

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, May 26, 1942, at 3:30 p.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. Clayton, Assistant to the Chairman
Mr. Goldenweiser, Director of the Division
of Research and Statistics
Mr. Smead, Chief of the Division of Bank
Operations

Chairman Eccles stated that in accordance with the action taken at the meeting of the Board on May 22, 1942, in connection with the purchase and sale of Government securities through the Continental Illinois National Bank and Trust Company by Frank J. Lewis, Chairman of the Federal Reserve Bank of Chicago, he (Chairman Eccles) called President Young of the Federal Reserve Bank of Chicago on the telephone and advised him what had occurred, and that Mr. Young's response was that he had no knowledge of Mr. Lewis having borrowed from the national bank, that he knew Mr. Lewis owned Government securities and had bought them from time to time, but that Mr. Lewis had always given the impression that his purchases were strictly for investment and not for resale, and that Mr. Young would be glad to have Mr. Cagle, Assistant Chief of the Division of Examinations, come to the Federal Reserve Bank to make an investigation and would lend him every assistance possible.

Chairman Eccles also said that he talked to Secretary of the

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Treasury Morgenthau on the telephone and advised him of the Board's attitude and the action it had taken, and that Secretary Morgenthau had stated he felt exactly the same as the members of the Board regarding the matter.

Chairman Eccles went on to say that he tried several times on Saturday to reach Mr. Lewis by telephone at the Federal Reserve Bank of Chicago, at his office, and at his residence, but without success, and that finally on May 23 he sent the following telegram to him at the Federal Reserve Bank of Chicago:

"I have been trying to reach you all morning on telephone but unable to do so. I desire see you early next week as possible about matter which is very urgent. Could you be in Washington Tuesday or Wednesday at latest kindly advise."

In response to this telegram, Chairman Eccles said, he received a wire from President Young stating that he had been unable to contact Chairman Lewis, but that the latter's office had advised it would endeavor to get Chairman Eccles' message to Mr. Lewis during the afternoon of May 23.

Not having heard anything from Mr. Lewis this morning, Chairman Eccles continued, he wired Mr. Young again asking him to try and get in touch with Mr. Lewis and ascertain whether or not he would come to Washington as requested. Mr. Young replied that, although he had been endeavoring to get in touch with Mr. Lewis since May 23, he had been unable to contact him direct but that Mr. Lewis would be in Chicago for the meeting of the board of directors of the Reserve Bank on Thursday, May 28.

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In accordance with the action taken at the meeting of the Board on May 22, Chairman Eccles stated, Mr. Cagle had reviewed all of the information available here, including such information as was in the reports of examination of the Continental Illinois National Bank and elsewhere, and had left last night for Chicago where he expected to spend two or three days at the Federal Reserve Bank before undertaking to make an investigation at the Continental Illinois National Bank and Trust Company, and that he would not go to the national bank until he (Chairman Eccles) requested him to do so.

Chairman Eccles made the further statement that, since Secretary Morgenthau had brought the matter to the Board's attention on May 21, 1942, the Board should get in touch with Mr. Lewis as promptly as possible and not wait until next Thursday, May 28, when he was expected to attend the meeting of the board of directors of the Federal Reserve Bank of Chicago, and that in the circumstances it might be advisable to write him a letter setting forth the facts and stating that it was the Board's feeling that he should send in his resignation immediately as Class C Director and Chairman and Federal Reserve Agent of the Federal Reserve Bank of Chicago.

Upon motion by Mr. McKee and by unanimous vote, Chairman Eccles was authorized to have such a letter prepared and circulated for the approval of the other members of the Board with a view to sending it to Mr. Lewis tomorrow night by air mail special delivery unless Mr. Lewis should get in touch with Chairman Eccles prior to that time.

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Chairman Eccles then stated that, at the invitation of the Secretary of the Treasury, he and Mr. Goldenweiser had attended a meeting yesterday afternoon at the Treasury which was attended by Secretary Morgenthau, Under Secretary Bell, Mr. Harry White, Director of Monetary Research, and Mr. Frank A. Southard, of the Treasury; Mr. Jesse Jones, Secretary of Commerce; Mr. Herbert Feis, Economic Adviser to the Secretary of State, and Mr. Leo Pasvolsky, of the Department of State; and Mr. Louis Bean and Mr. Frank Coe of the Board of Economic Warfare. At Chairman Eccles' request, Mr. Goldenweiser read the following letter dated May 20, 1942, which had been addressed to the Chairman by Secretary Morgenthau:

"I am appending a memorandum which I submitted to the President with an enclosure which I think you will find self-explanatory. The President told me to continue the study of the proposal in conjunction with the State Department, Board of Economic Warfare and Export-Import Bank and to speak to him again about the project after we had progressed further in our study and after I had obtained the views of the State Department. I would very much like to have the Federal Reserve Board join us in the study.

"I would appreciate it very much if you or someone you would care to designate would meet with me at 3:00 P.M. on Monday, May 25.

"The proposal is, of course, in the study stage and if before the meeting you want more information on the matter, Harry White is available and will be glad to discuss it at your convenience."

Mr. Goldenweiser handed each member of the Board a copy of the enclosures which accompanied Secretary Morgenthau's letter and a copy of a memorandum which he had written to Chairman Eccles under date of

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May 25, 1942, describing the material and stating that it contemplated that plans for international financial reconstruction after the war should be studied now; that the Board of Economic Warfare, the Department of State, and the Board of Governors should cooperate with the Treasury in undertaking the studies at once; and that preliminary plans for an international stabilization fund and for an international bank had been prepared and were being submitted as a basis of discussion. Mr. Goldenweiser's memorandum also stated that the plans themselves were not appended, but that he thought this was a subject of the very first order of importance and that the Board should participate in the study to the fullest extent.

Mr. Ransom suggested that Mr. Goldenweiser make a digest of the report on the preliminary studies for the information of the members of the Board, and it was understood that he would do so.

Chairman Eccles said that Secretary Morgenthau opened the meeting by stating that he had discussed with the President the need for such studies and that, although Secretary Morgenthau had already had a preliminary study made, his letter of May 20 was the first notice which he (Chairman Eccles) had received. He stated that all those present at the meeting had agreed that this was a broad subject requiring immediate consideration, that he had advised Secretary Morgenthau that, subject to the approval of the Board, this organization would be glad to participate in making such studies, and that he would designate Mr. Goldenweiser to serve on the technical committee. He said

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that, in response to a question by Mr. White as to whether some members of the Board's staff would be available to assist in this work, he had said that the foreign section of the Board's Division of Research and Statistics would be interested and that therefore such men as Messrs. Gardner, Kindleberger, and Knapp would be available. He also said he had gained the impression that the Treasury wanted to get all possible assistance from every source because of the magnitude of the problem and, he surmised, that it also desired to have others share in the responsibility for any conclusions that might be reached as a result of the studies. Chairman Eccles added that Secretary Morgenthau had appointed Mr. White as chairman of the technical committee and that Mr. Jones had appointed Mr. Will Clayton to serve as a member of the committee, but that he had not been advised as to appointments on behalf of the other organizations represented at the meeting.

At the conclusion of Chairman Eccles' report, the Board authorized him to send the following letter to Secretary Morgenthau:

"I have advised the Board of the contents of your letter of May 20 and the meeting in your office on May 25 which Dr. Goldenweiser and I attended concerning a study of a proposed stabilization fund for the United and Associated Nations and an international bank to meet post-war problems.

"The Board has requested me to advise you that the opportunity to participate in these studies is greatly appreciated, that we have designated Dr. Goldenweiser to represent the Board in connection with these studies, and that he has been authorized to utilize any members of our staff that he may desire for this purpose."

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Chairman Eccles stated that last week Under Secretary of the Treasury Bell had mentioned two legislative proposals which he thought were worthy of consideration, namely, (1) not to require member banks to maintain reserves against Government deposits, and (2) not to require member banks to pay the Federal Deposit Insurance Corporation assessment of 1/12 of 1 per cent on Government deposits. He said that he thought these proposals had originated with Mr. Aldrich, Chairman of The Chase National Bank, that both proposals were controversial and therefore ought not to be included in the proposed legislation to be sought by the Board at this time, and that following the meeting at the Treasury yesterday he had advised Secretary Morgenthau how he felt about them. Chairman Eccles stated, however, that he would like to have approval of a letter, which he proposed to send to the Presidents of all Federal Reserve Banks after he had talked to Senator Wagner, which would enclose a draft of a bill and a statement explaining the three legislative proposals which the members of the Board had heretofore agreed to. He said that President Sproul of the Federal Reserve Bank of New York was particularly anxious to have the Presidents advised in detail regarding the proposed legislation before it was actually introduced in Congress. Chairman Eccles thereupon read the following letter, which was approved unanimously:

"There is enclosed herewith a draft of a proposed bill in three sections which would amend the Federal Reserve Act. There is also enclosed an explanation of the proposed amendment which develops the reasons for the proposals.

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"It is the unanimous view of the Board of Governors that this legislation is now urgent to meet financial problems due to the war situation and it is therefore expected to have appropriate bills introduced in both Houses of Congress in the near future. The Treasury concurs in the Board's views and believes that the proposals respecting reserve requirements are particularly urgent.

"The Board wishes the Federal Reserve Bank directors and officers to be informed of this proposed legislation and the reasons why the Board and the Treasury deem it of importance that the legislation be enacted at this time without delay.

"It is of extreme importance that this matter be kept on a confidential basis until the bills are actually introduced."

Mr. McKee submitted for approval the following memorandum, addressed to the Board by the Personnel Committee under date of May 21, 1942:

"As the Board is aware, some two weeks ago the question of some wartime restriction upon annual leave was discussed and left to the Personnel Committee for action. Thereafter, the Personnel Committee considered the question further and agreed that the following restrictions should be put into effect from that date forward. On instructions of the Committee, Mr. Clayton communicated the Committee's action informally and verbally to the Division Chiefs, as follows:

"As now obtains under the Board's leave regulations, annual leave may be taken only with the approval of the appropriate Division Head at such time or times as the employee can be spared. In addition, the following restrictions will apply until otherwise ordered in order to meet the war-time situation:

- "1. No annual leave to be taken in excess of two calendar weeks or fifteen calendar days at any one time;
- "2. Any additional leave accrued during the current year to be taken a day or two at a time;
- "3. No leave accrued during prior years to be taken during 1942;

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"4. While the foregoing rules reflect the general policy, in unusual situations or to prevent undue hardship, exceptions to any of the foregoing restrictions will be considered on application of the employee to his or her Division Head, to be forwarded with the latter's recommendation to the Board's Personnel Committee for decision.

"Since the above action was taken, it has come to the Committee's attention that the new leave policy has been misunderstood by a number of employees. In view of this the Committee met today with the Subcommittee of the Committee of Employees (Messrs. Bonnar Brown, Bray Hammond, and Miss Elizabeth Ford). The Subcommittee was asked for its comments and views respecting the above regulations. They unanimously expressed themselves as feeling that the policy was fair, that it was important to have some elasticity as is provided for in 4 above, and that the Board's policy with appropriate explanation be communicated to all employees by circular, but on a confidential basis and not over the signature of any particular staff official.

"After further consideration of the matter, the Personnel Committee recommends that a circular by the Board be issued, setting forth the foregoing war-time leave policy with a suitable explanation; and that mimeographed copies of the circular be distributed in sufficient quantities to each Division Chief so that copies can be circulated through smaller units of each Division and initialled by each employee, the copies all to be returned to the Division Chiefs."

Approved unanimously.

At this point, Messrs. Goldenweiser and Smead left the meeting, and the action stated with respect to each of the matters hereinafter referred to was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on May 25, 1942, were approved unanimously.

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

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"Referring to your letter of May 19, 1942, the Board of Governors approves payment of salaries to the following officers of the Bank for the year beginning June 1, 1942, at the rates fixed by your Board of Directors:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
R. R. Gilbert	President	\$20,000
E. B. Stroud	First Vice President and General Counsel	17,000
R. B. Coleman	Vice President	12,000
W. J. Evans	Vice President and Secretary	10,000
W. O. Ford	Cashier	9,500
E. B. Austin	Assistant Cashier	7,200
L. G. Pondrom	Assistant Cashier	6,600
R. O. Webb	Assistant Cashier	6,000
Mac C. Smyth	Assistant Cashier	4,800
W. H. Holloway	General Auditor	6,000
<u>El Paso Branch</u>		
J. L. Hermann	Managing Director	6,000
Allen Sayles	Cashier	4,200
<u>Houston Branch</u>		
W. D. Gentry	Managing Director	9,000
H. R. DeMoss	Cashier	4,800
J. L. Cook	Assistant Cashier	3,600
<u>San Antonio Branch</u>		
M. Crump	Managing Director	7,500
W. E. Eagle	Cashier	4,800
H. K. Davis	Assistant Cashier	3,300"

Approved unanimously.

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

"In accordance with the request contained in your letter of May 15, the Board approves the appointment of Jim Robert Lyons as an examiner for the Federal Reserve Bank of San Francisco. Please advise us of the date upon which the appointment becomes effective."

Approved unanimously.

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

"Reference is made to your letter of May 19, 1942, submitting the request of the Commonwealth Bank, Detroit, Michigan, for approval of the establishment of a branch in the City of Highland Park, Michigan.

"In view of your recommendation and the information submitted, the Board approves the establishment and operation of a branch in the City of Highland Park, Michigan, by the Commonwealth Bank, Detroit, Michigan, subject to approval by the appropriate State authorities."

Approved unanimously.

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

"Several questions regarding WR-1 and related matters are discussed below.

"As explained in WR-1, a single-payment loan made before May 6 may be renewed more than once. Furthermore, the borrower may pay a portion of the loan at the time of any such renewal, or the loan may be put on an instalment basis without regard to the requirements of section 6(b) or any other provision of the Regulation. It is to be noted, however, that the absence from Regulation W of restrictive provisions with respect to such renewals or conversions is not intended to encourage them, but must be considered in the light of the joint statement made for the press on May 7 by the Comptroller of the Currency, the Board of Directors of the Federal Deposit Insurance Corporation, and the Board of Governors of the Federal Reserve System. This joint statement will be published in the Federal Reserve Bulletin for June.

"A loan of over \$1,500 is not subject to the Regulation whether the loan is single-payment or instalment, whether made before or after May 6, or whether all or part is to be used to pay off a previous indebtedness with the same lender or another lender. On the other hand, if the obligor on a \$1,000 note borrows another \$800 from the same lender as a separate transaction evidenced by a separate note, the new \$800 loan is subject to the Regulation.

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"If instead of renewing or revising a single-payment loan made prior to May 6, the obligor makes one loan (of \$1,500 or less) part of which is to be used to pay off the old single-payment loan and part of which represents new money, only the part of the new loan representing new money is subject to the requirements of the Regulation. However, in any such case it would ordinarily be better practice for the lending institution to keep the credits separate and not to combine them in a single obligation since otherwise it might be difficult for the lending institution and for the examiners to be sure that there was no violation of the Regulation.

"A renewal or revision of a loan which was originally more than \$1,500 is not subject to the Regulation even though the balance at the time of the renewal or revision is less than \$1,500."

Approved unanimously.

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

"Classification 'Jewelry (including precious stones and costume jewelry)', Group A-19 of Regulation W, includes such articles as cigarette cases and compacts when the article is made of or ornamented with precious metals or precious or semi-precious stones. Classification also includes such articles as men's and women's belt buckles, key chains, tie clips and collar fasteners. Principle involved is that classification includes all articles which are found to be customarily classified as jewelry by the trade, particularly when in addition the article comes fairly within the dictionary definition which refers to articles of personal adornment.

"The Reserve Banks are requested to note for application to other questions concerning listed articles that the foregoing interpretation is based primarily upon investigation into the facts of prevailing trade usage and also that it follows a studied pattern in stressing the inclusive aspect of the classification and leaving the exclusive aspect to implication. Board would like as a matter of policy to avoid hereafter as far as possible

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"rulings that will either (1) state categorically that a given article is not a listed article or (2) appear by going into small details to countenance efforts to search out possible gaps in the list."

Approved unanimously.

Letter to Mr. Baker, Manager of the Consumer Credit Department of the Federal Reserve Bank of Minneapolis, reading as follows:

"There are set forth below the first two questions under Regulation W contained in your letter to Mr. Hodgson of May 12, 1942, followed in each instance by our answers thereto:

'1. Would it be permissible under section 7(c)(1) to renew a single-payment loan by means of an instalment loan which was divided into nine equal payments, the first of which matured one month after date of renewal?'

"This question may be answered in the affirmative provided that the last of the nine equal monthly instalments does not fall due later than 12 months after the date on which the original single-payment loan was made.

'2. When a single-payment loan is renewed under section 7(c)(2), is it necessary to pay one-fourth of the obligation at the time of the first renewal and each subsequent renewal thereafter or may the first one-fourth payment be made at the expiration date of the first renewal?'

"All such one-fourth payments must be obtained at the time of each renewal so that the last one-fourth payment will be due upon the maturity of the last renewal, since the over-all maturity of the indebtedness shall not be more than 12 months from the date on which the original single-payment loan was made. Of course, any payment may be larger than one-fourth, and section 7(c)(2) contemplates one or more renewals of a single-payment loan, and not an instalment contract.

"With respect to both the foregoing answers, you will of course understand that the footnote to sections 7(c)(1) and 7(c)(2) provides for other maturities of the renewals in certain cases.

"In order that you may receive more prompt replies and to assist us in the filing of matters according to subject,

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"it will be appreciated if future inquiries be limited to single or related points. You will note that the questions in your letter of May 12 are being answered separately or in groups."

Approved unanimously.

Letter to Mr. Baker, Manager of the Consumer Credit Department of the Federal Reserve Bank of Minneapolis, reading as follows:

"There is set forth below the fifth question under Regulation W contained in your letter to Mr. Hodgson of May 12, 1942, followed by our answer thereto:

'5. Section 8(b) exempts any extension of credit for the purpose of purchasing or carrying stocks, bonds, or other investment securities. The bank is not clear on what is meant by "carrying" stocks. Does it mean secured by stocks, or does it mean refinancing of a loan which originated for the purpose of purchasing the stocks in the first instance, or does it have some other meaning?'

"The word 'carrying' in the next to the last line of section 8(b) has the same general meaning given to such word in section 3(b) of the Board's Regulation U. In effect, this confines 'carrying' as so used in section 8(b) to the refinancing of indebtedness which was originally for the purpose of purchasing any stocks, bonds or other investment securities, including such indebtedness incurred by a broker, dealer or other agent on behalf of his principal. The mere fact that the extension of credit is secured by stocks, bonds or other investment securities is immaterial in determining exemption under 8(b), unless it is also for the purpose of purchasing or of carrying such securities."

Approved unanimously.

Letter to Mr. Clerk, First Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"This refers to your telegram of May 20, 1942, concerning the application of Regulation W to the use of

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"credit cards by oil companies. You ask whether consideration is being given to providing an alternative for the calendar month in determining defaults on charge accounts.

"We have received a number of comments about the calendar month period and the problem it raises for those merchants who have billing periods which do not coincide with the calendar month. It appears that after merchants had some time to study the problem most of them were able to adjust their operations to the regulation in one way or another without serious inconvenience. The pressure for a change in the regulation has materially eased although the matter is still under study and an amendment is not foreclosed.

"It occurs to us that even though the period might be changed to the fiscal month, a change which would introduce many difficulties of administration, the oil companies will still not be able to operate the credit card system under the regulation without considerable difficulty. The forwarding of information on frozen accounts to all outlets and control over the sale of listed articles to persons in default would seem to present almost insurmountable problems.

"In view of the fact that the credit card system was primarily designed to cover sales of gasoline and oil and similar unlisted articles, we are inclined to believe that the most satisfactory solution of the oil companies' problem would be to confine the credit card system to such articles. Present and impending controls over automobile operation would seem to suggest that such a procedure would not result in serious hardships for either the oil companies or their customers."

Approved unanimously.

Letter prepared for the signature of Chairman Eccles to Mr. William J. Field, President of the Commercial Trust Company of New Jersey, Jersey City, New Jersey, reading as follows:

"This refers to your letter of May 13, 1942, relating to the joint statement by this Board, the Comptroller of the Currency, and the Board of Directors of the Federal Deposit Insurance Corporation, urging that banks further extend the principle of amortization, particularly to the volume of single-payment loans to individuals for non-

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"productive purposes presently outstanding.

"I regret to note that, while you are in accord with our recommendation and would like to collect payments on real estate mortgage loans in accordance therewith, you state that the tax rate and the basis of assessment of property in Jersey City are such that banks in that city find it almost impossible to obtain reasonable payments on real estate mortgage loans and that, unless the Federal Government 'cleans up this local situation,' it would seem impossible to comply with our recommendation.

"I fully appreciate the difficulties which you face in dealing with real estate mortgage loans. As you know, entirely apart from the present program to obtain reduction of individual indebtedness incurred for nonproductive purposes, the tax situation and other unfavorable aspects of the real estate problem in Jersey City have long been and continue to be matters of much concern to this Board and to other agencies responsible for bank supervision because of the effect upon the value of real estate and real estate mortgage loans held as bank assets and the necessity for providing for large losses therein.

"However, the responsibility for solving local financial problems, including the determination of tax rates and assessment policies, rests primarily with the State and local authorities and the citizens of the communities involved. I do not know whether any Federal action which might effect the situation in your city would be in order. In any event, any such action is outside the province of this Board, and it would not be appropriate for me to undertake to pass judgment upon the financial policies of your city or to express any opinion as to the propriety of Federal action.

"In view of your reference to a reported investigation by the Federal Bureau of Investigation, I am sending a copy of your letter to the Attorney General."

Approved unanimously, with the understanding that a copy of the incoming letter and the reply would be sent to the Attorney General.

Letter to Messrs. T. R. and W. S. Freeman, Washington, D. C.,
reading as follows:

"Reference is made to your letters of May 20 and

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"May 22, 1942, which relate to the same subject matter as your earlier letters of May 6, to which the Board replied in some detail on May 19.

"This whole correspondence has now been carefully reviewed. The review serves only to confirm what was said in the Board's letter of May 19. The kind of transactions in furniture that you would like to have exempted were not brought under the regulation through any oversight or any failure to recognize that hardship will be caused in some cases. It was the intention of the Board to prevent transactions of this description from being effected on credit terms less restrictive than those applied to furniture transactions of any other type.

"You will understand that in the view of the Board this tends to further the broad purpose of the regulation, not (as your letter of May 20 suggests) to defeat it. That purpose, as stated in the President's Message to Congress of April 27, 1942, is 'to keep the cost of living from spiraling upward'. To do this, in the language of the President, 'we must discourage credit and installment buying, and encourage the payment of debts, mortgages, and other obligations'."

Approved unanimously.

Letter to Mr. G. A. Leukhart, General Manager of the National Used Car Market Report, Inc., Chicago, Illinois, reading as follows:

"Reference is made to the Board's letter of March 21 with respect to the designation of automobile appraisal guides for purposes of Regulation W. The Board has now included the following publications -
 Blue Book National Used Car Market Report -- Executive Edition -- 'Retail Sales Values' for zone No. 3
 Official Blue Book New and Used Car Guide -- B Edition
 Red Book National Used Car Market Report

among the automobile appraisal guides designated for purposes of Regulation W in Genesee, Jackson, Lapeer, Livingston, Macomb, Monroe, Oakland, St. Clair, Washtenaw, Wayne counties in the State of Michigan, in addition to the

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"territories set forth in the Board's letter of March 21."

Approved unanimously.

Memorandum dated May 25, 1942, from Mr. Szymczak, reading as follows:

"On April 7, 1942, the Board considered certain memoranda written by Mr. Smead with respect to the paying out of the existing stocks of Federal Reserve Bank notes, and of Federal Reserve notes of the 1928 series which bear the redemption in gold clause, and agreed that the matter should be referred to me for such further consideration as I might deem desirable. It was understood that if, in all the circumstances, action by the Board appeared to be justified, I would discuss the matter with the Treasury and bring it to the Board's attention for further consideration.

"I discussed this matter with Mr. Bell, Under Secretary of the Treasury, and this morning had a conference with him in his office at which Mr. Barnes, Mr. Bernstein and Mr. Heffelfinger of his office, Mr. Hall, Director of the Bureau of Engraving and Printing, and Mr. Vest and Mr. Smead were present. After reviewing the matter from several angles, including the savings to be effected and the public's reaction to paying out the notes, it was tentatively agreed that the paying out of the notes would be desirable, provided an adequate press statement could be prepared.

"In this connection, it was understood that Mr. Bernstein would draft a press statement to be issued by the Treasury and take it up with Mr. Vest, in which he would review the whole currency and coin problem and urge the public to turn in all gold coin and gold certificates it might have, and also all other coin and currency held in excess of current needs. The press statement would point out the need for conserving metal, paper and labor going into the minting of coin and the printing of currency at a time when every effort should be made to conserve both labor and material in the defense effort; that a substantial part, possibly two-thirds, of the materials needed for printing paper currency is imported from abroad; that the Bureau of Engraving and Printing is having great difficulty in obtaining personnel with adequate skill to produce the

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"large volumes of the various types of securities now needed by the Treasury and the increasing volume of paper currency needed to meet the demands of the public, and state that in the circumstances the Treasury is asking the Board of Governors to authorize the Federal Reserve Banks to pay out the existing stocks of Federal Reserve Bank notes and Federal Reserve notes of the 1928 series."

Noted with approval.

Memorandum dated May 25, 1942, from Mr. Szymczak, reading as follows:

"Mr. Barnes, Assistant to the Treasurer of the United States, called on us a few days ago and stated that the military and civil authorities in Hawaii are anxious that steps be taken to withdraw all paper currency now in circulation in Hawaii and to replace it by currency which would have distinct markings. The Treasury has considered the suggestion and proposes to over-print the word 'Hawaii' in outline letters across the reverse side of the currency, and the word 'Hawaii' in bold face type at each end on the face of the currency. Should any of the over-printed currency fall into the hands of the enemy, as a result of invasion or otherwise, the problem of ultimate settlement, therefore, would be less involved than would be the case with regular currency.

"It is proposed to print approximately \$3,000,000 in \$1 silver certificates and Mr. Barnes asked whether we would be agreeable to printing \$5,000,000 in \$5 Federal Reserve notes, \$6,000,000 in \$10 Federal Reserve notes and \$11,000,000 in \$20 Federal Reserve notes of the Federal Reserve Bank of San Francisco for this purpose. We have talked with Mr. Clerk of San Francisco on the telephone and he concurs in the printing of the San Francisco Bank's notes for this purpose. The notes would be shipped to San Francisco at Government expenses. Presumably it will be necessary for the San Francisco Bank to pay the printing cost although an attempt will be made to have the Treasury assume this cost also.

"No formal action appears to be necessary on the part of the Board with respect to the proposed printings, but if the Board has any objection thereto the reasons for its objections should be promptly communicated to the Treasury.

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"A sample of a \$10 Federal Reserve note of the Federal Reserve Bank of San Francisco with the proposed over-printings is now in my possession and I shall be glad to show it to interested members of the Board.

"The military authorities in Hawaii are particularly anxious that this proposed exchange of currency be kept strictly confidential until the exchange is actually made."

Noted without objection.

Thereupon the meeting adjourned.

Oliver Morley

Secretary.

Approved:

W. C. C. C.

Chairman.