

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, July 23, 1943, at 10:30 a.m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Vest, Assistant General Attorney
Mr. Wyatt, General Counsel

There were presented telegrams to Mr. Paddock, President of the Federal Reserve Bank of Boston, Mr. Treiber, Secretary of the Federal Reserve Bank of New York, Mr. Walden, First Vice President of the Federal Reserve Bank of Richmond, Messrs. Clark and Dillard, Vice Presidents of the Federal Reserve Banks of Atlanta and Chicago, respectively, Mr. Stewart, Secretary of the Federal Reserve Bank of St. Louis, Mr. Powell, First Vice President of the Federal Reserve Bank of Minneapolis, Mr. Gilbert, President of the Federal Reserve Bank of Dallas, and Mr. Hale, Vice President of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Banks of St. Louis and San Francisco on July 20, by the Federal Reserve Bank of Atlanta on July 21, by the Federal Reserve Banks of New York, Richmond, Chicago, Minneapolis, and Dallas on July 22, 1943, 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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There was presented a memorandum dated July 13, 1943, from Mr. Dreibelbis, General Attorney, referring to the question, which was still pending, with respect to whether the Board's building was subject to real estate taxes, and suggesting as a method of disposing of the matter that the Federal Reserve Banks might be requested to execute a disclaimer in the form attached to the memorandum, which would be signed by all of the Federal Reserve Banks and in which they would disclaim any right, title, or interest in or to the Board's building and the land upon which it stands and acknowledge all right, title, and interest in and to the same to be in the United States of America in the name and under the control of the Board of Governors of the Federal Reserve System as provided by section 4 of the Act of Congress approved on June 19, 1934. The memorandum also stated that if the Board saw any merit in the suggestion as a possible solution Mr. Dreibelbis might be authorized to discuss it with Mr. Keech, Corporation Counsel for the District of Columbia, and that there was a question whether the matter should be discussed with Mr. Keech before discussion with the Federal Reserve Banks for the reason that, if Mr. Keech should agree but the Banks should not, the Board might be embarrassed in its position.

In the discussion which ensued, Mr. McKee suggested that the District Commissioners might be willing to accept an opinion signed by counsel for the 12 Federal Reserve Banks to the effect that the Reserve

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Banks had no right, title, or interest in or to the Board's building, and stated that he would prefer that solution of the problem. Mr. Vest questioned whether the Corporation Counsel would be satisfied with an opinion of counsel such as this would be.

Consideration was given to whether the matter should be discussed with the Presidents of the Reserve Banks before it was taken up with Mr. Keech, and the suggestion was made that it would be better first to determine whether the execution of the disclaimer would be acceptable to the District Commissioners.

Mr. Wyatt stated that he had not studied the proposal carefully but that it seemed clear that the disclaimer in the form drafted by Mr. Dreibelbis would not in any way affect the control of the Board over the building as that was established by statute.

At the conclusion of the discussion, Mr. Ransom moved that Mr. Dreibelbis be authorized to discuss the matter with Mr. Keech, with the understanding that, if the execution of the disclaimer were acceptable to the District Commissioners as a means of disposing of the problem, the Board would take the matter up promptly with the Presidents of the Federal Reserve Banks.

This motion was put by the chair and carried unanimously.

Reference was made to the discussion at the meeting of the Board with the Presidents of the Federal Reserve Banks on June 29, 1943, of whether the Federal Reserve Banks would be expected to bear any of the expenses in connection with the next war loan drive, and Chairman

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Eccles stated that the Treasury was looking to the Federal Reserve Banks to do all of the necessary tabulating work with respect to the sales of securities during the drive and that, in addition to the usual tabulations which in the past had been prepared on a district basis and sent to the Treasury daily by wire during the campaign, each Reserve Bank would have to prepare tabulations of securities sold in each State in the district and forward them regularly to the State chairmen. All of this work, he said, was to be done by the Banks as fiscal agents for the Treasury for which they would receive reimbursement, and, while the funds available to the Treasury to defray expenses of the drive were limited to certain uses, up to this time the Federal Reserve Banks had not been asked to absorb any expenses in connection with the drive. He made the further statement that President Williams of the Federal Reserve Bank of Philadelphia had discussed with him whether he (Mr. Williams) should accede to a request of the Pennsylvania War Finance Committee that it be housed in the Reserve Bank building, and that Mr. Williams felt that, in view of the Bank's need for space and the fact that other space was available in Philadelphia, the request should not be granted. Chairman Eccles added that he agreed with Mr. Williams' position in the matter.

Chairman Eccles also said that recently he asked the Secretary of the Treasury whether he had any complaints to make with respect to the cooperation being received from the Federal Reserve Banks since

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the Treasury had decided to set up the war financing organization on a State basis, and that Secretary Morgenthau had replied that he was getting the finest kind of cooperation from all of the Banks.

Mr. McKee stated that, in response to his request, Mr. Wyatt was working on a memorandum with respect to the nature of the fiscal agency function of the Federal Reserve Banks, and that while reviewing the Board's files on this subject he had found an opinion which he had rendered on June 20, 1923, to the effect that the Federal Reserve Banks could not properly contribute funds to defray the expenses of a separate organization of the Treasury Department such as the Treasury savings sales organization which was handling the sales of Treasury savings certificates. The memorandum on this subject addressed to Mr. McKee by Mr. Wyatt under date of July 10, 1943, was read.

It appeared to be the consensus of the members present that, in view of the Treasury's decision to relieve the Federal Reserve System of all responsibility in connection with the campaigns to raise nonbank funds, the System would not be justified in absorbing any of the costs of these campaigns. Mr. Szymczak raised the question whether the Board's letter of November 12, 1942 (S-584), authorizing the Federal Reserve Banks to assume certain expenses in connection with the activities of the Victory Fund Committees, should be rescinded.

There was unanimous agreement that, inasmuch as the letter authorized the absorption by the Banks of certain expenses incurred in

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connection with the activities of the Victory Fund Committees and since these Committees had been discontinued, the authority of the Federal Reserve Banks to pay the expenses referred to in the letter had become obsolete. Question was raised whether the Federal Reserve Banks should be so advised, and it was agreed that this was not necessary inasmuch as the letter could be eliminated from the Federal Reserve Loose-Leaf Service containing currently effective regulations, rulings, and instructions of the Board of Governors for the use of the Federal Reserve Banks, which would make it clear to the Reserve Banks that the letter had become obsolete.

Mr. Szymczak stated that he felt some further consideration should be given to the matter discussed with the Presidents at the last Conference of relationships of the Federal Reserve Banks with the Board and other Government agencies in connection with fiscal agency and other matters, and that he thought it was particularly important to have an understanding with the Treasury as to the relationship of the Board to the fiscal agency operations of the Federal Reserve Banks, including the activities of the Banks in carrying accounts as fiscal agents of the Treasury with foreign banks and governments.

The other members of the Board were in agreement with this suggestion, and it was understood that Mr. Szymczak would have prepared a list of the items to be discussed with the Treasury and that at some later time when it seemed appropriate he and Chairman Eccles would take the matter up informally with Under Secretary of the Treasury Bell.

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Following the discussion at the meeting of the Board with the Presidents on June 29, 1943, the Secretary of the Presidents' Conference submitted to the Board a report entitled "Changes in Organization and Benefits of Retirement System Proposed by Presidents' Conference" which had been prepared by the Presidents' Conference Committee on Retirement and approved by the Conference at its meeting in Chicago on June 25, 1943. Among other things, the report proposed that the pension portion of the retirement allowance provided by the retirement system for employees of the Federal Reserve Banks would be based on a maximum average salary for any 20-year period of service and that the maximum salary taken into consideration in determining the retirement allowance would be \$15,000 instead of \$12,000 as at present. It was pointed out that under this provision there would be no specific limit on the retirement allowance that an officer of a Federal Reserve Bank might receive and that it would be possible under the proposal for an officer who had had 40 years' service and an average annual salary during any 20-year period of \$15,000 to receive a retirement allowance of approximately \$10,000, the pension portion of which would be on a life basis and the annuity portion on a cash-refund basis.

Chairman Eccles stated again his reasons for the position taken by the Board on June 8, 1943, that it would not approve any plan that would contemplate a retirement allowance in excess of

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\$7,500 on the basis of the pension portion of the allowance being on a life basis and the annuity portion on a cash-refund basis. The arguments that might be advanced by the Presidents for the benefits approved by the Presidents' Conference were also considered.

Mr. Szymczak stated that if the Board should decide not to approve the report of the Conference as submitted it should afford the special committee appointed by the Presidents for the purpose (Messrs. Fleming, Chairman, Sproul, and Williams) an opportunity to come to Washington to discuss the matter should the committee desire to do so. He also expressed the opinion that if the Board should decide to adhere to the position taken on June 8, 1943, it should be prepared to maintain that position.

Mr. Ransom said that he thought some consideration had to be given to the relationship of retirement allowances to the salaries of the Federal Reserve Bank officials as established by their boards and approved by the Board of Governors. Many of these salaries are at rates substantially higher than those for Government officials. The factor of competition with private enterprise seemed to be involved and he wondered whether it might not also be involved in the retirement allowances and so be a factor affecting the career system.

Mr. McKee said that, in view of the higher salaries of officers at the Federal Reserve Banks as compared to salaries of Government employees in official positions and the responsibility of the Board for competent management at the Federal Reserve Banks, he would

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favor approval by the Board of the proposed allowances as approved by the Presidents' Conference and that he would vote "no" on action by the Board to limit the pension portion of a retirement allowance to one-fourth of final average salary as had been suggested.

Thereupon Mr. McKee left the meeting to keep another appointment.

At the conclusion of the discussion, it was agreed that Mr. Szymczak should inform Mr. Fleming by telephone that a majority of the members of the Board was not willing to approve the proposed changes in the retirement system without limiting the pension portion of the retirement allowance that would be payable to not to exceed one-fourth of final average salary on a cash-refund basis, and that, should his committee so desire, the Board would be glad to have the committee come to Washington for a discussion of the matter.

At this point Messrs. Vest and Wyatt 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 July 22, 1943, were approved unanimously.

Memorandum dated July 21, 1943, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that Miss Mary D. Blyth be appointed as a clerk in that Division, with basic salary at the rate of \$1,440 per annum, effective as of the date upon which she enters upon the performance of her duties after

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having passed satisfactorily the usual physical examination.

Approved unanimously.

Letter to the board of directors of the "Peoples Bank and Trust Company", Sunman, Indiana, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Chicago.

Approved unanimously, for transmission through the Federal Reserve Bank of Chicago.

Letter to Mr. Slade, Assistant Cashier of the Federal Reserve Bank of San Francisco, reading as follows:

"This will acknowledge receipt of your letter of July 13, 1943, in which you advise that on July 2, 1943, your Los Angeles Branch received the sum of \$6,850.55, representing the guaranteed portion of the loan to Carbonic Specialties Company, which was purchased by your Bank as Fiscal Agent of the United States on January 16, 1943, together with accrued interest thereon of \$36.08 to date of purchase and of \$154.47 from date of purchase to and including July 1, 1943.

"Since in advancing the funds to take up the loan to the Carbonic Specialties Company your Bank acted pursuant to the War Department's letter of January 13, 1943, in which it authorized and requested your Bank, as Fiscal Agent of the United States, to pay 90 per cent of the outstanding principal amount of the loan, plus accrued interest and less accrued guarantee fee, to the Bank of America, it would appear that the \$154.47 interest from January 16, 1943, to July 1, 1943, should be credited to the War Department the same as the \$36.08 representing interest accrued to the date of purchase, January 16, 1943.

"Since the Federal Reserve Bank advanced the funds to make the purchase from the financing institution, it

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"is apparent that the Reserve Bank should be entitled to some return on its funds for the period from date of purchase to the date the loan was paid. In view of the small amount involved, however, it is suggested that no claim be submitted to the War Department for interest on the funds for the period in question.

"It is to be hoped that in the future funds with which to make purchases will be made available to the Reserve Bank by the guarantor within the ten day period specified in the guarantee agreement. If, however, the Reserve Bank is asked by the guarantor to advance the necessary funds to make a purchase, it is assumed that the Bank will take prompt steps to obtain reimbursement from the guarantor at the earliest possible date."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morris
Secretary.

Approved: [Signature]
Chairman.