A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, August 28, 1942, at 9:00 a.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 following the meeting yesterday afternoon he and Messrs. Thomas and Piser prepared a draft of letter to Secretary Morgenthau along the lines suggested for consideration at this meeting, that during the evening they discussed the matter with Chairman Eccles, who is in Utah, and that the draft of letter had been revised in the light of that discussion. Mr. Szymczak then read the revised draft which expressed the opinion that the revised Series B tax note would not reach the maximum amount of funds that could be obtained from this type of issue, and the note would not be held for extended periods of time, unless the rates were arranged on a graduated scale that would offer a strong inducement to hold the notes, and that for reasons which were outlined in the reply it was believed that the objections to the graduated scale of rates were not sufficient to outweigh the advantages of such a scale. The draft also stated that, if it were still felt that the graduated scale would unduly complicate the work of internal revenue collectors, the proposal to convert the
Series B tax note into a two-purpose note should be abandoned, the limitation on the Series A note should be increased to $5,000, the rate on the Series B note should be increased to 0.72 per cent per annum, and the maturity on both series should be lengthened to three years. The draft also stated that in order to obtain investment funds the Board recommended the offering of the short open-end note issue that was proposed prior to the time that the suggestion for the modified tax notes was made.

During the discussion which ensued, Mr. Szymczak read the draft of letter over the loud-speaker telephone to Mr. Ransom, who was still confined to his home by illness. While Mr. Ransom said that he was willing to approve the letter as written, he added that it would be his preference to eliminate the reference to the short open-end note issue and to change the tone of the letter somewhat.

Mr. Szymczak then read the draft over the loud-speaker telephone to Messrs. Sproul and Williams, the representative members of the executive committee of the Federal Open Market Committee, and they suggested that the reference in the draft to the short open-end note issue be eliminated and that the letter concentrate on the desirability of the adoption of a graduated interest rate for the Series B tax note.

The telephone conversation with Messrs. Sproul and Williams was followed by a conversation between Mr. Szymczak and Chairman Eccles, in which Mr. Szymczak read to the Chairman the draft of letter to Secretary Morgenthau and advised him of the suggestions that had
been made by Messrs. Ransom, Sproul, and Williams. Chairman Eccles concurred in these suggestions and made the further suggestion that the letter be sent as a letter coming from the Board and that Mr. Sproul, as Vice Chairman of the executive committee of the Federal Open Market Committee, send a communication on behalf of the members of the executive committee stating that the members of the committee were in full agreement with the views expressed in the letter and recommended strongly that the Board's suggestions be given careful consideration.

Following the conversation with Mr. Eccles there was a further discussion of the draft of letter, and agreement was expressed that the references to the short open-end note issue should be eliminated.

Mr. Szymczak called Mr. Sproul and Mr. Williams on the loudspeaker telephone again and read the revised draft of the letter. Messrs. Sproul and Williams, who had received the copies of the original draft wired to them during the morning, suggested the elimination from the draft of the statement that, if the Treasury still felt that the graduated scale of rates would unduly complicate the work of the internal revenue collectors, it was recommended that the proposal to convert the Series B tax note into a two-purpose instrument be abandoned, that the limit on the Series A notes be increased to $5,000, that the rate on the Series B notes be increased to 0.72 per cent, and that the maturity on both series be lengthened to three years. They
concurred in the suggestion that Mr. Sproul, as Vice Chairman of the executive committee of the Federal Open Market Committee, send a telegram to Secretary Morgenthau expressing agreement with the views set forth in the Board's letter. After Messrs. Sproul and Williams had suggested certain other minor changes in the draft of reply, Mr. Szymczak stated that when the letter had been signed by Mr. Ransom as Vice Chairman of the Board it would be sent to Secretary Morgenthau by messenger, following which the text of the letter would be wired to Mr. Sproul together with a draft of telegram along the lines suggested to be sent by him, as Vice Chairman of the executive committee of the Federal Open Market Committee, to Secretary Morgenthau.

Following the conversation with Messrs. Sproul and Williams, the letter to Secretary Morgenthau was approved unanimously in the following form:

"In reply to your letter of August 27 enclosing a copy of a telegram to the Presidents of the Reserve Banks the Board of Governors agrees entirely with the proposed changes in the Series A tax notes. We also agree that some changes in the Series B notes are desirable and in some respects essential, but we again recommend a graduated scale of rates instead of the flat rate proposed. We feel that, while the proposals are in the right direction, the notes will not reach the maximum amount of funds that can be obtained from this type of issue, unless the rates are sufficiently attractive for maturities beyond seven months, and, even more important, the notes will not be held for extended periods of time, unless the rates are so arranged on a graduated scale as to offer a strong inducement to holders to retain them.

"We have considered the objections raised by members of your staff to a graduated scale of rates on the tax notes. While we recognize the merit of these objections, we do not believe that they are sufficient to outweigh the
advantages of a graduated scale of rates. These advantages are that (1) the higher average rate would attract a much larger amount of funds and attain a much wider distribution than would be reached by the flat rate of only 0.72 per cent per annum for three years and (2) the increasing scale of rates would be a real incentive to investors to hold the notes to maturity. With an attractive schedule of rates these notes could be actively promoted by the Victory Fund Committees and in our opinion would raise a large amount of funds, probably between $500,000,000 and $1,000,000,000 in September.

"The objection that has been made to the offering of a different issue each month is that the work of the internal revenue collectors would be greatly complicated. We believe that the importance of this objection has been overemphasized. The graduated scale of rates would apply only to the Series B notes, which are purchased in large blocks by corporations and wealthy individuals. We suggest that the Series B notes be issued in $5,000 units and only to investors purchasing at least $5,000. The Series A notes would be available up to and including $5,000.

"A substantial part of these notes would be purchased for the investment of idle funds and would not be redeemed for tax purposes. Another substantial part of the notes, although purchased for tax purposes, would be redeemed in cash, since many corporations and individuals would prefer to pay their tax bills by check rather than by turning in the tax notes. The internal revenue collectors would be involved with only the remaining portion of the notes that would be turned in for tax payments, and their work would be simplified by having the redemption values printed or stamped on the face of each note. The additional work imposed on the internal revenue collectors would not appear to be insurmountable, and the results that would be achieved by obtaining the largest possible amount of funds from non-banking investors would certainly offset this disadvantage.

"This matter has been discussed with Chairman Eccles and he is in agreement with the statements contained in this letter."

Approval was also given to the following draft of telegram to be sent to Secretary Morgenthau by Mr. Sproul, and it was understood that, when advice was received from Mr. Sproul that the telegram to Secretary Morgenthau had been sent, the text of the
letter and telegram would be wired to
the Presidents of the other Federal Re-
serve Banks with the request that they
wire the Board copies of their replies
to the telegram received from the Sec-
retary of the Treasury under date of
August 27, 1942:

"Reply of Board of Governors of Federal Reserve Sys-
tem to your letter of August 27, 1942, with respect to
proposed changes in the existing series of tax notes, has
been discussed by members of executive committee of Fed-
eral Open Market Committee, which is body in the Federal
Reserve System with which the Treasury has maintained con-
tact on Treasury financing problems, and they are in full
agreement with the views expressed in letter. Members of
committee desire strongly to recommend that Board's sug-
gestions be given careful consideration before decision is
reached as to changes to be made in tax note."

Secretary's note: Following the meeting,
the letter to Secretary Morgenthau was
sent to Mr. Ransom's home. After being
approved and signed by him, the letter
was sent to the Treasury by messenger
and the procedure agreed upon with re-
spect to advising Mr. Sproul and the
Presidents of the other Federal Reserve
Banks of the Board's action was carried
out.

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:

Telegrams to Messrs. Treiber and Hays, Secretaries of the
Federal Reserve Banks of New York and Cleveland, respectively, Mr.
Walden, First Vice President of the Federal Reserve Bank of Richmond,
Mr. Stewart, Secretary of the Federal Reserve Bank of St. Louis, Mr.
Ziemer, Vice President of the Federal Reserve Bank of Minneapolis,
Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City,
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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 August 26 and by the Federal Reserve Banks of New York, Cleveland, Richmond, St. Louis, Minneapolis, and Kansas City on August 27, 1942, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Telegram to Mr. Dillard, Secretary of the Federal Reserve Bank of Chicago, stating that the Board approves for the Bank, effective August 29, 1942, a rate of 1-1/2 per cent on advances to member banks under section 10(b) and the reestablishment by the directors without change of the other rates of discount and purchase in the Bank's existing schedule.

Approved unanimously.

Letter to Mr. McLarin, President of the Federal Reserve Bank of Atlanta, reading as follows:

"In accordance with your request the Board of Governors approves page 72-a in the personnel classification plan of your Bank covering the new position of Assistant Chief Clerk, Fiscal Agency and Securities Department, as submitted with your letter of August 20, 1942."

Approved unanimously.

Letter to Mr. Alex Cunningham, Vice President and Treasurer of the Western Life Insurance Company, Helena, Montana, reading as follows:
"When I brought your letter of August 14 to the attention of the members of the Board, they immediately expressed their regret that the Helena Branch might lose the benefit of your services as a director, although they appreciated, of course, your desire to serve actively in the war.

"If you do enter active military service, the question of whether you should submit your resignation as a director of the Branch or request leave of absence is one for your own determination. In case you should be called into military service this fall, I am sure that the Board of Governors would gladly grant a leave of absence until the expiration of your term at the end of the year.

"There would remain, however, the question of a director for the term beginning January 1, 1943. Because of the small size of the Helena Branch and the importance of having a member of the board in Helena readily available for consultation in these times, I believe that, if you were on leave of absence, the Board would feel that for the new term it should appoint a director who could be active in the discharge of his duties.

"In the circumstances, I think that your decision as to whether you should resign or request leave of absence if you enter the Army will well wait upon developments as to your military service.

"We appreciate your advising us of your plans, and since the matter has been brought to the Board's attention, it will be quite in order to inform Mr. Peyton, Mr. Towle, and the other directors.

"I wonder if you have any suggestions as to a possible successor in case your plans for entering the Army materialize. It would be helpful if you could send us some names, with supporting data, for consideration together with the other names which may be presented.

"We, too, hope that it will be possible for you to come to Washington before long and meet the members of the Board and the staff. You may be assured that you will be equally welcome, whether you come as a director of the Branch or as a former director.

"We will, of course, be delighted to reply to any inquiry from the Air Force, and to add our endorsement to your application."

Approved unanimously.
Letter to the board of directors of the "Mexico Savings Bank", Mexico, Missouri, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of St. Louis.

Approved unanimously, together with a letter to Mr. Davis, President of the Federal Reserve Bank of St. Louis, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the 'Mexico Savings Bank', Mexico, Missouri, for membership in the Federal Reserve System, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the Board of Directors of the institution. Two copies of such letter are also enclosed, one of which is for your files and the other of which you are requested to forward to the Commissioner of Finance for the State of Missouri for his information.

"It is evident that substantial progress has been made during the past year in improving the bank's asset condition, and it appears that further progress may be expected under President Courtney, who recently assumed his duties. However, it is assumed that the Reserve Bank will follow the situation closely until ultimate solution of the remaining problems of the bank is definitely assured."

Letter to Interbanc Investors, Inc., Kenmore, New York, reading as follows:

"This refers to your letters of July 27, 1942 and August 6, 1942, to the Federal Reserve Bank of New York relating to the status of your corporation as a holding company affiliate.

"The Board understands that Interbanc Investors, Inc. owns or controls more than 50 per cent of the number of shares voted at the latest election of directors of The
"Bank of Attica, Attica, New York, and that it owns or controls small amounts of the stock of certain other banks but does not own or control more than 7.4 per cent of the stock of, or manage or control, any bank, banking association, savings bank, or trust company, other than The Bank of Attica.

"In view of these facts, the Board has determined that your corporation is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies, within the meaning of section 2(c) of the Banking Act of 1933, as amended, and, accordingly, your corporation is not a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act.

"If, however, your corporation should at any time own or control a substantial portion of the stock of, or manage or control, more than one bank, banking association, savings bank, or trust company, this matter should again be submitted to the Board for its determination. The Board reserves the right to make a further determination at any time on the basis of the then existing facts."

Approved unanimously, for transmission through the Federal Reserve Bank of New York.

Telegram to Mr. Bowman, Assistant Vice President of the Federal Reserve Bank of Atlanta, reading as follows:

"Referring your August 27 wire, pending receipt of further advice suggest you credit fees collected on behalf of Navy Department to suspense account."

Approved unanimously.

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

"In connection with the Board's telegram of May 8 approving loans to Banco de la Republica Oriental del Uruguay the Board now approves a revision of the basis of such loans as to the amount of collateral to be hereafter held so that the amount of the loan presently or hereafter outstanding to such bank will be approximately 93 per cent of
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"the amount of gold held as collateral."

Approved unanimously.

Letter to the Comptroller of the Currency, reading as follows:

"It is respectfully requested that you place an order with the Bureau of Engraving and Printing supplementing the order of June 17, 1942, for printing of Federal Reserve notes of the 1934 series in the $5 denomination in the amounts stated for the following Federal Reserve Banks:

<table>
<thead>
<tr>
<th>Number of sheets</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boston</td>
<td>334,000</td>
</tr>
<tr>
<td>Chicago</td>
<td>340,000</td>
</tr>
<tr>
<td>Kansas City</td>
<td>84,000</td>
</tr>
</tbody>
</table>

Amount

$20,040,000
20,400,000
5,040,000

Approved unanimously.

Letter to Admiral Charles Conard, Chairman of the Inter-departmental War Savings Bond Committee, Washington, D. C., reading as follows:

"A reply to your letter of August 11, 1942 has been delayed in order that we might study the effect of modifying the Board's pay roll savings plan for the purchase of War Savings Bonds so as to require minimum semimonthly deductions of $3.75 for employees receiving salaries of less than $1500 per annum and $6.25 for those receiving $1500 per annum or more.

You inquire whether the inclusion of such minimums in the Board's plan, in lieu of the existing minimum of 75 cents, would not invalidate the suggestion submitted in our letter to you of August 10, 1942. While an organization operating under the 'uniform plan' is not likely to have 100% participation without having a higher ratio of deductions to gross pay roll than 8.9%, our suggestion was directed more toward the question of weighting the index. We were aware of the distinction between a percentage and an index and the point we had in mind was that 100 in the proposed 'efficiency index' should be equivalent to 100% efficiency. The average
"person reading statistics such as those shown in the report transmitted with your Circular No. 8, showing the relative standing of participating activities in the Navy, would probably interpret them as percentages of efficiency. To the extent that this is done, the proposed index would be misleading. After reviewing the matter in the light of your letter we still feel that our suggestion is sound even when applied to the 'uniform plan.'

"In studying the Board's plan, we find that if the minimum deductions specified in the 'uniform plan' had been required from the beginning, and if we assume that all participants in the Board's plan would have authorized deductions not less than those specified in the 'uniform plan', we would at this time have a ratio of deductions to gross salaries of 9.93%. On the other hand, if such minimums had been in effect, it is probable that we would not have obtained 100% participation and therefore our ratio of deductions to gross salaries might have been substantially less than 10%. If we carry our theorizing to an extreme and assume that all of the Board's employees would have authorized deductions in the minimum amounts specified in the uniform plan and no more, our ratio of deductions to gross salaries would amount to only 4.6%. Under our plan as it now stands, however, you will have observed from our report covering the period August 1 - 15 that the ratio of deductions to gross salaries for the organization as a whole was 9.2%.

"It had not been contemplated that the Board's pay roll plan would be modified to conform to the 'uniform plan' with respect to required minimums because it has not been thought that a departure in this respect was of sufficient importance to warrant a change. As you know, the Board has less than 450 employees and its organization is numerically unimportant in comparison with the majority of departments and agencies in the executive branch of the Government. Moreover, the Board's plan conforms to the 'uniform plan' except as to certain details which were designed especially for the convenience of the employees. The minimum deduction was purposely kept low in order to encourage all employees to invest at least a small part of their earnings in War Savings Bonds. While the emphasis has shifted since Pearl Harbor from the percentage of participation to the percentage of salary to be set aside, it is believed that as good, if not better, results can be achieved through our continuing campaign on the basis of the plan as it is. From a practical standpoint, since all employees are now participating in the plan, it would not be feasible at this late date to adopt new minimum requirements retroactively without causing a number of employees to drop out, a result which, you will agree, would
"be undesirable. However, we have considered the possibility of adopting the higher minimums, effective as of some future date, but believe there is little to be gained by doing so inasmuch as we are endeavoring to obtain the participation of all new employees on the basis of 10% of gross salary, which, with few exceptions, is in excess of the minimum deductions required in the 'uniform plan.' Needless to say, we are also encouraging employees now participating in the plan to increase their authorized deductions to 10%. For these reasons, the Board is reluctant to modify its plan at this time, although your suggestion will be kept in mind in connection with our continuing efforts to reach the 10% quota."

Approved unanimously.

Thereupon the meeting adjourned.

Approved:

[Signature]

Secretary.

[Signature]

Member.