A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, November 20, 1942, at 10:30 a.m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Goldenweiser, Director of the Division of Research and Statistics
Mr. Dreibelbis, General Attorney
Mr. Thomas, Assistant Director of the Division of Research and Statistics
Mr. Piser, Chief of the Government Securities Section, Division of Research and Statistics

There were presented telegrams to Mr. Treiber, Secretary of the Federal Reserve Bank of New York, Mr. Davis, Vice President of the Federal Reserve Bank of Philadelphia, Mr. Hays, Secretary of the Federal Reserve Bank of Cleveland, Mr. Olson, Assistant Secretary of the Federal Reserve Bank of Chicago, Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, 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 Bank of San Francisco on November 17, and by the Federal Reserve Banks of New York, Philadelphia, Cleveland, Chicago, Kansas City, Dallas, and San Francisco on

November 19, 1942, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Mr. Draper stated that, while he realized there were many other matters pressing for attention at this time and that the present might not be regarded as the most appropriate time for suggesting that a study be made of means that might be adopted to bring about further improvements in the banking system, he felt the Board should be prepared to take definite action when the proper time came, and that in order to give the matter definite direction he would like to move that a committee, consisting of the Chairman, the Vice Chairman, and Mr. Szymczak, be appointed to formulate a plan whereby nonmember banks might be brought into or affiliated with the Federal Reserve System and to report their findings to the Board at the earliest possible date, together with a recommended outline of procedure. In the discussion which ensued, it was pointed out that action along the lines contemplated in the motion would require legislation by Congress or an Executive Order by the President.

Chairman Eccles said that plans had been drafted from time to time in the past, and he referred to the discussions which he had had with the President, the Director of the Budget, and others in that connection. Mr. Szymczak referred to the Board's Annual Report for 1938, and to the System's special report to the Congress dated December 31, 1940. Chairman Eccles observed that none of these efforts seemed to produce any results. The consensus of the discussion was general agreement with Mr. Draper's objective but that there appeared to be no way open at this time to obtain the desired result.

At the conclusion of the discussion, Mr. Draper said that in view of the statements that had been made during the discussion he would not press for action on his motion at this time, but that he would like to reserve the right to bring up the matter again in the not too distant future because he believed the importance of the subject warranted the wisdom of this request.

Since the meeting of the Board on November 11, 1942, at which reference was made to the proposed joint statement to be issued by the Board, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation of their examination and supervisory policies with special reference to investments in, and loans on, Government securities, there had been further discussions of the statement by members of the Board and its staff. During an informal discussion yesterday afternoon, participated in by all the members of the Board except Mr. Evans who was absent from Washington, Mr. Clayton stated that at the executive session of the National Association of Supervisors of State Banks held in Philadelphia on November 17, 1942, a resolution was adopted (1) pledging the cooperation of the Association to the Treasury in its program of Treasury financing and (2) directing the executive committee to convey to the Secretary of the Treasury the Association's offer of assistance and thereafter to confer at the earliest opportunity with representatives of the Board, the Federal Deposit Insurance Corporation, and the Comptroller of the Currency with the object of formulating principles to be applied by supervisory authorities to investment by banking institutions in Government obligations during the war and post-war reconstruction period. Mr. Clayton also reported that, in accordance with the resolution, the executive committee of the Association had made arrangements to come to Washington on Sunday, November 22, for the purpose of conferring with the Federal bank supervisory agencies. In these circumstances, it was felt that some decision should be made by the Treasury with respect to the joint statement, and it was understood that Chairman Eccles would call Under Secretary of the Treasury Bell and impress upon him the desirability of the Federal agencies and the Treasury reaching an agreement on a statement to be submitted to the executive committee of the National Association of Supervisors of State Banks.

At this meeting, Chairman Eccles stated that, in accordance with the informal understanding reached by members of the Board yesterday, he called Mr. Bell this morning and, after reading to him the resolution adopted by the National Association of Supervisors of State Banks, stated that unless the Federal agencies and the Treasury could agree upon a statement to be submitted to the executive committee of the Association there was no point in meeting with the committee. Chairman Eccles also said that he discussed with Mr. Bell the question whether there was any need for a statement at this time, and that Mr. Bell concurred in the opinion that such a statement should be made and inquired whether the Board had something specific to submit. Chairman Eccles added that his response to Mr. Bell was that something would be prepared and sent to him today, and that the latter stated that he would try to return it to the Board late this afternoon or this evening.

Chairman Eccles made the further statement that during his conversation with Mr. Bell he (Chairman Eccles) related the substance of a telephone conversation which he had had yesterday with Mr. Fleming, President of the Federal Reserve Bank of Cleveland, in which the latter stated that bankers in Cleveland and Pittsburgh, who were meeting at the time of the telephone call, felt that they could not sell to the public in the district the amount of securities that it should take without making available loans by banks for the purpose of purchasing the securities. Mr. Bell stated, Chairman Eccles said, that the question of loans to enable subscribers to purchase Governments had also been raised by the Federal Reserve Bank of Boston.

There was a further discussion of the proposed joint statement, in the light of changes which had been suggested since the meeting of the Board on November 11, and it was changed to read as follows:

> "The Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, and the Executive Committee of the National Association of Supervisors of State Banks make the following statement of their examination and supervisory policy with special reference to investments in and loans upon Government securities.
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> "1. There will be no deterrents in examination or supervisory policy to investments by banks in Government securities of all types, except those securities made specifically ineligible for bank investment by the terms of their issue.

"2. In connection with Government financing, individual subscribers relying upon anticipated income may wish to augment their subscriptions by temporary borrowings from banks. Such loans will not be subject to criticism but should be on a short term or amortization basis fully repayable within periods not exceeding six months.

"3. Banks will not be criticized for utilizing their idle funds as far as possible in making such investments and loans and availing themselves of the privilege of temporarily borrowing from or selling Treasury bills to the Federal Reserve Banks when necessary to restore their required reserve positions."

Thereupon, the statement was approved with the understanding that, if approved by the Comptroller of the Currency and Federal Deposit Insurance Corporation, it would be presented at the meeting with the executive committee of the National Association of Supervisors of State Banks on Sunday, November 22, 1942. On this action Mr. Ransom voted "no".

Mr. Morrill raised the question whether the Board's offices would be closed on Thanksgiving Day, Thursday, November 26, and in that connection stated that it had been ascertained that some Federal agencies would be open on that day, that others proposed to close, and that others were arranging to maintain skeleton forces or to release employees for a half day.

It was agreed that arrangements should be made for a skeleton force, with the understanding, however, that a decision would later be made on the question whether it would be necessary to have such a force.

At this point, Messrs. Goldenweiser, Dreibelbis, Thomas, and Piser withdrew from 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 November 19, 1942, were approved unanimously.

Letter to all the Federal Reserve Bank representatives in attendance at the conference on Regulation V loans held in Washington on October 19-21, 1942, reading as follows:

"There is transmitted herewith a copy of the proceedings of the Conference on Regulation V Loans held in Washington, October 19-21, 1942, inclusive.

"You will note that the record consists of two transcripts, one covering sessions attended only by representatives of the Federal Reserve Banks and the Board of Governors, and the other covering sessions which were also attended by representatives of the War and Navy Departments, U. S. Maritime Commission, and War Production Board.

"In view of the relatively large attendance at the Conference, it has not seemed feasible to send preliminary drafts to those who were present for the purpose of giving them an opportunity to revise the comments attributed to them. Therefore, if you should detect any material inaccuracy in the record, please call it to our attention so that an appropriate notation may be made on the copy retained in the Board's files.

"A copy of the proceedings (both transcripts) is being sent to each Reserve Bank representative who attended the Conference. However, since some of the Reserve Banks, particularly those with branches, may desire a few additional copies, a limited supply of extra copies has been prepared and will be made available upon request."

Approved unanimously, together with the following letter to Colonel John C. Mechem and Lieutenant Colonel Paul Cleveland of the War Department, Mr. Sidney Mitchell of the Navy Department, and Lieutenant B. B. Griffith of the Maritime Commission:

"There is transmitted herewith a copy of the proceedings of the Conference on Regulation V Loans of the representatives of the Armed Services, the United States Maritime Commission, and the War Production Board with representatives of the Federal Reserve Banks and the Board of Governors and its staff, held in Washington, October 20-21, 1942, inclusive.

"In view of the relatively large attendance at the Conference, it has not seemed feasible to send preliminary drafts to those who were present for the purpose of giving them an opportunity to revise the comments attributed to them. Therefore, if you should detect any material inaccuracy in the record, please call it to our attention so that an appropriate notation may be made on the copy retained in the Board's files."

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

"The discussions that have been had with the presidents of most of the Federal Reserve Banks with branches relative to the desirability of increasing the powers and functions of the more important branches indicate that in some cases the Banks may wish to have a vice president or other officer of the Federal Reserve Bank in charge of a branch instead of a managing director. In order to make possible such an arrangement the Board has revised its regulations relating to branches of Federal Reserve Banks and a copy of the amendment is enclosed herewith.

"The above-mentioned amendment will be incorporated in the regulations relating to branches which will be reprinted for inclusion in the Federal Reserve Loose-Leaf Service."

Approved unanimously.

Letter to the Secretary of the Treasury, reading as follows:

"During the past year the amount of money in circulation has increased approximately $4 billion, and during recent weeks it has been increasing at the rate of $500 million a month. This rapid increase in money in circulation has created a serious problem in printing sufficient Federal Reserve notes to supply the demand. It has also reduced sharply the amount of excess reserves of member banks at a time when these reserves are needed to help finance the war.

"There is one way in which this situation can be alleviated which would be highly desirable at this time in view of the coming large scale financing. At the time of the Banking Holiday in 1933, the Board after consultation with the Secretary of the Treasury had a substantial volume of Federal Reserve Bank notes printed to meet emergency conditions existing at that time. Approximately $650 million of the

"Federal Reserve Bank notes printed at that time were not used and are now on hand at the Bureau of Engraving and Printing in Washington and at the Federal Reserve Banks. The use of these notes would greatly ease the currency printing program; under the procedure proposed it would provide member banks with an additional $650 million of reserves; and would give the Treasury the use without cost to it of that amount of money for the period that the Bank notes would remain outstanding (approximately a year and a half).

"In the circumstances the Board favors the immediate use of these Bank notes. After issuing the Federal Reserve Bank notes to the Federal Reserve Banks in accordance with Treasury regulations, the Treasurer of the United States would be given credit in his General Account on the books of the Federal Reserve Banks for the full amount of notes issued. The notes would then become a liability of the Treasury instead of the Federal Reserve Banks. There is attached a draft of a wire to the Federal Reserve Banks authorizing them to take immediate steps to place these notes in circulation, which the Board plans to dispatch to the Federal Reserve Banks promptly, if your Department sees no objection thereto. There are now about $18 million of Federal Reserve Bank notes in circulation."

Approved unanimously, together with the following telegram to the Presidents of all the Federal Reserve Banks, which it was understood would be sent as soon as advice was received that the Treasury had no objection thereto:

"Decision has been reached with approval of Treasury to pay out present stock of Federal Reserve Bank notes. Board suggests that your Bank obtain from Agent its entire stock of such notes including those held in Washington and that prompt arrangements be made for their use in meeting demands for currency. The notes should be issued to the Bank in accordance with Treasury regulation dated March 11, 1933, and Board's telegram of March 13, 1933, TRANS 1647, against security of United States Government obligations held by your Bank in System Open Market account. Immediately thereafter Bank's liability should be extinguished (and collateral withdrawn) by crediting United States Treasurer's General Account "with amount of notes issued so that Bank's daily balance sheet will at no time show liability for Federal Reserve Bank notes. As no Bank notes will be placed in circulation on which Bank has liability, it will not be necessary to establish a redemption fund for Federal Reserve Bank notes or to pay a tax on the amount of such notes in circulation."

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

M S Eccles
Chairman.