Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, April 23, 1947. The Board met in the Board Room at 10:35 a.m.

PRESENT: Mr. Draper, Chairman pro tem
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. Vest, General Counsel
Mr. Leonard, Director of the Division of Examinations
Mr. Nelson, Director of the Division of Personnel Administration
Mr. Young, Assistant Director of the Division of Research and Statistics

Upon request of Mr. Draper the Secretary read a revision of the press statement that had been prepared for use in the event action were taken by the Board to establish an interest rate to be paid by Federal Reserve Banks on their Federal Reserve notes, not covered by gold certificates, outstanding during the first quarter of 1947. In accordance with the action taken by the Board on April 11, 1947, Chairman Eccles had discussed the proposed interest charge with Secretary of the Treasury Snyder at a meeting at the Treasury on the morning of April 18, 1947, at which Mr. Sproul, Vice Chairman of the Federal Open Market Committee, was also present and at which there was a discussion of proposals (1) that the Treasury adopt an arrangement for the tender of maturing bills in exchange for new bills being issued by the Treasury, and (2) that the posted rate and repurchase option on Treasury bills established by the Federal Open Market Committee be discontinued. During the afternoon of that day the Secretary of the Treasury advised that he and his associates had come to the conclusion that it would be desirable for the Board to take action to establish the interest charge on Federal Reserve notes, and to permit the tender of maturing Treasury bills for new bills, but that there were certain questions of procedure with respect to the discontinuance of the fixed buying rate and repurchase option on Treasury bills which the Treasury would like to consider further during the following week. Chairman Eccles left for California on the afternoon of April 18, but was of the opinion that prompt action should be taken to establish the interest rate on Federal Reserve notes.

Following a discussion, upon motion by Mr. Evans and by unanimous vote, the Board took the following action:

"The Board of Governors of the Federal Reserve System, under authority of the fourth paragraph of Section 16 of the Federal Reserve Act, hereby establishes for each Federal Reserve Bank for the three months' period ending March 31, 1947, the rate of interest per annum specified below on that amount of the Federal Reserve notes of such Bank which equals the average daily total amount of its outstanding Federal Reserve notes during such period less the average daily amount of gold certificates held during such period by the Federal Reserve agent as collateral security for such notes:

"Federal Reserve Bank of Boston	.37%
Federal Reserve Bank of New York	.63%
Federal Reserve Bank of Philadelphia	.39%
Federal Reserve Bank of Cleveland	.35%
Federal Reserve Bank of Richmond	.33%
Federal Reserve Bank of Atlanta	.37%
Federal Reserve Bank of Chicago	.38%
Federal Reserve Bank of St. Louis	.28%
Federal Reserve Bank of Minneapolis	.44%
Federal Reserve Bank of Kansas City	.44%
Federal Reserve Bank of Dallas	.49%
Federal Reserve Bank of San Francisco	.60%

Interest in an amount calculated in the manner and at the rate specified above for each Federal Reserve Bank shall be paid by such Bank to the United States on April 24, 1947."

Upon motion by Mr. Evans, unanimous approval was also given to a telegram to all Federal Reserve Banks which, after quoting the action set forth above, read as follows:

"According to the daily balance sheet, the average daily amount of outstanding notes of your Bank during first quarter of 1947 not covered by gold certificates with the Federal Reserve Agent was (see amounts under (1) below). At rate specified above, payment to Treasury for first quarter will be (see amounts under (2) below). Payment should be credited to Treasurer's General Account as Miscellaneous receipts, Symbol 1841-Interest Collected, Section 16 Federal Reserve Act as Amended. Board will release following statement to press for publication in morning papers of Thursday, April 24:

"As a result of operations essential to Government financing during and since the war, and operations required by the needs of business and the public for credit and currency, earnings of the twelve Federal Reserve Banks have been at relatively high levels. On the basis of present estimates, it is expected that net earnings of the Federal Reserve Banks for 1947, after payment of the statutory dividends to member banks, will aggregate more "than $60,000,000. In view of these facts, and of the fact that at the end of 1946 the surplus of each Federal Reserve Bank was equal to its subscribed capital, the Board has decided to invoke the authority, granted to it under section 16 of the Federal Reserve Act, to levy an interest charge on Federal Reserve notes issued by the Federal Reserve Banks. The purpose of this interest charge is to pay into the Treasury approximately 90 per cent of the net earnings of the Federal Reserve Banks for 1947.

"This action will add about $60,000,000 to the receipts of the Government for this calendar year. The initial payment covering the first quarter of 1947 will be made on April 24, and will amount to approximately $15,269,000.

"Section 16, paragraph 4, of the Federal Reserve Act provides that each Federal Reserve Bank shall pay such rate of interest as may be established by the Board of Governors of the Federal Reserve System on the amount of its outstanding notes less the amount of gold certificates held by the Federal Reserve Agent as collateral security. The Board has now decided to establish such rates of interest as will make it possible to transmit to the Treasury approximately 90 per cent of the net earnings after dividends of each of the Federal Reserve Banks for 1947.

"The authority to levy an interest charge on Federal Reserve notes not covered by gold certificates has not been used previously, chiefly because of the existence, prior to 1933, of so-called franchise tax provisions of the law which had a similar effect; that is, of transferring excess earnings of the Reserve Banks to the Treasury. Under these provisions, which were repealed in 1933, each Federal Reserve Bank was required to pay a franchise tax to the Government equal to 90 per cent of its net earnings after it had accumulated a surplus equal to its subscribed capital. To the end of 1932, the Federal Reserve Banks had paid franchise taxes to the United States Treasury amounting to $149,000,000, and at that time the Federal Reserve Banks had accumulated surplus accounts of $278,000,000, as compared with subscribed capital aggregating $302,000,000. In the amendment of the Federal Reserve Act, contained in the Banking Act of 1933, providing for the establishment of the Federal Deposit Insurance Corporation, Congress required each Federal Reserve Bank to pay an amount equal to one-half of its surplus on January 1, 1933, as a subscription to the capital stock of the FDIC on which no dividends would be paid. These stock subscriptions amounted to

"$139,000,000 and reduced the surplus of the Federal Reserve Banks to an equivalent figure, or considerably less than one-half of their subscribed capital. Congress, therefore, eliminated the franchise tax in order to permit the Federal Reserve Banks to restore their surplus accounts from future earnings.

"Net earnings for the next ten years were relatively small, and at the end of 1944 the combined surplus accounts of the Federal Reserve Banks were less than 75 per cent of their subscribed capital. During the next two years, however, net earnings increased substantially, due primarily to large holdings of Government securities accumulated through open market operations. This made possible transfers to surplus accounts which increased the combined surplus of the Federal Reserve Banks to $439,823,000 at the end of 1946, as compared with subscribed capital of $373,660,000.

"Under the circumstances, the Board concluded that it would be appropriate for the Federal Reserve Banks to pay to the Treasury the bulk of their net earnings after providing for necessary expenses and the statutory dividend. In effect, this will involve paying currently to the Treasury funds which, under existing law, would otherwise come to it only in the event, of liquidation of the Federal Reserve Banks. The Federal Reserve Act still provides that, in case of liquidation of a Federal Reserve Bank, any surplus remaining after the payment of all claims shall be paid to the Treasury. It is expected that the present payments will be made at quarterly intervals. By invoking its authority under section 16 of the Federal Reserve Act, the Board is able to accomplish the same results as were accomplished by the payment of a franchise tax, i.e., the transfer of excess earnings to the Government. The payments can thus be reflected in current revenues and taken into account in the Government's budget without further legislation.

"In the event of restoration of a franchise tax by the Congress, the Board would, of course, withdraw the requirement that Federal Reserve Banks pay interest on Federal Reserve notes, as there would be no justification for utilizing both means of accomplishing the same purpose--namely, payment of excess earnings of the Federal Reserve Banks to the Treasury.

"In his Budget Message for 1948 the President recommended that Congress authorize the Federal Deposit Insurance Corporation to repay the $139,000,000 of capital furnished by the Federal Reserve Banks, and accepted the proposal of the Board of Governors that Congress at the same time authorize the payment of this sum to the Treasury instead of to the Reserve Banks.

"Similarly, the President in his Budget Message concurred in the Board's further recommendation that Congress release to the Treasury general fund approximately $139,000,000 earmarked for payments to the Reserve Banks to enable them to make loans to industry under section 13b of the Federal Reserve Act. Legislation has been introduced in Congress to repeal section 13b and to substitute therefor authority for the Reserve Banks, upon request of any commercial bank, to guarantee in part loans made by such bank to business enterprises. If this legislation be enacted, the Federal Reserve Banks would rely upon their own surplus funds for this purpose, without resort to Government funds."

	(1)	(2)
"Boston	$1,053,001,654	$ 960,683.70
New York	2,271,252,224	3,528,219.21
Philadelphia	1,180,213,001	1,134,944.56
Cleveland	1,501,927,913	1,296,184.36
Richmond	1,132,496,678	921,511.00
Atlanta	858,929,639	783,626.22
Chicago	2,883,672,459	2,701,961.59
St. Louis	836,028,060	577,202.93
Minneapolis	418,418,369	453,955.27
Kansas City	655,708,272	711,398.56
Dallas	445,335,465	538,062.85
San Francisco	1,122,803,007	1,661,133.22"

Mr. Evans stated that some of the officers of the Pennsylvania Bankers Association planned to visit Washington next week and that he felt Mr. Draper, as Chairman pro tem of the Board, should extend an invitation to these representatives to visit the Board building and to have luncheon with such of the members of the Board as were available.

Consideration was given to whether this would set a precedent which should be followed with visiting representatives from bankers' associations of other States, and it was the consensus of the members present that in similar circumstances the Board should extend invitations to representatives of such groups to visit the Board and have luncheon.

Upon motion by Mr. Evans, there was unanimous agreement that Mr. Draper should tender an informal invitation through Mr. Needham of the Washington office of the American Bankers Association to the representatives of the Pennsylvania Bankers Association to have luncheon with the members of the Board when they visited Washington.

Mr. Evans then referred to the annual meeting of the National Association of Supervisors of State Banks to be held in Washington next fall and stated that he believed the Board should arrange a luncheon or a dinner for all who usually attended the meeting, which it was understood would total about 225 persons.

Mr. Morrill said that this Association had customarily met in cities in which a Federal Reserve Bank or branch was located, that the Federal Reserve Banks had usually given some form of entertainment for the Association, and that if the Board did not take a similar course it would be in contrast to the action Federal Reserve Banks had taken upon previous occasions.

In the discussion that followed it was agreed, for reasons which were outlined, that the Board should, either separately or in conjunction with the Federal Reserve Bank of Richmond, arrange appropriate entertainment for the Association upon the occasion of its forthcoming annual meeting.

Upon motion by Mr. Evans, it was agreed unanimously (1) that Mr. Clayton should call Chairman Eccles by telephone for the purpose of informing him of the views of the Board members, and of ascertaining whether he was agreeable to arranging for the entertainment as proposed by Mr. Evans; and (2) that, if there were no objection on Chairman Eccles' part, an invitation should be extended by Mr. Draper when it had been determined whether a dinner or luncheon would fit in with the program of the Association.

Mr. Young left the meeting at this time.

Mr. Carpenter read a draft of a telegram to Mr. Young, President of the Federal Reserve Bank of Chicago and Chairman of the Presidents' Conference Committee on Reimbursable Expenditures, as follows:

"Now that Federal Reserve Banks are turning over approximately 90 per cent of net earnings after dividends to Treasury, it occurs to Board that considerable time and expense might be saved by discontinuing making charges to fiscal agency units for expenses incurred in the so-called 'service units' referred to on page 4 of the revised functional expense manual. Board will appreciate it if your Committee will consider this matter and be prepared to submit recommendation at forthcoming Presidents' Conference. Mr. Sproul will be asked to have this topic placed on agenda for Conference."

Upon motion by Mr. Vardaman, the telegram was approved unanimously.

Mr. Nelson referred to a memorandum from Mr. Leonard transmitting a letter dated April 17, 1947, from Charles T. Malone, a Federal Reserve Examiner in the Division of Examinations, requesting a leave of absence without pay for a period of at least one year in order that he might accept a position in a civilian capacity to serve with the occupation forces in Japan. Mr. Leonard stated that Mr. Malone had been interested in service in the Orient for some time, that the War Department had requested him to accept the position, that Mr. Malone had discussed the matter with him, and that he (Mr. Leonard) had informed Mr. Malone he would send on his letter with a recommendation that the Board handle the request in accordance with its usual policy with respect to granting leaves of absence without pay for extended periods of time. In making this statement he had pointed out to Mr. Malone that he would not feel justified in recommending approval of the leave if it would be inconsistent with the Board's general policy, and Mr. Malone had stated that this was an eminently fair arrangement.

In a discussion of the matter, it was stated that the Board had taken the position in the past that it would authorize such absences only in cases in which it appeared that the experience which the employee would have during his absence would increase his value to the Board when he returned.

Upon motion by Mr. Vardaman, the matter was referred to the Personnel Committee with power to act.

Secretary's Note: Following this meeting the Personnel Committee considered Mr. Malone's request in the light of the discussion at the meeting and authorized the Secretary to address the following letter to Mr. Malone:

"Reference is made to the request contained in your letter of April 17, 1947 for leave of absence for a period of not less than one year in order that you might accept a position with the War Department as civilian Assistant Chief, Control-Cartels Branch, General Headquarters, SCAP, at Tokyo.

"After due consideration the Board has concluded that the granting of the extended leave requested by you would be inconsistent with its general policy respecting such matters and that it could not grant your request."

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

Minutes of actions taken by the Board of Governors of the Federal Reserve System on April 18, 1947, were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on April 21, and 22, 1947, were approved and the actions recorded therein were ratified unanimously.

Memorandum dated April 18, 1947, from Mr. Smead, Director of the Division of Bank Operations, recommending that an increase in the basic salary of Raymond C. Kolb, an analyst in that Division, from $3,397.20 to $4,149.60 per annum be approved, effective May 4, 1947.

Approved unanimously.

Memorandum dated April 22, 1947, from Mr. Leonard, Director of the Division of Examinations, recommending the appointment of Mrs.

Thelma M. Zarin as a stenographer in that Division 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 Mrs. Zarin was a member of the Civil Service retirement system and would remain in that system.

Approved unanimously.

Letter to the Honorable Maple T. Harl, Chairman, Federal Deposit Insurance Corporation, reading as follows:

"In accordance with the request contained in your letter of April 14, 1947, the Board of Governors of the Federal Reserve System hereby grants written consent, pursuant to the provisions of subsection (k)(2) of Section 12B of the Federal Reserve Act, for examiners for the Federal Deposit Insurance Corporation to make an examination of the First Trust and Savings Bank, Paris, Tennessee, in connection with its application for continuance of insurance after withdrawal from membership in the Federal Reserve System.

"There are no unfulfilled conditions of membership with respect to the bank. However, the strengthening of management and improvement of internal operations which the Board was given to understand, at the time the bank was admitted to membership, would be effected without undue delay, have not been accomplished.

"Prior to the bank's admission, Vice President Peterson and an examiner of the Federal Reserve Bank of St. Louis met with seven of the bank's ten directors at the offices of the bank and received assurances that the need for supplementing the active management of the bank was recognized, that the services of a qualified individual were being sought, and that such efforts would be continued until the need was met.

"The report of examination as of December 9, 1946, which has been made available to your office, contains a "rather full discussion of the unchanged situation and the further assurances received from the directorate.

"On February 11, 1947, the bank forwarded to the Reserve Bank its application for withdrawal from membership and the Board of Governors waived the requirement of six months notice on February 26, 1947. The bank cited reserve requirements as the reason for withdrawal, but the Reserve Bank felt that an equally important one was that President Hastings, notwithstanding the acknowledged need, was reluctant to employ a qualified assistant and potential successor as urged by the Reserve Bank, largely because of his unwillingness to delegate authority and because of the salary such a man would require.

Approved unanimously.

Letter to Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, reading as follows:

"At the completion of the examination of the Federal Reserve Bank of Kansas City, made as of February 20, 1947, by the Board's examiners, a copy of the report of examination was left for your information and that of the directors. A copy was also left for President Leedy who, under date of March 20, 1947, informed the Board of action taken or to be taken in connection with certain comments and suggestions made by the examiner.

"The Board also will appreciate advice that the report has been considered by the Board of Directors. Any comments you may care to offer regarding discussions with respect to the examination will also be appreciated."

Approved unanimously.

S. R. Carpenter

Secretary.

Approved:

Ernest G. Draper

Chairman pro tem.