

A meeting of the Board of Governors of the Federal Reserve System with the Presidents of the Federal Reserve Banks was held in Washington on Tuesday, January 26, 1943, at 12:45 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. Clayton, Assistant to the Chairman
 Mr. Goldenweiser, Director of the Division of Research and Statistics
 Mr. Dreibelbis, General Attorney
 Mr. Wyatt, General Counsel
 Mr. Parry, Chief of the Division of Security Loans
 Mr. Thomas, Assistant Director of the Division of Research and Statistics
 Mr. Piser, Chief, Government Securities Section of the Division of Research and Statistics

Messrs. Paddock, Sproul, Williams, Fleming, Leach, McLarin, Young, Davis, Peyton, Leedy, Gilbert, and Day, Presidents of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco, respectively.

Messrs. Williams and Rouse, Vice Presidents of the Federal Reserve Bank of New York, and Mr. Sienkiewicz, Secretary of the Presidents' Conference.

Mr. Ransom stated that representatives of the Antitrust Division of the Department of Justice had informed him that they desired to make an investigation of certain small loan companies, particularly

1/26/43

-2-

those that might be classified as "loan sharks", and in that connection would like to have access to the registration statements filed at the Federal Reserve Bank of Richmond pursuant to the provisions of Regulation W. He also said that, while the Board would like very much to avoid any activity in that connection which would result in ill will among registrants, either toward the Federal Reserve System or in connection with Regulation W, or the Board becoming involved in anything that would take the time of the personnel of the Banks engaged in Regulation W matters, it did not seem that there was any basis upon which the Board could deny the request. He made the further statement that following the visit of the representatives of the Antitrust Division to the Federal Reserve Bank of Richmond it was learned that plans were being made for similar visits to the Federal Reserve Banks of Atlanta, Dallas, St. Louis, and Chicago, that Mr. Dreibelbis had met with the representatives in connection with these plans, and that he would report on that discussion.

Mr. Dreibelbis said that it was not clear just what the Antitrust Division was looking for but that they had had in mind the use of the personnel at the Federal Reserve Banks working on Regulation W matters for the investigation of names in which the Antitrust Division was interested. He said that he had made it clear that the objective of the Antitrust Division would have to be regarded by the System as collateral to the responsibility of the System in connection with Regulation W and that, while any information obtained by the System as an

1/26/43

-3-

incident to the discharge of its responsibilities might be made available to representatives of the Antitrust Division, it would not be possible to use the employees of the Federal Reserve Banks to obtain additional information for the use of the Antitrust Division for the reason that employees were not available for the purpose and to do so would impair the effectiveness of the Banks in the discharge of their primary responsibilities in the field of consumer credit control. The representatives of the Antitrust Division concurred in that position, Mr. Dreibelbis said, as well as in the further point that the System had been faced with a major problem in the enforcement of Regulation W, that a good job was being done, and that the System should not allow that effort to break down as a result of the use of Federal Reserve Bank personnel for investigating names for the Department of Justice instead of carrying out the program, which was under way at the present time, of spot checking for possible violations of Regulation W. Mr. Dreibelbis added that on Saturday, January 23, a letter was received from Mr. Arnold, Assistant Attorney General, asking that the registration statements at the Federal Reserve Banks of Atlanta, Dallas, St. Louis, and Chicago be made available to representatives of the Antitrust Division.

Mr. Ransom made the further statement that he was trying to avoid any use of Federal Reserve Bank personnel for the purpose of making investigations for the Department of Justice in a manner that might impair the Federal Reserve Banks' effectiveness in the discharge

1/26/43

-4-

of their duties under Regulation W but that it did not appear that the Board could deny the request that the registration statements at the Federal Reserve Banks be made available. He also said that he wanted the Presidents to know the background of the matter, particularly in view of the fact that the System was facing the possibility of a difficult law suit in connection with the enforcement of Regulation W which the Department of Justice would have to handle, and that if any of the Presidents had any opinions as to how the request from the Antitrust Division should be handled he would like very much to have them.

In the discussion which ensued, the Presidents indicated their feeling that, in the interest of conserving manpower and the effective discharge of the Reserve Banks' responsibilities, the demands made upon them by the Antitrust Division in connection with its activities should be held at a minimum.

In connection with this discussion, and later in the meeting, Mr. McKee stated that the Federal Reserve Banks and the Board had had little or no difficulty in securing from firms and individuals a great deal of confidential business and financial information and statistics which had been refused other Government agencies, that, while the System could not refuse to cooperate with another agency of Government whenever possible, it should not do so when such action might result in a change in the attitude of the public toward the System in this regard, and that there was a danger that such a result would follow if it became known that information collected by the System was being made available to the Antitrust Division of the Department of Justice.

1/26/43

-5-

The meeting then recessed and reconvened at 2:15 p.m. with the same attendance as at the close of the earlier session, except that Mr. McKee was not present.

Mr. Goldenweiser distributed copies of a memorandum prepared by him on January 25 under the title "Professor, How Could You?!" relating to criticism of the recent decision to issue approximately \$660,000,000 of Federal Reserve Bank notes.

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

Chairman Eccles reviewed the consideration given last year to the establishment by the Federal Reserve Banks of a preferential rate of 1/2 per cent on advances to member banks secured by short-term Government securities and presented for consideration at this time the question whether that rate should also be applied to similar advances to nonmember banks. He stated that, inasmuch as the Presidents had responsibility for maintaining membership in the Federal Reserve System as well as for the sale of Government securities in their respective districts, the Board felt that, if a majority of the Presidents were of the opinion that the rate should be extended to cover advances to nonmember banks, it would be willing to approve that action.

The question was discussed in the light of the relation of such action to the program of war financing, the 3/8 per cent posted rate on Treasury bills which was available to nonmember banks and other holders of Treasury bills, the rate of 1 per cent which was still

1/26/43

-6-

applicable on advances to nonmember banks on the security of Government obligations, and the extent to which the privileges of the System were available to nonmember banks. A majority of the Presidents indicated that, although it might be necessary at a later date to take action making the preferential rate available to nonmember banks, they felt it was unnecessary as well as undesirable at this time, particularly because it would add to their difficulties in demonstrating that there are advantages to membership, and that it would be their hope that some of the privileges of membership given to nonmember banks during the war period would be recalled after the war.

During the discussion of the matter next referred to, Mr. McKee, Mr. Bethea, Assistant Secretary, and Mr. Thurston, Special Assistant to the Chairman, came into the meeting.

Mr. Day stated that at a meeting of the Presidents' Conference in Philadelphia on January 22-24, 1943, the permanent committee on insurance, to be appointed under the insurance agreement approved by the Presidents' Conference and the Board of Governors, was instructed to study the insurance problems of the System, including the advantages and disadvantages of extending types of losses covered by the agreement. It was also stated that all of the Federal Reserve Banks, except Cleveland, Kansas City, and San Francisco, had advised the Board of the execution of the insurance agreement, and Messrs. Fleming, Leedy, and Day stated that the agreement had been approved or would be approved at the next meetings of the boards of directors of their respective Banks.

1/26/43

-7-

In this connection there were distributed to the Presidents copies of a memorandum prepared by Mr. Smead setting forth the total insurance premiums paid and losses incurred by the Federal Reserve Banks since their organization to December 31, 1941, and the estimated savings in insurance costs based on 1941 figures.

At the request of Chairman Eccles, Mr. Szymczak reviewed the consideration that had been given to this matter by the Board and the Presidents, and stated that the Board felt that the Banks should cover into the insurance agreement everything that could be included under existing law and that the matter was being referred to at this time for the purpose of emphasizing the feeling of the Board that the expansion of the program should be expedited as much as possible.

Mr. McLarin inquired whether the Board would approve the setting up out of expected earnings during 1943 of the necessary insurance reserves to accomplish the suggested expansion of the program, and Chairman Eccles responded with the opinion that now was the time, while the Federal Reserve Banks had substantial earnings, to set up the necessary reserves for purposes of this kind. He also said that, in view of the small recoveries in comparison with premiums paid in the past, he did not see how the Board would be justified in continuing to approve expenditures by the Federal Reserve Banks for insurance that could be included in a self-insurance program.

A discussion ensued of the circumstances surrounding the development of the existing agreement and some of the problems that might be confronted in extending the arrangement to cover additional

1/26/43

-8-

risks. It was suggested that any difference that existed between the Board and the Presidents on the matter was one of timing, that the Presidents did not feel that they had sufficient information at this time to justify an immediate extension of the program, and that therefore they should await the report of the permanent committee on insurance so that they would have a definite program agreed upon by all of the Banks to present to their boards of directors.

Mr. Day stated that the suggestion had been made at this meeting for the first time that the Federal Reserve Banks set aside out of earnings a self-insurance reserve upon the basis of which a more extensive self-insurance plan could be adopted, and that this undoubtedly would influence the attitude of the Presidents and the directors toward the matter. The members of the Board indicated that they would have no objection to the establishment of such a reserve out of this year's earnings.

At the conclusion of the discussion, Mr. Leach stated that as soon as the 12 Federal Reserve Banks had signed the insurance agreement the permanent insurance committee would be appointed, and it was understood that the committee would be asked to expedite as much as possible its study of the problem.

Mr. Leonard, Director of the Division of Personnel Administration, Mr. Van Fossen, Assistant Chief of the Division of Bank Operations, Mr. Hays, Vice President of the Federal Reserve Bank of Cleveland, and Mr. Edmiston, Assistant Vice President of the Federal Reserve Bank of St. Louis, entered the room in connection with a discussion of the liberalization of the Federal Reserve retirement system.

1/26/43

-9-

Messrs. Eccles and Szymczak stated that the Board was of the opinion (1) that the entire System should agree upon a program of benefits substantially equivalent to those provided under Civil Service retirement, (2) that, if such a program were not acceptable to the Presidents, the Board should approve the proposal submitted by the Presidents' Conference committee, with the understanding that it would be revised to include provision for (a) optional retirement at age 60 after 30 years' service and at age 62 after 15 years' service and (b) increases in the retirement benefits provided by the Federal Reserve retirement system for salaries under \$3,000 to approximately the Civil Service scale of benefits, and (3) that, so far as the Board was concerned, it should adopt a program with respect to its own employees which would give them benefits substantially equal to those provided by the Civil Service retirement system. It was also stated that the Board felt that the present was the proper time to make these changes in the retirement system while the Federal Reserve Banks' earnings were sufficient to defray the cost involved, particularly if the benefits were approximately equivalent to those provided by Congress under the Civil Service retirement system.

Mr. Day inquired whether the Board would be willing to approve the cost of such a liberalization of the Federal Reserve retirement system, and the members of the Board indicated that they would.

Mr. Davis said that last week at Philadelphia Mr. Snead advised the Presidents of the Board's attitude with respect to more liberal retirement benefits, that the matter had been considered by the Presidents

1/26/43

-10-

in the light of the Board's position, and that action had been taken by the Conference subject to approval by the Board.

Mr. Day read a statement of the action of the Presidents' Conference and said that the Presidents' proposal would provide for larger retirement benefits in the lower salary groups, that the problem now was to find out what the cost would be, and that, if the Board would approve the additional cost, there was little doubt that the proposed revision would be approved by the boards of directors of the Federal Reserve Banks.

Chairman Eccles stated that the Board would consider the recommendation of the Presidents and advise them of the conclusion reached.

Thereupon Messrs. Van Fossen, Hays, and Edmiston withdrew from the meeting.

Chairman Eccles said that the Board had given consideration to the classification of banking as an essential industry for the purpose of preventing the loss of employees to war industries and to the military services and had reached the conclusions (1) that the special committee appointed by the American Bankers Association for the purpose should handle this matter to the extent that it related to commercial banks and (2) that it would be difficult to have the Federal Reserve Banks classified as essential, even as to trained or key employees, if they were working only 40 hours per week. Some of the Presidents stated that the employees of their Banks were already working 48 or more hours per week. Mr. McLarin presented a copy of a letter dated January 21, 1943, which was read, from the Atlanta Regional Director of the War

1/26/43

-11-

Manpower Commission in which it was stated that the regional office and the regional staff believed that the Federal Reserve Bank of Atlanta should be included in the list of essential industries and that the key positions in the Bank should be listed as essential occupations.

Chairman Eccles asked that each of the Presidents send to the Board a report of the manner in which his Bank was meeting the manpower problem, and, upon suggestion by Mr. Davis, it was agreed that the Board would address a letter to the Presidents outlining the character of the information desired.

It was also agreed that the question whether the Federal Reserve Banks should be regarded as essential industries should be ruled on by the Manpower Commission and not depend upon decisions by the various regional offices of the Commission.

Mr. Szymczak referred to the procedure worked out with the National War Labor Board and the Bureau of Internal Revenue for the transmission of certain salary increases of employees of the Federal Reserve Banks and the Board to the Joint Committee on Salaries and Wages and requested Mr. Leonard to relate for the information of the Presidents the recent developments in connection with the procedure.

Mr. Leonard stated that the Joint Committee was still exploring the question of the data to be furnished in connection with proposed increases, that he and Mr. Cherry, Assistant Attorney for the Board, had been in conference with representatives of the Committee in connection with certain proposed revisions in the personnel classification plan of the Federal Reserve Bank of Richmond, that certain additional

1/26/43

-12-

information had been asked for by the Committee, particularly as to the basis for the Bank's statement as to prevailing salary rates, that it was quite clear that the information submitted by the Federal Reserve Banks through the Board would be test checked, but that the Committee was starting on the assumption that such information was entirely reliable. The present proposal, Mr. Leonard added, was to use the changes in the Richmond personnel classification plan as a means of determining the information desired by the Joint Committee and that, as soon as an understanding was reached as to the type of certificate and information to be furnished, the Federal Reserve Banks would be advised.

Mr. Szymczak suggested that the Chairman of the Presidents' Conference Committee on Personnel Selection and Training appoint a small committee to be available to discuss this matter with members of the Board and its staff. Mr. Sproul, as Chairman of the Committee, stated that if the Board would address a letter to him setting forth the purpose of the committee he would be glad to select its members.

At this point, Mr. Leonard left the room.

When the agenda for this meeting was being prepared, Mr. Young suggested for consideration the advisability of urging correspondent banks to encourage qualified nonmember banks to join the Federal Reserve System. Chairman Eccles stated that the Board felt that this was a matter for discussion by the Presidents and that the Board would be glad to see them carry into effect any program that they might work out.

Mr. Day stated that the use of Budget Bureau approval numbers on Federal Reserve Bank forms, referred to in the Board's letter and

1/26/43

-13-

wire of December 3 and December 22, 1943, respectively, had been considered by the Presidents in the light of a report submitted by the Presidents' Conference Committee on Research and Statistics in which it was recommended that:

(1) Federal Reserve Banks should continue to cooperate with the Bureau of the Budget by submitting their report forms through the Board of Governors for the information of the Bureau,

(2) In spite of the fact that the Federal Reserve Banks apparently were not subject to the requirements of the Federal Reports Act of 1942, the Reserve Banks might well consider printing on their forms only the number assigned by the Bureau of the Budget but not the wording indicating the approval of the forms by the Bureau, or they might consider using the following designation on their forms: "Budget Bureau No. _____", or "BB No. _____", and

(3) The Reserve Banks should be prepared to confer with the Honorable Stuart A. Rice, Assistant Director, In Charge of Statistical Standards, Bureau of the Budget, and to consider any changes or suggestions which appeared to be in the public interest.

Mr. Day said that the subject was referred to the subcommittee to complete the arrangement for the use of Budget Bureau numbers on Federal Reserve Bank forms, the preference of the Presidents' Conference being that the Banks use on their forms the designation "BB No. _____". He added that the subcommittee did not favor the use of the term "Form approved" in connection with Budget Bureau numbers and that the Presidents approved that recommendation.

Chairman Eccles stated that the Board was of the opinion that the Federal Reserve Banks should follow the procedure outlined by the Budget Bureau but that, if the modification contemplated by the Presidents' action were acceptable to the Budget Bureau, the Board would have no objection.

1/26/43

-14-

Reference was then made to the prospective large earnings of the Federal Reserve Banks during the war period and to the question of what disposition should be made of the possible large surplus of earnings over expenses. Chairman Eccles stated that, if the Federal Reserve retirement system were expanded as suggested during this meeting, adequate self-insurance reserves set up, and account taken of the increased expenses of the Federal Reserve Banks in connection with the activities of the Victory Fund Committees for which the Banks might not be reimbursed, increased cost of currency, and other possible expenses, it was not believed that the surplus earnings of the System would be unduly large. He also said that, if desired, the matter might be considered a year or so from the present time but that it was his opinion that the System should retain all of its earnings, at least until the surplus of the Reserve Banks was rebuilt to the amount held prior to the use in 1933 of half of the surplus to provide part of the capital for the Federal Deposit Insurance Corporation.

Mr. Young stated that the Research Department of the Federal Reserve Bank of Chicago had completed recently a survey of the paper industry in the Seventh Federal Reserve District and was going ahead with a similar study of the packing industry which would take a great deal of time and manpower, and that he would like to know the feeling of the Board as to the extent to which the Federal Reserve Banks should expand the personnel of their research departments for the purpose of carrying into effect the recently inaugurated program of regional studies.

1/26/43

-15-

Chairman Eccles responded with the comment that the Board would like to have an opportunity to consider that problem and that the Banks would be advised of the Board's conclusion.

In this connection, there was agreement with a comment that it would be undesirable to have an outline of work for the research departments of the Federal Reserve Banks which would apply uniformly in all Federal Reserve districts.

Mr. Alfred H. Williams said that, in addition to the program for regional research, there was the suggestion that a study be made of local and State Governments and that, if that were done thoroughly in the Third Federal Reserve District, it would take most of the personnel in the research department of the Philadelphia Bank, so that it would appear that, because of the manpower situation, the Federal Reserve Banks were faced with the necessity of choosing only the studies which would be most useful.

Mr. Day stated that, in connection with the question of the research activities of the Federal Reserve Banks, the Presidents' Conference had voted to ask the Board to have (1) one of its members associated with the Conference Committee on Research and Statistics and (2) the Director of the Board's Division of Research and Statistics associated with the Subcommittee on Research and Statistics with a ranking Assistant Director as alternate.

Chairman Eccles stated that the Board would be glad to consider that request.

Mr. Young had also presented for consideration at this meeting

1/26/43

-16-

the advisability of appointing an operating research officer on a full-time basis to work out of the Board's offices with the planning departments of the Federal Reserve Banks. He stated that he felt there was no systematic way by which the Federal Reserve Banks could be kept informed of the development of more efficient methods of carrying on the Banks' operations and that what he had in mind was the selection of someone in the nature of an efficiency expert who could keep abreast of these developments and pass the information on to the Federal Reserve Banks. It was understood that this suggestion would also be given consideration by the Board.

A further question suggested by Mr. Young was the extent to which confidential reports received by the Federal Reserve Banks from the Board and reports on open market operations, which were matters of considerable interest to the members of the boards of directors of the Federal Reserve Banks, should be made available to them. Mr. Goldenweiser stated that there was nothing in the memorandum of current comments prepared in the Division of Research and Statistics and sent to the Federal Reserve Banks periodically that needed to be regarded as confidential and that in the future the memorandum would be marked "Not for publication". He said, however, that there was a considerable amount of material on production, distribution, inventories, etc., which was supplied by other offices of the Government on the basis of the Federal Reserve Banks being agencies of the Government and that that information should not be given to the directors of the Reserve Banks for the reason that they were private bankers or industrialists and

1/26/43

-17-

should not have access to confidential information placed in the hands of the Federal Reserve Banks as Government agencies.

Chairman Eccles referred to the information furnished to the Presidents of the Federal Reserve Banks with respect to System open market operations and expressed the opinion that information with respect to continuing policies and operations should be treated as confidential and not made available to the directors, particularly in view of the fact that complete responsibility for open market policy was placed by law in the Federal Open Market Committee and the boards of directors of the Federal Reserve Banks had no responsibility in that field. He added that he saw no objection to the directors being informed of completed policies and actions. He made the further statement that certain fiscal agency operations conducted by the Federal Reserve Banks for the Treasury were regarded as confidential and the directors were not informed with respect to them, and that the same policy should be followed in the case of current open market policies and operations.

In the ensuing discussion, Mr. Davis expressed the opinion that it would not be possible to determine upon a rule with respect to the information to be given to the directors that could be followed in all cases.

Mr. Day then reported that the following additional actions were taken by the Presidents' Conference at its meeting in Philadelphia last week:

1/26/43

-18-

1. To create a special committee to study various aspects of loans under Regulation V, including cancellation and renegotiation of contracts and meeting capital requirements of industrial plants during the reconversion period after the war. A member of the Board of Governors is to be associated with this committee.
2. To appoint a special committee to study the problem of absorption of exchange and collection charges by member banks, to review the subject with the Board of Governors, and to report its findings to the Conference.
3. To discuss with the Board the subject of Mr. Wyatt's letter of September 2, 1942, asking the Federal Reserve Banks for suggestions which might be considered by State legislatures in connection with matters affecting banking under war conditions.
4. To request the Conference Committee on Fiscal Agency Operations to discuss with the Treasury the possibility of having the Treasury make the following changes in procedure with regard to certain fiscal agency operations:
 - (a) The Treasury permit the Reserve Banks to accept as security for war loan deposits receipts for Government securities held under proper safeguards with correspondent banks.
 - (b) The Treasury work out two schedules of making withdrawals from war loan deposits. The first one would apply to those banks that had qualified for relatively small amounts, in which case withdrawals would be at less frequent intervals and in larger percentage amounts. The second schedule would apply to larger banks, the withdrawals from their war loan accounts continuing as at present and being in accordance with the needs of the Treasury.
 - (c) The Treasury revise its regulations to permit the redemption of Series E Savings Bonds up to \$100 maturity value in cash instead of by check.

1/26/43

-19-

Mr. Ransom called on Mr. Dreibelbis to outline the present status of the problem of absorption by member banks of exchange and collection charges. Mr. Dreibelbis stated that, following a conference with the Chairman of the Federal Deposit Insurance Corporation, the Comptroller of the Currency, and members of their respective staffs, at which the problem was considered in the light of certain situations involving national banks which had been presented to the Board in letters from the office of the Comptroller of the Currency, a draft of ruling was prepared in the Board's offices which would take the position that, on the basis of facts of the case, the national bank involved was violating the prohibition contained in section 19 of the Federal Reserve Act against the payment of interest on demand deposits, and that this ruling when approved would be used as a precedent in connection with the consideration of cases involving other banks. He also said that a meeting of representatives of the three Federal bank supervisory agencies would be held on Friday, January 29, 1943, for the purpose of discussing the draft.

Mr. McKee reviewed briefly the circumstances in which Mr. Wyatt's letter of September 2, 1942, with respect to proposed State war legislation was prepared. Mr. Sproul stated that, as Chairman of the Legislative Committee of the Presidents' Conference, he had suggested that the matter be taken up with the Board so that the Presidents might be advised of the background for the letter.

Mr. Gilbert inquired as to the status of the suggestion that State laws be amended to authorize the investment of public funds in

1/26/43

-20-

Government securities, and Mr. Wyatt stated that such an amendment had been added at the request of the Treasury to the program of suggested State war legislation for 1943.

Chairman Eccles said the Board had no objection to the Presidents' Conference Committee on Fiscal Agency Operations discussing with the Treasury the proposed changes in fiscal agency procedure referred to by Mr. Day.

Mr. McKee stated, for the confidential information of the Presidents, that during a conference with a high-ranking Army official the latter had expressed surprise at the failure of some banks that were making guaranteed war loans under Regulation V to interest themselves in the inventory position of the borrowers, that it had been found that in some cases the borrowers were turning their inventories only from one to four times a year and in others that they were withholding for possible future needs inventories of materials that could be used to increase production, and that as much as 20 per cent of existing steel capacity could be turned to other uses if manufacturers would utilize existing inventories.

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

W. A. Eccles
Chairman.