

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, March 29, 1944, at 2:00 p.m.

PRESENT: Mr. Eccles, Chairman
Mr. Szymczak
Mr. McKee
Mr. Draper

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 28, 1944, were approved unanimously.

Bonds in the amount of \$10,000 each, executed under date of March 23, 1944, by Messrs. Robert B. Caldwell and Thomas Bruce Robb as Federal Reserve Agent and Alternate Assistant Federal Reserve Agent at the Federal Reserve Bank of Kansas City and by Messrs. William Russell Young, James Calvin Clark, Jr., and Ira Arthur Thornton as Federal Reserve Agent's Representatives at the Denver, Oklahoma City, and Omaha Branches, respectively, of the Federal Reserve Bank of Kansas City.

Approved unanimously.

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

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"The Board approves the establishment under the personnel classification plan for your bank of the position of economist in the Research and Statistical Department as submitted with your letter of March 10, with, however, a maximum annual salary of \$6,500 instead of \$8,000 as proposed.

"The Board is in sympathy with the plans of your bank to expand the research activities and to add qualified men to your staff. The proposed maximum salary of \$8,000, however, is considerably higher than that for the comparable position in any other Federal Reserve Bank. In the circumstances, the Board approves a maximum annual salary of \$6,500, which, incidentally, is the maximum annual salary recently established for comparable positions at the Federal Reserve Bank of Chicago.

"The maximum salary of \$6,500 is approved with the understanding that, if in any individual case a higher salary is considered necessary, the Board will consider a request for specific approval of the higher salary in the light of the particular circumstance."

Approved unanimously.

Letter to the "Massanutten Bank of Strasburg", Strasburg, Virginia, reading as follows:

"The Board is glad to learn that you have completed all arrangements for the admission of your bank to the Federal Reserve System and takes pleasure in transmitting herewith a formal certificate of your membership.

"It will be appreciated if you will acknowledge receipt of this certificate."

Approved unanimously.

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

"The Board has recently considered a question, which was submitted by the attorney for a company engaged in selling by house-to-house canvassing, regarding the meaning of the phrase 'cash price' in Regulation W.

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"The question was raised because section 4(a)(3) of the Regulation provided that no down payment is required in the case of articles 'the cash price of which is \$6 or less' (the figure has been changed to \$10 by Amendment No. 11). In the case of articles for which the 'time price' was more than \$6 but not more than \$8.95, the company proposed to have a 'cash price' of less than \$6 and to require no down payment. The question was whether the procedure proposed by the company would establish a 'cash price' within the meaning of the Regulation.

"The essential features of the proposed procedure were as follows: (1) The salesmen would be instructed to inform the customer that she could purchase the article for cash at the cash price shown on the sales slip; (2) the sales slip would contain a printed notation to the same effect; (3) the sales slip would state the 'cash price', in addition to other data; (4) the actual contract, according to regular custom, would be made by a verifier, who would call on the customer some days later, and the verifier would likewise be instructed to inform the customer of her option to purchase at the cash price; (5) the contract would likewise contain a notation that the article could be purchased for cash at the price shown; (6) the contract would list separately the cash price, the sales tax, the total cash price, the carrying charge, and the time price, which would be the total of the preceding items.

"The attorney for the company maintained that this procedure would establish a bona fide cash price. However, in order to give further support to this position he submitted data which purported to show that the difference in the cost of selling an article on a time basis and on a cash basis justified a differential of \$3 on an article selling for a time price of \$8.95.

"The matter was the subject of several letters between the Board, the Reserve Bank and the attorney for the company because the special nature of the business of the company seemed to afford some ground for applying a different rule from that which would normally be applied, in that it seemed more than likely that there would be very few sales at the 'cash price' and this circumstance, together with the very large spread between the time price and the cash price, indicated that the so-called

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"'cash price' might be merely a means of taking advantage of the exemption in section 4(a)(3). Accordingly, the Board advised the Reserve Bank that additional information as to several aspects of the matter would be necessary before it could arrive at an opinion as to what figure would be the appropriate cash price for the articles in question.

"However, further consideration led the Board to the conclusion that such a requirement was not feasible from an administrative standpoint and that a bona fide cash price within the meaning of the Regulation is established whenever the merchandise is actually offered for sale for cash at the 'cash price' under such circumstances as to give each customer reasonable notice of the offer and a reasonable opportunity to accept it. Accordingly, the Board concluded that the procedure outlined by the attorney for the company, described above, would establish a cash price so as to bring the transaction within section 4(a)(3) of the Regulation.

"It will be noted that Amendment No. 11, while raising the figure in section 4(a)(3) from \$6 to \$10, made no change in the \$6 figure in section 4(d) relating to the Statement of Transaction. This will mean, among other things, that sales of articles on the borderline of the down payment exemption will require the specified statement and a copy will have to be given to the customer. Such a requirement should help to ensure that the price employed in determining whether or not the sale qualifies for the down payment exemption is a bona fide cash price."

Approved unanimously.

Letter prepared for the signature of Mr. Ransom to Mr. Nathan S. Sachs, President of the Retail Credit Institute of America, Inc., Washington, D. C., reading as follows:

"This is in reply to your letter of March 14, with incidental reference to your earlier communication of January 21 and my reply thereto. Your earlier communication was brought to the attention of all the members of the Board and your letter of March 14 is also being brought to their attention. You may be assured that your proposal

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"has been receiving, and will continue to receive, the fullest consideration. We have every intention to consider it fairly on its merits and not on the basis of any assumptions concerning the motives of its proponents.

"Your proposal, as set forth in your recent letter, is that extensions of consumer credit to the soldiers, sailors, and other servicemen and women who are discharged and sent home 'should be exempt immediately' from the restrictions of Regulation W. The principal arguments advanced in support of this proposal are that these men and women are now returning to civil life 'at the rate of 80,000 per month', and that in many instances they are in need of more things than they will be able to buy immediately unless they can get them on more liberal terms than merchants are now permitted to accord to anyone under Regulation W. Our own information, however, is to the effect that the stated rate of discharge was only temporary, arising mainly from the release of soldiers deemed by the Army to be unfit for arduous service. Many of these, we understand, had been in service only a short time and were able in present circumstances to resume civil life quite readily, either in war work or otherwise. We have as yet had no complaint from any of them that they consider 12 months to be too short a term for instalment-sale credit, or the present down payments (20 per cent on furniture, for example) to be too high.

"We cannot let pass without comment your affirmation that in our administration of Regulation W, particularly when down-payment requirements were raised to their present level, the fighting forces have been 'quite outside the purview' of our thinking. This action was taken, as you know, pursuant to the President's 7-point anti-inflation program announced in April, 1942, which envisaged inflation as a national disaster, damaging immediately to the families of the fighting men and ultimately to these men themselves as well as to the general public. This program seems to us, as I indicated in my letter of February 3, to be of vital importance to all the members of the armed forces. As a matter of detail, Regulation W has been reconciled from the beginning with the Soldiers' and Sailors' Relief Act.

"It is probably true, as you indicate in your letters, that if your proposal were adopted the aggregate amount

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"of additional credit that merchants would be permitted to extend would be relatively small for the present, and taken by itself would contribute very little to contemporary inflationary pressure, but the same point could be made concerning any small relaxation, taken by itself. Your proposal, however, would exempt all extensions of consumer credit to a whole class of persons, described in general terms without distinguishing between necessitous cases and other cases, and this would be the first provision of its kind to be included in the regulation. Would it not set a precedent, to which an appeal in behalf of other classes could be made -- such as all persons, alluded to in your recent letter, who have not enjoyed increased individual incomes, or all discharged war workers who do not happen to have accumulated savings?

"I wonder also whether you have considered another possible consequence of this exemption that you propose. In your letter you state, 'Your exemption of the ex-soldiers would not force any retailer to sell them on 10% down payment with fifteen or eighteen months to pay, for there will be other customers willing and able to pay 33 1/3% down on six months contracts'. You then go on to discuss the possibility that many merchants, who as you correctly say are as patriotic as any other Americans, would willingly help these soldiers back on their feet at home. However, should the regulation be so amended as to grant the exemptions and the liberal terms that I assume your proposal implies, I would agree fully with you that we would find many retailers unwilling, particularly at such a time, to sell discharged soldiers or any other civilians on the terms implied. Under such circumstances, with this indirect governmental blessing on your proposal, I would be afraid that those coming under the exemption might well feel that the Government should assume the further responsibility of seeing that they could obtain merchandise on the terms mentioned. May this not logically lead in due course to the further step of the Government, itself, being forced to set up machinery for credit-selling or cash-lending on particularly 'easy terms' to ex-servicemen? Once such a tendency is started it would naturally be accelerated by the widespread political sympathy for veterans. I am sure that any far-sighted trade association would wish to be careful about sponsoring a move that might eventuate in this way.

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"I have said very little in this letter concerning your argument for the relaxation of Regulation W in order to promote full production and full employment. This contention, as it seems to me, may well become very important in course of time, but I do not believe that it has yet become important -- in view of the fact that industry is operating at full blast, that present opportunities for employment are abundant, and that consumer demand is very large indeed.

"The appearance of your proposal in the papers prompted a number of persons to write us in opposition. Representatives of some trade associations have also advised us informally that they would have serious misgivings about it. These expressions of opinion may not be very significant, but they do seem to indicate that in trade circles, at least, favorable opinion is by no means unanimous. Also to be considered, of course, are the interests of a number of other Government agencies, some of them concerned with preventing inflation and others with the special problem of helping to rehabilitate veterans.

"I wish to add that I found your letter interesting and thoughtful, and that I appreciate the spirit in which it is written. It raises a number of perplexing questions, and you may be sure that any further views you may have to express on the subject will be gratefully received."

Approved unanimously.

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

"This refers to your letter of March 15, enclosing a letter from Mr. Harvey Howard, Internal Revenue Agent in Charge, Jacksonville, Florida, with respect to his request to be furnished with serial numbers of all \$500 and \$1,000 denomination bills paid out by the Branch. We gave a copy of Mr. Howard's letter to the Assistant to the Under Secretary of the Treasury and told him that we were reluctant to comply with Mr. Howard's request but did not wish to decline to do so without first ascertaining the view of the Treasury.

"For your information, there is enclosed a copy of a letter dated March 28, 1944, from Mr. D. W. Bell, Under

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"Secretary of the Treasury, to Mr. W. T. Sherwood, Assistant Deputy Commissioner, Bureau of Internal Revenue, Treasury Department, with respect to this matter. You will note that Mr. Bell does not think that general inquiries with respect to all bills of a particular denomination should be initiated by Internal Revenue Agents."

Approved unanimously.

Memorandum dated March 23, 1944, from Mr. Paulger, Director of the Division of Examinations, recommending that the budgets for the year 1944 for the bank examination departments of the respective Federal Reserve Banks be approved as submitted by the Banks in the following amounts:

<u>Federal Reserve Bank</u>	<u>Amount</u>
Boston	\$ 90,040
New York	368,590
Philadelphia	161,885
Cleveland	148,382
Richmond	110,706
Atlanta	59,320
Chicago	236,405
St. Louis	111,250
Minneapolis	43,500
Kansas City	68,880
Dallas	53,100
San Francisco	152,450

Approved unanimously, together with the following letter to Mr. Young, President of the Federal Reserve Bank of Chicago:

"In another letter of this date you are being advised that the Board has approved the budget of the Bank Examination Department of your Bank for the current year. The approval of the budget, however, should not be construed as constituting approval of the arrangement under which the Department is being operated at the present time without a senior officer in charge, as was contemplated by the Board's letter of July 20, 1936 to your Bank in regard to the examination function.

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"In view of the large number of member banks in the Seventh Federal Reserve District and the importance of bank examination and supervisory activities in the District, both present and prospective in the post-war period, the Board feels that the officer in charge of the Bank Examination Department of your Bank should be a person of outstanding ability and qualified by training, experience, and personality to give the Department appropriate direction.

"Since the death of Mr. Mulronev there has been no senior officer appointed as his successor, and the Board feels that immediate steps should be taken to obtain the services of an outstanding man for this important assignment. However, before any steps are taken in the matter, it is suggested that you discuss your plans with the Board."

Approved unanimously.

Memorandum dated March 28, 1944, from Mr. Hooff, Attorney, recommending that the statement attached to the memorandum entitled "Absorption of Exchange Charges - Avoidance of Expense to Member Bank", be published in the April issue of the Federal Reserve Bulletin.

Approved unanimously.

Thereupon the meeting adjourned.

Archie Morrie
Secretary.

Approved:

W. S. ...
Chairman.