

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Saturday, April 29, 1944, at 11:00 a.m.

PRESENT: Mr. Eccles, 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 April 28, 1944, were approved unanimously.

Memorandum dated April 28, 1944, from Mr. Morrill, recommending that Mrs. Ruby M. Howell be appointed as a charwoman in the Secretary's Office on a temporary basis for a period of not to exceed 60 days, with basic salary at the rate of \$1,200 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.

Memorandum dated April 27, 1944, from Mr. Morrill, recommending that the following increases in basic annual salaries of employees in the Secretary's Office be approved, effective May 1, 1944:

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<u>Name</u>	<u>Designation</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
<u>Building Operation and Maintenance Section</u>			
Norden, Leonard A.	Guard	\$1,500	\$1,560
<u>Service Functions</u>			
Constable, Frank W.	Operator (Duplicating Devices)	1,740	1,860
Fletcher, Wilson T.	Operator (Duplicating Devices)	1,740	1,800
<u>Secretarial and Administrative</u>			
Yates, Aline L.	Index Clerk	1,620	1,740
Berry, Marjorie V.	File Clerk	1,560	1,620
Holden, Meunice K.	File Clerk	1,560	1,620
Breeden, Virginia C.	File Clerk	1,620	1,680
Corcoran, Ruby C.	File Clerk	1,620	1,680
Hatch, Cora Lee	File Clerk	1,620	1,680
Lerch, Lillie B.	File Clerk	1,680	1,740
Simpson, Hazel L.	File Clerk	1,680	1,740
Andrews, Ruby S.	File Clerk	1,800	1,860
Jones, M. Elizabeth	File Clerk	1,800	1,920

Approved unanimously.

Memorandum dated April 28, 1944, from Mr. Goldenweiser, Director of the Division of Research and Statistics, submitting the resignation of Mrs. Margaret P. Daubenfeld as a clerk-stenographer in that Division, to become effective as of the close of business on May 5, 1944, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

Memorandum of this date from Mr. Morrill, submitting the resignation of Thomas J. Bates as a cafeteria helper in the Secretary's Office, to become effective as of the close of business on May 9,

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1944, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

Letter to Mr. Williams, President of the Federal Reserve Bank of Philadelphia, reading as follows:

"The Board approves the increased salaries for the coming year for Messrs. Sienkiewicz and Donaldson and the salary for the newly appointed Assistant Cashier, Mr. Catanach, in the amounts as fixed by the Board of Directors and reported in your letters of April 24, 1944. It is understood that the Directors propose that the salaries of the other officers and the retainer for counsel be continued without change.

"Accordingly, the Board of Governors approves payment of salaries to officers of the Federal Reserve Bank of Philadelphia for the year beginning May 1, 1944, at the following rates:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
Alfred H. Williams	President	\$25,000
Frank J. Drinnen	First Vice President	16,000
C. A. McIlhenny	Vice President and Cashier	10,000
W. J. Davis	Vice President	14,000
E. C. Hill	Vice President	11,000
C. A. Sienkiewicz	Vice President	13,000
Wm. G. McCreedy	Asst. Vice President and Secretary	10,000
P. F. Coleman	Asst. Vice President	7,500
L. E. Donaldson	Asst. Vice President	8,500
Robert N. Hilkert	Asst. Vice President	7,000
James M. Toy	Assistant Cashier	8,000
Wallace M. Catanach	Assistant Cashier	5,000
Philip M. Poorman	General Auditor	8,000

"The Board likewise approves payment of a retainer to the firm MacCoy, Brittain, Evans and Lewis, counsel for the Bank, at the rate of \$2,500 per year for the year beginning May 1, 1944."

Approved unanimously.

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

"In accordance with the request contained in your letter of April 26, 1944, the Board approves the designation of Paul S. Cooper, E. G. Barnard, and W. S. Dennis, Jr., as special assistant examiners for the Federal Reserve Bank of Atlanta.

"Appropriate notations have been made in our records of the names reported as deletions."

Approved unanimously.

Letter to Mr. Day, President of the Federal Reserve Bank of San Francisco, reading as follows:

"This is to advise you that the Board of Governors notes without objection the salaries paid to the employees of the Federal Reserve Bank of San Francisco and its Branches as of January 1, 1944, as shown in the statement accompanying Mr. Mangels' letter of January 28, 1944."

Approved unanimously.

Letter to Mr. Day, President of the Federal Reserve Bank of San Francisco, reading as follows:

"The Board of Governors approves the various changes in the personnel classification plan of the Federal Reserve Bank of San Francisco and its Branches as submitted with your letter of April 5, 1944."

Approved unanimously.

Letter prepared for the signature of Chairman Eccles to the Presidents of all the Federal Reserve Banks, reading as follows:

"You will recall that at the last meeting of the Conference of Presidents with the Board of Governors,

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"I discussed the financing proposal I made to Mr. Bernard Baruch under date of December 16, 1943. I have already furnished you, under date of February 7, 1944, a copy of my letter of transmittal to Mr. Baruch and of the memorandum enclosed therewith, which involved changes in the authority of the Federal Reserve Banks regarding industrial loans under section 13b of the Federal Reserve Act. At the meeting referred to, I agreed to send to each President, when prepared, a copy of a more detailed statement respecting the proposed plan and the proposed amendment to section 13b. These papers are enclosed herewith for your confidential information.

"In appraising the merits of this proposal, I would not have you assume that I consider this plan for additional credit facilities the chief answer to the financial problems of small business. Indeed, I think that other approaches, such as changes in the tax laws and in the requirements regarding the issue and distribution of securities, would be more effective. However, the fact is that the credit aspect of the problem is the one to which Congress is now giving special attention.

"It seems likely to me that, due to the political appeal of such legislation, Congress will provide some additional governmental mechanism for liberal financing of small business during the reconversion period and thereafter. The Small Business Committees, which were not taken seriously a few years ago, have now become influential. The 1944 version of the Mead Bill is already in Committee Print. The Senate Small Business Committee (Murray Committee) has prepared a confidential print of a bill which would, in effect, extend and greatly enlarge the powers of the Smaller War Plants Corporation, changing its name to Small Business Corporation, raising its capital to one billion dollars, authorizing both direct loans and guarantees, and in other respects making it a powerful credit and service organization for small business during the reconversion period and until July 1, 1947. Senator Taft has introduced a bill, S. 1777, providing for a Small Business Finance Insurance Administration in the Department of Commerce. This bill would authorize insurance of a total of 500 million dollars of loans to be outstanding at any one time and in addition would permit the insurance of investment companies against loss on stocks up to an

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"aggregate of 500 million dollars at any one time. I feel that legislation of the character mentioned above is undesirable.

"But we cannot expect members of Congress to resist politically appealing measures of this kind unless they have an acceptable alternative at hand. The Baruch recommendation of my proposal that the Federal Reserve be given an important role in this picture offers a possible alternative which could be administered on a sound basis. However, it is apparent that when compared with more ambitious and politically appealing measures such as those of the Murray Committee and Senator Taft, my proposal is quite modest. I believe, however, that it would be adequate to meet the situation as we see it at this time. Accordingly, in the light of the entire picture, I feel that this proposal should be submitted promptly for the consideration of Congress.

"Should you have any comments which you wish to submit with regard to the proposed amendment or the statement attached thereto, please write or wire so as to reach us by May 5."

Approved unanimously.

Letter prepared for the signature of Chairman Eccles to the Presidents of all the Federal Reserve Banks, reading as follows:

"I am enclosing herewith a copy of a letter received from Mr. John M. Hancock, dated April 13, respecting S. 1718 (the so-called George-Murray Bill) and H.R. 3022, likewise enclosed. You will note that Mr. Hancock asked for the opinion of the Board as to how widely member banks would grant loans under H.R. 3022 as compared with the plan recommended in the Baruch-Hancock Report and which is embodied in S. 1718 as amended in the form enclosed.

"Believing that it would be of help to Mr. Hancock, I have suggested to him that he have the benefit of the views of the Federal Reserve Banks. I would appreciate it, therefore, if you would forward me, to arrive not later than May 8, your views with reference to the question propounded by Mr. Hancock."

Approved unanimously.



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Letter prepared for the signature of Chairman Eccles to Mr. Ruml, Chairman of the Federal Reserve Bank of New York, reading as follows:

"This refers to your letter of March 23, 1944, regarding the action of your board on the plan to insure registered mail and express losses, revised December 31, 1943, which was prepared by the Insurance Committee of the Federal Reserve Banks and considered by the Presidents at their last conference.

"It is the Board's understanding that, at the time of the last Presidents' Conference, eight of the Reserve Banks voted in favor of approving the plan submitted by the Insurance Committee insofar as it relates to registered mail and express losses. Of the other four banks, both Boston and Chicago have since advised the Board that favorable action has been taken on the plan. Informal advice of favorable action taken by San Francisco has been received. The action by your board, while expressing acquiescence in the plan, in effect nullifies the favorable action of the other Reserve Banks, since the approval of your board is conditioned upon the plan's not becoming effective until one year after the cessation of hostilities. As the plan is set up, it cannot go into operation unless all twelve of the Federal Reserve Banks approve, so that your bank is the only one of the twelve Federal Reserve Banks standing in the way of the prompt adoption of the plan.

"Coming now to the arguments made in your letter in favor of deferring the inauguration of the plan, you suggest that relatively high losses on currency and security shipments may be incurred between the present and a year after the cessation of hostilities. From a reference to the premiums paid and claims collected on registered mail and express insurance, as shown on page 13 of the appendix to the report submitted in August 1941 by the Insurance Plan Committee, it appears that, while losses on registered mail and express shipments following the first World War were relatively high, claims collected on such losses did not in any year except one, 1921, exceed premiums paid, and then only by about \$18,000. When this happened, rates

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"were promptly advanced. In the following year, 1922, premiums paid exceeded claims collected by over \$424,000. If we assume the same trend at the end of the present war so that losses increase materially, insurance and express rates will be promptly raised, since these rates are fixed from time to time, it is understood, so as to yield premiums at least twice losses sustained. Therefore, the possibility of heavy losses does not lessen the force of the arguments in favor of putting the plan into operation at once.

"Another point is made in your letter that the discontinuance of purchased insurance would make undue demands upon the executive personnel of the Federal Reserve Banks. While it is recognized that the operation of the plan would require some additional work at the Reserve Banks, it should not require much attention on the part of senior executives. Such additional time and expense as would be involved would be amply justified by the important savings resulting from the operation of the plan.

"Since the Federal Reserve Banks now have surplus and contingent reserves amounting to approximately \$248,000,000, it would appear that their ability to assume the risk of loss may equal if not exceed that of all the insurance companies now underwriting the risks. Furthermore, the sharing of losses by the Federal Reserve Banks would involve expenditures equal to actual losses only. Commercial casualty companies, on the other hand, must keep their rates adjusted so as to cover not only actual losses but commissions to agents, overhead, including rent, taxes, advertising, salaries to executive officers, dividends to stockholders, etc. In short, the business justification for purchasing insurance at a cost of double or more than actual losses, on the average, disappears when the insured is in as favorable a position as the insurer to absorb or spread the losses.

"It is quite apparent from the discussion in your letter that the directors of your bank have approached this problem from the point of view of a single institution of the System. To quote from your letter, following a reference to the amount of the premiums paid by your bank:

' \*\*\* As a matter of business judgment, so far as the Federal Reserve Bank of New York is concerned, therefore, they were not convinced that it would be desirable to amend the present loss-sharing agreement to include



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"the sharing of losses on registered mail and express shipments of currency and securities."

"The Board is confident that this view would not prevail if due consideration were given to the position of the System as a whole and to the responsibilities of the Board of Governors with respect to expenditures. It may be added in this connection that since the Banking Act of 1935 each Federal Reserve Bank has a direct interest in the expenditures of the other Reserve Banks, because their investments in Government securities (almost their only source of earnings) are allocated by the Federal Open Market Committee according to the needs of the several Federal Reserve Banks. Indirectly, therefore, the Federal Reserve Bank of New York as a part of the System is already sharing in the expenses and losses of the other Reserve Banks. The adoption of the proposal under consideration would merely have the effect, on the basis of past experience, of reducing the expenditures to be shared.

"You state in your letter that in the case of your bank this matter involves about \$37,000 a year. A report received this morning from the Chairman of the Insurance Committee of the Federal Reserve Banks shows this expense for 1943 as \$73,547 for your bank after deducting \$21.00 of recoveries. You state that it would be a cause for regret on the part of your directors if such a matter should become a source of conflict between the Board and the bank. The members of the Board of Governors likewise feel that it would be a cause for regret if such a matter should appear to your board to justify any such conflict, especially in view of the fact that all of the other Federal Reserve Banks have signified a willingness to go along with the program. Accordingly, it is hoped that upon further consideration, your board will take action to remove the condition heretofore imposed upon its approval and thus enable the System to proceed without further delay to carry the plan into effect.

"P. S. Responding to the postscript to your letter, you know, of course, that the Board would be glad to meet with you and Tom McCabe at a mutually convenient time on this or any other matter."

Approved unanimously.

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Thereupon the meeting adjourned.

Chester Morrie  
Secretary.

Approved:

W. C. C. C.  
Chairman.