

10/16/45 A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, October 16, 1945, at 10:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Szymczak (first part of meeting)
Mr. McKee
Mr. Draper
Mr. Evans

Mr. Carpenter, Secretary
Mr. Connell, General Assistant,
Office of the Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the
Chairman
Mr. Smead, Director of the Division
of Bank Operations
Mr. Thomas, Director of the Division
of Research and Statistics
Mr. Vest, General Attorney
Mr. Townsend, Assistant General Attorney
Mr. Wyatt, General Counsel

Reference was made to a memorandum dated September 13, 1945, from Mr. Smead, Director of the Division of Bank Operations, in which it was recommended (1) that the Board authorize the discontinuance of further printings of Federal Reserve notes in denominations of \$500 and above, and (2) that there be placed on the program for the next Presidents' Conference the question whether the existing stock of Federal Reserve notes of the 1934 series in denominations of \$500 and over held by the Reserve Banks, the Federal Reserve Agents, and the Treasury should be paid out upon request or whether the notes should be placed under seal and all Federal Reserve notes in such denominations retired when they are received from circulation. This matter was held

10/16/45

-2-

for consideration at a meeting when all members of the Board could be present.

It was stated that the Presidents' Conference, which was meeting today, had an item on its agenda as to the advisability of withdrawing Federal Reserve notes of larger denominations and Mr. Smead said that the topic related only to notes of the \$5,000 and \$10,000 denominations.

Upon motion by Mr. Szymczak Mr. Smead's recommendations were approved unanimously with the understanding that while it may not be possible to take the second item up while the Presidents are here in connection with the Conference now in session it could be taken up with them by letter and discussed with the Treasury Department at the same time.

Chairman Eccles raised a question as to the studies being made to reduce the volume of currency in circulation and Mr. Szymczak said that that problem was being explored.

In accordance with the decision reached at the meeting of the Board on September 25, 1945, that a statement be prepared setting forth the policy which the Board believed should be followed with respect to public statements by officers of the Federal Reserve Banks on matters of System and national policy, a draft of such statement had been prepared and copies furnished to each member of the Board for consideration at this meeting. There was unanimous agreement that the statement was not satisfactory for the purposes that the Board had in mind

10/16/45

-3-

and Chairman Eccles expressed the opinion that no statement should be submitted to the Presidents and that no further action should be taken by the Board with respect to the matter at this time.

Mr. Szymczak referred to the informal opinion which he expressed at the meetings of the Board on August 31 and September 25, that a letter should be addressed to the Chairman of the Federal Reserve Bank of New York setting forth the Board's position as to the propriety of Mr. Sproul testifying before the Senate Committee in opposition to the Bretton Woods Agreements. He related in chronological order the series of discussions and actions contemplated by the Board and the unanimous decision of the Board at its last meeting to prepare a statement for presentation at the next Presidents' Conference. He then moved the approval of the letter informally suggested by him at the meeting on August 31, 1945.

In the discussion which ensued Mr. Draper indicated that he shared Mr. Szymczak's opinion, and stated that if it were decided that no letter should be sent, Chairman Eccles should at least talk with Mr. Sproul. The other members of the Board were of the opinion that a letter along the lines contemplated by Mr. Szymczak should not be sent.

The question of what, if anything, should be done by the Board in the circumstances was considered at some length and Chairman Eccles suggested that at an appropriate time he might talk informally with Mr. Sproul and say substantially the following, making it clear that he wanted Mr. Sproul to know what the feeling of the Board was and that it would like to avoid an occurrence of the same kind in the future:

10/16/45

-4-

Mr. Sproul's action in insisting upon testifying on the Bretton Woods Agreements has been the subject of considerable discussion by the members of the Board and, while there might be some disagreement as to his right to take the action he did, there was no difference of opinion that his action was inappropriate and unwise in the circumstances and the members of the Board felt strongly about it. The degree of independence of the Presidents, as Mr. Sproul expressed it at meetings with the Board in June and September of last year, was something that the Board could not countenance as it was not in the best interests of the System to have public airings of internal conflicts, particularly on major problems of national and international scope. The System would be faced with many such problems in the future and it was important that there be a spirit of cooperation, particularly with the Federal Reserve Bank of New York as the largest bank in the System, and all parts of the System should work together on all important matters. What happened in connection with the Bretton Woods hearings was "water over the dam" and nothing could be done about it, but it was important that in the future the Presidents and the Board work together so that the Board and the Reserve Banks could function as a System and be effective in the economy and as an instrumentality of Government.

Mr. Szymczak said that such a statement by the Chairman would meet his views entirely.

Thereupon he withdrew his original motion and moved that it be agreed that such a statement should be made to Mr. Sproul by Chairman Eccles and that the time and place for the statement should be left to the Chairman's discretion.

This motion was put by the Chair and carried unanimously.

Chairman Eccles stated that, in accordance with the Board's letter of September 14, 1945, to the Presidents of the Federal Reserve Banks and the telegram of October 4, 1945, to President Day, Chairman of the Presidents' Conference, drafts of letters had been prepared to the Chairmen of the Banking and Currency Committees of the Senate and

10/16/45

-5-

House of Representatives recommending the repeal of the ninth paragraph of Section 10 of the Federal Reserve Act which limits the cost of Federal Reserve Bank Branch buildings. He said that the proposed amendment had been cleared with the Treasury and the Budget Bureau and that, for reasons which he outlined, it was desirable to send the letters promptly.

During the discussion of the above matter, Mr. Evans inquired as to the status of the Wagner-Spence bill which would amend section 13(b) of the Federal Reserve Act to authorize the Federal Reserve Banks to guarantee loans made to business enterprises. Chairman Eccles replied that Mr. Baruch was urging that a program be adopted under which the credit needs of veterans would be met by having housing credits handled by the Federal Housing Administration, farm credits by the Farm Credit Administration, and business credits under a further amendment to section 13(b) which would authorize the Federal Reserve Banks to guarantee business loans to veterans in addition to guaranteeing other types of business loans as contemplated when the amendment as recently proposed by the Board was first suggested, and that the matter was being considered on that basis.

In this connection, Chairman Eccles also said that he had just received a letter from President Young of the Federal Reserve Bank of Chicago in which reference was made to three situations in that district which could have been handled by the Reserve Bank if the amendment to section 13(b) as proposed by the Board had been in effect. It

10/16/45

-6-

was understood that the letter would be circulated for the information of the members of the Board.

At the conclusion of the discussion, the proposed letters to the Chairmen of the Banking and Currency Committees were approved unanimously as follows:

"In 1933 the Federal Reserve Act was amended so as to make the ninth paragraph of Section 10 thereof read as follows:

'No Federal reserve bank shall have authority hereafter to enter into any contract or contracts for the erection of any branch bank building of any kind or character, or to authorize the erection of any such building, if the cost of the building proper, exclusive of the cost of the vaults, permanent equipment, furnishings, and fixtures, is in excess of \$250,000: Provided, That nothing herein shall apply to any building under construction prior to June 3, 1922.'

"When this limitation was adopted by Congress, the branches of the Federal Reserve Banks had 2,600 employees, of which 230 were engaged in fiscal agency work performed by the Banks for the Government. Since that time, and particularly during the war, the operations of the 24 branches of the Reserve Banks have expanded rapidly and the need for additional space has grown in proportion, the largest single factor being a tremendous increase in the volume of fiscal agency operations. In 1941 the branches had 3,300 employees, of which 1,000 were engaged in fiscal agency operations. At present out of about 7,000 employees 4,000 are engaged in such operations, and there is every reason to expect that these operations will continue in large volume indefinitely.

"Fiscal agency functions performed for the Treasury include the receipt of Government deposits, payment of Government checks and coupons, inscription and delivery of Government bonds and other securities sold to the public, redemptions of all classes of Government obligations, and numerous other financing and bookkeeping activities. It is certain that operations performed for the Treasury Department in administering the public debt will continue to be much larger than they were before the war.

10/16/45

-7-

"Activities as fiscal agent, custodian and depository carried on for Government departments and agencies other than the Treasury Department have also greatly increased in volume, especially for the Reconstruction Finance Corporation and the Commodity Credit Corporation. For these agencies the Reserve Banks and branches disburse loans and other payments and receive and examine and hold notes and supporting collateral of borrowers.

"In addition to the increase in fiscal agency activities described above, there has been a definite growth in other operations of the Federal Reserve Banks and branches. Because of the increased volume of currency in circulation and the expansion of bank deposits during the war, there have been substantial increases in currency and coin transactions, check collections, and other operations performed by the Federal Reserve Banks and their branches for member banks and others. Though there may be some reduction in the volume of these operations, they will continue to be at a much higher level than they were prior to the war.

"As the result of the many activities described above, all but three of the branches have found it necessary to rent additional space outside their regular quarters. Vault facilities have been inadequate in many instances. Obviously, operations may be carried on much more efficiently and expeditiously under one roof than in scattered quarters. Consequently, all of the Federal Reserve Banks feel that it would be a matter of economy at the proper time to make additions to their building facilities.

"Since the inclusion in Section 10 of the Federal Reserve Act of the limitation on the Federal Reserve buildings, construction costs have increased greatly, and this, coupled with the increased volume of work the branches are called upon to perform, operates to make the limitation much more restrictive than was contemplated when the amendment was adopted.

"Congress has delegated to the Board of Governors of the Federal Reserve System, as an agency of the Government, general supervision over the Federal Reserve Banks. In the exercise of this supervision it is the practice of the Board to consider in advance all options for the purchase of real estate and all plans and specifications for buildings and vaults for the Federal Reserve Banks and their branches, and no construction is undertaken without the express approval of the Board.

10/16/45

-8-

"In view of the supervision given to the building operations of the Federal Reserve Banks by the Board, the limitation serves no useful purpose and should be eliminated. The construction of such buildings does not involve the use of any Government funds or appropriated moneys as the capital funds of the Federal Reserve Banks are used for this purpose.

"The Board of Governors would not, of course, authorize any substantial building construction, except in case of emergency, until labor and materials become available in adequate supply and such construction would be helpful in the employment situation. The statutory limitation on the construction of branch bank buildings, however, should be eliminated now, because until this is done the Federal Reserve Banks, being uncertain as to what may eventually be permissible, are unable to make effective preparations for the necessary construction to be undertaken at the appropriate time.

"In the circumstances, the Board earnestly recommends the early enactment of legislation to repeal the ninth paragraph of Section 10 of the Federal Reserve Act; and for the consideration of your Committee there is enclosed a draft of a brief statute which would accomplish this purpose.

"The matter of the introduction of the enclosed bill has been taken up with the Bureau of the Budget and there is enclosed a copy of a letter from that office in which it is stated that there is no objection to the presentation of the legislation for the consideration of the Congress."

At this point Mr. Cagle, Assistant Director of the Division of Examinations, joined the meeting and Mr. Thomas withdrew.

Chairman Eccles then made substantially the following statement:

Last week Mr. Townsend and I attended a conference with representatives of the Department of Justice, which was also attended by Under Secretary of the Treasury Bell, Comptroller of the Currency Delano, and Deputy Comptroller of the Currency Robertson, for the purpose of clarifying

10/16/45

-9-

the position with respect to Transamerica Corporation and Bank of America National Trust and Savings Association. The occasion for the meeting was the desire on the part of the Comptroller of the Currency to grant the application of Bank of America for permission to establish additional branches. The bank had brought considerable pressure to bear on the Comptroller's Office for permission to establish some 25 or 26 additional branches, and the Comptroller, as well as Messrs. Bell and Vinson, Secretary of the Treasury, were inclined to grant the necessary permission, in at least five cases, in order to avoid the charge of being unduly arbitrary. In view of the existing understanding between the three Federal bank supervisory agencies, the Comptroller of the Currency felt that before any action was taken the matter should be discussed with the Board, which was done by Messrs. Delano and Bell, as Mr. McKee and I reported at the meeting of the Board on September 7, 1945. It will be recalled that Mr. McKee and I took the position that no such permission should be granted and that we should let the Comptroller know what the Department of Justice was considering in connection with a possible Sherman Act suit against Transamerica. I talked to the Attorney General and he had no objection to our so informing Comptroller Delano. The Comptroller did not know of the matter and I suggested that before he did anything in the direction of granting further permits the matter be discussed with the Attorney General. After some discussion between some of the parties involved, the meeting to which I have referred was held for the purpose of determining whether, while a Sherman Act case was being prepared by the Department of Justice, the Comptroller of the Currency should be in the position of granting permission to establish further branches. It was felt that there should be unity of action and if the Department of Justice had a case it would not be advisable for the Comptroller of the Currency to grant further permits while that case was pending. I made the point that, even if the Justice Department was able to establish a case, that would not solve the fundamental problem with which the banking agencies had been concerned, and that that could be met only by adequate legislation to give sufficient authority to deal with the problems involved. I also said that I had come to the conclusion personally that it would be difficult to bring about the approval of a bill freezing the existing holding company situation, that it would be extremely

10/16/45

-10-

difficult to get a death sentence bill, and that a bill which would provide that any corporation which holds 10 per cent or more of the stock of two or more banks would be a bank holding company which could not acquire additional stock of any bank without the prior approval of the Board would be the best way to handle the matter.

The Department of Justice representatives stated that they expected to be able to say within 10 days whether it was felt that they had a case under the Sherman Act that could be proved and in the meantime the Comptroller of the Currency is withholding action on permission to Bank of America to establish additional branches. (At this point Mr. Szymczak left the meeting).

Mr. Bell has told me that the Treasury would oppose the holding company bill which has been recommended by the Board. I have gone over the bill and have come to the conclusion that it is too inclusive in its coverage as it would include not only corporations but also groups of individuals who control two or more banks. That would result in an impossible administrative job as it would mean that the Board would have to determine in innumerable cases whether actual control of two or more banks existed and would not get at the difficulties that we are trying to correct. I told Attorney General Clark and Mr. Bell that the only way to get at the fundamental problem was to propose a simplified bill which would be less inclusive in its coverage, and I have had such a bill drafted which was completed yesterday afternoon.

Mr. McKee stated that he had seen the bill yesterday for the first time and, in view of the desire expressed by Chairman Eccles to send copies of the draft to Messrs. Clark, Bell, and Delano, he (Mr. McKee) had asked that the matter be discussed at this meeting of the Board.

Chairman Eccles stated that in the interest of saving time he would like to send a copy of the draft of bill to Messrs. Clark, Bell, and Delano as a tentative suggestion for dealing with the problem, with

10/16/45

-11-

the understanding that they would study it at the same time that it was being considered by the Board, and that the Board would not be bound in any way by the position that the Department of Justice or Treasury might take with respect to it.

Mr. McKee stated that, in view of the action previously taken by the Board, including the approval of the bill which had been submitted to the committees of Congress, he felt the Board should consider the change in approach which the new draft would take from that of freezing the existing situation to one of controlling further expansion of bank holding companies which would be defined on a much less inclusive basis than was proposed in the old bill.

There was a discussion of the principal differences between the two drafts of bills and of the possibilities of their adoption by Congress, during which Mr. McKee expressed the view that the Board should not abandon the position taken in the earlier draft without careful study.

Chairman Eccles said that what he would like to do would be to send the new draft of bill to Messrs. Clark, Bell, and Delano so that they could be studying it while it was being considered by the Board and so that the Board could have the benefit of their views in determining whether the bill should be recommended to Congress for adoption.

Mr. Ransom stated that he expected to be away from Washington during the month of November and might not be here when the bill was

10/16/45

-12-

considered by the Board and that, in order to make his position clear, he would like to say that a bill which would permit creation of new holding companies and expansion of existing bank holding companies in cases where that was found desirable by the banking authorities would be much more to his liking than a bill which would freeze the existing bank holding company situation.

At the conclusion of the discussion Chairman Eccles inquired whether there was any objection on the part of the members present to his sending copies of the new draft of bill to Messrs. Clark, Bell, and Delano. No objection was expressed by Messrs. Ransom, Draper, or Evans, but Mr. McKee stated that he would vote "no".

At this point Messrs. Smead, Vest, Townsend, Wyatt, and Cagle withdrew from the meeting.

The action stated with respect to each of the matters herein-after 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 October 15, 1945, were approved unanimously.

Memorandum dated October 11, 1945, from Mr. Bethea, Director of the Division of Administrative Services, reviewing the Board's action on September 28, 1945, deferring action on the recommendations contained in his memorandum of September 24, 1945, that Percy C. Riston and E. J. Weeks be transferred to the positions which they occupied prior to Sven Johnson's entrance into military service and stating

10/16/45

-13-

that an effort has been made, in consultation with the Division of Personnel Administration, to work out a solution which would obviate the necessity for reductions in the salaries of these employees. The memorandum recommended that, in order to accomplish this, the title of Mr. Riston be changed from Foreman of Laborers to Assistant Foreman of Laborers (Night) and the title of Mr. Weeks be changed from Assistant Foreman of Laborers to Assistant Foreman of Laborers (Day) with no change in their respective salaries of \$2,364 and \$2,100 per annum. The memorandum also recommended that Sven Johnson, who has been reinstated in his position as Foreman of Laborers, be assigned hours of duty from 1 p.m. to 9:30 p.m. with one half hour off for dinner, with the understanding that the Division of Administrative Services might adjust the hours in the light of experience.

Approved unanimously.

Memorandum dated October 15, 1945, from Mr. Carpenter submitting the resignations of Mrs. Sidelle F. Bogart and Mrs. Helen Cook, file clerks in the Secretary's Office, and recommending that the resignations be accepted effective as of the close of business October 24 and October 31, 1945, respectively, and that a lump sum payment be made for accrued annual leave remaining to the credit of Mrs. Bogart and Mrs. Cook at that time.

The resignations were accepted as recommended.

10/16/45

-14-

Memorandum dated October 15, 1945, from Mr. Bethea, Director of the Division of Administrative Services, submitting the resignation of Seburn E. Baker, a Foreman Operator, Duplicating Devices, in that Division, and recommending that the resignation be accepted effective as of the close of October 14, 1945, and that a lump sum payment be made for any accrued annual leave remaining to his credit at that time.

The resignation was accepted as recommended.

Memorandum dated October 15, 1945, from Mr. Bethea, Director of the Division of Administrative Services, submitting the resignation of Leonard A. Norden, a guard in that Division, and recommending that the resignation be accepted effective as of the close of business October 24, 1945, and that a lump sum payment be made for any accrued annual leave remaining to his credit at that time.

The resignation was accepted as recommended.

Letter to Mr. Wallace, Counsel for the Federal Reserve Bank of Richmond, reading as follows:

"This refers to your letter of August 6, 1945, and enclosures, in which you state that Mr. Emanuel Blosser, Treasurer and Director of the Harrisonburg Loan & Thrift Corporation and also a director of the National Bank of Harrisonburg, Harrisonburg, Virginia, has requested a ruling from the Board of Governors as to whether the Harrisonburg Loan & Thrift Corporation is a 'bank' within the meaning of section 8 of the Clayton Act relating to interlocking directorates. If the Corporation is not a 'bank', the statute is not applicable to the services

10/16/45

-15-

"of Mr. Blosser and to two other directors of the Corporation who are also directors of the Rockingham National Bank of Harrisonburg.

"From the information contained in your letter and enclosures, it is understood that the Corporation is organized and operating as an industrial loan association under chapter 166-A of the Code of Virginia; and that, although it is subject to examination by the State Corporation Commission acting through the Commissioner of Banking, it is not classified as a bank. It is also understood that the Corporation sells fully paid investment certificates, the total amount outstanding on August 1, 1945 being \$308,800, of which amount \$114,500 is held by persons who also own common stock. Interest appears to range from 2 to 3 per cent per annum and is paid semi-annually by checks mailed to the holders of the certificates. The time stipulated for notice of withdrawal varies, usually 30 days, but sometimes 60 or 90 days and in some cases is much shorter, varying from one to five days. All the certificates, however, are payable either to banks or to stockholders or close relatives of stockholders.

"The Corporation also issues certificates of investment on the partial payment plan, the amount of balances as of August 1, 1945 being \$4,896.10. With respect to these certificates, the institution accepts payments in amounts of \$10.00 or more; the rate of interest is 2 per cent per annum and is paid by credit to the account. Since January 1, 1945, fourteen payments have been made on account of partially paid certificates and there has been but one withdrawal. Thirty days' written notice of intended withdrawals may be required but this requirement may be waived.

"It is understood that the Corporation does not issue cashier's checks. It ordinarily keeps on hand about \$4,300 in coin and currency but sometimes has on hand a greater amount. It does not receive deposits subject to check. It is not insured by the Federal Deposit Insurance Corporation. It exercises no fiduciary powers. It does not accept securities or valuables for safekeeping or in escrow and it does not act as agent for others in buying and selling securities. The business hours of the Corporation are not the same as those of banks in Harrisonburg.

"On the basis of the foregoing facts, it appears that the powers and the activities of the Harrisonburg Loan & Thrift Corporation now being exercised are essentially the

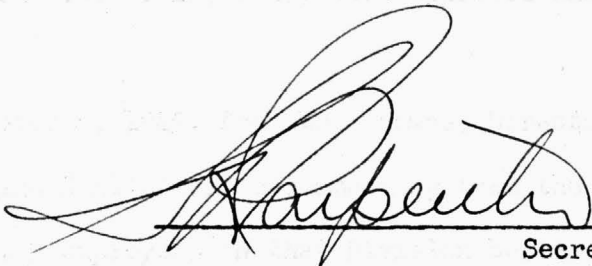
10/16/45

-16-

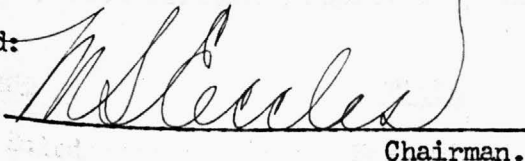
"same as those described in the letter to your bank dated August 2, 1940, regarding the Norfolk Savings & Loan Corporation, Norfolk, Virginia, and also the Board's letter of October 19, 1939 (S-189-a). Accordingly, on the basis of the facts set forth above, it is the opinion of the Board that Harrisonburg Loan & Thrift Corporation is not now a 'bank' within the meaning of section 8 of the Clayton Act. However, as pointed out in the Board's letters just referred to, the question whether or not a particular institution is a bank within the meaning of the Clayton Act is often a perplexing one and that slight variations in the facts may produce different results. When you communicate with Mr. Blosser it might be well to point this out. If the operations of the Corporation should be extended to more nearly resemble those of a bank of deposit, it would be necessary to reexamine the facts and the opinion expressed above may not then be applicable."

Approved unanimously.

Thereupon the meeting adjourned.


Secretary.

Approved:


Chairman.