

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, March 20, 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

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 March 18, 1944, were approved unanimously.

Memorandum dated March 17, 1944, from Mr. Goldenweiser, Director of the Division of Research and Statistics, referring to his memorandum of February 29, 1944, as approved by the Board on March 7, 1944, with regard to the return of Mr. Triffin, an Associate Economist in that Division, to Paraguay as soon as possible to complete the work begun last fall on that country's banking problems, and recommending, in view of the reasons stated in the memorandum, that Mr. Triffin be authorized to spend the necessary time in Costa Rica on his way to Paraguay to acquaint himself with the situation there and to consult with Mr. Julio Pena, General Manager of the Banco Nacional de Costa

3/20/44

-2-

Rica. The memorandum stated that this would probably take only two weeks but that, if a definite limit were to be set, it should be for three weeks in order to allow for the possibility that more time might be needed.

Approved unanimously.

Letter to Mr. P. E. Murphy, Vice President and Cashier of the Union State Bank, Junction City, Arkansas, reading as follows:

"This is in response to your letter of February 29, 1944, regarding the Board's letter of February 18, 1944, which enclosed a facsimile of the report of the Committee on Banking and Currency of the House of Representatives on the bill H. R. 3956.

"There is being sent you under separate cover a copy of the printed transcript of the Hearings on H. R. 3956, which, it is believed, you will find interesting reading. The Board's official statement upon H. R. 3956, made in response to a request by the Chairman of the House Banking and Currency Committee, appears at pages 166-172 of the copy of the Hearings.

"Your letter indicates that you feel that the Board's action was intended to 'eliminate' small banks by depriving them of a source of revenue. We regret that such a misapprehension of the purposes of the Board of Governors could exist. Certainly it is not the Board's intention to injure your institution. On the contrary, it is the Board's sincere belief that its position with respect to the absorption of exchange charges is directed toward the best interests of all banks, large or small.

"In this connection, it should be pointed out that the ruling of the Board with respect to absorption of exchange charges which was made in September 1943, applied to a member bank which was absorbing exchange and not to a nonpar bank which was charging it. The ruling grew out of a provision of existing law which prohibits member banks from paying interest on demand deposits; and, in the Board's opinion, the absorption of exchange by the bank to which the ruling applied constituted, under the facts of the case,

3/20/44

-3-

"a payment of interest within the meaning of the term 'interest' as it has been construed by the courts in decided cases. While the Board's ruling, therefore, was not directed at the charging of exchange, the Board's position upon the question of par clearance in its relation to the question of absorbing exchange is stated on pages 171-172 of the copy of the Hearings.

"With respect to your charge that it has taken the Board 'eleven years to find this clause', your attention is directed to the explanation which was given at the Hearings on H. R. 3956 as printed in the copy of the Hearings at the top of page 7. In addition, you may be interested to read the long history of this subject since 1933 as related by Mr. Dreibelbis, the Board's General Attorney, beginning at page 497 of the Hearings and resumed at pages 515, 565, and 591.

"It is regretted that you have interpreted the Board's action as an attack upon small business and small banks. As a matter of fact, it would be impossible to recount the numerous instances in the past in which the Board has acted to assist small banks. In this connection, attention is called to the statement made by Governor Ransom on this point, as printed on page 19 of the Hearings. It is to be borne in mind also that a great majority of the banks which are members of the Federal Reserve System are small or 'country' banks.

"As an illustration of the views entertained by many bankers throughout the country who are opposed to the pending bills legalizing the absorption of exchange charges, you may be interested in reading the enclosed copy of a letter which was sent by the Minnesota Bankers Association to all nonpar State banks in Minnesota under date of March 10, 1944.

"In conclusion, the Board believes that the enactment into law of H. R. 3956 and its companion bill in the Senate, S. 1642, would seriously impair the existing par clearance system which, as Senator Glass expresses it, 'has saved the Nation's industry, commerce, and agriculture millions upon millions of dollars.'"

Approved unanimously, together with similar letters to Mr. J. C. Hallett, Executive Vice President of the Sherwood State Bank, Sherwood, Wisconsin, and to Mr. M. W. Swartz, President of the Peoples

3/20/44

-4-

Bank of Indianola, Indianola, Mississippi,
with respect to their letters of February
28 and 29, 1944, respectively.

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

"There is enclosed for your information a copy of a letter received from the Los Angeles Branch of the Federal Reserve Bank of San Francisco regarding the acceptance by borrowers of materials, supplies, or other things as full or partial payment or settlement on contracts or purchase orders the proceeds of which may be assigned to the financing institution, and copies of the War Department, Navy Department, and Maritime Commission replies thereto.

"We have been advised that the War Department concurs in the opinion expressed in the second sentence of the second paragraph of Mr. Coolidge's memorandum to the effect that if a borrower receives a credit for inventory under cancelled contracts such credit is a 'payment' within the meaning of Section 6(B) of the Guarantee Agreement."

Approved unanimously.

Letter to Mr. Willett, First Vice President of the Federal Reserve Bank of Boston, reading as follows:

"In response to your letter of February 28, 1944, you are advised that the Board approves the payment of a fee and disbursements in a total sum of \$1,208.80 to Rackemann, Sawyer & Brewster, being the amount of a bill submitted by them for professional services and disbursements in the examination of title to the two pieces of real estate located at 99-111 Milk Street and 6-12 Pearl Street, Boston, and for conveyancing work in connection with the recent purchase of such real estate by your Bank."

Approved unanimously.

Letter prepared in accordance with the action taken at the meeting of the Board on February 26, 1944, to Mr. Fleming, President of the

-5-

3/20/44

Federal Reserve Bank of Cleveland, and reading as follows:

"Following receipt of your letter of February 16, 1944, in which you request approval of an arrangement under which the officers of your Bank would be authorized to purchase an appropriate gift at a cost of not to exceed \$75 to be given to each employee who has had 25 years or more of service at the Bank, the Board of Governors re-considered its existing policies in this connection and has come to the conclusion that in view of the public character of the Federal Reserve Banks their funds should not be expended for this purpose. The number of employees in the Federal Reserve Banks with 25 years or more of service is substantial and if the arrangement were approved for all the Banks the resulting expenditure of Federal funds would be a large and continuing one.

"As stated in the Board's letter to you of December 4, 1936, it is felt that gifts for long or meritorious service (as distinguished from service certificates, pins, or emblems which, as you know, are awarded at some of the Federal Reserve Banks) lose their real significance when they are given under a policy which is uniform for all employees, without regard to quality of service. Voluntary gifts coming from the employees' associates, whether after long service or upon retirement, have a real significance even though the cost is small and in institutions like the Federal Reserve Banks are more appropriate than are gifts purchased with Bank funds under a plan which is uniform for all employees."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

McCall
Chairman.