

May 28, 1948.

To: Samuel Carpenter,
Secretary of the Board of Governors

Please notify the Board of Governors that I will be unable to attend any of the activities at White Sulphur Springs, by doctor's orders.

I understand that the Board, in my absence, decided to hold a meeting of the Board at 10:00 A.M. Saturday morning, May 29, 1948, at White Sulphur Springs, to act on the question of raising reserve requirements in New York and Chicago. I also understand that one reason given for the urgency of holding a meeting at White Sulphur Springs to act on this important question, possibly in my absence, was the probability that there would not be a quorum of the Board available in Washington next week when I expect to have recovered.

I can not understand this position. The members of the Board must realize that they have a collective responsibility to see to it that a quorum is at all times present and available in Washington. I respectfully request, therefore, that the Board defer action on the question of reserve requirements in New York and Chicago until my return to Washington next week and that after consultation among themselves they see to it that a quorum will be present.

THOMAS B. McCABE

Chairman

Personal and Confidential

White Sulphur Springs,
West Virginia.
May 30, 1948.

Mr. Thomas B. McCabe, Chairman,
Board of Governors of the
Federal Reserve System,
607 North Chester Road,
Swarthmore, Pennsylvania.

Dear Mr. Chairman:

At the meeting of the Board of Governors at White Sulphur Springs on May 29, 1948, at 10:00 a.m., which was called in accordance with the decision reached at the meeting of the Board on May 27, your letter of May 28 was read. The members of the Board present unanimously felt that, if that letter was to be made a part of the Board's official records, a statement in reply should also be placed in the record. It was agreed that a draft of a reply should be prepared for consideration at a meeting of the Board to be held the following morning, May 30, 1948, at 9:30 a.m. At that meeting the statement was approved unanimously in the following form with the request that it be sent to you by special delivery mail. A copy of a telegram sent you today at the request of the Board is also enclosed.

After reading and discussing the Chairman's letter of May 28, the six members of the Board present at the meetings on May 29 and 30 felt that the Chairman had not understood the reasons for the action of the Board on May 27 in calling a meeting at White Sulphur Springs on May 29. The letter carries an incorrect implication that the meeting was being held in order to take action when the Chairman could not be present. The facts which led up to the meeting were substantially as follows:

On several occasions, beginning on March 30, 1948, the Board has given consideration to the question whether reserve requirements of member banks in central reserve cities should be increased. At the March 30 meeting, it was agreed that the matter should be considered again shortly after the middle of April, with a view to determining whether the situation at that time made an increase in reserve requirements desirable.

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At the meeting on April 23, 1948, the Board voted to consider the matter again at a meeting on May 4. Because of the unavailability of members of the Board, the meeting was not held until May 14, at which time Chairman McCabe stated that he felt the question of an increase in reserve requirements was so important that it would be desirable to have all of the members of the Board present when it was discussed and that he would also suggest that further consideration take place after the meeting of the Federal Open Market Committee the following week. It was agreed, therefore, that the matter would be placed on the docket for consideration at a meeting on Tuesday, May 25, 1948. There was extended discussion at that meeting and it appeared from such discussion that a majority of the members of the Board favored the increase. Thereupon Mr. Eccles moved that action be taken by the Board to increase reserve requirements of central reserve city banks by two percentage points, with the understanding that the action would be announced immediately to become effective on Friday, June 11, 1948. Chairman McCabe stated that before action was taken, he would like to have the latest information as to the reserve position of member banks in New York and Chicago and how the increase would affect these banks. After some further discussion, Mr. Eccles withdrew his motion, with the understanding that there would be a further discussion of the matter as the first item for consideration at a meeting of the Board to be held on May 26, 1948, at 10:00 a.m.

On May 26 the entire morning was given over to a discussion of the Transamerica situation and a suggestion was made that a meeting be held in the afternoon. However, since the Chairman stated that he could not meet in the afternoon because he was leaving for Chester, Pennsylvania, to receive an honor being bestowed on him by the Town of Chester, it was therefore agreed that the question of an increase in reserve requirements would be given further consideration at a meeting the next morning at 10:30 a.m., the Chairman having stated that he would be back in Washington at that time. The Chairman became ill on his way to Chester and was unable to attend the meeting on the 27th, which was held at 11:35 a.m. During the discussion at that meeting, Mr. Eccles stated in substance that, while he would like to take action as promptly as possible, he would hesitate to do so in the absence of the Chairman. After some further discussion, Mr. Vardaman moved that the Board act to increase reserve requirements of member banks in central reserve cities by two percentage points, to be effective June 11, 1948, with the understanding, however, that advice of the action would

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be communicated to Chairman McCabe and, if he felt strongly enough about the matter to ask that action be deferred until it could be discussed at White Sulphur Springs, the action to make the increase effective June 11, 1948, would not take effect.

Later this motion was withdrawn in the light of a suggestion by Mr. Szymczak that all of the members of the Board would be at White Sulphur Springs on May 29 and that a meeting be held at that time to consider the matter. Unanimous approval was given to a motion by Mr. Clayton that a meeting be called to convene at White Sulphur Springs on Saturday, May 29, 1948, at 10:00 a.m., at which a decision would be made to act or not to act on the increase in reserve requirements effective in June, that the meeting be held even if Chairman McCabe was not able to attend, and that Chairman McCabe be advised that the meeting had been called.

It is clear from the facts set forth above that the Board has, at least on three occasions, deferred action in deference to the Chairman, first, at the meeting on May 25, when he expressed a desire to have more information before taking action, second, on the afternoon of May 26 so that the Chairman could go to Chester, and, again, on May 27, when action was postponed for the meeting on May 29 when it was expected he would be present. Therefore, it is also clear that the reason for calling the meeting on May 29 was not to take advantage of the absence of the Chairman or to vote on a matter without giving him an opportunity to be present. The meeting was called for the reasons that (1) it was understood that all of the members of the Board, including the Chairman, could be at White Sulphur Springs for the Chairmen's Conference and that, after that Conference, there would not be another opportunity for all of the members of the Board to participate in a Board meeting for at least two months; and (2) several of the members felt that action to increase reserve requirements effective during the early part of June should be taken and they desired to take that action when all members of the Board could be present.

With respect to the request contained in the last paragraph of the Chairman's letter that action be deferred on the question of reserve requirements in New York and Chicago until his return to Washington next week, the Board requested that the Chairman be advised by wire that at the meeting of the Board this morning approval was given to the following motion: that the meeting be adjourned and that a meeting of the Board be called to convene in the Board Room in Washington at 9:30 a.m. daylight saving time on Tuesday, June 1, 1948, which is the regular meeting day of the Board in

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Washington, for the purpose of acting on the matter under discussion. This motion was adopted in the light of the Chairman's request and in spite of commitments of three members of the Board to be outside of Washington at that time and also in the light of the opinion of the members present that if the Board does not act early next week it will be too late to take action to become effective during the early part of June.

The Chairman's unqualified statement as to the responsibility of the members of the Board for the maintenance of a quorum at all times in Washington involves a number of important legal and other questions which should be considered by the entire Board when there is adequate opportunity to do so.

Very truly yours,

S. R. Carpenter,
Secretary.

Enclosure 1.

SRC+jcb

Regardless of what goes
into the official record,
please think over the
advisability of having
a complete record

(42)
prepared of what took
place yesterday and
today, and copies
furnished to any
member of the Board
desiring one, personally,

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I want such a record,
and Tom's letters, in
my confidential files
for my protection,

5/29/48
(From Vandaman
at White Sulphur