

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, February 22, 1944, at 11:00 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
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
Mr. Thurston, Special Assistant to the Chairman
Mr. Smead, Director of the Division of Bank Operations
Mr. Parry, Director of the Division of Security Loans
Mr. Dreibelbis, General Attorney
Mr. Wyatt, General Counsel

Mr. Szymczak stated that, as set forth in a memorandum which he addressed to the Board under date of February 7, 1944, Mr. Millard, the Board's examiner in charge of its field force, was informed by Mr. Rounds, First Vice President of the Federal Reserve Bank of New York, during the course of the last examination of that institution that the Bank had no present intention of further expanding the operations of the Buffalo Branch for the reason principally that it was felt that the services involved could be performed as well by the head office and that in the circumstances the additional expense would not be justified. Mr. Szymczak also said that this was the first specific advice that the Board had received that the Bank was not going along

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with the Board's program for increasing the fiscal agency and certain other activities at the branches, and that the purpose of his memorandum and his reference to the matter at this time was to ascertain whether the Board desired to pursue further the development of the functions and prestige of the Buffalo Branch against the apparent wishes of the Federal Reserve Bank of New York.

At this point Mr. Myrick, Assistant to the Director of the Division of Bank Operations, joined the meeting.

In the discussion of the matter referred to above, it was pointed out that, so far as fiscal agency services in connection with market issues of Government securities were concerned, the Buffalo Branch stood in a somewhat different position in relation to the New York Bank than any other branch to its head office for the reason that New York was the principal market for such securities and that generally banks in the Second Federal Reserve District preferred to hold their securities in New York and to have fiscal agency transactions in such securities handled at the head office.

Mr. McKee inquired as to the attitude of the Treasury toward the question of the additional expense involved in conducting fiscal agency operations at the branches, and Mr. Szymczak said that the Treasury had taken the position that it would have no objection to the expense if the Banks asked the Treasury for authority to provide them.

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It was the consensus of the members of the Board that the purposes of the program of expanding the activities of the branches would be best served if the program were carried out uniformly by all of the Reserve Banks to the extent that it was practicable to do so, having in mind the relative size and location of the various branches, and that the reluctance of the New York Bank to apply the program in the case of the Buffalo Branch should be discussed by Mr. Szymczak with Mr. Sproul, President of the Federal Reserve Bank of New York.

At this point Mr. Myrick withdrew from the meeting.

On January 19, 1944, a draft of the policy record covering actions taken by the Federal Open Market Committee during 1943 was sent to each of the representative members of the Open Market Committee for any suggestions that they might wish to make. The only suggestions made were by Mr. Sproul, Vice Chairman of the Committee, who, in addition to proposing certain detail changes in language, suggested (1) that, on the basis that they should be regarded as having to do with the internal operations and accounting of the Federal Reserve Banks, consideration be given to the omission of the references in the record to the actions taken at the meetings of the Open Market Committee on May 15 and June 28, 1943, with respect to the purchase of Treasury bills at the posted rate, and (2) that the record include the actions taken at the meetings on January 28, March 2, and October 18, 1943, with respect to the direct replacement of

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Treasury bills.

After discussion, it was decided that the references to the actions relating to purchases of Treasury bills at the posted rate should be retained, that the record should be revised to include references to the direct replacement of Treasury bills, and that the draft of record as thus revised should be submitted to the Board for approval.

The meeting then recessed and reconvened at 2:30 p.m. with the same attendance as at the morning session except that Mr. Goldenweiser, Director of the Division of Research and Statistics, was in attendance.

Mr. Ransom referred to a memorandum which he and Mr. Parry addressed to the Board under date of February 12, 1944, calling special attention to the request received under date of January 21, 1944, from the Retail Credit Institute of America, Inc., that the Board exempt from Regulation W, Consumer Credit, all extensions of credit to any member of the armed forces who had been discharged from the service as well as to members of his family. The memorandum also referred to the reply that had been made to this request under date of February 3, 1944, and stated that, although Messrs. Ransom and Parry did not favor such an all-inclusive exemption at this time, they would favor the inclusion in a group of technical amendments which were being prepared of certain provisions which would enable returned servicemen to arrange with their creditors, by such agreements as the creditor might deem appropriate, for the payment of any

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debts which the service men had incurred prior to their induction, which would remove whatever obstacles the regulation placed in the way of clearing up old debt which the veteran had been unable to liquidate while in the service, and any new debt incurred following his discharge would remain, so far as Regulation W was concerned, on the same basis as the debt of any other person.

Mr. Ransom stated that, while there had been no formal reply to the Board's letter of February 3 to the Retail Credit Institute of America, Inc., representatives of the Institute had indicated that they were not satisfied with the Board's response. He also said that the amendments which were in course of preparation would have been submitted to the Board in any event and that he was calling the matter to the special attention of the members of the Board at this time so that they would be fully informed in the event pressure for an amendment such as that proposed by the Retail Credit Institute of America, Inc., increased.

The members of the Board indicated agreement with the position taken in the Board's letter of February 3 and that no further action with respect to the request from the Retail Credit Institute should be taken at this time, particularly in view of the fact that Regulation W was liberal in its provisions and should not be further weakened at this time when all of the instruments for combatting inflation were needed to counteract increasing inflationary pressures.

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Mr. Vest, Assistant General Attorney, came into the meeting at this point.

Attention was directed to a draft of report that had been prepared in response to a request received from the Bureau of the Budget under date of February 3, 1944, for an expression of the Board's views with respect to comments proposed to be made by the Treasury Department in opposition to the passage of H.R. 3513, a bill to amend section 1313 of the code of law for the District of Columbia so as to relieve banks of responsibility in circumstances such as those existing in the recent case of Washington Loan and Trust Company vs. United States (the Stitely case). The draft of reply stated that the legislation was local in character and that the Board had not made a sufficient study of the matter to form an opinion as to whether the present proposal would be the best solution of the problem or whether some other change in the law might more nearly reflect the equities of the situation. The matter was considered in the light of a memorandum addressed to the Board by Mr. Cherry, Attorney, under date of February 9, 1944.

Mr. Paulger, Director of the Division of Examinations, entered the meeting at this point.

During a discussion of this matter, the suggestion was made that the problem involved might be met by a provision in the law that the Treasury should give notice to the endorsing bank within a certain number of days in the event it was determined that a Treasury check was not valid, and that if the notice were not given within that

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period the Treasury would be estopped from denying the validity of the check. It was felt, however, that the Treasury would not be willing to agree to this solution of the matter, and the members of the Board indicated that they would prefer to have the reply to the request of the Budget Bureau in the form of a favorable report on the proposed legislation.

Thereupon, Mr. Ransom moved that the Legal Division be requested to draft a favorable report on the bill for the consideration of the Board.

This motion was put by the chair and carried unanimously.

Reference was then made to the matters to be discussed with the Presidents of the Federal Reserve Banks when they are in Washington at the end of this month. Chairman Eccles stated that the members of the Board had discussed briefly with Mr. Sproul, President of the Federal Reserve Bank of New York, when he was here yesterday the question of meetings of the Presidents' Conference being held outside of Washington, and that Mr. Sproul undoubtedly would take it up with the Presidents at their meeting in Cleveland.

The discussion of this matter merged into a discussion of the problem referred to at the meeting of the Board on February 11, 1944, of providing for a committee to supervise the research activities of the Federal Reserve System, and in that connection reference was made to the committee proposed by Chairman Eccles consisting of the head or assistant head of the Board's Division of Research and Statistics and

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four or five economists from the Federal Reserve Banks to serve as a steering committee to direct the research work done by the Federal Reserve Banks. All of the members of the Board indicated that they favored that solution of the problem.

In that connection the suggestion was made by Mr. Evans that the steering committee might consist of Mr. Goldenweiser or an assistant director of the Division of Research and Statistics, as chairman, and the economists from the Federal Reserve Banks whose Presidents were members of the Federal Open Market Committee, thus making provision for rotation of representation of all the Federal Reserve Banks on the steering committee.

At the conclusion of the discussion, the members of the Board expressed themselves as being in agreement with the suggestion made by Chairman Eccles that at the forthcoming meeting with the Presidents Chairman Eccles should tell the Presidents that it was the Board's conclusion that responsibility for immediate supervision over System research activities should be placed in such a committee.

Reference was also made to the arrangement under which Mr. Langum, Assistant Vice President of the Federal Reserve Bank of Chicago, was preparing a study on monetary and banking policy in the postwar transition period for the Committee for Economic Development for which he was to be paid the sum of \$3,500.

It was the unanimous opinion of the members of the Board that this arrangement should be discontinued and that, if the

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undertaking were one that the Federal Reserve Bank as such should undertake, that arrangement should be made and Mr. Langum should not be paid by the Committee for Economic Development for any part that he might have in the preparation of the study. It was understood, however, that the matter would be discussed informally with Mr. Young, President of the Chicago Bank.

In connection with a reference to the recommendation submitted at the meeting of the Board on February 11, 1944, with respect to future policy on publications, speeches, and participation in outside activities by System research personnel, Mr. Evans submitted the following suggestion with respect to supervision of the contents of the Federal Reserve Bulletin:

"It has been felt for a long time that it is extremely difficult to produce a Bulletin that has vitality and interest so long as it is the mouthpiece of an entire Board consisting of six members who are bound to look at problems from different angles. The Bulletin is universally recognized as an outstanding financial publication on account of its independence, accuracy, comprehensiveness, and the analytical skill of its writers. But it lacks reader appeal, simplicity of expression, and willingness to take positions.

"It has been the experience of writers in the Bulletin that any bold or imaginative statement, in fact anything other than a monotonous recital of facts, and sometimes even that, is likely to run counter to somebody's opinion and has to be eliminated before the Bulletin comes out. This has had a deterrent effect on creative work and interpretative writing and has resulted in the pontifical drabness of which the Bulletin has been frequently accused.

"It is realized that so long as the Bulletin is published by the Board, the Board can never be free from responsibility for it. Nevertheless, the situation can be improved without risk to the Board by creating a responsible staff committee with final authority over the

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"contents of the Bulletin. If the Bulletin carried a statement to the effect that its contents have not been passed upon by the Board, and, therefore, do not reflect the Board's attitude, but are the direct responsibility of a staff editorial committee, greater freedom of expression would result, and it is hoped that writing in the Bulletin would become more interesting and effective. This committee might consist of the staff member in charge of contacts with the public, the Director of Research and Statistics, and a third member to be selected by these two. It should work in close cooperation with the member of the Board whose assignments include publications. This member of the Board would be the liaison between the staff committee and the Board."

Mr. McKee expressed the opinion that the Board should either have full responsibility for the Federal Reserve Bulletin or should discontinue it, and he suggested that the consideration of Mr. Evans' suggestion be deferred until the members of the Board could have an opportunity to study the purposes for which the Federal Reserve Bulletin was published.

After a discussion, during which Mr. McKee suggested that a solution of the problem might consist of dividing the Bulletin into two parts, one of which would contain official matter for which the Board would take full responsibility and the other would contain signed articles and other unofficial material for which the proposed staff editorial committee would take responsibility, it was understood that a copy of Mr. Evans' memorandum would be sent to each member of the Board and that the matter would be placed on the docket for consideration at a later meeting.

At this point Messrs. Thurston, Goldenweiser, Smead, Paulger,

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Parry, Dreibelbis, Vest, and Wyatt 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 February 21, 1944, were approved unanimously.

Memorandum dated February 17, 1944, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that Miss Mary S. Painter be appointed as a junior economist in that Division on a temporary basis for an indefinite period, with basic salary at the rate of \$2,600 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.

Approved unanimously.

Letter to Mr. Leedy, President of the Federal Reserve Bank of Kansas City, reading as follows:

"There is enclosed a copy of a letter received by the Board from Mr. P. H. House, Cashier, The First National Bank, Cripple Creek, Colorado, dated January 25, 1944, regarding the ruling of the Board published in the January 1944 issue of the Federal Reserve Bulletin at page 13, with respect to whether a practice of analyzing checking accounts for the purpose of assessing service charges constitutes a payment of interest on demand deposits.

"Mr. House asks whether, under the Board's ruling, every account must be treated alike and, specifically, whether a charge for handling checks drawn on other banks

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"must be made regardless of the size or the amount of the customer's balance maintained with the bank. The basis for the ruling in question was that the use of the monthly account analysis did not involve any payment to a customer or the giving of any credit which would increase the amount of his deposit balance; and that therefore the use of such an analysis did not constitute a 'payment of interest' in violation of the law and the Board's Regulation Q. In other words, the analysis was simply an internal arrangement to enable the bank to determine whether the service charges should be made and the only effect of the use of the analysis was that the bank refrained from making such charges in certain circumstances. Accordingly, assuming that the analysis does not include exchange charges and other actual out-of-pocket expenses arising out of specific transactions for specific customers, such a practice in no event involves any payment to the customer and consequently does not constitute a payment of interest, even though it results in the assessment of service charges against some accounts and not against others.

"It will be appreciated if your Bank will make appropriate reply to Mr. House's inquiry in accordance with the above views. It should be made clear, however, that the question whether a particular practice involves a payment of interest on demand deposits cannot be determined definitely except after consideration of all the facts and circumstances involved in the specific case.

"There is enclosed, for return to Mr. House, the self-addressed stamped envelope which was enclosed with his letter."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

W. Steeles
Chairman.