

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, October 27, 1942, at 10:45 a.m.

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

Mr. Morrill, Secretary  
Mr. Thurston, Special Assistant to the  
Chairman  
Mr. Goldenweiser, Director of the Division  
of Research and Statistics  
Mr. Dreibelbis, General Attorney  
Mr. Wyatt, General Counsel

At the request of the Chairman, Mr. Morrill reported the recent changes in discount rates of the Federal Reserve Banks. He stated that the Board had approved changes in the discount rates of the Federal Reserve Banks of Boston, Philadelphia, Cleveland, Atlanta, Chicago, St. Louis, Kansas City, and Dallas, which were submitted in accordance with the informal action taken by the Board on October 9, 1942; that corresponding changes had been submitted by the Federal Reserve Banks of Richmond and San Francisco except that they proposed a rate of 2-1/2 per cent for advances to individuals, partnerships, and corporations (other than banks) secured by direct obligations of the United States instead of the rate of 2 per cent suggested by the Board; that the Federal Reserve Bank of New York had submitted a schedule which differed from that suggested by the Board in that the reduced rate of 1/2 per cent per annum on advances secured by direct or fully guaranteed obligations of the United States maturing or callable within not more

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than one year would apply to nonmember banks as well as to member banks, and in that a rate of 2-1/2 per cent was proposed for advances to individuals, partnerships, and corporations (other than banks); and that a revised rate schedule had not been received from Minneapolis because that Bank was awaiting advice of the Board's action upon the schedule proposed by the Federal Reserve Bank of New York.

With reference to the schedule proposed by the Federal Reserve Bank of New York, Chairman Eccles reported that he had discussed the matter with President Sproul over the telephone since the receipt of Mr. Sproul's letter of October 13, copies of which had been furnished to all members of the Board, and that in these conversations he (Chairman Eccles) had indicated his reasons for feeling that the 1/2 per cent rate should be confined to member banks.

Mr. Clayton, Assistant to the Chairman, entered the meeting at this point.

Chairman Eccles expressed the view that the Board, in acting upon the 1/2 per cent rate submitted by the New York Bank, should adhere to the conclusion reached on October 9 but stated that he would like to have the question of what should be done with respect to the existing rate of 1 per cent for nonmember banks discussed at the next meeting of the Presidents and the Board of Governors. He saw no reason why nonmember banks were any more entitled to a differential rate than were building and loan associations, Federal savings and loan associations, and other institutions of similar character. He said he had advised

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Mr. Sproul that he did not see how the Board at this time could approve the schedule as submitted by the New York Bank in view of the discussions during the last meeting with the Presidents, the decision subsequently reached by the Board in its consideration of the matter on October 9, and the fact that the changes in the rates of four of the Federal Reserve Banks, which had been submitted in accordance with the schedule proposed by the Board, had already been approved. Therefore, he had advised Mr. Sproul that he would recommend that the rate of 1/2 per cent, in its application to nonmember banks, be disapproved and that at the next meeting of the Presidents with the Board there be a discussion of the rates of discount applicable to nonmember banks, with a view to the adoption of a uniform System policy.

Following this report by Chairman Eccles there was a general discussion of various aspects of the questions and procedure involved, particularly with respect to the question raised as to rates applicable to nonmember banks. In that connection, reference was made to the buying rate which had been established for Treasury bills and to its possible relation to the question of discount rate policy.

Mr. McKee stated that he was in favor of disapproving the rate proposed by New York for nonmember banks on the ground that it was a departure from the uniformity contemplated by the procedure which had been followed, but that he would be agreeable to having the question taken up at the next meeting of the Board with the Presidents, and that he felt any decision reached as a result of that discussion should be

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given uniform application. Mr. Ransom indicated his concurrence with the views expressed by Mr. McKee.

Mr. McKee added that he felt the policy with respect to the rate for Treasury bill purchases was a separate and distinct matter from the discount rate policy. Chairman Eccles, on the other hand, felt that they should be considered together. Mr. Evans stated that he felt nonmember banks should not be given the benefit of the lower rate accorded to member banks and indicated that he was influenced in his thinking by his experience in the agricultural field in connection with the general policy involved in encouraging the development of the cooperative movement among farmers.

Mr. McKee then moved that, in conformity with the conclusions reached at the meeting on October 9, the Board approve the rates submitted by the New York Bank with the exception of the reduction to 1/2 per cent in the case of advances to nonmember banks.

In connection with his motion, Mr. McKee said that he did not wish to raise any question with respect to the proposed rate of 2-1/2 per cent for advances to individuals, partnerships, and corporations (other than banks), even though it was not in conformity with the action taken on the rate of 2 per cent which had been proposed by the Board and adopted by the Banks whose schedules had been approved, because he did not feel that the difference in rate involved was sufficiently important to create an issue. Chairman Eccles indicated agreement with Mr. McKee.

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Mr. McKee's motion was approved unanimously, with the understanding that it should not be treated as formal action by the Board at this time but that Chairman Eccles should advise President Sproul informally of the conclusion reached by the Board and ascertain from him whether he wished the Board to take formal action on the schedule which had been submitted by the Federal Reserve Bank of New York or whether he preferred that the Board defer formal action until the board of directors of the New York Bank had had an opportunity to reconsider the matter.

Thereupon, the Board approved unanimously, effective October 28, 1942, the rates as submitted by the Federal Reserve Banks of Richmond and San Francisco, of 1/2 per cent on advances to member banks, under paragraphs 8 and 13 of section 13 of the Federal Reserve Act, secured by direct or fully guaranteed obligations of the United States which have one year or less to run to call date or to maturity if no call date, of 2-1/2 per cent on advances to individuals, partnerships, or corporations other than banks under the last paragraph of section 13, and of 1-1/2 per cent on advances to member banks under section 10(b) of the Federal Reserve Act, and the establishment without change of the other rates of discount and purchase in the respective Banks' existing schedules.

It was agreed that Mr. Morrill should advise Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, informally as to the actions which the Board had taken on the discount rates which had been submitted up to this time and particularly as to the position which the Board had now decided to take with respect to the rates submitted by the Federal Reserve Bank of New York.

Secretary's Note: Mr. Morrill subsequently reported that he had discussed the matter with First Vice President Powell, Mr. Peyton being absent, and that Mr. Powell indicated that he understood the situation, that the next meeting at which rates would be considered would be on Thursday of this week, and that he anticipated action would be taken at that time.

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The question was then raised whether a press statement should be issued by the Board with respect to the reductions in discount rates which had taken place. Mr. Goldenweiser reported that there were some paragraphs regarding the changes in discount rates in the "Review of the Month" which was being prepared for the next issue of the Federal Reserve Bulletin. After a discussion, it was agreed that no special press statement should be prepared but that Mr. Thurston should be authorized to call the attention of such press representatives as might be interested to the portion of the Bulletin which referred to the discount rates.

Secretary's Note: Chairman Eccles subsequently reported that he had advised President Sproul of the Board's views with respect to the changes in discount rates at New York, and that Mr. Sproul had stated that the next meeting at which the matter could be considered would be on Thursday and that he would prefer that no formal action be taken until the matter could be reviewed by his board of directors.

At this point, Messrs. Thurston, Goldenweiser, Dreibelbis, and Wyatt 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 26, 1942, were approved unanimously.

Memorandum dated October 26, 1942, from Mr. Goldenweiser, Director of the Division of Research and Statistics, submitting the resignation of Mrs. Ruth Dewey Allwine, a clerk-typist in that Division,

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to become effective as of the close of business on November 4, 1942, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

Letter to Mr. Robert M. Barnett, Chairman of the Committee on Occupational Deferment, United States Civil Service Commission, reading as follows:

"In accordance with the suggestion made by Mr. Hartshorn, of your office, to Mr. R. F. Leonard, Director of the Board's Division of Personnel Administration, additional information is herewith submitted regarding certain of the positions which, according to Mr. McNutt's letter of October 16, were eliminated from the list of proposed key positions submitted with our letter of October 6, 1942.

<u>Title of Position</u>	<u>Salary</u>	<u>Division</u>
Economists	\$3,200 and up	Research and Statistics
Economists	2,600 and up	Research and Statistics
Technical Assistants and Associate Technical Assistants	3,200 and up	Bank Operations
Special Assistants	3,200 and up	Security Loans
Supervisor, Accounting Section	3,600	Office of Secretary of the Board

"Reconsideration of the elimination of these positions (except that of Associate Technical Assistant) is respectfully requested in the light of the additional information furnished. Reconsideration of the elimination of the other positions on the list attached to Mr. McNutt's letter of October 16 is not requested on the assumption that the elimination is in accord with the general policy.

"We trust that the additional information is sufficient and in the form desired for your purposes. If not, it will be appreciated if your office will get in touch with Mr. R. F. Leonard, as we desire to cooperate to the utmost with your office and to facilitate your work."

Approved unanimously.

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

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"The proposal outlined in your letter of October 15 to employ a young attorney to assist in the handling of the work at an annual salary of approximately \$2,700 has the approval of the Board. It is assumed that he will not be an officer of the Bank and that, in due course, a personnel classification sheet on Form A will be submitted for approval."

Approved unanimously.

Telegram to Mr. R. B. Richardson, President of the Western Life Insurance Company, Helena, Montana, reading as follows:

"Board of Governors of the Federal Reserve System has appointed you director of the Helena Branch of the Federal Reserve Bank of Minneapolis for the unexpired portion of term ending December 31, 1942, and will be pleased to have your acceptance by collect telegram."

Approved unanimously.

Telegram to Mr. Harry R. Wellman, University of California, Berkeley, California, reading as follows:

"Board of Governors of the Federal Reserve System has appointed you Class C director of the Federal Reserve Bank of San Francisco for the unexpired portion of term ending December 31, 1942, and will be pleased to have your acceptance by collect telegram."

Approved unanimously.

Letter to Mr. Mercer, Vice President of the Federal Reserve Bank of Richmond, reading as follows:

"Reference is made to your letter of October 21, 1942, reviving the request of The Fidelity Bank, Durham, North Carolina, for permission to establish a branch at Camp Butner, North Carolina, which was originally submitted with your letter of August 7, 1942.

"The Board understands that written approval of the State Commissioner of Banks has been obtained and, in view of your recommendation and the information submitted, including the opinion of counsel for the Reserve Bank, the Board approves the establishment and operation of a branch in Camp Butner, North Carolina, by The Fidelity Bank, Durham, North Carolina."

Approved unanimously.



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Letter to Mr. Trimble, Assistant General Counsel of the Federal Reserve Bank of New York, reading as follows:

"This refers to your letter of October 21, 1942, enclosing a copy of a letter from the firm of Davis Polk Wardwell Sunderland & Kiendl with regard to the inclusion in all guarantee agreements of certain provisions which appear in the agreement with respect to the loan to General Motors Corporation. We are today addressing letters to the War Department and the Navy Department with reference to this matter and will be glad to advise you further when we have heard from them."

Approved unanimously, together with the following letter to Lieutenant Colonel Paul Cleveland, Chief of the Loan Section, Advance Payment and Loan Branch, Fiscal Division of the War Department, and Mr. Sidney A. Mitchell, Chief of Finance Section, Office of Procurement and Material, Navy Department:

"There is enclosed a copy of a letter received by us from the Federal Reserve Bank of New York and a copy of the letter enclosed therewith from the firm of Davis Polk Wardwell Sunderland & Kiendl. This correspondence raises the question whether certain provisions which were contained in section 13 of the guarantee agreement with respect to the loan to General Motors Corporation but which were not included among the standard special conditions referred to in your letter of October 9, 1942, should not be made available as additional conditions in all guarantee agreements.

"It will be noted that the views of the War Department and Navy Department with respect to this matter are requested and accordingly it will be appreciated if you will advise us in order that we may inform the Federal Reserve Bank of New York."

Letter to Honorable Lindsay C. Warren, Comptroller General of the United States, reading as follows:

"Reference is made to your letter of October 12, 1942, regarding the custody, after payment, of checks drawn by an official of the Board of Governors of the Federal Reserve System on the Treasurer of the United States for the purpose of effecting a transfer of funds between the Federal Reserve Banks and Agents and the Treasurer of the United States.

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"It is not necessary for such checks to be returned to the Board when paid in order to ascertain whether the transfer actually took place. Accordingly, if such checks are available to the Board for inspection, should their inspection appear to be necessary or desirable at any time, and are not destroyed without the consent of the Board, it is immaterial to the Board whether the checks are kept on file at the Treasury or at the General Accounting Office.

"In the circumstances, it is suggested that you take up with the Treasurer of the United States the question as to whether such checks, when paid, should be filed at the Treasurer's Office or at the General Accounting Office."

Approved unanimously.

Thereupon the meeting adjourned.

Rhodes Morris  
Secretary.

Approved:

W. S. ...  
Chairman.