Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, May 29, 1947. The Board met in the Board Room at 10:40 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Szymczak
Mr. Draper
Mr. Evans
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. Parry, Director of the Division of Security Loans
Mr. Vest, General Counsel
Mr. Brown, Assistant Director of the Division of Security Loans
Mr. Townsend, Assistant General Counsel
Mr. Solomon, Assistant Counsel

There were presented telegrams to the Federal Reserve Banks of Chicago, St. Louis, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Banks of St. Louis and San Francisco on May 28, 1947, and by the Federal Reserve Bank of Chicago today of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Reference was made to a draft of a letter to Congressman Wolcott, Chairman of the Banking and Currency Committee of the House, as follows:

"On February 13, 1947, the Board wrote to you recommending the adoption of legislation to repeal the limitation contained in Section 10 of the Federal Reserve Act on the amount which may be expended for the erection of any Federal Reserve branch building. This recommendation was considered by your Committee but it was decided not to include it in the legislation pending at that time which related to direct purchases of Government securities from the Treasury.

"Since then the Board has made a careful review of the needs of the branches of the Federal Reserve Banks for additional space and has reached the conclusion that the needs of a few of the branches are so urgent that a serious situation will develop if steps to provide adequate quarters are not taken immediately. The Board considers, therefore, that it is of the utmost importance that action to remedy this situation be taken at the present session of Congress and strongly recommends that legislation be enacted in the form of Section 2 of the draft of bill enclosed with the Board's letter of February 13, 1947.

"Since the adoption of the present statutory limitation in 1923 and particularly during the war the operations of the 24 branches of the Federal Reserve Banks have greatly increased and there has been a corresponding increase in the space required. The largest single factor in this expansion has been a tremendous increase in the volume of fiscal agency operations performed for the Treasury Department and other Government departments and agencies. There have also been very large increases in currency and coin transactions, check collections, and other operations of the Reserve Banks and their branches.

"Should legislation permitting new construction at the branches be adopted, the Board will not authorize any substantial construction at any branch, except in urgent cases, until there is a more plentiful supply of labor and materials and the timing of the construction is in harmony with the postwar program particularly for veterans' housing.

"The need for prompt action is illustrated by the following cases:

"The Portland branch is housed in two rented buildings one of which, effective January 1, 1948, has been leased on a long-term basis to another tenant. The lease on the other "building, in which the main office of the branch is located, can be cancelled by the owner on 6 months' notice, and, without giving formal notice of cancellation, the owner has requested the release of certain space as soon as possible and the entire quarters at the end of 1947. The Bank has verbal assurance, however, that if the building program of the branch is being actively carried out, the owner of the building will not require the release of the space now occupied until the new building is ready for occupancy. There is no suitable space available in Portland with adequate vault facilities for the operations of the branch. Even if other space could be rented, the cost of providing vaults and other adequate facilities would be unreasonably high. If effective steps to provide additional quarters are not taken promptly, it may be necessary to transfer a substantial part of the operations of the Portland branch to San Francisco or Seattle with great inconvenience to the territory served by the branch. The branch now has 238 employees as compared with 91 at the end of 1940.

"A somewhat similar situation exists at the Seattle branch. That branch occupies quarters in three buildings, the leases on which expire in September 1949 and February 1951. The vaults are inadequate and the clerical working quarters are overcrowded. The owner of the building in which the principal offices of the branch are located, requires additional space and has already taken over part of the area in its building formerly occupied by the branch. No other suitable space having adequate vaults is available in Seattle. The Seattle branch now has 299 employees as compared with 118 at the end of 1940.

"The Los Angeles branch owns a building containing 92,000 square feet gross area but its operations have expanded to such an extent that it now rents 32,000 additional square feet of space. The lease on this space expires in June 1950 but the owner has an option to require the surrender of part of the space on 30 days' notice. The Bank knows of no other suitable space available with adequate vaults. In fact, the vault facilities now available are entirely inadequate and it is urgent that additional permanent vault facilities be provided. There are now 575 employees at the branch as compared with 217 at the end of 1940.

"The Cincinnati branch now occupies space in a building on a site owned by the Federal Reserve Bank of Cleveland. The lease on these quarters expires in April 1952. The Bank now has an opportunity to purchase the building on a very favorable basis which is approximately the cost of construction in 1927, less normal depreciation. The Bank has given very careful consideration to the advisability of purchasing a lot and constructing a new building thereon but a very substantial saving could be effected by purchasing the building now occupied which is fully adequate for the purposes of the branch. While the limitation contained in the law specifically applies only to new construction, the Board has withheld action in this case pending the consideration by the Congress of the proposed amendment.

"Many of the branches in other districts are in need of additional space but their requirements are not as urgent as those referred to above. Among these are the branches at Detroit, Jacksonville, Birmingham, Louisville and Baltimore.

"Should the Congress be unwilling to repeal the limitation on expenditures for Federal Reserve branch buildings contained in Section 10 of the Federal Reserve Act the Board urgently recommends that it be authorized to approve expenditures for the erection or acquisition of buildings for Federal Reserve branches and for additions to existing branch buildings, in those cases where the needs are most urgent, up to an aggregate amount not exceeding $10,000,000 for the cost of the building proper, exclusive of the cost of the vaults, permanent equipment, furnishings, and fixtures."

Chairman Eccles stated that in earlier discussions the House Committee had not questioned the need for additional facilities at some of the Federal Reserve Bank branches, that its hesitation to lift the limitation on expenditures for branch buildings apparently was based on the feeling that such action might be looked upon as authorization for the diversion of scarce labor and materials from needed veterans' housing, and that the four situations referred to in the proposed letter were to call attention to the cases which would justify legislation at this session of the Congress. In response to a question whether he should discuss the matter with Mr. Wolcott before the letter was sent, Chairman Eccles said the Clerk of the Committee had promised to call him if the committee wanted him to appear on the industrial loan bill next week but that he had heard nothing further and that he felt the letter should be sent so that the record could be made as to the need for legislation at this session.

Mr. Thomas entered the meeting at this time.

Mr. Clayton asked whether the Chairman of the Senate Banking and Currency Committee should be informed of the proposals submitted to Chairman Wolcott, and Chairman Eccles stated that he would like to send a copy of the proposed letter to Chairman Tobey, but that he would not wish to indicate that Chairman Tobey should introduce another bill or take any action at this time with respect to this problem, inasmuch as it would be desirable to know what program Chairman Wolcott felt should be followed in the House before asking the Senate to take the matter up again.

Upon motion by Mr. Evans, the letter to Chairman Wolcott was approved unanimously, together with the following letter to Senator Tobey, Chairman of the Senate Banking and Currency Committee:

"You will recall that some time ago when the Banking and Currency Committee of the House was considering the legislation relating to direct purchases of Government securities by the Federal Reserve Banks from the Treasury, it decided not to include a recommendation of the Board for the repeal of the limitation contained in section 10 of the Federal Reserve Act on the cost of Federal Reserve Branch buildings.

"Since that time the Board has given further consideration to the matter and I am sending to you for your information a copy of a letter which I am sending today to Mr. Wolcott, Chairman of the House Banking and Currency Committee, setting forth the reasons why the Board believes legislation on this matter is desirable at the present session of the Congress. I understand that your Committee is favorably disposed to the repeal of the existing limitation and as soon as there is an indication whether the House Committee will take any action I would like to get in touch with you again."

There was then presented a memorandum from Mr. Thomas and Mr. Young dated May 27, 1947, relating to a request of the Council of Economic Advisers that the Board make an interim survey of consumer spending plans as requested in a letter from the Chairman of the Council dated May 22, 1947.

Mr. Thomas stated that such a survey might yield only negative results by showing that at the present time consumer intentions for expenditures on durable goods were not materially different from the intentions expressed in the comprehensive liquid assets survey made for the Board by the Survey Research Center of the University of Michigan in February 1947, that it was his opinion no great change in the intentions of consumers had taken place since February, that the Council of Economic Advisers was inclined to feel that some material changes in plans of consumers might have occurred since early this year because of advances in prices, and that if changes in consumer attitudes toward buying had changed, that factor might be of importance in bringing about a decline in prices in the near future. Mr. Thomas added that the cost of the proposed survey would be approximately $11,000, that the special survey budget of the Division of Research and Statistics had funds available inasmuch as the comprehensive liquid assets survey made by the Survey Research Center was costing less than had been anticipated, and that the Council of Economic Advisers had stated it would not have funds to contribute toward the cost of such a survey.

Mr. Young entered the meeting during Mr. Thomas' statement.

Mr. Evans said that he favored making the survey because of the recognized value of the results of the earlier survey of liquid assets and consumer expenditures made by the Board, and also because this work had been requested by the Council of Economic Advisers and it seemed desirable to cooperate with the Council in matters of this sort in so far as possible.

Chairman Eccles stated that he felt the Board was under no obligation to furnish the Council with information other than that which would be available as a result of the usual work scheduled by the Board, and that he felt a response to the Council's request should indicate that the Board should not be expected to undertake surveys outside of the regular and usual expenditures that would be incurred in the usual course of the Board's work.

Upon motion by Mr. Draper, it was agreed unanimously that the Research Division should proceed with the survey requested by the Council of Economic Advisers and that Mr. Evans should approve such plans as were necessary to carry out this program. Unanimous approval was also given to a letter to the Chairman of the Council reading as follows:

"Chairman Eccles has brought to the attention of the Board of Governors your letter of May 22, 1947, in which you request that the Board undertake a rapid survey, by use of a small sample, of changes since February in consumer spending and expectations from results shown by the survey of liquid asset holdings, spending, and saving taken early this year.

"The Board is in accord with the suggestion that such a survey would be desirable and, in view of the fact that the cost of the proposed check survey can be absorbed into the budget of the Board's Division of Research and Statistics without any increase thereof, it has directed that the survey be made.

"The Board of Governors is glad to cooperate with your organization in the discharge of your important responsibilities in any way that is in accord with the functions of the Federal Reserve System and can be considered a proper and reasonable expense of the Board. It will facilitate our efforts in this connection if there can be informal preliminary discussion between members of the Council and of the Board with regard to any projects or work which your Council might in the future desire to have the Board undertake. Such a discussion before transmittal of a formal request will provide an opportunity to determine whether the necessary funds and manpower are available for the work and it can be fitted in with the other activities of the staff.

"The Board appreciates the comment contained in your letter with respect to the value to the Council's work of last year's survey of liquid asset holdings and hopes that the information developed by this year's survey and by the proposed check survey will also make useful contributions to the deliberations of the Council, as well as to general public understanding of current economic developments and problems."

The Secretary read a draft of a letter for Chairman Eccles' signature to the Chairmen of the Senate and House Banking and Currency Committees, prepared in accordance with the discussion at the meeting of the Board on May 23, 1947. The draft would transmit a draft of a suggested bill which would authorize the regulation by the Board of consumer installment credit, and outline the reasons why such legislation appeared to be desirable. A draft of a letter prepared for the signature of the President and addressed to the Chairman of the Board stating his belief that authority for regulation of consumer credit should be made permanent by legislative enactment was also read. This draft was prepared in accordance with the discussion at the White House as reported by Chairman Eccles at the meeting of the Board on April 11, 1947.

During a discussion certain changes were suggested in the letters and Mr. Solomon was requested to review the draft of accompanying bill. During his statement Mr. Solomon referred to the fact that the bill would authorize the Board to regulate not only installment credit for the purpose of purchasing and carrying consumers durable goods, but installment credit for other consumer purposes.

Chairman Eccles said that it was extremely doubtful whether Congress would pass a consumer credit bill in any form and that a bill giving the Board authority to regulate all consumer installment credit would not have a chance of passage at this session of the Congress.

Mr. Parry stated that since the inception of Regulation W, general consumer installment loans had been subject to its terms, even though they were not for the purchase of, or secured by, consumer durable goods, that the inclusion of such loans was based partly upon the administrative problem that would arise from evasive practices if they were not included, and that there also was a need for regulation of such loans which, regardless of their purpose, could contribute to economic instability.

Chairman Eccles questioned the advisability of proposing legislation on that basis, and suggested that the draft of letter be revised to state the reasons for proposing the broader authority, and that an alternative draft of bill and letter be prepared which would recommend legislation authorizing the Board to regulate only installment credit for purchasing consumer durable goods and loans secured by such goods.

Chairman Eccles' suggestion was approved unanimously with the understanding that the matter would be discussed again at a meeting of the Board to be held early next week.

At this point Messrs. Smead, Parry, Vest, Brown, Townsend, Solomon, Thomas, and Young 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 May 28, 1947, were approved unanimously.

Memorandum dated May 21, 1947, from Mr. Carpenter recommending the appointment of Miss Mary Wasnetsky as a file clerk in the Secretary's Office on a temporary basis for a period not to exceed six months 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 passing the usual physical examination. The memorandum stated that if Miss Wasnetsky's services proved satisfactory, it was expected that a recommendation would be submitted that her appointment be made permanent. The memorandum also stated that Miss Wasnetsky was a member of the Civil Service retirement system and would remain in that system.

Approved unanimously.

Memorandum dated May 26, 1947, from Mr. Carpenter recommending the appointment of Miss Ardith Elaine Jeffries as a file clerk in the Secretary's Office on a temporary indefinite basis with basic salary at the rate of $2,093.04 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 Jeffries had funds in the Federal Reserve retirement system and would remain in that system.

Approved unanimously.

Memorandum dated May 26, 1947, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that the basic salary of Mrs. Marylou Arason, Secretary to Mr. Knapp, be increased from $2,895.60 to $3,021.00 per annum, effective June 1, 1947.

Approved unanimously.

Memorandum dated May 21, 1947, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that increases in the basic annual salaries of the following employees in that Division be approved, effective June 1, 1947:

| Name | Designation | Salary Increase From | To |
|---|---|---|---|
| Orville K. Thompson | Economist | $3,648.00 | $4,149.60 |
| Walter F. Stettner | Economist | 5,403.60 | 5,654.40 |

Approved unanimously.

Memorandum dated May 21, 1947, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that increases in the basic annual salaries of the following employees in that Division be approved, effective June 1, 1947:

| Name | Designation | Salary Increase From | To |
|---|---|---|---|
| Ruth J. Halvorsen | Clerk | $2,619.72 | $2,770.20 |
| Ileen C. Shepherd | Clerk | 2,469.24 | 2,544.48 |
| Betty Ann Stanley | Clerk | 2,394.00 | 2,469.24 |
| Doris Bruderer | Clerk-Stenographer | 2,243.52 | 2,394.00 |

Approved unanimously.

Telegram to Mr. Gilbert, President of the Federal Reserve Bank of Dallas, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H, the Board approves the application of the "First State Bank", Premont, Texas, for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Dallas. The telegram requested that the Federal Reserve Bank advise the applicant bank of the Board's approval of the application and conditions of membership prescribed, together with necessary instructions as to the procedure for accomplishing membership, and stated that a letter containing detailed advice regarding such approval would be forwarded to the applicant bank through the Federal Reserve Bank. The telegram contained the following additional statement:

"It appears that the bank possesses the power to issue and sell investment certificates, which power is "not necessarily required in the conduct of a banking business. Attention is called to the fact that if the bank should desire to exercise such power, it will be necessary under condition of membership numbered 1 to obtain the permission of the Board of Governors before doing so."

Approved unanimously.

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

"Your letter of May 12, 1947, regarding the retirement of RFC capital in member banks of your District has been reviewed with interest.

"It is noted that of the 258 State member banks in your District, 65, or 25 per cent, still have RFC capital, the total retirable value of the RFC stock being $59,579,000, exclusive of any arrearages on dividends. This total represented as of March 31, 1947, 35 per cent of the Corporation's holdings in all banks and 68 per cent of its holdings in the State member banks of the 12 Federal Reserve Districts.

"According to your classification, these 65 banks fall in the following groups:

| | Preferred capital held by RFC retirable value |
|---|---|
| 4 banks where the retirable value of the RFC stock is considerably in excess of the book capital funds of the bank | $41,584,000 |
| 5 banks where the common stock equity is small and where in some cases the earning capacity is also small so that if retirement is to be effected from earnings a very long time will be required | 3,909,000 |
| 56 banks in such shape that retirement of the RFC capital either from present capital funds, current earnings, or through refunding should present no serious problem | 14,086,000 |
| | $59,579,000 |

"The Board recognizes the difficulties inherent in the cutback cases and is in agreement that any programs for the elimination of RFC capital in those banks in the near future would depend upon determinations made by the RFC. Therefore, it is suggested that the thought and effort of the Federal Reserve Bank be concentrated on the cases where some affirmative action can now be taken or programs developed in cooperation with local interests and the State banking departments."

Approved unanimously.

Letter to Mr. Clark, First Vice President of the Federal Reserve Bank of Atlanta, reading as follows:

"This refers to your letter of April 3, 1947, with respect to the holding company affiliate status of The First National Bank of Tampa and Union Security & Investment Company, both of Tampa, Florida.

"It is noted that the real estate and other property which the investment company acquired from the bank has been substantially liquidated and the purpose for which the company was originally organized appears to have been accomplished. Also it is noted that over 96 per cent of the company's total assets now consist of bank stocks, and, in addition to control over The Broadway National Bank of Tampa, the company now owns over 37 per cent of the stock of The First National Bank of Clearwater, which is over 45 per cent of the number of shares voted at the last election of directors. From these facts it would seem that there has been a substantial change in the situation since the Board's determination of January 6, 1941, and the Board has decided to reconsider the matter on the basis of the presently existing facts.

"It will be appreciated if you will bring the substance of this letter to the attention of both organizations and advise them that the Board will give consideration to the question whether its determination of January 6, 1941, should be altered. In this connection, please state that the Board will be glad to consider any additional information which they may care to submit, but that any such information should be submitted not later than the end of June."

Approved unanimously.

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

"I have your letter of May 23, 1947 and wish to assure you that the Treasury will have the wholehearted cooperation of the Federal Reserve System in support of the forthcoming Savings Bond campaign. To this end, I am requesting the Heads of the several Divisions in the Board's organization to bring the matter to the attention of every employee under their supervision. More than half of the Board's personnel are now regularly participating in the Pay Roll Savings Plan. However, an effort will be made to increase participation both in number and amount.

"Since the Federal Reserve Banks maintain their own Pay Roll Savings Plans, a copy of your letter and of this reply are being sent to the President of each Bank in order to underscore the importance of revitalizing their own bond organizations where necessary and making the greatest possible contribution to the success of the campaign."

Approved unanimously, together with a letter to the Presidents of all the Federal Reserve Banks reading as follows:

"There are enclosed for your information a copy of a letter from the Secretary of the Treasury, dated May 23, 1947, and a copy of Chairman Eccles' reply of this date, pledging the cooperation of the Federal Reserve System in support of the forthcoming Savings Bond campaign.

"It is hoped that the broader aspects of the Treasury's campaign, including the inauguration of a bond-a-month plan by commercial banks, will not obscure the very real contribution that can be made by the Reserve Banks through stimulating increased participation in their own Pay Roll Savings Plans."

S. R. Carpenter
Secretary.

Approved:

M S Eccles
Chairman.