

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, January 10, 1947.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Chairman

As stated in the minutes of December 26, 1946, Mr. Vardaman was absent on official business.

Telegrams to Mr. Treiber, Secretary of the Federal Reserve Bank of New York; Mr. Blair, Secretary of the Federal Reserve Bank of Cleveland; Mr. Leach, President of the Federal Reserve Bank of Richmond; Mr. McLarin, President of the Federal Reserve Bank of Atlanta; Mr. Dillard, Vice President of the Federal Reserve Bank of Chicago; Mr. Stewart, Secretary of the Federal Reserve Bank of St. Louis, Mr. Powell, First Vice President of the Federal Reserve Bank of Minneapolis; Mr. Johns, Secretary of the Federal Reserve Bank of Kansas City; Mr. Gilbert, President of the Federal Reserve Bank of Dallas; and Mr. Volberg, Vice President of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Banks of Atlanta and San Francisco on January 8, and by the Federal Reserve Banks of New York, Cleveland, Richmond, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas on January 9, 1947, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

1/10/47

-2-

Memorandum dated January 9, 1947, from Messrs. Thomas and Knapp, Director and Assistant Director, respectively, of the Division of Research and Statistics, recommending the assignment of Miss Eleanor Wirth, a clerk-stenographer in that Division, to the joint American-Philippine Financial Commission for a period not to exceed four months, with the understanding that the Board would continue to pay her salary while she is absent from Washington, and that her traveling expenses and per diem would be paid by the State Department.

Approved unanimously.

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

"Reference is made to your letter of December 17, 1946, submitting the request of the Endicott Trust Company, Endicott, New York, to establish a branch 'de novo' in the Town of Vestal, New York.

"It is noted that the establishment of the proposed branch has been approved by the appropriate State authorities and, in view of your recommendation, the Board of Governors approves the establishment and operation of a branch in the Town of Vestal, New York, by the Endicott Trust Company, Endicott, New York, provided the branch is established within six months of the date of this letter and the trust company shall have paid-in and unimpaired capital stock of not less than \$500,000 at the time the branch is established; and with the understanding that Counsel for the Reserve Bank will review and satisfy himself as to the legality of all steps taken to establish the branch."

Approved unanimously.

1/10/47

-3-

Letter to Mr. Fulton, Vice President of the Federal Reserve Bank of Cleveland, reading as follows:

"Reference is made to your letter of January 2, 1947, submitting the request of The Miami Deposit Bank, Yellow Springs, Ohio, under the provisions of condition of membership numbered 8, for permission to expend between \$12,000 and \$15,000 for the purpose of constructing a one-story addition to the bank building.

"In accordance with your recommendation the Board of Governors approves an additional investment of an amount not to exceed \$15,000 in bank premises by The Miami Deposit Bank with the understanding that the limitations upon the total investment in bank premises imposed by State statutes will not be exceeded at any time. It is understood that the carrying value of the present bank building will be reduced to approximately \$11,000 during the year 1947."

Approved unanimously.

Telegram to Mr. Creighton, Federal Reserve Agent of the Federal Reserve Bank of Boston, stating that, subject to the conditions set forth in the telegram, the Board of Governors of the Federal Reserve System authorizes the issuance of a general voting permit, under the provisions of Section 5144 of the Revised Statutes of the United States, to the Shawmut Association, Boston, Massachusetts, entitling such organization to vote the stock which it owns or controls of "The Everett National Bank", Everett, Massachusetts; the "Newton National Bank", Newton, Massachusetts; and the "Waltham Citizens National Bank", Waltham, Massachusetts, at all meetings of shareholders of such banks, and that the period within which a permit may be issued pursuant to the authorization contained in the telegram

1/10/47

-4-

is limited to thirty days from the date of the telegram unless an extension of time is granted by the Board. The conditions contained in the telegram upon which the permit was authorized were as follows:

- "1. Prior to issuance of general voting permit authorized herein, applicant shall execute and deliver to you in duplicate an agreement in form accompanying Board's letter X-9385 (F.R.L.S. #7190), except that (a) paragraphs numbered 1, 2, 4, and 5 shall be omitted and remaining numbered paragraphs appropriately renumbered, and (b) all lettered paragraphs and introductory sentence immediately preceding them shall be omitted;
2. Prior to issuance of general voting permit authorized herein, applicant shall deliver to you in duplicate Exhibit L (Form P-3) executed by Wakefield Trust Company, Wakefield, Massachusetts, and Exhibit N (Form P-4), executed by applicant and consented to by Wakefield Trust Company, or furnish assurances satisfactory to you that it will deliver such Exhibits to you within 30 days after issuance of such permit; and
3. Simultaneously with issuance of general voting permit authorized herein, there shall be issued to The National Shawmut Bank of Boston general voting permit authorized in Board's telegram of this date.

Approved unanimously.

Telegram to Mr. Creighton, Federal Reserve Agent of the Federal Reserve Bank of Boston, stating that, subject to the conditions set forth in the telegram, the Board of Governors of the Federal Reserve System authorizes the issuance of a general voting permit, under the provisions of Section 5144 of the Revised Statutes of the

1/10/47

-5-

United States, to "The National Shawmut Bank of Boston", Boston, Massachusetts, entitling such organization to vote the stock which it owns or controls of "The Everett National Bank", Everett, Massachusetts; the "Newton National Bank", Newton, Massachusetts; and the "Waltham Citizens National Bank", Waltham, Massachusetts, at all meetings of shareholders of such bank, and that the period within which a permit may be issued pursuant to the authorization contained in the telegram is limited to thirty days from the date of the telegram unless an extension of time is granted by the Board. The conditions contained in the telegram upon which the permit was authorized were as follows:

- "1. Prior to issuance of general voting permit authorized herein, applicant shall execute and deliver to you in duplicate an agreement in form accompanying Board's letter X-9385 (F.R.L.S. #7190), except that (a) paragraph numbered 7 shall be modified in manner stated in Board's letter X-9540 (F.R.L.S. #7191), (b) paragraphs numbered 1, 2, 4, and 5 shall be omitted and remaining numbered paragraphs appropriately re-numbered, and (c) all lettered paragraphs and introductory sentence immediately preceding them shall be omitted;
2. Prior to issuance of general voting permit authorized herein, applicant shall deliver to you in duplicate Exhibit L (Form P-3) executed by Wakefield Trust Company, Wakefield, Massachusetts, and Exhibit N (Form P-4) executed by applicant and consented to by Wakefield Trust Company, or furnish assurances satisfactory to you that it will deliver such Exhibits to you within 30 days after issuance of such permit; and

1/10/47

-6-

- "3. Simultaneously with issuance of general voting permit authorized herein, there shall be issued to Shawmut Association general voting permit authorized in Board's telegram of this date.

Approved unanimously.

Telegram to Mr. Parten, Federal Reserve Agent of the Federal Reserve Bank of Dallas, authorizing him to issue a limited voting permit, under the provisions of Section 5144 of the Revised Statutes of the United States, to the "Republic National Bank of Dallas", Dallas, Texas, entitling that organization to vote the stock which it owns or controls of the "Fair Park National Bank of Dallas", Dallas, Texas; the "National City Bank of Dallas", Dallas, Texas; and the "Oak Lawn National Bank of Dallas", Dallas, Texas, at any time prior to April 1, 1947, and to elect directors of such banks at the annual meetings of shareholders, or any adjournments thereof, and to act thereat upon such matters of a routine nature as are ordinarily acted upon at the annual meetings of such banks.

Approved unanimously.

Telegram to Mr. Parten, Federal Reserve Agent of the Federal Reserve Bank of Dallas, authorizing him to issue a limited voting permit, under the provisions of Section 5144 of the Revised Statutes of the United States, to the "Republic National Company", Dallas, Texas, entitling that organization to vote the stock which it owns or controls of the "Fair Park National Bank of Dallas", Dallas, Texas; the "National City Bank of Dallas", Dallas Texas; and the

1/10/47

-7-

"Oak Lawn National Bank of Dallas", Dallas, Texas, at any time prior to April 1, 1947, and to elect directors of such banks at the annual meetings of shareholders, or any adjournments thereof, and to act thereat upon such matters of a routine nature as are ordinarily acted upon at the annual meetings of such banks.

Approved unanimously.

Letter to Mr. Grady, Chairman of the Federal Reserve Bank of San Francisco, reading as follows:

"The Board's letter of December 13, 1946, to the Chairmen of the Federal Reserve Banks regarding the appointment at the recent Chairmen's Conference of the Standing Committee of Auditors of the Federal Reserve Banks, included the statement that it was contemplated the Board's Division of Examinations would shortly initiate the question of holding an auditors' conference during the first quarter of 1947.

"The statement of principles adopted by the Chairmen's Conference at the meeting on October 5, 1942, provides that conferences of auditors shall be called by the Chairmen's Conference, or the Chairman thereof, or the Board of Governors after consultation with each other. Accordingly, the Board suggests that a conference of auditors be called to meet in Washington sometime within the next three months at a mutually satisfactory date.

"If it would be agreeable, the Board will call a conference of auditors and the Board's Division of Examinations will get in touch with Mr. Fogg of Boston, Chairman of the Standing Committee of the Auditors of the Federal Reserve Banks, to arrange for a convenient date and to work with the Standing Committee on an agenda for the conference."

Approved unanimously.

1/10/47

-8-

Letter prepared for Chairman Eccles' signature to the Honorable Charles W. Tobey, Chairman of the Committee on Banking and Currency, United States Senate, and the Honorable Jesse P. Wolcott, Chairman of the Committee on Banking and Currency, United States House of Representatives, reading as follows:

"The Board of Governors of the Federal Reserve System recommends the enactment of the enclosed bill to repeal section 13b of the Federal Reserve Act, containing the existing industrial loan authority of the Federal Reserve Banks, and to amend section 13 of the Federal Reserve Act in order that the Reserve Banks may continue to guarantee loans to business enterprises but on a more effective basis. The bill would require the return by the Federal Reserve Banks of all funds heretofore received by them from the Treasury in connection with their industrial loan operations and would eliminate any further claim upon the Treasury for any part of the \$139,000,000 which was appropriated for this purpose.

"In the judgment of the Board, it is important that the authority of the Federal Reserve Banks to render assistance in financing business enterprises as contained in the proposed bill be available whenever conditions are such that it is needed. The reasons for the Board's recommendation of this bill are fully explained in the enclosed statement with respect to this matter. The Board hopes that the proposed bill will receive the favorable consideration of the Committee on Banking and Currency."

Approved unanimously, with the understanding that Chairman Eccles would take the letters with him when he visited Messrs. Tobey and Wolcott.

Letter prepared for Chairman Eccles' signature to the Honorable Charles W. Tobey, Chairman of the Committee on Banking and Currency, United States Senate, and the Honorable Jesse P.

1/10/47

-9-

Wolcott, Chairman of the Committee on Banking and Currency, United States House of Representatives, reading as follows:

"There is enclosed herewith a draft of a bill 'To amend the Federal Reserve Act, and for other purposes', which the Board recommends be enacted into law.

"The purposes of the proposed legislation are (1) to make permanent the existing temporary authority of the Federal Reserve Banks to purchase Government securities directly from the Government, subject to a \$5,000,000,000 limitation; and (2) to repeal the limitation upon the amount which may be expended in the erection of any Federal Reserve Bank branch building.

"Direct Purchase of Government Securities. - The existing authority for the purchase of Government securities by the Federal Reserve Banks directly from the Government, subject to the limitation that the amount of securities held by the Federal Reserve Banks which have been purchased in this manner shall not exceed \$5,000,000,000, is contained in a proviso which was added to section 14(b) of the Federal Reserve Act by Title IV of the Second War Powers Act, and will expire on March 31, 1947, or such earlier date as may be designated by the Congress or the President. The Board believes that this authority should be made permanent.

"The direct purchase of securities provides the Treasury with a source to which it may turn to obtain funds in a substantial amount on little notice to meet temporary situations and contingencies. With such an emergency source of funds, it is possible for the Treasury to operate with a smaller cash balance than might otherwise be necessary, thus resulting in a saving of interest. To obtain funds to meet such temporary requirements without direct purchases by the Federal Reserve Banks, the Treasury would be obliged to arrange for the sale of securities to dealers in the market, with the assurance that the Federal Reserve Banks would repurchase the securities; and this not only would be inconvenient and troublesome but also would increase the expense without serving any useful purpose. Furthermore, direct buying provides a flexible method of easing the money market in periods of heavy drain, as, for example, around income tax dates. By borrowing funds from the Federal Reserve Banks and expending them prior to tax dates, the Treasury can

1/10/47

-10-

"put the funds into the market; and, as the taxes are received, such special borrowings are reduced and soon retired.

"This power is one generally possessed by central banks; and, until 1935, there was no limitation upon direct purchases by the Federal Reserve Banks. Under both the existing law and that prior to 1935, the authority of the Federal Reserve Banks to purchase securities directly from the Government has been used only occasionally and for brief periods, ordinarily around tax dates. While not used extensively, direct buying has proven to be a useful and convenient mechanism to facilitate Treasury operations and to effect temporary adjustments in the money market. It in no wise results in an increase in the public debt; instead, its effect, as indicated above, is to eliminate needless Government expense.

"The Treasury Department has advised the Board that it concurs in the Board's position that the existing authority should be made permanent.

"Federal Reserve Bank Branch Buildings. - The ninth paragraph of section 10 of the Federal Reserve Act, as added by the Act of June 3, 1922, and amended by the Act of February 6, 1923, provides 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.'

"The Board believes that it is essential that this limitation be removed in order that the Federal Reserve Banks may construct branch building facilities which are adequate for the increased volume of work of the branches. The construction of such buildings does not involve the use of any Government funds or appropriated moneys since the funds of the Federal Reserve Banks are used for this purpose.

"Since the adoption of the statutory limitation, and particularly during the war, the operations of the 24 branches of the Federal Reserve Banks have greatly increased, and there has been a corresponding increase in the space required. As one indication of this growth, there now are about 6,200 employees at the branches, as compared with about 2,600 when the limitation was adopted. The largest single factor in this expansion has been a tremendous increase in the volume of fiscal agency operations performed by the Federal Reserve

1/10/47

-11-

"Banks for the Treasury Department and other Government departments and agencies; and there also have been substantial increases in currency and coin transactions, check collections, and other operations of the Federal Reserve Banks. A further factor in the growth of the branches has been the enlargement of the scope of their operations to such an extent that, with few exceptions, the branches now offer the same services as are available at the head offices.

"To meet their minimum space requirements, it has been necessary for all but two of the branches to rent space outside of their regular quarters. Such arrangements are not satisfactory. Operations obviously could be carried on more efficiently and economically under one roof than in scattered quarters. Moreover, vault facilities are so inadequate that it is becoming difficult to provide the necessary protection for the large quantities of money, securities, and other valuables handled by the branches. While operations have declined somewhat from their wartime peak, and there perhaps will be some further decline, it is apparent that the work of the branches, including fiscal agency work in connection with the servicing of the public debt, will continue indefinitely on a much larger scale than prior to the war. It therefore appears that most of the branch buildings have become permanently inadequate.

"Consequently, the Federal Reserve Banks believe that it would be a matter of economy to enlarge their branch building facilities at the proper time; but such a program cannot be carried out under the existing limitation on the cost of the buildings. In this connection, it is pertinent to note that the limitation is much more restrictive than when it was enacted, both because of the growth of the branches and the increase in construction costs which has occurred since 1923.

"Congress has vested in the Board, as an agency of the Government, general supervision over the Federal Reserve Banks. In the exercise of this supervision, it is the Board's practice 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 express approval by the Board. In the circumstances, the Board believes that the statutory limitation serves no useful purpose.

"The Board, of course, would not authorize any substantial construction, except in case of emergency, until there is an adequate supply of labor and materials. The

1/10/47

-12-

"statutory limitation, however, should be eliminated now. Until this is done, the Federal Reserve Banks, being uncertain as to what eventually may be permissible, cannot make effective preparations for the construction to be undertaken at an appropriate time.

"The Board believes that the matters discussed above warrant early consideration by your Committee and the Congress and it earnestly recommends the enactment of legislation along the lines of the proposed bill enclosed herewith. We will, of course, welcome an opportunity to appear before your Committee to discuss these matters in further detail and to furnish any additional information which may be desired."

"A B I L L

"To amend the Federal Reserve Act, and for other purposes.

"Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the proviso contained in subsection (b) of section 14 of the Federal Reserve Act, as amended (U. S. C., Title 12, section 355) is hereby amended to read as set forth below, without regard to the provisions of Title XV, section 1501, of the Second War Powers Act, 1942, approved March 27, 1942, as amended (U. S. C., Title 50, Appendix, section 645):

'Provided, That any bonds, notes, or other obligations which are direct obligations of the United States or which are fully guaranteed by the United States as to principal and interest may be bought and sold without regard to maturities either in the open market or directly from or to the United States; but all such purchases and sales shall be made in accordance with the provisions of section 12A of this Act and the aggregate amount of such obligations acquired directly from the United States which is held at any one time by the twelve Federal Reserve banks shall not exceed \$5,000,000,000.'

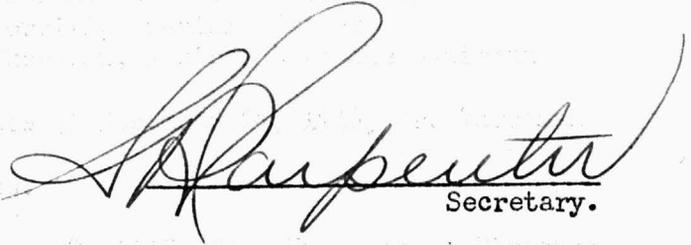
"Sec. 2. The ninth paragraph of section 10 of the Federal Reserve Act, as added by the Act of June 3, 1922, and amended by the Act of February 6, 1923 (U. S. C., Title 12, section 522) prohibiting any Federal Reserve

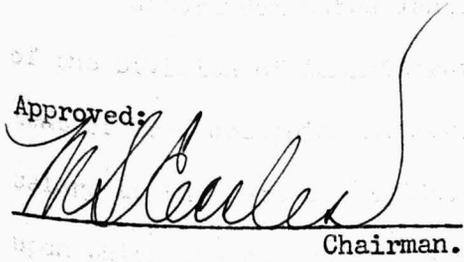
1/10/47

-13-

"Bank from entering into any contract or contracts for the erection of any branch bank building or from authorizing the erection of any such building if the cost of the building proper is in excess of \$250,000, is hereby repealed."

Approved unanimously, with the understanding that Chairman Eccles would take the letters with him when he visited Messrs. Tobey and Wolcott.


Secretary.

Approved:

Chairman.