

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, October 17, 1947. The Board met in the Board Room at 10:45 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. Thomas, Director of the Division of Research and Statistics
 Mr. Vest, General Counsel
 Mr. Leonard, Director of the Division of Examinations
 Mr. Nelson, Director of the Division of Personnel Administration
 Mr. Horbett, Assistant Director of the Division of Bank Operations
 Mr. Townsend, Assistant General Counsel

There were presented telegrams to the Federal Reserve Banks of New York, Philadelphia, Chicago, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on October 14, and by the Federal Reserve Banks of New York, Philadelphia, and Chicago on October 16, 1947, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

In connection with the approval of the discount rates, Chairman

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Eccles stated that it appeared that the Treasury would accept the proposals that had been made by the Federal Open Market Committee at its meeting on October 7, 1947, relating to refunding of Treasury securities and the issuing rate on Treasury certificates. He went on to say that the anti-inflation program outlined at the meeting of the Federal Open Market Committee, which was attended by the Presidents of all of the Federal Reserve Banks, contemplated an increase in discount rates at Federal Reserve Banks and that it was his view that action to increase the rates to 1-1/4 per cent should be taken early in November when the Reserve Banks and the Board had had an opportunity to observe the effects of the Treasury announcement of the higher rate on Treasury certificates. He also suggested that it would be desirable if the rate at the Federal Reserve Bank of New York could be increased first, as that would attract more attention than at any other Bank.

Chairman Eccles then referred to the contemplated issuance of a statement by the Board with respect to consumer instalment credit, as an additional step toward implementing the anti-inflation program discussed at the meeting of the Federal Open Market Committee. It was understood that a statement was now being prepared and would be submitted to the Board for consideration next week.

Chairman Eccles stated that he had been giving further consideration to the formula for designation of reserve cities outlined

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in the Board's letter of August 13, 1947, to the Presidents of all Federal Reserve Banks and the members of the Federal Advisory Council, that the Federal Advisory Council had suggested at its meeting with the Board on September 23, 1947, that the formula be based partly upon the relation of interbank deposits to total demand deposits in a given city, and that he had asked Mr. Smead to study this question for further discussion at this meeting. He stated that he felt that a two-pronged formula, based upon the ratio of interbank deposits in a given city to the interbank deposits of all member banks in the United States and also upon the ratio of interbank deposits to total demand deposits of all member banks in the city, would offer a better basis for the formula than one using only one standard.

There was a discussion of the possible effects of such a formula, and it was agreed unanimously to refer the matter to Mr. Szymczak and Mr. Clayton for recommendation at the next meeting of the Board.

Mr. Horbett left the meeting at this point.

Reference was made to the draft of letter on travel expenses of officers and employees submitted under date of October 3, 1947, to the Presidents of the Federal Reserve Banks for discussion at the meeting of the Board and the Presidents on October 7. Chairman Eccles suggested that no action with respect to setting maximum travel

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allowances be taken by the Board until detailed information had been obtained showing the expenditures that had been incurred by various categories of personnel over a period of a year. These breakdowns, he said, should furnish (1) dollar aggregates of travel expenses of (a) examiners, (b) employees other than examiners, (c) officers other than the President and First Vice President, (d) President and First Vice President, and (2) the average amount spent per day by each of the four groups at each Federal Reserve Bank. Chairman Eccles suggested that these data be prepared by the Board's examiners on the basis of a review of all expense accounts paid over a period of one year at each Federal Reserve Bank, and that the information be compiled in the course of regular examinations during the forthcoming year. In response to an inquiry from Mr. Leonard, Chairman Eccles stated that the travel cost figures should exclude reimbursement of expenditures for luncheons and entertainment of bankers and others, but that separate figures showing amounts disbursed by each Federal Reserve Bank for this purpose should be compiled.

Mr. Carpenter referred to the discussion of the draft of letter on travel expenses at the meeting on September 26, 1947, when it was agreed that the per diem allowed in paragraph 3 of the Board's travel regulations should be increased from \$7 to \$8, effective at the time the letter setting maximum travel allowances

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for officers and employees of Federal Reserve Banks was mailed. There was a discussion of the desirability of increasing the allowances at this time, and it was the view of the members of the Board present that the \$7 per diem provided for non-official personnel of the Board was not adequate to cover necessary subsistence costs, particularly in view of sharp increases in the costs of meals and hotel rooms during the past few months.

It was agreed unanimously that (1) a draft of letter to the Federal Reserve Banks, setting forth the procedure suggested by Chairman Eccles, should be prepared for consideration by the Board, and (2) the question of an increase in the per diem allowance in paragraph 3 of the Board's travel regulations should be referred to the Personnel Committee for recommendation to the Board.

Mr. Szymczak reported that the preliminary draft of an agenda for the Conference of Chairmen of the Federal Reserve Banks to be held in Washington on December 1 and 2, 1947, had been completed. He stated that in addition to the items to be discussed on the formal agenda, the Chairmen contemplated an informal discussion prior to the conference of the questions "Relations of boards of directors of Federal Reserve Banks to the Board of Governors", and "Limitation on length of service of the directors of the Federal Reserve Banks", out of which informal discussion the Chairmen expected to formulate statements to be made to the Board at the

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conference on those topics.

Reference was made to a letter from Mr. Gidney, President of the Federal Reserve Bank of Cleveland, dated October 13, 1947, requesting the Board's views with respect to a proposed expenditure of up to \$70,000 by the Federal Reserve Bank of Cleveland for the purpose of making two films dealing with the role of money and credit and the place therein of the commercial banks and the Federal Reserve Banks. There was a discussion of the work that had been done over a period of two or more years by a committee of the Presidents' Conference in collaboration with Mr. Evans and members of the Board's staff in an attempt to prepare a film which could be used by all Federal Reserve Banks as an educational project, during which Mr. Thomas stated that he felt the result was not satisfactory as an effective presentation of the functioning of a central bank.

Chairman Eccles stated that he felt the project should not be undertaken at this time and that any film presented by the System should be useful to all Federal Reserve Banks and should be prepared by the Board as a System matter rather than stress the operations and features of an individual Federal Reserve Bank. He recalled that the Board told the Presidents at their joint meeting on October 7 that the Board would not be inclined to approve an expenditure of \$35,000 to \$40,000 for any film that could not be used on a System-wide basis.

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Upon motion by Mr. Evans, unanimous approval was given to the following letter to Mr. Gidney:

"This letter is in response to yours of October 13, 1947, addressed to Mr. Evans, inquiring as to the attitude of the Board regarding an expenditure by the Federal Reserve Bank of Cleveland for the production of a moving picture which would describe the work of the Federal Reserve Banks and the System.

"As you know, this matter was discussed briefly at the joint meeting of the Presidents and the Board on October 7, 1947, and at that time Chairman Eccles stated that the Board would not want to authorize the expenditure of \$35,000 or \$40,000 by the Cleveland Bank for a picture that could not be used in doing an educational job for the whole System. Mr. Sproul responded that it was the hope and expectation that the procedure adopted would lead to the development of a motion picture or pictures which could be used as part of a System educational program.

"Since the meeting with the Presidents and following the receipt of your letter the Board has given further thought to the proposal and it has been discussed fully at a meeting of the Board. It is noted from your letter that there is a possibility that the experimental film might involve an expenditure of as much as \$70,000 and the Board questions whether such a commitment should be made at this time. In reaching this decision the Board is not unmindful of the amount of work that has already been done by your Committee, your Bank, and others in the System in an effort to find an approach that would present effectively the important responsibilities of the System in the monetary and credit field. It also appreciates the willingness of your directors to assume responsibility for authorizing an expenditure involved in an experimental film. It is the suggestion of the Board, however, that it would be preferable to defer au-

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"Authorization of such an expenditure until there can be a more definite agreement on the subject-matter of the film and the method of subject presentation on a System basis. There is the question also whether the project should be undertaken during the present period when costs are high and there is a general policy of Government to avoid expenditures that are not of an urgent character.

"The Board will be glad if you will present this letter at the next meeting of your directors and amplify it in any way that you see fit in the light of the discussions that have taken place over the year or two that the matter has been under discussion."

Reference was made to the discussion at the meeting of the Federal Open Market Committee at which all of the Presidents were in attendance on October 7, 1947, concerning the request made by the Federal Reserve Bank of New York that member banks in that district not engage in the purchase and sale of Federal funds on an interdistrict basis, and to the letter on this subject received from Mr. Rounds, First Vice President of the Federal Reserve Bank of New York, under date of September 26, 1947. Chairman Eccles stated it seemed doubtful that any request that banks refrain from engaging in the purchase and sale of Federal funds would be effective, that it did not appear that the Federal Reserve Bank of New York contemplated taking action to make their suggestion effective, and that the matter did not seem to be of sufficient importance for the Board to take any action at this time with respect to the purchase and sale of such funds on either an intradistrict or interdistrict basis. The other members of the Board concurred in the view expressed by Chairman Eccles.

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Mr. Carpenter read a draft of a letter to Mrs. Valerie Frank, Secretary of the retirement committee of the Federal Reserve retirement system, as follows:

"The Board approves the amendment to Section 7, Subdivision 3 of the Rules and Regulations of the Retirement System as submitted in your letter of August 6, 1947.

"It is understood that paragraph 2 of this subdivision will read as follows:

Language After Amendment

"The funds of the System shall be invested and reinvested in such investments as may from time to time be permitted for the investment of the funds of life insurance companies incorporated under the laws of the States of Massachusetts, Connecticut or New York; provided, however, that such investments shall be further limited in such manner as may be prescribed by the Board of Trustees."

Upon motion by Mr. Szymczak, the letter was approved unanimously.

Reference was made to a memorandum which had been prepared by the Legal Division under date of September 11, 1947, pursuant to the action of the Board on August 7, 1947, with respect to compulsory membership of national banks in territories and their admission as States. The memorandum, to which was attached a draft of a letter to the Chairman of the Senate Committee on Public Lands, had been circulated among the members of the Board before this meeting. The letter recommended an amendment in bill H. R. 49 to provide that membership in the Federal Reserve System be made compulsory for

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national banks in the Territory of Hawaii in the event of the admission of that Territory as a State of the Union.

In a discussion of the reasons that might be advanced for or against compulsory membership, all of the members present felt that the question should be answered on the basis of the principle that if Hawaii was to be given the benefits of Statehood, it should accept the responsibilities also, including compulsory membership of national banks.

With respect to the services that could be given by the Federal Reserve System to banks located in Hawaii and Alaska, it was felt that by use of air mail both check collection and free delivery of currency could be accomplished about as satisfactorily as within present Federal Reserve districts. It was noted that at the present time currency shipments to banks in Hawaii are made by the Treasury as transfers of funds and delivered by the United States Navy without cost to the banks, and the view was expressed that if a bank in Hawaii became a member of the Federal Reserve System this function should be performed by the Federal Reserve Bank of San Francisco and that the Treasury and the Navy should be relieved of the cost of furnishing currency.

It was also suggested that before the proposed letter was sent to the Committee on Public Lands it should be discussed with

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the Comptroller of the Currency so that that office would be advised of the Board's position in the matter.

Upon motion by Mr. Evans, it was agreed unanimously that the Board would favor the position taken in the letter to the Chairman of the Senate Committee on Public Lands in which it was recommended that the law be amended to require national banks in Hawaii to become members of the Federal Reserve System upon the admission of Hawaii as a State of the Union, it being understood that before action was taken on the matter, Mr. Clayton would take it up with Messrs. Harl and Delano to ascertain whether there was any objection on the part of the Federal Deposit Insurance Corporation or the Comptroller of the Currency to the recommendation.

Chairman Eccles referred to an informal discussion with the Presidents of the Federal Reserve Banks on October 7 concerning the Board's suggestion that plans should be made for adoption at the appropriate time of a procedure under which member banks would be given immediate credit on all cash items collected through the Federal Reserve System. He suggested that since, with the exception of one phase of the matter, action was not necessary at the present time and since the problem could best be discussed with the Presidents at a time when they are in Washington, he would suggest that they be advised that instead of sending them a confidential memorandum on the subject as was proposed during the informal discussion,

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it would be taken up with them when they are here during the early part of December.

The exception to which Chairman Eccles referred was the proposal that had been made to the Presidents on October 7 that on and after, say January 1, 1948, if a member or nonmember clearing bank sends to its Federal Reserve Bank or branch a daily average of more than 300 items payable in the territory of another Federal Reserve Bank or branch, such items must be sorted and listed separately by the depositing bank.

A draft of a letter to the Federal Reserve Banks which would carry Chairman Eccles' suggestion into effect was read and certain changes therein were proposed.

It was agreed unanimously that the draft of letter should be revised in line with the discussion and re-submitted to the Board for further consideration.

At this point Messrs. Smead, Thomas, Vest, Leonard, Nelson, and Townsend 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 16, 1947, were approved unanimously.

Memorandum dated October 15, 1947, from Mr. Thomas, Director of the Division of Research and Statistics, recommending the transfer of Mrs. Ruth D. Stone, Secretary to Mr. Brown, from the Division

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of Security Loans to the Division of Research and Statistics, with no change in her present title or present basic salary of \$2,895.60 per annum, effective October 19, 1947. The memorandum also stated that the transfer was agreeable to Mr. Parry.

Approved unanimously.

Letter to Mr. Carl F. Wente, Senior Vice President of the Bank of America National Trust & Savings Association, San Francisco 20, California, reading as follows:

"This refers to your letter of September 20, 1947, addressed to Mr. Brayton Wilbur, Chairman of the Board of the Federal Reserve Bank of San Francisco, in which it was requested that the Bank of America National Trust & Savings Association be supplied with the necessary formal papers to enable it to participate in the forthcoming nomination and election of Class A and Class B directors of the Federal Reserve Bank of San Francisco.

"Section 4 of the Federal Reserve Act provides in part that 'whenever any two or more member banks within the same Federal reserve district are affiliated with the same holding company affiliate, participation by such member banks in any such nomination or election shall be confined to one of such banks, which may be designated for the purpose by such holding company affiliate.' As the management of your bank is aware, Transamerica Corporation holds a voting permit as a holding company affiliate of the Bank of America National Trust & Savings Association issued to it by the Board pursuant to the provisions of section 5144 of the Revised Statutes, which permit has remained outstanding and unrevoked or unsurrendered since its issuance in 1937. That corporation has designated The First National Bank of Eugene, Eugene, Oregon, as the affiliated bank to participate in nominations and elections of Class A and Class B directors of the Federal Reserve Bank of San Francisco, Group One.

"The Board has again reviewed the matter in the light of all pertinent facts, and has determined that

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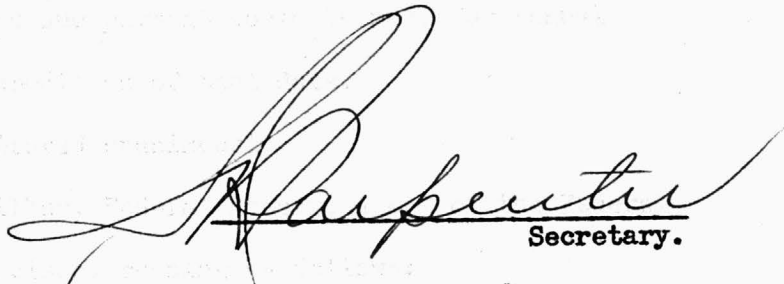
"within the meaning of the definition of a holding company affiliate contained in section 2(c) of the Banking Act of 1933, Transamerica Corporation controls the election of a majority of the directors of the Bank of America National Trust & Savings Association and has done so without interruption since it applied for and obtained the voting permit issued to it in 1937. Accordingly, the Board has instructed the Federal Reserve Bank of San Francisco that the Bank of America National Trust & Savings Association is ineligible to participate in the forthcoming nomination and election."

Approved unanimously.


Letter to Mr. Gidney, President of the Federal Reserve Bank of Cleveland, reading as follows:

"Referring to Mr. Fletcher's letter of October 2, 1947, the Board of Governors approves the payment to your Counsel, Squire, Sanders & Dempsey, of a bill totaling \$6,000 for special services rendered in connection with the purchase of the Chamber of Commerce Building, Cincinnati, Ohio. It is noted that your Board of Directors has authorized payment of this fee subject to the approval of the Board of Governors."

Approved unanimously.


Secretary.

Approved:


Chairman.