

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Saturday, July 10, 1943, at 10:00 a.m.

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

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. Dreibelbis, General Attorney
Mr. Wyatt, General Counsel
Mr. Thomas, Assistant Director of the Division of Research and Statistics
Messrs. Piser and Kennedy, Chief and Assistant Chief, respectively, of the Government Securities Section, Division of Research and Statistics

There was presented a memorandum dated July 7, 1943, from Mr. Goldenweiser recommending, for the reasons stated therein, that the Board approve the following letter to the Presidents of all the Federal Reserve Banks:

"The Board has approved the proposal to make further surveys of the ownership of demand deposits from such member banks as agree voluntarily to provide this information. Results of the recent survey have been summarized in a statement prepared by the Board for public distribution. The scope and nature of the proposed surveys are in accordance with plans worked out by representatives of the Board, the Federal Reserve Banks, and others as set forth in a report of meetings of subcommittees on the subject dated June 2. The plans are as follows:

- (1) The next report should be obtained as of the end of July -- a bank may report as of any single day near the month-end or give weekly or monthly averages as may best suit its convenience.

7/10/43

-2-

"(2) A group of banks should be asked to report such information regularly on a semiannual basis at the end of July and January. It is not necessary that reporting banks be identical for each date, although it is desirable that roughly the same group or an expanding group report. While the sample of very large banks reporting in the March 31 survey was excellent, any others willing to report should be added and it is especially desirable to obtain reports from more banks with demand deposits of individuals, partnerships, and corporations of less than \$50,000,000 each.

(3) The form of the report should be the same for all banks with respect to classification of accounts, or if any variation is adopted by a Reserve Bank, it should obtain at least the information called for on the proposed form. Classification of accounts will be only slightly different from that used in the previous survey: manufacturing and mining concerns are to be shown in two groups covering (a) metals and products and (b) all other products; construction is to be included in all other nonfinancial businesses; and some relatively unimportant subgroups under financial businesses are eliminated.

(4) It is desirable for purposes of estimating the distribution of all deposits that reporting banks classify all accounts down to \$10,000, but in order to avoid placing too heavy a burden on large banks some variation from this limit may be permitted:

Banks having over \$500,000,000 of demand deposits of individuals, partnerships, and corporations should be requested to classify accounts down to at least \$100,000.

Banks with such deposits of between \$100,000,000 and \$500,000,000 should classify accounts down to at least \$25,000.

All other banks should classify deposits down to at least \$10,000.

All banks classifying accounts under \$100,000 should give separate data for accounts of over \$100,000 and for those of between the minimum used and \$100,000. Experience with the first survey shows that such segregation is essential for purposes of analysis and interpretation and adds virtually nothing to the work involved in reporting the data.

7/10/43

-3-

"(5) A special survey should be made at this time as to the ownership of deposits at a group of smaller banks which need not be requested to report regularly. Surveys of these banks will be requested at less frequent intervals than those of the larger banks. This survey should have the following special features:

The survey should cover mostly banks with demand deposits of less than \$5,000,000 each.

Reports should be obtained from enough member banks to make up a sample of between 5 and 10 per cent of all member and nonmember banks in that size group in each district. The sample should be selected so as to be representative of various localities and various economic characteristics of the district.

These banks should be asked to classify all demand accounts of individuals, partnerships, and corporations of over \$3,000 each.

The classification of depositors will differ slightly from that used for the other group of banks, in that no detail on financial businesses and less detail on nonfinancial businesses will be asked and that farmers' accounts will be separated from other personal accounts in so far as is feasible.

"Because of the omission of data requested in the previous survey regarding size breakdown of small deposits and also of information for previous dates, future regular surveys should involve much less work on the part of reporting banks than the previous one. It is hoped also that you will be able to inform the banks well enough in advance so that they may be prepared to provide the information promptly. With the knowledge that future reports of some sort will be requested, banks will be in a position to keep their records so as to provide the information with greater ease.

"Copies of proposed forms to be used and of instructions to accompany them are attached. It is expected that each Reserve Bank will prepare its own report forms and instructions, conforming to those attached except where special district practices require changes. Uniform practice is desirable because of the necessity for obtaining uniform results. It has been suggested that, if feasible, the classification instructions

7/10/43

-4-

"be printed on the back of the report form in order to facilitate easy reference; if there is additional space, the other instructions might also be included there. It is expected, however, that each Reserve Bank will want to prepare its own letter of transmittal to any banks which are not again personally visited in connection with the survey.

"Member banks will generally be interested in the results of the past survey and, if you wish, sufficient copies of the Board's recent published statement will be supplied to you for distribution in your district. If you prefer to prepare your own statement, you may find useful the Board's published statement and also the confidential memorandum discussing the significance of the figures prepared for internal distribution. You may also wish to mention that the Board of Trustees of the Banking Research Fund of the Association of Reserve City Bankers has expressed great interest in the results and the view that the study should be given cordial endorsement and support and have also indicated a willingness to recommend to individual members of their Association that they cooperate in the survey.

"Consideration has been given to a proposal that a standard system of classification be recommended to banks for classifying their deposit accounts. Since such a classification, however, should be of relatively permanent nature and will be useful also for other purposes, more careful consideration of the subject and consultation with others interested in it are desirable before recommending any uniform code. Steps are being taken to cooperate with representatives of commercial banks, banking supervisory agencies, the National Bureau of Economic Research and other appropriate groups in working out such a code and recommending its adoption. To avoid possible confusion in case a different system is later recommended, no mention of the standard code should be made in material submitted to the banks at the time of the next survey, although it is expected that the classifications used on the proposed forms will fit into any standard code likely to be adopted later. Reporting banks might find it useful to code their accounts with an appropriate number or symbol and may use for this purpose the numbers given on the schedule used in the survey, which could later be easily converted to the standard code basis.

"For purposes of analysis of data it is necessary for the Board's Research Division to have copies of individual returns. It would be appreciated if you would send copies as soon as possible after you have received them from the reporting banks. We should also like to have copies of any compilations or analyses that you may prepare of results obtained in your district. Future correspondence on this subject may be addressed to Woodlief Thomas, Assistant Director, Division of Research and Statistics."

7/10/43

-5-

Mr. McKee questioned whether it would not be better to make the next survey as of September 30, and Mr. Goldenweiser stated that the information would be extremely valuable in connection with the September war loan drive and that the end of July was the latest date as of which the survey could be made and the results be made available in time for use in connection with the drive.

Mr. Thomas stated that it was proposed to have the deposit surveys made as of the end of January and July of each year which would avoid an additional burden on the banks at the time they were preparing the December 31 and June 30 call reports.

At the conclusion of the discussion, Mr. McKee moved that the letter to the Presidents of the Federal Reserve Banks be approved as set forth above.

This motion was put by the chair and carried unanimously.

Mr. Szymczak referred to the actions taken by the Board on May 29 and June 17, 1943, in agreeing to cooperate with the State Department in the preparation of the financial sections of an economic handbook for use in connection with the Peace Conferences that would be held following the war, and stated that consideration had been given to several people who might be considered for temporary employment by the Board to take charge of this work. He also said that it was thought that Mr. Upgren, Vice President of the Federal Reserve Bank of Minneapolis, would be the best selection from among those whose services might be available, that Mr. Upgren had indicated to Mr. Goldenweiser that he would be willing to undertake the task if agreeable to Mr. Peyton, President of

7/10/43

-6-

the Federal Reserve Bank of Minneapolis, and to the Board, and that it was felt that before any further steps were taken the matter should be considered by the Board.

There was unanimous agreement that, in view of the important work that the heads of the research departments at the Federal Reserve Banks were being called upon to do at the present time, particularly in connection with the regional research program, they should not be called away from the Banks to do special jobs such as the one under consideration which would require an absence of perhaps a year.

Mr. Szymczak stated that the search for a satisfactory individual to have immediate charge of the work would be continued, and in that connection there was a discussion of persons who might be considered.

Mr. Thurston referred to the Board's letter of June 18, 1943, to the Presidents of the Federal Reserve Banks transmitting copies of the pamphlet prepared by the Office of War Information under the title "Information Program on Economic Stabilization to Keep Down the Cost of Living" and asking that the Banks advise the number of copies which they desired to have for distribution in the respective Federal Reserve districts. Mr. Thurston stated that the appropriation for the Office of War Information for the current fiscal year had been substantially reduced and that informal inquiry had been made by that Office whether the Board would be willing to pay for printing the pamphlets to be distributed through the Federal Reserve Banks.

The members of the Board present were in unanimous agreement that, in the circumstances, the Board would not be justified in assuming such an expense, and it was understood that Mr. Thurston would inform the

7/10/43

-7-

Office of War Information by telephone
of the Board's conclusion.

At this point Messrs. Thurston, Goldenweiser, Dreibelbis, Wyatt, Thomas, Piser, and Kennedy withdrew from the meeting, and the action stated with respect to each of the matters hereinafter referred to was then taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on July 9, 1943, were approved unanimously.

Memorandum dated July 7, 1943, from Mr. Morrill, recommending, for the reasons stated in the memorandum, that William A. Kline, who was granted a leave of absence for military duty on November 24, 1942, and temporarily reinstated by the Board on January 23, 1943, following which he resumed active duty from March 2 until about April 17, 1943, be reinstated again as printing clerk in the Correspondence and Publications Section of the Secretary's Office for a period of not to exceed 90 days, with basic salary at the rate of \$2,600 per annum, and that he resume his regular status in the Federal Reserve retirement system during the period of his temporary employment without being required to take the usual physical examination.

Approved unanimously, effective as
of the date upon which Mr. Kline reports
for duty.

Memorandum dated July 7, 1943, from Mr. Goldenweiser, Director of the Division of Research and Statistics, submitting the resignation of Harvey S. Perloff as an Associate Economist on a temporary basis in that Division, to become effective as of the close of business on

7/10/43

-8-

July 22, 1943, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

Letter to the Civil Service Commission, reading as follows:

"As you know, employees of the Board of Governors of the Federal Reserve System and of the Federal Reserve Banks are included in the Retirement System of the Federal Reserve Banks which was established March 1, 1934. Consideration is now being given to making available to employees of the Board of Governors an alternative retirement plan which would provide benefits more nearly equivalent to those provided under the Civil Service Retirement System. The alternative plan would, however, be an integral part of the Retirement System of the Federal Reserve Banks and would operate within its framework. Present employees of the Board of Governors who are members of the Retirement System of the Federal Reserve Banks would be given the option of remaining subject to the normal provisions of the System or of accepting the provisions of the new plan.

"One of the provisions of the new plan would require that all new employees of the Board of Governors, i.e., all those entering the Board's employ after the effective date of the plan, be members of the Retirement System of the Federal Reserve Banks and, unless they are already members of the Retirement System by reason of previous service with the Board or a Federal Reserve Bank, participants in the new plan. This provision would affect not only new employees of the Board who have had no previous Government service but also new employees who prior to their connection with the Board have been members of the Civil Service Retirement System. Upon entering the Board's employ it would be necessary for them to discontinue membership in the Civil Service Retirement System and become members of the Federal Reserve Retirement System.

"The above proposal was discussed informally some months ago between representatives of the Commission and of the Board, and as a result it is our understanding that such a provision of the new plan would be in no way inconsistent with the provisions of the law relating to the Civil Service Retirement System. However, before the new plan is put into effect, the Board will be pleased to have a confirmation from you that there is no objection to the provision regarding new employees as above indicated."

Approved unanimously.

7/10/43

-9-

Telegram to Mr. Olson, Assistant Vice President of the Federal Reserve Bank of Chicago, reading as follows:

"Re tel July 9. Board agrees with your view that under Regulation O member bank would be precluded from participating in Regulation V loan in excess of \$2,500 to be made to a partnership in which one of its executive officers has a majority interest."

Approved unanimously.

Letter to Mr. F. J. Bailey, Assistant Director of Legislative Reference, Bureau of the Budget, reading as follows:

"This refers to your letter of July 2, 1943, addressed to Chairman Eccles, enclosing a copy of the Navy Department's proposed report to Honorable Carl T. Durham of the House Committee on Military Affairs with respect to H.R. 3022, and requesting an expression of views with respect thereto.

"It is our understanding that it is the objective of H.R. 3022 to provide funds to contractors and subcontractors, by the methods set forth in the bill, in connection with the termination of war contracts and in amounts not exceeding the amounts owing under such terminated contracts, but that it is not the purpose of the bill to provide methods of financing the normal peacetime needs of business and industry. In this connection the proposed letter from the Navy Department indicates that contractors, subcontractors and suppliers would be enabled, following the termination of their contracts, to secure sufficient funds 'within the amounts owing under their contracts to permit them speedily to convert to other operations'.

"Under the procedure which is used in connection with operations under Executive Order 9112 of March 26, 1942 and Regulation V of the Board of Governors, the Federal Reserve Banks are utilized as fiscal agents of the United States in effecting guarantees and loans on behalf of the War Department, Navy Department, and Maritime Commission. It is understood that a similar procedure is contemplated in effecting the guarantees and loans which would be authorized by the bill. It is believed desirable that this contemplated procedure be expressly reflected in the bill. This might be accomplished by the addition of a provision reading substantially as follows: 'Any Federal Reserve Bank is authorized, subject to such regulations as may be prescribed by the Board of Governors of the Federal Reserve System, to act as

7/10/43

-10-

"fiscal agent of the United States for the purposes of this Act.' It is felt that a suggestion to this effect should be included in making any report to Congress with respect to this bill.

"It is the view of the Board of Governors that a bill of this kind would be helpful in meeting the problems of war contractors and subcontractors arising out of the termination of their contracts and, subject to the qualifications above indicated, the Board of Governors sees no objection to the transmission of the proposed letter from the Navy Department to Representative Durham. The enclosure with your letter is returned herewith."

Approved unanimously.

Letter to Mr. J. R. McCravey, Chairman of the Board of the Bank of Forest, Forest, Mississippi, reading as follows:

"Your letter of June 2nd has been read with interest by the members of the Board. Two questions are involved.

"First, you refer to the desirability of forcing all banks to clear at par all checks drawn upon them. The Board favors nationwide par clearance. The existing Federal statutes, however, require only that no exchange charges be made on checks presented for payment by a Federal Reserve Bank. The statutes permit member and nonmember clearing banks to make charges on all other checks not 'to exceed ten cents per \$100 or fraction thereof, based on the total of checks and drafts presented at any one time', and other banks are not subject to any Federal law on this subject at all. Hence, in the absence of legislation, the last mentioned banks may impose such charges as they deem advisable. In this connection you may be interested to know that the State of Iowa has recently enacted a law requiring banks organized under the laws of that State to clear at par checks drawn upon them. In the circumstances, therefore, you will see that, however much the Board may favor nationwide par clearance, the final determination of the question is one for appropriate legislative bodies.

"Your second question is best stated by quoting from your letter as follows:

'Our City correspondents have organized from coast to coast and gotten out what they are pleased to call a schedule that runs something like this: they allow the country banker 1-1/2% on his daily balance, this is prohibited by law, and then they have a list of service charges covering every entry made on our account with them, if the interest

7/10/43

-11-

"'on our balance is more than the service charges they do not credit us with the overage, but if service charges are more than the interest they debit us with the difference.'

"You mention, in this connection, the prohibition against the payment of interest upon demand deposits. This prohibition applies to all member banks of the Federal Reserve System and to all banks insured by the Federal Deposit Insurance Corporation. Regulations implementing the statutes have been issued by the Board and the Federal Deposit Insurance Corporation and both regulations define the term 'interest' in the following language:

'Within this regulation, any payment to or for the account of any depositor as compensation for the use of funds constituting a deposit shall be considered interest.'

"The effect of inserting this language in the regulations was merely to declare existing law and to restate a principle already established as a matter of general law. This was jointly announced when the language became a part of both regulations. Nevertheless, wide differences of opinion seem to exist among bankers and officials as to whether some of the practices engaged in by some banks fall within the general principle restated in the regulations. Because the matter is thus governed by general law rather than special rules issued under rule-making authority, the Board would be interested, if by chance you have consulted your attorney, to know his opinion as to whether the practice you describe would be held to be the payment of interest under the general law of Mississippi. Likewise, it would be helpful to the Board, in its continuing study of this and related questions, to have copies of any of the 'schedules' which may have come to your attention and which can be readily furnished."

Approved unanimously.

Memorandum dated July 8, 1943, from Mr. Morrill, submitting an expense voucher prepared by Mr. Wingfield, Assistant General Attorney, in the amount of \$407, for reimbursement of expenses (including per diem in lieu of subsistence for the period June 1 to July 1, 1943, inclusive, and actual necessary expenses of \$159 in excess of the per diem allowance) incurred by him while his services were loaned to the Federal Reserve

7/10/43

-12-

Bank of Dallas, and recommending that the payment of the voucher be approved.

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

W. C. C. C.
Chairman.