

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, January 4, 1943, at 11:00 a.m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman

The action stated with respect to each of the matters hereinafter referred to was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on January 2, 1943, were approved unanimously.

Mr. Morrill reported that the Comptroller of the Currency today issued a call on all national banks for reports of condition as of the close of business on December 31, 1942, and that, in accordance with the usual practice, a call was made on behalf of the Board of Governors of the Federal Reserve System today on all State member banks for reports of condition as of the same date.

The call made on behalf of the Board was approved unanimously.

Memorandum dated January 2, 1943, from Mr. Morrill, recommending that Mrs. Frances B. Florence be appointed as a stenographer in the

1/4/43

-2-

Secretary's Office, with salary at the rate of \$1,620 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.

Memoranda dated December 16, 1942, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that the following increases in salaries of employees in that Division be approved, effective as of January 16, 1943:

<u>Name</u>	<u>Designation</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Mrs. Katharyne P. Reil	Junior Economist	\$2,600	\$2,900
Miss Caroline Hammill	Junior Economist	2,600	2,900
Mrs. Eleanor Stockwell Frase	Junior Economist	2,600	2,900
C. R. Harley	Junior Economist	2,600	2,900

Approved unanimously.

Memorandum dated December 30, 1942, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that the salary of Mrs. Lyndall C. McCloud, a junior economist in that Division, be increased from \$2,400 to \$2,900 per annum, effective January 16, 1943.

Approved unanimously.

Memorandum dated December 30, 1942, from Mr. Smead, Chief of the Division of Bank Operations, submitting the resignation of Mrs. Tressa B. Hemminger as a clerk-stenographer in that Division, to become effective as of the close of business on January 11, 1943, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

1/4/43

-3-

Letter to Mr. Creighton, Federal Reserve Agent at the Federal Reserve Bank of Boston, reading as follows:

"This will acknowledge receipt of your letter of December 29, 1942, requesting that the designation of Mr. Dana D. Sawyer as Alternate Assistant Federal Reserve Agent at your Bank be canceled as of December 31, 1942.

"The Board's records will be changed in accordance with your request."

Approved unanimously.

Letter to Mr. Grady, Federal Reserve Agent at the Federal Reserve Bank of San Francisco, reading as follows:

"In accordance with the recommendations contained in Mr. Day's letter of December 17, 1942, the Board of Governors approves the payment of salaries to Mr. R. N. Geller, Federal Reserve Agent's Representative at the Los Angeles Branch, at the rate of \$3,780 per annum, and Mr. O. H. Barnard, Federal Reserve Agent's Representative at the Salt Lake City Branch, at the rate of \$3,240 per annum, effective January 1, 1943.

"Form A pages covering these positions which were submitted with Mr. Day's letter will be placed in the Board's copy of the personnel classification plan of the Federal Reserve Bank of San Francisco."

Approved unanimously.

Letter to Mr. McCreedy, Assistant Vice President of the Federal Reserve Bank of Philadelphia, reading as follows:

"In view of the circumstances stated in your letter of December 31, 1942, the Board will interpose no objection to your waiving the penalty of \$29.34 incurred by The First National Bank, Canton, Pennsylvania, on reserve deficiencies during the semimonthly period ended November 30, 1942."

Approved unanimously.

Letter to Mr. Gilbert, President of the Federal Reserve Bank of Dallas, reading as follows:

1/4/43

-4-

"Reference is made to Mr. Evans' letter of December 23, 1942, with enclosures, regarding the absorption, effective as of December 5, 1942, of The First State Bank, Rocksprings, Texas, by the Del Rio Bank & Trust Company, Del Rio, Texas, both of which banks are State members.

"It is understood that the Del Rio bank purchased certain assets, totaling \$302,875.49, and assumed the deposit liabilities of the Rocksprings bank. It is understood also that of the assets purchased, \$250,572.67 consisted of cash and bank balances, \$31,302.82 consisted of loans, and \$21,000 consisted of bonds. It does not appear, therefore, that the transaction has resulted in any change in the general character of the assets of the Del Rio Bank & Trust Company or broadening in the functions exercised by the bank within the meaning of condition of membership numbered 3."

Approved unanimously.

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

"There is enclosed a copy of a letter from the Maritime Commission with respect to the interpretation to be placed on the condition usually prescribed by the Commission for inclusion in Regulation V guarantees to the effect that the borrower shall not substantially increase its backlog of orders outstanding as of the date of the authorization of the guarantee unless the financing institution approves the available financing as adequate to handle such additional orders."

Approved unanimously.

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

"There is enclosed for your information a copy of a letter we addressed to the Farm Credit Administration requesting the cooperation of that Administration in the Board's program for enforcement of Regulation W, together with a copy of a letter we have received from that Administration advising that they will cooperate in the enforcement of the program."

Approved unanimously.

1/4/43

-5-

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

"This refers to your letter of November 30, 1942, regarding the use of Treasury tax savings notes, Series C, as collateral for a loan by a Federal Reserve Bank to a commercial bank, in view of the provisions of Treasury Department Circular No. 696, dated September 12, 1942.

"Aside from the question whether such tax savings notes may be validly transferred to a Federal Reserve Bank, it is the Board's view that such notes are eligible for discount or as collateral for an advance by a Federal Reserve Bank to a commercial bank under section 13 of the Federal Reserve Act, since they constitute obligations of the United States; and they would also, of course, be eligible as security for an advance under section 10(b).

"In connection with the question whether the notes are validly transferable to a Federal Reserve Bank by a commercial bank with which they have been pledged or in whose name they have been inscribed, your inquiry was referred, in accordance with your request, to the Secretary of the Treasury; and there is enclosed a copy of a letter received from Mr. D. W. Bell, Under Secretary of the Treasury, dated December 24, 1942, with respect to this matter."

Approved unanimously.

Letter to Mr. Grady, Chairman of the Federal Reserve Bank of San Francisco, reading as follows:

"Your letter of November 21, with respect to the subjects discussed at the Chairmen's Conference October 5, has been read by the Board with great interest--especially the parts relating to further decentralization of Federal Reserve Bank activities.

"Your premise appears to be stated in your opening sentence, which reads: 'The Federal Reserve Act places full responsibility for the conduct of all operations of the Federal Reserve Banks, including those relating to Branches, upon the District Board of Directors.' This view, it seems to the Board, is not in accord with the provision of the first paragraph of section 3 of the Federal Reserve Act that branches shall be operated under the supervision of the branch boards of directors subject to such rules and regulations as the Board of Governors of the Federal Reserve System may prescribe.

1/4/43

-6-

"However, the Board's policy of decentralization involves far more than the question of 'responsibility' for branch operations, whether that term is construed narrowly or broadly. It involves basic questions of the System's place in the economy, its relationship to the Treasury, and its attitude toward the public. It concerns more than managerial efficiency alone, though the Board believes that its policy of further decentralization is supported on that ground as well as on broader grounds. Decentralization is not to be regarded as something that shall begin with the Board but end at the main offices of the Reserve Banks. It seems to the Board, in fact, that the arguments you use for restricting the scope of the branches might be used as well for restricting the scope of the Reserve Banks themselves and for retaining in Washington all authority and responsibility not specifically given to the Reserve Banks by statute. The Board, of course, has not followed this policy. On the contrary, in leaving discretion to the Reserve Banks under its regulations, the Board has sought and still seeks to grant the most--not the least--that is authorized by law.

"The Board does not agree that if branch directors took an interest 'in the manner in which other offices of the Bank are conducted', it would 'not fail in time to cause a disintegration of the central Board'. On the contrary, it believes that the Reserve Bank's directors should be able to utilize the widest possible interest on the part of branch directors without losing control of the Bank's operations as a whole. The Bank should be strengthened, not weakened, by that interest. This, indeed, is one of the benefits the Board of Governors believes will accrue to the Federal Reserve Banks from greater decentralization. The Board is of the opinion that authority may be given branch directors in much the same way that authority other than statutory is given by the Board itself, by regulation and otherwise, to Reserve Bank directors; subject of course to the over-all authority of the board of directors at the head office. This will have the additional advantage of facilitating the selection of Reserve Bank directors from among branch directors.

"You will understand, I am sure, that the Board is not insisting on absolute uniformity for the branches. On the contrary its aim is to adapt the responsibilities of the branches to the needs of the areas they serve. In some areas these needs fall little short of what a head office is required to meet. For example there is, as you say, an Army liaison officer at Los Angeles, but it does not follow that there should be one at every branch; that there is one at Los Angeles and none elsewhere is because the volume of war contracts is larger there than elsewhere. This situation illustrates the Board's general position.

1/4/43

-7-

"The Board has read your comments on individual details with great interest, but does not find that they make further decentralization appear either impracticable or undesirable. In discussing titles (page 2 of your letter), you speak of 'the principle that a banking institution can have but one official designated as Cashier.' In fact, the title 'cashier' is used at the branches of all but one other Reserve Bank and by several of the Banks it is used at both the head office and the branches. Regardless of this, it is not apparent why confusion would result if subordinate officers at branches were designated 'assistant vice presidents' nor why, if it did, it would not be practicable to abandon the designation 'cashier'. At some Reserve Banks it is combined with another title or not used at all. This is not to suggest such a change, of course, but merely to observe that convenience need not be sacrificed to established designations.

"You say (page 5) that 'Broadly speaking, there is in the Twelfth District centralized authority and responsibility, with decentralization through Branches of functions and community relationships.' As to the centralized authority there is no doubt; but as to functions and community relationships, your letter itself gives evidence that decentralization might go much further. That functions have been decentralized in important respects is evident in the fact, which you mention, that your branches carry all accounts with member banks in their respective zones and that each branch carries its own books and balance sheet. There is presumably full agreement that this arrangement is a proper part of a program of decentralization. But that program also contemplates a greater decentralization in other respects. It contemplates, for example, greater decentralization of fiscal agency operations. The Treasury has frequently suggested to us informally that your branches supply stocks of savings bonds to issuing agents in their respective territories, and it seems to the Board that this can be done. That Government financing would be facilitated by an arrangement which brings the Government's facilities close to the investor seems obvious.

"In the Board's judgment, neither expense nor the question if it is reimbursable should be the sole criterion in determining if a service should be rendered at the branches--especially in matters of war finance. It is to be hoped that the necessary expenses will be reimbursed, but even if they are not the service and the expense it entails may be justified.

"It appears from your letter (page 8) that Series F and G Bonds are not redeemed at your branches, and it is implied that to redeem them at the branches would necessitate additional staff and equipment. This necessity would seem to depend upon

1/4/43

-8-

"volume. Is the volume of these redemptions actually so great that additional staff and equipment would be required at the branches if this operation were undertaken? With respect to the redemption of Series E Bonds, it may be mentioned that upon request the Treasury has authorized a number of branches in other districts to perform this operation. When your plans for redeeming Series E Bonds at your branches have been developed, the Board would like to be informed of them and furnished copies of your correspondence with the Treasury on the subject, since the question is one closely related to Board policy.

"With respect to safekeeping (page 9) it may be mentioned that branches in several other districts are holding Savings Bonds for owners, and it is understood that this service has been much appreciated. It is of special value to men in the armed services. In the circumstances, the Board is inclined to think that the advisability of the physical transfer of Series E Bonds from all branches to San Francisco for safekeeping should be critically examined on considerations of economy and efficiency as well as public service.

"It is noted that San Francisco and Los Angeles share equally the volume of work in Foreign Funds Control in the Twelfth District. In view of this fact it is difficult for the Board to understand why it would not be desirable to have applications for licenses received and reviewed at Los Angeles and also have the licenses issued there. Since the volume of Foreign Funds Control activities at Los Angeles is so large, your Bank may wish to write to Mr. Pehle, citing both the advantages and disadvantages of having Los Angeles perform all Foreign Funds Control activities and inquire whether he believes it would be desirable to expand the work at Los Angeles. Our understanding is that the Treasury would be glad to have this work transacted as close as practicable to the point of origin if the volume justifies it. It will be appreciated if you will furnish the Board with copies of correspondence on this subject.

"The Board of Governors is pleased to know that your board is interested in cooperating in the regional program for economic studies and planning. It is assumed that your Bank will keep Mr. Goldenweiser informed from time to time of the progress that is being made in obtaining the necessary personnel for this work.

"In your comment on banking operations at branches (page 3) you speak of the great pains that are taken to avoid having member banks feel the presence of the head office when they are discounting at a branch. In your comment upon subscriptions to United States securities, however, (page 6), you say that many member banks desire your head office to hold their

1/4/43

-9-

"securities in safekeeping so that future marketing or borrowing either at San Francisco or at the branch may be facilitated. These two statements seem to the Board to be in conflict. If an effort is made to keep the head office in the background in so far as discount operations at the branches are concerned, why, it is asked, should member banks feel that their borrowing at the branch is facilitated by having their securities held in safekeeping in San Francisco?

"Moreover, on page 4 you speak of review at the head office for the purpose of determining whether paper which has been rejected should have been accepted and of the action taken when it appears that paper accepted should have been rejected. You give no indication, however, of the action taken when it appears that paper rejected should have been accepted. The Board would like to know what course is followed in such cases.

"From your account of the position of auditor (page 10), it is not clear to the Board whether the auditors of your Bank as a matter of actual practice report in person to the board of directors or executive committee or whether they are merely aware of their freedom to do so. Have they been given written instructions and by whom? You state that the administrative officers must regard it as their responsibility to see that the Bank is properly audited, and it is assumed that this includes the Chairman, who, of course, has a direct responsibility in this matter.

"With respect to indebtedness, the judgment of the Board is that reports of the indebtedness of officers and employees should be reviewed by the auditor and reported on by him. It should not be a matter for administrative officers to determine how far a situation should be allowed to develop before the auditor is called in. From your letter, however, (page 11), it appears that the President reports these conditions to the auditor only after things have developed to a point where an assignment or restriction of duties is necessary. The Board would like to know if you do not think it would be a better procedure for the auditor to enter the picture early rather than late.

"You say (page 12) that the procedure for implementing the program of executive development, as suggested at the Chairmen's Conference, differs in form only from a long-established practice in the Twelfth District. This plan embraces the System as a whole, not one Reserve Bank alone. The Board would be interested to know how far the plan of your Bank has gone, in your judgment, towards fulfilling the larger plan.

"According to your concluding paragraph, some of your directors recall that 'the time has not long passed when the

1/4/43

-10-

"Board of Governors had a very definite opinion that some Federal Reserve Banks should reduce the number of their branches in the interest of a more economical administration of the System', and the question is now raised 'if it is the considered opinion of the Board of Governors at this time that the System should incur the cost of expanding the fiscal operations of existing branches merely to make their services uniform and without regard to the justification for the additional expenses involved.' Since the matter referred to is not one of which you would have personal recollection, the Board realizes that as its statutory representative you will be especially interested in its answer to this question; which is that its policy has been neither rigid nor capricious. The Board assumes you will agree that the Federal Reserve System is not a static organization, that the economy it serves is not static, and that varying conditions over a period of years may make it necessary to increase or to decrease the number of branches and to give some greater scope than others. It can not be seriously believed that a contraction of Federal Reserve services four years ago in Spokane should stand in the way of an expansion of services now in Los Angeles, for example, or in any other place where branch services and responsibilities should be augmented. Moreover, it can not be seriously supposed that the Board's policy of decentralization aims 'merely' at making branch services 'uniform' regardless of expense, nor can any progress toward understanding be made if the Board's policy is approached on that level. The Board's wish is that the services of the Federal Reserve System be adjusted to the needs of the time and the place, and a policy of decentralization aimed at that objective is not to be dismissed as a policy of uniformity for uniformity's sake.

"The Board is aware that in many respects the Federal Reserve Bank of San Francisco has achieved notably successful decentralization. It does not see why the same achievement is not possible in other respects as well. It is especially anxious to have that decentralization brought about in matters affecting public morale and the efficiency of national financing. Your fiscal agency operations are of course under the direction of the Treasury, but the Board does not believe it is necessary to await the Treasury's initiative in proposals for a wider extension of Federal Reserve Bank services. The same is true of the corresponding services performed for the War Department, the Navy Department, the Reconstruction Finance Corporation, and other arms and agencies of the Government. Nor, as already said, should the question if expenses are reimbursable be allowed to have too much weight.

1/4/43

-11-

"This leads directly to your final question--whether the Board of Governors considers that the System should bear the cost of rendering public service outside of that pertaining to the banking and credit function. The Board's view is that the System should not shrink from the expense of services justified by the public interest and lying within the System's province. Expense must be viewed in the light of the overshadowing importance of our wartime need. And in particular it must be viewed in relation to the current volume of Reserve Bank income and the source of that income.

"The Board's conception is not based merely upon temporary expediency, however. The Federal Reserve System is by its very nature, and as intended by Congress, a widely decentralized organization, comprising the Reserve Banks, their branches, and the member banks. It covers and penetrates the country. It should be administered in a spirit corresponding to the nature of its organization. It is not enough, in the Board's judgment, to bring services close to the people--those services must also be performed with the intelligence and care that is possible only in an organization whose parts share responsibility to the fullest practicable extent. The more strict the centralization of authority at the head office, the more perfunctory the performance at the branches is apt to be. The Board believes that a wise distribution of authority dignifies the subordinate offices, improves the quality of the services, and strengthens the position of the Federal Reserve System among the other democratic institutions of our society.

"The Board realizes that there may be differences of opinion about details of administration, and it does not wish to be put in the position of dictating exactly how things shall be done. For that reason governing principles have been emphasized in this letter and not details. Yet the Board also is convinced that to implement its policy effectively changes toward still greater decentralization need to be made by your Bank. The Board assumes that, as its representative, you are particularly interested in its convictions as to basic policy and appreciate its wish that the necessary adaptations of practice to that policy be effected. The next time you are in Washington the Board would like to discuss this subject with you."

Approved unanimously.

1/4/43

-12-

Thereupon the meeting adjourned.

Cheser Morier
Secretary.

Approved:

Donald R. ...
Vice Chairman.