

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, August 26, 1942, at 9:30 a.m.

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

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. Thomas, Assistant Director of the Division of Research and Statistics
Mr. Krost, Senior Economist in the Division of Research and Statistics

Mr. Szymczak reviewed briefly the consideration which had been given by members of the Board and its staff to, and the discussions had with representatives of the Treasury in connection with, the memorandum setting forth the views of the Board with respect to the proposed application of a withholding tax to interest on bonds, which it was agreed at the meeting of the Board on August 6, 1942, Messrs. Ransom and Szymczak should have prepared and which might be sent by the Board to the Chairman of the Senate Finance Committee which was holding hearings on the current tax bill. Mr. Szymczak also referred to the reasons why it was believed to be desirable to have the statement of the Board's views take the form of a letter to Mr. Randolph E. Paul, General Counsel for the Treasury, who was appearing before the Senate Finance Committee

8/26/42

-2-

in connection with the tax bill, and said that a draft of letter to Mr. Paul had been prepared for consideration by the Board at this meeting. He made the further statement that the draft of letter had been read over the telephone to Chairman Eccles, who was in Utah, and that he had approved the substance of the letter. Mr. Szymczak went on to say that the proposed letter was in agreement with the testimony given by Mr. Paul before the Senate Finance Committee yesterday with respect to the withholding tax with the exception that the letter took the position that interest on registered bonds should not be included in the withholding provisions of the bill, that Mr. Paul was aware of this difference and was agreeable to having the Board's position on this point included in the letter, and that he had asked that the letter when approved by the Board be sent to him at the hearing room in the offices of the Senate Finance Committee.

The draft of letter was read and discussed and, upon motion by Mr. Szymczak, was approved unanimously in the following form, with the understanding that it would be delivered to Mr. Paul in accordance with his request:

"As an agency having a large measure of responsibility for helping to achieve the objectives of the President's program for economic stability, the Board of Governors feels strongly that the withholding tax is essential to make effective the use of the tax weapon against the dangers of inflation, and that this vitally important tax should not be jeopardized by avoidable complications.

"The Board has asked me to express to you our full approval of your recommendation to the Senate Finance Committee with regard to avoiding the serious administrative difficulties that would arise if the withholding tax were to be applied to bond coupons.

8/26/42

-3-

"As you are so well aware, we are threatened by inflation because national income is on the rise, while the supply of civilian goods is steadily shrinking as our resources are, of necessity, devoted more and more to war production.

"Taxes are the most effective weapon against inflation because they prevent the spending of part of this increasing money income. But to be most effective, they must be applied promptly and must be applied to income before it gets into the spending stream. Unless a withholding system is introduced, the Treasury will not obtain increased taxes until many months after increased incomes can be used to bid up to unmanageable levels the prices of the nation's diminishing supply of consumer goods. There are no effective, practical substitutes for the system of withholding income tax at source. Accordingly, we agree that retention of the withholding provisions of the House Bill is of the greatest importance at this time.

"Your proposal, in accordance with Chairman Eccles' recent conference with you, that the administrative complications of applying the tax to bond coupons should be avoided, will remove an obstacle to the prompt adoption of this necessary measure. While we agree with you that these complications do not apply in the case of registered bonds, we feel strongly, on other grounds, that registered bonds should not be included. To exclude coupon bonds, and include registered bonds, would be to give an advantage to the former that might induce holders of the registered securities to exchange them for coupon bonds wherever that privilege of exchange is permitted. This would make difficult, if not impossible, the sale by the Treasury of future issues of registered bonds, which is in the interest of a wide distribution of Government securities outside the banks.

"In conclusion, the Board strongly favors the adoption of a withholding tax and would not wish the suggestion mentioned above to be used in any way that would indicate an unfavorable attitude on the part of the Board toward the plan of collecting taxes at the source."

At this point, Messrs. Thurston, Thomas, and Krost left the meeting, and the action stated with respect to each of the matters hereinafter referred to was then taken by the Board:

8/26/42

-4-

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on August 25, 1942, were approved unanimously.

Memorandum dated August 24, 1942, from Mr. Paulger, Chief of the Division of Examinations, recommending that, effective as of the date upon which he enters upon the performance of his duties after having passed satisfactorily the usual physical examination, Andrew N. Thompson be appointed as an Assistant Federal Reserve Examiner, with salary at the rate of \$3,600 per annum, and with official headquarters at Washington, D. C.

By unanimous vote, Mr. Andrew N. Thompson was appointed an examiner to examine Federal Reserve Banks, member banks of the Federal Reserve System, and corporations operating under the provisions of Sections 25 and 25(a) of the Federal Reserve Act, for all purposes of the Federal Reserve Act and of all other acts of Congress pertaining to examinations made by, for, or under the direction of the Board of Governors of the Federal Reserve System, and was designated as an Assistant Federal Reserve Examiner, with official headquarters at Washington, D. C., and with salary at the rate of \$3,600 per annum, all effective as of the date upon which he enters upon the performance of his duties after having passed satisfactorily the usual physical examination.

Memorandum dated August 18, 1942, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that Miss Amy Phyllis Bach be appointed as a clerk-stenographer in that Division, with salary at the rate of \$1,620 per annum, effective as of

8/26/42

-5-

the date upon which she enters upon the performance of her duties after having passed satisfactorily the usual physical examination.

Approved unanimously.

Memorandum dated August 25, 1942, from Mr. Cravens, Administrator for the War Loans Committee, recommending that Miss Olive C. Faucette be appointed as a clerk-typist in the office of the Administrator for the War Loans Committee, with salary at the rate of \$1,620 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed satisfactorily the usual physical examination. The memorandum stated that the entrance salary proposed for Miss Faucette was low for one with her education and experience, and that the recommendation was made with the understanding that her salary would be reviewed within a period of three months or so.

Approved unanimously.

Letter to the board of directors of the "Port Byron State Bank", Port Byron, Illinois, 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, together with a letter to Mr. Young, President of the Federal Reserve Bank of Chicago, reading as follows:

8/26/42

-6-

"The Board of Governors of the Federal Reserve System approves the application of the 'Port Byron State Bank', Port Byron, Illinois, for membership in the Federal Reserve System, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the Board of Directors of the institution. Two copies of such letter are also enclosed, one of which is for your files and the other of which you are requested to forward to the Auditor of Public Accounts for the State of Illinois for his information.

"According to the information in the report of examination for membership, two payments of 10 per cent each have been made on waived deposits, reducing the amount from \$164,100 to \$131,300, and on the date of examination there was \$26,200 carried in reserves in the bank's statement representing recoveries on segregated assets. The examiner states in this connection that no thought is being given by the directors toward the payment of another dividend and that the bank plans to effect a compromise with the certificate holders, if possible, at some future date.

"If any compromise should be undertaken it will be expected that the Reserve Bank will follow the situation closely to see that the rights of waiving depositors are recognized and fully protected. It is assumed that the withholding of payment of further dividends to the waiving depositors at this time, even though there is a substantial amount available for distribution, is not for the purpose of influencing a compromise settlement."

Letter to the board of directors of "The Peninsula Bank of Ishpeming", Ishpeming, Michigan, 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 Minneapolis.

Approved unanimously, together with a letter to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, reading as follows:

8/26/42

-7-

"The Board of Governors of the Federal Reserve System approves the application of 'The Peninsula Bank of Ishpeming', Ishpeming, Michigan, for membership in the Federal Reserve System, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the Board of Directors of the institution. Two copies of such letter are also enclosed, one of which is for your files and the other of which you are requested to forward to the Commissioner of Banking for the State of Michigan for his information.

"Since the amount of estimated losses shown in the report of examination for membership is relatively small, the usual condition of membership requiring elimination of losses has not been prescribed. It has been noted, however, that the management intends to charge off the amount classified and it is assumed that this will be done."

Letter to Mr. Fletcher, Vice President of the Federal Reserve Bank of Cleveland, reading as follows:

"Reference is made to your letter of July 28, 1942, relating to the consolidation as of July 15, 1942, of The State Savings Bank of Woodville, a member bank, and The Woodville Savings Bank Company, a nonmember insured bank, both of Woodville, Ohio.

"The State statutes under which the consolidation was consummated apparently contemplate that the consolidation of two banks will result in the creation of a new corporation and not merely the continuation of the corporate entity of one of the constituent banks. In view of this fact, it would appear that, under the instructions contained in the Board's letter X-6067, dated June 12, 1928, (F.R.L.S. #3493), a new application for membership should have been filed in this case if it were desired that the consolidated institution should be a member bank. However, it is understood that, under the State statutes, the consolidated institution succeeded to all of the 'rights, titles, obligations, and relations' of each of the constituent institutions and that, in fact, it has accepted the status of a member bank and is now operating as such. In the circumstances, the Board has decided that the technical requirement of a new application may be safely waived in this instance, but the matter is being called to your attention in order that it may have your consideration in connection with any future case involving the consolidation of member and nonmember banks in Ohio.

8/26/42

-8-

"It would appear from the information submitted that the consolidation has not resulted in a change in general character of business or scope of corporate powers within the meaning of condition of membership numbered 1 under which The State Savings Bank of Woodville was admitted to membership, and the Board interposes no objection to the transaction."

Approved unanimously.

Letter to Mr. Mulroney, Vice President of the Federal Reserve Bank of Chicago, reading as follows:

"Reference is made to your letter of August 17, 1942, submitting the request of The Garrett State Bank, Garrett, Indiana, for permission to transfer to surplus the \$10,000 in reserve for dividends payable in common stock.

"When the bank's application for membership was under consideration it was understood that the institution was committed to the F.D.I.C. to provide for an increase of \$10,000 in common stock. Therefore, the Board's Division of Examinations discussed the bank's request with the Washington Office of the F.D.I.C. The Division was informed that there would be no objection to permitting the bank to transfer the amount in the reserve to surplus instead of increasing the capital, that there was a conflict with present interpretation of a provision in State law, and that, actually, the increase in deposits anticipated at the time the F.D.I.C. had the understanding with the bank had not materialized and therefore there appeared to be no longer a need for a larger capital.

"In view of the circumstances the Board interposes no objection to the proposal."

Approved unanimously.

Telegram to Mr. Longmire, Director of the War Production Loan Agency, Federal Reserve Bank of St. Louis, reading as follows:

"Referring your reports for June and July, submitted in response Board's letter S-534 of July 16, War Department would like reports to show total amount of advances made,

8/26/42

-9-

"i.e., disbursed to borrowers on each guaranteed loan. Please mail reports showing such information at early convenience and wire as soon as practicable total amount advanced to June 30 on all loans guaranteed by War Department."

Approved unanimously.

Letter to the officers in charge of bank examinations at all of the Federal Reserve Banks, reading as follows:

"With reference to Mr. Paulger's letter of August 4, 1942, regarding a proposed conference of representatives of the Bank Examination Departments of the Federal Reserve Banks, a conference will be held in Philadelphia beginning Tuesday, September 22, at 9:30 A.M. It is not contemplated that the conference will last more than three days. The sessions will be held in the Board Room of the Federal Reserve Bank of Philadelphia. Mr. Paulger will advise you further as to details of the program.

"It is understood that the proposed convention of the National Association of Supervisors of State Banks which was to have been held in Philadelphia on September 24-26, inclusive, has been called off for these dates. However, it is not felt that this change should affect our plans for a conference.

"Mr. E. C. Hill, Vice President of the Federal Reserve Bank of Philadelphia, has made tentative arrangements with one of the local hotels for hotel accommodations during the conference. In order that the reservations may be confirmed as soon as possible, it will be appreciated if you will promptly advise Mr. Hill as to the names of the representatives of your bank who will attend the conference, the type of accommodations desired, and the approximate time of their arrival in Philadelphia. In order that Mr. Paulger may be informed as to the representatives who will attend the conference, kindly send him a copy of your letter to Mr. Hill."

Approved unanimously.

Memorandum dated August 20, 1942, from Mr. Carpenter, recommending (1) that the Board authorize the destruction of copies in the Board's files of reports of examination of State member banks made

8/26/42

-10-

during the years 1931 to 1935, inclusive, and (2) that approval be given to a letter to Mr. Solon J. Buck, Archivist of the United States, reading as follows. The records referred to in the letter to Mr. Buck were files of applications under the Clayton Act for permission of the Board to serve as officer, director or employee of more than one bank, and correspondence relating thereto prior to August 23, 1935.

"In accordance with the provisions of the Act of August 5, 1939, and the procedure prescribed by the National Archives with respect to the destruction of useless records, there is attached hereto in triplicate National Archives form M26 covering records of the Board of Governors of the Federal Reserve System that are not needed in the transaction of the current business of the Board and which have no permanent value or historical interest.

"It will be appreciated if you will have your examiners review this material as promptly as possible in order that it may be included in the next list submitted by you to Congress of records to be disposed of.

"All of the records referred to on the attached form are of a confidential nature and, when approved for destruction, will be destroyed by incineration."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morley
Secretary.

Approved:

Ignacio M. ...
Vice Chairman.