A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, February 11, 1944, at 10:30 a.m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the Chairman
Mr. Goldenweiser, Director of the Division of Research and Statistics
Mr. Smead, Director of the Division of Bank Operations
Mr. Paulger, Director of the Division of Examinations
Mr. Vest, Assistant General Attorney
Mr. Thomas, Assistant Director of the Division of Research and Statistics
Mr. Pollard, Assistant Director of the Division of Examinations
Mr. Wyatt, General Counsel

It was reported that on February 1, 1944, Mr. Eccles took his oath of office as a member of the Board under appointment for a term of 14 years ending January 31, 1958, and that he received today a copy of an Executive Order issued on February 8, 1944, designating him as Chairman of the Board to serve as such for a term of four years, effective February 1, 1944.

There was then presented a draft of letter to Mr. A. G. Black, Governor of the Farm Credit Administration, which had been prepared following a conference with him and the presidents of two Federal Land Banks and which read as follows:

"This refers to the discussion which you and Mr. J. H. Scarborough, President of the Federal Land Bank of Columbia, South Carolina, and Mr. W. H. Droste, President of the Federal Land Bank of St. Louis, had with Governor Ransom and Governor Evans of the Board on January 25, 1944, and in which you outlined a proposal that you have under advisement with respect to the authority for loans on farm land.

"It is understood that under the present law a Federal Land Bank may lend on first mortgage on farm land an amount equal to 50 per cent of the normal value of the land and 20 per cent of the value of the permanent insured improvements. In addition, a second mortgage loan on the property may be made by the Land Bank Commissioner on behalf of the Federal Farm Mortgage Corporation, but the total amount loaned on both the first and second mortgages on such property may not exceed 75 per cent of the normal value of the property.

"The Farm Credit Administration, you advise, is now considering a proposal that the law be changed so as to authorize a Federal Land Bank to make a first mortgage loan in an amount up to 65 per cent of the normal agricultural value of the property, thus superseding the existing limitations on first mortgage loans by the Land Banks and the existing authority for second mortgage loans by the Land Bank Commissioner.

"The Board of Governors is, of course, interested in knowing that any credit measures which may be adopted are not such as to contribute to or encourage inflationary developments and, accordingly, that any authority which may be granted for farm loans be soundly based. This, of course, is in the interest of the borrower as well as the lender. The Board agrees with the views which you and your associates expressed in the discussion that second mortgages are in general not desirable and are to be avoided so far as practicable. In the final analysis, the most important element in the soundness of a farm loan, both when made and during its life, is the appraised valuation which is placed on the farm as a basis for the loan.

"Accordingly, the Board would have no objection to legislation which would fix the maximum amount of a farm loan by a Federal Land Bank on first mortgage security at 65 per cent of its normal agricultural value, with the understanding that the authority for the making of second "mortgage loans would be terminated simultaneously. If this proposal is adopted, however, the Board feels that it is important that the Farm Credit Administration continue its farm appraisals on the present basis of normal agricultural valuation, and it is understood from the discussion with you and your associates that this would be done.

"We are sure that you have in mind that public announcements or statements with reference to such a proposal or necessary legislation to accomplish it should be phrased so as to avoid any misunderstanding, with a possible resulting impetus to the rise in farm land values.

"The Board appreciates the opportunity of discussing this proposal with you and your associates and of submitting its views in the matter at this time."

Mr. Paulger raised the question whether, in view of the present speculative trends in farm land values, this was a desirable time to amend the law as proposed by the Farm Credit Administration. This point was discussed and there was agreement on the part of the members of the Board present that the proposed change should not encourage that tendency.

At the conclusion of the discussion, upon motion by Mr. Ransom, the letter to Governor Black was approved by unanimous vote.

In connection with the above matter, Chairman Eccles read a statement released to the press by the Bank of Canada in connection with the action of the bank to reduce its discount rate from 2-1/2 per cent to 1-1/2 per cent, effective February 8, 1944, and called particular attention to a portion of the statement to the effect that the action was designed to assure the Dominion that the bank's low interest rate policy would be continued during the readjustment period after the war. There was a brief discussion of the desirability of a statement of the Board's views as to the continuance of the present interest rate level in the United States, and it was suggested that an opportunity for such a statement would be presented in the Board's annual report for the year 1943. It was understood that Mr. Goldenweiser would prepare a draft of statement for consideration by the Board.

Before Mr. Evans left Washington for the west coast, he approved a draft of reply to a letter dated December 24, 1943, from the Budget Bureau asking for an expression of the Board's views in connection with a proposed report from the Department of Agriculture on bill S. 47 to provide for a Forest Credit Commissioner and a Forest Credit Bank within the Farm Credit Administration to extend credit for furthering the conservation and operation of forest lands. The proposed reply suggested among other things that it would appear desirable, before giving further consideration to the provisions of the bill providing for long-term forestry credits, that it be definitely ascertained through a survey conducted for the purpose or some other appropriate method whether there was a genuine need for such credit, and that Government aid should not be provided unless it could be clearly demonstrated not only that there was a need which could not be supplied by private lending agencies but also that the public interest would be served by the use of Government funds for the purpose. When the draft of letter reached Chairman Eccles' desk he suggested that a considerable amount of survey work had already been done on the problem by the Forest Service which might warrant a change in the proposed reply. Mr. Draper discussed the matter with Mr. Ray Marsh of the Forest Service, and as a result of the information developed in that discussion the draft of reply was revised to state that the Board believed that private credit was not available for financing long-term forestry programs by private owners so that, assuming the need of financing to be demonstrable, it would seem to be in the public interest that Government aid should be provided for such programs.

At this meeting Chairman Eccles stated that it had been his experience in the lumber business that there never had been adequate credit available on a long-term basis for the development of forest lands, which resulted in the uneconomic cutting of the forests and in the bankruptcy of many lumber companies in periods of depression. It was his opinion that if such credits were provided by a Government agency the Forest Service would be able to bring about the adoption by private owners of sound practices in the development and cutting of timber and of what was known as a "permanent cutting cycle" which would be in the long-term interest of private owners and would result in the conservation of our timber resources. In these circumstances he felt that there was ample justification for the statement in the Board's reply to the Budget Bureau that some provision for long-term forestry credits should be made.

Mr. Ransom raised the question whether in light of the discussion the lumber industry could exist without long-term credit of the kind under consideration. He expressed the view that it seemed necessary for the Government to extend long-term credit of this type and if this were the case he thought it would inevitably raise the question of possible Government ownership of such lands. Chairman Eccles said that, while the industry would continue to exist without such credits, there would be bankruptcies in time of depression, and the wasteful use of our timber resources which had gone on for more than a hundred years would be continued. Mr. Ransom also stated that the revised draft of reply would appear to be contrary to a policy of having credits for business and industrial purposes extended by private lenders rather than the Government and that there was a question whether an exception should be made in this case.

At the conclusion of the discussion it was suggested that Mr. Morrill talk with Mr. Evans over the telephone and ascertain whether he would be willing to approve the letter in its revised form, and it was understood that this would be done.

At this point Mr. Thomas withdrew from the meeting.

Under date of January 17, 1944, the Board received from the clerk of the House Banking and Currency Committee a request for a report on bill H.R. 1818 which would amend section 12B of the Federal Reserve Act to provide that each insured bank examined under the supervision of the Comptroller of the Currency at least twice during any calendar year might deduct from its assessments payable to the Federal

Deposit Insurance Corporation the amount of the examination charge paid by the bank to the Comptroller of the Currency for the last examination, excluding any amount paid for examination of the bank's trust department. There was a discussion of the present situation in which the costs of Federal examinations of State member banks and of insured nonmember banks are absorbed by the Federal Reserve Banks and the Federal Deposit Insurance Corporation, respectively, while the Comptroller of the Currency is required by law to examine each national bank twice each year and the costs of these examinations are paid by the banks. There was agreement on the part of the members of the Board present that this situation resulted in discrimination against national banks and that some action should be taken to correct the condition.

Unanimous approval was given to the suggestion that Mr. Vest be requested to prepare for the consideration of the Board a draft of a favorable report to the House Banking and Currency Committee with respect to the bill.

At this point Mr. Leonard, Director of the Division of Personnel Administration, joined the meeting.

Before this meeting Mr. Goldenweiser sent to each member of the Board a copy of the following recommendation which had been prepared by a committee composed of Mr. Goldenweiser and the heads of the research departments of six of the Federal Reserve Banks with respect to future policy relating to publications, speeches, and participation in outside activities by System research personnel. A copy of the recommendation was also sent to the Presidents' Conference:

"The purpose of research work in the Federal Reserve System is to contribute to the System's effectiveness in serving the public interest in the country as a whole and in the several Federal Reserve districts. To achieve this purpose it is necessary to combine the greatest possible freedom of action on the part of the various research departments, which would help to attract and retain a competent and vigorous research personnel, with sufficient unity of action to discharge the System's responsibilities as a national institution. As a part of the program to obtain these objectives, the following policy in regard to public statements and public activities of the research departments and of members of their staffs is recommended. These recommendations represent a departure from the procedure followed heretofore and the four recommendations below should be considered as a whole. 1/

"1. The responsibility for public statements made by the research department of a Bank or by any member of the research staff rests with the President of the Bank as chief executive. This applies to the monthly reviews, press releases on special subjects, speeches by members of the research staff, and publications appearing over the signature of a member of the staff. Similarly, commitments to serve on committees of outside organizations must be made on the Bank's responsibility. The Board of Governors, however, is prepared to have its staff review any Bank material prior to release if a Bank so desires, or to give an opinion as to the advisability of participation in any particular outside activity.

"2. It is the function of the research staffs to furnish background material as a basis for policy action and they must be prepared to express views which may imply or require taking a position on controversial issues. This involves the necessity of guarding against embarrassing the System and of lessening the effectiveness of the Banks' work in research and of the Banks' leadership. In handling controversial questions responsible officials must act so as to avoid placing the System in the position of appearing to be biased advocates.

"1/ The principal departure from present practice is that under the proposed procedure publications need no longer receive Board approval prior to release. A minor departure is that the policy in regard to speeches and public activities is made more explicit.

"3. These considerations should especially be kept in mind on statements dealing with System policy and important issues faced by the Government. On such matters the senior officers of the Bank must be prepared to take the responsibility for statements issued by the research staffs.

"4. Copies of all publications and of written out speeches should be sent to the Board of Governors whenever possible prior to release in order to keep the Board informed. The Board should also be informed of commitments made to serve on outside organizations. The Board of Governors on its part will supply the Banks with copies of material issued by the Board and will notify them of commitments made which involve the Federal Reserve Banks."

Mr. Morrill stated that before Mr. Evans left for the west coast he had indicated that he was very much in favor of the approval of the recommendation and would like to have it acted upon by the Board as promptly as possible.

In the discussion which followed, it was pointed out that if the recommendation were approved it would place on the Presidents of the Federal Reserve Banks responsibility for the public statements and other activities of the research personnel of their respective Banks, and that the Presidents would be under obligation to see that in handling controversial questions the research people would act so as to avoid placing the System in the position of appearing to be a biased advocate or otherwise embarrassing the Board of Governors or the System.

Chairman Eccles stated that there were several matters which should be discussed in executive session with the Presidents of the Federal Reserve Banks the next time they were in Washington, one of which was the decision to be made in connection with the committee or committees to be created for the purpose of directing the research work of the System. He said that, while he had no objection to the approval of the recommendation above referred to, he felt that approval should be withheld pending the discussion of this matter with the Presidents for the reason that the recommendation was closely connected with the problem of supervision of the System's research activities and the Board should not approve the recommendation if the Presidents were unwilling to approve a solution of the problem of supervision that would be satisfactory to the Board.

> The other members of the Board present were in agreement with this suggestion, and the recommendation submitted by Mr. Goldenweiser was approved unanimously provided an arrangement could be worked out with the Presidents which would be satisfactory to the Board with respect to the direction of the System's research activities. It was, therefore, understood that advice of the Board's action would be withheld pending a discussion of the whole matter with the Presidents the next time they were in Washington.

Under date of January 19, 1944, the Personnel Committee submitted a recommendation to the Board that the Chairman of the Federal Reserve Bank of St. Louis be requested to ascertain informally whether Bedford Macklin, a farmer of Frankfort, Kentucky, would accept appointment as a director of the Louisville Branch of the St. Louis Bank to fill the unexpired portion of the term ending December 31, 1946, and that the appointment be tendered in the event he were willing to accept. The memorandum submitting the recommendation called attention to the fact that Mr. Macklin was a director of a nonmember bank, the Farmers Bank & Capital Trust Company of Frankfort, which is the largest bank in Frankfort with total assets in excess of 31 million dollars, and stated that upon learning of Mr. Macklin's connection with the bank the Personnel Committee had considered a number of other individuals but that for one reason or another none seemed as well qualified as he. The memorandum had been circulated among the members of the Board and question had been raised whether in the circumstances referred to Mr. Macklin should be appointed. It was stated that it had been the policy of the Board to select as its appointees on the boards of directors of the branches of the Reserve Banks whenever possible individuals who were not directors of banks, and that it would be difficult to explain the selection as a branch director of an individual who was a director of a large nonmember bank.

Mr. Szymczak stated that the recommendation was made because of the outstanding qualifications of Mr. Macklin as an agriculturalist, and that it was felt his appointment was justified notwithstanding his connection with the nonmember bank.

> Mr. Draper moved that the Chairman of the Federal Reserve Bank of St. Louis be requested to ascertain informally whether Mr. Macklin would be willing to resign as a director of the Farmers Bank & Capital Trust Company in the event of his appointment as a director of the Louisville Branch, and that, if he were willing to do so, the appointment for the unexpired portion of the term ending December 31, 1946, be tendered.

This motion was put by the chair and carried unanimously.

There were then presented telegrams to Messrs. Treiber and Clouse, Secretaries of the Federal Reserve Banks of New York and Cleveland, respectively, Mr. Leach, President of the Federal Reserve Bank of Richmond, Messrs. Dillard and Stewart, Secretaries of the Federal Reserve Banks of Chicago and St. Louis, respectively, Mr. Powell, First Vice President of the Federal Reserve Bank of Minneapolis, Mr. Mehornay, Deputy Chairman of the Federal Reserve Bank of Kansas City, and Mr. Gilbert, President of the Federal Reserve Bank of Dallas, stating that the Board approves the establishment without change by those Banks on February 10, 1944, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

At this point the meeting recessed for luncheon and reconvened at 3:00 p.m. with the same attendance as at the close of the morning session, except that Messrs. Goldenweiser, Paulger, Leonard, and Pollard were not present and Mr. Dreibelbis, General Attorney, was in attendance.

Mr. Morrill reported that he had talked over the telephone with Mr. Evans, who was in Los Angeles, and had informed him of the discussion at the meeting this morning with respect to the draft of letter to the Budget Bureau relating to bill S. 47 to provide for a Forest

Credit Commissioner and for a Forest Credit Bank. He said that Mr. Evans' response was that, in view of the additional information developed since he last considered the matter, he would be willing to approve the revised letter to the Budget Bureau as long as it was made clear in the letter that the Board of Governors was opposed to the short-term credit features of the proposed legislation. He raised the question, however, whether consideration should be given to including in the letter a suggestion that long-term forestry credits be made available in the form of guarantees of loans made by private financing institutions.

The other members of the Board present indicated the feeling that, while long-term credits in the form of guaranteed loans might not be as effective in enabling the Department of Agriculture to bring about the adoption of effective policies of conservation and use of private forest lands, it would be well to include in the letter the suggestion that consideration might be given to the possibility of providing long-term credit through that medium in order that the question might be explored further if at a later time the Board should be called upon again for its views on such legislation.

Thereupon the letter to the Budget Bureau was approved unanimously in the following form:

"This refers to your letter of December 24, 1943, requesting an expression of views with respect to a proposed report submitted by the Department of Agriculture regarding S. 47, a bill 'To provide for a Forest Credit Commissioner and for a Forest Credit Bank, within the Farm Credit Administration, to extend credit for furthering the conservation and operation of forest lands, and for other purposes'.

"The proposed letter from the Secretary of Agriculture to the Chairman of the Senate Committee on Agriculture and Forestry states that the Department of Agriculture approves of the objectives of S. 47 but that it would be preferable to utilize for the purpose the Federal Farm Mortgage Corporation, which could make available the types of credit which would be provided by S. 47. The letter recommends that the Federal Farm Mortgage Corporation Act be amended to accomplish this purpose.

"Briefly stated, the proposed substitute for S. 47 submitted by the Department of Agriculture would authorize the Federal Farm Mortgage Corporation to make loans to aid applicants, including corporations and cooperative associations of owners of forest lands, 'in financing the acquisition, improvement, protection, conservation, management and operation of forest lands, the marketing of or utilization of forest products, or the construction or acquisition of improvements, facilities and equipment used in connection therewith'.

"Under the proposal, forest credit loans would be authorized with maturities of not less than five or more than 40 years. They would be secured by first mortgages on forest property and could not exceed amounts in excess of 40 per cent of the normal value of the security. In this connection, provision may be made for future advances based on the prospective increase in the value of the forest property over a period of not more than ten years from the time the loan is made. Forest production credit loans for periods not exceeding three years would be authorized, to be secured by first mortgages or by additional mortgages if the Corporation already holds a first mortgage on the property. Loans may be made to cooperative associations with maturities not in excess of 20 years to assist in the acquisition or construction of physical facilities for the processing of forest products or the refinancing of indebtedness for such purposes, or for periods not exceeding three years for grading, storing, and marketing forest products and for providing working capital therefor.

"It is noted that the proposed letter from the Secretary of Agriculture states that it is unnecessary to provide additional credit facilities for farm forestry at this time, and it is also noted that the Farm Credit Administration has recently adopted a policy under which loans up to a certain amount may be made on individually owned commercial timber land.

"It is stated, on the other hand, that long-term credit is needed to encourage private forestry programs and that the need of the forestry enterprise for adequate credit has long been recognized. While the letter does not present facts or data in support of this statement, it is assumed that the Forest Service has such data at hand. In any event, the Board believes that private credit is not available for financing long-term forestry programs by private owners so that, assuming the need of financing to be demonstrable, it would seem to be in the public interest that Government aid should be provided for such programs. In this connection, the suggestion is made that consideration might be given to the possibility of providing such aid through the guarantee of loans by private financing institutions, such guarantees to be made and administered by the Forest Service.

"The proposal also contemplates a type of credit for what is commonly termed 'working capital'. The specific suggestion is on page 3 of the proposed substitute for S. 47 and reads as follows: '(2) Loans for periods not exceeding three years which shall be known as forest-production credit loans.' The Board is convinced that funds for this type of loan can be provided by existing private credit facilities. Hence, to this extent the proposal involves a duplication of credit facilities and competition with existing banking and other financing institutions. It is noteworthy that the proposal is not limited to the making of loans where credit is not reasonably available from the usual sources, but contemplates that loans may be made whenever the Corporation deems it advisable. Presumably they could be made at rates less than those which banking institutions can afford to charge or which the character of the risk would normally dictate. During periods of depression when private credit is restricted, there might be justification for the Government to provide such short-term financing. At present, however, private funds are particularly plentiful and are likely to remain so for a considerable time in the future. Not only is credit abundant for the contemplated 'forest production' loans, but risk capital should likewise be relied upon to support such operations. Liquid funds in the hands of individuals and partnerships are in greater volume than ever before in our history and these funds should be tapped along with credit sources if short-term funds are needed by enterprises for the purpose of increasing forestry production.

"As a matter of general principle, the Board feels that it should be the policy of the Government to encourage the flow of private funds into production, whether in the field of industry or other necessary private business activity, and, accordingly, that measures should not be adopted which, through Government lending, tend to supplant or compete unnecessarily with private enterprise.

"For the reasons indicated, the Board would have no objection to the proposals contained in the letter from the Secretary of Agriculture except the proposal for 'loans for periods not exceeding three years which shall be known as forest-production credit loans', as set forth on page 3 of the proposed substitute bill."

At Mr. Ransom's request, Mr. Dreibelbis read the following draft of wire to the Presidents of all the Federal Reserve Banks:

"The Board has received from various of the Federal Reserve Banks copies of letters from member banks expressing their interest in the subject matter of the Board's report to the Senate Banking and Currency Committee on S. 1642. You are aware of the fact that the House Banking and Currency Committee yesterday reported out favorably a companion bill, H.R. 3956.

"The Board suggests that you give consideration to replying to letters of the nature above set out advising the writers of such letters of the action of the House Banking and Currency Committee in reporting the bill favorably; that it is out of the hands of the Board, and that if they wish their views to be taken into account they should be submitted to their representatives in the House and Senate."

Approved unanimously.

Mr. Dreibelbis withdrew from the meeting at this point.

Reference was then made to a memorandum dated January 5, 1944, from Mr. Smead submitting a letter dated December 23, 1943, from Mr. Dillard, Vice President of the Federal Reserve Bank of Chicago, in which it was stated that pursuant to action taken by its board of directors the Bank had purchased a watch and paid the cost of an engrossed resolution which were presented to Mr. E. R. Estberg upon the termination of his service as a director of the Bank. Mr. Smead's memorandum stated (1) that the payment of the cost of the resolution presented to Mr. Estberg was in accordance with the policy set forth in the Board's letter of December 28, 1934 (X-9069), in which it was stated that the board of directors of each Bank should be free to exercise its discretion in authorizing minor expenditures for memorials, testimonials, floral offerings, and similar purchases, and (2) that in its letter of February 19, 1937 (X-9823), the Board stated that information at hand indicated that no Federal Reserve Bank had made it a practice to purchase gifts with Federal Reserve Bank funds for employees leaving the service and it assumed no Federal Reserve Bank would inaugurate such a practice without first taking the matter up with the Board. The memorandum also suggested that, if the Board wished to interpose no objection to the expenditure for the watch for Mr. Estberg, the Board's letter of February 19, 1937, be rescinded and the Federal Reserve Banks instructed to report amounts expended for gifts to those retiring from the service of a Federal Reserve Bank on the monthly expense reports submitted to the Board.

In discussing the matter, the members of the Board present recognized that the amount involved in the purchase of a watch for Mr. Estberg was inconsequential but felt that the action of the board of directors of the Chicago Bank involved the very important question whether the funds of the Federal Reserve Banks, which were essentially public funds, should be used for expenditures of this kind no matter how worthy the purpose might be.

It was agreed that the question of policy involved was sufficiently important to be discussed with the Presidents of the Federal Reserve Banks the next time they were in Washington, and it was agreed that that should be done and that at least for the time being no reply need be made to the letter from Mr. Dillard.

Mr. Szymczak presented a letter addressed to Mr. Paulger under date of October 20, 1943, by Mr. Endres, Auditor for the Federal Reserve Bank of Chicago, enclosing a copy of a report of a review of indebtedness and outside business activities of officers and employees of the Federal Reserve Bank of Chicago as of July 1, 1943, which had been made in accordance with the resolution adopted by the Conference of Chairmen of the Federal Reserve Banks. The report referred to (1) a loan in the amount of $1,000 by President Young to Assistant Vice President Langum for which no note was given, on which no interest was being paid, and which had been made for the consolidation of debts incurred by Mr. Langum due to illness in his family, and (2) the fact that Mr. Langum was engaged in the preparation for the Committee for Economic Development of a pamphlet or small book on monetary and banking policy in the postwar transition period for which he was to be paid the sum of $3,500. The report also stated that the management of the Bank had advised that this activity on the part of Mr. Langum was "acceptable to the Director of the Division of Research and Statistics of the Board of Governors".

> The members of the Board present concurred in the suggestion that, if it were proper for the Federal Reserve Bank to make the study being prepared by Mr. Langum, it should be done by the Bank as such and Mr. Langum should not be paid for it, and that the general question was of sufficient importance to be placed on the agenda for discussion with the Presidents of the Federal Reserve Banks (without reference in the discussion to the Federal Reserve Bank of Chicago).

Attention was then directed to a memorandum addressed to Mr. Szymczak by Mr. Smead under date of February 3, 1944, and reading as follows:

"For the past several months the Presidents' Conference Committee on Free Services and Reimbursable Expenses, of which Mr. Gilbert is Chairman, has had under consideration with the Treasury Department the feasibility of reducing substantially the work involved in preparing vouchers requesting reimbursement for fiscal agency expenses incurred on behalf of the Treasury. A simplified procedure has been prepared which is acceptable to the Presidents' Conference Committee and the Treasury. The Treasury has taken the matter up with the General Accounting Office and that office is willing to dispense with much of the detailed supporting documents and data which now accompany the vouchers. It has asked, however, for permission to

> 'Make periodic examinations, at the various Federal Reserve Banks, of the cost and cost distribution records upon which the reimbursement vouchers are based. This examination would be limited to such records and documents as may be necessary to determine the correctness of the amounts for which reimbursement is claimed by the Bank.'

With respect to this suggestion, the General Accounting Office commented that the proposed inspection of the records of the Federal Reserve Banks for the purpose indicated would not be different in principle from the present practice of "that office in examining the records of private contractors in connection with the cost-plus-fixed-fee contracts in determining amounts properly payable.

"Mr. Bell, in a letter to Mr. Gilbert, stated that it seems to him that the Reserve Banks would be safe in accepting this proposed procedure of the General Accounting Office. After discussion of this matter with me over the telephone, Mr. Gilbert concluded that it would be advisable to put this topic on the program for the next Presidents' Conference, provided members of his Committee agreed, and that after discussion at the meeting of the Conference of Presidents it be taken up at the joint meeting of the Conference with members of the Board of Governors.

"Auditors for the RFC audit the custody records of the Federal Reserve Banks but as far as we know they do not in any case attempt to go into the records relating to costs of performing work for the RFC. Up to this time, neither the General Accounting Office nor any of the departments or other agencies of the Government for which the Federal Reserve Banks perform fiscal agency operations has made examinations of the costs and cost distribution records of the Federal Reserve Banks and the question as to whether they should now be permitted to do so is of substantial importance.

"While the Board's Functional Expense Manual sets forth instructions in some detail with respect to the reporting of costs of fiscal agency operations, the Board has not attempted to lay down minute instructions for the guidance of the Federal Reserve Banks in determining reimbursable expenses. It is known that some Federal Reserve Banks go a little further in requesting reimbursement for fiscal agency expenses than do others. If the General Accounting Office is to be permitted to go into the Federal Reserve Banks for the purpose of checking up on cost records, it probably would be desirable to call an expense accounting conference of representatives of all Federal Reserve Banks to review the procedures in this respect being followed and if practicable to work out definite instructions for the guidance of all Federal Reserve Banks in the determination of fiscal agency expenses.

"It is suggested that this matter be considered by the Board in the light of such recommendation as may be made by the Presidents' Conference."

A discussion ensued of the purpose and possible scope of the proposed examinations by representatives of the General Accounting Office and whether, in view of the fact that the Board as an agency of the Government was charged with responsibility for general supervision of the operations and expenditures of the Federal Reserve Banks and made regular examinations of the Federal Reserve Banks and reviewed periodically the functional expenses of the Banks, the time and expense of examinations by the General Accounting Office would be justified. It was decided that no action should be taken by the Board pending a discussion of the matter at the Presidents' Conference and by the Presidents with the Board.

At this point Messrs. Thurston, Smead, 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 February 10, 1944, were approved unanimously.

Memorandum dated February 10, 1944, from Mr. Morrill, recommending (1) that, effective February 16, 1944, the temporary appointment of Mr. E. P. Jordan as an operating engineer in the Secretary's Office be made permanent, with no change in his present basic salary at the rate of $1,980 per annum, and (2) that Max Rubin be appointed as maintenance mechanic in the Secretary's Office on a temporary basis for an indefinite period, with basic salary at the rate of $1,860 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed satisfactorily the usual physical examination.

Approved unanimously.

Letter to Mr. Harold N. Graves, Acting Commissioner of Internal Revenue, reading as follows:

"There is submitted for your consideration a question as to how certain payments which may be made to some of its employees by the Retirement System of the Federal Reserve Banks should be treated for income tax purposes.

"The great majority of the employees of the Board of Governors of the Federal Reserve System and of the Federal Reserve Banks are members of the Retirement System of the Federal Reserve Banks which was established March 1, 1934. Effective on January 1, 1944, an alternative retirement plan, called the Board of Governors Plan, which provides benefits more nearly equivalent to those provided under the Civil Service Retirement System, was made available to employees of the Board of Governors; such plan being an integral part of the Retirement System of the Federal Reserve Banks and operating within its framework. A copy of the rules and regulations of the Retirement System of the Federal Reserve Banks as revised October 15, 1943, and a pamphlet containing the text of the Board of Governors Plan, together with an explanation of the plan, is enclosed herewith.

"In the case of employees who have elected to be participants in the Board of Governors Plan, the amount of reserves, i.e., the amount of their own contributions previously made to the Retirement System of the Federal Reserve Banks together with the interest accumulated thereon, will be compared with the total amount that would have been deducted from their salaries had they been under the Civil Service Retirement System during their period of service. In a number of cases, such reserves will exceed the contributions necessary to cover past service under the Board of Governors Plan "for the reason that the rates paid under the Civil Service Retirement System until July 1, 1942 were in most instances less than the rates paid under the Retirement System of the Federal Reserve Banks. Where there is such an excess of reserves over the amount called for under Civil Service rates, the excess may (under paragraph (4) of the Plan) either be withdrawn by the employee in cash or be left with the Retirement System as a voluntary contribution to provide for an additional annuity at the time of retirement.

"In this connection, of the 353 employees of the Board who elected to become participants in the Board of Governors Plan, it is estimated that from 150 to 200 may be entitled to refunds as provided above. We do not know at this time how many of these employees will elect to leave these amounts as voluntary contributions with the Retirement System.

"Where the amount is not withdrawn by the employee but is left as a voluntary contribution, it is assumed that no income would be involved since the Retirement System of the Federal Reserve Banks has paid him nothing and merely continues to hold the amount to his credit. Where the amount is actually returned to the employee at this time, however, the question has arisen whether all or any part of such amount so returned should be considered as income or merely as a return of principal.

"It will be appreciated if you will advise the Board in order that we may in turn inform interested employees how the amounts described should be treated for Federal income tax purposes.

"If there is any additional information in connection with this question which you would like us to furnish, we will be glad to do so."

Approved unanimously.

Letter to the Comptroller of the Currency, reading as follows:

"It is respectfully requested that you place an order with the Bureau of Engraving and Printing supplementing the order of June 15, 1943, for printing of Federal Reserve notes of the 1934 Series in the amount and denomination stated for the Federal Reserve Bank of Chicago:

Denomination	Number of sheets	Amount
$5	700,000	$42,000,000"

Approved unanimously.

2/11/44

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved: M S Eccles
Chairman.