A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, September 29, 1942, at 10:55 a.m.

PRESENT: Mr. Ransom, Vice Chairman
Mr. McKee
Mr. Evans

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Dreibelbis, General Attorney

ALSO PRESENT: Messrs. Fleming, Leach, McLarin, Young, Davis, Peyton, Leedy, Gilbert, and Day, Presidents of the Federal Reserve Banks of Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco, respectively

Mr. Sienkiewicz, Secretary of the Presidents' Conference

It was stated that Messrs. Eccles, Szymczak, Draper, Sproul, and Williams, as members of the executive committee of the Federal Open Market Committee, had gone to the Treasury to participate in a discussion on Treasury financing and that, with their approval in order to save time, this meeting was being held to receive a report of actions taken by the Presidents' Conference at its meeting at Hot Springs, Virginia, on September 25-27, 1942.

At Mr. Day's request, Mr. Sienkiewicz read two resolutions adopted by the Conference which provided (1) that the policy recommended by the insurance plan committee of the Conference with respect to war risk insurance be adopted, i.e., that the Federal Reserve Banks shall not assume war risk on incoming and outgoing shipments of currency and coin, and

(2) that the report of the joint insurance committee be adopted in all respects other than the assumption of war risk insurance on incoming and outgoing shipments of currency and coin, that each President appoint a representative to serve as a member of a continuing committee on insurance, that this committee be charged with the duty of revising the draft of contract submitted by the joint committee with its report and developing an appropriate form of self-insurance contract for execution by the Reserve Banks, it being understood that the names of those selected by the Presidents to serve as members of the committee would be sent promptly to Mr. Leach, Chairman of the Committee on Operations, so that he could have the committee organize and begin to work, and that the present committees on insurance and insurance plan be discharged.

At this point Messrs. Smead and Leonard, Chief of the Division of Bank Operations and Director of the Division of Personnel Administration, respectively, entered the meeting.

Mr. Day then stated that one of the important questions for discussion with the Board was the question of personnel. He stated that the problem, which was acute in the Twelfth District, arose from the added responsibilities being placed on the Federal Reserve Banks from time to time and the continuous loss of personnel because of the inability of the Banks to hold their present personnel or to recruit new employees at existing salaries. He said that, while the problem involved all classes of employees, it was particularly pressing in the case of department heads and other key people. He added that in this situation the San Francisco Bank proposed to submit to the Board a complete reclassification as to salary limits for its employees and that, while that did not mean that the Bank wanted to raise salaries at any particular time, it did mean that it felt that it would have to pay higher salaries to key men in order to retain them and enable the Bank to carry on the work that it had to do. He made the further statement that he would prefer to raise salaries and, after the war is over, face the problem of effecting reductions rather than try to adjust salaries by supplemental compensation on the basis of the cost of living. He went on to say that he understood that each of the Federal Reserve Banks proposed to suggest upward adjustments in its salaries in accordance with its requirements.

Mr. McKee inquired whether the problem could be met by more elasticity in the classification system, and Mr. Day said that was what his Bank proposed to ask for.

Some of the Presidents indicated that they would prefer to retain the present classification plan and arrangement for supplemental compensation and said that whenever they had found that a salary limit, as provided in the classification plan, was out of line they had submitted a revision to the Board and it had been approved.

Mr. Leach stated that at the Presidents' Conference nine of the Presidents favored continuing their present personnel classification plans.

Further comments by the Presidents indicated that they were having a very substantial turnover of employees in their Banks, that they were losing employees to Government agencies and industrial concerns, and that salaries being offered on the outside were substantially higher than the salary scales at the Federal Reserve Banks. The suggestion was made by Mr. Sienkiewicz that the classification plan was somewhat rigid and in some respects outmoded.

Mr. Davis stated that the St. Louis Bank had reviewed its entire classification plan and had submitted a general revision to the Board of Governors which had been approved, that when a classification imposed an unjustified limitation it was submitted to the Board for approval of a revision, that he had encountered no difficulty in this respect, and that he expected that such a procedure would be followed in the future.

Mr. Leonard stated that numerous requests for revisions in the personnel classification plans of the Federal Reserve Banks were being received and handled regularly, that in some cases where a Federal Reserve Bank desired to pay a certain individual a higher salary than that provided by the personnel classification plan the Bank had submitted a request for approval, that the approval had been given, and that it would appear that with these flexible arrangements in the salary classification procedure, together with the plan for supplemental compensation, provision had been made for a great deal of flexibility.

During the above discussion, Mr. Paulger, Chief of the Division of Examinations, joined the meeting.

Mr. Davis then stated that it had been decided by the Presidents' Conference that each of the Presidents should study the report of the

Presidents' Conference Committee on the Retirement System and forward their suggestions to the committee, with the understanding that when the report of the actuary provided for in the committee report, and a further report of the committee with respect to retirement benefits, were received a special meeting of the Presidents would be called to reach a decision on the problems involved.

Mr. Smead stated that the report of the Presidents' Committee on the Retirement System had been received and was being summarized for the information of the members of the Board.

Mr. Day then stated that the Presidents' Conference had voted that any Federal Reserve Bank should be allowed during the war to hold in safekeeping for nonmember banks Treasury bills and certificates of indebtedness. He said that it appeared that the Board apparently had indicated that the Reserve Banks did not have authority to hold securities in safekeeping even for member banks and that this point should be clarified.

In response to a request for his comments on the legal point involved in this question, Mr. Dreibelbis stated that his recollection was that some years ago there had been some question and differences of opinion among the Federal Reserve Banks as to the authority of the Federal Reserve Banks to hold securities in safekeeping for member banks. He felt that, inasmuch as it was necessary for them to hold securities as an incident to their discounting operations for member banks, there was no objection to safekeeping of such securities for such banks. He also said that under present conditions it was entirely likely that the Federal Reserve Banks might make loans to nonmember banks on the security of Government obligations, and that his offhand opinion would be that the Reserve Banks would have authority to hold such securities in safekeeping as an incident to the Banks' authority to make advances to nonmember banks on the security of such obligations. It was pointed out that such an arrangement would be one means of encouraging banks to purchase bills and certificates.

Mr. Davis stated that he would like to be in a position to advise nonmember banks that the Federal Reserve Bank was prepared to render that service. It was understood that the Board would review its outstanding letters on this subject and advise the Reserve Banks further regarding the matter.

Another matter discussed by the Presidents, Mr. Day said, was the question of the absorption by member banks of exchange and collection charges and that the discussion indicated that the practice of absorbing such charges was spreading.

Mr. Ransom reviewed briefly the circumstances surrounding the recent consideration of this matter by the Board, and there was a discussion of possible steps which might be taken to meet the problem.

During this discussion, Mr. Thurston, Special Assistant to the Chairman, came into the room.

Mr. Ransom said that he would be glad to have any recommendations that the Presidents' Conference might wish to make, and that, if the Presidents had any suggestions to offer other than those that were proposed during the discussion, he would be glad to receive them.

Mr. Day stated that the Presidents had also considered the question whether the value of the functional expense report justified the time and expense required for its preparation, and that, while it was realized the reports would have to be prepared with respect to fiscal agency operations, it was the feeling of the Presidents that very little was accomplished at the present time by the remainder of the report.

Mr. Sienkiewicz stated that this whole problem was referred to the Committee on Operations, under the chairmanship of Mr. Leach, for review and the submission of recommendations designed to simplify the report and to discontinue such portions thereof as could be eliminated without loss.

It was understood that Mr. Leach would meet with Messrs. Szymczak and Smead this afternoon for a preliminary discussion of this problem with a view to expediting a decision.

Mr. Evans said that a State administrator of the war savings staff of the Treasury Department had recently indicated some dissatisfaction with the pay-roll savings record of a Federal Reserve Bank, and that the Treasury had brought the matter to the attention of the Board of Governors and had been advised that the matter would be brought to the attention of the Presidents. Mr. Evans stated that he was mentioning the matter so that the

Presidents would know that the records of the respective Banks in this matter were being scrutinized and to urge that the record of each Bank be made as good as possible.

Mr. Morrill presented, and there was read, a letter received from Under Secretary of the Treasury Bell under date of September 19, 1942, setting forth the reasons for the request contained in a recent telegram to the Federal Reserve Banks that they discontinue paying out silver certificates in the $5.00 and $10.00 denominations. The letter indicated that the situation was only a temporary one occasioned by a need for free monetized silver, which it was not believed would be of sufficient duration to have any appreciable effect on the entire currency situation. The letter pointed out that the Bureau of Engraving and Printing had recently been authorized to increase the printing of Federal Reserve notes of the $5.00 denomination and called attention to the fact that the Treasury still had under consideration the proposal to utilize unissued stocks of Federal Reserve notes of the 1928 series and Federal Reserve Bank notes as a war emergency.

In response to an inquiry, several of the Presidents indicated that their Banks were experiencing difficulty in obtaining adequate supplies of minor coin from the mints.

Mr. McKee stated that the Examiners' Conference which was held at the Federal Reserve Bank of Philadelphia last week had been a very satisfactory one, particularly because of assistance extended during the conference by President Williams and Messrs. Hill and Sienkiewicz. He expressed the opinion that, in the light of the experience with this conference, it would be helpful if similar conferences could be held in the future at other Federal Reserve Banks.

At this point, Messrs. Eccles, Szymczak, Draper, Sproul, and Alfred H. Williams, and Mr. Piser, Chief of the Government Securities Section of the Division of Research and Statistics, joined the meeting.

Mr. McKee read the following recommendations made by a special committee at the recent Examiners' Conference and discussed briefly the reasons for the report. He also said he felt it was particularly important that no publicity be given to the statement.

"Your Committee appointed to suggest a program as to scope, procedure and frequency of examinations adapted to prospective conditions makes the following recommendations:

1. That the Federal Reserve Banks continue to make examinations on the present basis as long as it is found possible to do so and that aggressive efforts be made immediately to augment staffs with acceptable men.
2. That should it be found impossible to maintain staffs adequate to cover the respective districts on the present basis, the situation be met by (a) deferring for a reasonable time beyond the present year limit the examination of any bank or banks where character of assets, management and system of internal control is satisfactory, and/or (b) making asset examinations to alternate with regular examinations for banks of the type described under (a) above; and (c) making any arrangements with State banking departments considered practicable and consistent with the above suggestions, which will facilitate maintenance of examination schedules.

   (d) It is further recommended that consideration be given to changes in the form and extent of information required by the report of examination to reduce the work of the examiner in preparing the report.

"It is recommended that no public announcement be made of the proposed change in program and that it be held confidential."

At this point, Messrs. Smead, Paulger, and Leonard withdrew from the meeting.

Mr. Day stated that it was the sense of the Presidents' Conference that the need for uniform action with respect to rates of discount on advances under section 10(b) of the Federal Reserve Act was not apparent but that the subject should be left for further discussion with the Board of Governors when the Presidents came to Washington this week. There was discussion of the question whether the rates at all Federal Reserve Banks on advances under section 10(b) should be uniform and whether the question of a change in such rates was an academic one at the present time.

Mr. Clayton stated that the question of the differential between the regular discount rate and the 10(b) rate might become important in connection with the determination by banks of the acceptability of the 90-day notes to be issued by the General Motors Corporation under the billion-dollar war loan credit being arranged for that Corporation.

Chairman Eccles stated that, since the reasons which had been advanced originally for the distinction between eligible and ineligible paper had, with the passage of time and new legislation, practically ceased to exist, there was no justification for a penalty against advances under section 10(b), and that until the law was changed he felt that the differential between rates on discounts and advances under sections 13 and 13a and section 10(b) should be kept at the minimum required by the law.

Mr. Sproul questioned whether there was any need for uniformity in the 10(b) rate at all the Federal Reserve Banks. Mr. McKee expressed the opinion that, if the notes under the General Motors' credit should be given wide circulation, they should not be subject to different discount rates in the different districts. Mr. Sproul said that if that situation should arise he would favor an adjustment in the rate, and that he would look at the situation again in the light of developments in connection with Regulation V loans. Chairman Eccles thought that the situation called for consideration now.

At the conclusion of the discussion, the suggestion was made by some of the Presidents that, until a decision was reached on the question whether a reduction should be made in the general discount rate of the Federal Reserve Banks or a preferential rate of 1/2 per cent established on advances on Government securities with a maturity of one year or less, it would be well for the Federal Reserve Banks to continue the existing rates under section 10(b) and that, when action was taken to establish reduced discount rates, consideration should be given to reducing the differential on the rate under section 10(b) to the minimum required by law.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved: M S Eccles
Chairman.