Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, December 17, 1946. The Board met in the Board Room at 10:35 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Draper
Mr. Evans
Mr. Vardaman

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Paulger, Special Adviser
Mr. Thurston, Assistant to the Chairman
Mr. Smead, Director of the Division of Bank Operations
Mr. Vest, General Counsel
Mr. Nelson, Director of the Division of Personnel Administration
Mr. Townsend, Assistant General Counsel
Mr. Millard, Assistant Director of the Division of Examinations

Mr. Evans stated that at the meeting on December 13 the designation of Chairman and Federal Reserve Agents at some of the Federal Reserve Banks for the year 1947 had been left undecided, and that the Personnel Committee wished to recommend that Mr. Wysor be designated as Chairman and Federal Reserve Agent and Mr. McCormick as Deputy Chairman at the Federal Reserve Bank of Richmond.

Mr. Evans moved (1) that Mr. Wysor be designated as Chairman and Federal Reserve Agent at the Federal Reserve Bank of Richmond for the year 1947 and that his compensation as Chairman and Federal Reserve Agent be fixed on the uniform basis for the same position at all of the Federal Reserve Banks, i.e., the same amount as the aggregate of the fees payable during the same period to any other director for attendance corresponding to his at meetings of the board of directors, executive committee, and other committees of the board of directors, and (2) that Mr. McCormick be appointed as Deputy Chairman at the Richmond Bank for the year 1947.

This motion was put by the Chair and carried unanimously.

Mr. Evans then referred to the matter of reappointing Mr. Dearmont as a Class C director and redesignating him as Chairman and Federal Reserve Agent at the Federal Reserve Bank of St. Louis.

Mr. Vardaman said that in considering this matter he did not wish to be in the position of opposing Mr. Dearmont if it was the policy of the Board to designate a man of his capabilities as Chairman, but that he did want to point out that Mr. Dearmont has been extremely active in Democratic Party politics in Missouri, that he had been a State Senator and candidate for Governor, and that he took an active part in the recent political campaign. He stated also that Mr. Dearmont was not engaged in the practice of law in his own firm but was an employed attorney for the Trustee, Missouri Pacific Lines, St. Louis, that he had been brought to St. Louis by the Trustee as a hired employee for that purpose, that this did not put him in the same class with the ten leading attorneys in St. Louis, and that in his capacity as General Counsel to the Trustee of the Missouri Pacific Lines, he had led the fight against the admission into St. Louis of the Santa Fe Railroad, a move which the St. Louis Chamber of Commerce had favored strongly. Mr. Vardaman said further that if it was not the policy of the Board to continue a man of that sort in the position, he would like to recommend that the Board give thought to designating a leading industrialist or businessman, and that he could name three or four who would be much more representative than Mr. Dearmont. Mr. Vardaman added that he had no objection to Mr. Dearmont personally, that he liked him, and he considered him to be a reasonably capable man, but that in his opinion Mr. Dearmont was not the type of individual the Board should designate as Chairman.

Chairman Eccles reviewed the background of Mr. Dearmont's appointment as a Class C director, stating that Mr. Nardin, former Chairman at St. Louis, and other St. Louis bankers had spoken very highly of him, that he had recently discussed his appointment with John Snyder, now Secretary of the Treasury, who said that the Board could not get a better man in all of Missouri and that Mr. Dearmont was an extremely capable man and the Board was fortunate to get him. With respect to Mr. Dearmont's political activities, Chairman Eccles said that a resolution adopted by the Board in 1915 and still in effect took the position that an officer or director of a Federal Reserve Bank should not hold political or public office or be a member of a political party committee, but that the Board had not extended this rule to speeches and could not do so as long as the director's activity was not equivalent to his being a part of a party organization. He said that Mr. Dearmont's activity in the recent political campaign was limited to making a single speech for a personal friend, and that it did not represent campaigning on behalf of any political party. He also stated that this had been discussed with Mr. Dearmont, as well as with President Davis of the Federal Reserve Bank of St. Louis, that Mr. Dearmont understands the position of the Board, and that he

(Chairman Eccles) did not feel the Board would be justified in not redesignating Mr. Dearmont under the circumstances. With respect to Mr. Dearmont's employment, Chairman Eccles noted that Mr. Dearmont's position as General Counsel for the Trustee, Missouri Pacific Lines, might be preferable to that of an attorney in business for himself, because an attorney in business for himself would be more likely to find the interests of his clients in conflict with his responsibilities as Chairman of a Federal Reserve Bank.

Mr. Vardaman agreed that Mr. Dearmont was more like an executive officer of a large company than a practicing attorney and stated he doubted the advisability of designating practicing attorneys as Chairmen of Federal Reserve Banks because of possible conflicts of interest.

> Mr. Evans moved (1) that Mr. Dearmont be reappointed as a Class C director for the three-year term commencing January 1, 1947, and that he be designated as Chairman and Federal Reserve Agent for the year 1947 and that his compensation as Chairman and Federal Reserve Agent be fixed on the uniform basis for the same position at all of the Federal Reserve Banks, i.e., the same amount as the aggregate of the fees payable during the same period to any other director for attendance corresponding to his at meetings of the board of directors, executive committee, and other committees of the board of directors, and (2) that Mr. Brooks be appointed as Deputy Chairman at the St. Louis Bank for the year 1947.
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> This motion was put by the Chair and carried unanimously.

Mr. Thomas joined the meeting at this point.

Chairman Eccles referred to the agreement at the meeting on December 13 that he would talk with Mr. Ruml concerning whether he would accept redesignation as Chairman and Federal Reserve Agent at the Federal Reserve Bank of New York with the understanding that the Board would find a successor during the next 60 or 90 days. Chairman Eccles said that Mr. Ruml did not wish to accept redesignation under those conditions, but that he would consent to being redesignated as Chairman for the entire year provided the Board would give him a letter acknowledging his request that he be relieved of the Chairmanship and saying that the Board was not prepared to find a successor and desired that he continue to serve for the remainder of his term as Class C director. Mr. Ruml had also stated that he was giving too much time to outside activities, that he had to give up some of them, and that it would be necessary to give less time to the Federal Reserve Bank than in the past because of the added pressure of his business. Chairman Eccles added that Mr. Ruml also suggested as an alternative that he would be glad to resign as of the end of this year as a Class C director, which would enable the Board to select a new Chairman.

> It was unanimously agreed that Chairman Eccles should telephone Mr. Ruml, informing him that in the circumstances it seemed best to accept his resignation as a Class C director and as Chairman and Federal Reserve Agent, and leave the position vacant until the Board could find a successor.

Chairman Eccles referred to the decision of the Board that it would not redesignate Mr. Leland as Chairman and Federal Reserve Agent at Chicago, and in the discussion that followed, it was suggested that the vacancy now existing among Class C directors of the Federal Reserve Bank of Chicago resulting from the resignation of Mr. Waymack be filled during the next 30 to 60 days, that the man selected to fill that vacancy be one who would be suitable to serve as Chairman, and that Mr. Hoffman, presently a Class C director, be designated Deputy Chairman if it were ascertained that he would accept.

It was unanimously agreed that Chairman Eccles should inform Mr. Leland by telephone that the Board's decision not to redesignate him as Chairman remains unchanged, that Mr. Hoffman should be asked whether he would accept appointment as Deputy Chairman with the understanding that he would be called upon to act as Chairman until a successor to Mr. Leland had been designated, and that the appointment be tendered if he would accept. It was further understood that within 30 to 60 days the Personnel Committee would recommend a person for appointment as Class C director who would also be suitable for designation as Chairman and Federal Reserve Agent.

Mr. Evans stated that Mr. Parten, Chairman of the Federal Reserve Bank of Dallas, had replied to the Board's wire of December 13, stating that Mr. Harold W. Steinfeld, Tucson, Arizona, would not be available for appointment as a director of the El Paso Branch, and that the Personnel Committee recommended that Mr. Hiram S. Corbett, President of the J. Knox Corbett Lumber & Hardware Co., Tucson, Arizona, be appointed as a director of the El Paso Branch for a three-year term beginning January 1, 1947, if, in accordance with the usual procedure, it is ascertained that he will accept the appointment if it is tendered by the Board.

Approved unanimously.

There were then presented memoranda dated December 13, 1946, and December 12, 1946, submitted by Messrs. Smead and Millard and Mr. Daniels in connection with luncheon, entertainment, and travel expenses at the Federal Reserve Banks, in accordance with the discussions at the meetings of the Board on October 11 and 29, 1946. Reference was also made to the question of fees and allowances for directors and members of the Federal Advisory Council, and to the question of reinstituting submission of annual budgets by the Federal Reserve Banks, and it was suggested that consideration of these matters be deferred until a meeting in February.

> This suggestion was approved and it was agreed that Mr. Smead should head a committee of the staff, to be selected by him, to prepare and submit to the Board, for consideration at the February meeting, a budget procedure to be reinstituted at the Federal Reserve Banks.

At this point Messrs. Parry, Brown, and Young joined the meeting.

Reference was made to memoranda from Messrs. Thomas and Young dated November 6 and December 3, 1946, relating to a study of money flows and to the appointment of Dr. Morris A. Copeland to assist in the proposed study. Mr. Young stated that for more than a year the National Bureau of Economic Research had been carrying on a study with funds provided by the Committee for Economic Development to determine what sort of procedure was needed for the development of annual measures of the money flow throughout the country. The exploratory phase of the study with funds from a $50,000 appropriation by the Committee for Economic Development was nearing completion and the results indicated that significant measures of money flows could be provided. Because the nature of the information was particularly useful in studying monetary problems and was of the type that the Board had sought directly or indirectly in the past, and because the National Bureau of Economic Research is not in a position to continue the study of money flows following completion of the present experimental work, it was proposed that the Board carry on the work of preparing current measures of money flows. The work that the Board would do would be largely compilation and interpretation of existing data and would not include the collection of original statistics. The measures, when available on a current basis, should make it possible to say (1) what groups were purchasing the gross national product; (2) how far such purchases were being financed by disposable income; and (3) what funds each major sector of the economy was drawing from or contributing to the capital markets. The data also should relate expansions and contractions in total national product to changes in holdings of liquid assets and other securities by various sectors of the economy and to changes in their outstanding debts. It would require approximately 18 months before the first current study showing monetary transactions would be prepared and it would be contemplated that quarterly data would be available after that period on a current basis. The cost of the project during the next 18 months might run as high as $50,000 and the annual cost subsequently should be less than $25,000. Inasmuch as Dr. Copeland, an economist of recognized standing with experience both in Government and private organizations, had been carrying on the work for the National Bureau, it seemed highly desirable to employ him to assist in this work.

After a discussion of the part the Board would play in the project and the probable costs, during which there was agreement that the results of the study should be very helpful in the work of the Board, Mr. Evans moved that the Board approve (1) the project as outlined in the memorandum from Messrs. Thomas and Young dated November 6, 1946, and (2) the appointment of Dr. Morris A. Copeland as a Special Consultant in that Division, on a part-time temporary indefinite basis without compensation until the close of business June 30, 1947, and on a full-time temporary indefinite basis with basic salary at the rate of $10,000 per annum, effective July 1, 1947, providing he passes the usual physical examination, and with the understanding that he would continue to hold his current full-time appointment with the National Bureau of Economic Research until the close of business June 30, 1947, that the appointment probably would not exceed one year after July 1, 1947, and that Dr. Copeland, who was a member of the Civil Service Retirement System, would remain in that System.

The motion was put by the Chair and approved unanimously.

Mr. Vardaman presented a memorandum addressed to him by Messrs. Paulger and Vest dated June 20, 1946, relating to proposed changes in the standard conditions of membership for State banks and to a draft of a letter to the Presidents of all Federal Reserve Banks requesting certain information to be used as a basis for revising the standard conditions and letter sent by the Board to State banks advising of approval of their application for membership. Mr. Vardaman stated that he had no changes to propose in the letter and that if the rest of the Board concurred he would like to have it sent. The memorandum and letter had been circulated among the members of the Board before this meeting, and they stated that the letter was satisfactory to them.

Upon motion by Mr. Vardaman, the letter to the Presidents of all Federal Reserve Banks was approved unanimously as follows, with the understanding that when the replies to the letters were received, the Division of Examinations and the Legal Division would submit a recommendation to the Board as to the action to be taken:

"At the conference of Presidents of the Federal Reserve Banks on June 7-8, 1946, it was suggested that consideration be given to the elimination of special conditions of membership heretofore prescribed in connection with the admission of State banks to membership in the System and the substitution of standard conditions of membership for other conditions to which banks are now subject.

"A study is being made to determine what, if any, changes should be made in the standard conditions of membership. The study also will include consideration "of any changes in other provisions of the Board's Regulation H which may be desirable at this time. In connection with this study, it would be very helpful to the Board if it could have the benefit of the views of the Federal Reserve Banks, after consultation with their counsel, concerning the following questions:

(1) What has been the reaction of prospective and existing member banks to the present standard conditions of membership?

(2) Do you consider it necessary or advisable to prescribe <u>any</u> conditions governing a bank after its admission to membership?

(3) Do you recommend a modification, restatement, consolidation, or elimination of any of the present standard conditions? Do you recommend any other conditions, and if so, what? In this connection, please consider the following more specific questions:

(a) Bearing in mind that standard condition numbered 3 relates only to dealings in a particular class of asset and dealings in other assets are not specifically mentioned in the standard conditions, should this condition be eliminated, modified, or retained in its present form, and why?

(b) What arguments can be made for the elimination or retention of any or all of the three standard trust conditions (numbered 4, 5, and 6)? Should there be any conditions relating to specific practices in connection with the exercise of trust powers? Should there be a general condition of broader scope relating to trust activities?

(c) Are the first clauses of standard conditions numbered 1 and 2 necessary or desirable, and why?

(4) Apart from the standard conditions of membership, what changes, if any, should be made in the text of Regulation H?

"In recommending the elimination or modification of any of the standard conditions of membership, due regard should be given to the factors which the Board is required by law to consider in admitting State banks to membership (including the corporate powers of the banks), the specific statutory authority to prescribe conditions of membership, the responsibilities of the Board and the Federal Reserve Banks for the supervision of State banks after their admission to membership, and the nature and extent of their powers to discharge these responsibilities in the absence of conditions of membership.

"Consideration also is being given to questions with respect to the standardized letter which the Board uses to inform a bank of approval of its application for membership. A copy of the form of the letter is enclosed for convenient reference. We would like to have your views concerning the following questions relating to this matter:

(1) Has there been any indication that applicant banks consider the letter too long, formal, complicated, technical, or otherwise objectionable?

(2) Do you consider the letter satisfactory? What, if any, changes do you recommend? In this connection, please consider the following more specific questions:

(a) Would you consider it advisable to delete the recitation of the standard conditions from the letter and to incorporate them only by a reference to Regulation H or some other enclosure with the letter?

(b) Do you believe that it would be advisable to delete any of the other contents of the Board's letter, with the view that, insofar as necessary, the Federal Reserve Banks will advise the applicant banks concerning the deleted items?

"You will understand, of course, that at this stage we are seeking comprehensive information and recommendations concerning the foregoing matters as a basis for further study, without having reached conclusions as to what, if any, action should be taken. In answering these questions, please be as specific as possible, and set out the exact language which you recommend in any instance where you believe a change should be made in the standard conditions of membership, other provisions of Regulation H, or the letter.

"The Board is in full accord with the recommendations of the Presidents of the Federal Reserve Banks that steps should be taken to achieve uniformity, insofar as practicable, in the conditions of membership to which State member banks are subject. Following consideration of the replies to this letter and determination as to what, if any, changes should be made in the standard conditions of membership, it is contemplated that conditions heretofore prescribed will be reviewed for this purpose. The Board would be glad to have any suggestions which you may have concerning the procedure which should be followed in accomplishing the desired uniformity in conditions of membership.

"It is suggested that you do not contact member banks or others outside of your organization concerning this matter at this time."

Messrs. Paulger, Millard, and Young left the meeting at this point.

Chairman Eccles presented a letter addressed to Mr. Thomas by Mr. Sproul, President of the Federal Reserve Bank of New York, under date of December 12, 1946, in which he stated that he was submitting with the letter for publication in the Federal Reserve Bulletin a copy of the speech which he made recently before the New Jersey Bankers Association.

Mr. Sproul's request was discussed and it was felt that the speech should not be published in the Bulletin at this time for the reason that it would create misunderstanding as to the current policies of the Treasury and the Federal Open Market Committee or might be interpreted as a forerunner of a change in policy because it appeared in the Board's official publication. There was also agreement with the suggestion that inasmuch as section 10 of the Federal Reserve Act provides for publication in the annual report of the Board of a record of actions taken by the Federal Open Market Committee on questions of policy and it had been the practice to include in that record a statement of the reasons for minority views whenever those holding such views so desired, it would be more logical, if Mr. Sproul desired an official publication of his views, to include a statement of his position in the policy record rather than to publish such a statement in the form of a speech in the Federal Reserve Bulletin.

It was agreed unanimously that Chairman Eccles should advise Mr. Sproul by telephone that for the reasons referred to above the Board felt that the speech should not be published in the Federal Reserve Bulletin at this time.

Mr. Evans stated that a conference of representatives from the research departments of the Federal Reserve Banks would be held at the Board offices in January, that it was contemplated that a dinner would be held at some hotel at which there would be a guest speaker and a small number of interested representatives from other departments and agencies would be invited, and that he would recommend that the Board pay the entire cost of the dinner and that the appropriate classification in the budget of the Division of Research and Statistics be increased to cover the outlay.

Approved unanimously.

Chairman Eccles stated that he had received a letter dated December 13, 1946, from Mr. Gilbert, President of the Federal Reserve Bank of Dallas, submitting alternative proposals for increasing salaries of employees at the Bank. The letter, which was read by the Secretary, proposed in the alternative (1) that a lump sum equal to 8-1/2 per cent of annual base salary as of December 31 be paid to all employees with one or more years of service, and 8-1/2 per cent of salary received in 1946 be paid to employees with less than one year of service, and (2) in the event reimbursement could not be obtained for such a lump sum payment to fiscal agency and other employees whose salaries were reimbursable, that six monthly payments be made beginning in January equal in the aggregate to 8 per cent of annual base salary in the case of employees with more than one year of service, and 8 per cent of base salary received during 1946 in the case of employees with less than one year of service. The letter also said that consideration had been given to an adjustment in base salaries, but that such salaries were approximately in line with the basic salary structure in the market not including special payments and bonuses being granted in the area. The letter noted, however, that some employers were making adjustments in the form of increases in base salary.

Following a discussion of the proposals of the Dallas Bank in the light of the authority given to other Federal Reserve Banks to exceed maximum salaries provided for in their personnel classification plans, the meeting recessed and reconvened at 3:25 p.m. with the same attendance as at the end of the morning session.

Chairman Eccles stated that he had just had a visit from Messrs. Webb and Jones, Director and Assistant Director, respectively, of the Bureau of the Budget, who had called to discuss the suggestion that there be included in the President's budget message to Congress a proposal for reenactment of the franchise tax upon the earnings of the Federal Reserve Banks, which they estimated would provide approximately $75 million a year in additional revenue. Chairman Eccles stated that he explained to Messrs. Webb and Jones why the Board would not like to have the question of the franchise tax come up at this time, and why the Board would favor (1) the repeal of section 13(b) of the Federal Reserve Act and the release to the Treasury of the $139 million of funds earmarked under that section, including the $27 million already paid to the Federal Reserve Banks, and (2) the cancellation of the stock of the Federal Deposit Insurance Corporation held by the Federal Reserve Banks and the payment of the $139 million for the stock by the Federal Deposit Insurance Corporation to the Treasury rather than to the Federal Reserve Banks, with the understanding that the budget message would include a statement that the Board would propose an amendment to section 13 of the Federal Reserve Act giving the Reserve Banks stand-by authority to guarantee loans made by financing institutions. He added that he also outlined the consideration that had been given by the Federal Open Market Committee to steps that might be taken to reduce the earnings on the securities held by the Federal Reserve Banks, and stated that he would dislike to have a proposal for the renewal of the franchise tax included in the budget message without an opportunity to discuss the matter with the Presidents of the Federal Reserve Banks, and that if a satisfactory arrangement had not been worked out when the midyear revised budget estimates were submitted, he would have no objection to the President then proposing reenactment of the franchise tax. Chairman Eccles went on to say that Messrs. Webb and Jones indicated that they probably would accept these suggestions, and that it would be necessary for the System to reach an understanding whether it would sponsor reenactment of a franchise tax with the knowledge that this might open in Congress the question of placing the Federal Reserve System under the General Accounting Office, the Budget Bureau, and the Civil Service Commission, or whether the System should adopt a procedure for a reduction in the interest cost to the Treasury on public debt securities held by the Federal Reserve Banks.

There was a further discussion of the proposals of the Federal Reserve Bank of Dallas for the adjustment of salaries of employees of the Bank, and, in response to a request from Chairman Eccles, Mr. Nelson reviewed the authorizations given by the Board to other Federal Reserve Banks to exceed the maximum salaries provided in their personnel classification plans.

> Mr. Evans moved that the Secretary call President Gilbert by telephone and inform him that the Board would not be willing to approve either of the plans outlined in his letter of December 14, 1946, but that, in accordance with the action taken with respect to other Federal Reserve Banks, it would approve action by the directors authorizing the officers to exceed by as much as 30 per cent the maximum salaries provided in the personnel classification plan of the Bank.
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> This motion was put by the Chair and carried unanimously.

Mr. Vardaman asked what had been done about the appointment of a First Vice President at the Federal Reserve Bank of San Francisco, and he was informed of the discussion with Mr. Grady at the meeting of the Board on December 13, 1946, at which it was agreed that Mr. Grady, upon his return to the Pacific Coast, should review the matter further and report back to the Board some time after the first of the year. Mr. Vardaman stated that this procedure was satisfactory to him, and that he had no objection to Mr. Mangels if the Board of Directors of the Federal Reserve Bank of San Francisco unanimously approved his appointment as First Vice President, in which event he felt the Board should consider including in its approval of the appointment a statement to the effect that it must be clearly understood by the Board of Directors of the Federal Reserve Bank of San Francisco and by Mr. Mangels that the action on the part of the Board of Governors in approving Mr. Mangels as First Vice President did not necessarily imply any commitment to approve at a future date the selection of Mr. Mangels as President of the Bank.

Mr. Vardaman said he had read the minutes of the Board on November 26, 1946, and the conclusions reached at that time with respect to changes in the proposed bank holding company bill and that he felt the Board would be in a stronger position if the bill included a provision for a geographical limitation on the expansion of bank holding companies which would prohibit expansion beyond the Federal Reserve District, the Federal Reserve Bank or Branch territory, or the State in which the head office of the bank holding company was located.

Chairman Eccles stated that both the Treasury and the Federal Deposit Insurance Corporation were likely to make such a proposal, and it had been his opinion that the Board would be in a better position if it left such a proposal out of the revised draft. He also stated why he was strongly opposed to certain limitations that had been proposed by the office of the Comptroller of the Currency and others, and said that if the Board proposed such a limitation it would raise objection from groups whose support was necessary for the passage of the bill. Mr. Vardaman stated that, in view of the comments made during the discussion, he would withdraw his suggestion.

Messrs. Thurston, Smead, and Nelson withdrew from the meeting at this point.

Mr. Vardaman stated that he would like to know whether the Board was willing to consider reducing the 100 per cent margin requirements provided under Regulation T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, and Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange. He stated that he favored an immediate authorization of a loan value of 25 per cent, or as an alternative, the immediate announcement of a loan value of 10 per cent accompanied by a statement that additional reductions in margins would be made at 30-day intervals until the loan value was equal to 50 per cent.

Chairman Eccles stated that margin requirements were raised to 75 per cent and then 100 per cent because of general inflationary pressures, that a reduction in the margins would not seem in order until the inflationary pressures had been reduced, that there had been a large growth of commercial bank credit for use in financing business expansion, accumulation of inventories, and the like, and that the substantial contraction in collateral loan credit since the 100 per cent margins were made effective had helped to offset the expansion in the other type of credit.

In response to a question whether Regulation T was being evaded by the use of bank loans for the purpose of purchasing and carrying securities, Mr. Parry stated that the amount of stock market credit had gone down to the lowest point on record, and that the decrease in credit extended through brokers had not been compensated for by any offsetting increase in credit at banks.

During a general discussion of the conditions under which the Board might take action to reduce margin requirements, Mr. Draper made the following statement:

> "The reason why I doubt if this is the time to lower margin requirements is because the conditions that usually signal an immediate oncoming depression are not clear enough, at least to me.
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> "If, therefore, we should lower margin requirements at this time, the danger might be two-fold. First, if at some time soon after taking action prices declined, we could be blamed for being an important influence in bringing on the deflation in that we had given a signal that we believed a downturn was coming soon. You remember that in 1920 at or near the top of the inflationary boom in farm prices the Federal Reserve raised the discount rate and farmers generally blamed the Federal Reserve for the subsequent collapse in farm prices. A number of impartial observers did not support this view but the general public did and as a result the Federal Reserve suffered severely in its support from Congress and the general public for years thereafter.

"Second, if we lower margin requirements now and prices and general credit continue upward, that action of ours would have the effect of accelerating the upturn, with the consequent danger of adding to the severity of the subsequent downturn or possible collapse.

"So, I repeat what I said at the beginning--the signals, to me at least, are not yet clear enough to warrant any change in our present policy although I recognize fully that this situation can change rapidly and we should be ready to change with it as soon as the signs of this change become reasonably clear."

Mr. Evans stated that he would like to see margin requirements reduced, but that he did not think this was the time for taking such action, and that he would like to consider the question again, perhaps at the time of the next Conference of Presidents of the Federal Reserve Banks. Mr. Vardaman stated that since it was understood that Mr. Ransom would be in the office on Thursday, December 19, 1946, he (Mr. Vardaman) would like to have a further discussion of the matter when Mr. Ransom could be present.

It was unanimously agreed that a meeting of the Board should be held on December 19, 1946, at 10:30 a.m. for that purpose.

The Secretary referred to Executive Order 9810 issued by the President on December 12, 1946, excusing Federal employees from duty one-half day December 24, 1946.

Upon motion by Mr. Vardaman, it was agreed unanimously that in accordance with the executive order the Board's offices would close at 12:45 p.m. on December 24, 1946, and all employees who could be spared would be excused at that time, that the policy followed by the Government generally with respect to leave granted on that day would be followed by the Board, and that the cafeteria and dining rooms would be closed on December 24, but that the snack bar would be open.

At this point Messrs. Parry, Vest, Thomas, Brown, and Townsend withdrew from the meeting and the action stated with respect to each of the matters hereinafter set forth was then taken by the Board:

The minutes of actions taken by the Board of Governors of the Federal Reserve System on December 16, 1946, were approved unanimously.

Letter to the board of directors of the "Waverly Savings Bank", Waverly, Iowa, stating that, subject to conditions of membership numbered 1 to 6 contained in the Board's Regulation H, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Chicago.

The letter also contained the following special comment:

"The Board is prescribing the conditions of membership ordinarily prescribed for banks exercising fiduciary powers when they are admitted to membership, and it will not be necessary under condition of membership numbered 1 to obtain the permission of the Board before exercising such powers. It will be expected, of course, that when such business is undertaken, your bank will be equipped to handle it in a proper manner."

Approved unanimously, for transmission through the Federal Reserve Bank of Chicago.

Letter to the board of directors of the "Bank of Tuscumbia", Tuscumbia, Missouri, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of St. Louis.

Approved unanimously, for transmission through the Federal Reserve Bank of St. Louis.

Letter to the board of directors of the "Columbia State Bank", Columbia, South Dakota, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Minneapolis.

Approved unanimously, together with a letter to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the Columbia State Bank, Columbia, South Dakota, for membership in the Federal Reserve System, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the board of directors of the institution. Two copies of such letter are also enclosed, one of which is for your files and the other of which you are requested to forward to the Superintendent of Banks for the State of South Dakota for his information.

"It is assumed that the Reserve Bank will follow to a conclusion the matter of bringing into conformity with the provisions of law and the Board's regulations the requirements with respect to withdrawal of savings deposits to which reference is made on page 16 of the report of examination for membership."

Letter to Mr. Winthrop W. Aldrich, Chairman of the Board of Directors of The Chase Bank, Pine Street Corner Nassau, New York 13, N. Y., reading as follows:

"There is enclosed a copy of the report of examination of the Head Office of The Chase Bank, New York, New York, made as of November 15, 1946, by examiners for the Board of Governors of the Federal Reserve System. The figures for the foreign branches shown in the combined statement of condition were supplied by the Head Office.

"The verifications requested of the Chinese national currency dollar balances due from the Shanghai and Tientsin branches, and the verification as to the amount of the fixed currency deposit of Chase National Executors and Trustees Corporation Limited, London, with the Bank at New York have not been received. Upon receipt of the advices requested, any significant variation will be brought to your attention.

"Your courtesy in acknowledging receipt of the report will be appreciated."

Approved unanimously.

Letter to Mr. Bowman, Manager of the Credit Department of the Federal Reserve Bank of New York, reading as follows:

"This refers to your letter of December 5, 1946, enclosing copies of investigation reports under Regulation W in connection with Royal House Furnishers, Newark, New Jersey.

"The management has attempted to absolve itself by putting the blame on its salesmen, to which your office has made the proper answer. However, this appears to be immaterial now, in view of the revision of Regulation W, since the articles which the firm is selling are no longer listed articles.

"In view of these circumstances, it is not contemplated that any action will be taken with respect to this matter, and we understand that this accords with your views."

Approved unanimously.

Letter to Mr. G. J. Oppegard, Counsel of the Federal Deposit Insurance Corporation, reading as follows:

"This refers to the Corporation's letter of November 29, 1946, to the Federal Reserve Banks regarding the exchange and reissue of the stock held by them in the Corporation and to the telephone discussion between you and Mr. Smead of this organization.

"In the third paragraph of the Corporation's letter it is stated that if the Federal Reserve Banks desire to handle the matter as a simultaneous exchange, with the Board of Governors of the Federal Reserve System acting as agent for the Federal Reserve Banks, your Corporation, upon advice to that effect, would proceed upon that basis. Several of the Federal Reserve Banks have called your letter to our attention and asked for advice as to what steps should be taken with respect to your request.

"As you know, in accordance with the provisions of paragraph (e) of Section 13b of the Federal Reserve Act, the stock which the Federal Reserve Banks hold in the Federal Deposit Insurance Corporation has been endorsed with an agreement to pay to the United States all proceeds of such stock for which 'the United States shall be secured by such stock itself up to the total amount paid to each Federal Reserve bank by the Secretary of the Treasury under this section.' In view of this, and of the hope of the Board that it will be possible to obtain a modification of Section 13b during the first half of 1947 which will make unnecessary the endorsement of such stock as security for advances from the Secretary of the Treasury, it will be appreciated if your Corporation will be agreeable to a delay in the submission for reissue of the stock of your Corporation held by the Federal Reserve Banks until next June 30 or until such earlier time as it is definitely determined whether or not Congress will amend Section 13b. Your advice in this respect will be appreciated."

Approved unanimously.

Memorandum dated December 9, 1946, from Messrs. Thomas and Knapp, reading as follows:

"Subject to Board approval, the New York Federal Reserve Bank would like to inaugurate as soon as possible after the first of next year a monthly report covering export credit information on Latin American countries. Under this plan, it is expected that the principal New York City banks which engage in export financing will submit monthly reports to the Federal Reserve Bank on a voluntary basis. These reports would show the total amounts of their collections and confirmed letters of credit outstanding in Latin American countries and the degree of promptness of credit collections in those countries.

"At the same time, Dun and Bradstreet is expecting to collect data from the larger exporters on the volume of their unfilled orders from Latin America. The combined information is expected to give some indication as to whether the Latin American countries are overbuying in this market, whether excessively liberal credit facilities are being made available, and how the balances of payments of the various countries are developing.

"Details of the plan are contained in the enclosed descriptive memorandum, to which are attached samples of the proposed schedules and instructions to be used by banks and exporters in reporting the requested data.

"The New York Bank expects to present the aggregates of the reported data regularly in a press release, and perhaps also in their Monthly Review. They will also endeavor to have the information published by the Department of Commerce in its Foreign Commerce Weekly. Dun and Bradstreet will publish in its monthly publication, Dun's Review, a table summarizing the data supplied by exporters.

"This plan has been discussed by the Staff Group on Foreign Interests, which favored its early inauguration if it met with the Board's approval. The attitude of the banks to whom the proposal has been outlined has been receptive and they have agreed to cooperate since the published results will be of great interest and usefulness to them. The cost to the banks will be very moderate, but the initiation of the reports will be delayed until the tight employment situation has eased up sufficiently to avoid an overburdening of their operating personnel. The project will be cleared with the Division of Statistical Standards, Bureau of the Budget.

"It is recommended that this proposal be approved by the Board."

Approved unanimously.

Thereupon the meeting adjourned.

S R Carpenter
Secretary.

Approved:

M S Eccles
Chairman.