

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, April 16, 1946, at 10:30 a.m.

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

Mr. Carpenter, Secretary
Mr. Hammond, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Chairman
Mr. Thomas, Director, Division of Research and Statistics
Mr. Vest, General Counsel
Mr. Townsend, Assistant General Counsel

Mr. Townsend stated that, in accordance with the decision reached at the meeting of the Board on March 11, 1946, a motion had been filed for judgment based on the pleadings in the suit brought by the Peoples Bank of Lakewood Village, California, seeking cancellation of the fourth condition of membership prescribed by the Board in connection with the admission of the bank to membership in the Federal Reserve System. This procedure, he said, presented to the court the legal question of the Board's authority to determine the conditions under which a State bank would be admitted to membership in the Federal Reserve System and limited the consideration of the court to the facts alleged in the pleadings. He also said that yesterday the members of the Board (except Mr. Vardaman) were served with a copy of a motion filed by the attorneys for the member bank for summary judgment and

4/16/46

-2-

that there were attached to the motion affidavits which, for the purpose of bringing before the court certain additional facts which were not stated in the bank's complaint, set forth among other things (1) the correspondence of the Board and the Federal Reserve Bank of San Francisco with the State bank during the period in which its application for membership was under consideration and the steps taken by the bank to comply with the requirements laid down by the Board prior to the admission of the bank to membership, and (2) the exchange of correspondence between Chairman Eccles and Transamerica Corporation in which was indicated rather plainly the policy adopted by the three Federal bank supervisory agencies with respect to further expansion of the Transamerica interests in the banking field, including the position of the FDIC that it should not undertake to guarantee the deposits of any additional banks controlled by the Giannini interests.

It was Mr. Townsend's view that the information set forth in the affidavits gave additional support to one of the arguments in defense of the position taken by the members of the Board that, having accepted the benefits of the condition of membership complained of, the bank was now estopped from challenging its validity, and also placed in the record additional facts which made it clear that the Board did not act arbitrarily as an agency of the Government entirely independently of the other two Federal bank supervisory agencies, but quite properly considered matters which were of concern to those agencies and which were brought to the Board's attention by such agencies.

4/16/46

-3-

He made the further statement that the affidavits showed that the application for membership was filed because the bank did not go to the FDIC to effect insurance of its deposits which was required by the Superintendent of Banks of the State of California as a condition of his permission to the bank to open for business but had sought to obtain deposit insurance through membership in the Federal Reserve System, so that the Board in prescribing condition number 4 was acting to carry out a policy agreed upon by the three Federal bank supervisory agencies.

In these circumstances, Mr. Townsend suggested that, in addition to the motion already filed, a motion or stipulation be filed which would allow consideration of the legal issue to embrace the facts set forth in the affidavits above referred to and which would enable the members of the Board to take the position that, the plaintiffs having presented all of the facts which they felt were material to the case and to which the Board offered no objection, the decision of the court on the question of law involved with respect to the authority of the Board to prescribe the condition of membership in question could be reached without consideration of facts other than those before the court.

There ensued a discussion of the arguments on which the position of the member bank would be based and of a question raised by Mr. Vardaman as to how far reaching the decision of the court might be.

4/16/46

-4-

It was the feeling of Messrs. Vest and Townsend that the court would not say anything that would be embarrassing to the Board in other cases but that if it did the Board could consider whether the decision should be appealed.

Chairman Eccles stated that the real difficulty was the fact that the Board needed additional authority to meet the bank holding company problem, that the Board had suggested a bank holding company bill and had tried to get the cooperation of the Treasury and the other banking agencies in the passage of a bill, but that such cooperation had not been forthcoming. He added that this was the situation with respect to the revised draft of bill which, in accordance with the procedure authorized by the Board, he and Mr. Townsend had discussed with the Treasury, the FDIC and the Attorney General as a substitute for the bill introduced in Congress at the request of the Board. He made the further comment that representatives of the independent bankers' associations, which were willing to support the bill, had met with Secretary of the Treasury Vinson last week, that Mr. Pope, Chairman of the Marine Midland Corporation, who also favored the bill, had talked to Mr. Vinson on Saturday of last week and that, while it was understood that Mr. Vinson had no objection to the presentation by the Board of the revised bill to the Congress, he would make no commitment regarding it and reserved the right to oppose it later if he should decide to do so. Chairman Eccles said that he had not talked with Mr. Vinson about the matter

4/16/46

-5-

recently but that he would do so and ascertain whether the above was still a correct statement of his position.

The discussion then turned to the desirability of a consolidation of the Federal bank supervisory agencies in the interest of better coordination of their activities and the support that might be obtained from such a move and the form a consolidation might take under the terms of the Reorganization Act of 1945.

In response to an inquiry from Mr. Vardaman whether the matter had not reached a point where it should be taken up with the President, Chairman Eccles said that that had been done on various occasions during the last several years, that the reorganization of the Federal agencies including the banking agencies had been under study by the Bureau of the Budget for a considerable period, but that nothing had developed. During the discussion it was suggested that Messrs. Eccles and Vardaman might informally survey the matter again to see what if any steps might be taken to bring about an effective consolidation of the three Federal bank supervisory agencies.

At the conclusion of the discussion it was agreed unanimously that the Legal Division should follow the procedure in the Peoples Bank of Lakewood Village case as suggested by Mr. Townsend at this meeting.

Chairman Eccles stated that recently the Federal Reserve Bank of Cleveland published a statement in its monthly review to the effect that the consensus of manufacturers and wholesalers in principal

4/16/46

-6-

lines of business in the Fourth Federal Reserve District appeared to be that balanced volume production would not be attained until a very large part of the present price control system was scrapped and the price mechanism was allowed to function normally to allocate the uses of material and labor. He also said that it was most unfortunate that such a statement should appear in a Federal Reserve Bank publication at a time when the Administration was trying to get an extension of the price control legislation for another year and that last night letters were sent to Messrs. Gidney and Brainard, President and Chairman, respectively, of the Cleveland Bank, calling attention to the matter.

Mr. Thurston stated that a draft of the statement published in the Bank's monthly business review had been submitted by the research department of the Bank to the Board's Division of Research and Statistics in the usual course before it was released and that the suggestion had been made by the Board's Division that the statement should not be published in the form proposed because it gave only one side of the picture and would almost certainly be interpreted as placing the Reserve Bank on record as opposed to the continuance of price controls during the transition period, that it was doubted that the System would generally support that position, and that it was questioned whether the Cleveland Bank would want all price controls eliminated at this time. Notwithstanding this suggestion, Mr. Thurston said, the bank published the statement.

4/16/46

-7-

At Chairman Eccles' request, Mr. Thurston read the letters to Messrs. Gidney and Brainard which were sent over the Chairman's signature yesterday and which read as follows:

Letter to Mr. Gidney

"All of the Government offices directly concerned with economic stabilization have recently made special appeals to the Board to aid in every possible way to assure that price control legislation shall be extended for another year without destructive amendments. The situation is still at a critical stage in Congress.

"While I have no doubt that your Monthly Business Review of April 1 reflects the prevailing business and manufacturing sentiment in the Fourth District, it appears to us to give support only to one side in this highly controversial issue and would help to fortify the opposition in Congress if it were to come to their attention. I understand from our Research Division that their suggestions for preventing this one-sided presentation were largely disregarded by your staff at the time that a preliminary draft of your Monthly Review was submitted for comment here.

"As you know, under existing policies, the responsibility for material published by a Federal Reserve Bank rests with the Bank President. This policy was adopted with the understanding that in the discharge of this responsibility extreme care would be exercised in taking positions on controversial issues because the general public is likely to accept statements made by a Reserve Bank as representing the official viewpoint of the Federal Reserve System. The System's responsibilities require that special care be taken to avoid presenting only the opinion of one group in the community on a question as to which there is a wide diversity of interests and viewpoints. While you are at liberty to accept or reject suggestions made through our Research Division, when they comment on material proposed for publication you may be sure that the comments are not made without giving careful consideration to the broader aspects of public policy and the System's relationship to the policies and programs of the Government.

"It is unfortunate that this industrial summary should be issued especially at this critical time. I am sure that Administration officials from the White House on down would regard it as a one-sided presentation that would give aid

4/16/46

-8-

"and comfort to the opposition on an extremely important national policy."

Letter to Mr. Brainard

"Enclosed is a copy of a self-explanatory letter which I felt should come to your attention. I know, of course, how many business men feel about price controls, as evidenced by the attitude of the National Association of Manufacturers, but it is an important Government policy. I have already testified for extension of OPA and have to appear again this week before the Senate Banking and Currency Committee in support of the extension.

"Clearly, the System ought not to be used for one-sided presentations on issues of this sort, and if the research work at the Banks were to result in divided counsels in the System, I am confident the Board would not wish to continue the System research work on its present basis."

Upon motion by Mr. Ransom, the letters were approved unanimously with the understanding that, if a similar situation should arise in the future in connection with material proposed for publication by a Federal Reserve Bank, the Division of Research and Statistics would bring it to the attention of the member of the Board to whom the subject of System publications was assigned for primary consideration so that, in the event it appeared to be necessary or desirable, action could be taken by the Board before the release of the material by the Reserve Bank.

It was suggested that it might be desirable to send the substance of the third paragraph of the letter to Mr. Gidney to all of the other Federal Reserve Banks but it was agreed that in the circumstances there was no need to bring the matter to the attention of the other Banks at this time.

At this point Messrs. Thomas, Vest and Townsend withdrew from the meeting.

The action stated with respect to each of the matters hereinafter referred to was then taken by the Board:

4/16/46

-9-

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on April 15, 1946, were approved unanimously.

Memorandum dated April 15, 1946, from Mr. Smead, Director of the Division of Bank Operations, submitting the resignation of Mr. M. DuBose MacDowell, Statistical Analyst in that Division, and recommending that the resignation be accepted, effective at the close of business April 26, and that proper lump sum payment be made to him for any annual leave remaining to his credit at that time.

The resignation was accepted
as recommended.

Memorandum dated April 15, 1946, from Mr. Bethea, Director of the Division of Administrative Services, submitting the resignation of Miss Arlone Read, stenographer in that Division, and recommending that the resignation be accepted, effective at the close of business April 16, 1946, and that proper payment be made to her for any accrued annual leave remaining to her credit at that time.

The resignation was accepted
as recommended.

Letter to Banco de Mexico, S. A., Mexico, D. F., Mexico,
reading as follows:

"We acknowledge with thanks your letter of March 25 informing us that you have decided to hold the central bank conference, which has been under consideration for some time, from August 15 to August 30. As you have already been assured, the Board will be glad to send representatives to participate in the conference. We will inform you later who the representatives are to be.

4/16/46

-10-

"We have no further suggestions to make with respect to your memorandum and the agenda, but congratulate you on the progress that has been made."

Approved unanimously.

Thereupon the meeting adjourned.


Secretary.

Approved:


Chairman.