

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, October 3, 1947. The Board met in the Special Library at 10:40 a.m.

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

Mr. Carpenter, Secretary
 Mr. Sherman, Assistant Secretary
 Mr. Morrill, Special Adviser
 Mr. Smead, Director of the Division of
 Bank Operations
 Mr. Chase, Assistant Counsel

In accordance with the understanding at the meeting on September 30, a draft of letter with respect to maximum travel allowances for officers and employees of the Federal Reserve Banks had been circulated among the members of the Board prior to this meeting reading as follows:

"A review of the replies from the Federal Reserve Banks to the Board's letter of November 7, 1946, confirms the Board's impression that there is considerable variation in the practices followed by the Federal Reserve Banks with respect to the reimbursement of officers and employees for traveling expenses and in the amounts allowed for that purpose. As you know, Congress has provided, with some exceptions, that the maximum per diem allowance for subsistence for Government officials and employees shall be \$6.00. This has been criticized because of its inadequacy, and liberalizing bills were introduced in both houses of Congress during the first session of the present Congress, but no action was taken on them. From time to time the Board has reviewed its own travel regulations, and has prescribed

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"maximum per diem rates for subsistence, with a view to keeping its travel expenditures on a reasonable basis. In view of the relationship of the Federal Reserve Banks to the Government including the interest of the Government in the excess earnings of the Federal Reserve Banks, it is felt that there should be a uniform System policy as to the maximum amounts that may be reimbursed for traveling expenses.

"The Board has concluded, therefore, that reimbursement for traveling expenses of officers and employees of the Federal Reserve Banks should be limited to maximum per diem allowances for subsistence of \$10.00 for the President and First Vice President, or to their actual necessary expenditures for subsistence, and \$8.00 for other officers and employees, in addition to actual necessary transportation expenses. Reimbursement of expense for foreign travel may be made on such basis, not exceeding actual necessary expenses, as the Board of Directors or Executive Committee may determine. For the purpose of this letter the terms 'actual necessary transportation expenses' and 'per diem for subsistence' will include the items usually understood to be covered by these terms, except that the term 'per diem for subsistence' does not include the cost of dinners, luncheons and other similar expenses provided for guests of the Federal Reserve Bank. Such expenses should be included in the function 'Bank and Public Relations' in functional expense reports and budgets submitted to the Board.

"When using his own automobile on official business, the traveler may be allowed mileage at a rate not to exceed 6¢ per mile in lieu of actual operating expense.

"The statements in this letter as to the amounts that may be reimbursed for traveling expenses are intended as maximum limitations within which each Federal Reserve Bank may adopt any basis or method it desires for reimbursing officers and employees for such expenses."

The letter was read and discussed and approved unanimously for transmission to the Presidents for discussion at their meeting with the Board next week, together with the following letter to Mr. Sproul, Chairman of the Conference of Presidents:

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"Attached is a draft of a proposed letter with respect to travel expenses of officers and employees of the Federal Reserve Banks. In accordance with the understanding at the last meeting of the Presidents' Conference and the Board, this draft has been prepared for consideration by the Presidents and discussion at the next meeting of the Presidents with the Board.

"Copies of this letter and its enclosure are attached for distribution to the Presidents of the other Federal Reserve Banks."

There were presented telegrams to the Federal Reserve Banks of New York, Philadelphia, St. Louis, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on September 30, and by the Federal Reserve Banks of New York, Philadelphia, and St. Louis on October 2, 1947, the rates of discount and purchase in their existing schedules.

Approved unanimously.

Chairman Eccles referred to a memorandum prepared by Mr. Thomas under date of September 15, 1947, recommending that Chandler Morse, former Assistant Director of the Division of Research and Statistics, be appointed as a special consultant to the Board on a temporary basis for an indefinite period, with the understanding that his services at the rate of \$30 per day would be paid for out of the funds available from the budget of the Division of Research and Statistics for paying fees to special consultants whose appointments previously had been approved by the Board. He stated that he felt Mr. Morse's appointment should be approved, but that he would

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like to suggest that the Board approve an arrangement under which, in the future, the services of a consultant whose appointment had been approved by the Board might be requested only with the approval of the Personnel Committee upon recommendation of a Board member or the appropriate division head. He stated that he had discussed this matter with Mr. Thomas and the suggested procedure was agreeable to him. In this connection he referred to the fact that at the present time there was no uniformity in the manner in which the services of Messrs. Goldenweiser, Hansen, Haberler, and Lutz, all of whom were consultants to the Board, could be requested.

In the discussion that followed, Mr. Vardaman suggested that, since a request for the services of a consultant for a given project resembled the appointment of a person to the Board's staff, it would be desirable to have the request subject to approval of the Board rather than the Personnel Committee, and Mr. Draper said he would like to see such requests before the consultants were asked to undertake any work.

There was a discussion of the list of persons now appointed as consultants to the Board, and Chairman Eccles raised a question as to whether all names needed to remain on the list currently.

At this point Mr. Thomas joined the meeting.

Mr. Thomas stated that he would be glad to submit a memorandum with respect to the names of persons who should remain on

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the list of consultants designated by the Board which would include, in accordance with Chairmen Eccles' suggestion, the name of Mr. Morse as recommended in Mr. Thomas' memorandum of September 15, and also the name of Mr. Richard A. Musgrave, formerly Chief of the Government Finance Section of the Division of Research and Statistics, who resigned September 19 to engage in teaching activities at Swarthmore College. He felt that Messrs. Hansen and Haberler might now be dropped from the list.

It was agreed unanimously that (1) the memorandum dated September 15, 1947, with respect to the appointment of Chandler Morse as a consultant would be rewritten by Mr. Thomas and that he would submit a recommendation with respect to Mr. Musgrave's appointment as a consultant; (2) in the absence of further information, the existing arrangements with Messrs. Hansen and Haberler would be discontinued as of today; (3) the appointments of Messrs. Goldenweiser, Lutz, Morse and Musgrave would not be continued beyond the end of 1948 with the understanding that if they were still on the list of consultants at that time the question of their further retention would be considered in connection with the annual budget and that a similar procedure would be followed with respect to the retention of consultants thereafter; and (4) hereafter the services of an individual whose employment as a consultant on an occasional or part time basis had been approved by the Board could be requested only with the approval of the Board upon recommendation by the Personnel Committee after consultation with the appropriate division head or member of the Board.

In taking this action it was understood that, when the services of a consultant were desired for a particular purpose which

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might require his working on the matter at intermittent times over a period, the request for his services would be approved for the project and approval would not be required each time he returned to work on it.

Mr. Thomas left and Mr. Vest entered the meeting at this point.

Mr. Carpenter referred to a draft of a memorandum that had been prepared in accordance with the discussion at the meeting on September 30 covering a statement which Chairman Eccles would make at the meeting of the Board and the Presidents next week concerning the Federal Reserve check collection service.

The memorandum was read and discussed and approved in the following form as a confidential statement which Chairman Eccles would make to the Presidents. It was understood that copies of the statement would not be distributed to the Presidents:

"At the joint meeting of the Board of Governors and the Presidents of the Federal Reserve Banks on June 6, in discussing the subject 'Maximum Deferral of Credit for Cash Items and Receipt of Unassorted Cash Items in One Cash Letter', the Chairman stated that the Board would give further study to this matter and that the Board's proposal would be submitted to the Presidents for consideration.

"Since that time the Board has given considerable thought to this subject and has come to the conclusion that the changes in the check collection procedure that have been under consideration during the past year or two would not be adequate to achieve the principal objectives of (1) a collection system which would render the greatest possible service to industry, commerce,

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and agriculture, and (2) make membership in the System more attractive. What is needed is a more fundamental and far-reaching revision of the whole collection procedure, if it is to move far toward these important objectives.

"When the question of membership in the System was being discussed by Congress in the thirties Congressman Steagall expressed the view, which was concurred in by others, that membership should be made attractive and not compulsory. If the check collection functions of the System are to be sufficiently attractive to make it worthwhile for many of the smaller banks to send their items to the Federal Reserve Banks or for nonmember banks generally to join the System the collection system must be improved and kept abreast of changing conditions. In other words, the System should now take the necessary steps to enable it at an appropriate time to receive from member banks all classes of cash and noncash items in a single letter, with such sorts as may be found to be desirable in the case of letters containing from 300 to 500 items or more, and to give immediate credit for all cash items deposited with the Federal Reserve Banks and Branches. The System should be ready to make the proposed change at such time as may be appropriate in the light of the general economic situation.

"Such a procedure would reduce operating costs at member banks including the cost of maintaining records covering deferred credits. It should not result in any large reductions in interbank deposits as banks would continue to keep their excess reserves with correspondent banks rather than with the Reserve Banks. In addition, it would make available to member banks approximately \$2 billion of funds for which they now receive deferred credit at the Reserve Banks. This in turn would enable member banks to give more prompt credits to their individual and corporate depositors.

"The giving of immediate credit by the Federal Reserve Banks for about \$2 billion of items for which deferred credit is now given would increase member bank reserves by about one-eighth and would result in a reduction of perhaps \$15 to \$20 million in the annual gross earnings of the Reserve Banks. Under the proposed procedure the Reserve Banks would presumably

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"handle considerably more checks than at present but the additional cost of handling such checks would be offset, in substantial part at least, by the elimination of the need for keeping detailed records of deferred credits.

"The Board believes that studies should be inaugurated promptly by the Federal Reserve Banks and the Board to determine what changes in operating procedures would be necessary to bring this change about, including amendments to check collection circulars, the procurement of necessary mechanical equipment, space, personnel, etc. To this end it is suggested that the Presidents' Conference refer the matter to one of the committees functioning under the Committee on Operations for study and report in consultation with Mr. Smead of the Board's staff.

"There is one step that the Board feels should be taken promptly. From information received from the Banks in response to the Board's letter of June 26, 1947, with respect to the absorption of transportation charges on direct sendings, it is found that 50 or 60 banks are depositing with their own Federal Reserve Banks a daily average of more than 300 items payable in the territory of another Federal Reserve Bank or Branch. In some cases, the number of items runs up into the thousands, the largest number reported being 5,248. The Board believes that the best way to correct this practice is to arrange with member banks, after taking the matter up with the banks affected, that on and after, say January 1, 1948, if a member or nonmember clearing bank sends to its Federal Reserve Bank a daily average of more than 300 items payable in the territory of another Federal Reserve Bank or Branch, such items will be sorted and listed separately. The Board would appreciate the views of the Presidents on this proposal."

Mr. Carpenter then read a letter dated September 26, 1947, from Mr. Rounds, First Vice President of the Federal Reserve Bank of New York, which had been written in response to an informal request from the Board for information concerning the position of the New York Bank on the interdistrict purchase and sale of Federal

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funds by member banks in the New York District. The letter from Mr. Rounds reviewed the practices of banks in purchasing and selling such funds over a period of years, and stated that while the practice did not appear to be objectionable within a given Federal Reserve district, it was not considered desirable to have banks engage in it on an inter-district basis.

Chairman Eccles stated that while it was recognized that probably neither the Board nor a Federal Reserve Bank had authority to prevent member banks from dealing in Federal funds, any action the System might take to discourage the practice would be because the use of such funds was related to System monetary and credit policies. Should action be found to be desirable in this connection, he said, it should be taken on a uniform System basis by all Federal Reserve Banks rather than on an individual basis by a single Federal Reserve Bank.

It was agreed that the matter would be discussed along the foregoing lines with the Presidents at their meeting with the Board next week.

At this point Messrs. Smead, Vest, and Chase 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 October 2, 1947, were approved unanimously.

Memorandum dated September 30, 1947, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that the resignation of Miss Adela Bocuilis, a clerk in that Division, be

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accepted to be effective, in accordance with her request, at the close of business October 17, 1947, 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 "The First National Bank of Mooresville", Mooresville, North Carolina, reading as follows:

"This refers to the resolution adopted on July 24, 1947, by the board of directors of your bank, signifying the bank's desire to surrender its right to exercise fiduciary powers heretofore granted to it.

"The Board, understanding that your bank has never accepted or undertaken the exercise of any trust, has issued a formal certificate to your bank certifying that it is no longer authorized to exercise any of the fiduciary powers covered by the provisions of section 11(k) of the Federal Reserve Act, as amended. This certificate is enclosed herewith.

"In this connection, your attention is called to the fact that, under the provisions of section 11(k) of the Federal Reserve Act, as amended, when such a certificate has been issued by the Board of Governors of the Federal Reserve System to a national bank, such bank (1) shall no longer be subject to the provisions of section 11(k) or the regulations of the Board of Governors of the Federal Reserve System made pursuant thereto, (2) shall be entitled to have returned to it any securities which it may have deposited with the State authorities for the protection of private or court trusts, and (3) shall not exercise thereafter any of the powers granted by section 11(k) without first applying for and obtaining a new permit to exercise such powers pursuant to the provisions of section 11(k)."

Approved unanimously.

Letter prepared for Chairman Eccles' signature as a member of the National Advisory Council to Mr. Harold Glasser, Secretary, National Advisory Council, reading as follows:

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"The Board of Governors has been consulted in the last few days with regard to a loan of \$2 million that the Bank for International Settlements was proposing to make to the Central Bank of Turkey. This loan had come to the attention of the Federal Reserve System in accordance with Article 20 of the statutes of the B.I.S. which reads in part:

'The operations of the Bank shall be in conformity with the monetary policy of the central banks of the countries concerned.

'Before any financial operation is carried out by or on behalf of the Bank on a given market or in a given currency the Board shall afford to the central bank or central banks directly concerned an opportunity to dissent. ...'

Under Article 58 of the B.I.S. statutes, the term 'central bank' with respect to the United States means the Federal Reserve Bank of New York. That bank, in accordance with Federal Reserve System procedure, took up the matter with the Board of Governors.

"The Federal Reserve Bank of New York proposed to notify the B.I.S. that it saw no objection to the proposed loan. The Board, after clearing with the Department of State, gave its assent to such notification. This is a short-term (six-month) loan, of the type which the Federal Reserve Bank of New York also extends on gold collateral to foreign central banks, and the Board, after considering all the circumstances, did not believe that the answer proposed by the Federal Reserve Bank of New York could prejudice in any way the U. S. policy toward future operations of the B.I.S. In view of the acceptability of the particular borrower and the urgency that the B.I.S. and the borrower had attached to the matter, the Board decided that in this case it ought to give the requested assent without requiring that the loan be delayed pending consideration by the National Advisory Council.

"It seems likely, however, that the B.I.S. may be proposing to make other dollar loans in the near future. Therefore, I should like to ask that this loan and the matter of our policy with respect to future loans be placed on the agenda for discussion at the next meeting of the N.A.C. and that the Staff Committee meanwhile prepare a paper on the subject."

Approved unanimously.

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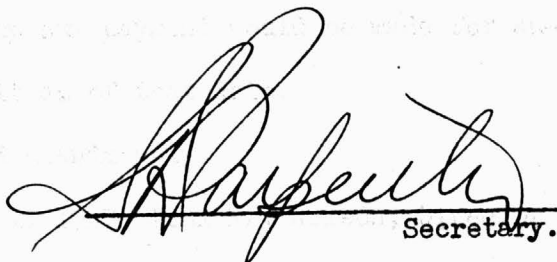
Telegram to Mr. Knoke, Vice President of the Federal Reserve Bank of New York, reading as follows:

"Your telegram October 2. Board approves extension to January 8, 1948, of loan by your Bank to Bank Polski not to exceed \$10,000,000 outstanding at any one time, such loan to be secured by gold earmarked in your vaults. It is understood that the three months extension of this loan is made on the same terms and conditions outlined in your telegram of July 1, 1947, as follows:

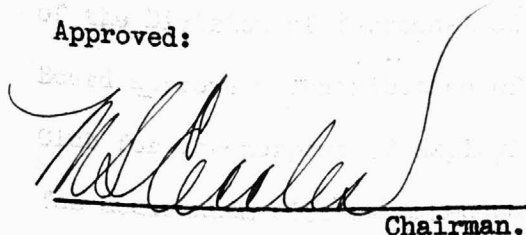
- A) Such loan to be made up to 98 per cent of the value of the gold held in your vaults as collateral;
- B) Such loan to run for three months;
- C) Any further extension of such loan to be subject to agreement between Bank Polski and yourselves with no commitment by you for renewal, and any agreement for renewal to be subject to Board approval;
- D) Such loan to bear interest for its duration at the discount rate of your Bank in effect on the day on which such loan is made.

"It is understood that the usual participation will be offered to the other Federal Reserve Banks."

Approved unanimously.


Secretary.

Approved:


Chairman.