

2/25/47 Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, February 25, 1947. The Board met in the Special Library at 10:40 a.m.

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

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

Following an informal discussion of service by members of the Board on the executive committee of the Federal Open Market Committee during the ensuing year, Messrs. Evans and Clayton were appointed to serve as members of the Board's Personnel Committee for the year beginning March 1, 1947.

Reference was made to a draft of a letter to Honorable Tom C. Clark, Attorney General, raising again the question whether the Department of Justice should institute an anti-trust proceeding against Transamerica Corporation.

Chairman Eccles reviewed earlier discussion of this matter with Attorney General Clark and others, and stated the reasons why

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he felt it would be desirable to send such a letter at this time. He also said that regardless of whether adequate holding company legislation was enacted, it seemed desirable to bring the matter to the attention of the Department of Justice at this time for consideration in the light of the decision of the Supreme Court in the case of American Tobacco Co. v. United States.

In response to an inquiry from Mr. Vardaman as to what course the Board would follow if the Department of Justice took no action in response to the letter, Mr. Townsend reviewed the difficulty of a proceeding by the Board under section 7 of the Clayton Act, and stated that he had discussed the proposed letter with Mr. Holmes Baldrige, acting head of the Anti-Trust Division of the Department of Justice who would handle the matter for the Department, that Mr. Baldrige had said that the decision in the American Tobacco Company case made it clear that chances for a successful prosecution of an anti-trust case were greatly improved, and that upon receipt of a letter from the Board he would recommend to the Attorney General that action be taken forthwith.

Chairman Eccles expressed the opinion that such a suit would in no way endanger passage of effective holding company legislation, that on the other hand it would draw attention to the need for increased authority to deal with the expansion of bank holding companies, and that in view of the expectation that

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the holding company bill would soon be introduced in Congress this would be a good time to send the letter.

There was a general discussion of the proposed letter in the light of the consideration given in the past to actions that might be taken by the Board against Transamerica Corporation.

At the conclusion of the discussion, upon motion by Mr. Evans, the following letter to the Attorney General was approved unanimously:

"It has been well over a year since the luncheon meetings in your office of representatives of the Treasury Department, Federal Deposit Insurance Corporation, the Board of Governors and your Anti-trust Division respecting Transamerica Corporation. Since that time various proposals for legislation to tighten existing controls over bank holding companies generally have been considered and discussed by the Board and on April 30, 1946, a bill dealing with this subject was introduced by then Chairman Spence of the House Banking and Currency Committee. However, the pressure of war and reconversion matters prevented consideration of this legislation by the 79th Congress. It is expected that a similar bill will be introduced in the present Congress and we hope that it will receive early and favorable consideration.

"Meanwhile, however, the problem of how to deal effectively with the Transamerica situation has continued to trouble and concern the Board. Legislation alone will not solve the problem, unless it be of the 'death sentence' variety; and the Board is convinced that the passage of such a bill is neither desirable nor possible. The most that may be expected of legislation is to curb the future expansion of a bank holding company which, like Transamerica, has followed a consistent policy of monopolistic growth.

"In your letter to me of October 31, 1945, you reviewed the factual situation respecting Transamerica as disclosed by the investigation of your Antitrust Division. Your letter points out that at that time Transamerica

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"controls 35 banks in the States of California, Nevada, Arizona, Oregon and Washington, the largest of which is the Bank of America; that many of these 35 banks have numerous branches; that these banks control approximately 40% of the banking offices and approximately 36% of the commercial banking deposits in the five-state area; that the Transamerica-controlled banks control approximately 80% of deposits in the State of Nevada and 61% of the commercial banking offices; in California, 42% of the deposits and 49% of the commercial banking offices; in Oregon, 39% of the deposits and 13% of the commercial banking offices; and in Washington, 5% of the deposits and 4% of the commercial banking offices. In many counties within this five-state area the percentage control of deposits and commercial banking offices is much greater. In California, for example, there are thirteen counties in which the Transamerica Corporation controls 100% of the commercial banking facilities. This expansion program has been effected over a period of approximately twenty years. In many instances the holding company financed the acquisitions by borrowing funds from its banking subsidiaries, using the assets of the purchased bank as security for the loan."

"Since your letter was written, Transamerica has further increased its dominating position in the five-state area mentioned above by the acquisition of other banks and by the growth of those already owned by it. In addition, its portfolio of nonbanking interests has increased.

"Both in your letter and in our contemporary meetings you expressed the opinion that, while the statistical data referred to above might be sufficient to justify the Department in commencing some kind of anti-trust proceeding against Transamerica and its affiliated organizations, nevertheless the lack of proof of any sustained policy of abuse of power, either in attaining its dominant position or in perpetuating it, made the outcome of such a suit decidedly dubious.

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"Counsel for the Board have recently called to the Board's attention the decision of the Supreme Court in American Tobacco Company v. United States, decided on June 10, 1946. The effect of that decision seems to eliminate the need in certain cases for the kind or extent of proof which had previously been thought necessary in antitrust proceedings. I am wondering, therefore, if your Department has considered whether the decision in the Tobacco case might not lessen to a considerable extent the doubt which heretofore it has entertained as to the ultimate success of an antitrust proceeding against Transamerica.

"I would appreciate receiving your present opinion in the matter, for the Board is again considering the Transamerica situation in the light of the Board's over-all responsibility in the banking field generally and in particular its responsibility under section 7 of the Clayton Act."

Mr. Vardaman referred to a memorandum dated February 12, 1947, from Mr. Leonard recommending that the Board authorize the furnishing of certain information in a report of examination of the Annapolis Bank and Trust Company, Annapolis, Maryland, to representatives of the Treasury Intelligence Unit in developing leads in connection with an investigation of a customer of the bank who was believed by the Treasury to have evaded payment of income taxes. The memorandum stated that it was the practice of the Office of the Comptroller of the Currency in such cases involving national banks to make the information available with the distinct understanding that the information was furnished informally purely for the purpose of developing leads in connection

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with an investigation, that no reference was to be made as to the source of the information, and that no effort was to be made to use the information as evidence. Mr. Leonard said that his recommendation was made with the understanding that a similar procedure would be followed in this case.

Gov. Mr. Vardaman stated that he was opposed to making information contained in examination reports of State member banks available to other Government agencies without a court order, that there was nothing in the reports which could not be gotten by proper authorities direct from the bank, that the case in question did not involve misconduct by the bank or its officers, that he felt it was a misuse of the examining power to make available information regarding a bank's customers which could always be obtained in the usual way by subpoena, and that to give the information in this case would set a dangerous precedent.

There was a discussion of the use of a subpoena for this purpose and Messrs. Vest and Townsend expressed the view that a subpoena could not be used until it was determined at least in a general way what the facts were and the information that should be asked for. Mr. Townsend said there was a case, Bank of America National Trust and Savings Association v. Douglas, et al, on this point which stated that where the Government was seeking information from the files of the Comptroller of the Currency and in examination

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reports, it should be made available to the agency of Government but should be used only for the purpose of determining what records should be subpoenaed.

Mr. Vest said that the Board had the legal authority to make the information available, that it had been Board policy in similar instances in the past to find a way of accommodating a Government agency needing information for official purposes, and that it was a question of policy for Board determination.

Chairman Eccles stated that he felt the Board should cooperate with a recognized agency of the Government seeking information which might properly be given by the Board, especially when the purpose was to assist in developing leads which might help to establish violations of the laws, but that (1) the request for such information should be submitted in writing by the appropriate authority of the department or head of the agency desiring it, (2) the request should include a statement that the matter involved arose, and the information was desired, in connection with the discharge of official duties of the agency, and (3) it should be understood that the information would be used only in developing leads in connection with an investigation, that no reference was to be made to the source of the information, and that no effort would be made to use the information as evidence. He also stated that no part of an examination report should be permitted to leave the Board's offices.

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After a discussion, upon motion by Mr. Vardaman, it was agreed unanimously (1) to advise the Treasury Intelligence Unit to submit its request for information in accordance with the procedure outlined above, and (2) that hereafter similar requests would not be considered by the Board unless they were submitted in accordance with this procedure.

In taking this action, it was understood that the Federal Deposit Insurance Corporation and the Comptroller of the Currency would be informed of the Board's action.

Reference was then made to a draft of a letter to Mr. Leedy, President of the Federal Reserve Bank of Kansas City, which read as follows. The Bank had raised the question referred to in the letter following the death of Assistant Cashier Davenport at the Oklahoma City Branch:

"Reference is made to your letter of February 13, 1947, inquiring whether the Board's letter of August 4, 1938, (S-108) may be construed as containing authority to pay to the heirs of an officer or employee dying while in service equivalent salary for any accrued vacation time owed him on the date of his death.

"The Board's letter of August 4, 1938, should not be construed as containing authority to pay for accumulated vacation leave in the event of death of an officer or employee.

"As pointed out in your letter, legislation was enacted in December 1944 providing for the lump sum payment for accumulated annual leave to certain civilian employees of the Federal Government in the event of death or separation from service. The Board adopted this policy with respect to its employees since they are Government employees and since many of them are not eligible for insurance under the retirement system as in the case of Bank employees.

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"You will be interested to know that consideration is being given to having a study made of the leave policies of the Banks which will include the question of accumulation of annual leave as well as whether payment should be made for such leave in the event of death or separation from service."

Mr. Vardaman raised the question whether the position in the Board's letter of August 4, 1938, should be changed and the payment should be allowed in this case. It was suggested that the payment of unused leave raised a number of other questions which should be reconsidered and that the payment should not be made until the study referred to in the last paragraph of the above letter had been made. Mr. Vardaman asked if it could be understood that the proposed payment to Mr. Davenport's estate could be made when the proposed study had been completed, and it was felt that a decision on that point would have to depend on whether any change in policy to allow such payments was made retroactive.

After a discussion, the letter to Mr. Leedy was approved unanimously.

Reference was made to a memorandum dated February 20, 1947, from Mr. Bethea to the Board recommending (1) the purchase of a Plymouth station wagon (6 cylinder) at a cost of \$1,709.81, with the understanding that the appropriate classification in the budget of the Division of Administrative Services be increased to cover the expenditure, and (2) the sale or trade-in of the old station wagon for the best price obtainable, with the understand-

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ing that the proceeds of a sale (as distinguished from a trade-in allowance which would be applied against the purchase price of a new car) be credited to miscellaneous receipts.

The memorandum was referred to Mr. Draper with power to act.

At this point Messrs. Smead, Bethea, Vest, Leonard, Nelson, 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:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on February 24, 1947, were approved unanimously.

Memorandum dated February 19, 1947, from Mr. Thomas, Director of the Division of Research and Statistics, recommending the appointment of Mrs. Dorothy V. Wright as a clerk-typist in that Division, on a temporary indefinite basis, with basic salary at the rate of \$2,243.52 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination. The memorandum also stated that Mrs. Wright was a member of the Civil Service Retirement System and would remain in that system.

Approved unanimously.

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Memorandum dated February 24, 1947, from Mr. Smead, Director of the Division of Bank Operations, recommending that the resignation of Andrew W. Lee, Technical Assistant in that Division, be accepted, in accordance with his request, at the close of business February 20, 1947, with the understanding that a lump sum payment would be made for annual leave remaining to his credit as of that date.

Approved unanimously.

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

"Receipt is acknowledged of your letter of February 13, 1947 requesting the Board's approval for certain contemplated trips to Latin America by persons from your Bank.

"The Board agrees that trips of this sort, while requiring restraint in the use of personnel and funds, should if properly managed serve the best interests of the System. The Board is therefore glad to approve your suggestion for sending Mr. Knoke and Mr. Wallich to visit the central banks of Peru, Bolivia, Chile, Argentina, Uruguay, Paraguay, and Brazil during the coming Spring. It suggests that its consideration of the further project for a visit to Central America and the northern part of South America be deferred until your plans for this trip become more definite."

Approved unanimously.

Letter to Mr. A. G. Koontz, Manager, Hall-Ekfelt Furniture Company, 110-116 West Main Street, Ottumwa, Iowa, reading as follows:

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"Thank you for your letter of February 6, 1947, stating that you favor the continuation of Regulation W.

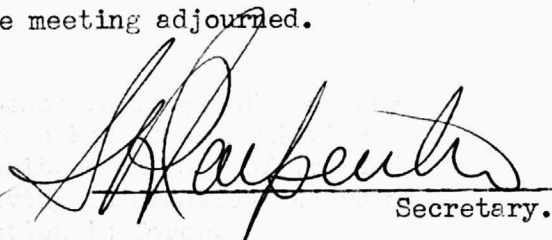
"As you know, Regulation W was issued in September 1941, under an Executive Order of the President, for the purpose of helping to restrain the growth of purchasing power when goods, particularly consumers' durable goods, were becoming short in supply. Although production of consumers' durable goods has come back since the war's end, there are still important shortages of these goods as compared with demand which has itself increased strongly. We feel that it would be highly desirable to continue the regulation at least until there is a better balance in supply and demand for these goods.

"There is, however, a problem of much longer range which is presented by the growing importance of consumer credit and its influence in the swings of the business cycle. The Board has felt that Congress should consider this problem with a view to deciding whether regulation of consumer credit should be continued on a peacetime basis. The Board's views are summarized in a statement for the press issued November 15, 1946, at the time a revision of Regulation W, effective December 1, was announced. A copy of this press statement is enclosed.

"We appreciate your thoughtfulness in advising us of your views on this problem."

Approved unanimously.

Thereupon the meeting adjourned.


Secretary.

Approved:


Chairman.