A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Saturday, December 18, 1943, at 11:30 a.m.

PRESENT: Mr. Szymczak
Mr. McKee
Mr. Draper
Mr. Evans

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman

The action stated with respect to each of the matters herein-after referred to was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on December 17, 1943, were approved unanimously.

Memorandum dated December 14, 1943, from Mr. Thomas, Assistant Director of the Division of Research and Statistics, recommending, with the approval of Mr. Goldenweiser, that Bruno Foa be appointed in that Division on a temporary basis for a period of not to exceed six months, with basic salary at the rate of $6,500 per annum, to study the financial position of Italy in connection with the project being done for the State Department.

Approved unanimously, effective as of the date upon which he enters upon the performance of his duties, it being understood (1) that the Federal Bureau of Investigation report on Mr. Foa is satisfactory and (2) that in no event will the appointment be extended beyond the six months' period.
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Letter to Mr. Treiber, Secretary of the Federal Reserve Bank of New York, reading as follows:

"We have your letter of December 14, 1943, with further reference to the service of Mr. Robert D. Calkins as a member of the National Railway Labor Panel while a director of your bank. We note that Mr. Calkins still contemplates resigning from the Panel when he completes his work in connection with the pending case to which he has been assigned.

"We agree with your opinion that the payment to Mr. Calkins of a per diem allowance of $50 in respect of each day of service as a member of the Panel does not alter the principle expressed in the Board's letter of November 22, 1943, and that he may properly continue to serve as a member of the Panel while a director of your bank."

Approved unanimously.

Letter to Mr. McLarin, President of the Federal Reserve Bank of Atlanta, reading as follows:

"The Board of Governors approves payment of salary to Mr. Thomas Crawford Clark, Assistant Cashier of the Jacksonville Branch, at the rate of $3,600 per annum for the period January 1, 1944 through May 31, 1944, which is the rate fixed by the Board of Directors as reported in your letter of December 13, 1943."

Approved unanimously.

Telegram to Mr. William H. Stead, 47 Picardy Lane, St. Louis County, Missouri, reading as follows:

"Board of Governors of the Federal Reserve System has appointed you as Class C director of the Federal Reserve Bank of St. Louis for the three year term commencing January 1, 1944, and will be pleased to have your acceptance by collect telegram."

Approved unanimously.
Letter to Mr. Stewart, Secretary of the Federal Reserve Bank of St. Louis, reading as follows:

"The Board of Governors of the Federal Reserve System approves the payment of salary to Howard H. Weigel, Assistant Vice President, at the rate of $4,500 per annum, for the period December 1, 1943 to May 31, 1944, inclusive, which is the rate fixed by your directors as reported in your letter of December 10, 1943."

Approved unanimously.

Telegram to Mr. Malcolm E. Holtz of Great Falls, Montana, reading as follows:

"Board of Governors of the Federal Reserve System has appointed you director of the Helena Branch of the Federal Reserve Bank of Minneapolis for two-year term beginning January 1, 1944, and will be pleased to have your acceptance by collect telegram."

Approved unanimously.

Letter to Mr. Sproul, Chairman of the Presidents' Conference Committee on Personnel Selection and Training, Federal Reserve Bank of New York, reading as follows:

"You have been advised informally, from time to time, as to the discussions with representatives of the National War Labor Board regarding the proposal submitted in your letter of November 3 for an increase in the amount of supplemental compensation which may be paid to employees of the Federal Reserve Banks.

"Representatives of the War Labor Board have now stated definitely that the proposed increase is not consistent with the policies of their Board and can not be approved.

"The Board of Governors felt that it should not approve an increase of this kind unless the matter were first cleared informally with the National War Labor Board and
"the office of the Commissioner of Internal Revenue, who are charged with administration of the wage and salary stabilization regulations. Accordingly, the matter was discussed with representatives of both offices, the principal discussions being with representatives of the National War Labor Board. After carefully and sympathetically considering the matter, the Director of the Wage Stabilization Division of the National War Labor Board stated that the proposal was not consistent with the 'Little Steel' formula nor with the Board's policies, and that his division could not approve it.

'Arrangements were then made to discuss the matter with Mr. Taylor, Vice Chairman of the War Labor Board. Mr. Taylor likewise stated definitely that the proposed increase (and even a smaller increase which was then suggested) in supplemental compensation would not conform to the 'Little Steel' formula and that any cost-of-living adjustment would have to come squarely within that formula. Any other adjustments, except for the merit increases and promotions permissible under the executive order and regulations, he said, would have to come under other provisions of the regulations, such as adjustments to correct standards of living and adjustments to the minimum of the bracket of applicable sound and tested going rates in the labor market area.

'Mr. Taylor, however, did state that any Reserve Banks which are not paying the full amount of supplemental compensation authorized in the Board's letter of March 3, 1942, may do so without obtaining approval of the National War Labor Board. The same advice was subsequently obtained from representatives of the office of the Commissioner of Internal Revenue with respect to salaries under their jurisdiction. This represents a reversal of the position formerly taken by the National War Labor Board.

'The Reserve Banks have been advised by telegram of the new interpretation. This interpretation, of course, will be of no benefit to your Bank and to the Federal Reserve Bank of San Francisco, which are paying the full amount of supplemental compensation authorized by the Board's letter of March 3, 1942, but it should provide the other Federal Reserve Banks with some latitude to make appropriate adjustments.'

Approved unanimously.
Letter to the board of directors of "The Commercial Bank and Savings Company", Fostoria, Ohio, 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 Cleveland.

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

"The Board of Governors of the Federal Reserve System approves the application of 'The Commercial Bank and Savings Company', Fostoria, Ohio, 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 Superintendent of Banks for the State of Ohio, for his information.

"It was noted that the bank does not provide proper safeguards for ration stamps deposited and held pending periodic cremation and that the management has no plan for correction. A satisfactory solution would seem feasible and it is assumed that you will request the bank to make provision for the necessary protection of such stamps and coupons. It is assumed, also, that you will follow the matter of the bank's bringing into conformity with the provisions of law and the Board's regulations the savings accounts listed on page 16 of the report of examination for membership."

Letter to the board of directors of the "Security Savings Bank", Farnhamville, Iowa, 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.
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System and for the appropriate amount of stock in the Federal Reserve Bank of Chicago.

Approved unanimously, for transmission through the Federal Reserve Bank of Chicago.

Letter to Honorable Charles E. McKenzie, House of Representatives, reading as follows:

"This is in response to a telephone request from your office on December 14, 1943, regarding certain telegrams received by you protesting against a recent ruling of the Board of Governors of the Federal Reserve System to the effect that the absorption of exchange charges by a specific member bank constitutes a payment of interest on demand deposits in violation of the law and the Board's Regulation Q.

"For your information in this connection there is enclosed a copy of a statement entitled 'Payment of Interest by Absorption of Exchange and Collection Charges' which has been prepared by the Board's Legal Division. Attached to this statement is a copy of the ruling of the Board in question in the form in which it appeared in the September, 1943, issue of the Federal Reserve Bulletin. Additional information regarding the background of this subject is contained in the enclosed excerpt from the 1937 Federal Reserve Bulletin, page 186.

"To summarize the matter, the Federal Reserve Act prohibits the payment of interest on demand deposits by member banks and expressly authorizes the Board of Governors to determine what shall be deemed to constitute a payment of interest for the purposes of this prohibition. The Board, however, has not defined the term 'interest' beyond its ordinary meaning as declared by the courts in decided cases; and the September ruling was merely an application of general principles of law to the facts of the specific case then before the Board.

"No arguments or facts have been presented to the Board in connection with this question which were not given full consideration prior to the issuance of the ruling published in the September issue of the Federal
"Reserve Bulletin. The Board does not see how it could have avoided making that ruling when confronted with the question in a specific case.

"It is hoped that this letter, with the enclosures, will fully explain the Board's position in this matter. We shall be glad to furnish any further information which you may desire in this connection."

Approved unanimously, together with a similar letter to Honorable W. F. Norrell, House of Representatives.

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

"There is enclosed a rough draft of a statement for the press in connection with the Consumers Home Equipment Company's violations of Regulation W. The form follows that of the statements issued on the two previous occasions when a license was suspended but it may well be that you or Mr. Hodge will wish to suggest a rewording of the paragraph describing the violations, after he has completed his conferences regarding the form of Order."

Approved unanimously.

Letter to Mr. Parker, Assistant Federal Reserve Agent at the Federal Reserve Bank of St. Louis, reading as follows:

"In reply to your letter of December 13, 1943, this is to advise you that it is still considered advisable to comply with the provisions of section 5 of the Act of Congress approved March 2, 1895, requiring every officer whose duty it is to take official bonds to cause such bonds to be renewed every four years, although the bonds outstanding are continuing obligations as long as the premiums thereon are paid annually.

"It will be appreciated, therefore, if you will have new bonds executed when the present bonds have been outstanding four years."

Approved unanimously.
Letter to the Presidents of all the Federal Reserve Banks, reading as follows:

"It is desired that the regular annual reports of holding company affiliates on Form F.R. 437 be obtained for the year ending December 31, 1943, or for the holding company affiliate's latest fiscal year if it differs from the calendar year. Accordingly, please request each holding company affiliate which has its principal executive office in your district, and which holds a general voting permit, to file such a report in duplicate with your Bank not later than February 1, 1944. If you are satisfied that, due to personnel shortage or for other reasons, it would be impracticable for a holding company affiliate to complete the preparation of its report by February 1, you are authorized to extend the time for filing the report, but no such extension should be granted beyond March 1, 1944. Information contained in these reports must be available to the Board as soon as practicable, and extensions should therefore be granted sparingly.

"Please inform us as to the number of copies of Form F.R. 437 which your Bank will need, in excess of its present stock, in obtaining the reports of holding company affiliates in your district. Since the form has not been revised, it is again suggested that it may not be necessary to furnish additional copies of the form to holding company affiliates which do not fill out the blank form but use it only as a model for typewriting their reports, and that such holding company affiliates be requested to submit their reports in the same form and subject to the same instructions as in previous years.

"As shown in the list enclosed with the Board's letter of June 12, 1943 (S-662), a Budget Bureau approval number has been assigned to Form F.R. 437. Before any holding company affiliate is supplied with copies of the form from old stock which do not show the approval number, there should be typewritten in the upper right-hand corner of page 1 of the form the notation: 'Form approved Budget Bureau No. 55-R001-42.'

"For further information as to the procedure to be followed in obtaining the reports, please refer to the Board's letter of December 23, 1938 (R-368) and the memorandum enclosed therewith (R-368-a). The instructions
"contained in such letter and memorandum are still applicable to the handling of the reports, with the exception that, instead of the requirement of the last two sentences of the memorandum that copies be obtained of the latest reports of examination by State supervisory authorities of nonmember uninsured subsidiary banks, it will be sufficient for our purposes if such reports are made available to your Bank for analysis and a copy of the analysis of each such report of examination is submitted to the Board.

"It has been noted that, in the past, some of the Federal Reserve Banks have delayed forwarding reports of holding company affiliates to the Board pending completion or correction of the reports of all holding company affiliates in the particular district. In view of the desirability of prompt availability to the Board of information contained in the reports, it will be appreciated if you will forward to the Board one copy of each report immediately upon receipt by your Bank, and submit subsequently at your earliest convenience any further information, comments, or suggestions which you may have regarding each case after you have had an opportunity to review the reports filed and to obtain from the respective holding company affiliates such additional data and explanations as you may deem necessary to complete or correct the reports."

Approved unanimously.

Letter to the Bureau of Supplies and Accounts of the Navy Department, Attention Rear Admiral W. B. Young, Paymaster General of the Navy, reading as follows:

"Reference is made to the Board's letter of August 21, 1943, concerning shortages in Federal Reserve Bank currency shipments. In our letter we stated that the matter had been referred to a System Committee of the Presidents' Conference of the Federal Reserve Banks with a view to developing a uniform policy and that we would communicate with you further as soon as the Committee submitted its report.

"The Committee has now submitted its report, and the Presidents' Conference and the Board of Governors
have approved the following general policy with respect to the honoring of claims for shortages in currency paid to Navy Department disbursing officers:

(1) When shipment is made to a bank which does not piece verify and does not require the disbursing officer to piece verify on taking delivery—

The claim is not to be accepted if money is 'fit', unless there is an offsetting difference. The claim will be received for transmission to the Treasury Department for settlement if money is 'new', and evidence shows verification of the package was made by the disbursing officer immediately after the bundle was broken.

(2) When shipment is made directly to the disbursing officer by the Reserve Bank—

The claim will be accepted if the money is 'fit', and evidence shows verification was made by the disbursing officer promptly upon receipt. The claim will be received for transmission to the Treasury Department for settlement if money is 'new', and evidence shows verification was made by the disbursing officer promptly upon receipt.

(3) When counter delivery is made by Reserve Bank to disbursing officer, who piece verifies upon receipt—

The claim will be accepted, whether money is 'new' or 'fit'.

(4) When counter delivery is made by Reserve Bank to disbursing officer, who does not piece verify at time of receipt—

The claim will not be accepted if money is 'fit'. The claim will be received for transmission to the Treasury Department for settlement if money is 'new', and evidence shows verification of the package was made by the disbursing officer immediately after the bundle was broken.

However, if the Reserve Bank agrees to the practice of disbursing officers not to verify upon receipt at the Reserve Bank, it should reimburse the disbursing officer for any shortage, providing the currency is piece verified immediately upon the officer's return to his post.
"In the above, reference to 'fit' money means money which has been counted and packaged by Reserve Bank employees, and includes packages of bills from broken Treasury bundles of currency. 'New' money means currency in unbroken, banded, Treasury bundles.

"The general policy outlined above will be followed in handling claims for shortages in currency paid to Navy disbursing officers unless in a particular case the surrounding circumstances warrant a different procedure, and relates only to shortages discovered by the disbursing officer who received the currency from the Federal Reserve Bank or from the bank to which the Reserve Bank made the shipment. It does not relate to shortages discovered by subsequent payees."

Approved unanimously, together with the following letter to the Presidents of all the Federal Reserve Banks:

"On May 5, 1943, the Board referred to the Presidents' Conference certain questions raised by the Paymaster General of the Navy regarding claims for shortages in packages of currency shipped to a member bank and turned over to a Navy disbursing officer without piece verification by the member bank. The Board suggested that in view of variations in the practice followed by the Federal Reserve Banks the matter be referred to the Committee on Miscellaneous Operations with a view to determining whether a uniform practice might be worked out.

"The Committee on Miscellaneous Operations submitted a report dated September 20, 1943, which was considered at the Presidents' Conference of November 15-17.

"For your information there is enclosed a copy of the Board's letter advising Rear Admiral W. B. Young, Paymaster General of the Navy, of the policy which will be followed by the Federal Reserve Banks with reference to currency shortages of the kind in question."

Letter prepared for the signature of Chairman Eccles to Mr. F. J. Bailey, Assistant Director of Legislative Reference, Bureau of the Budget, reading as follows:
"This refers to your letter of December 10 enclosing a copy of a letter from Mr. John B. Blandford, Jr., Administrator, National Housing Agency, regarding H.R. 2083, a bill 'To amend title IV of the National Housing Act, and for other purposes'. The bill, except for the preamble, is identical with S. 1034 which, with S. 756 and S. 757, forms a group of legislative proposals originally embodied in S. 2098, 76th Congress, 1st session, and later in S. 4095, 76th Congress, 3rd session, and then in S. 2146, S. 2147 and S. 2148, 77th Congress, 1st session.

The Board has expressed its opposition to these proposals in commenting upon the earlier bills.

H.R. 2083 would reduce the premiums or assessments due by insured institutions to the Federal Savings and Loan Insurance Corporation from the existing rate of 1/3 of one per cent per annum to 1/12 of one per cent per annum, and would eliminate the payment of dividends by that Corporation to the Home Owners' Loan Corporation. The purpose of such action, as is specifically stated and admitted in the preamble to H.R. 2083, is 'to place the Federal Savings and Loan Insurance Corporation and the Federal Deposit Insurance Corporation upon a more comparable and similar basis as to dividends upon capital and annual premiums or assessments'. However, it should be remembered that the Federal Deposit Insurance Corporation insures only deposits — and not the shareholders — of its insured banks. The capital, surplus, undivided profits, and reserves of its insured banks stand between it and any loss, but there is no comparable protective cushion in the case of savings and loan associations. Moreover the liabilities which the Federal Deposit Insurance Corporation insures are offset by diversified assets, the greatest portion of which is short term in character and a substantial portion of which is represented by cash and Government obligations. The institutions insured by the Federal Savings and Loan Insurance Corporation are largely mutual in character, the great bulk of their liabilities is to shareholders, and these liabilities, as they should be, are offset almost wholly by long term investments secured by real estate. An investment in such institutions should partake of the same long term character. Insured banks pay no interest on demand deposits, and only limited interest on time or savings deposits. Insured savings
and loan associations pay dividends at greatly higher rates, and pay upon all of their liability to shareholders. The holders of their obligations should not expect to receive these advantageous rates and at the same time to hold obligations as freely convertible into cash as bank deposits.

"In the letter of Mr. Blandford, a copy of which you enclosed, the point is made that institutions of the savings and loan type operate on a very close margin, and this is one of the arguments advanced for the proposal that the rate be reduced from 1/8 of one per cent to 1/12 of one per cent. Obviously, however, the close margin upon which they operate is the result partly of the higher returns which they pay in comparison with rates paid by savings banks and the savings department of commercial banks.

"For all of these reasons, the premium charged by the Federal Savings and Loan Insurance Corporation should be higher than that charged by the Federal Deposit Insurance Corporation.

"H.R. 2083 would also terminate the liability for dividends by the Federal Savings and Loan Insurance Corporation to the Home Owners' Loan Corporation, and this, as admitted in Mr. Blandford's letter, would cost the Federal Government in the neighborhood of $24,500,000 for accumulated dividends plus $3,000,000 per year of future dividends. This proposal is evidently designed to bolster the reserve position of the Corporation against the weakening effect of the reduction in the premium rate. The effect of the proposal, however, would be to require the Federal Government to lose these amounts in order to enable the insured institutions to continue to pay dividends at rates higher than banks are permitted by law to pay as interest on savings deposits.

"The Board continues to believe that the enactment of legislation of the type proposed in H.R. 2083 would represent a material departure from the original objectives of the Federal Home Loan Bank System which was to supply local mutual thrift and home financing institutions, and would constitute a step in the direction of establishing a separate and complete banking system able to compete for ordinary bank deposits on favored terms.

"For the foregoing reasons the Board of Governors is of the opinion that the enactment of the bill would not
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"be in the public interest."

Approved unanimously.

Letter prepared for the signature of Chairman Eccles to Mr. Stuart A. Rice, Assistant Director in Charge of Statistical Standards, Bureau of the Budget, reading as follows:

"This will acknowledge your letter of December 8, in which you advise that the Bureau of the Budget is establishing an inter-agency committee to serve in an advisory capacity to the Bureau. You advise that the purpose of the committee will be two-fold: (1) to develop a preliminary blueprint of needs for financial information including needs directly related to problems of industrial reconversion; and (2) to consider what agencies should most appropriately carry out specified parts of the program.

"In response to your invitation to the Board of Governors to have a representative on the above committee, I am pleased to advise that the Board has designated Mr. Woodlief Thomas to serve in the position named. I understand that Mr. Thomas has already discussed with you the need of establishing this committee, and I am confident that he will be fully cognizant of the questions of public policy that may be involved."

Approved unanimously.

Memorandum of this date from Mr. Hooff, Attorney, recommending that there be published in the January issue of the Federal Reserve Bulletin statements in the form attached to the memorandum with respect to the following subjects:

Revision of Regulation N, and

Analysis of Individual Accounts as Payment of Interest.

Approved unanimously.
Thereupon the meeting adjourned.

Approved:

[Signature]

Member.