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A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, March 15, 1946, at 10:35 a.m.

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

Mr. Carpenter, Secretary
Mr. Hammond, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Chairman
Mr. Smead, Director of the Division of
Bank Operations
Mr. Vest, General Counsel

Mr. Carpenter stated that Mr. Berge, Assistant Counsel of the Federal Reserve Bank of Boston, had called on the telephone to say that the only person nominated in connection with the forthcoming election of a Class B director of the Bank to replace Mr. Whittemore was Mr. Frederick Blackall, President of a machine tool business in Woonsocket, Rhode Island, who had been nominated by between forty and fifty member banks in the district. It appeared from the telephone conversation that Mr. Blackall was a trustee of the Woonsocket Institution for Savings, a mutual savings bank, and a member of the board of managers of the Woonsocket Branch of the Industrial Trust Company, and it was Mr. Berge's understanding that Mr. Blackall would have to give up these two connections in order to qualify as a Class B director, but that there was a question with respect to a third connection, that of director of

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the Old Colony Cooperative Bank of Providence, Rhode Island, which Mr. Berge reported was, in effect, a savings and loan association.

Mr. Carpenter stated that he informed Mr. Berge of the consideration given to a similar question which arose in connection with the nomination of Mr. Erb as a Class B Director of the Federal Reserve Bank of San Francisco, at which time the Board decided that, if Mr. Erb were elected, it would take the position that he was not qualified to serve as a Class B director unless he resigned as President of the First Federal Savings and Loan Association of Lewiston, Idaho. Mr. Berge reported, Mr. Carpenter said, that Mr. Blackall would like very much to continue the relationship if it were possible to do so because it was a long-established one and involved personal friendships, but that he would be willing to give it up if it were felt that its retention would not be within the spirit of the applicable provisions of the law. In view of the fact that Mr. Blackall had been nominated by some forty or fifty member banks in the Boston District and there was no other nominee, it did not appear feasible to suggest the withdrawal of his name as had been done in the case which arose in the Twelfth Federal Reserve District. Therefore, if the Board took the same position, it would be necessary for Mr. Blackall to resign his connection with the Old Colony Cooperative Bank if he wished to qualify as a Class B director.

In the discussion which ensued, all of the members of the Board indicated that they were still of the opinion that, because of the similarity between the functions of banks and savings and loan associations,

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there was a question of policy whether an officer of such an association should be permitted to serve as a Class B director of a Federal Reserve Bank, and that if the matter were presented to it formally the Board would take the position that Mr. Blackall would not be qualified to serve unless he resigned as President of the Old Colony Cooperative Bank. It was understood that Mr. Carpenter would advise Mr. Berge accordingly.

Chairman Eccles stated that he had received the following letter from Mr. Sproul, President of the Federal Reserve Bank of New York, under date of March 8, 1946, and had talked with him over the telephone with respect to the rate of 1/2 per cent now in effect at the Bank on advances to member banks secured by direct obligations of the United States maturing or callable in one year or less:

"As you have noticed, we made no change in our schedule of rates yesterday. The action of the directors in continuing the existing schedule followed my recommendation. I reviewed for them the situation as it has existed with respect to the preferential discount rate, presenting the reasons why action should be taken, and the reasons why a delay in taking action for perhaps thirty days might be appropriate. The decision to do nothing yesterday was predicated on the proposition that, unless there has been some unforeseen and important change in the situation, we would act to eliminate the preferential discount rate at our meeting on April 4.

"I am very much interested in an outline which Graham Towers sent me, of the action recently taken in Canada to meet the problem of bank holdings of Government securities and bank earnings on such securities. It seems to me that the Canadian approach which, essentially, is to place a limit on the amount of long-term Government securities which banks can hold, may be better and more workable than the Government security reserve idea. There are a lot of problems involved in having two kinds of reserve requirements which I do not think we have yet

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"thought through and I certainly believe we should study the application of the Canadian method to our situation before we commit ourselves to some other approach."

Chairman Eccles said that during the telephone conversation he stated to Mr. Sproul that, in view of the program now being carried out for the retirement of the public debt and the adjustments in reserves that would have to be made by member banks as a result of that program, which provided for the retirement of not less than \$2.8 billion of securities in March and at least \$2 billion of certificates on April 1, the directors should consider deferring any action to eliminate the preferential rate until their meeting on April 18, 1946, which would give them an opportunity to consider the matter in the light of the effects of these operations on the market as well as the adjustments that were incident to the March 15 income tax payments.

Chairman Eccles' statement was followed by an informal discussion of the effects on the market of the retirement of March 1 certificates and March 15 maturities of notes and bonds and of the increase in borrowings of member banks during the recent period, and Chairman Eccles stated that, if after April 1 member banks continued to borrow heavily from the Federal Reserve Banks, that would be a good reason for action to eliminate the special 1/2 per cent rate.

During Chairman Eccles' statement Mr. Thomas, Director of the Division of Research and Statistics, joined the meeting.

There were then presented telegrams to Messrs. Leach and McLarin, Presidents of the Federal Reserve Banks of Richmond and Atlanta,

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Dillard and Stewart, Secretaries of the Federal Reserve Banks of Chicago and St. Louis, and Mr. Gilbert, President of the Federal Reserve Bank of Dallas, stating that the Board approves, effective March 16, 1946,

- (1) the elimination by the Reserve Banks of the rate of 1 per cent on advances to nonmember banks under the last paragraph of Section 13 of the Federal Reserve Act, with the understanding that the rate now in effect (2 $\frac{1}{2}$ per cent at the Federal Reserve Bank of Richmond and 2 per cent at the other four Banks) on advances to individuals, partnerships and corporations, other than banks under the last paragraph of Section 13 of the Federal Reserve Act, would hereafter include nonmember banks; and
- (2) the establishment, without change, of the other rates of discount and purchase in the Banks' existing schedules.

Approved unanimously.

There were also presented telegrams to Mr. Whittemore, President of the Federal Reserve Bank of Boston, Mr. Trieber, Secretary of the Federal Reserve Bank of New York, Mr. Powell, First Vice President of the Federal Reserve Bank of Minneapolis, Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, and Mr. Mangels, Secretary of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on March 12, and by the Federal Reserve Banks of New York, Minneapolis and Kansas City, respectively, on March 14, 1946, and by the Federal Reserve Bank of Boston today of the rates of discount and

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purchase in their existing schedules.

Approved unanimously.

In accordance with the understanding at the meeting of the Board on March 5, 1946, when consideration was given to the letter dated February 8, 1946, from Mr. Sproul, President of the Federal Reserve Bank of New York, requesting authority for a contribution of \$10,000 by the Bank to the Beekman-Downtown Hospital Building Fund, inquiry had been made of Mr. Sproul whether any of the Government offices located in the downtown area had made any contributions to the building fund, and that he had replied that none of the Government offices had been solicited for contributions to the fund and had made none. It was also stated that informal inquiry had been made of Mr. Bartelt, Fiscal Assistant Secretary of the Treasury, whether there was any legal authority under which Government offices in the field could make contributions of this kind and that he had replied that so far as he knew no such authority existed.

Mr. Szymczak moved that, in these circumstances, the Board disapprove the payment.

This motion was put by the Chair and carried, Mr. Ransom "not voting".

At Mr. Ransom's request, Mr. Vest stated that there was a bill before Congress which would provide, among other things, for retirement allowances to members of Congress and Presidential appointees, and that the House of Representatives had refused to consider that bill but had

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suggested that instead Congress give consideration to a bill which would carry out the provisions of a report of a joint committee of the House and Senate on the reorganization of Congress. That report included a suggestion, among others, to the effect that under certain conditions members of Congress should be entitled to the benefits of the Civil Service Retirement System. Mr. Vest also said that the legislative council of the Senate was working on a draft of bill which would carry out this suggestion, that it had been indicated that upon receipt of proper instructions the legislative council would provide in the bill for application of the Civil Service Retirement System to Presidential appointees, and that it had been suggested that if anyone were interested in such a change the matter should be taken up with the Chairman of the Joint Committee.

Mr. Ransom stated that he had brought the matter up to ascertain whether the Board wished to take any action in connection with it at this time. It was suggested that, inasmuch as the President had recommended that the benefits of Civil Service Retirement be made available for all Presidential appointees, undoubtedly he would suggest that the draft of bill be changed, and that no action by the Board was called for.

Mr. Ransom then referred to the conference on April 8-10, 1946, which had been called by the Board and which would be attended by representatives of the Federal Reserve Banks to consider principally the problem of the enforcement of Regulation W, Consumer Credit, and stated

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that he had initiated a recommendation that the Board approve the payment of the cost of (1) a dinner for the representatives of the Federal Reserve Banks at the Statler Hotel on April 8, 1946, (the representatives of the Board and its staff who attend to pay for the dinners served them) and (2) a stenographic report of the three-day conference. He added that, in view of the suggestion of the President which appeared in the morning papers that banquets be cancelled as a food-saving measure, he was withdrawing the recommendation with respect to the dinner with the suggestion that a luncheon be served in the Board's dining rooms on April 8, 1946, at which Mr. Paul Porter, Director of the Office of Price Administration, who was to have been the speaker at the dinner, would be asked to speak.

Mr. Ransom's suggestion with respect to the luncheon and his recommendation relating to the stenographic transcript of the meeting were approved unanimously, it being understood that the appropriate item of the budget of the Division of Security Loans would be increased to cover the cost of the transcript.

There was then presented a letter dated March 1, 1946, from Mr. Prochnow, Acting Secretary of the Federal Advisory Council, transmitting a resolution adopted by the Council pursuant to the suggestion at the last meeting of the Council with the Board with respect to credit and public debt policies. The letter from Mr. Prochnow stated that, pursuant to a resolution of the Council, the Board of Governors was to use the resolution enclosed with the letter only as and when the Board saw fit to do so and that the Board was under no obligation to publish it.

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Upon motion by Mr. Szymczak, it was agreed unanimously that Chairman Eccles should use the resolution in such manner as he thought advisable in further discussions with representatives of the Treasury on credit and public debt policies.

Mr. Horbett, Assistant Director of the Division of Bank Operations, came into the meeting at this point.

Before this meeting each member of the Board had received a copy of a memorandum to which were attached copies of (1) a summary of the replies received from the Federal Reserve Banks to the Board's letter of January 31, 1946, with respect to the advisability of terminating the reserve city status of cities other than those in which Federal Reserve Banks and Branches were located, and, (2) a letter dated March 5, 1946, from the President of the Michigan National Bank of Lansing, Michigan, in which he stated that the Bank would like to have some definite decision with respect to the reserve city designation of Grand Rapids so that the Bank could properly determine its future policy. The summary of the replies received from the Federal Reserve Banks, stated that the consensus of the Banks was that there was no objection in principle to the proposed termination of the designation of reserve cities, but that--

- (1) The member banks in these 24 cities would oppose such a change strenuously;
- (2) Such a move would result in particularly bad competitive situations where the reserve cities are adjacent to Federal Reserve Bank cities, such as Minneapolis and St. Paul and Kansas City, Missouri, and Kansas City, Kansas;
- (3) Such a move now would be bad in view of the inflationary potentialities resulting from lower reserve requirements at a time when every effort should be made to combat inflation;

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- (4) Unless there are urgent reasons for adopting the proposal at this time, it should be deferred pending further study toward a more complete solution of the whole problem of member bank reserve requirements.

Mr. McKee, at whose request this matter had been placed on the docket for consideration at this meeting, stated that the question before the Board was whether it should take further action looking toward the termination of reserve city designations of the twenty-four cities involved.

In the discussion which ensued, it was stated that the proposed termination had been under consideration for a long time, that the reason for which these cities were made reserve cities no longer applied, and that the termination of the designation would be in the direction of equalizing the reserves of banks until such time as the whole basis of reserve requirements could be studied and a recommendation made to Congress as to appropriate changes in the law.

Mr. Vest stated that, under the administrative procedure bill which had just passed the Senate and probably would pass the House at this session of Congress, it would be necessary, before the Board took such action, to give the banks affected by the action an opportunity to express their views in writing and otherwise if they chose to do so, and that, therefore, he would suggest that if the Board contemplated further steps in this matter such a procedure be followed before action was finally taken.

In the discussion which ensued, all of the members of the Board agreed that the views of the member banks that would be affected by

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the action should be obtained and, upon motion by Mr. McKee, it was agreed unanimously that a draft of letter to the Federal Reserve Banks for that purpose should be prepared by the staff for consideration by the Board, it being understood that when the letter to the Federal Reserve Banks was approved a reply would also be sent to the letter received by the Board from the President of the Michigan National Bank of Lansing, Michigan under date of March 5, 1946.

Chairman Eccles then read a letter received under date of March 13, 1946, from Willard L. Thorpe, Deputy to the Assistant Secretary of State for Economic Affairs of the State Department, in which it was stated that the Department would like to borrow the services of Mr. Lloyd Metzler, an Economist in the Division of Research and Statistics, for a period of two months, beginning on or about April 1, 1946, to permit him to join a War Department group which had just left for Germany to survey the problem of German inflation and financial reform and to recommend to General Clay a program of counter-inflationary measures, it being understood that Mr. Metzler's services would be on a non-reimbursable basis.

The request was considered on the basis of the statements contained in the letter with respect to the importance of the mission and of comments by Chairman Eccles that, while Mr. Metzler's services were badly needed by the Board, it was difficult to refuse to make him available in view of the important staff members who had been taken from other agencies to make up the mission.

Mr. Szymczak suggested that since the request was for only two

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months, and the service would enable Mr. Metzler to obtain a great deal of firsthand information and make contacts which would add greatly to his value to the Board, the Board would be justified in granting the request.

At the conclusion of a discussion, upon motion by Mr. Szymczak, the request of the State Department was approved with the understanding that Mr. Metzler's services would be made available for the period of only two months and that the Board would pay his salary and continue its contributions to the Retirement System during his absence, but that his travel, per diem, and other official expenses incident to the trip would be paid by the State Department.

On this action Mr. McKee asked to be recorded as "not voting".

At this point Messrs. Smead, Vest, Thomas, and Horbett 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 Thursday, March 14, 1946, were approved unanimously.

Telegram to the Presidents of all the Federal Reserve Banks, reading as follows:

"Board does not contemplate making a spring call for condition reports upon State member banks. You may so advise State banking departments for their confidential information. Understand Comptroller's office is advising them that no such call for report upon national banks is contemplated."

Approved unanimously.

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Memorandum dated March 12, 1946, from Mr. Bethea, Director of the Division of Administrative Services, recommending that Mrs. Sandra Bigler be appointed to the position of elevator operator in that Division, on a temporary basis for an indefinite period, at a salary of \$1,440 per annum, effective as of the date upon which she commences the performance of her duties after having passed the usual physical examination. The memorandum also stated that Mrs. Bigler will become a member of the Board's Retirement System.

Approved unanimously.

Memorandum dated March 15, 1946, from Mr. Bethea, Director of the Division of Administrative Services, recommending that Miss Eleanor Mason be appointed to the position of Assistant Supervisor of the Cafeteria in that Division, on a temporary basis for a period of three months, at a salary of \$2,232 per annum, effective as of the date upon which she commences the performance of her duties after having passed the usual physical examination. The memorandum also stated that Miss Mason will become a member of the Board's Retirement System.

Approved unanimously.

Memorandum dated March 14, 1946, from Mr. Bethea, Director of the Division of Administrative Services, submitting the resignation of Mrs. Virginia Cromwell, Clerk in that Division, effective as of the close of business March 29, 1946, and recommending that the resignation be accepted as of that date and that appropriate payment be made to her

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for the accrued annual leave remaining to her credit at that time.

The resignation was accepted
as recommended.

Letter to Mr. Sproul, President of the Federal Reserve Bank of
New York, reading as follows:

"This is in reply to your letter of March 11 regarding your proposals with respect to sending representatives to the Resident Session of the Graduate School of Banking at Rutgers University this summer.

"The Board has no objection to the proposal which would involve attendance of eight representatives of the Reserve Bank at the forthcoming session, one attending the third year at his own expense and seven whose registration and resident and extension tuition fees will be paid by the Bank. Of the latter, two will attend for the first year, three for the second year, and two are listed as third year students."

Approved unanimously.

Letter to Mr. Leach, President of the Federal Reserve Bank of
Richmond, reading as follows:

"In reply to the question raised in your letter of March 11, the Board has no objection to your sending three first-year students to the Graduate School of Banking at Rutgers University this summer."

Approved unanimously.

Letter to Mr. Bryan, First Vice President of the Federal Reserve Bank of Atlanta, reading as follows:

"In view of the circumstances described in your letter of March 8, the Board will not object to your sending three or four first-year students to the Graduate School of Banking at Rutgers University this summer, provided that the School is willing to accept that number from your Bank this year. In this connection, I understand that the School has a quota of not more than three students in any class from one Bank, although for

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"quota purposes they consider branches of Federal Reserve Banks as separate institutions.

"It is felt that the representation of a particular Federal Reserve Bank or of the Banks as a whole at the School should not be disproportionate to the total enrollment, and that therefore this should not be considered a precedent for the number of first-year students in future years."

Approved unanimously.

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

"It is noted from your letter of March 11 that you are planning to send five students to the Resident Session of the Graduate School of Banking at Rutgers University this summer, of whom four will be first-year students.

"The number of first-year students is in excess of that contemplated in the Board's letter of October 30, 1936 (X-9729-b), item No. 9092 in the Federal Reserve Loose-Leaf Service. The Board, however, does not object to your sending four first-year students this year provided that the School is willing to accept that number from your Bank.

"It is felt that the representation of a particular Federal Reserve Bank or of the Banks as a whole at the School should not be disproportionate to the total enrollment. The sending of four first-year students this year, therefore, should not be considered a precedent for the number to be sent in future years."

Approved unanimously.

Letter to the Presidents of all the Federal Reserve Banks, reading as follows:

"One of the Reserve Banks has requested that, in the interest of efficient organization, the authorization for the payment of dismissal wages or separation allowances be extended to cover employees involuntarily separated from service after age 55 and who have served a sufficient length of time to be entitled to a pension, but who have not served the 25 years necessary to come under the authorization for supplemental payments contained in the Board's letter S-741.

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"In order that the Reserve Banks may make some provision for dismissal wages or separation allowances in the case of employees involuntarily separated from service after age 55, as well as before 55, the Board's letter of December 11, 1943, S-714, is hereby cancelled and the Board authorizes payment of dismissal wages or separation allowances under the following program:

1. Dismissal wages or separation allowances under this authorization may be paid only to employees involuntarily separated from service;
2. In such cases dismissal wages or separation allowances may be paid at the rate of not to exceed one-half of a month's salary for each year of service or fraction thereof, with a maximum payment equal to six months' salary. In computing such payments, any salary in excess of \$15,000 per annum shall be treated as a salary of \$15,000.
3. Such dismissal wages or separation allowances may be either cash payments to the employee or payments to the Retirement System on behalf of the employee, or any combination of the two, as the Reserve Bank in its discretion may determine.
4. In no case shall payment be made under the authorization of this letter and also under the authorization of the Board's letter S-741, and in no case shall the payment under this authorization to or for the account of an employee eligible for a supplemental payment under the authorization contained in the Board's letter S-741 exceed the amount permissible under that authorization.

"The Board wishes to emphasize that the payments authorized under this letter are not suggested as amounts appropriate generally, but are maximums within which the Bank may act in its discretion, and that the authorization is definitely not for separation allowances generally, but only for payments in connection with involuntary separations.

"You will recall that a draft of a letter containing the paragraphs set forth above was submitted to the recent meeting of the Presidents Conference and the Conference was in favor of the change as expressed in the draft."

Approved unanimously.

Letter to Mr. Sproul, President of the Federal Reserve Bank of New York, reading as follows:

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"This will acknowledge with thanks Mr. Knoke's letter of March 7 regarding the request your bank has received from Mr. R. L. Horne of the Treasury Department for information regarding the opening of dollar deposit accounts for the International Monetary Fund and International Bank for Reconstruction and Development pursuant to section 6 of the Bretton Woods Agreements Act. It is understood that Mr. Horne is Temporary Secretary of the International Fund. It is noted that your directors have authorized the opening of accounts for the International Fund and Bank as outlined in Mr. Knoke's letter, but that it is expected that the accounts will not be opened immediately.

"The Board is entirely agreeable to the opening and maintenance of these accounts pursuant to section 6 of the Bretton Woods Agreements Act and will appreciate being kept advised of any further developments in the matter."

Approved unanimously.

Letter to Mr. Schlaikjer, Vice President and General Counsel of the Federal Reserve Bank of Boston, reading as follows:

"This refers to your letter of February 2, 1946, enclosing a copy of a letter dated January 30, 1946, from the Old Colony Trust Company presenting the following situation:

Two trusts are created by the same settlor. The first trust is for her benefit for life, then for the benefit of the life of a second party with remainder over to a third party. The second trust is for the life benefit of the second party with remainder over to a third party. The beneficial interest might merge for a time for the remaining period of the life of the second party if he should survive the settlor, and then upon the second party's death there would be an ultimate merger upon vesting of the principal of both trusts in the third party.

"As you state, this situation is very similar to that ruled upon by the Board in the 1941 Federal Reserve Bulletin at page 618, the only difference being in the possible merger of the beneficial interests for a time in one of the two life tenants before ultimate merger upon vesting of the principal of both trusts in the remainderman. The Board agrees with your conclusion that

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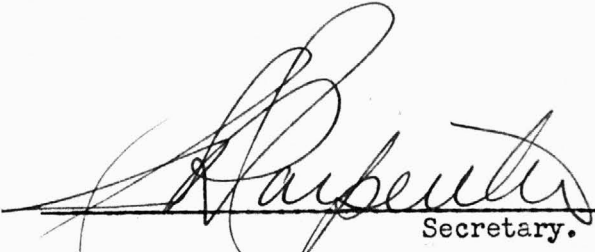
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"it comes within the scope of the 1941 ruling and the proposed investments may be made without considering the two trusts as one for the purpose of applying the limitations contained in the last sentence of the first paragraph of section 17(c)(5) of Regulation F.


"In answer to the second question presented by the Old Colony Trust Company, please advise the Company that the merger of the beneficial interests through vesting thereof in one person at some future date would not necessitate at such time withdrawal or reduction of the participation by either trust in the common trust fund, as section 17(c)(5) is intended to deal only with the act of investing in participations in common trust funds and does not require the withdrawal or reduction of participations once legally acquired."

Approved unanimously.

Thereupon the meeting adjourned.


Secretary.

Approved:


Chairman.