

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, August 27, 1942, at 3:15 p.m.

PRESENT: Mr. Szymczak  
Mr. Draper  
Mr. Evans

Mr. Morrill, Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Thurston, Special Assistant to the Chairman  
Mr. Thomas, Assistant Director of the Division of Research and Statistics  
Mr. Piser, Chief, Government Securities Section, Division of Research and Statistics.

Mr. Szymczak stated that, in accordance with the action taken at the meeting of the Board on Tuesday, August 25, he talked over the telephone with President Fleming of the Federal Reserve Bank of Cleveland and with Mr. Brainard, Chairman of the Bank, who was in Cleveland, and that they stated that Mr. Wagner had not told the truth with respect to his indebtedness, that the decision had been reached that his resignation should be requested, but that, in view of his service as an employee of the Bank for 27 years, they would like to allow dismissal pay equal to three months' salary. Mr. Szymczak said that he indicated to Messrs. Fleming and Brainard that, on the basis of the information now available, he would not be willing to approve a dismissal payment to Mr. Wagner but that he had reached an understanding with them that whatever decision was reached by the board of directors of the Bank on this point would be

8/27/42

-2-

submitted to the Board of Governors for consideration. He made the further statement that he was inclined to think that it would be advisable for the Board to send a representative to Cleveland for the purpose of determining just what the situation was so that the Board would be in a position to take whatever action on the matter that might be called for.

There was unanimous agreement that Mr. Cagle, Assistant Chief of the Division of Examinations, should go to Cleveland tonight for the purpose of discussing the matter with Messrs. Fleming and Brainard and to make such other investigation of the matter as appeared to be necessary, and that Mr. Szymczak should call Mr. Brainard on the telephone and tell him what the Board had decided to do.

There was then presented a letter dated August 27, 1942, addressed to Mr. Ransom as Vice Chairman of the Board by Secretary of the Treasury Morgenthau requesting the reaction of the Board to proposals for changes in the existing series of tax notes as outlined in a telegram addressed by Secretary Morgenthau to the Presidents of the Federal Reserve Banks on August 27 and reading as follows:

"Because of possible effect on current sales following inquiry should be treated in strict confidence by you and officials of your Bank. Would you please advise me by wire not later than Friday of your reactions to the following proposed changes which have been suggested as improvements in present series of Tax Notes. Series A Notes change amount which may be tendered for taxes from twelve hundred dollars to five thousand dollars a year and increase maturity to three years. Series B Notes increase interest rate from four cents to six cents per month per

8/27/42

-3-

"hundred dollars. Permit redemption for cash with interest on thirty days notice after six months from date of issue. Permit notes to be pledged as collateral somewhat along the lines permitted in the case of the restricted 2-1/2's of 1962-67. Increase maturity to three years. Cash redemption with interest would not apply to banks accepting demand deposits. These changes will bring rate in line with present market conditions and provide increased flexibility. Also they will permit holders of Series B Notes to pay tax installments entirely in cash if they so prefer which will facilitate work in Collectors' offices."

Mr. Piser stated that this morning Messrs. Haas, Buffington, Murphy, and Heffelfinger of the Treasury staff discussed with him and Mr. Thomas the revision of the present Series B tax note along the lines previously discussed by the representatives of the Treasury with the members of the Federal Open Market Committee, that the Treasury representatives felt that it would be impracticable to issue the notes with a graduated schedule of interest rates based upon the length of time that the notes were held, that for that reason it was proposed by the Treasury to send the telegram above referred to to the Presidents of the Federal Reserve Banks and the Board of Governors for the purpose of ascertaining their views, and that after consideration of the comments of the Federal Reserve Banks and the Board a decision would be reached by the Treasury as to whether the revised series of notes would be issued beginning September 1, 1942. The principal objections on the part of the Treasury representatives to the graduated rates, Mr. Piser said, were (1) the additional work that would be imposed on the Internal Revenue Department in computing the amount of interest that would have to be paid on different issues

8/27/42

-4-

under the graduated scale of rates, and (2) that if it were decided to put out a new issue of tax notes, say every six months, a purchaser during the latter part of the period would immediately receive the higher rate of interest whereas the purchaser who bought at the beginning of the period would receive the lower rate provided by the schedule.

There was unanimous agreement on the part of the members of the Board present that while there was some merit to these objections they were not sufficient to outweigh the attractiveness that would be given to the revised note by the graduated scale of interest rates previously proposed by the members of the executive committee of the Federal Open Market Committee and that it would be desirable for the Board to prepare a draft of letter to Secretary Morgenthau setting forth the Board's views on the revision of the tax notes as proposed in his telegram to the Presidents of the Federal Reserve Banks and urging that in the revision of the Series B notes provision be made for a graduated scale of interest rates.

In accordance with this agreement Mr. Szymczak was requested, in collaboration with Messrs. Thomas and Piser, to prepare a draft of letter for consideration at a meeting of the Board to be held tomorrow morning.

Mr. Szymczak stated that Mr. Ransom, who was confined to his home today by illness, had suggested that the matter be discussed with Messrs. Sproul and Williams, the representative members of the

8/27/42

-5-

executive committee of the Federal Open Market Committee, so that in the event it was thought desirable for the members of the executive committee of the Federal Open Market Committee as such to express their views they would be informed of the position the Board proposed to take on the matter.

While the meeting was still in session, Messrs. Sproul and Williams were called on the loud-speaker telephone in the conference room and were informed of the discussions which Messrs. Thomas and Piser had had with representatives of the Treasury this morning and what the Board had done with respect to the preparation of a draft of reply to Secretary Morgenthau's letter. Messrs. Sproul and Williams concurred in the opinion that the letter should urge the adoption of a graduated scale of rates for the revised Series B tax note, and it was agreed that when the draft of reply was ready for consideration by the Board tomorrow morning it would be discussed over the telephone with Chairman Eccles, who is in Utah, and with Messrs. Sproul and Williams.

Following the conversation with Messrs. Sproul and Williams, Mr. Szymczak called Mr. Ransom on the loud-speaker telephone and informed him of the discussions which had taken place, and he expressed general agreement with the conclusions that had been reached.

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

8/27/42

-6-

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

"Referring to your letter of August 10, 1942, with respect to whether the War Department intends the Helena Branch to guarantee loans on behalf of the War Department up to \$100,000, we communicated with Colonel Mechem regarding this matter and he has now written us a letter, under date of August 24, a copy of which is enclosed.

"You will note from Colonel Mechem's letter that it is now the desire of the War Department that applications for guarantees be forwarded to Washington through the Federal Reserve Bank of Minneapolis and not direct from Helena; also that it is the desire of the War Department that loans not in excess of \$100,000 be referred by Helena to the Federal Reserve Bank of Minneapolis for appropriate action."

Approved unanimously.

Letter to Honorable Wendell Berge, Assistant Attorney General, reading as follows:

"For your information, there are enclosed herewith a copy of a statement of account, dated July 14, 1942, and rendered to Mrs. E. A. Cain by R. H. Johnson & Company, Inc., both of Wilmington, Delaware, a copy of Mrs. Cain's letter of July 16, 1942, to the Board of Governors of the Federal Reserve System, and copies of letters dated July 25, 1942, to Mrs. Cain and R. H. Johnson & Company, Inc., from Mr. R. R. Williams, Head of the Department of Consumer Credit, Federal Reserve Bank of Philadelphia.

"As you will note, the subject of the enclosed correspondence is similar to that of your letter of July 15, 1942 (WB:JPO'B: mcm 146-17-012) to Chairman Eccles, and Governor Ransom's letter to you of July 22, 1942, relating to 'dun' forms or collection letters containing references to the Board's Regulation W."

Approved unanimously.

Letter to Mr. Knoke, Vice President of the Federal Reserve Bank of New York, reading as follows:

8/27/42

-7-

"Thanks for your letter of August 24, 1942, advising the Board of the general policy adopted by your bank with respect to loans against gold in its vaults.

"As you point out, each future loan on gold will be submitted to the Board for specific approval and, accordingly, no action by the Board is necessary at this time. Nevertheless, the Board, on account of its continuing interest in the subject and for its consideration should action by it become necessary, is glad to have such information currently before it."

Approved unanimously.

Thereupon the meeting adjourned.

Cheser Morrell

Secretary.

Approved:

W. P. Smyth

Member.