

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, September 11, 1942, at 9:30 a.m.

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

Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Thurston, Special Assistant to the
Chairman
Mr. Paulger, Chief of the Division of
Examinations
Mr. Dreibelbis, General Attorney
Mr. Leonard, Director of the Division
of Personnel Administration
Mr. Cagle, Assistant Chief of the Division
of Examinations
Mr. Wyatt, General Counsel

Mr. Cagle stated that in accordance with the action taken by the Board on September 9, 1942, he went to Cleveland that night to present to Mr. Klages, Deputy Chairman of the Federal Reserve Bank of Cleveland, the letter addressed by the Board to Mr. Brainard, Chairman of the Bank, with respect to Mr. Wagner, who had resigned as Vice President of the Bank, and to be present at the directors' meeting when the matter was discussed. He also said that when he reached the Bank the meeting of the board of directors was in session, that Mr. Klages came out of the meeting and read the Board's letter carefully after which he returned to the meeting, and that sometime later he (Mr. Cagle) was called into the meeting and given an opportunity to inform the directors of the principal points disclosed by his investigation, which he did, calling

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particular attention to the false reports of indebtedness submitted by Mr. Wagner, his check kiting operations, and the deposit in his bank account with the Cleveland Trust Company of substantial amounts of cash from time to time the source of which had not been determined. The matter was discussed at length, Mr. Cagle said, and the directors stated that some of the information, particularly with respect to the extent of the check kiting operations and the deposits of cash from an undisclosed source, was not previously known to them and that they felt that a thorough investigation of the matter should be made. Mr. Cagle made the further statement that Mr. Klages had said that, while the directors did not know at the time how they would proceed, a plan for an investigation would be formulated and a further report would be made to the Board. A memorandum containing the important points of his conference with the directors and his conversations yesterday afternoon with Messrs. Fleming, President, and Grayson, Auditor, of the Cleveland Bank, has been prepared by Mr. Cagle and is in the Board's files.

Mr. Ransom stated that after having learned yesterday that Mr. Brainard, Chairman of the Bank, was not planning to go to Cleveland for the special meeting of the directors on Monday, September 14, he had called Mr. Brainard on the telephone and stated that, speaking as an individual member of the Board, he felt it was highly important that Mr. Brainard, as Chairman of the board of directors, should be present at the special meeting. Mr. Brainard's response, Mr. Ransom said, was that

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because of commitments in Washington in connection with his war work here it would not be possible for him to go to Cleveland for the meeting.

At the conclusion of the discussion of the information received from Mr. Cagle as to what occurred at the Cleveland Bank yesterday, Mr. Szymczak stated that he would take the position at the meeting of the board of directors of the Bank on September 14 that the Board of Governors was interested in seeing that the directors of the Bank had all of the information available to the Board on the matter, it being assumed that, inasmuch as all of the facts relating to Mr. Wagner's operations were not available, the directors would desire to make a thorough investigation in order to be sure that they were in possession of all of the essential facts.

All of the members of the Board present were in agreement with this approach to the matter, and it was understood that Mr. Szymczak would call Mr. Klages on the telephone later today for the purpose of obtaining such additional information from him as he might have regarding the matter, and that, as agreed at the meeting of the Board yesterday afternoon, Messrs. Szymczak and Cagle would go to Cleveland for the meeting of the directors on September 14.

Thereupon, Messrs. Paulger and Cagle withdrew from the meeting.

There were then presented telegrams to Mr. Treiber, Secretary of the Federal Reserve Bank of New York, Mr. Leach, President of the Federal Reserve Bank of Richmond, Mr. Olson, Assistant Secretary of the

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Federal Reserve Bank of Chicago, Messrs. Stewart, Powell, and Woolley, Secretaries of the Federal Reserve Banks of St. Louis, Minneapolis, and Kansas City, respectively, Mr. Gilbert, President of the Federal Reserve Bank of Dallas, 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 Banks of New York, Richmond, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco on September 10, 1942, and by the Federal Reserve Bank of Richmond today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

There was also presented a telegram to Mr. Hays, Secretary of the Federal Reserve Bank of Cleveland, stating that the Board approves for the Bank, effective September 12, 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.

Mr. Ransom referred to a letter addressed to Chairman Eccles under date of September 9, 1942, by Winfield W. Riefler, a Class C director of the Federal Reserve Bank of Philadelphia, in which he stated that he had been ordered back to England in a capacity which would require his presence there more or less continuously for an indefinite

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period, and that in these circumstances he thought it was incumbent upon him to tender his resignation as a director of the Philadelphia Bank.

The resignation was accepted, effective immediately, and it was understood that a letter would be addressed to Mr. Riefler advising him of the Board's action and expressing regret that circumstances had arisen that made it necessary for him to discontinue his services as a director.

Reference was then made to a memorandum addressed to the Board under date of September 3, 1942, by Mr. Stark, Assistant Director of the Division of Research and Statistics, referring to the confinement leave of absence granted Mrs. Gunhild Anderson Kenny, an Associate Economist in that Division, from January 16, 1942, to September 15, 1942, and recommending that the Board approve her reemployment as an Associate Economist, with no change in her present salary at the rate of \$3,800, effective as of September 16, 1942, which would be more than three months after the date of her confinement.

Approved unanimously.

Mr. Leonard withdrew from the meeting at this point.

Mr. Szymczak suggested that it would be advisable for the Board to send a telegram to the Presidents of the Federal Reserve Banks urging that the Victory Fund Committees make a special effort to obtain a wide distribution of the revised Series B tax notes which will be announced by the Treasury on Saturday.

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Mr. Szymczak was requested to prepare such a telegram to be sent upon approval by him and Mr. Ransom, and in connection with the discussion of the matter it was agreed, at the suggestion of Messrs. Ransom and Szymczak, that the latter would keep in close touch with the activities of the Victory Fund Committees and that, during the absence of Chairman Eccles, Mr. Ransom would carry on the former's duties as liaison officer between the Treasury and the Committees.

At this point, Mr. Goldenweiser, Director of the Division of Research and Statistics, Mr. Smead, Chief of the Division of Bank Operations, Mr. Thomas, Assistant Director of the Division of Research and Statistics, and Messrs. Piser and Kennedy, Chief and Assistant Chief, respectively, of the Government Securities Section of the Division of Research and Statistics, came into the meeting, and the discussion at the meeting on September 9 with respect to action by the Board to reduce reserve requirements of member banks in central reserve cities by two percentage points was continued.

For purposes of discussion, Mr. Szymczak moved that the Board take action to reduce reserve requirements of central reserve city banks in New York and Chicago by two percentage points, the reduction to be announced on September 21 to become effective on September 24.

Mr. Thomas reviewed briefly the present reserve position of member banks, stating that the excess reserves of member banks in reserve cities and country banks were at about the same level as when the Board reduced requirements in August, that the excess reserves of New York City banks were down to \$188,000,000 at the close of business

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yesterday, that it was expected that they would fall to as low as \$100,000,000 or less by Monday of next week, after which as a result of Treasury payments they would increase to as high as \$300,000,000, but that during the following week it was expected that they would again decline to a low level as a result of Treasury withdrawals from war loan accounts and payments by the banks for the new issues of Government securities. He also said that it was anticipated that the amount that the Treasury would have to borrow from the Federal Reserve Banks to prevent an overdraft for the two- or three-day period beginning September 15 might be somewhere between \$200,000,000 and \$500,000,000.

Mr. Szymczak's motion was discussed in the light of Mr. Thomas' comments, and Mr. McKee suggested that action be taken by the Board to be announced and to become effective on September 14, 1942. Mr. Ransom said that he was inclined to favor the announcement of a reduction on September 14 to become effective on September 19.

There was agreement that regardless of the date upon which the reduction became effective, in the absence of an emergency, no further action with respect to reserve requirements should be taken by the Board until after the meeting of the Federal Open Market Committee on September 28 when the whole question of System open market policy would be reviewed.

During the discussion, inquiry was made as to when sufficient information would be available on which to base a reliable estimate

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as to the total subscriptions to the two new issues of Government securities, and Mr. Piser stated that such a report would be available shortly after 4:30 o'clock this afternoon.

Thereupon the meeting recessed and reconvened at 4:30 p.m. with the same attendance as at the close of the morning session except that Mr. Kennedy was not present.

The discussion of the most satisfactory timing of action by the Board to reduce reserve requirements of member banks in central reserve cities was resumed. During the course of the discussion, Mr. Szymczak suggested that consideration be given to an announcement on September 14 of action to become effective on September 17. A further suggestion was that, in order to avoid a period of several days between the date of announcement and the effective date, the reduction be announced on September 17 to become effective September 19.

At this point, Mr. Bell, Under Secretary of the Treasury, called Mr. Ransom on the telephone and advised that the latest report on the September financing was that the total subscriptions were \$1,400,000,000 on the new certificate and \$2,200,000,000 on the note, and that the total subscriptions for the country would probably be between \$2,000,000,000 and \$2,250,000,000 for the certificate and \$2,800,000,000 to \$3,000,000,000 on the note.

After some further discussion, Mr. McKee moved, as a substitute for the motion made by Mr. Szymczak during the morning session, that the following resolution be adopted by the Board:

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Resolved, That the Supplement to Regulation D, Reserves of Member Banks, be amended to read as follows, effective as of the opening of business on September 14, 1942, it being understood that advice of the Board's action would be sent to the Federal Reserve Banks and given to the press on September 12, 1942, for publication in the morning newspapers of September 14, 1942:

"Supplement to Regulation D

"Effective as to each member bank at the opening of business on September 14, 1942

"Reserves Required to be Maintained by
Member Banks with Federal Reserve Banks

"Pursuant to the provisions of section 19 of the Federal Reserve Act and section 2(a) of its Regulation D, the Board of Governors of the Federal Reserve System hereby prescribes the following reserve balances which each member bank of the Federal Reserve System is required to maintain on deposit with the Federal Reserve Bank of its district:

6 per cent of its time deposits plus--

14 per cent of its net demand deposits
if not in a reserve or central reserve city;

20 per cent of its net demand deposits if
in a reserve city, except as to any bank located in an outlying district of a reserve city or in territory added to such city by the extension of the city's corporate limits, which, by the affirmative vote of five members of the Board of Governors of the Federal Reserve System, is permitted to maintain 14 per cent reserves against its net demand deposits;

22 per cent of its net demand deposits
if located in a central reserve city, except as to any bank located in an outlying district of a central reserve city or in territory added to such city by the extension of the city's corporate limits, which, by the affirmative vote of five members of the Board of Governors of the Federal Reserve System, is permitted to maintain 14 per cent or 20 per cent reserves

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"against its net demand deposits.

"The supplements to Regulation D which have previously been issued are hereby revoked and superseded."

Mr. McKee's motion was put by the chair and carried by unanimous vote.

At this point, Messrs. Thurston, Goldenweiser, Smead, Dreibelbis, Thomas, Wyatt, 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:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on September 10, 1942, were approved unanimously.

Memorandum dated September 8, 1942, from Mr. Leonard, Director of the Division of Personnel Administration, recommending that the following increases in salaries of employees in that Division be approved, effective as of September 16, 1942:

<u>Name</u>	<u>Designation</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Bangs, Olga W.	Secretary to Mr. Leonard	\$2,400	\$2,600
Parkhill, Dorothy M.	Clerk-stenographer	1,920	2,040
Edwards, Harry L.	Clerk	1,440	1,560

Approved unanimously.

Memorandum dated August 18, 1942, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that the salary of Miss Mary Elizabeth Forsling, a clerk in that Division, be increased from \$1,440 to \$1,620 per annum, effective September

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16, 1942.

Approved unanimously.

Memorandum dated September 8, 1942, from Mr. Stark, Assistant Director of the Division of Research and Statistics, submitting the resignation of Miss Pauline Reinsch as an economic assistant in that Division, to become effective as of the close of business on September 7, 1942, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

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

"As requested in your letter of August 27, 1942, the Board of Governors approves the payment of salary at the rate of \$3,600 per annum to Mr. Earle M. Looney, Acting Manager of the Savannah Agency, effective September 1, 1942, for the period ending May 31, 1943.

"The Board of Governors also approves the changes in the personnel classification plan as requested in your letter."

Approved unanimously.

Letter prepared for the signature of Mr. Ransom to the President, reading as follows:

"In the absence of Chairman Eccles, I wish to acknowledge receipt of your letter of August 20, 1942, with respect to public statements relating to differences of opinion between agencies or officials of the Federal Government.

"The letter has been brought to the attention of the members of the Board and the divisions of the Board's

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"organization, and you can be assured that the instructions contained therein will be complied with."

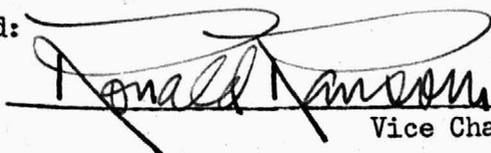
Approved unanimously.

Thereupon the meeting adjourned.



Assistant Secretary.

Approved:



Vice Chairman.