

A meeting of the Board of Governors of the Federal Reserve System with the Presidents of the Federal Reserve Banks was held in the offices of the Board in Washington on Tuesday, February 29, 1944, at 4:15 p.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman (last part of meeting)
Mr. Szymczak
Mr. McKee
Mr. Draper
Mr. Evans

Mr. Morrill, Secretary

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

Mr. Clerk, First Vice President of the Federal Reserve Bank of San Francisco

Mr. Sienkiewicz, Secretary of the Presidents' Conference

Chairman Eccles suggested that Mr. Sproul, as Vice Chairman of the Presidents' Conference in the absence of Chairman Day, might wish to present any communications that the Presidents' Conference desired to bring to the attention of the Board of Governors.

Mr. Sproul stated that the Presidents' Conference had met in Cleveland on Saturday and Sunday, February 26 and 27, and had concluded the consideration of its agenda in Washington on Monday, February 28. He said that there were some matters upon which recommendations had been formulated for the consideration of the Board of

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Governors, some actions taken or matters considered of which it was desired that the Board of Governors be advised, and some other matters which would be referred to merely for purposes of discussion. He also said that it was understood that any matter mentioned might be discussed at this Conference or might be reserved for more mature consideration by the Board of Governors and for discussion at some future time if the Board preferred.

Mr. Sproul then read the following statement entitled "Modification in benefits to improve personnel at the Federal Reserve Banks":

"As a means of improving the personnel at the Reserve Banks throughout the Retirement System, the Conference agreed that the recommendations of the Retirement Committee to the Executive Committee of the Board of Trustees of the Retirement System of the Federal Reserve Banks be approved. These recommendations as stated in the report of the Retirement Committee dated February 18, 1944, are as follows:

1. That some provision be made to enable executives of Federal Reserve Banks employed relatively late in life to receive larger retirement allowances than those available under the regular retirement provisions of the Retirement System.
2. That the benefits be increased for higher salaried officers and employees, as part of the System's program of obtaining and retaining executive officers of greatest competence (Mr. Fleming asked to be recorded as not voting on this recommendation).
3. That the proposal set forth on page 25 of the Presidents' Conference Committee report of June 25, 1943, re special retirement benefits for members involuntarily separated from service after age 55, be approved.

"The Conference agreed to request the Board of Governors to approve these recommendations."

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With respect to the procedure by which this matter came before the Presidents' Conference and now was presented to the joint session of the Governors and the Presidents, Mr. Sproul pointed out that the unusual conditions connected with the adoption of the Presidents' Conference report last fall on the Retirement System and the subsequent reorganization of the governing bodies of the Retirement System led to this particular procedure which he did not expect would be followed in the future. He anticipated that in the future any proposed changes in the rules and regulations of the Retirement System would come to the Board of Governors through the Board of Trustees of the Retirement System.

Mr. McKee inquired whether the elimination of the \$3,750 limitation upon the pension portion of the normal retirement allowance was considered to be more important than raising the basic salary limitation to \$20,000 or \$25,000. Mr. Sproul pointed out that the recommendations were in the alternative, either to eliminate the \$3,750 or to raise it proportionately in accordance with such raise in the salary limitation as might be approved.

Mr. Sproul then read a statement on the subject of "Insurance - Share, Mail and Express Losses", as follows:

"The Conference discussed the report of the Insurance Committee and the outline of the plan to share registered mail and express losses. This plan provides that the present agreement should be amended or revised to

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"include the sharing of losses incident to shipments of registered mail and express of paper currency, coin, and securities that are the property of the Federal Reserve Banks or for which they ordinarily assume the expenses of transportation.

"Various possible alternatives were considered as a basis for compromise. Among these were:

- (a) To accept the suggested plan, but put it into effect at some future date after the termination of hostilities;
- (b) To accept the plan on condition that effective machinery for investigating and salvaging of losses will be worked out before putting the plan into operation; and
- (c) To modify the proposed plan to provide that the Reserve Banks assume risk for shipments of new currency from Washington to the Reserve Banks but not for shipments between Reserve Banks and member banks.

After a prolonged discussion, it was voted that the proposed plan to share registered mail and express losses be accepted and approved, and that it is to become operative when the necessary administrative and salvaging organization is set up.

"The votes were divided, eight Presidents being for this resolution while four Presidents were against it."

Mr. Sproul stated with reference to the division of 8 to 4 in the vote of the Presidents that, so far as the 4 Presidents were concerned, they would have to go back to their boards of directors and advise them of the consideration of the subject at the Presidents' Conference and ascertain what position their respective boards of directors would take in the light of the action of the Presidents' Conference.

Mr. McKee inquired whether there was any reason for consideration of the matter by the Board of Governors until the Board had been

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informed as to the position of these 4 Banks. Mr. Sproul stated that the 4 Banks in question were Boston, New York, Chicago and San Francisco; that they had tried to find a compromise solution of the problem, but that there was no compromise which would be as acceptable to the majority of the Presidents as the adoption of the plan.

Mr. Eccles stated that it seemed to him that the first step would be for the boards of directors to consider the report and to determine their course of action. He thought that the Board, feeling its responsibility for general supervision of the System and for the very large expenditures involved in the continuation of the present practice as compared with very substantial savings to the System if the plan were adopted, might take the responsibility of requesting the Banks to adopt the program that had been accepted by the majority; but that if a question were then raised by the Banks as to the authority of the Board to take that step the only recourse might be to ask Congress for a clarification of the matter.

Mr. Sproul stated that he did not believe that the boards of directors of the Banks would want to press the matter to such a point as that but that possibly the Board would wish to consider whether there was any further information that might be given to them. He added that there was one matter that particularly concerned the Presidents who voted against the plan and that was the determination of the time when it should become effective in view of war and possible postwar conditions.

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Mr. Ransom entered the meeting at this point, having been necessarily absent on other pressing official business.

The next matter which Mr. Sproul referred to was the proposed disclaimer with respect to the property of the Board of Governors in Washington. He read the following statement:

"Various aspects and implications of disclaiming the title of ownership in the Reserve Board Building and lot in Washington were considered.

"The general consensus was that there was no objection to giving such a disclaimer, although the question was raised as to a certain phrase in the form of the disclaimer.

"The subject is to be reviewed and considered at the joint meeting with the Board of Governors."

Thereupon Mr. Dreibelbis was called into the meeting and a number of questions were asked. The first question was whether the document went far enough to clear up any claim for back taxes. Mr. Dreibelbis stated that he felt that it did everything that could be done in that direction and that it was considered by the Board of Commissioners and the Corporation Counsel of the District of Columbia that their acceptance of this document would eliminate any such claim. He pointed out that the document was in effect a disclaimer that the Federal Reserve Banks ever had any right, title or interest in or to the property. The second question was whether only one document might be executed instead of 12, and Mr. Dreibelbis stated that it was intended that only one document should be executed by the 12 Banks. The third question related to the phraseology of the disclaimer. The suggestion was made that the disclaimer should run to the Board of Governors

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of the Federal Reserve System instead of to the United States of America. Mr. Dreibelbis said that such a change in phraseology would not be satisfactory to the District of Columbia authorities and there followed a discussion of the language used. At the conclusion of the discussion it appeared that all questions had been disposed of to the satisfaction of the members of the Presidents' Conference, and the statement was made that the document would be promptly executed by the 12 Banks.

Mr. Sproul then took up the question of legislative proposals for financial aid to business and read the following statement:

"Consideration was given to various legislative proposals to provide lending facilities to business, particularly during reconversion, whenever such facilities are not available through the existing credit channels. Special attention was given to

- (a) The provisions contained in the so-called Mead proposals, and
- (b) Suggestions made to War Mobilization Director Byrnes by the Chairman of the Board of Governors.

The consensus was that the question of providing additional facilities for financial aid to business during reconversion and afterward is of direct concern to the Reserve Banks, and that the Presidents of these Banks, as principals, should have the opportunity to express their views if there are any views to be expressed in the interest of the System. It was agreed that this subject should again be reviewed with the Board of Governors at the joint meeting in accordance with the action of the Presidents' Conference in June 1943."

In connection with the foregoing statement Mr. Sproul referred to a letter which the Secretary of the Presidents' Conference had addressed to the Board of Governors on August 21, 1943, quoting the action taken

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at the meeting at Chicago on June 27, 1943. Chairman Eccles reviewed the recent history of the consideration of various proposals. He stated that the Board had not participated in the drafting of the Mead proposals and that he had merely expressed a willingness to prepare and submit a bill in conformity with the ideas he had expressed if he were called upon to do so. He thought that because of the political interest in financial aid to small business enterprises something would be done legislatively. If the Board were requested to prepare and submit a bill or if the situation should develop to the point where it appeared that the Board should offer a bill, he would be glad to send copies of the proposed bill to the Presidents and to ask them for their suggestions, their views and their criticisms. He said that he thought that if a situation should develop where the System would prefer to have nothing to do with such proposals, it would be a mistake because certainly, in his opinion, a program would be developed and if the System were opposed its execution would be placed elsewhere.

At this point Mr. Ransom said that Chairman Spence, of the Banking and Currency Committee of the House of Representatives, had informed Mr. Ransom that he was very much interested in, and impressed by, this portion of the Baruch Report and that if the Board should crystallize its ideas he would like to have an opportunity to sponsor the proposal, feeling that it would have a cordial reception by the Committee. Chairman Eccles said that he would feel that it would be

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necessary first to communicate with Messrs. Hancock and Baruch before taking such action.

Mr. Sproul said that he felt that there had been nothing in the discussions which indicated a tendency on the part of the Presidents to oppose such proposals or to take the position that the Federal Reserve System should have nothing to do with them.

The next subject upon which Mr. Sproul reported was that of System research organization and function. He read the following statement:

"System Advisory Research Committee"

"The Conference discussed the request made by Dr. Goldenweiser with respect to the desirability of creating an advisory committee to work with him in considering research matters at the national level.

"After consideration of the report of the Committee on Research and Statistics, the Conference approved the following proposal as a workable program:

- (a) That the functions of the executive committee of the Presidents' Conference Subcommittee be broadened to include serving under Dr. Goldenweiser's chairmanship on a System Research Advisory Committee, with one representative of the Reserve Banks to act as Vice Chairman;
- (b) That the Subcommittee on Research and Statistics of the Presidents' Conference and its executive committee continue to function as at present, under the Presidents' Committee on Research and Statistics; and
- (c) That provision be made for rotation of membership on the executive committee and that its officers be selected annually."

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Mr. Sproul reported that Dr. Goldenweiser had been called into the Presidents' Conference yesterday afternoon to discuss the research program. Chairman Eccles then outlined his conception of the proposal with respect to the formation of a System committee. He said that in his view of the matter there should be a committee which would serve in an advisory capacity both to Dr. Goldenweiser and to the Federal Reserve Banks, with Dr. Goldenweiser acting as its chairman. He said that the principal objective which he had in mind related to the research work falling under the direction of the Board of Governors upon which he felt that it was desirable to have the advice of a committee of System economists. He added that this was not intended to take the place of any research committee that the Presidents might wish to have in connection with such work as they might consider desirable from the standpoint of the Federal Reserve Banks. He pointed out that any research projects that the Banks might wish to adopt would be subject to the conditions laid down in the Board's letter addressed to each Federal Reserve Bank in 1936 on the subject of the research organizations at the Federal Reserve Banks. Mr. Davis expressed the opinion that there should be no difficulty in formulating a plan to carry out the Chairman's suggestions within the present framework.

Following a further discussion it was informally understood and agreed that the matter should be referred back to Mr. Williams, as Chairman of the Presidents' Conference Committee on Research, to

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work the matter out in cooperation with Dr. Goldenweiser, with broad latitude to provide for a method of rotating the membership of the committee. Chairman Eccles inquired of Mr. Evans and the other members of the Board whether they had any suggestions. Mr. Evans responded that he thought the matter could be worked out along the lines suggested and no suggestions were made by the other members of the Board.

At this point it was decided to take a recess until the following day. Before taking the recess Mr. McKee suggested that the Presidents give some consideration to the proposal contained in the pending bill H. R. 1818, upon which the Board had been asked for a report, which would amend existing law so that the expense of one examination of National banks by the Comptroller of the Currency would be borne by the Federal Deposit Insurance Corporation.

Thereupon the meeting adjourned.

Chester Morris
Secretary.

Approved:

W. S. Eccles
Chairman.