

A meeting of the Board of Governors of the Federal Reserve System with the Presidents of the Federal Reserve Banks in executive session was held in the offices of the Board of Governors in Washington on Monday, December 11, 1944, beginning at 3:40 p.m.

PRESENT: Mr. Eccles, Chairman
Mr. Szymczak
Mr. McKee
Mr. Draper
Mr. Evans

Mr. Morrill, Secretary of the Board of Governors

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

Mr. Koppang, First Vice President, Federal Reserve Bank of Kansas City

Mr. Ransom of the Board of Governors was absent on account of hearings which were being held by the Senate Committee on Banking and Currency in regard to the Brown-Maybank Bill. Chairman Day of the Presidents' Conference was absent during the first part of the meeting for the same reason. Mr. Leedy of the Federal Reserve Bank of Kansas City was absent on account of illness in his family, and First Vice President Koppang was present in his place.

Mr. Sproul stated that the Presidents met on Friday and Saturday of last week, that there were several questions on their agenda which they thought it desirable to discuss with the Board of Governors,

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and that, in the temporary absence of Chairman Day of the Presidents' Conference, he had been requested to present the statements of views that had been prepared by the Presidents. Mr. Sproul then read a statement as follows:

"Treasury Financing. Reviewing the progress of the Sixth War Loan Drive, members of the Conference of Presidents reported that abuses arising primarily from indirect bank subscriptions continue in evidence and that the supervision of such subscriptions is both difficult and harmful to member bank relations, particularly as no uniform policing for the whole country has yet been formulated. The consensus was that the present Treasury program invites indirect subscriptions and buying for quick resale, and that the program should be modified for the next drive. The Conference is of the opinion that such modification should include goals for non-bank subscriptions, which are honestly attainable with the present selling organization, and that financing through the banks should be as much as possible by direct offerings to the banks.

"The Conference of Presidents suggests that these proposals be reconsidered with the Treasury representatives by the Executive Committee of the Open Market Committee before the next war loan drive, and that a meeting of the Presidents with representatives of the Treasury and the Board of Governors be held immediately before the drive to formulate a uniform program of policing subscriptions."

Mr. McKee inquired whether there was any objection to sending the statement to the Treasury.

Mr. Sproul pointed out that there were two separate matters involved in the statement, the first of which would tie in with the subjects which had been under consideration by the Federal Open Market Committee for the purposes of discussion with the Treasury and the second of which could be sent promptly to the Treasury as an indication

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of the desire that a meeting of the Presidents with representatives of the Treasury and the Board of Governors be held shortly before the next drive in regard to the desirability of a uniform program of policing subscriptions.

Chairman Eccles commented that the executive committee of the Open Market Committee very likely would be meeting with the Treasury at an early date for the purpose of discussing recommendations regarding Treasury financing and that if a satisfactory program could be worked out with the Treasury it would facilitate the disposition of the problem.

Mr. Davis, however, said that it was not intended that the subject of policing subscriptions should be cleared through the executive committee of the Open Market Committee and that what was desired was a separate meeting of the Presidents with representatives of the Treasury and the Board because it was felt important in the interest of obtaining uniformity of procedure at all the Federal Reserve Banks and it was hoped that such a meeting would accomplish this purpose.

At the conclusion of the discussion, Chairman Eccles stated that the Treasury would be advised of the Presidents' request in this connection.

Mr. Sproul then read the following statement:

"Promotional Activities. In discussing the work that the Reserve Banks may be expected or requested to do in

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"distributing material and giving information to banks in connection with the so-called G.I. Bill of Rights, a question was raised concerning the practice of sending material to the Reserve Banks, often without prior consultation with them, to be distributed to the banking community in behalf of various government agencies. Such practice involves the relationship of the Reserve Banks to member banks and to the public, as well as expense to the Reserve Banks even though to date it has not been significant. The Conference felt, therefore, that the subject merited joint consideration with the Board of Governors."

Mr. Sproul stated that it was felt that the problem outlined in this statement might become a serious one in the field of member bank and public relations. If it became a habit or a practice for various Governmental agencies seeking to reach the banking community to distribute a lot of material through the Board and the Banks without an opportunity for prior discussion as to whether or not it was desirable from the standpoint of the Federal Reserve Banks, it might impair the effectiveness of their general program of bank relations.

Mr. Peyton said there was some difference of opinion in the Presidents' Conference because some of the Presidents felt that they should help in these matters whenever possible.

Chairman Eccles observed that a satisfactory disposition of such matters might be obtained if it could be understood that the various Governmental agencies should not assume that we would send out to banks everything for which they desired to use our facilities, that they should take such matters up with the Board in advance, and

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that if the Board questioned the advisability of the distribution of any particular type of material or if there were some question because of the volume of work involved, the Board might dissuade them, or, if it was felt that there was something that should be considered with the Reserve Banks before reaching a decision, the Board might take it up with them.

Mr. Sproul said he thought that what the Chairman said was what the Presidents had in mind and that the Board might act as a screen in holding down and preventing abuse of this practice by other agencies.

Mr. Morrill inquired whether there had been instances of the kind that Mr. Sproul had in mind other than the recent experience with the Veterans Bureau under the G.I. Bill of Rights.

Mr. Sproul said that he thought that that experience was really the occasion for the statement.

Mr. Morrill said that there had been considerable confusion in the Veterans Administration as to the procedure that they should follow in distributing their material; that on at least one occasion some of the Federal Reserve Banks had received material from the Veterans Administration without instructions and without our prior knowledge and that, when the Federal Reserve Banks advised us of the situation, the matter had been taken up with the Veterans Administration and it was believed that it had been straightened out satisfactorily.

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Mr. Morrill suggested that if the Federal Reserve Banks in any other situation would call us informally, as they did with respect to the G.I. Bill of Rights' material, we might be able to help in straightening out the situation promptly.

Mr. Sproul then read the following statement:

"Building Facilities of Reserve Bank Branches. Consideration was given to the desirability of recommending some coordinated plan for relief from the present law limiting the amount that can be expended in erecting branch Federal Reserve Bank buildings inasmuch as a number of the Banks must provide additional branch quarters as soon as construction is possible. The Presidents felt that under existing conditions the present limitation is unreasonable and that an appropriate modification of the law might be considered as a relief to the Reserve Banks concerned and as a part, even though a small one, of the preparation for high levels of employment and business activity after the war. The Conference understood that the Board of Governors had suggested this as a subject for joint discussion."

Chairman Eccles said that the subject was one to which the Board had given consideration and that it had seemed to the Board that good reasons could be presented for modification or elimination of the existing restriction, especially in view of the fact that there is no limit on the cost of head office buildings nor upon the purchase of land or existing buildings for branches and that all expenditures of the Reserve Banks are subject to the approval of the Board of Governors.

Mr. Davis stated that it seemed to him that the Board of Governors would have to be the judge of the manner in which this problem

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should be approached legislatively.

Mr. Sproul said that both the timing and the approach should be left to the Board of Governors and that as between seeking individual authorizations for individual branches and seeking an amendment to the law which would eliminate the present restriction on branches, he thought the general preference of the Presidents would be for the latter.

Chairman Eccles said that that was also the preference of the Board of Governors.

Mr. Sproul read the following statement:

"Job Classification in Research Departments of Reserve Banks. The Conference considered, accepted and approved the recommendations of its special Committee on Job Classification in the Research Departments of the Reserve Banks. The purpose of the recommendations is to simplify the present classification, making its operation more flexible. The Committee has worked out broad groupings of jobs in the Research Departments that would eliminate some fifty-odd positions above those of junior clerk, stenographer and typist. Descriptions of these groupings and maximum annual salary are given in the report. The Committee also recommended and the Conference agreed that the title 'Research Department' should be used instead of 'Department of Research and Statistics' in the interest of uniformity and simplicity."

Mr. Sproul said that, as he understood it, it would be necessary for each of the Federal Reserve Banks to submit to the Board of Governors a revision of the existing Form A Personnel Classification Sheets so as to give effect to the recommendation which had been approved by the Presidents' Conference. Mr. Sproul added that President

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Williams was the Chairman of the Presidents' Conference Committee which had considered the recommendations.

Chairman Eccles stated that the matter would receive the Board's consideration as soon as practicable following this meeting.

At this point Mr. Day joined the Conference and read the following statement:

"Regulation Q - Absorption of Exchange and Collection Charges. Governor Ransom had met with the Presidents on Friday and had asked for an expression of their judgment as to what should be the Board's policy as to enforcement of Regulation Q in the event the Maybank Bill fails of passage.

"After reviewing various aspects of the exchange absorption controversy, the Conference with one dissenting vote, agreed that, if the Maybank Bill is defeated or dies with this session of the Congress, the Reserve authorities should enforce the present regulation. It was the general view that if the Bill fails to pass the Congress and if the enforcement is not undertaken expeditiously, the prestige and leadership of the Reserve System may be seriously impaired. The consensus was that if mistakes are made, they should be on the side of boldness and vigor rather than on the side of caution and reluctance. In expressing this view, the Conference was mindful of the desirability of obtaining the effective support of the Comptroller of the Currency in forcing national banks to comply with the regulation prohibiting member banks from absorbing exchange and collection charges but felt that, even without the support of that Office, the job must be undertaken."

Mr. Peyton said that he had cast the dissenting vote. He said that, based upon his own observation and experience, he felt that it would be highly undesirable to try to enforce the Board's ruling without the cooperation of the Comptroller of the Currency and of the

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Federal Deposit Insurance Corporation.

Mr. McKee pointed out that the Board's policy had been that it would proceed case by case on the basis of the reports of examination as they came along, and raised the question whether the intent of the statement presented by the Presidents was to suggest that there should be special examinations.

Mr. McLarin indicated that he thought that such was the case and pointed out that the statement used the word "expeditiously".

Chairman Eccles said that it seemed to him that the Reserve System had been given the statutory responsibility and authority to deal with this subject; that the Board had already made a finding that the absorption of exchange in the case in which the question had arisen was simply a way of paying interest indirectly, that that was not a responsibility of the Federal Deposit Insurance Corporation so far as member banks were concerned, its responsibility being confined to nonmember banks, and that it did not seem that our responsibility was lessened in any way by the difference in point of view of the Federal Deposit Insurance Corporation or by the failure of either the Federal Deposit Insurance Corporation or the Comptroller to take concurrent action. He added that he felt that we were entitled to expect that the Comptroller of the Currency wherever he found that a bank was not complying with the law as interpreted by the Board would report the facts to the Board. He thought that if it should come to the attention

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of the Board that the Comptroller was ignoring the situation, the Board would have to advise the Comptroller of its views because of the Board's responsibility in the matter and because the Board was authorized under the law to send its own examiners into national banks to ascertain whether or not complaints are justified which was a step which it was believed the Comptroller would not wish the Board to take.

Mr. Gilbert expressed the view that there was only one sure way of meeting the situation and that was in accordance with a suggestion by Governor Ransom that we go into the courts and endeavor to obtain a declaratory judgment. He agreed with President Peyton about the desirability of obtaining the cooperation of the Comptroller of the Currency and the Federal Deposit Insurance Corporation, but felt that we would be inviting much more trouble if we did not undertake the enforcement of the law. He said that in view of the difference of opinion among the Governmental supervisory authorities on this question, he thought a court settlement through a declaratory judgment would be more effective than any other method because it would then be demonstrated to be the law of the land.

There followed a general discussion of various courses of action which might be followed in the enforcement of the Board's ruling.

Mr. Day then read the following statement:

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"Fair Labor Standards Act in Relation to Reserve Banks. The Conference of Presidents subscribes to the opinion that the Fair Labor Standards Act is not applicable to the Federal Reserve Banks, and is in favor of having Mr. J. P. Dreibelbis, General Attorney of the Board of Governors, seek a ruling to this effect; but notwithstanding this opinion the Conference reaffirms the view, first expressed in 1938, that the Federal Reserve Banks should conform to the Fair Labor Standards Act, and it expresses the view that all of the Federal Reserve Banks should review their practices with respect to the payment of overtime, and with respect to classification of employees as exempt and non-exempt, in order to bring about the fullest possible conformity with the Act if in any case it does not now exist."

Chairman Eccles inquired whether there was any objection on the part of the members of the Board to the position taken in the statement. It appeared that there was no objection and Chairman Eccles said that it seemed to him that the position stated was the only one which the Federal Reserve Banks could safely take. Mr. Day outlined the problem as it had developed in the experience of the Federal Reserve Bank of San Francisco and pointed out that substantial claims might be lodged against the Bank if it were held to be subject to the Fair Labor Standards Act and, therefore, subject to liquidated damages in addition to the amount of overtime involved. He said that the San Francisco Bank had felt that it should not do anything that might affect adversely the interests of other Federal Reserve Banks until the whole question had been considered from a System standpoint. The discussion was concluded with the understanding that the Board would give prompt consideration to this matter.

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The foregoing statement concluded the presentation on behalf of the Presidents of the various matters which they desired to consider with the Board of Governors.

Thereupon Chairman Eccles presented the need which he felt for an educational program to develop among the individual purchasers and holders of Government bonds the importance of holding their bonds as investments and not cashing them in unnecessarily. He felt that the salesmanship approach that had been made on the ground that purchases of Government bonds, particularly the E bonds, would create a backlog for personal spending after the war was a highly undesirable one. He felt that the public would be more apt to accept an educational program that was sponsored in their own communities but would be national in scope and that to this end material might be prepared which might be used in local advertising with the cooperation and support of leaders in labor, agricultural, industrial, and banking organizations and groups. He thought that sponsorship by the Treasury might be misunderstood, and that the Federal Reserve Banks might well give consideration to how such a program might be developed and carried on locally.

There followed a discussion which included comments by several of the Presidents. Mr. Young stated that the West Side banks in Chicago had already started a campaign to promote the holding of bonds and that they had developed some very effective advertising material.

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Mr. McLarin pointed out that one factor in the situation which tended to discourage people from holding their bonds was that they could not borrow on the E bonds.

Mr. Peyton thought that the best way to get such a program going in the country was to get the bankers behind the movement, and Mr. Leach said that the American Bankers Association had already started something along that line.

Mr. Young said that the Treasury also had taken some steps in that direction.

Chairman Eccles said that if the Presidents did not see any objection to the idea and felt that it had merit, he would like at some appropriate time to discuss it with the Treasury people.

Mr. Sproul said that he thought it should be keyed in with the Treasury selling program, and also with the Treasury buy and hold campaign which he understood is to be launched in January, 1945.

After some further discussion, the meeting was adjourned.

Chester Morris
Secretary.

Approved:

W. C. Eccles
Chairman.