

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, March 7, 1947. The Board met in the Board Room at 11:25 a.m.

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

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

There were presented telegrams to Mr. Clarke, Assistant Secretary of the Federal Reserve Bank of New York; Mr. McCreedy, Secretary of the Federal Reserve Bank of Philadelphia; 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; 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 Bank of Chicago on March 3, by the Federal Reserve Banks of St. Louis and San Francisco on March 5, and by the Federal Reserve Banks of New York, Philadelphia, Atlanta, and Chicago on March 6, 1947, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

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Reference was made to a draft of a letter prepared for Chairman Eccles' signature to Mr. Manuel A. Navarro, Charge d'Affaires ad interim of the Embassy of Ecuador, as follows:

"Reference is made to your letter of February 17, 1947 transmitting the request of your Government that Mr. David L. Grove, a member of the Board's staff, be assigned on a temporary mission to Ecuador for the purpose of advising your Government on monetary matters. I am glad to say that the Board has approved Mr. Grove's making a trip for this purpose for a period of up to six weeks, commencing as soon as he can make the necessary travel arrangements.

"Our experience with previous missions of a similar character to other Latin American countries clearly indicates the desirability of organizing such work in as flexible and informal a manner as possible. Accordingly, following the practice of previous missions, Mr. Grove will not receive instructions from the Board concerning the advice which he is to give to your Government, nor will he plan to publish any formal recommendations of his own. It is our intention that he should simply make his services available to your Government as an expert in monetary and banking problems. However, in view of the Board's interest in assisting your Government to meet its problems in this field, we shall be happy to sponsor Mr. Grove's mission and to pay the expenses involved."

Upon motion by Mr. Evans the letter was approved unanimously, together with the following letter of instructions to Mr. Grove:

"In compliance with the request of the Ecuadorean Government for expert advice from you on monetary matters, as expressed in the letter of Mr. Manuel A. Navarro, Charge d'Affaires ad interim of the Ecuadorean Embassy in Washington, dated February 17, 1947, and addressed to Chairman Eccles,

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"the Board authorizes you to proceed to Ecuador, where you are to remain for a period of about six weeks. Mr. Navarro has been informed that you will not receive instructions from the Board concerning the advice which you are to give his Government, and that you will not plan to publish any formal recommendations of your own. The Board desires you simply to make your services available to the Ecuadorean Government as an expert in monetary and banking problems. However, in view of the Board's interest in assisting Ecuador to meet its problems in this field, the Board will sponsor and bear the expense of your mission.

"Upon leaving Ecuador you are to make brief stops, if convenient, in Colombia, Costa Rica, El Salvador, Nicaragua, and Guatemala in order to consult informally with the central bank authorities of these countries, on monetary and banking problems. The total time spent in these countries, including traveling time between them, shall not exceed two weeks.

"You shall keep the Board informed of your movements from place to place, of the progress of your work, and of the advice given the Ecuadorean authorities so that if the Board's staff wishes to make any comment thereupon, it will be in position to do so.

"Wherever the length of your stay permits, you shall visit the American Embassy, and particularly the Commercial Attache, in order that he may be informed of the purpose of your visit.

"It is requested that you retain the original of this letter, and that the file copy, after being initialed by you, be returned to the Board's files."

In connection with the above matter, consideration was given to a memorandum from Messrs. Thomas and Knapp under date of February 25, 1947, which had been circulated among the members of the Board and which, after outlining reasons for the recommendation that Mr. Grove make the trip, recommended that, because of the reported high cost of living in Ecuador, the per diem allowed him be at the rate of \$10 in lieu of the \$8 provided by the Board's travel regulations.

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Approved unanimously.

Mr. Evans referred to the understanding reached at the meeting of the Board on December 19, 1946, at which it was agreed that the Division of Research and Statistics should prepare for submission to the Board a forecast of the research work that Division might be called on to perform over a period of the next five years. He stated that difficulties were being experienced in looking ahead for such an extended period, that despite the difficulties the study was going forward, that it was expected a report would be available within the next two or three months, and that it may be found desirable to ask the Board for some outside help in connection with the study.

Mr. Evans then asked Mr. Thomas to discuss a memorandum which the latter had prepared under date of February 10, 1947, recommending that the budgets submitted by the Federal Reserve Banks for their statistical and analytical function during the year 1947 be approved. The memorandum stated that at nine of the twelve Federal Reserve Banks increases in anticipated expenditures during 1947 were moderate, and that substantial increases in the budgets at the other three Banks (Boston, Cleveland, and Atlanta) appeared to be reasonable in the light of special circumstances outlined in the memorandum.

There was a discussion of the budgets, and Chairman Eccles suggested that before the budgets were submitted for 1948 additional

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information be obtained with respect to the organization of the research departments of the Federal Reserve Banks and some standard or formula be agreed upon under which expenditures for research work at the several Banks would be on about the same basis in relation to the size of the respective Banks and districts and the nature of work performed, such as the foreign work carried on at the Federal Reserve Bank of New York.

Upon motion by Mr. Evans, the budgets for the statistical and analytical functions as submitted by the Federal Reserve Banks covering the year 1947 were approved unanimously as follows, with the understanding that Chairman Eccles' suggestion would be studied and a recommendation submitted to the Board by the Board's Division of Research and Statistics:

Federal Reserve Bank	1947 Proposed budget	1946 Actual expenditures	Increase proposed for 1947 over 1946 actual expenditures	
			Amount	Per cent
Boston	\$ 141,800	\$ 90,100	\$ 51,700	57
New York	417,200	347,600	69,600	20
Philadelphia	146,700	129,100	17,600	14
Cleveland	132,600	90,300	42,300	47
Richmond	91,800	80,400	11,400	14
Atlanta	97,600	59,400	38,200	64
Chicago	257,800	221,000	36,800	17
St. Louis	99,700	93,300	6,400	7
Minneapolis	75,300	68,800	6,500	9
Kansas City	96,400	90,300	6,100	7
Dallas	116,100	93,900	22,200	24
San Francisco	121,800	99,000	22,800	23
Total	1,794,800	1,463,200	331,600	23

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Under date of February 20, 1947, Mr. Vardaman received a letter from Mr. J. C. Wilson, President of the State Bank Division of the American Bankers Association, enclosing a copy of a memorandum relating to a proposed amendment to the law to remove certain tax advantages which under present law (1) favor a national charter instead of a State charter when a national bank and State bank are merged or consolidated, and (2) are present when a State bank is converted into a national bank and are not present when a national bank is converted into a State institution. At Mr. Vardaman's request, Mr. Vest had prepared a memorandum under date of March 3, 1947, in which he discussed these advantages, stating that it seemed reasonable that Federal statutes should provide the same facility for changing a national bank into a State bank as is now provided for changing a State bank into a national institution, and that the matter was being presented to the Board in order that it might consider whether it desired to endorse the proposal or to participate in the discussion of this matter with a view to its being presented to Congress.

Mr. Vardaman stated that Mr. Wilson, Mr. Bailey, President of the American Bankers Association, and Mr. Thomas Leggett, President of the Association of State Bank Supervisors, had suggested that this matter be discussed at a meeting and that he (Mr. Vardaman) had stated that he would not recommend that the Board sponsor the

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proposed legislation, as that should be done, if at all, by the State bank supervisors and the State Bank Division of the American Bankers Association, but that he would present the matter to the Board and ascertain whether it wished to have him participate in further meetings in connection with the matter.

Chairman Eccles suggested that if the Board were willing to approve the legislation it should do so on the condition that the interested parties would also support legislation removing the discriminations in existing law with respect to the capital requirements of member banks.

This point was discussed and it was agreed unanimously that Mr. Vardaman would be authorized to advise the appropriate officials of the American Bankers Association and the Association of State Bank Supervisors substantially as follows:

If they should decide to sponsor such legislation and the Comptroller of the Currency had no objection to it, the Board would favor the proposal with the understanding, however, that the legislation should also contain the necessary provisions to remove the present discrimination against member banks with respect to the amount of capital required for banks operating branches.

Consideration was then given to certain topics discussed at the joint meeting of the Board with the Presidents on February 28, 1947.

Mr. Carpenter stated that in discussing the topic "Relations With the Board", it had been stated that the Board would continue to

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see that wire or letter advice of Board action on non-confidential matters reached the Federal Reserve Banks as early as possible, at least by the time the matter was given to the press, and that it would be appreciated if any case in which that did not occur was brought to the Board's attention.

It was agreed unanimously that the members of the Board and the staff should keep in mind that the Banks should be given as much advance notice as possible of Board action.

Mr. Smead joined the meeting at this point.

In connection with the discussion at the joint meeting with the Presidents on February 28, 1947, of the industrial loan bill, S. 408, Chairman Eccles stated that because of the uncertain legislative situation and the possibility that, in order to release \$139 million to the Treasury as provided in the President's budget message, section 13(b) might be repealed without the enactment of the proposed amendment to section 13, he felt the Board should do what it could to get active consideration of this amendment. In these circumstances, he said he had discussed the matter further with Mr. Sproul, Chairman of the Presidents' Conference, and Mr. Draper, both of whom agreed with the suggestion that a memorandum be prepared which would set forth fully the reasons why the amendment should be approved and would be sent to the President of each Federal Reserve Bank with a letter suggesting that if the President

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avored the enactment of the legislation, he send the statement to his head office and branch directors and give it such further circulation in his district, including the press, as appeared to be desirable for the purpose of bringing about a wide understanding of the justification for the legislation.

Chairman Eccles' suggestion was discussed and Mr. Draper stated that he had been working with the staff on a draft of memorandum and letters to the Presidents for presentation to the Board.

It was agreed unanimously that when the memorandum and letter to the Presidents were in a form satisfactory to Mr. Draper he would submit it to the Board for consideration.

Reference was made to the suggestion of the Presidents' Conference with respect to capital requirements for member banks, and it was agreed unanimously that it would not be possible to get consideration of legislation of this kind at this session of Congress.

With respect to the question of the payment of a portion of the earnings of the Federal Reserve Banks to the Treasury, which was discussed with the Presidents, Chairman Eccles stated that this subject had been raised during the hearings before the House Banking and Currency Committee in connection with the bill

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H. R. 2233 to extend the authority of the Federal Reserve Banks to purchase securities directly from the Treasury, that the questions of the earnings of the Reserve Banks, the restoration of the franchise tax, an interest charge on Federal Reserve notes, and action to require payment of a substantial part of the surplus of the Federal Reserve Banks to the Treasury were discussed, and that Congressman Patman had stated that he was considering the introduction of a bill which would restore the franchise tax and require a payment by the Federal Reserve Banks of approximately \$2 hundred million to the Treasury. Chairman Eccles also said that he told the Committee that the Board of Governors agreed that the surplus earnings of the Reserve Banks should be paid to the Treasury, that it had been considering whether to suggest the restoration of the franchise tax, or to impose an interest charge on Federal Reserve notes under the provisions of section 16 of the Federal Reserve Act which the Board could do immediately without legislation, and that it had been suggested that if the Board imposed such a charge and Congress preferred the franchise tax it could take the necessary action to substitute such a tax for the interest charge. He added that he also discussed the latter point with Chairman Wolcott of the House Banking and Currency Committee following the hearings and that there appeared to be no objection to such a course. Chairman Eccles did

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not know whether there would be an opportunity to make a similar record with the Senate Banking and Currency Committee.

There was some discussion of the suggestion but no conclusions were reached.

At this point Messrs. Thomas, Vest, Leonard, and Smead 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 March 6, 1947, were approved unanimously.

Memorandum dated February 28, 1947, from Mr. Thomas, Director of the Division of Research and Statistics, recommending the appointment of Miss M. Elva Morse as a clerk in that Division, on a temporary indefinite basis, with basic salary at the rate of \$2,394 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 Miss Morse was a member of the Civil Service retirement system and would remain in that system.

Approved unanimously.

Memorandum dated March 4, 1947, from Mr. Thomas, Director of the Division of Research and Statistics, recommending the appointment of Mrs. Helen B. Arnold as a clerk in that Division, on

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a temporary indefinite basis, with basic salary at the rate of \$2,168.28 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 it was contemplated that Mrs. Arnold would become a member of the Federal Reserve retirement system.

Approved unanimously.

Memorandum dated March 5, 1947, from Mr. Thomas, Director of the Division of Research and Statistics, recommending the acceptance of the resignation of Miss Lillian Blake, a clerk-stenographer in that Division, to be effective, in accordance with her request, at the close of business December 31, 1946, with the understanding that a lump sum payment would be made for annual leave remaining to her credit as of that date.

Approved unanimously.

Letter to Honorable George D. Aiken, Chairman of the Committee on Expenditures in the Executive Departments, United States Senate, reading as follows:

"In response to your letter of February 23, 1947, I enclose herewith a revised outline of the divisions of the Board of Governors of the Federal Reserve System showing the number of employees in each division. The enclosed outline includes all permanent employees of the Board on December 31, 1946. I also enclose, in response to your request, a summary of the legal personnel now employed by the Board.

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"For your information in this connection, the salaries of all employees of the Board of Governors of the Federal Reserve System, pursuant to express provisions of the Federal Reserve Act, are paid from assessments levied by the Board on the Federal Reserve Banks and not from Government funds or appropriated moneys."

Approved unanimously.

Letter to the board of directors of "The Citizens Banking Company", Celina, Ohio, 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 Cleveland.

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

"The Board of Governors of the Federal Reserve System approves the application of The Citizens Banking Company, Celina, Ohio, 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 Ohio, for his information.

"It is assumed that you will follow the matter of the bank's bringing into conformity with the provisions of law and the Board's Regulations the savings accounts mentioned on page 16 of the report of examination for membership and will require corrective action with respect to the two loans cited as having been made through inadvertence in violation of Regulation U."

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Letter to the board of directors of the "Citizens Bank", Savannah, Tennessee, 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.

The letter also contained the following special comment:

"It appears that the bank may possess certain powers which are not being exercised and which are not necessarily required in the conduct of a banking business, such as the power to guarantee the payment of bonds and mortgages and guarantee titles to real estate. Attention is invited to the fact that if the bank desires to exercise any powers not actually exercised at the time of admission to membership, it will be necessary, under condition of membership numbered 1, to obtain the permission of the Board of Governors before exercising them. In this connection, the Board understands that there has been no change in the scope of the corporate powers exercised by the bank since the date of its application for membership."

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

Letter to Major General Robert McG. Littlejohn, Administrator, War Assets Administration, reading as follows:

"This refers to your letter of February 27, 1947, addressed to Chairman Eccles, enclosing a copy of the President's directive of February 8, 1947, and requesting a monthly estimate, beginning April 1, 1947, of reported dollar volume of property which we intend to declare as surplus pursuant to section 11 of the Surplus Property Act of 1944.

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"This is to advise that the Board of Governors of the Federal Reserve System does not have any property surplus to its needs and responsibilities that should be reported under the provisions of the Surplus Property Act. Accordingly, there would seem to be no useful purpose in making the reports in question and we trust that you will consider this reply to your letter as completing your records in this matter in so far as this agency is concerned."

Approved unanimously.

Letter to Miss E. F. Downey, Secretary of the Federal Deposit Insurance Corporation reading as follows:

"This refers to your letter of January 28, 1947, transmitting to the Board of Governors reissued certificates of shares of stock owned by the Federal Reserve Banks in the Federal Deposit Insurance Corporation and requesting that such certificates be exchanged, as required by subsection (d) of section 12B of the Federal Reserve Act, as amended, for the certificates of such stock originally issued to the Federal Reserve Banks.

"In order to make possible the exchange of such stock certificates, the Treasury Department on February 5, 1947, authorized each Federal Reserve Bank and the Federal Reserve Agent at each such Bank to release to the custody of the Board of Governors the certificate of stock previously issued to such Bank, subject to an understanding that the reissued certificate will be held and endorsed in the form and manner required by Treasury Department regulations with respect to the original certificate. Pursuant to such authorization, all certificates of shares of Federal Deposit Insurance Corporation stock heretofore held by the Federal Reserve Banks have been transmitted to the Board of Governors by the Federal Reserve Banks; and, in accordance with your request, such certificates are being delivered to you herewith for your files, viz:

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<u>Certificate Number</u>	<u>Bank</u>	<u>Number of Shares</u>
1	Philadelphia	146,208.835
2	Cleveland	141,468.64
3	Chicago	197,485.17
4	St. Louis	50,931.12
5	Minneapolis	35,094.6765
6	Atlanta	52,720.32
7	New York	425,292.11
8	Dallas	43,593.38
9	Boston	102,302.369
10	Kansas City	41,312.76
11	San Francisco	98,503.28
12	Richmond	58,082.91

It will be appreciated if you will acknowledge receipt of the above certificates on the form provided on the enclosed duplicate copy of this letter.

"In exchange for the certificates of shares of stock previously held by them, we are today transmitting to the respective Federal Reserve Banks by registered mail the new certificates described in, and delivered to us with, your letter of January 28, 1947."

Approved unanimously, together
with the following letter to Mr. E. F.
Bartelt, Fiscal Assistant Secretary,
Treasury Department:

"This is to advise you that, in accordance with your letters of February 5, 1947, to each Federal Reserve Bank and each Federal Reserve Agent, certificates of shares of stock of the Federal Deposit Insurance Corporation heretofore issued by that Corporation to the Federal Reserve Banks have been delivered to the Board of Governors by the Federal Reserve Banks and have been transmitted by the Board to the Federal Deposit Insurance Corporation. In exchange for such certificates, as required by subsection (d) of section 12B of the Federal Reserve Act, as amended, the Board today, at the request of the Federal Deposit Insurance Corporation, is transmitting to each Federal Reserve Bank a reissued certificate of shares of stock in that Corporation to be endorsed and held in accordance with Treasury Department regulations and the understanding contained in the above mentioned letters of February 5, 1947."

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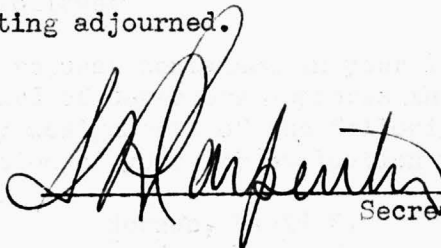
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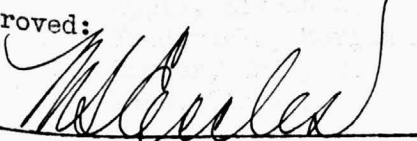
In connection with the above matter, unanimous approval was also given to the following letter to Mr. Whittemore, President of the Federal Reserve Bank of Boston and to similar letters to the Presidents of the other Federal Reserve Banks:

"Referring further to the subject of the Board's letter of January 29, 1947, there is transmitted herewith Federal Deposit Insurance Corporation stock certificate No. 1 dated January 28, 1947, representing 102,302.3688 shares of stock of such Corporation. This certificate has been issued to your Bank by the Federal Deposit Insurance Corporation, as required by subsection (d) of section 12B of the Federal Reserve Act, as amended, in exchange for the previously issued certificate of stock of that Corporation which was forwarded to the Board with Mr. Willett's letter of February 7, 1947.

"It is understood that the reissued certificate of stock enclosed herewith will be endorsed and held in accordance with the terms of Treasury Department regulations and the understanding stated in the Treasury Department's letter to your Bank, dated February 5, 1947, authorizing the release for reissue of the certificate previously issued to your Bank. It is assumed that you will advise the Treasury Department to this effect after receipt of the new certificate; and it will be appreciated if you will send us a copy of your letter to the Treasury Department."

Thereupon the meeting adjourned.


Secretary.

Approved: 
Chairman.