A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Saturday, June 16, 1945, at 10:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. McKee
Mr. Draper
Mr. Evans

Mr. Carpenter, Assistant Secretary
Mr. Thurston, Assistant to the Chairman

The action stated with respect to each of the matters hereinafter referred to was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on June 15, 1945, were approved unanimously.

Chairman Eccles had advised the Board that Mr. Morrill had expressed a desire to retire from active service and to that end had tendered his resignation. Upon discussion, the members of the Board were unanimously of the opinion that it would be desirable to retain Mr. Morrill's services in a capacity which would continue to make available to the Board, the individual Board members, and the staff his services as an adviser or consultant on questions of policy and procedure. Recognizing, however, that one of the reasons for Mr. Morrill's wish to retire from active service was his desire to be free from routine which is necessarily a part of the conduct of the usual affairs of the Secretary's Office and which interferes considerably with personal freedom, they agreed upon a plan by which Mr.

Morrill would be detached from the Secretary's Office, with a change of designation to Special Adviser to the Board of Governors, and Mr. Carpenter would succeed Mr. Morrill as Secretary. Chairman Eccles was requested to advise Mr. Morrill accordingly and subsequently reported that Mr. Morrill had agreed to remain in the Board's service under this plan.

Thereupon the Board voted unanimously to approve the plan, to change Mr. Morrill's designation from Secretary to Special Adviser to the Board of Governors, and to promote Mr. Carpenter from Assistant Secretary to Secretary, effective July 1, 1945. It was understood in this connection that the salaries of Mr. Morrill and his secretary would be transferred from the budget of the Secretary's Office to that of the Board Members' offices.

Memorandum dated June 14, 1945, from Mr. Draper recommending that O. E. Foulk, Fiscal Agent, who reached the retirement age of 65 on May 8, 1945, be retained in active service until the end of the calendar year 1945. The memorandum also recommended that, in accordance with the action taken by the Board on November 14, 1944, approving the transfer, at a later date to be fixed by the Board, of the functions of the Board's Fiscal Agent to the Division of Administrative Services, the date for such transfer be fixed as January 1, 1946.

Approved unanimously.

Memorandum dated June 14, 1945, from Mr. Morrill recommending that J. J. Connell, Technical Assistant in the Division of Bank Operations, be transferred on a temporary loan basis to the Secretary's Office as a General Assistant, with no change in his present basic salary at the rate of $4,400 per annum, and with the understanding that the arrangement will be subject to review within a period of not to exceed six months and that if it does not work out satisfactorily he will return to the Division of Bank Operations.

Approved unanimously, effective as of June 20, 1945.

Memorandum dated June 15, 1945, from Mr. Nelson, Assistant Director of the Division of Administrative Services, submitting the resignation of Mrs. Marie E. Browne as an elevator operator in that Division, effective as of the close of business on June 30, 1945, and recommending that the resignation be accepted as of that date and that proper payment be made for the accrued annual leave remaining to her credit at that time.

The resignation was accepted as recommended.

Memorandum dated May 1, 1945, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that the following increases in basic annual salaries of employees in that Division be approved, effective at the beginning of the pay roll period following approval by the Board:

Name	Title	Salary Increase From	To
Dirks, Frederick C.	Economist	$5,600	$6,000

Name: (Continued)	Title	Salary Increase From	To
Metzler, Lloyd A.	Economist	$4,600	$5,000
Maroney, Mary M.	Economist	2,800	3,000
Thomasson, Berniece	Economist	2,800	3,000
Sette, Elizabeth B.	Economist	2,600	2,900
Warner, Doris Plass	Economist	2,600	2,900
Lubell, Harold	Research Assistant	2,000	2,300

Approved, effective June 16, 1945, Mr. McKee not voting with respect to the salary increases for Messrs. Metzler and Lubell.

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

"The Board of Governors approves payment of salary to Mr. Delos C. Johns as General Counsel and Secretary of the Federal Reserve Bank of Kansas City at the rate of $10,000 per annum for the period ending May 31, 1946, which is the rate fixed by the directors as reported in your telegram of June 14.

"Please advise us as to the date the appointment becomes effective."

Approved unanimously.

Telegram to Mr. Young, President of the Federal Reserve Bank of Chicago, reading as follows:

"Retel fifteenth. Board extends to July 19, 1945, time within which 'Morocco State Bank', Morocco, Indiana, may accomplish membership."

Approved unanimously.

Letter to the board of directors of the "Bank of Commerce", Freewater, Oregon, 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 San Francisco.

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

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

"Reference is made to your letter of May 28, 1945 enclosing a signed duplicate of a letter dated January 31, 1945, which the First Trust and Savings Bank of Pasadena advises you was addressed to the Board. As you were previously advised, we have no record or recollection of receipt of the original of such letter.

"The bank presents no factual data which were not considered by the Board in reaching the conclusion stated in its letter to you of January 3, 1945, which conclusion the Board feels should stand for the reasons indicated in such letter, a copy of which you forwarded to the bank at the Board's request.

"Please advise First Trust and Savings Bank accordingly."

Approved unanimously.

Letter to Mr. Chereton, President of the Consumers Home Equipment Company, Detroit, Michigan, reading as follows:

"The agreement entered into by the Consumers Home Equipment Company under date of December 29, 1943, with regard to compliance with the provisions of Regulation W entitled 'Consumer Credit' issued by the Board of Governors of the Federal Reserve System, contains, among others, the following provisions:

'The Registrant also agrees that, subsequent to the date hereof and after having the "'privilege of a conference on the matter with the Board of Governors or its representatives, any willful or negligent violation of Regulation W will result in the voluntary surrender of the Registrant's license or its cancellation by the Board of Governors, without a formal administrative hearing as provided in the Regulation; the determination of such willful or negligent violation on the part of the Registrant and action with respect thereto to be at the discretion of the Board of Governors.'

"This is to advise you that representatives of the Board of Governors of the Federal Reserve System will be at the Federal Reserve Bank of Chicago on July 10, 1945, at 10 A.M., for the purpose of a conference with representatives of your company pursuant to the above quoted provisions of the agreement of December 29, 1943.

"A copy of this letter is being sent to Mr. E. T. Goodrich, c/o Semmes, Goodrich & McEvoy, Penobscott Building, Detroit 26, Michigan, and a copy is also being sent to General Finance Corporation 184 West Lake Street, Chicago, Illinois, for the attention of Mr. Byron S. Coon, President, in order that they or their representatives may also be present at the conference if they should so desire."

Approved unanimously, together with a letter to Mr. Dillard, Vice President of the Federal Reserve Bank of Chicago, reading as follows:

"Referring to the Board's letter of June 5, 1945, subsequent telephone conversations, and your telegram of June 15 to Dr. Parry, we enclose herewith a copy of a letter notifying Consumers Home Equipment Company of a conference pursuant to the agreement signed on December 29, 1943, to be held on July 10, 1945, at the Federal Reserve Bank of Chicago. Copies of the letter have also been sent to Mr. Goodrich and to the General Finance Corporation.

"The Board has designated Dr. Parry, Director, Division of Security Loans, and Mr. Vest, General Attorney, as its representatives for the purpose of this conference, and they will be at your bank on Monday, July 9, to review this matter in a preliminary way prior to the conference on July 10."

6/16/45

Letter to Honorable Robert F. Wagner, Chairman of the Senate Banking and Currency Committee, prepared for the signature of Chairman Eccles and reading as follows:

"This is in reply to your letter of March 3 addressed to various Government agencies and others, requesting preliminary comments relative to S. 380 now pending before your Committee. The Board of Governors has given consideration to this measure and it has been under study by our research staff for some time.

"I understand that various changes have been made or are to be made in the text of the bill. Accordingly, at this stage and for the purpose of this reply, I am undertaking to make only some general comments without discussing the bill in detail or presenting a formal opinion of the Board covering a measure of such far-reaching magnitude and implications.

"If this bill or some similar one is enacted, Congress for the first time will have recognized by a formal declaration that the Federal Government has a large measure of responsibility for maintaining a satisfactory level of business activity and employment and that there should be some broad guide and objective formally stated by the Congress to govern governmental acts and policies affecting the Nation's economic life. While this would, of itself, mark a new departure, it would merely be a recognition of the facts (1) that the Congress has step by step authorized the assumption by the Government of numerous responsibilities affecting industry, commerce, agriculture and labor; (2) that the way in which these responsibilities are discharged, the manner in which they are financed, and the timing and direction of various Government expenditures directly affect economic activity and stability; and (3) that, therefore, Government acts and policies need to be coordinated and harmonized so that their influence upon the economy may help to sustain and stabilize it at a high and expanding level of prosperity.

"An over-all guide or mandate by the Congress is desirable. It was my view, when the Banking Act of 1935 was pending in Congress, that the Federal Reserve Act should contain some guide, or mandate, stating the objective towards which monetary and credit policy should be "directed. As the Banking Act of 1935 passed the House of Representatives, it contained a mandate for the Federal Reserve Board to use its powers to promote conditions conducive to business stability and to counteract unstabilizing fluctuations in the general level of production, trade, prices, and employment so far as may be possible within the scope of monetary action and credit administration.

"Although this explicit mandate was omitted from the bill in the Senate, the Reserve System has needed to have in mind an objective such as this section sought to state textually, and it has continued to be guided by such an objective in formulating and executing policy.

"Regardless of whether there is a formal statement of an objective in the law, acts and policies of Government in general should be directed towards the goal of economic stability and progress. Otherwise, confusion and cross-purposes would result from uncoordinated action and policy undertaken by a host of different Federal agencies according to differing concepts or interests. Nevertheless, formal declaration by the Congress of a broad objective of policy would make for better coordination and would help to develop the basic criteria by which to judge whether given acts and policies should or should not be pursued.

"As you are well aware, the drafting of appropriate language in which to state the broad objective or declaration of policy presents difficulties. The Board of Governors from time to time has given consideration to this matter in connection with bills introduced in Congress that proposed to direct monetary authorities to make their objective the achievement and maintenance of a specified domestic price level. In a public statement on July 30, 1937, commenting on such proposals, the Board said:

> 'The Board assumes that, while price stabilization is stated as the objective of such proposals, the authors regard stability of prices merely as a means toward a more important end, namely, the lessening of booms and depressions and the increase in the national output and well-being, in the belief that through the maintenance of a stable price level the broader objective will be achieved.
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> 'The Board is in full agreement with the ultimate objective of the proposals to promote economic stability, which means the maintenance of as full employment of labor and of the productive capacity of the country as can be continuously sustained.'

"The statement said in conclusion:

'To sum up, the Board believes that economic stability rather than price stability should be the general objective of public policy. It is convinced that this objective cannot be achieved by monetary policy alone, but that the goal should be sought through coordination of monetary and other major policies of the Government which influence business activity, including particularly policies with respect to taxation, expenditures, lending, foreign trade, agriculture and labor.

'It should be the declared objective of the Government of the United States to maintain economic stability, and it should be the recognized duty of the Board of Governors of the Federal Reserve System to use all its powers to contribute to a concerted effort by all agencies of the Government toward the attainment of this objective.'

"In the draft of S. 380 enclosed with your letter, the objective is stated in terms of 'continuing full employment'. While this reflects a universal aspiration, it does not express with sufficient exactness what I believe the proponents of the bill have in mind. There might be continuing full employment in a primitive economy with a very low standard of living. That, manifestly, is not what is intended.

"It would be equally incompatible with the bill's declared objective of 'continuing full employment' to construe that phrase to mean that there should be 'more jobs seeking men than there are men seeking jobs', as full employment has been defined, for instance in some quarters in England. We have more jobs seeking men than men seeking jobs under wartime conditions, but the labor force is greatly expanded by many who in peacetime should be in school, or retired, or who would be occupied in the household, and maximum levels of employment and production are attained at the cost of heavy budgetary deficits. To curb the vast inflationary pressures generated by such wartime conditions, a degree of regimentation and control of the economy is necessary that would hardly be tolerated by the public in peacetime and, in any case, would be inconsistent with a democratic, free enterprise system. The inevitable result of "forcing a peacetime economy to the levels of employment and production attained under the pressures of wartime would be uncontrollable inflation and subsequent economic collapse. In other words, full employment in this sense could not be long sustained.

"The question, therefore, which I should like to raise in this letter is whether the over-all objective for Government policy should be stated in terms of 'full employment' or 'continuing full employment', or whether in re-drafting the bill, its proponents would wish to consider restating the objective in terms of maintaining economic stability at as high a level of employment and production as can be continuously sustained.

"What is sought, it seems to me, is a general declaration that Government action and policy should be directed towards the goal of stabilized economic progress, with the greatest possible encouragement to individual initiative and private enterprise and with the fullest sustainable employment of labor. The Government, therefore, should be concerned primarily with such measures and policies as would create a climate favorable to private enterprise and private employment, and would prevent the irreparable losses resulting from deflation or inflation. The continued regimentation of the economy that is necessary to prevent inflation in wartime would be intolerable after peace has been restored and conversion to peacetime production has been completed.

"I am in accord with suggestions already made to the authors of the bill for considering what may be done to stabilize such important sectors of the economy as, for example, the building and construction industry. And I agree with other comments you have received which point out that it would be preferable to place more emphasis upon the interrelationships of all sectors of the economy and on the responsibility of all groups to help in working out desirable long-range and counter-cyclical programs in various fields, and to place less emphasis upon the Federal Government's residual responsibility to intervene with large expenditures as offsets for deflationary conditions. In other words, the emphasis would be more on stability, rather than on what can be done when instability has been permitted to develop.

"Other questions are raised by those parts of the bill dealing with procedure for formulating and presenting programs to the Congress. I shall not, however, "attempt in this letter to discuss these provisions, on which you have already had suggestions from many in the executive as well as in the legislative branch of the Government.

"In what I have said, I have had in mind the four questions in your letter without undertaking to answer them categorically. With regard to the question as to what assumptions, if any, have been made by the Federal Reserve with regard to the postwar level of the gross national product, the national income and employment, I perhaps should add that the Board of Governors has made no formal, official assumptions or forecasts, since there are many possible patterns that may develop, depending upon many unpredictable factors, including the military situation, governmental policies and programs and decisions of businesses and individuals in a situation for which there is no precedent. The Board, however, necessarily considers from time to time various possibilities of future developments, which are worked out in more or less detail and presented to the Board by its research staff.

"Finally, I wish to express appreciation of this opportunity to make preliminary comments and to add that I hope the Board may be given an opportunity to present testimony at such time as the bill may be taken up in hearings before the Committee."

Approved unanimously.

Letter to the Office of Price Administration, Washington, D. C., reading as follows:

"This will refer to the conference in your office on June 14 attended by you, Mr. Busse and Mr. Putzel of the Office of Price Administration, and Messrs. Vest and Cherry of the Board of Governors of the Federal Reserve System with regard to certain rulings issued by the Louisville District Office of the Office of Price Administration under dates of April 30, 1945, and May 28, 1945, on the question whether an exchange charge levied by a nonpar bank may be charged back to the drawer of the check. Copies of these rulings are attached hereto.

"Section 19 of the Federal Reserve Act provides, in part, that 'No member bank shall, directly or indirectly, by any device whatsoever, pay any interest on "any deposit which is payable on demand'. Pursuant to this provision of the law, the Board's Regulation Q provides that 'Within this regulation any payment to or for the account of any depositor as compensation for the use of funds constituting a deposit shall be considered interest'. In 1943 the Board ruled in the circumstances of a particular case that a member bank in absorbing exchange charges for its depositors was doing so as compensation for the use of their funds and was accordingly acting contrary to the provisions of section 19 above quoted. A copy of Regulation Q and a copy of the ruling referred to are enclosed.

"To illustrate the manner in which exchange charges are absorbed by banks, the following example is given: Let us assume that a bank in Forest, Mississippi, charges exchange on its checks presented through the mails. A customer of the bank, John Jones, wishes to settle a transaction in Louisville, Kentucky, and to do so he sends his check drawn on the Forest bank for $1,000 to Smith Mail Order Corporation in Louisville. Smith Mail Order Corporation deposits the check in its bank in Louisville. The Louisville bank sends the check to the Forest bank for payment but the Forest bank remits only $999. The dollar which the Forest bank has retained is the 'exchange charge'. The law does not prohibit the Forest bank from making the charge but it does deal with the question whether a member bank may pay the charge (absorb it) as a means of compensating a depositor for the use of his funds. Thus, it may be that Smith Mail Order Corporation maintains a balance with the Louisville bank deemed to be sufficiently large to justify an arrangement whereby the Louisville bank is willing to absorb all or a part of the exchange charges; or, it may be that the Louisville bank has an account with a New Orleans bank with an arrangement under which the Louisville bank will send the checks it receives on exchange-charging banks in the New Orleans area to the New Orleans bank, maintaining with the New Orleans bank a compensating balance deemed sufficient by the New Orleans bank to justify it in absorbing the exchange charges exacted by the Forest bank and other nonpar-remitting banks. In the latter case Smith Mail Order Corporation would deposit the check with the Louisville bank; the Louisville "bank would send it to the New Orleans bank; and the New Orleans bank would send it to the Forest bank for payment. The Forest bank would pay only $999 but the New Orleans bank would credit the Louisville bank with $1,000 and the Louisville bank in turn would credit Smith Mail Order Corporation with $1,000.

"The rulings contained in the letters of your Louisville office dated April 30 and May 28, 1945, have been called to our attention in connection with the enforcement of section 19 of the Federal Reserve Act prohibiting the payment of interest through the absorption of exchange charges and they constitute a serious impairment to the efforts of the Board of Governors in endeavoring to obtain compliance with this provision of the law. The rulings in question make it necessary for the seller of the goods to stand the expense of the exchange charge made by the bank on which the check is drawn, although obviously the decision to deal with this bank was made by the purchaser and not by the seller. If the purchaser wishes to deal with a bank which does not remit 100 cents on the dollar for its checks, he should be willing to stand the expense involved in the deduction of the exchange charged, or make his own arrangements with the bank with regard to the matter, and should not expect the seller to pay this charge. If under your rulings the seller cannot pass the charge back to the drawer of the checks and cannot insist on payment in some form of remittance collectible at par, he will, of course, resist the efforts of his depositary bank to charge back to him the amount of the exchange charge and thus to comply with the law.

"The seller, in obtaining reimbursement from the purchaser for the amount of the charge or in requiring payment to be made in remittances collectible at par, does not receive an amount in excess of 100 per cent of the price originally agreed upon. The payment by the purchaser of the additional amount is for the benefit of his own bank and in no way increases the amount the seller receives above 100 per cent of the agreed price. If the seller were in the same town with the drawee bank he could merely take the check to the bank and present it over the counter and would in that event receive par for the check without any deduction. Likewise, if he were paid in cash, he would, of course, receive the full amount of the agreed price without any deduction. The "payment of the exchange charge by the seller would be analogous to the payment of a fee for a postal money order and, accordingly, would seem to have no bearing upon the price of the commodity for which the check is given in payment.

"Moreover, a requirement by the seller that payment be made by remittance in New York exchange, by check drawn on a par-remitting bank or by other means insuring receipt of 100 per cent payment by the seller, would be a reasonable one and it is difficult to see how such a requirement would involve an increase over the selling price. In such a case the seller would receive the face amount of the agreed price and no more, and the purchaser would pay such amount and no more.

"As above indicated, the rulings of the Louisville office in question constitute an impediment to the efforts of the Board to obtain compliance with provisions of the Federal Reserve Act, and it will be appreciated, therefore, if your office will review these rulings with a view to reversing or modifying them so as not to affect the enforcement of the provisions of the Federal Reserve Act."

Approved unanimously.

Thereupon the meeting adjourned.

S. R. Carpenter
Assistant Secretary.

Approved:

M. S. Eccles
Chairman.