

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, November 29, 1943, at 2:45 p.m.

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

Mr. Morrill, Secretary
Mr. Dreibelbis, General Attorney

Chairman Eccles stated that he wished to review the situation with respect to proposed bank holding company legislation. He said that on a number of occasions the Board had discussed the activities of the Transamerica Corporation, including particularly its expansion policy. He referred to the fact that on May 28 the Board had transmitted by wire through the Federal Reserve Bank of San Francisco to the Transamerica Corporation a communication raising the question whether the corporation had violated the terms of its agreement with the Board of Governors dated April 28, 1937, and to the fact that subsequently the Board had authorized its legal and examination departments to make a thorough examination and review of the books and records of Transamerica Corporation and its affiliates in contemplation of the institution of proceedings looking to the determination of the question. In that connection, Chairman Eccles said that he understood that the members of the Board had agreed that it would be desirable, if possible, to obtain legislation dealing with the bank holding company

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problem without waiting for the outcome of the proposed proceedings with respect to Transamerica Corporation. These proceedings, however, even if they resulted in the revocation of the voting permit, would not in the Chairman's opinion accomplish much in the way of solving the broad questions of policy which could only be reached through legislation. He said that he had understood that it had been agreed also that Mr. McKee and he should develop the legislative program and that Mr. Dreibelbis had been drafting a bill which had been discussed with Chairman Purcell of the Securities and Exchange Commission, Chairman Crowley of the Federal Deposit Insurance Corporation, and Under Secretary Bell of the Treasury. Mr. Crowley had agreed to go along with the proposed legislation and it had been discussed with Senator Wagner, Chairman of the Senate Banking and Currency Committee. Senator Wagner, Chairman Eccles said, seemed entirely satisfied that legislative action should be taken but was naturally hesitant to take any steps in that direction unless he knew that the legislation would be favored by the Administration. Even without this assurance, Chairman Eccles doubted that Senator Wagner would oppose the introduction of the legislation if someone else were to offer it. Chairman Eccles also said that Under Secretary Bell had turned the proposed bill over to the Treasury legal division and also to the office of the Comptroller of the Currency for consideration, and that Mr. Dreibelbis had talked with the Treasury technicians and also with Mr. Purcell and technicians

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of the Securities and Exchange Commission. In addition, Chairman Eccles had discussed it with Under Secretary Bell several times but, because of the fact that Secretary Morgenthau had been away a great deal of the time and when he was here had been engrossed with Treasury tax and financing programs, it had not been possible for Mr. Bell to discuss the matter with the Secretary. Chairman Eccles said that he had not asked the Treasury to endorse the legislation but merely to indicate whether it would interpose any objection in case it did not wish to be placed in the position of approving the bill, in recognition of the fact that primary responsibility rested with the Board of Governors.

The Chairman referred to the fact that some years ago the Treasury had taken a position in favor of a death sentence for bank holding companies, while the bill now under consideration was more in the nature of a freezing proposal. He said he had suggested to Mr. Bell that the Treasury might appear in the hearings before the Committees in Congress and present its views in favor of a death sentence, if that were still desired by the Treasury, without necessarily opposing the Federal Reserve bill. The Chairman went on to say that what he wished to accomplish was to be able to get a clearance from the Director of the Budget after having discussed it with the Treasury in addition to having obtained the agreement of the Federal Deposit

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Insurance Corporation and the Securities and Exchange Commission. He said he felt sure from the conversations which had taken place with the Securities and Exchange Commission that the latter would offer no objection. After obtaining the clearance of the Director of the Budget it was the Chairman's thought that the Chairman of the House Banking and Currency Committee and the Chairman of the Senate Banking and Currency Committee might each introduce the bill and in that way there would, of course, be a better chance of getting the legislation through. He reported that Under Secretary Bell did not know what the Secretary's position would be although he thought that the Secretary might say that he saw no reason to change the position which the Administration had taken some years ago with respect to bank holding company legislation, and that the Treasury might feel that it would be undesirable to "freeze a monopoly". The Chairman referred to the fact that by the Banking Act of 1933 Congress had recognized the legality of bank holding companies and had dealt with them through the voting permit procedure, so that it was apparent that supervision and regulation of bank holding companies was at that time regarded by Congress as the appropriate method of dealing with such companies instead of a death sentence. Bank holding companies had been an element of strength in many communities by coming to the aid of their subsidiary banks through additional capital funds and otherwise when unit banks without such

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support were failing. He also referred to the fact that during the 30's Congress had enacted legislation providing for death sentences for utility companies and he attached considerable significance to the fact that Congress had not included bank holding companies.

Mr. McKee said that he wished to point out that the legislation in 1933 with respect to bank holding companies followed investigations that had been made in Congress growing out of the situation which had developed in Detroit in connection with a very large bank holding company and the disastrous failures of a number of banks in Michigan.

Chairman Eccles said that it was no doubt thought at the time that the legislation then adopted would be adequate to deal with the situation but that experience in the administration of the legislation by the Board of Governors over a period of years had developed its weaknesses and demonstrated its inadequacy to meet a condition such as that which had developed out of the expansion policy of the Trans-america Corporation and the administration of its affairs by the Gianninis. He pointed out that there was apparently nothing in existing legislation that prevented such a group from acquiring securities of all types of enterprises, that, in effect, the only restriction was that if they desired to vote the stock of a subsidiary bank they had to obtain a voting permit from the Board of Governors, and that ways had been found of acquiring and controlling the operations

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of subsidiary banks without obtaining such voting permits. Consequently, the sanctions provided for in the legislation were wholly inadequate. He pointed out also that the definition of a bank holding company had proved to be inadequate. In addition, he referred to the Investment Act of 1940 which exempts from its operations bank holding companies which are determined to be such by the Board of Governors. The Chairman referred to the fact that this was an exemption which we had requested in order to avoid a condition of overlapping jurisdiction on the part of the Board and the Securities and Exchange Commission but that it had produced the result that a bank holding company such as Transamerica might not only have investments in banks but also in any other type of company and thus escape the jurisdiction of the Securities and Exchange Commission in its operations outside of the banking field. The Chairman reasoned from this that a holding company should be either a bank holding company only, subject to the jurisdiction of the Board of Governors, or an investment company only, subject to the jurisdiction of the Securities and Exchange Commission, and that it should not be permitted to operate in both fields simultaneously.

The Chairman felt that the proposed bill was of such a nature that generally speaking Transamerica Corporation was the only one that would be likely to oppose it and that other bank holding companies would not be seriously affected because they had refrained for some

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time from any expansion to which objection had been made by the supervisory authorities while, on the contrary, Transamerica Corporation had proceeded in its own way without any regard to objections from any source. The Chairman felt that a death sentence bill such as had been proposed by the Administration would get nowhere and that, while the proposed bill might not succeed, it had a much better chance of legislative enactment. In any event, he felt that it was the most practical way to bring the subject before Congress and to obtain hearings so that the Board would be in the position of having done its best to discharge its responsibility, and that, if no legislation were enacted or if a different form of legislation resulted, the responsibility would then have been assumed by Congress. He pointed out that, unless some action were taken by Congress and if the Gianninis continued their present practices, there would seem to be nothing to prevent them from buying banks all over the country and expanding their operations in every field of industrial enterprise while other bank holding companies had refrained from such activities in deference to the wishes of the supervisory authorities. He therefore felt that the Board of Governors had a responsibility to advise Congress as to the situation and to suggest legislation which the Board would be willing to support.

Mr. McKee said that his view of the situation was influenced by considerations such as those growing out of the fact that in the Ninth Federal Reserve District there were two bank holding companies-- two different groups of banks, each controlled by a single bank

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holding company--that, if a death sentence were enacted, these two bank holding companies would have to liquidate their holdings through the process of selling or collecting their assets or of endeavoring to obtain local ownership of each of the subsidiary banks, that he found it impossible to see where the necessary local capital could be raised to accomplish this purpose, and that the result would be that many smaller communities would be deprived of the banking facilities which they now had. Even if these smaller communities were not deprived of banking facilities, the local institutions which would have to replace them would be inadequate to meet the demands of large borrowers without assistance from elsewhere. Moreover, the forced liquidation might result in a cry for State-owned banks in Minnesota, the Dakotas, and Montana, and Mr. McKee did not believe that anybody here would want to see socialized banking forced on these communities. That territory must have some kind of concentration of bank capital to meet its requirements and the holding company unit is the only means that is now available to them for this purpose. Until there were something satisfactory to take its place, a death sentence for bank holding companies would be highly undesirable. That, however, would not be true in Utah, Idaho, New York State, or some other States. Chairman Eccles observed that it was less true where there was State-wide branch banking. Mr. McKee also referred to the losses which bank holding companies had taken in order to preserve local banking situations in

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various States, which were matters of record.

Mr. Draper raised the question what the Board's position would be if a sentiment should develop in Congress in favor of a death sentence instead of freezing. Chairman Eccles said that, of course, that would be the responsibility of Congress and that the Board might be called upon to present what reasons it had for its recommendation or for favoring or opposing a death sentence, but he did not believe that there would be any sentiment in Congress in favor of a death sentence. He felt that the proposed bill was adequate although he recognized the objection that it would freeze an existing situation. He pointed out that Congress recognized bank holding companies in 1933 as legally constituted organizations and that after 10 years of operation there had been no growth in the bank holding company picture, except in Transamerica, that in fact there were in the aggregate fewer banking offices controlled by bank holding companies now than in 1933, and that growth had been almost entirely confined to Transamerica. Moreover, there had been no new bank holding company organized even though such organizations were permissible. He also expressed the opinion that in general the other bank holding companies had cooperated with the Board.

Mr. Ransom referred to the separation of investment holding company operations from bank holding company operations and asked whether it would be possible to deal with the Giannini situation by

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any other means. Chairman Eccles said he did not think there was any other way of doing so. Mr. McKee referred to the fact that Mr. A. P. Giannini had said that he would abide by any laws that were applicable to everybody to the same extent as to him.

Mr. Ransom said that he would like to start from the premise that the Giannini situation needed curbing, that it was out of hand, and that the Giannini policy of mixing bank holdings with industrial and other holdings and his outlook on banking as a business needed to be restricted. Mr. Ransom was not at all satisfied that when we got through doing what we could under our existing authority we would have accomplished a great deal. He referred to the Chairman's suggestion that it was the general feeling of the Board that there should be banking legislation before we got through with the proceedings in connection with the voting permit, and said that he felt there was a question of timing and that it was a matter for the exercise of judgment which ought to be based on a study of the whole problem. Chairman Eccles commented that Mr. Bell agreed with that point of view. Mr. Ransom said that he, of course, would defer his own judgment to that of Chairman Eccles and Mr. McKee but that he had a difficulty with the bill as a whole. He thought it was a very well drawn piece of legislation and, disregarding any question as to whether such banking legislation was properly timed for introduction now, he was most anxious to see as wide an expansion as quickly as possible of branch banking

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across State lines and said that if that were achieved he would feel very much better about the American banking system. He recognized all the difficulties of achieving that result. In the absence of legislation dealing adequately with the branch banking problem, he felt most friendly to bank holding companies as a perfectly proper and legally sanctioned device to get around the difficulties imposed on banking by the lack of a national branch banking policy, and he would not like to see any curb whatever put on holding company or other multiple-office banking that achieved that result. As far as Mr. Ransom knew, all except the Giannini interests had made a creditable record on the whole.

Mr. Ransom, however, was greatly disturbed about legislation which dealt with existing situations by freezing because of the implication of monopoly rights being granted to a select few. He would be especially disturbed about this bill as it now stood because it proposed not only to freeze the existing situation but also made no suggestion of further and continued consideration on which there might be a deadline date when perhaps a better solution could be found. In discussing that possibility with Mr. Dreibelbis, the latter had prepared at Mr. Ransom's request a form of statement that might be included in the preamble or declaration of legislative policy in the early part of the bill. At Mr. Ransom's request, Mr. Dreibelbis had submitted this

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draft to Chairman Eccles and Mr. McKee and Mr. Dreibelbis reported that there seemed to be some objection. Mr. Ransom said that a favorable vote on his part on the proposed bill, if it should be submitted to a vote, would have to take into consideration two things: First, in 1938, due to conditions wholly beyond his own control, he had served on an administrative committee, created at the President's request, which had made a recommendation to the President on the basis of which he in turn had included a recommendation in a message to Congress. Mr. Ransom said that he worked on that problem for some time and had a great deal of difficulty with it, Chairman Eccles and Mr. McKee being out of town at that time, but that he finally agreed upon a proposal that contemplated a death sentence which, however, was not to be carried out except under certain conditions and at some future date, and in that connection he succeeded in getting into the report to the President as strong language as he could persuade anybody to vote for, saying that, if and when the question of a death sentence for bank holding companies was raised, the question of branch banking must be met. Then, as now, Mr. Ransom thought that if the question were opened up the problem of branch banking would have to be met and disposed of. With that part of the background as a matter of record, Mr. Ransom felt, however, that his own position could be cleared to his satisfaction if the Budget Bureau cleared this proposed legislation. In that case he would have only the reservation that the

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legislation would not expressly leave the door open to further and continued consideration or, in effect, compel such consideration. While Mr. Ransom did not believe the bill had much chance of passage, he thought something of the kind that he had proposed was needed.

At this point Mr. Ransom submitted the language of the proposal which he had requested Mr. Dreibelbis to draft for inclusion in the legislation.

Chairman Eccles said that he thought the proposal would cause considerable objection on the part of many holding companies, that it would put upon this Board a very broad obligation immediately to investigate the whole bank holding company set-up and all of their subsidiaries, with a staff of people for that purpose, which would be undesirable during the war period, for the purpose of endeavoring to get information and arrive at conclusions when, as a matter of fact, the information that we now had and that we obtained through our regular examination and other procedure ought to be adequate, and that if it were not adequate we did not need this legislation to get any additional information we wanted. Chairman Eccles felt that we could get pretty complete information under the present statutory authority of the Board, that Mr. Ransom's proposal would inject such a note of uncertainty into the situation from the standpoint of bank holding companies that they would feel that they did not know what they might have to expect, and that this would be an unnecessarily

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disturbing factor at the present time. He said he sympathized with the part of Mr. Ransom's approach that dealt with the need of branch banking across State lines in order to meet what he conceived to be the future problem of banking in this country, to stimulate banking to keep pace with industry and its development. He said that he would not feel concerned at this time about this legislation or about the present bank holding company set-up as it is if it were not for the activities of the Gianninis and Transamerica Corporation, and that he was not so much concerned about whether Congress passed the legislation as he was about the Board's responsibility for bringing the subject to the attention of Congress. Moreover, he felt that he personally was in a somewhat more difficult situation than the rest of the members of the Board because, when he had appeared before the House Banking and Currency Committee, Congressman Patman had been watching the bank holding company situation and particularly the activities of Transamerica Corporation. Congressman Patman had ideas of his own about bank holding company legislation and wanted to know what the Board had been doing in meeting its own responsibilities. Congressman Patman had taken the occasion to interrogate Chairman Eccles at considerable length and had asked particularly what the Board was doing. The Congressman had asked whether the Board was satisfied with the present situation and, if it were not, why it had not advised Congress because on the surface of things it seemed as if the Board had done

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nothing. Chairman Eccles said that, if Congress failed to deal with branch banking and it were willing to let bank holding companies go along as they are, that, of course, would relieve the Board of any further responsibility for the developments. Naturally, Congress has a right to feel that the present legislation is adequate unless we advise Congress to the contrary. In response to a question from Mr. Ransom, Mr. Eccles said that he was concerned not only with the dual nature of the Giannini operations but also with the growth of Transamerica in the banking field, and he felt that there was danger that the Gianninis were dissipating the money of stockholders in Transamerica's expansion policy.

In response to a question from Mr. Ransom, Mr. Dreibelbis answered that any expansion of bank holding companies under the proposed bill would be dealt with in much the same way as branches are now dealt with--that is to say, there must be approval of any acquisitions by the proper supervisory authorities.

Mr. McKee said that he felt that if there was a real need for branch banking across State lines the freezing of the existing bank holding company situation was more likely to make that apparent and might hasten the day of legislation that would provide for such branch banking.

Mr. Ransom commented that both the 1933 Act and this bill were in effect a Congressional sanction of branch banking across State

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lines and that that was exactly what had happened.

Chairman Eccles said that, if the Board did not wish to propose this legislation, Congressman Patman had introduced a bill on which he had been holding up hearings because he thought that the Board might propose a bill, that we had had numerous letters and telegrams, particularly from California, as to our position in regard to the expansion of bank holding companies, and that we had said that we were considering the possibilities of some legislation. Therefore, Chairman Eccles felt that either we had to propose something or that Mr. Patman would proceed with his proposal. If Mr. Patman should succeed in having hearings on his proposal, that would open the way to a complete discussion of either the bill now before the Board or any other proposal that anyone might wish to offer as a solution of the problem, regardless of whether it was a freezing bill, a death sentence bill, or something else.

Mr. McKee suggested that the Board give some consideration to the question whether, in view of all the delays which had occurred and the time which was necessarily consumed in discussions, the Board might send a special message to Congress stating that circumstances had presented problems in relation to bank holding companies with which the Board felt it did not have sufficient authority to deal, that methods were being used to do indirectly what the law prevented being done directly, and that therefore the Board had reviewed the

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situation and was ready to present its ideas to Congress when desired.

Mr. McKee said that he was not prepared to say that he would prefer to follow this course but that, if continued delay prevented any other action, this might be the only way open.

Chairman Eccles said that he felt that this course was the last one that we should consider and that he did not think that we would want to say in a report to Congress that we were ready to appear and present our views unless we had worked out a program.

In that connection Mr. McKee referred to a report which had come to his attention that there was some sentiment in Congress that legislation should hereafter be originated in Congress and not in the executive branch of Government. He thought that the question was whether our position would not be a little stronger if we followed that course.

Chairman Eccles said that it seemed to him it would be necessary to say specifically what we wanted and why we wanted it. Moreover, he thought that if we sent up a special report to the Congress it would be so unusual that it would give rise to questions which would be unnecessarily disturbing to the situation. He went on to say that Under Secretary Bell had reported that he hoped to get the matter before the Secretary of the Treasury within the next few days. Mr. Dreibelbis said that it had been reported that the Anti-Trust Division of the Department of Justice was investigating the Transamerica situation.

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Chairman Eccles said that Chairman Purcell of the Securities and Exchange Commission called on the telephone last Friday and referred to the fact that the Commission's staff had been studying the proposal. Mr. Purcell said that they had some suggestions to make and that Mr. Dreibelbis was to meet with them on Monday. Mr. Purcell said that after Mr. Dreibelbis had met with the Commission's staff the latter would report back to the Commission, which would then be prepared to take action. Mr. Purcell was very anxious to see legislation dealing with the bank holding company situation adequately as he recognized that the Investment Company Act of 1940 left out Trans-america, and he felt that the investments which they had outside of the banking field should be subjected to control. He said that the record of the Commission had been for liquidation or death sentences and that the Commission might say from the standpoint of its own record that this bill was all right as far as it went but that they would like to see it go further. Chairman Eccles said that he asked Mr. Purcell what he would do if he were in our position, and Mr. Purcell replied that he thought he would do exactly what we were doing, that he recognized that from a practical standpoint this proposal would meet the problem, and that we would have more chance of getting it than we would of getting a death sentence. Chairman Eccles said that he would like to write to Congressman Patman about the matter and explain the situation to him and that he also expected to see

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the President about it.

At this point Mr. McKee said that he would like to know what the other members of the Board thought about the proposal, and Chairman Eccles said that he thought that every member of the Board should have an opportunity to make such record as he would like to make on the subject.

Mr. Ransom said that as to this particular proposal, if it were cleared by the Budget, that would get rid of one hurdle for him, and that, if something along the line of the proposal that he had asked Mr. Dreibelbis to draft, which would make it mandatory for the Board to make a report and which would by this method have the effect of preventing the present situation from being frozen, were incorporated in the preamble to the bill, he felt that he could go along with the bill without any reservation.

Chairman Eccles said that he could not personally support that proposal because he felt that it did not accomplish anything tangible but that it would cloud the issue and cause unnecessary disturbance. Mr. McKee said that he thought it would bring in opposition from all bank holding companies because of the uncertainty as to the future.

Mr. Ransom said that, if a motion were made to approve the proposed legislation as it stood, he would move that it be amended in accordance with the proposal that he had made.

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Mr. Szymczak thought that the important thing was to deal with the Giannini situation at this time and that, if we could go further later on, he would be in favor of going as far as might be necessary. He would like to see what could be done with Mr. Ransom's idea but was inclined to agree with Chairman Eccles that it would open up a condition of uncertainty.

Chairman Eccles said that he thought that it would be better if it were left to Mr. Ransom to make his proposal separately during the course of hearings on the proposed legislation, that he would like to have an agreement to the procedure which had been stated, to have it cleared by the Budget Bureau, and then to have it introduced through the proper Committees in Congress, and that he would also like to have the Board authorize Mr. McKee and himself to proceed accordingly.

Mr. McKee said that he had had many visits from representatives of the Independent Bankers Association, that they had written letters to him and had sent drafts of bills to him, and that he had assured them that we were fully acquainted with their situation. He called attention to the fact that we had sent telegrams to California indicating our opposition to the expansion of Transamerica and that he felt that we were somewhat on the spot. When the time came, he would like to be able to say that we had done everything possible to

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clear legislation through the Administration and that if this should prove impossible it was simply due to inability to obtain an agreement.

Mr. Szymczak thought that if the situation were fully explained to the Budget Bureau and to the President they would be willing to give the proposal their clearance. He did not feel, however, that the legislation would be enacted, and thought that all that would be accomplished would be to get it introduced and get hearings upon it, and that the legislation would then be delayed unless the Gianninis went so far off the reservation as to cause the Administration to insist upon legislation. Mr. Szymczak said that he would vote in favor of the proposed procedure as outlined by the Chairman and, if that resulted in failure to get a clearance through the Bureau of the Budget, the matter might be reconsidered from the standpoint of what the next step should be, which he understood Mr. Eccles thought would be through Congressman Patman.

Mr. Draper said that he would also vote in favor of the proposed procedure. At this point he said he would move that the Board express its approval of the steps taken and to be taken in connection with the matter that had been under discussion, including the draft of the proposed legislation and such steps as Chairman Eccles and Mr. McKee might deem necessary to get the bill introduced and to get hearings on it before Committees in Congress.

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Mr. Ransom stated that he had two principal objections to the proposal, which he had previously stated.

Mr. McKee said that he would like to see included in the motion the fact that in voting for the proposed bill it was subject to such modifications as might seem necessary in the light of further discussions and that any Board member that might desire to testify along any other line at the time of the hearings was free to do so.

Chairman Eccles said that he would like to see the Board give a general approval because recommendations would be received from the Securities and Exchange Commission and elsewhere, and he would like to be in position to make any modifications which were not substantial.

Mr. Draper restated his motion so as to approve the proposed legislation as presented to the Board, to authorize the committee composed of Chairman Eccles and Mr. McKee to make such modifications in the legislation as in their judgment might seem to be necessary so long as they did not materially change the legislation, to authorize the committee to proceed to the completion of the clearance of the legislation with the Bureau of the Budget, and to authorize the committee thereafter to take such steps as might be necessary to bring about the introduction of the bill in Congress, all with the understanding that Mr. Ransom's exceptions to this procedure would be noted in the minutes.

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Upon this motion all voted "yes" except Mr. Ransom who voted "no".

Mr. McKee referred to the Pine Lawn Bank and Trust Company, a State member bank in St. Louis which he said had been conducting its affairs in such a manner that it seemed necessary to institute a proceeding to expel it from membership in the Federal Reserve System. He said that consideration had been given to the possibility of a section 30 proceeding but that it was felt that this would not be adequate because both the ownership and management of the bank were vested in two individuals and that a removal proceeding would not be effective. In connection with the idea of a proceeding to expel the bank from membership, he said that Chairman Nardin at the St. Louis Bank felt very strongly that the hearing should be conducted and the record made by someone who was not connected directly with the Federal Reserve Bank of St. Louis, and that President Davis had suggested the possibility that Mr. Wyatt might conduct such a hearing as this.

After a discussion, Mr. McKee suggested that Mr. Wyatt be designated to conduct this particular hearing and all of the members except Mr. Ransom agreed.

Mr. Ransom stated that he thought Mr. Wyatt or anyone else presiding over such a hearing would be in effect a trial examiner and, in his opinion, anyone occupying such a position should be wholly

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independent of the agency for which he was acting, and that for these reasons he was not in favor of the Board using its own employees as trial examiners in such matters.

Mr. McKee referred to proposed letters for the Chairman's signature to Mr. Bailey, Assistant Director of Legislative Reference of the Bureau of the Budget, and Secretary of Agriculture Wickard, which had been in circulation to all Board members, in regard to a proposed farm-land boom profits tax. He said that he would favor taking the position that we approve such a proposal provided it were not limited to farm lands and were extended to cover all speculative profits from whatever source they might arise.

Chairman Eccles discussed the matter and said that he did not feel that it was necessary to attach such a condition as all that the Board was called upon to do was to express its approval or disapproval of a bill which had been prepared by the Secretary of Agriculture, and that it would not prevent the Board at some later date from taking a position in favor of an extension of the coverage of such a bill to include other speculative profits if the question should arise or the Board felt that it was desirable to do so.

The letters to Messrs. Bailey and Wickard were presented, the letter to Mr. Bailey reading as follows:

"With your letter of November 16, 1943 you transmitted a draft of a proposed bill 'To provide revenue, and

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"for other purposes', a copy of a letter dated November 11, 1943 from Secretary of Agriculture Wickard to Director Smith, submitting for clearance the proposed bill, a memorandum entitled 'Summary of Farm Land Boom Profits Tax' and a copy of an attachment tabulating selected comparisons of total and net additional tax rates and amounts.

"The Board is in general accord with the measure proposed by Secretary Wickard and his reasons therefor, believing that there should be a heavy tax upon profits derived from the resale of farm property purchased during the war and in the immediate post-war period. The Board is also in accord with the proposal that the rate be graduated so as to be highest during the shorter periods of holding the properties which are resold. It is noted, however, that the period over which the tax is to be graduated ends with holdings of 6 years. This is accomplished by steps of 90% if the property has been held by the taxpayer not over 2 years; 85% if not over $2\frac{1}{2}$ years; 80% if not over 3 years; 70% if not over $3\frac{1}{2}$ years; 60% if not over 4 years; 45% if not over 5 years; 30% if not over 6 years, and no tax thereafter.

"It is realized that there is presently in effect a tax on capital gains which would take 25% of the net gain after the end of the sixth year, but during this period the capital gains tax might be materially changed, and the opportunities for speculative profits might last for a longer period. It is believed therefore that it would be preferable not to rely upon the capital gains tax at the end of six years, and it is suggested that the special tax cover a period of ten years. This would permit placing it upon a somewhat more gradually descending basis.

"The form and detail of the provisions of the bill have not been reviewed from a technical standpoint, as it is understood from the statement in Secretary Wickard's letter that it has been worked out in very close cooperation with the General Counsel of the Treasury Department and members of his staff. There are, however, certain provisions which I am calling to Secretary Wickard's attention in a separate letter, a copy of which is enclosed for your information."

Approved, together with the letter below-quoted to Secretary Wickard. On this action Mr. McKee voted "no" for the reason stated above:

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"When you called me on the 'phone last week, as I told you, I had not seen the communication from the Bureau of the Budget in regard to your proposed bill for an emergency farm land boom profits tax. However it had been received from the Bureau on the 17th and was given immediate attention by two of my associates on the Board. Other pressing matters prevented our being able to discuss it sooner and we found that there were some aspects of the proposal which I should like to call to your attention. One of them relates to the period of 6 years within which the tax is graduated from 90% down to zero. This is somewhat different from the proposal which I advocated and I feel that the period of 6 years is too short. It requires too rapid an acceleration of the reduction in tax rate. The speculative conditions upon which the bill is predicated may not disappear within that period and also the tax of 25% upon capital gains, on which some reliance seems to be placed, may not remain unchanged during that period. In fact, it might be changed materially. In the circumstances, it would seem better to graduate the tax rate over a period of 10 years and, as you will see, this suggestion has been made to the Bureau of the Budget in the Board's report, a copy of which is attached.

"The bill would apply to the disposition of property acquired subsequent to November 1, 1943 or possibly a later date corresponding approximately to the time of introduction of the bill. However, in your letter to Mr. Smith you stated that the volume of voluntary transfers during the last year was the highest on record with the exception of 1919-1920. Since the tax is intended to take away a substantial portion of profits from the resale of property acquired under these conditions, it would seem that it might well apply to the resale of property acquired at least since the beginning of this year and it is suggested that you give your further consideration to this question.

"The bill would exempt a sale or other disposition made by the executor or administrator of an estate or any sale which is involuntarily or compulsorily made as a result of condemnation or the threat or imminence thereof. Nevertheless speculative profits might be made through such sales, and, except for the fact that the sale was not made by the decedent himself or was an involuntary one, there is no difference from the standpoint of the purpose of the bill between these sales and any other sales which would be subject to the bill. There seems

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"to be no reason why speculative profits should be exempted in some cases while subject to tax in other cases and it is suggested for your consideration from the standpoint of the purposes of the bill that no such exemption be made.

"In your letter to Director Smith you stated that 'I regard as urgent the necessity for taking action to discourage another disastrous farm land boom' and you also stated that 'while this tax would undoubtedly encourage caution in lending, it might very well prove inadequate from the debt control standpoint'. I agree with you that the legislative approach should, for the present, be confined to the tax method but I suggest for your consideration that the question may very well be raised when hearings are held on this bill as to what is being done within the existing powers of your organization. To this end, I would think it would be helpful if you had made a record, which you were in position to present, of having instructed the lending agencies which are within the jurisdiction of the Department of Agriculture to keep their loan policies in conformity with the objectives of this bill. I have in mind especially the Land Bank Commissioner loans which are second mortgage loans in effect. I recognize the fact that it may be objected that the Government's lending agencies would be at a disadvantage in competition with private lending agencies but you would be in the position of being able to point out that in so far as it lay within your powers your Department would not give any support to a farm land boom through the creation by Government agencies of excessive mortgage indebtedness. I think it would be helpful also if your Department were to expand its existing educational program so as to emphasize to farmers and potential holders of farm lands the position of your Department as to the undesirability of expansion of land values and mortgage indebtedness predicated upon boom conditions of a speculative character."

Mr. Szymczak then reminded the members of the Board that Chairman Eccles and he expected to meet with the directors of the Boston Bank on Thursday and he proceeded to outline briefly the procedure which had been planned for this meeting. There was considerable discussion of the details of the procedure and it was agreed that it

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should be left to Chairman Eccles and Mr. Szymczak to work out according to their own judgment.

At this point Mr. Dreibelbis 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 November 27, 1943, were approved unanimously.

Memorandum dated November 27, 1943, from Mr. Thomas, Assistant Director of the Division of Research and Statistics, submitting the resignation of Mrs. Lois A. Williams as a secretary in that Division, to become effective as of the close of business on November 30, 1943, and recommending that the resignation be accepted as of that date and that she be paid for two days of unused annual leave.

The resignation was accepted as recommended.

Memorandum of this date from Mr. Morrill recommending, for the reason stated in the memorandum, that the employment of the following cafeteria helpers in the Secretary's Office be terminated at the close of business on the dates set opposite their names:

Betty Kessel	November 16, 1943
Alice Wathen	November 25, 1943
Elizabeth England	November 22, 1943

Approved unanimously.

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Memorandum dated November 22, 1943, from the Board's Agency Committee on Deferment, advising that the deferment of Arthur Lang, a certified public accountant and one of the Board's examiners engaged in the examination of Transamerica Corporation, would expire January 20, 1944, that it would be necessary to have his services for several months after the expiration of his present deferment, and that the matter should be considered now and a decision reached whether an extension of deferment would be requested. The memorandum suggested that an extension of deferment be requested toward the end of this year and that Mr. Lang be advised to that effect.

Approved unanimously.

Letter to Mr. Attebery, Vice President of the Federal Reserve Bank of St. Louis, reading as follows:

"This refers to your letter of November 15 with regard to the penalty of \$46.32 incurred by the Farmers National Bank of Scottsville, Kentucky, on account of deficiencies in reserves during the semi-monthly period ended September 30, 1943.

"It is understood that the aggregate deficiency reduced to a one-day basis was approximately \$564,000; that of this total \$150,000 represents cash letters received by your Louisville Branch too late for clearing on the day of receipt; and that \$236,110 represents charges by your Louisville Branch to the reserve account of the member bank in advance of the member bank's making the corresponding entries on its books, for securities purchased for the bank's customers during the Third War loan drive. It appears that the member bank did not collect the cost of the securities from its customers and credit its reserve account until after receipt of the securities by it, while your Louisville Branch, in accordance with established practice, made the charge against the member bank's reserve account upon receipt of the bank's advice of the purchase

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"of the securities and the accompanying instructions to charge its reserve account.

"As indicated in the correspondence, the difficulty would have been avoided if the bank had established a war loan deposit account and had credited the proceeds of securities sales to that account instead of paying for them by authorizing a charge against its reserve account. It is noted that the usefulness of the war loan deposit account in maintaining a bank's reserve position during war loan drives will be stressed in future correspondence with the bank. In so far as cash letters received too late for clearing are concerned, it is understood that some of the other Reserve Banks give immediate credit or make appropriate reserve adjustments if, through no fault of the member bank but because of a delay in the mails, a cash letter is not received by the Federal Reserve Bank until after the close of the current day's clearing. The uncertainties of present-day train schedules seem to fully warrant such a practice.

"In the circumstances, the Board will interpose no objection if your Bank wishes to waive the part of the penalty for deficient reserves which resulted from the fact that immediate credit was not given for cash letters received too late for the current day's clearing, as well as the part that arose out of securities sales during the Third War loan drive."

Approved unanimously.

Memorandum dated November 26, 1943, from Mr. Thomas, Assistant Director of the Division of Research and Statistics, recommending that the payment of the travel voucher submitted by Arthur C. Bunce covering his trip to Washington beginning November 5, 1943, which he made at the request of the Director of the Division for the purpose of an interview for a position on the Board's staff, be approved.

Approved unanimously.

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Thereupon the meeting adjourned.

Preston Morris
Secretary.

Approved:

W. S. ...
Chairman.