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 Friday, May 8, 1942, at 11:25 a.m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Thurston, Special Assistant to the Chairman
Mr. Wyatt, General Counsel
Mr. Smead, Chief of the Division of Bank Operations
Mr. Piser, Chief, Government Securities Section, Division of Research and Statistics
Mr. Kennedy, Assistant Chief, Government Securities Section, Division of Research and Statistics
Mr. Berntson, Clerk in the Office of the Secretary

Messrs. Paddock, Sproul, Williams, Fleming, Leach, McLarin, Young, Peyton, Leedy, Gilbert, and Day, Presidents of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, Minneapolis, Kansas City, Dallas, and San Francisco, respectively

Mr. Attebery, Vice President of the Federal Reserve Bank of St. Louis

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

Chairman Eccles stated that the Presidents had been asked to come to Washington to discuss a plan for the creation of an organization in each of the 12 Federal Reserve districts to promote the distribution and sale of Government securities other than war savings bonds, that copies of an agenda prepared by Mr. Sproul for this meeting had been distributed to those present, and that arrangements had been made for a committee representing the Board and the Presidents to meet with representatives of the Treasury and a committee of investment bankers at the Treasury at 1:00 o'clock today for the purpose of formulating recommendations with respect to the organization that should be set up, following which the recommendations would be submitted to the Board and the Presidents for consideration. Chairman Eccles went on to say that various groups representing investment bankers and distributors of securities had offered their services to the Treasury in connection with the creation of an organization to handle the distribution of Government securities, that during a meeting at the Treasury he and Mr. Sproul had suggested that the Federal Reserve Banks and commercial banks could be helpful in such an organization, and that it had been decided by the Treasury to arrange for the meeting above referred to for the purpose of formulating a program. He added that, if the suggestion that he and Mr. Sproul had made were adopted, the Federal Reserve Banks would have the general direction of setting up an organization in each district and carrying out the selling campaigns, and that the Board of Governors would merely act in a liaison relationship between the Treasury and the Federal Reserve Banks.

During a discussion of the proposed "Victory Fund Committee" referred to in the agenda prepared by Mr. Sproul, a question was raised whether, as had been suggested at the Treasury, all of the Presidents should meet with the representatives of the Treasury and the investment bankers following the meeting at the Treasury at 1:00 o'clock. There was agreement that such an arrangement would be a desirable one as it would afford the Presidents an opportunity for a direct contact with some of the investment bankers with whom they might work in their respective districts.

Chairman Eccles stated that it was contemplated that Messrs. Bell, Buffington, and Brice would represent the Treasury at the 1:00 o'clock meeting and that the committees representing the System and the investment bankers would be composed of five members each.

> There was unanimous agreement on the part of the members of the Board that Chairman Eccles should represent the Board on the committee.
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> Upon motion by Mr. Sproul, which was approved unanimously by the Presidents, Mr. Day, as Chairman of the Presidents' Conference, was requested to appoint four Presidents as the other members of the committee, it being understood that the committee would not be a continuing one after the meetings today. In making his motion, Mr. Sproul expressed the opinion that Mr. Day, as Chairman of the Presidents' Conference, should serve as a member of the committee, and the other Presidents concurred.
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> Thereupon, Mr. Day appointed Messrs. Sproul and Young, representing the two

largest Federal Reserve Banks, Mr. Alfred H. Williams, who had given considerable thought to the matter under consideration, and himself as the other four members of the System committee.

Chairman Eccles said that Mr. Sproul had participated in discussions at the Treasury and had given considerable thought to the problem of the organizations that might be created, and that he would like to have him discuss the matter at this point. Mr. Sproul's statement was substantially as follows:

I came into the discussion of a nationwide organization to promote the distribution and sale of Government securities last week when the Secretary of the Treasury already had the idea of an organization made up largely of salesmen. The investment bankers had offered their services last November and had participated in the sale of certificates of indebtedness, which pleased the Secretary very much, and he had called them in again last week with the idea in mind of setting up an organization in each State and providing for a sales manager who would be supplied by the investment banker group.

At a meeting which I did not attend but at which Chairman Eccles was present, there was a discussion of the part the Reserve Banks might play and, at a meeting the next morning, we presented two points of view, (1) that the organization proposed should be set up by Federal Reserve districts rather than States inasmuch as the Reserve Districts were fairly well established economic units, that the organization should be set up around the Federal Reserve Banks, and that the Presidents of the Reserve Banks should be actively in charge of the program; and (2) that we should take account of the commercial banks and other organizations inasmuch as the task was no longer merely a job of making offerings and selling them but rather one of tapping all sources of investment for the duration of the war and possibly into the postwar period. We have reached the point where it is a job of really deciding how much money the Government needs and telling the public that the Government is going to get it and how. For that purpose, we need not only salesmen but also leading members of the community and the banks to give their backing to the program and reach all possible channels of distribution and sale, particularly since the banks probably have better contacts for this purpose than the investment bankers. Secretary Morgenthau seemed to think that this position was a correct one, and I believe the investment banker group did also. At least one or two of them said that that sort of program should be adopted instead of leaving it entirely on the basis of high-pressure salesmanship. On the basis of this discussion, the Secretary asked us to see if we could get together on a program, and that is the purpose of the meeting at the Treasury today.

The preliminary discussion would permit of an organization along the lines of that outlined in the chart which has been distributed, and the number of members on the committees and the make-up of the committees are merely suggestions. The membership will depend partly on the situation in each district and the kind of men who can serve. Investment bankers will have to be included in the proposed organization to make the program acceptable to the Treasury.

The general form of the organization is somewhat similar to the organization used during the last war and also somewhat similar to the kind of organization that the Philadelphia Reserve Bank proposed in connection with the short-term tap issue. It would include a district committee, which would lend prestige to the whole undertaking, an executive committee under the district committee which would formulate policy, an executive manager, who would be the sales manager for the district and who might well be an investment banker from the district, and a Comptroller who would be subordinate to the executive manager. There would also be regional committees, and in the Second Federal Reserve District there would be such a committee in each regional area of the district as delimited by the State Bankers Association.

There are bound to be some expenses connected with the program. The Federal Reserve Banks, in the event they provide office space and an office staff, are going to have expenses which should be placed on a reimbursable basis and there will be other expenses for the organization. The comptroller in the proposed setup would keep the accounts, oversee expenditures, and see that operations were carried on within whatever budget was set up. The executive manager, if that sort of an organization were decided upon, would presumably have assistant managers in designated areas who would in reality act as sales managers in those areas.

The questions which may come up in connection with the program are (1) the general form of the organization and (2) the question of expenses and compensation. The investment banker group has offered its services on a voluntary basis, and up to yesterday the question of expense had not been raised. However, I feel that the investment banker group is cognizant of the fact that some of the men connected with the activity will have to have something on which to live and that the question of compensation is going to arise sooner or later. In my opinion, it should be met now instead of later and I strongly feel the question of compensation to the Federal Reserve Banks should be met now so that expenses incurred can be handled as fiscal agency reimbursable expenses.

Mr. Sproul's statement was followed by a discussion of the question whether the Federal Reserve Banks should seek reimbursement for expenses incurred by them as fiscal agents of the United States in connection with the organizations created in their respective districts, and it was felt that, if the question of expense was to be raised at all, it should be raised and settled now rather than at some subsequent date.

Mr. Ransom raised the question whether, in view of all the circumstances, the Federal Reserve Banks should not give serious consideration to carrying on this work without reimbursement from the Treasury, and some of the Presidents indicated a feeling that, since the Federal Reserve Banks would be serving in the capacity of fiscal agents for the Treasury, the most logical and orderly way to handle the matter would be on a reimbursable fiscal agency basis, that other services for the Treasury had been performed on this basis for many years, and that it would be better understood and subject to fewer questions than any other arrangement that could be made. Because of the time available, no decision was reached as to the position that should be taken on the question of expense.

In a further discussion, the opinion was concurred in that provision should be made for elasticity in the district and local organizations so that they could be made to fit local situations.

On the question whether the proposed organization would handle Series F and G savings bonds or whether those issues would be left entirely in the hands of the existing Treasury organization, Chairman Eccles referred to discussions which he had had with Mr. Bell, Under Secretary of the Treasury, on this point in which the opinion was expressed that these issues should be handled by both groups. He also stated that, if the proposed district organizations did not promote the sale of Series F and G bonds, they would have little, if anything, to do when other issues were not being offered by the Treasury.

Mr. Ransom raised the question whether salaries were paid to any persons in the distributing organizations in the last war, and it was stated that the Treasury did reimburse certain expenses and that salaries were paid to such persons as managers and secretaries.

Mr. Sproul suggested that the general form of program proposed in the agenda be accepted by the Presidents with the understanding that the number on each committee and the number of committees in each district would be adapted to the needs of the district, and that there would be proportionate representation of investment bankers on the committees.

Mr. McLarin suggested that, inasmuch as the time was short before the System committee would have to leave for the Treasury, it meet separately for the purpose of formulating its own recommendations to be submitted at the meeting at the Treasury.

Mr. Sproul said that, if that were done, the Presidents should give the committee the benefit of any comments or suggestions that they might have to make with respect to the program. All of the Presidents indicated that they were in general agreement with the organization as proposed by Mr. Sproul. Mr. Day stated that he felt he could express the general opinion of the Presidents by stating that the Federal Reserve Banks would cooperate wholeheartedly in any program that might be worked out.

Thereupon, Mr. McLarin's suggestion was agreed to unanimously.

Chairman Eccles stated that he had just received word from Mr. Bell that arrangements had been made to have all of the Presidents meet with representatives of the Treasury and the investment bankers at the Treasury at 3:00 o'clock this afternoon.

The meeting recessed and reconvened at 4:45 p.m. with the same attendance as at the morning session except that Messrs. Bethea, Smead, Kennedy, and Berntson were not present and Mr. Parry, Chief of the Division of Security Loans, was in attendance.

Mr. Ransom stated that the reason for his telephone conversations with each of the Presidents on May 4 was to explain to them why the Board had had no opportunity to discuss with the Federal Reserve Banks the changes made in Regulation W by Amendment No. 4 and why it was believed to be necessary to make the amendment as early as May 6. He added that the only development that had occurred since his telephone conversations with the Presidents was the joint announcement today by the Board, the Federal Deposit Insurance Corporation, and the Comptroller of the Currency of a procedure to encourage the reduction of individual debt through amortization of bank loans, and that a communication concerning this matter was being sent to the Federal Reserve Banks today. He stated that this procedure had been adopted as a means to avoid making single-payment consumer loans, outstanding when Amendment No. 4 was made effective, subject to rather rigid rules under the regulation, and that it was his opinion that the course adopted would be more effective in reducing the volume of these loans than would have been the case if they had been made subject to the regulation.

Reference was made by Mr. Peyton to the question of enforcement of Regulation W and Mr. Szymczak outlined briefly a program of enforcement which it was contemplated would be sent to the Federal Reserve Banks in the near future.

During the discussion of the program, Mr. Leach questioned the desirability of spot-checking for the purpose of disclosing violations, and Messrs. Ransom and Szymczak expressed the opinion that it was desirable that such a check be made of vendors and other registrants who were not otherwise subject to supervision by State or Federal authorities. Mr. Peyton asked whether the program made it incumbent upon each Reserve Bank to set up an organization to do spot-checking, and Messrs. Ransom and Szymczak said that each Bank should do some checking but that the extent to which it was done was largely a matter for determination by each Bank. Mr. Ransom added that the objective of any program of enforcement was to bring about more effective observance of Regulation W, and that if any Federal Reserve Bank felt that the proposed program of enforcement was not a workable one it was expected that it would so advise the Board.

During the above discussion Mr. Smead entered the room, and at its conclusion Mr. Parry withdrew.

Mr. Draper discussed briefly the experience of the Board under Regulation V, War Financing, since its adoption on April 6. He said that a great deal of work had been done during the last 10 days on the form of guarantee agreement, and that a revision of the form was being sent to the Federal Reserve Banks today by wire with a request that they submit their suggestions by Tuesday of next week when another meeting with representatives of the services would be held for the purpose of putting the agreement in final form. He added that the principal point of difficulty in connection with the agreement centered around the right of the Government to cancel a contract and what the guarantee agreement should provide in the event of such cancellation. He felt that the new guarantee agreement and the presence of liaison officers at the Federal Reserve Banks would remove some of the difficulties that had been experienced in the past.

In a discussion of the extent of the guarantee in the event of cancellation of a contract, some of the Presidents expressed the opinion that the absence of a full guarantee would operate as a substantial deterrent to the making of war loans.

At Mr. Draper's request, Mr. Smead discussed briefly the reasons for the telegram which was sent by the Board to the Presidents on April 30, 1942, suggesting that the Reserve Banks review their schedules of rates covering loans and commitments under section 13b of the Federal Reserve Act, and stated that if the Banks would revise their schedules along the line suggested in the telegram it would make the rates of the Banks more uniform and more nearly in line with the rates prescribed by the Board pursuant to section 6 of Regulation V on loans made or guaranteed by the armed services.

Chairman Eccles referred to the agreement by the Treasury to increase the weekly Treasury bill offering to $250,000,000, and suggested that the Federal Reserve Banks could be helpful in marketing the bills by calling them to the attention of the banks in their respective districts and pointing out that, if a bank purchased the bills and subsequently found it needed the funds, the bills could be disposed of at the Federal Reserve Banks at a discount rate of 3/8 per cent. He felt that this would effect a broader distribution of bills and add to the fluidity of bank reserves throughout the country, and that, the more effective the existing reserves of banks could be made, the less the pressure would be for a reduction in reserve requirements.

Mr. Day stated that the Presidents' Conference as such had not held a separate meeting and that it was felt that, if the Presidents were to be called to Washington sometime in June, such a meeting would not be necessary at this time.

> Following a discussion, it was agreed unanimously that a meeting of the Federal Open Market Committee should be held in Washington on June 22 to be followed by a meeting of the Conference of Presidents of the Federal Reserve Banks.

Chairman Eccles stated that the meeting at the Treasury this afternoon had been a very successful one, that it had been decided that Mr. Sproul, and Mr. Hopkinson, a partner of Drexel and Company, Philadelphia, representing the investment bankers, should meet in New York tomorrow to formulate the details of a program to be submitted at a conference with the Secretary of the Treasury on Tuesday, May 12, that, when the final program was approved by Secretary Morgenthau, Mr. Sproul would send a copy to the President of each Federal Reserve Bank, and that in the meantime the Presidents should take no action in connection with it.

Mr. Day read a copy of a resolution which had been adopted at a meeting of the board of directors of the Federal Reserve Bank of Chicago on May 7, 1942, and which had been handed to him by President Young to be read at this meeting. The resolution requested that, in view of the circumstances set forth therein, the Board of Governors obtain appropriate authority from the Secretary of the Treasury for the Federal Reserve Banks to issue the existing stocks of Federal Reserve notes of the 1928 series.

Mr. Szymczak stated that he had recently had this matter up with Mr. Bell, Under Secretary of the Treasury, who had indicated that he would not favor the issuance of the 1928 series notes but would not object to the issuance of the existing stocks of Federal Reserve bank notes. Mr. Szymczak added that Mr. Bell had said he would discuss the matter with members of the Treasury staff and that it was expected he (Mr. Szymczak) would have an opportunity to consider it further with Mr. Bell at the Fiscal Agency Conference next week.

Following a discussion, Chairman Eccles suggested that, inasmuch as this matter was being considered with the Treasury at the present time and the Presidents were coming to Washington for another meeting in June, the Presidents consider the matter and submit a joint recommendation at their June meeting as to the action that should be taken.

Mr. Szymczak concurred in Chairman Eccles' suggestion and stated that he would also like to have an expression of the Presidents' opinion as to what the public reaction would be to the issuance of the 1928 series Federal Reserve notes. The Presidents indicated that there would be no material public reaction.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

M S Eccles
Chairman.