Reserve Banks are authorized to make advances to member banks for periods of not to exceed 90 days on the security of Government obligations.

At Chairman Eccles' request, Mr. Wyatt discussed the authority of the Federal Reserve Banks to make advances of the kind referred to under the provisions of paragraphs 8 and 13 of section 13 of the Federal Reserve Act and stated that, as a means of reducing the likelihood of misunderstanding with respect to the right of the Reserve Banks to make advances for periods up to 90 days, section 2(b) of Regulation A, Discounts for and Advances to Member Banks by Federal Reserve Banks, might be amended to bring the substance of the footnote to that section into the body of the regulation, and that the schedule of discount rates of Federal Reserve Banks published in the Federal Reserve Bulletin might be revised to clarify this point.

Mr. Leach stated that the only reason he would hesitate to reduce the discount rate at Richmond was because of the possible interpretation of the action as an indication that the System was in favor of an easier money policy when such was not the case. In a discussion of this point, it was stated that there apparently had been no unfavorable public reaction to the recent reduction of the discount rate at the Federal Reserve Bank of Chicago to 1 per cent, and it was suggested that a possible misinterpretation of a reduction in the rate could be avoided by careful explanation of the reasons for the action.

Mr. McKee inquired whether such reductions would result in weakness in the Government security market, and Mr. Rouse expressed the opinion that they might be regarded as a further indication of the close cooperation of the Treasury and the Federal Reserve System in the war effort and a further assurance to the country that the existing rates were approximately the rates at which the war financing would be done.

In a discussion of the possibility of member banks rediscounting in any substantial volume at the Federal Reserve Banks, Mr. Young stated that the banks in Chicago might do some rediscounting over the tax period. Mr. Sproul expressed the opinion that the New York City banks would be willing to borrow but he doubted that the 15-day limitation in section 8 of the Federal Reserve Act on advances to member banks was regarded by member banks as any deterrent to the exercise of their borrowing privilege.

No objection was expressed by any of the Presidents to a reduction in the rate to 1 per cent, and Chairman Eccles stated that there was no thought on the part of the Board that there would be simultaneous action by the Banks that still had a rate of 1-1/2 per cent but that over a period of the next month or so the Banks would act separately, making such public explanation of the reduction as might be thought necessary in their respective districts.

Chairman Eccles then said that there had been no recent new developments in connection with the proposed creation within the

Federal Reserve System of an industrial loan corporation but that a proposal for the creation of a separate corporation was being sponsored in the Senate, that Mr. Odlum, formerly Director of the Division of Contract Distribution of the Office of Production Management, was urging the creation of a division in the Office of Price Administration for the purpose of financing war production activities of small business concerns, and that these proposals had added materially to the confusion in the situation.

Chairman Eccles also referred to information that had come to him which would indicate that the financing needs of small business concerns for war production purposes were not being adequately met, and some of the Presidents stated that they would like to be advised of any such instances in their districts. Mr. Goldenweiser stated that his Division had been furnished with some of this information which he would be glad to make available to the Presidents upon request.

Mr. McKee inquired whether the regulation prescribed by the Treasury under which the Federal Reserve Banks were required to share with the Treasury any losses on industrial loans made under the provisions of section 13b of the Federal Reserve Act operated as a deterrent to the Federal Reserve Banks in making industrial advances. The Presidents indicated that the Federal Reserve Banks had made industrial loans under section 13b wherever they appeared to be justified without regard to the provision in the Treasury regulation relating to losses.

In connection with a suggestion by Mr. McKee that the Federal Reserve Banks might be able to adopt a more liberal policy if the Treasury regulations were liberalized, the history of the regulation was reviewed briefly and it was stated that, in the absence of a change in the law, there was a question whether the Secretary of the Treasury would be willing to agree to such a change. Mr. McKee then raised the question whether the needs of small business concerns might be adequately met if the $139,000,000 provided by section 13b(e) of the Federal Reserve Act were made available to the Federal Reserve Banks without restriction for loans to small business concerns.

In response to this inquiry, Mr. Day stated that during its separate meeting yesterday the Presidents' Conference considered the proposal for an industrial loan corporation and that the following statement had been agreed upon as expressing the views of the Conference:

> "It was the view of the Presidents' Conference that:
> (a) The lending powers of the Federal Reserve Banks, under Section 13(b) of the Federal Reserve Act, are not broad enough to meet the demand for credit in this area which it is believed exists; these powers should either be broadened or eliminated.
> (b) If they are broadened, their exercise should be separated from the more important central banking functions of the Federal Reserve System by the creation of a separate corporation, controlled by the Federal

"Reserve System, to function in the field of industrial credit.

(c) The Federal Reserve System should not be placed in the position, however, of engaging in competition with some government agency working in the same field; if possible, the decision should be made in Washington as to what agency is to have this job and then the job should be given to that agency.

(d) If that agency is the Federal Reserve System, the proposed Industrial Credit Corporation, in general, would seem to be an appropriate vehicle for carrying out the task.

"It was the definite view of the Presidents' Conference, however, that the operating procedure desired for the functioning of the Industrial Credit Corporation should not by-pass the Boards of Directors of the Federal Reserve Banks. The Federal Reserve Banks should be used as an entity - directors, officers, and employees - under the general rules and regulations of the Board of Governors, acting as directors of the Corporation. There was unanimous expression by the Presidents that there is nothing in their experience in the administration of Section 13(b) of the Federal Reserve Act, or in other experiences with their directors, which would support the contention that the proposed Industrial Credit Corporation could not function effectively with the participation of the Boards of Directors of the Federal Reserve Banks.

"If no action is taken with respect to the establishment of an Industrial Credit Corporation, some of the Federal Reserve Banks would still favor, for the duration of the war, the broadening of their powers under Section 13(b) of the Federal Reserve Act, such as the elimination of references to loans for working capital purposes."

In the discussion of the above statement, Chairman Eccles made it clear that there was nothing in the draft of an industrial loan bill which he had proposed that would eliminate the boards of directors of the Reserve Banks from the consideration of industrial loans made through the Banks and that there was no thought that the board of directors of the industrial loan corporation would dictate the internal manner in which the Federal Reserve Banks would operate as agents of the corporation as long as the war financing needs of small business concerns in the respective districts were being met efficiently.

There was concurrence in the opinion that the System had real concern in any proposed actions that would further complicate the lending functions of the Federal Government by the creation of additional lending agencies and that the efforts of the System should be in the direction of the simplification of the Federal lending mechanism. Mr. Williams suggested that it would be entirely appropriate for the Federal Reserve Banks and the Board to collaborate in the study of the credit functions of the Federal Government so that, when the war was over and there was an opportunity to consider what changes should be made in the mechanism for the performance of these functions, the System would be in a position to make recommendations in that field.

At 1:40 p.m. the meeting recessed and reconvened at 2:45 p.m. with the same attendance as at the morning session.

Chairman Eccles stated that he was glad to have the statement of the Presidents' Conference on the subject of the proposed industrial loan corporation and that the statement would be helpful in any further efforts to get effective consideration of the proposed legislation. He added that it was not possible to state at this time what the outcome of the proposal would be, particularly in view of the other suggestions that were being considered.

Chairman Eccles then read a letter which he had just received from Major General Olmstead, Chief of the Army Signal Corps, in which it was stated that, because of the abandonment of competitive bidding on contracts for war supplies, it had become desirable to establish in the Signal Corps a system of cost control with a resident agent at each manufacturing plant where the volume of Government business was sufficiently large to justify price control, and that it was thought that competent personnel for this work could be obtained through the Federal Reserve Banks and their records of the personnel of member banks.

The Presidents stated that the Federal Reserve Banks and member banks had no cost accountants on their staffs; Mr. Sproul suggested that General Olmstead might approach the American Institute of Accountancy; and Mr. Day said that he knew that the President of the American Association of Accountants had been in Washington in connection with discussions of this subject and that it might be well to contact him. The suggestion was also made that undoubtedly the same problem was confronting other divisions of the War Department and that a desirable procedure would be to establish a single cost-accounting division for the entire Department.

Chairman Eccles stated that he would advise General Olmstead that the Federal Reserve Banks have no cost accountants on their staffs, that they are not in a position to make recommendations with respect to the personnel of member banks, that these institutions have few if any cost accountants in their personnel, and that he might be interested in taking the matter up with the two organizations referred to by Messrs. Sproul and Day.

Mr. McKee asked for such comments as the Presidents might wish to make with respect to the personnel situation in their respective Banks and the steps that might be taken to meet that problem. Mr. Sproul suggested that one thing that might be done in this direction would be to reduce the number of examinations of member banks.

After some discussion of this suggestion, Chairman Eccles referred to the increased volume of work and responsibility that was being placed on the branches of the Federal Reserve Banks in connection with Treasury financing and other activities growing out of the war, and he inquired what the Presidents' reaction would be to changing the title of the Managing Directors of at least the larger branches to Vice President and Managing Director and giving them a status comparable to the Vice Presidents at the head office with appropriate adjustments in compensation. He stated that the purpose of this action would be to insure the availability at the branches of men who would be competent to meet the increased responsibilities placed upon them.

Some of the Presidents questioned whether such a change in title would be regarded as a promotion and others indicated that the

Managing Directors of their branches at the present time were regarded as being in an equal or higher status than some Vice Presidents at the head office. The Presidents indicated that they would like to have an opportunity to study the idea.

Mr. McKee suggested that the Presidents' Conference consider the desirability of recommending a more simplified procedure in connection with the issuance of defense savings bonds. Mr. Sproul reported that the whole problem of defense savings bonds was discussed at the meeting of the Presidents yesterday and that the matter was referred to the Defense Savings Bond Committee of the Conference with the understanding that, with the assistance of members of the staffs of the Federal Reserve Banks and after consultation with the appropriate members of the Treasury staff, the Committee would study the whole problem for the purpose of submitting suggestions to the Treasury as to how the System could cooperate more effectively in carrying out the defense savings bond campaign and with respect to changes in procedure that might be made.

Mr. Gilbert stated that the Federal Reserve Bank of Dallas had received a letter from Under Secretary of the Treasury Bell advising that the printing program of the Bureau of Engraving and Printing was falling behind and that it would be helpful if the Reserve Bank would reduce the standard of fitness for circulating Federal Reserve notes. This condition would suggest, Mr. Gilbert said, the desirability of reconsideration by the System with the Treasury of the possibility of the Federal Reserve Banks paying out the stocks of unissued notes of the 1928 series, which carry the statement that they are redeemable in gold.

Chairman Eccles reviewed the efforts which had been made to obtain reimbursement of the Federal Reserve Banks for the cost of printing these notes, and in a discussion of the question whether they might be issued in the event of a currency shortage it was stated that, as the Secretary of the Treasury has the authority to prescribe the form of Federal Reserve notes, the unissued stocks of 1928 series notes should not be issued without first taking the matter up with him. Chairman Eccles stated that, before another meeting of the Presidents' Conference, consideration would be given by the Board to action that might be taken with respect to this matter.

At this point, Mr. Smead, Chief of the Division of Bank Operations, joined the meeting.

Mr. Day stated that at the separate meeting of the Presidents yesterday it was voted that (1) the joint report of the Insurance Plan Committee and the Standing Committee on Insurance of the Presidents' Conference be accepted, (2) the plan proposed by the joint committee be recommended to the board of directors of each Federal Reserve Bank, and (3) the Conference of Presidents arrange a joint discussion of the matter with the Board of Governors. The recommendations of the joint committee were read by Mr. Day as follows:

"It is recommended:

"(1) That in view of the present conditions brought about by the war, and the substantial reduction in rates that have been obtained on registered mail and blanket bond insurance, the Federal Reserve Banks continue for the time being to purchase such insurance.

"(2) That the Standing Committee be instructed to negotiate further with the registered mail insurance companies with a view of obtaining a further reduction in rates applicable to shipments of currency from Washington. This, we understand, might be done upon assurance to the companies that claims will not be filed for losses where it can be proven satisfactorily to the Treasury and the Board that the shipment was entirely destroyed.

"(3) That blanket bond insurance be purchased by each Federal Reserve Bank in the amount of $500,000 only and that excess burglary and robbery insurance be dropped.

"(4) That a plan for self insurance or sharing losses be put into effect at the present time only with respect to the following risks:

(a) Losses of the kind covered by blanket bond insurance in excess of $500,000;

(b) Losses not covered by blanket bond insurance because of war risk and other similar clauses;

(c) Losses not covered by registered mail insurance because of war risk and other similar clauses.

"(5) That these Committees be instructed to prepare a plan designed to carry out the provisions of paragraph (4) above.

"(6) That an appropriate committee be charged with the duty of continuing the study of this problem with a view of extending the operation of the self-insurance plan to such extent as may seem desirable from time to time.

"(7) That the recommendation of the Standing Committee on Insurance on page 12 of its report submitted to the Presidents' Conference on February 3, 1942, with respect to the adjustment of premiums on shipments of new Federal Reserve notes from Washington be adopted."

In response to an inquiry from Mr. Szymczak, Mr. Day stated that the action taken by the Presidents' Conference on the joint report was with the understanding that the Standing Committee on Insurance would continue to study the problem with a view to effecting further savings in the insurance purchased by the Federal Reserve Banks.

Chairman Eccles stated that the Board would consider the recommendations of the Presidents' Conference and advise the Banks of the views of the Board with respect thereto.

Mr. Ransom stated that he met with the Presidents yesterday and reviewed for their confidential information the study that was being given by the Board to further proposed changes in Regulation W, Consumer Credit, with respect to the regulation of open-book accounts, non-purpose loans, and term loans for the purpose of purchasing listed articles, and to the problem of enforcement of the regulation. He added that at his request the Presidents agreed to study these matters so that at the proper time the Federal Reserve Banks would be prepared to give the Board the benefit of their suggestions.

Mr. Day suggested that when Regulation W was again amended the entire regulation be reprinted, and Mr. Ransom stated that that would be done.

Mr. Szymczak stated for the information of the Presidents that the Board of Governors had approved the request of the Presidents' Conference that the authority of the Federal Reserve Banks to pay supplemental compensation to their employees be liberalized and that a letter on that subject would be sent to the Reserve Banks tomorrow.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

M S Eccles
Chairman.