

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, April 15, 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. Thomas, Director of the Division of
Research and Statistics
Mr. Vest, General Counsel
Mr. Nelson, Director of the Division of
Personnel Administration
Mr. Townsend, Assistant General Counsel

Chairman Eccles stated that he had been informed by Senator Taft that the bill to continue the authority for direct purchases of securities by the Federal Reserve Banks from the Treasury (S. 828) was expected to be brought up in the Senate for consideration this week.

Reference was made to a memorandum from Mr. Knapp dated April 7, 1947, recommending that Mr. John Exter, a member of the staff of the Division of Research and Statistics who was serving on the Joint Philippine-American Financial Commission in Manila, be authorized by the Board to return from the Philippines via India and Europe. The memorandum stated that an amount equivalent to Mr. Exter's transportation and per diem or subsistence costs for

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returning direct from Manila would be paid by the State Department, and that the cost to the Board would be the difference between that sum and the transportation and per diem costs for returning the longer way, which would total about \$400 for transportation and about \$105 for per diem. The recommendation contained in the memorandum was concurred in by Mr. Thomas.

Upon motion by Mr. Clayton, and by unanimous vote, Mr. Exter was authorized to return via Hong Kong, Siam, India, and Europe.

Mr. Clayton stated that in accordance with the action taken at the meeting of the Board on April 11 he called Mr. Parten, Chairman of the Dallas Bank, on the telephone yesterday, that Mr. Parten said that some changes in personnel administration at the Bank were now under consideration, that some of their directors, including Mr. R. B. Anderson, Chairman of the Personnel Committee, had discussed this matter at a meeting last Friday, that their thinking now was that they should bring into the Bank a man who was thoroughly qualified to handle personnel administration, that a committee was to bring in a report at the next directors' meeting, and that he hoped to have something tangible to report by the time Mr. Clayton visited the Bank on May 8. Mr. Clayton added that he told Mr. Parten that the Board thought it would be well to have a man as a senior officer in charge of personnel who would report through the First Vice President or President and who might

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attend board meetings, but that such officer should not report to the directors in a manner that would "by-pass" the President and First Vice President who, as chief executive officers of the Bank, were responsible for its operation, and that it was suggested that any contemplated actions be kept on a tentative basis until the Board had had an opportunity to review them, so that there would be agreement on the final decision. Mr. Parten reported, Mr. Clayton said, that he was not going to have any difficulty in bringing about the necessary changes and that a letter from the Board would not be needed.

Chairman Eccles then stated that he had been invited by the Secretary-Manager of the Oklahoma Bankers Association and Mr. Bradshaw, a former member of the Federal Advisory Council from the Tenth Federal Reserve District, to attend the 50th Anniversary celebration of the Association in Tulsa, Oklahoma, on May 8, that it was not possible for him to attend, and that inasmuch as the bankers from the surrounding States have been invited and it would be an important meeting, he had suggested that Mr. Clayton attend in his place. The Chairman also said that he felt it would be desirable for Mr. Clayton to go to Dallas from Tulsa to meet, if possible, with Chairman Parten, President Gilbert, and the Personnel Committee of that Bank for the purpose of discussing informally with them the views of the Board with respect to the

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personnel situation at the Dallas Bank.

After a discussion, upon motion by Mr. Vardaman, it was agreed unanimously that Mr. Clayton should visit the Dallas Bank for the purpose suggested by Chairman Eccles.

Mr. Evans stated that the Federal Reserve Bank of Chicago was being threatened with a suit by a former employee of the Detroit Branch who claimed that he had been improperly classified as an exempt employee under the Fair Labor Standards Act and therefore was entitled to approximately \$1,100 for overtime work as a non-exempt employee. According to the information received, Mr. Evans said, the employee had been in a supervisory position at one time but, some time before his discharge, his assignment had been changed to another position which the Bank regarded as being exempt under the Fair Labor Standards Act.

Mr. Vest having been called out of the meeting to take a telephone call, Mr. Evans asked Mr. Townsend for his comments on the matter, and the latter stated that a telegram had been received from Mr. Hodge, General Counsel of the Chicago Bank, indicating that the Bank proposed to contest the suit and asking whether the Board thought the Bank should introduce the defense that, as a legal matter, the Federal Reserve Banks were not subject to the Fair Labor Standards Act. Mr. Townsend also said that Mr. Vest and he held slightly different views on the question presented by

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the Bank, that since the Detroit case would be a suit between an individual and the Federal Reserve Bank and the question of the application of the statute to the Reserve Banks could be raised by a simple motion, and since the language in the Fair Labor Standards Act and the National Labor Relations Act exempting "the United States" from the provisions of both statutes was identical, he was of the opinion that it would be much better to have the question of the application of the statutes to the Federal Reserve Banks raised before a court in the first instance, as would be done in the Detroit case, rather than to have it come up in the case involving the Dallas Bank before the National Labor Relations Board. The latter case, he said, would require the presentation of detailed evidence and probably would result in an adverse decision by the Labor Relations Board which would be very difficult to overcome when the question of jurisdiction came before the courts.

There was a discussion of whether the question of jurisdiction should be raised at this time in the Detroit case, and upon Mr. Vest's return to the meeting he stated that he questioned whether that case was a good one in which to test the jurisdictional issue, since the Board had always taken the position that the Federal Reserve Banks should conform to the Fair Labor Standards Act regardless of the question whether they were legally

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covered by the Act, and that they had and could continue to comply without substantial difficulty. He also said that, while the language which exempted "the United States" from the Fair Labor Standards Act was the same as that which provided exemption from the National Labor Relations Act, he felt the reasons for claiming exemption for the Federal Reserve Banks from the latter Act were different because that law involved the question of strikes against the Federal Reserve Banks and whether the Federal Reserve Banks had authority to make collective agreements with employees, whereas the Fair Labor Standards Act covered the questions of the length of the work week, overtime, etc., compliance with which did not present the same types of problems.

During the discussion of the procedure to be followed, Mr. Vest stated that the labor legislation now pending in Congress would amend the National Labor Relations Act to exempt from its provisions any instrumentality of the Federal Government, which would make it clear that the statute did not apply to the Federal Reserve Banks. It was thought that there would be a decision by Congress on the proposed legislation not later than May 15 or June 1. It was also stated there was a question whether a claim under the Fair Labor Standards Act could legally be settled by compromise.

Mr. Townsend said that if the Detroit suit were filed the Chicago Bank would have at least thirty days in which to file its

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pleadings, that that time undoubtedly could be extended, and that a decision could be made in the light of the outcome of the proposed legislation whether the Detroit case should be contested or settled. He was of the opinion that if the decision was to contest it, the jurisdictional question should be raised.

Chairman Eccles suggested that instead of compromising the case or raising the jurisdictional question at this time if the suit is filed, the Federal Reserve Bank should delay its answer in the case as long as possible pending the outcome of the proposed amendment to the National Labor Relations Act with the understanding that the question would also be put on the agenda for the next Presidents' Conference. He also stated that if the National Labor Relations Board should indicate that it wished to proceed formally in the Dallas case before the outcome of the proposed legislation was known, the Board could suggest that because of the clear exemption of the Reserve Banks under the proposed amendment, no action be taken by the Labor Board until a decision on the legislation had been made.

During the discussion it was the consensus of the members of the Board present that, inasmuch as the Federal Reserve Banks had undertaken to comply voluntarily with the provisions of the Fair Labor Standards Act, if in due course it was determined that the Bank had not complied in the case of the Detroit employee, it should pay the amount due.

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At the conclusion of the discussion, upon motion by Mr. Evans, it was agreed unanimously (1) that Mr. Vest should call Mr. Hodge and advise him that if the former employee should file a suit the Bank's answer should be delayed if possible until after action by Congress on the pending labor legislation, at which time a decision would be made whether the action should be contested, and, if so, whether the jurisdictional defense should be raised, since, if the Reserve Banks were clearly exempt from the National Labor Relations Act they should, as a matter of policy, comply with the Fair Labor Standards Act, (2) that no outside counsel should be employed at this stage, that Mr. Haefele, Assistant Counsel at the Detroit Branch, should serve as local counsel with Mr. Hodge (if the Chicago Bank should so desire) and Mr. Townsend as associate counsel, and that if that arrangement was not satisfactory to the Bank, Mr. Vest would so report to the Board, and (3) that the application of the labor laws to the Federal Reserve Banks should be placed on the agenda for discussion at the next meeting of the Presidents' Conference.

Chairman Eccles read a memorandum dated April 10, 1947, which he had prepared in accordance with the discussion at the meeting of the Board on April 8, 1947, relating to his conversation with Mr. Sproul, President of the Federal Reserve Bank of New York, concerning changes that might be made in the annual reports of the New York Bank and the Board of Governors to eliminate from the New York report discussions of national policies with respect to monetary, credit, and economic matters and Treasury financing, which are covered in the annual report of the Board of Governors. The

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memorandum stated that Chairman Eccles had suggested to Mr. Sproul that there be provided in the Board's annual report a separate section in which the Federal Open Market Committee would discuss monetary policies, the views of the majority and minority (in case of disagreement) could be stated, and the members of the Committee would have an opportunity to state the reasons for their views with respect to such policies. The memorandum also stated that, if Mr. Sproul were willing to accept the proposed arrangement, Chairman Eccles would recommend that the Board agree to it.

There was a discussion of the proposal and of the authority of a Federal Reserve Bank to issue an annual report, and Chairman Eccles requested Mr. Vest to submit a written opinion as to the authority of the Board with respect to the issuance by Federal Reserve Banks or by the Federal Open Market Committee of annual reports that discuss national policy questions.

Upon motion by Mr. Draper, it was agreed unanimously to approve the suggestion made in Chairman Eccles' memorandum, and to authorize him to confer with Mr. Sproul further regarding it.

Mr. Townsend then referred to the decision of the United States District Court of Appeals handed down on April 14, 1947, in the Peoples Bank of Lakewood Village case, which had resulted in a two to one decision upholding the position of the member bank.

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Upon motion by Mr. Draper, it was agreed unanimously that the Legal Division should take the necessary steps to appeal the case to the United States Supreme Court.

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

The minutes of actions taken by the Board of Governors of the Federal Reserve System on April 14, 1947, were approved unanimously.

Memorandum dated April 10, 1947, from Mr. Nelson, Director of the Division of Personnel Administration, recommending that Miss Theodosia M. A. Kinney be appointed as a stenographer in the office of Mr. Szymczak, 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 Kinney was a member of the Civil Service retirement system and would remain in that system.

Approved unanimously.

Memorandum dated April 10, 1947, from Mr. Bethea, Director of the Division of Administrative Services, recommending that Mrs. Hazel M. Glover be appointed as an elevator operator in that Division, on a temporary basis for a period of six months, with basic

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salary at the rate of \$1,690 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 not contemplated that Mrs. Glover would become a member of the Federal Reserve retirement system during the period of her temporary employment.

Approved unanimously.

Letter prepared for Chairman Eccles' signature to the Honorable John W. Snyder, Secretary of the Treasury, reading as follows:

"For almost two years the Board has been closely following an investigation by the Department of Justice into the Transamerica situation. The Antitrust Division has made use of certain of the Board's files in connection with this investigation, and I have had one or two talks with Tom Clark about the matter. At one of those talks and in a letter which he sent me in October 1945 he pointed out that, while the statistical picture respecting Transamerica might justify a proceeding under the antitrust laws, nevertheless he felt there was not sufficient evidence available to demonstrate an abuse of power by Transamerica either in attaining its dominant position or in perpetuating it. Hence, he felt at that time that ultimate success in a legal proceeding against Transamerica was very doubtful.

"On February 26th last I wrote Tom asking whether his Department had considered the recent decision of the Supreme Court in the American Tobacco case in relation to the Transamerica matter, in particular inquiring whether the effect of that decision might not eliminate the need for the type of proof to which he had referred in our earlier discussions. I talked with him again about a week ago and he told me that he had asked you to consider the entire matter and to give him the benefit of your views.

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"While I know how extremely busy you are, I nevertheless hope that you will be able to give this subject your early consideration. The Board is very anxious to obtain a decision from Justice on this subject just as soon as possible so that it may determine its own future course of action in dealing with this vexing problem. I do not know whether Tom sent you a copy of my letter of February 26th. A copy is enclosed herewith. If there is any other information touching this matter which we can supply you, please let me know."

Approved unanimously.

Letter to Mr. Leach, Chairman, Committee on Operations,
Conference of Presidents, reading as follows:

"Reference is made to your letter of March 29, 1947, stating that during the discussion of 'Expenditures of the Federal Reserve Banks' at the joint meeting of the Board of Governors and the Presidents in Washington on February 28, 1947, it was agreed that the Committee on Operations, or its representatives, should work with the Board's staff for the purpose of developing the best possible budgetary procedure.

"It is noted that you have written to each of the Presidents asking him to send you such information or suggestions as he thinks would be helpful in discussing this subject with members of the Board's staff and that it is contemplated such material as is received will be turned over to the Committee on Expense Accounting for this purpose. This arrangement is entirely satisfactory and the Board's Division of Bank Operations will be pleased to discuss the subject with the Committee on Expense Accounting at any time that it is mutually convenient."

Approved unanimously.

Letter to the Presidents of all the Federal Reserve Banks
reading as follows:

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"Reference is made to the action taken by the Conference of Presidents at its meeting held in Washington on February 25 - 26, 1947, in approving the recommendation contained in the report of the Committee on Collections dated January 31, 1947, that the present limitation of \$50,000 on the amount of any one Federal Reserve exchange draft be removed and that no limitation be placed on the amount for which such drafts may be drawn.

"This is to advise you that the Board has approved the above action, and hereby rescinds its letter of June 19, 1925 (X-4362) which raised the limit on the Federal Reserve exchange draft to \$50,000. Effective May 1, 1947, there shall be no limit placed upon the amount for which a member bank may draw such a draft."

Approved unanimously.

Letter to the Presidents of all the Federal Reserve Banks
reading as follows:

"Item B, page 1, of the Board's Instructions Governing the Preparation of Earnings and Expense Reports and Profit and Loss Statements by the Federal Reserve Banks contains instructions regarding the accrual of earnings, as follows:

'Earnings on Government securities and other earning assets should be accrued at least as of each Wednesday and the last day of each month unless in nominal amounts, in which case they may be credited when received.'

"The objective of this provision is, of course, to have published condition statements of the Federal Reserve Banks reflect current earnings as of the date of publication and to have reports of earnings on Form F. R. 95 represent actual earnings during the calendar month and for the calendar year to the end of the report month.

"It will be noted that the above instructions do not indicate the basis on which accruals of earnings shall be made. Some of the Federal Reserve Banks adopted the practice of omitting the accrual of earnings on the date an earning asset is acquired and,

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"Accordingly, of accruing earnings on such asset beginning on the day following the date on which such asset is acquired and continuing daily accrual up to and including the day on which such asset is disposed of. These entries conform with the entries made by the Federal Reserve Banks covering their earnings on participations of U. S. Government securities held in the System Open Market Account only in the sense that entries for System Account earnings on all but the last business day of the month are made one day late (in the morning). This is done in order to facilitate the accounting work related to the System Open Market Account, especially to avoid sending telegrams late in the day. Actually, however, the daily entries made by the Federal Reserve Banks covering their participations in the System Open Market Account, except for the additional entries made at the end of each month, have represented premium amortization, discount accumulation, interest accrual and earnings on their participations in the System Open Market Account at the close of business on the preceding day.

"It is believed that it would be desirable to have the Federal Reserve Banks follow a uniform basis in making accruals of earnings on all types of earning assets and with this in view it will be appreciated if you will advise us at your convenience whether you would favor the adoption of the plan outlined below:

1. Calculate earnings on all types of earning assets for each calendar day on the basis of holdings of earning assets at opening of business on such day or at close of business on the last preceding business day if the day in question is a Sunday or a holiday.

2. Make entry of such accruals on books of the Federal Reserve Bank, either daily or as of each Wednesday, and on the last day of each month, provided that if the last day of the month is a Sunday, or a holiday, entries made on the last business day shall include accruals for any day or days thereafter during the calendar month

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"on which the Federal Reserve Bank will be closed. For example, should the 29th day of the month fall on a Friday and the 30th and 31st on a holiday and a Sunday, entries for accrual of earnings on Friday the 29th would include one day's earnings on the opening balance on that day, and two days' earnings on the closing balance of the 29th.

3. If the first day of the month is not a business day entries of accruals on the first business day shall include accruals for the day or days prior thereto within the calendar month on which the Federal Reserve Bank was closed. If entry of accruals is not made daily the entry made on the first Wednesday in the month should include, of course, accruals for any day or days prior thereto within that calendar month.

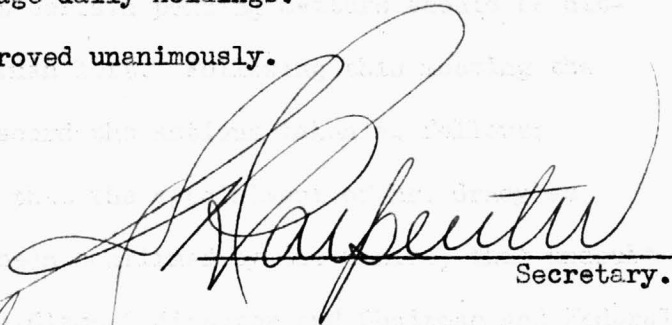
4. In so far as earnings on securities in the Federal Open Market Account are concerned, amend the present plan so that the Federal Reserve Bank of New York will wire accruals of earnings as of Wednesday and as of the last day of the month, instead of daily, as at present.

5. In any calculation of average rates of earnings on earning assets, use holdings as at beginning of business rather than at close of business for each day included in the period under consideration in computing average daily holdings."

Approved unanimously.

Approved:


Chairman.


Secretary.