

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, October 2, 1942, at 2:30 p.m.

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

Mr. Morrill, Secretary
 Mr. Carpenter, Assistant Secretary
 Mr. Thurston, Special Assistant to the
 Chairman
 Mr. Dreibelbis, General Attorney
 Mr. Goldenweiser, Director of the Division of Research and Statistics
 Mr. Leonard, Director of the Division of Personnel Administration
 Mr. Wyatt, General Counsel
 Mr. Thomas, Assistant Director of the Division of Research and Statistics
 Mr. Stark, Assistant Director of the Division of Research and Statistics

There were presented telegrams to Mr. Paddock, President of the Federal Reserve Bank of Boston, Messrs. Treiber and McCreedy, Secretaries of the Federal Reserve Banks of New York and Philadelphia, respectively, Mr. McLarin, President of the Federal Reserve Bank of Atlanta, and Messrs. Dillard and Hale, Secretaries of the Federal Reserve Banks of Chicago and San Francisco, respectively, stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on September 29, by the Federal Reserve Bank of Atlanta on September 30, by the Federal Reserve Banks of New York, Philadelphia, Chicago, and San Francisco on October 1, 1942, and by the Federal Reserve Bank of Boston today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

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In connection with the above action, reference was made to the discussion of the subject of discount rates at the meeting of the Federal Open Market Committee on September 28, and it was agreed that consideration should be given at a meeting of the Board on Tuesday, October 6, at 3:00 p.m. to what the attitude of the Board should be with respect to a reduction in the discount rates on loans and advances under sections 13, 13a, and 10(b) of the Federal Reserve Act, and the establishment of a preferential discount rate on advances secured by direct obligations of the United States.

Mr. Ransom stated that a letter had been received under date of September 30, 1942, from the Civil Service Commission, which was addressed to heads of departments and independent establishments of the Government and which requested, in accordance with Section I of the War Manpower Commission Directive No. XI, that the Board prepare and submit to the Civil Service Commission on or before October 6, 1942, a list of the positions in the Board's organization which are directly concerned with the war effort or with essential supporting activities, the adequate performance of the duties of which positions requires (a) special skills or abilities and (b) a considerable period of training or experience.

Mr. Ransom stated that, because of the pressure under which the members of the Board were working and the fact that a reply had been requested by October 6, it would be his recommendation that the Board refer the matter to the Personnel Committee with authority to approve a reply to be drafted by Mr. Leonard in collaboration with Mr. Thurston.

In a discussion of the matter, the statement was made that the Board had taken the position in the past that it would not ask for

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deferment of any of its employees, and Mr. Leonard pointed out that if the Board submitted the list requested by the Civil Service Commission it would not be asking for deferment of any of its employees but would be setting up general classes of positions in the Board's organization so that, if in the future the question of deferment should arise in individual cases, these cases could be considered. The members of the Board concurred in the observation that if the suggested plans for a large army were to be carried out it might be necessary for the Board to seek deferment of some of the key members of the staff in order to maintain a sufficient organization to carry on the work of the Board.

Mr. McKee inquired whether similar requests were received by the Federal Reserve Banks, and Mr. Leonard was inclined to believe that that was not the case. It was understood that, while no reference would be made to the Federal Reserve Banks in the list to be prepared in response to the Civil Service Commission's request, appropriate reference to the Reserve Banks as the operating agencies in the System and as fiscal agents of the United States would be made in the letter transmitting the list.

Following a review by Mr. Leonard of certain of the provisions of the War Manpower Commission Directive No. XI, relating to requests for the occupational deferment of officers and employees of departments and agencies of the executive branch of the Federal Government, he stated that a conference of the division heads of the Board's staff had been held this morning at which an outline was prepared of the basis

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upon which the list requested by the Civil Service Commission might be prepared.

Following the reading of the draft of outline, and an indication by the members of the Board that they were in general agreement therewith, Mr. McKee moved that, in accordance with the recommendation made by Mr. Ransom, the matter be referred to the Personnel Committee with power to act.

During the discussion of the above matter, Mr. Goldenweiser left the meeting.

Chairman Eccles raised for discussion the question whether, in view of the shortage of personnel, the Board should authorize the continuation of employment, beyond the age of retirement, of officers and employees of the Federal Reserve Banks and the Board. Mr. McKee stated that, in order to preserve the rights under the retirement system of an employee who had reached the age of 65, any action in this direction should be in the form of a retirement and reemployment. It was stated that on July 17, 1941, the Federal Reserve Banks were advised that the Board would not object to the payment of salary to former employees of the Banks who had been retired and reemployed, it being assumed that the Banks would not take such action except during periods of emergency and then only for short periods. Chairman Eccles suggested that, in view of the position previously taken by the Board with respect to retirement at age 65, the matter should be reviewed and, if necessary, a letter setting forth the Board's position sent to the Federal Reserve Banks.

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The matter was referred to Mr. Szymczak for consideration (in consultation with the Personnel Committee so far as the Board's employees were concerned) and recommendation to the Board as to the action to be taken.

At this point, Mr. Smead, Chief of the Division of Bank Operations, joined the meeting.

Chairman Eccles expressed the opinion that, as a means of aiding the Board in meeting the loss of employees for military service and other war work, the elevator operators in the Board's building should be replaced by women, the number of guards should be reduced, and the amount of work done on the grounds should be curtailed. Mr. Morrill stated that he had been working on an analysis of the operation of the Board's building from the standpoint of both personnel and expense, and had discussed the matter with Messrs. Draper and Leonard.

The matter was discussed and referred to Mr. Draper for a recommendation to the Board as to the action to be taken.

Messrs. Leonard and Stark withdrew from the meeting at this point.

Chairman Eccles recommended that the Board act to reduce reserve requirements of member banks in central reserve cities from 22 to 20 per cent of demand deposits, effective immediately. The reasons for the action, he said, were that it had been necessary to purchase a large amount of securities for the System account during the current week, that this situation very likely would continue in the face of forthcoming Treasury financing in which the Treasury would issue between

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\$4,000,000,000 and \$5,000,000,000 of securities in October, and that in this situation it was his opinion that the System should not rely, at this particular time, solely on open market operations to put the necessary funds into the market. He added that if the Board should decide to take action it would be faced with the question whether it should confine the reduction to requirements of central reserve city banks or make a nationwide reduction, and that it would be his suggestion that the Board adopt the first alternative and then take the position that further funds would be supplied as needed in the form of open market operations until such time as new developments in the situation indicated the justification for a further change in reserve requirements.

Mr. Szymczak referred to the discussion of changes in reserve requirements at the meeting of the Federal Open Market Committee on September 28, 1942, and moved that reserve requirements of member banks in New York and Chicago be reduced from 22 to 20 per cent of net demand deposits, effective as of the opening of business on October 3.

As a substitute for Mr. Szymczak's motion, Mr. McKee moved that, effective as of the opening of business on October 3, reserve requirements of member banks on net demand deposits be reduced to the following percentages of such deposits:

Central reserve city banks	20
Reserve city banks	18
Country banks	13

Mr. McKee's motion was put by the chair and lost, Messrs. McKee and Draper voting "yes" and Messrs. Eccles, Ransom, Szymczak, and Evans voting "no".

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Mr. Szymczak's motion was put by the chair and carried, Messrs. Eccles, Ransom, Szymczak, McKee, and Evans voting "yes" and Mr. Draper voting "no".

In accordance with this action, the Supplement to Regulation D was amended to read as follows, with the understanding that announcement of the Board's action would be made for release in the morning papers of October 3. On this action Mr. Draper voted "no".

"Supplement to Regulation D

"Effective as to each member bank at the opening of business on October 3, 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;

20 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

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"Federal Reserve System, is permitted to maintain 14 per cent or 20 per cent reserves against its net demand deposits.

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

Mr. McKee stated that it had come to his attention that the Securities and Exchange Commission was giving consideration to a revision of its proxy rules covering registered companies so as to require that whenever requests were made of stockholders for voting proxies the request should be accompanied, among other things, by a list of the salaries of the officers and employees of the company and a statement of the loans of the officers or directors from the company or any of its subsidiaries, which in the case of bank holding companies would include loans from the subsidiary banks or other corporations. He also said that from the information available it would appear that the revised rules would apply to three or four bank holding companies, and that inquiry had been made by an official of one of the companies whether the Board, in view of its responsibility for supervision of bank holding companies, proposed to take any action with respect to the matter. Mr. McKee added that he had looked into the situation and that it did not appear that any action was called for by the Board at the present time, but that he was bringing it to the attention of the Board so that, in the event other members felt otherwise, consideration could be given to what, if any, action the Board would take. All of the members indicated agreement with the opinion expressed by Mr. McKee that no action by the Board was required at this time.

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Mr. McKee stated that the suggestion had been made by the armed services that a meeting of the representatives of the Federal Reserve Banks handling Regulation V loans be held in Washington at an early date, and that the War Loans Committee was in agreement with this suggestion.

There was unanimous agreement that the meeting should be held on a date to be fixed by the War Loans Committee.

At this point, Messrs. Thurston, Smead, Dreibelbis, Wyatt, and Thomas 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 October 1, 1942, were approved unanimously.

Memorandum dated September 25, 1942, from Mr. Stark, Assistant Director of the Division of Research and Statistics, recommending that Miss Alice Elizabeth Bourneuf be appointed as an Associate Economist in that Division, with salary at the rate of \$3,800 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed satisfactorily the usual physical examination.

Approved unanimously.

Letter to Mr. Fleming, President of the Federal Reserve Bank of Cleveland, reading as follows:

"Referring to your letter of September 24, 1942, the Board of Governors approves the appointment of Mr. Herbert P. Ladds, president of the National Screw and Manufacturing Company, Cleveland, Ohio, as a member of the Industrial

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"Advisory Committee for the Fourth Federal Reserve District to serve for the remainder of the term ending February 28, 1943, to succeed Mr. Carl C. Gibbs, deceased."

Approved unanimously.

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

"Reference is made to your letter of September 22, 1942, transmitting the report of examination of the Springville Banking Company, Springville, Utah, as of September 1, 1942, and advising us that the expenditure in connection with the remodeling of the bank quarters will reach approximately \$42,000 instead of approximately \$32,500 as previously approved by the Board. You state that the amount expended in excess of the estimate does not appear unreasonable under present conditions, and it is understood that by the end of the year the carrying value of the property will be reduced to \$30,000 and in addition approximately \$5,500 will be charged off on the new equipment purchased.

"In view of the circumstances the Board will interpose no objection to the additional expenditure of approximately \$10,000 for the purpose of remodeling the banking quarters."

Approved unanimously.

Letter to Mr. R. E. Anderson, Director of Finance of the United States Maritime Commission, reading as follows:

"Receipt is acknowledged of your letter of September 24, 1942, advising that a guaranteed loan to the Barnes-Duluth Shipbuilding Company, in the amount of \$200,000, was approved by the United States Maritime Commission on August 25, 1942.

"In this connection, there is enclosed a copy of a letter received by the Board from Mr. H. G. McConnell, Assistant Vice President, Federal Reserve Bank of Minneapolis, dated September 22, 1942, with further reference to this matter. You will note from Mr. McConnell's letter that the Federal Reserve Bank deems it desirable, in view of the Maritime Commission's General Order No. 54 Revised of August 25, 1942, that certain authorizations in connection with the above mentioned loan be specifically ratified and confirmed by the Maritime Commission.

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"It will be appreciated if you will advise us in this matter in order that we may reply to Mr. McConnell's letter."

Approved unanimously.

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

"The Board has received several inquiries regarding the status under Regulation W of a charge account in which the balance remaining unpaid beyond the tenth day of the second calendar month represents the sale of an article which the buyer has refused to pay for on the ground that the article is defective. In answering this question, three classes of cases need to be distinguished.

"In the first place, if the Registrant takes the position that the article is not defective, he should consider the account to be in default.

"In the second place, if the article is defective so that the Registrant must correct the defect or replace the article in order to fulfill his obligations under the contract of sale, the regulation does not require him to consider the account to be in default, pending such correction or replacement.

"In the third place, if on the 10th day of the second calendar month after the date of sale the question as to whether or not the article is defective has not yet been determined, the Registrant should consider the account to be in default. Of course, if it is subsequently determined that the article is defective, the rule stated in the previous paragraph is applicable.

"Whether a particular case falls within one or another of these classes is a question of fact to be determined in the light of all of the surrounding circumstances. If the Registrant has taken the article back, this would ordinarily be an indication that he expects to correct the defect or replace the article. If the article is still in the possession of the customer, however, this would be an indication, in the absence of other evidence, that the article is not defective or that the matter has not yet been determined.

"In any case where the account is considered by the Registrant to be not in default, there would be a question as to whether the parties are acting in good faith and with no intent to evade or circumvent the regulation, and therefore in any such case the Registrant for his own protection should see that his records contain an adequate statement of the relevant facts."

Approved unanimously.

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Letter to Mr. Hart McCormick, District Clerk of Bexar County,
San Antonio, Texas, reading as follows:

"This is in reply to your letter of September 22, regarding the Board's Regulation W.

"You request that you be permitted to arrange the refinancing of your outstanding instalment indebtedness on terms more liberal than would be permitted by the regulation. Regulation W is a regulation of general application and does not provide for the granting of exceptions in individual cases unless they fall under some general rule. It is only when a case falls within a class of cases, such as is provided for by section 10(d) in necessitous circumstances, that exceptions are available.

"In making provision for relief in the event of undue hardship resulting from unforeseen contingencies, the Board has concluded that it could go no further than to permit revision or refinancing for a period of twelve months. The Board has been asked on several occasions to lengthen this period but has considered that this would not be in the public interest. You will readily understand that if a longer period were permissible the regulation could easily fail to serve its purpose of stimulating early repayment of consumer debt.

"Regulation W, as you are aware, is one of the measures being taken as a part of the program to restrain the development of inflationary tendencies in the war emergency. You will recall that the President said in his message to Congress of April 27, 1942, 'To keep the cost of living from spiraling upward, we must discourage credit and installment buying, and encourage the paying off of debts, mortgages and other obligations; for this promotes savings, retards excessive buying and adds to the amount available to the creditors for the purchase of War Bonds'.

"The only suggestion that we can make to you is that you examine carefully the possibility of consolidating your indebtedness into one loan of more than \$1,500, or several such loans. The regulation is not specifically applicable to loans above \$1,500 and such a procedure would presumably enable you to work out a schedule of payments that would be more satisfactory than if the loans were not consolidated. We know that you will keep in mind the program of which Regulation W is a part and endeavor to liquidate the debt as rapidly as possible in accordance with the same rules that apply to other debtors.

Approved unanimously.

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Letter to Mr. P. B. Moss, President of the Billings Utility Company, Billings, Montana, reading as follows:

"This is to acknowledge your letter of September 15, 1942 making a further request for a report which an examiner made in connection with your application to the Federal Reserve Bank of Minneapolis for a loan under section 13b of the Federal Reserve Act.

"It is understood that your complaint against the Federal Reserve Bank of Minneapolis has been considered by two Federal courts and in each instance the court held that your complaint had no merit. The Board is convinced that your application for a loan was given careful consideration by the Federal Reserve Bank and it also may be noted that the report you requested is of a confidential nature. In all the circumstances, we do not feel that it is appropriate for a copy of such report to be furnished to you."

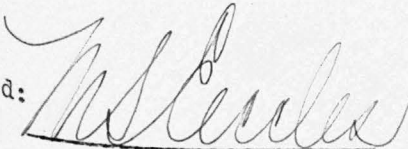
Approved unanimously, together with
the following letter to Honorable James E.
Murray, United States Senate:

"This refers to your letter of September 23, 1942, enclosing a copy of a letter addressed to the Board by Mr. P. B. Moss, President of the Billings Utility Company, Billings, Montana, making a further request for a copy of an examiner's report made in connection with his application to the Federal Reserve Bank of Minneapolis for a loan under the provisions of section 13b of the Federal Reserve Act. Mr. Moss had also sent a copy of his letter directed to the Board, and you will recall that we have previously written to you regarding this matter under dates of May 20 and July 9, 1942.

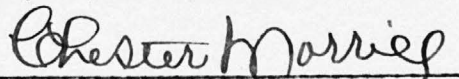
"Pursuant to your request, we are enclosing for your information a copy of a letter we have just written to Mr. Moss and also a copy of a recent decision of the United States District Court for the District of Minnesota holding that Mr. Moss' complaint against the Federal Reserve Bank of Minneapolis is without merit."

Thereupon the meeting adjourned.

Approved:



Chairman.



Secretary.