

## FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-7240

September 13, 1932.

SUBJECT: Surcharges on Registered Mail  
Shipments of Currency.

Dear Sir:

There are inclosed for your information a copy of a letter on the above subject which Governor Meyer addressed to the Postmaster General under date of August 12, 1932, and a copy of the Postmaster General's reply of September 3, 1932, inclosing a memorandum addressed to him by the Third Assistant Postmaster General.

In view of the position taken by the Post Office Department, it would seem advisable for a suitable committee representing all of the Federal reserve banks to consider what changes, if any, should be made in the practices regarding shipments of currency and what other steps, if any, should be taken. The Board would also be glad to receive any comments or suggestions regarding this matter which you may care to make.

In this connection you are advised that the negotiations which were conducted by the Federal Reserve Bank of New York with the American Railway Express Company resulted in a decision by that company to make no change in the tariff rates for Federal

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reserve banks on currency or security shipments. The company advised the Federal Reserve Bank of New York that it could not see its way clear to reduce rates to the point where it would be advantageous for the Federal reserve banks to use the express service in preference to the postal service.

Very truly yours,

Chester Morrill,  
Secretary.

Inclosures.

TO GOVERNORS OF ALL F. R. BANKS.

C O P Y

X-7240-a

August 12, 1932.

Honorable Walter F. Brown,  
The Postmaster General,  
Washington, D. C.

S I R :

The Federal Reserve System is being required under the Act of June 28, 1932, as it is now being administered by the Post-office Department, to pay registry surcharges on currency shipments, which will have the effect of increasing by some \$750,000 annually the cost to the System of supplying the banks of the country with currency. Since this large additional cost will add materially to the burden of expense of operation of the Federal Reserve System in the performance of one of its most important functions, you are respectfully requested to prescribe, under the provisions of Section 2 of the Act of June 28, 1932, which I am advised give you the power to do so, regulations relieving such shipments of currency from the requirement that their full value be declared for the purpose of registration, thus relieving the System of this additional burden.

Federal reserve notes, which constitute about half the currency in circulation, and which are obligations of the United States, are distributed by means of shipments by the Comptroller of the Currency at the direction of the Federal Reserve Board to the various Federal Reserve Agents, who are the local representatives of the Federal Reserve Board and who issue such notes to the Federal reserve banks to meet the requirements of those institutions

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and of the State and national banks. The Federal reserve banks also handle the distribution of United States currency issues forwarded to them by the Treasurer of the United States. The System is, therefore, performing the functions formerly performed by, and is bearing the expense formerly borne by, the United States when currency was distributed by means of shipments to the Subtreasuries and mints. Such shipments by the Board now aggregate about \$2,250,000,000 yearly, and most of them are in large amounts running to millions of dollars. Shipments between the reserve banks and State and national banks, excluding those the cost of which is not borne by the reserve banks, aggregate about \$5,750,000,000 yearly.

The new registry surcharges are on a "straight line" basis; that is, they are one hundred times as great for a shipment of \$10,000,000 as for one of \$100,000. The elements entering into the cost of carrying currency are the transportation, the insurance and the physical protection furnished. The cost of the actual transportation varies with the weight, which is reflected in the postage charge, but which would not be affected by the value of the shipment. The insurance or indemnity furnished by the Post-office Department, being limited to \$1,000 is of no value in connection with these shipments, and the banks have always found it necessary to insure them with commercial insurance companies. The only element of cost upon which the surcharges of currency could be justified is, therefore, the cost of the physical protection furnished. It seems very improbable that that cost increases at a rate compar-

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able to the increase in surcharges above referred to. Manifestly, a hundred times as many guards would not be necessary to protect a \$10,000,000 shipment as are necessary to afford adequate protection to a \$100,000 shipment. The conclusion can hardly be avoided that the surcharges on these shipments of currency are much greater than either the cost or the value of the service rendered, and that they could only be justified on the theory that, as a matter of public policy, shipments of great value should bear the brunt of the burden of making up the deficit in the Registry Service as a whole. It is respectfully submitted that such a theory is unsound when applied to the Federal Reserve System in the performance of a quasi-governmental function.

The Federal Reserve System was created for the purpose of giving to the banking system of the country greater elasticity and strength, and of providing a currency sufficiently flexible to meet varying needs. The result has been to render it unnecessary for the banks to keep on hand at all times a sufficient amount of currency to meet peak requirements, because means are afforded whereby they may secure currency to meet runs or other emergencies promptly and in any quantity which their condition may justify. The need of fostering the free movement of shipments of currency for such purpose is too obvious to require more than mere statement. Among other things, it has influenced the Federal Reserve System to absorb practically all expenses in connection with shipments of Federal reserve notes between the reserve banks and commercial banks, both national and State.

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The effect of the new surcharges alone is to increase by fully 100 per cent the postal charges on such shipments, and there is a distinct possibility that, unless the Federal reserve banks can avoid this added expense, either through the prescribing of different rules by your Department or by arranging for transportation otherwise than by mail, they will find it necessary to discontinue absorbing these charges. In that event, the State and national banks might seek to avoid some of the added expense by curtailing such currency shipments, with the result that they might either accumulate a supply of currency more than sufficient for their normal needs or would hesitate to ask for as much currency as caution and prudence might require. The first course would tend to defeat the efforts of the System and of the Government to decrease the volume of currency outstanding but unavailable as a basis of credit. In this connection, it is important to observe that surplus currency in the vaults of banks has the same effect as hoarded currency. The second course would be attended by the danger that runs and other emergencies might find the banks unprepared to meet them.

In view of the quasi-governmental nature of the function of distributing currency, and particularly in view of the conditions which have existed in the banking system during the past few years, there are strong reasons of public policy in favor of not casting upon the System any undue burden in its efforts to assist the banks in dealing with the existing situation, and in favor of permitting these shipments of currency to move with the greatest possible freedom.

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It is, therefore, respectfully requested that you issue regulations or instructions in such form as you may deem appropriate and proper, providing that shipments of currency either to or from any Federal reserve bank shall be accepted by all postmasters for registration (or for insurance if the shipment is insured mail treated as registered mail) without the mailer being required to declare a value in excess of \$1,000.

There is inclosed for your information a memorandum prepared by the Board's Counsel discussing the question whether you may lawfully modify the regulations of your Department in the manner suggested herein.

Very truly yours,

Eugene Meyer,  
Governor.

Inclosure.

THE POSTMASTER GENERAL

WASHINGTON

September 3, 1932.

Hon. Eugene Meyer,  
Governor, Federal Reserve Board,  
Washington, D. C.

My dear Governor:

Your letter of August 12, requesting that the Federal Reserve System be exempted from surcharges on registered mail shipments, has been given painstaking consideration. The views of the Department with respect to this matter are set out in detail in a memorandum from the Third Assistant Postmaster General, which is enclosed herewith.

I regret to inform you that in my judgment the request should be denied.

Sincerely yours,

(s) Walter F. Brown



Post Office Department  
Third Assistant Postmaster General

Washington

August 30, 1932.

Memorandum for the Postmaster General:

Subject: Letter from the Governor, Federal Reserve Board, Washington, D. C., dated August 12, 1932, asking the Postmaster General to prescribe regulations relieving Federal Reserve shipments of currency from surcharges, reference being made to Section 2 of the Act of June 28, 1932 (effective July 1, 1932), which provides that "The full value of all registered mail or insured mail treated as registered mail shall be declared by the mailer at the time of mailing unless otherwise prescribed by the Postmaster General \* \* \*"

The Governor of the Federal Reserve Board called attention to the wording and lack of punctuation influencing the interpretation that may be placed upon the law in paragraph 2 of the Act of June 28, 1932, involving the requirement that the full value of all registered mail or insured mail treated as registered mail shall be declared by the mailer at the time of mailing unless otherwise prescribed by the Postmaster General. He argues that the Postmaster General has authority to exempt Federal Reserve shipments from surcharges on registered mail and requests that the authority given in the law for the Postmaster General to do so be exercised in Federal Reserve shipments.

There is no intention on the part of the Post Office Department to avail itself of the technicality arising from the implied omission of punctuation. It is conceded that practically construed the phrase "unless otherwise prescribed by the Postmaster General" modifies the sentence "shall be declared" rather than the phrase "at the time of mailing."

While it may be true that the law permits the Postmaster General to exempt Federal Reserve shipments from surcharges, it might be also argued and equally admitted that he had authority to exempt all registered mail or insured mail treated as registered mail from surcharges and thus nullify the intention of the Act itself which prescribes the registry fees and surcharges. The question resolves itself into whether or not the Postmaster General is justified in

exempting Federal Reserve shipments from surcharges because he has authority to do so.

The phrase "unless otherwise prescribed by the Postmaster General" in Section 2 of the Act of June 28, 1932, was recommended by the Post Office Department in the draft for legislation prepared by the Department and as it was enacted by Congress. The intention of the Department in inserting these words was particularly to permit the Postmaster General to relieve from surcharges matter which was entitled to free registration under already existing statutes, and, incidentally, other matter not entitled to free registration which for good and sufficient reasons, in the opinion of the Postmaster General, should be exempted from registry surcharges.

Matter which is entitled to free registration has been exempted from registry surcharges. In addition to the exemption from registry surcharges of matter entitled to free registration, registered articles which contain exclusively checks, drafts and other written or printed matter having no intrinsic value which may be duplicated without expense or at a nominal cost, as well as non-negotiable securities which can be duplicated unless the known or estimated cost of duplication in case of loss will exceed the maximum indemnity provided for the amount of registry fee paid, have also been exempted from registry surcharges.

The fact that the Federal Reserve System is "performing the functions formerly performed by, and is bearing the expense formerly borne by, the United States when currency was distributed by means of shipments to the Subtreasuries and mints", does not indicate per se that the Federal Reserve shipments of registered mail should be exempted from surcharges because the Subtreasuries and mints were not entitled to free registration. The mints and assay offices now in existence are required to pay registry surcharges.

No matter which is not entitled to free registration has been exempted from surcharges except such as come within the category of the exceptions stated.

The Governor of the Federal Reserve Board states "The new registry surcharges are on a 'straight line' basis; that is, they are one hundred times as great for a shipment of \$10,000,000 as for one of \$100,000." The object of the Act of Congress approved June 28, 1932, was to provide such additional revenue as might be necessary to make the registry service self-supporting.

The Cost Ascertainment Report of the Post Office Department for the fiscal year 1931 showed a deficit on paid registrations of \$8,516,387.52.

The basis method of prescribing registry surcharges on the value and length of haul of the article involved is considered by the Post Office Department to be both reasonable and equitable.

The fixing of tariffs and rates according to the principle of "what the traffic would bear" is not a new one. It is recognized in all rate making relating to transportation.

To have increased the rates uniformly or horizontally for all articles would have resulted in discouraging the mailing of letters and articles of small value, thereby reducing the revenues in the amount of the increased fees. Therefore, the principle of charges based upon the measure of delivered service, that is, value and distance, was resorted to. While uniform safeguards are accorded to all matter, registered mail, known or supposed to be of large value, requires in post offices and terminals special precautions and safeguards including armed guards and armored trucks. Heretofore mailers of shipments of large value have availed themselves of the minimum registration fee of 15¢ regardless of the value contained in the shipment. The surcharges were adopted, therefore, to provide additional revenue in connection with registered articles containing matter of

large value and the amounts of the surcharges were fixed with the idea of providing the additional revenue required to make the registry service self-supporting. If the rates as now fixed by law are found to be too high in that respect, the Department will move to have them reduced.

Representatives of the insurance companies handling this business have stated in hearings before the Post Office and Post Roads Committee of the House of Representatives that they have been able to reduce their rates from time to time because of the increased protection afforded by the Post Office Department. The shippers, therefore, have for years had the benefit of the service which has been performed consistently at great loss to the Department.

The Governor of the Federal Reserve Board states that the Act of June 28, 1932, "will have the effect of increasing by some \$750,000 annually the cost to the System of supplying the banks of the country with currency." This amount does not appear to the Post Office Department to be excessive when considered and compared with the cost and deficit of the registry service, the expense for transportation of similar amounts by other agencies who conduct their business for profit, and the fact that the Post Office Department merely desires the registry service to be made self-sustaining instead of continuing to be conducted at a loss.

If the \$750,000 surcharges received from the Federal Reserve System were deducted from the deficit on paid registrations, there would still be over \$7,000,000 deficit in the registry service to be collected from other financial institutions and the general public to offset the deficiency.

It is understood that the accumulated surplus credited to the Federal Reserve System amounts to approximately \$275,000,000. If this be true it does not appear that \$750,000 allotted to surcharges on registry shipments is more than

the System can reasonably bear nor in excess of its proportionate amount of required surcharges, particularly because the Federal Reserve surplus doubtless has been augmented to some extent at least by the past performances of the registry service conducted at less than the cost of the service rendered.

To exempt Federal Reserve shipments from the payment of surcharges, even if the law were construed to permit such action by the Postmaster General, would, in my opinion, establish an ill-advised precedent which would doubtless be the basis of other similar requests for exemption from other financial institutions which might also claim to be performing a "quasi-governmental" function.

The Postal Savings System is distinctly a Post Office Department feature, notwithstanding its intimate connection with the Treasury Department. The banks throughout the country which obtain deposits of postal savings funds are required to hypothecate securities with the Treasury Department for that purpose. The shipments of these securities by registered mail to secure loans of postal savings funds are subject to surcharges.

The Treasury Department makes valuable registry shipments of national bank currency which are subject to registry fees and registry surcharges.

The field Loan Agencies of the Reconstruction Finance Corporation which do not have the right to free registration are also required to pay surcharges on registered mail.

The Attorney General of the United States, in his opinion to the Postmaster General dated October 5, 1915, copy of which is attached hereto, stated:

"Numerous other provisions of the Act (Federal Reserve Act), not necessary to be here set forth in detail, manifest the purpose of Congress to impose upon the banks all expenses connected with its administration" and "\* \* \* that these notes (Federal Reserve notes) do not relate 'exclusively to the business of the United States,' and therefore, regardless of the Federal Reserve Act, could not enjoy

the benefit of the free carriage provision of the Act of March 3, 1877, (19 Stat. 319, 335)."

The right to free postage does not necessarily carry with it the right to free registration and therefore there are instances where the registry fees and the surcharges are required where postage is not required but I know of no instance where the right to free registration is given in which the right to free postage is not also legalized.

In conclusion, it is my opinion that the Federal Reserve shipments should not be exempted from the payment of surcharges on registered mail which naturally carries with it the required declaration of values at the time of mailing.

The Federal Reserve Board may have some changes to suggest in connection with the registry fees and surcharges and if so the Post Office Department would welcome, and give consideration to, any suggestions made which will result in offsetting the registry deficit of \$8,516,387.52 reported in paid registrations for the fiscal year 1931. There is inclosed herewith a copy of the Cost Ascertainment Report and Report of the Postmaster General for the fiscal year 1931, particular reference being made in the Cost Ascertainment Report to Table A, page 10, and in the Postmaster General's Report to pages 8 and 49 and to Table No. 16 beginning on page 98. As a matter of interest in connection with this subject I am also inclosing a copy of the Hearings before Subcommittee No. 5 of the Committee on the Post Office and Post Roads, House of Representatives, February 18, 1930, on Bill H. R. 8573 (71st Congress 2d Session) to authorize the Postmaster General to pay indemnity for the actual value of registered mail and to fix the fees for the risks assumed. After these Hearings were held another bill was substituted (H. R. 10244, 72d Congress 1st Session) in which registry

fees and surcharges were fixed by Congress and which was passed by both Houses of Congress, and approved by the President June 28, 1932. This later bill (H. R. 10244) is the subject of this memorandum.

(S) F. A. Tilton,

Third Assistant Postmaster General.

COPY

X-7240-d

## THE DEPARTMENT OF JUSTICE

WASHINGTON.

October 5, 1915.

The Honorable,

The Postmaster General.

Sir:

I have the honor to acknowledge your letter of August 24, 1915, wherein you request my opinion as to whether Federal reserve notes can be sent through the mails under penalty envelopes or labels by the members of the Federal Reserve Board.

The solution of the question depends alone upon the correct interpretation of the Act of December 23, 1913 (United States Statutes at Large; Advance Pamphlet, p. 251), commonly referred to as the Federal Reserve Act, the material portion whereof reads:

When such (Federal reserve) notes have been prepared, they shall be deposited in the Treasury, or in the subtreasury or mint of the United States nearest the place of business of each Federal reserve bank and shall be held for the use of such bank subject to the order of the Comptroller of the Currency for their delivery, as provided by this act. \*\*\*\*\*, and the expenses necessarily incurred in executing the laws relating to the procuring of such notes, and all other expenses incidental to their issue and retirement, shall be paid by the Federal reserve banks, and the Federal Reserve Board shall include in its estimate of expenses levied against the Federal reserve banks a sufficient amount to cover the expenses herein provided for.



The language plainly imposes upon the Federal reserve banks all expenses involved in the procurement, issuance and retirement of Federal reserve notes. As the shipment of these notes to the subtreasury, etc., and ultimately to the bank applying for them, is necessarily a step precedent to their issuance, it follows that the expense of such shipment is one "incidental to their (the notes) issue;" and under the terms of the act must be borne by the banks.

Numerous other provisions of the act, not necessary to be here set forth in detail, manifest the purpose of Congress to impose upon the banks all expenses connected with its administration.

Having reached the conclusion that the Federal Reserve Act imposes the expense of shipment upon the reserve banks, I deem it unnecessary to pass upon the additional reason assigned by your Solicitor, viz: that these notes do not relate "exclusively to the business of the United States," and therefore, regardless of the Federal Reserve Act, could not enjoy the benefit of the free carriage provision of the Act of March 3, 1877 (19 Stat. 319, 335).

Respectfully,

(Signed) T. W. GREGORY.

Attorney General.