

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, May 5, 1944, at 10:30 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
Mr. Dreibelbis, General Attorney
Mr. Leonard, Director of the Division
of Personnel Administration
Mr. Vest, Assistant General Attorney
Mr. Wyatt, General Counsel

There were presented telegrams to Messrs. Treiber, McCreedy, Clouse, Dillard, Stewart, and Hale, Secretaries of the Federal Reserve Banks of New York, Philadelphia, Cleveland, Chicago, St. Louis, and San Francisco, respectively, stating that the Board approves the establishment without change by the Federal Reserve Bank of St. Louis on May 2, by the Federal Reserve Bank of Chicago on May 3, and by the Federal Reserve Banks of New York, Philadelphia, Cleveland, and San Francisco on May 4, 1944, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Mr. Szymczak referred to the informal discussions of the Board when Mr. J. R. Parten was being considered for appointment as a Class C director and Deputy Chairman of the Federal Reserve Bank of Dallas and stated that in accordance with the request of the Board at that time he (Mr. Szymczak) and Mr. Leonard discussed the matter with Mr.

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Taylor, Chairman of the Bank, to ascertain his opinion as to the qualifications of Mr. Parten as a director of the Bank and whether he would be a suitable Chairman in the event it were determined that Mr. Taylor, because of his continued absence from the District, should not continue in that position.

Mr. Leonard referred to the fact that in the letter addressed to the Board by Mr. Taylor under date of December 20, 1943, accepting appointment as Chairman and Federal Reserve Agent for the current year, he made the statement that he was finding it more and more difficult to attend many of the meetings in Dallas, that, therefore, the letter would serve as his resignation as Class C director and Chairman and Federal Reserve Agent if the Board desired to accept it, that the Board had been more than considerate in reappointing him as Chairman, and that he wanted to be just as considerate of the Board by leaving the matter entirely in its hands.

Mr. Szymczak stated that he was bringing the matter up at this time for the reason that in the discussions with Mr. Taylor it had been suggested that he might continue to serve for a period of three or four months so as to afford Mr. Parten an opportunity to become acquainted with his new duties, at the end of which time the Board might decide to designate him Chairman and Federal Reserve Agent in place of Mr. Taylor.

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All of the members of the Board present were in agreement that, because of his continued absence from the Dallas District, consideration should be given to the selection of a successor to Mr. Taylor as Chairman and Federal Reserve Agent, and it was decided that Chairman Eccles should confer with Mr. Parten and ascertain if his outside business connections were such that he could attend regularly the meetings of the board of directors of the Dallas Bank and its executive committee in the event he were designated as Chairman and Federal Reserve Agent.

Reference was then made to a memorandum addressed to the Board under date of April 15, 1944, by Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that Miss Ruth Logue be appointed as an economic assistant in that Division on a temporary basis for a period of not to exceed one year, with basic salary at the rate of \$2,000 per annum, effective as of the date upon which she entered upon the performance of her duties. The memorandum had been placed on the docket for consideration at this meeting at the request of the Personnel Committee because of the fact that, while Miss Logue appeared to be well qualified for the work which it was proposed to have her do, she had been ill for three months during the past two years and the Board's examining physician had reported that the condition causing her illness might return, that in addition she was subject to a minor heart ailment and her blood count was below normal, and that considerable absence on account of illness might be expected.

Mr. Leonard stated that it was anticipated that Miss Logue

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would work on certain statistical series in the maintenance of which the Division of Research and Statistics was about one year behind, that her work would be largely supervisory so that it would not be unduly interfered with if she were absent from time to time on account of illness, and that the question before the Board was whether it should make such use of Miss Logue's time as might be available to it in the absence of other qualified personnel which the Division had been trying to find for the good part of a year but had been unable to do so.

Chairman Eccles stated that the matter was before the Board for decision as to the general policy to be followed by the Board in matters of this kind during the war period. The memorandum had been circulated among the members of the Board, and Messrs. Szymczak and McKee had indicated that they would not be favorable to the appointment. Mr. McKee had indicated that he would be willing to consider the appointment on a per diem basis.

At the conclusion of a discussion, it was voted to approve the employment of Miss Logue as recommended, with the understanding that this action was in accordance with the policy that might be followed by the Board in meritorious cases during the war period. On this action Messrs. Szymczak and McKee voted "no".

Before this meeting the attention of the members of the Board had been called to a memorandum addressed by Mr. Wyatt to the Chairman under date of April 27, 1944, in connection with the proposed revision of section 5219 of the United States Revised Statutes relating to State

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taxation of national banks which had been presented to the Chairman by representatives of the American Bankers Association with the statement that it had been approved by that Association, the National Tax Conference, and the National Tax Association. The representatives of the American Bankers Association had asked Chairman Eccles to advise them whether, in the event the bill were introduced in Congress and the Board's views thereon were requested, it would interpose any objection to the amendment. The memorandum stated that similar inquiries had been made of the Comptroller of the Currency and the Federal Deposit Insurance Corporation, and it was understood that they would interpose no objection. The memorandum also contained the recommendation that, inasmuch as the proposed revision did not change the fundamental policy of existing law and had been agreed upon by representatives of the banks and the State taxing authorities after lengthy negotiations, during which concessions were made on both sides, the interested parties be advised informally that the Board would interpose no objection.

There was a discussion of the statements contained in Mr. Wyatt's memorandum (1) that under the amended section mutual institutions for the deposit or accumulation of savings could be given favored treatment or be exempted from taxation altogether without validating the State tax on national banks, and (2) that the amendment made no attempt whatever to solve the difficult problem of taxation of shares of stock of national banks. In connection with the first item,

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Chairman Eccles stated that when the Board reported on bills now pending in Congress which would amend the law relating to Federal savings and loan associations it could call attention to the provision in existing legislation which gave a discriminatory tax preference to such associations as compared to national banks.

Upon motion by Mr. McKee, it was voted unanimously that Mr. Wyatt be requested to advise the representatives of the American Bankers Association informally that the Board saw no reason why it should interpose any objection at this time to the proposed revision of section 5219 of the United States Revised Statutes.

At Chairman Eccles' request, there were presented drafts of letters reading as follows to Senator Wagner and Congressman Spence, Chairmen of the Senate and House Banking and Currency Committees, respectively:

"On page 26 of the report on War and Post-war Adjustment Policies, dated February 15, 1944 (the Baruch-Hancock report), it is recommended under the heading 'Permanent Risk Capital' that:

'(2) As a permanent source of credit for small and medium-sized enterprises on a basis of broader risks than banks can be expected to assume, that the Federal Reserve System's authority to make industrial loans or commitments be expanded and liberalized.'

"The report states that 'A detailed explanation of this plan is available for the consideration of the Congress.'

"In line with the foregoing recommendation, the Board has prepared and encloses herewith a draft of a bill to accomplish the objective stated in the report.

"For your further information and as a background for the proposed bill, I am enclosing a memorandum entitled 'Plan for Industrial Loans by Commercial Banks

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"Guaranteed by Federal Reserve Banks'. This plan would be implemented by the proposed bill. The Board wishes particularly to point out that the proposed bill does not involve any new appropriation by Congress and also that it does not authorize the Federal Reserve Banks to make direct loans to business enterprises. The bill contemplates merely that the Reserve Banks guarantee loans made by private financing institutions which such institutions would be unwilling to make without such a guarantee.

"In view of the importance of small business enterprises to the welfare of our country, it is important that steps be taken now to see that in the post-war period such businesses will be able to obtain the credit needed to enable them to function in the interests of our economy as a whole. It is believed that the attached bill is adequate, for the time being at least, to meet this need and the Board hopes that you will see your way clear to introduce the bill in the Senate.

"I am addressing a similar letter with identical enclosures to Chairman Spence of the House Banking and Currency Committee."

Chairman Eccles stated that there was considerable agitation in Congress and elsewhere at the present time for legislation to aid small business concerns and that, while he did not think the solution of the problem was to be found in credit legislation, he felt that some legislation of this sort probably would be enacted and that the solution proposed in the letters referred to above would be more satisfactory than any of the other bills that had been introduced. He also said that it did not appear that it would be necessary to clear the proposed amendment through the Budget Bureau for the reason that the original Baruch-Hancock report had been cleared with the Office of War Mobilization and the Budget Bureau and the amendment as now proposed was merely for the purpose of implementing the recommendation contained in the

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report. He made the further statement that while the Presidents of the Reserve Banks were in Chicago this week they had an informal discussion of the amendment and felt that if any legislation were to be enacted along this line it should take the form proposed by the Board, although they indicated some preference for having the funds that would be made available by the amendment, and out of which losses would be paid, turned over to the Federal Reserve Banks rather than held by the Board.

Upon motion by Mr. Szymczak, the letters were approved, with the understanding that they would be delivered by Chairman Eccles in person at a convenient time next week. On this action Mr. McKee voted "no".

Before this meeting there had been circulated among the members of the Board a draft of letter to Mr. F. J. Bailey, Assistant Director in Charge of Legislative Reference of the Bureau of the Budget, reading as follows:

"With your letter of April 17, 1944, you transmitted a copy of a proposed report from the Department of Agriculture to the Chairman of the Senate Committee on Agriculture and Forestry, concerning bill S. 1688, 'To authorize the Governor of the Farm Credit Administration and the Secretary of Agriculture to compromise, adjust, or cancel certain indebtedness, and for other purposes', together with a copy of the proposed revision of the bill. You asked for an expression of views with respect to this proposal and for the return of the enclosure.

"The Board of Governors has authorized me to advise you that it has no objection to the proposed report of the Department of Agriculture and the suggestions referred to therein.

"In accordance with your request the enclosure is returned herewith."

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Mr. McKee had indicated that he would wish to vote "no" on the letter for the reason that, while he was in sympathy with the objectives of the particular bill, he felt that, if it were enacted, demands would be made by other groups for similar privileges and it was not possible to say to what extent such legislation might be carried.

The reasons for the legislation, as set forth in a memorandum prepared by Mr. Clayton under date of April 24, 1944, were discussed, and Mr. McKee stated that his primary objection was not to the compromise or adjustment of obligations where the circumstances of the case were found to justify such action, but that he did not believe, particularly in a time of high national income like the present, provision should be made in legislation for the cancellation of indebtedness.

At the conclusion of the discussion, the letter was approved, Mr. McKee voting "no".

In connection with his vote, Mr. Draper stated that he voted to approve the letter but desired to have it recorded that he questioned the propriety of authorizing the Farm Credit Administration and the Department of Agriculture to cancel indebtedness in view of the fact that these agencies, in accordance with the bill's provisions, would have the power both to compromise and to adjust indebtedness.

Mr. McKee stated that he had been holding in his desk a copy of a memorandum dated January 31, 1938, which Mr. Crowley, Chairman of the Federal Deposit Insurance Corporation, had addressed to Secretary Morgenthau with respect to the bank holding company question and with

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special reference to Transamerica Corporation. He said the memorandum had been received by him under confidential cover and he would like to raise the question what, if anything, should be done with it.

The memorandum was read, and there was a review of the discussions of the holding company situation which had taken place before the date of the memorandum and subsequent thereto. During the discussion, Mr. Morrill called for Mr. Ransom's files on the matter from which it appeared that a copy of the memorandum might also have been sent to Chairman Eccles.

It was subsequently learned that this was the case, and it was agreed that a copy of the memorandum submitted by Mr. McKee should be placed in the Board's files.

Mr. McKee then referred to the informal discussion at the meeting of the Federal Open Market Committee yesterday with respect to Regulation Q and to the comment made by President Davis of the Federal Reserve Bank of St. Louis concerning the difficulty facing the St. Louis Bank because examinations of two State member banks in Louisville had indicated that the banks were absorbing exchange and collection charges in violation of the law and the Board's regulation and the Board of Governors had taken no action with respect to these findings. It was also stated that the Comptroller of the Currency was not enforcing Regulation Q.

Mr. McKee stated that the two cases referred to by Mr. Davis and other cases referred to the Board by the Reserve Banks had not

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been submitted to the Board for action pending a discussion by the Senate Banking and Currency Committee on the Brown-Maybank bill, and that it would be his suggestion that if hearings on the bill were not held in the Senate Committee by the time Congress recessed for the summer the Board should then proceed promptly to rule on all the cases of possible violation that had been reported to it. The suggestion was also made that in the meantime conferences should be held with the Comptroller of the Currency to insure his continued cooperation in enforcing the law and the Board's Regulation Q, as it would be difficult for the Board to require compliance by State member banks if the same policy were not to be followed in the case of national banks.

All of the members of the Board present expressed agreement with this suggested procedure.

Chairman Eccles then stated that it had been learned on Tuesday of this week that under date of April 27, 1944, Mr. Sproul, President of the Federal Reserve Bank of New York, addressed the following telegram to the Presidents of the other Federal Reserve Banks:

"Chairman this Bank received today revised statement of responsibilities of directors which I have not yet read. Have read and do object to procedure set forth in covering letter. Seems to me board of directors of each Bank should decide what statement is to be sent to its new members and how it is to be sent, not the executive committee of the Chairmen's Conference with the approval of the Board of Governors, and, second, that whatever statement is sent to new directors should be sent by the Chairmen of the boards of individual Reserve Banks, not by the Board of Governors. Have discussed my objections with Chairman Ruml and suggested that Board's letter of April 25 be

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"held in suspense until matter is further discussed at forthcoming Chairmen's Conference, with which he agrees. Meanwhile, in so far as this Bank is concerned, form of statement will be studied to see if it meets our needs or should be modified so to do."

Copies of the telegram had been sent to the members of the Board before this meeting, and Chairman Eccles stated that he was bringing the matter up at this time to ascertain what, if any, action the Board wished to take with respect to it.

There was a discussion of the alternative actions that were available to the Board, and it was concluded that nothing should be done until after the meeting of the Chairmen's Conference next week and that, if a reference were made to the wire by Mr. Ruml, Chairman of the New York Bank, or Mr. Sproul during the Chairmen's Conference, the statement would be made that the matter was one that would be discussed with the Chairmen by the Board of Governors in executive session.

Mr. Szymczak stated that he would call Mr. Brainard, Chairman of the Chairmen's Conference, and inform him of the telegram so that when the Chairmen's Conference was held he would be familiar with what had occurred.

At this point Messrs. Dreibelbis, Leonard, 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 May 3, 1944, were approved unanimously.

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Letter to the board of directors of the "Pierceton State Bank", Pierceton, Indiana, 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 Chicago.

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

Letter to the board of directors of "The Farmers State Bank", Ransom, Kansas, 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 Kansas City.

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

"The Board of Governors of the Federal Reserve System approves the application of 'The Farmers State Bank', Ransom, Kansas, 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 Bank Commissioner for the State of Kansas, for his information.

"It is apparently agreed that the town of Ransom has no need for two banks and that consolidation of the applicant and the competitor State bank on a sound basis

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"would be desirable. The matter was discussed during the examination and it is said that there is a strong possibility that such a consolidation may occur during the current year. It is assumed, of course, that in accordance with the views expressed in the Board's letter S-6 (Loose-Leaf Service #3360) with respect to a program for strengthening banking situations where such need is indicated, the influence of the Federal Reserve Bank will be joined with that of the State Department and the F.D.I.C. in endeavoring to bring about a consolidation at an opportune time."

Letter dated May 4, 1944, to the "Webb City Bank", Webb City, Missouri, 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 Mr. Hitt, First Vice President of the Federal Reserve Bank of St. Louis, reading as follows:

"This refers to your letter of April 14, 1944, regarding the acquisition by the First National Bank Trustees of controlling interest in the St. Matthews Bank, St. Matthews, Kentucky, a nonmember bank, control of which was held by the First Kentucky Company, a subsidiary of the trust.

"Since your bank has kept the Board fully advised as to the developments in this matter, no further information is requested, and the Board agrees with your conclusion that it will be unnecessary for the St. Matthews Bank to execute form P-3 (Exhibit L), since the First National Bank Trustees is not requesting a voting permit at this time and none is required to enable it to vote the stock of the St. Matthews bank."

Approved unanimously.

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Letter to Mr. J. A. Kaufman of Warwick Stores Inc., New York,
New York, reading as follows:

"This will acknowledge and thank you for your letter of April 28, 1944, proposing three changes in Regulation W. The first is that articles up to \$35 in price be exempted from the down payment requirement; the second is that the maturity for clothing and similar articles be reduced to seven months; and the third is that the minimum instalment be raised to \$6.00 per month or \$1.50 per week.

"As to the down payment proposal we do not believe that we can go further in this direction at the present time. Amendment No. 11, effective April 3, 1944, enlarged the exempt category to include all items up to \$10.00. In view of the continuing need for restraining purchases on credit, a further relaxation does not appear possible in the near future.

"As to the maturity for clothing, we have always recognized that 12 months was longer than was considered appropriate by many retailers for soft goods. Yet we were faced with the difficulties which would result if there were a number of maturities applying to different kinds of articles. Not only would there be a sacrifice in the simplicity of the regulation, since the retailer would have to keep in mind a number of figures, but also there would be complications when retailers sold several articles having different maturities at the same time or consolidated new purchases with old obligations. It seemed better to adhere to a single maturity with exceptions only in those cases where the credit is customarily handled on a separate basis.

"The fact that 12 months was too long for some kinds of goods was one of the reasons for the minimum monthly or weekly payment provision, since the obligation would have to be paid out in less than 12 months if it was less than \$60. An increase of the figures to \$6.00 and \$1.50 would have some advantages in this connection, but it has been argued on the other side that it would not be worth the trouble which would be caused to retailers who would have to adjust to the new figures.

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"We have been glad to receive your suggestions. One of the principal factors in the success of the regulation has been the cooperative spirit of the merchants who have had to live under it. We want to hear their ideas and we consider them carefully. Many that cannot be put into effect immediately become possible later. At the same time we are conscious of the desirability of making as few amendments as possible. A number of people have recently expressed the view that the regulation is in satisfactory form and ought to be maintained substantially as it is until there is change in the underlying situation.

"We are sending a copy of this letter to the Federal Reserve Bank of New York. Please feel free to talk to the people at the Reserve Bank about the regulation at any time."

Approved unanimously.

Letter to Mr. McCabe, Chairman of the Federal Reserve Bank of Philadelphia, reading as follows:

"At the completion of the examination of the Federal Reserve Bank of Philadelphia, made as of March 4, 1944, by the Board's examiners, a copy of the report of examination was left for your information and that of the directors. A copy was also furnished President Williams.

"The Board will appreciate advice that the report has been considered by the Board of Directors. Any comments you may care to offer regarding discussions with respect to the examination or as to action taken or to be taken as a result of the examination will also be appreciated."

Approved unanimously.

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

"This refers to your letter of April 27 regarding tentative arrangements made with the State Bank Commissioner of Louisiana for the joint publication of reports of condition by State bank members of the Federal Reserve

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"System in Louisiana when the date of the call by the State Bank Commissioner corresponds with the date of call by the Federal Reserve Bank.

"It is observed from the form F. R. 105e enclosed with your letter, showing certain alterations in the form to meet the requirements of the State Bank Commissioner, that all of the alterations are consistent with the general instructions governing publication appearing on page 3 of form F. R. 105a. The Board will, therefore, interpose no objection to joint publication of reports of condition by State bank members in Louisiana in the form indicated.

"At the end of 1943 there were only eight State bank members in Louisiana--six in your District and two in the Dallas District. In the circumstances it is assumed that, rather than having a special form printed for these banks, the necessary alterations will be made by the Federal Reserve Banks or by the member banks under instructions from the Federal Reserve Banks. There would, of course, be no objection to the banks' using a publication form supplied by the State Bank Commissioner, provided it accomplishes the desired purpose."

Approved unanimously, together with a letter to Mr. Evans, Vice President of the Federal Reserve Bank of Dallas, enclosing for his information copies of the above letter and of Form F. R. 105e as submitted to the Board by Mr. Clark.

Memorandum dated May 3, 1944, from Mr. Paulger, Director of the Division of Examinations, submitting the travel expense voucher of E. R. Millard, a Federal Reserve Examiner, covering the period April 1 to April 30, 1944, and recommending that, because no other accommodations were procurable at the time and it was necessary for him to accept whatever space was available in order to proceed to his next assignment, the Board approve the payment of an additional expenditure of \$2.80 representing the difference in price of a standard lower berth and a

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roomette from Cleveland, Ohio, to Washington, D. C., and return.

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

W. Steeles
Chairman.