

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, October 21, 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. Horbett, Assistant Director of the Division of Bank Operations
Mr. Young, Assistant Director of the Division of Research and Statistics
Mr. Townsend, Assistant General Counsel

There was presented a draft of statement to be published in the Federal Register with respect to proposed changes in reserve city designations, which had been prepared as a recommendation by Messrs. Szymczak and Clayton in accordance with the action at the meeting on October 17, 1947. The draft was read and discussed in the light of the views expressed by the Federal Advisory Council and the Presidents in response to the Board's letter of August 13, 1947. It was pointed out that the formula proposed for the designation of reserve cities would be based on (1) the ratio of interbank deposits in a given city to total interbank deposits in the United States, and

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(2) the ratio of interbank demand deposits within the city to total demand deposits in the same city.

Chairman Eccles noted that the Federal Advisory Council had stressed, among other things, the importance of considering the ratio of interbank to total demand deposits in a given city, and that the formula now proposed would meet that suggestion. It was the view of the members present that the proposed formula for designating a reserve city was better than one based on a single factor, as it had the value of being less arbitrary. It was pointed out, however, that except for statutory requirements there was little justification for having different reserves required for banks in different cities, and that a more suitable basis would be to determine reserves for an individual bank on the basis of the kind of business and deposits in that bank.

The suggestion was made that when the special report of the Federal Open Market Committee which was discussed at the last meeting of the executive committee was submitted to the Congress, the Board also point out the difficulties which it had had in carrying out its statutory responsibility for designating reserve cities, and suggest that consideration be given by Congress to establishing a new basis for reserve requirements. No final decision was reached on this point.

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Mr. Szymczak raised the question whether the proposed statement should be published at this time or should be withheld until receipt of the report to be submitted by the System Research Advisory Committee pursuant to the action taken at the meeting of the Board on July 2, 1947. Chairman Eccles expressed the view that the study would take some time and that action by the Board to adopt a formula should be taken promptly.

At the conclusion of the discussion, Mr. Szymczak moved that the statement of proposed changes in reserve city designations be approved for publication in the Federal Register in the following form:

"The Board of Governors of the Federal Reserve System has under consideration a proposal, the substance of which is outlined below, with respect to the classification of cities as reserve and central reserve cities and the termination of the designation of certain cities as reserve cities:

The cities of New York and Chicago would be classified (and thereby continued) as central reserve cities, and the following cities would be classified as reserve cities:

- (A) Every city except New York and Chicago in which there is situated a Federal Reserve Bank or a branch of a Federal Reserve Bank, and in addition Washington, D.C. (thereby continuing such designations); and
- (B)(1) Every other city in which, on the dates of official call reports of condition in the two years ended June 30, 1947, member banks, exclusive of their offices in other cities, held an aggregate amount of demand deposits owing to banks equal, on the average, to one-third of one per cent or more of the aggregate

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"amount of demand deposits owing to banks by all member banks of the Federal Reserve System; and

- (2) Every other city in which, on the dates of official call reports of condition in the two years ended June 30, 1947, member banks, exclusive of their offices in other cities, held an aggregate amount of demand deposits owing to banks equal, on the average, to one-fourth of one per cent or more of the aggregate amount of demand deposits owing to banks by all member banks of the Federal Reserve System and also equal, on the average, to $33\frac{1}{3}$ per cent or more of the aggregate amount of all demand deposits held by the member banks in such city.

"On the basis of paragraphs (B)(1) and (2) above, the following cities would be continued as reserve cities: Columbus, Ohio; Des Moines, Iowa; Indianapolis, Indiana; Milwaukee, Wisconsin; St. Paul, Minnesota; Lincoln, Nebraska; Tulsa, Oklahoma; Wichita, Kansas; Fort Worth, Texas; Cedar Rapids, Iowa; Sioux City, Iowa; the following city would be added as a reserve city: National City (National Stock Yards), Illinois; and the following cities would be terminated as reserve cities: Toledo, Ohio; Dubuque, Iowa; Grand Rapids, Michigan; Peoria, Illinois; Kansas City, Kansas; Pueblo, Colorado; St. Joseph, Missouri; Topeka, Kansas; Galveston, Texas; Waco, Texas; Ogden, Utah; Spokane, Washington.

"The proposed effective date for the action is January 1, 1948.

"This notice is published pursuant to section 4 of the Administrative Procedure Act and section 2 of the Rules of Procedure of the Board of Governors of the Federal Reserve System. The classification of cities as reserve and central reserve cities, and the termination of such designations, are authorized by the Federal Reserve Act, especially section 11(e) thereof.

"Interested persons may submit data, views or arguments with respect to these matters; and such material should be submitted in writing. Although submittals or requests may be sent directly to the Board, it is preferable that they be sent to the Federal Reserve Bank of the district, which will forward them to the Board.

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"To be considered, all material must be received not later than November 24, 1947.

"Issued this 21st day of October, 1947.

"BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

"(SEAL)

"(signed) S. R. Carpenter
S. R. Carpenter,
Secretary."

Mr. Szymczak's motion was put by the Chair and approved unanimously.

Unanimous approval was also given to a telegram to the Presidents of the Federal Reserve Banks reading as follows:

"With further reference to the designation of reserve cities as discussed in the Board's confidential letter of August 13, 1947, there is set out below the text of a notice being published on the subject in the Federal Register. It will be appreciated if you will bring this proposal to the attention of each member bank in any city in your district whose status would be changed by the proposed action, enclosing a copy of this notice."

Mr. Horbett left the meeting at this point.

Reference was made to the anti-inflation program outlined at the meeting of the Federal Open Market Committee on October 7, 1947, at which the Presidents of all of the Federal Reserve Banks were present, which included the proposal that the Board issue a statement in connection with the termination of the regulation of consumer instalment credit on November 1, 1947. Mr. Thurston stated that it would be helpful in preparing the statement to have the views of the members of the Board. There was a general discussion of the

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content of the statement and the form in which it should be released by the Board and by the Federal Reserve Banks.

Following the discussion, it was agreed unanimously that Mr. Thurston would prepare a draft of a statement which would be submitted to the Board for consideration.

Mr. Parry left the meeting at this point.

Mr. Clayton referred to the letter to Mr. Earhart, President of the Federal Reserve Bank of San Francisco dated October 16, 1947, authorizing that Bank to proceed to have final plans prepared for an addition to the Los Angeles Branch building and for the construction of a building to house the Portland Branch. He said that after the letter was mailed Chairman Eccles, who had participated in a discussion of the proposed new building for the Jacksonville Branch at the meeting of the directors of the Federal Reserve Bank of Atlanta and the Jacksonville Branch on October 10, 1947, raised certain questions with respect to vault construction and standards as to cost, percentage of usable space, size of building in relation to volume of work handled, etc. Mr. Clayton added that after discussing these questions with Mr. Szymczak, as alternate for Mr. Vardaman whose assignments include expenditures for Federal Reserve Bank branch buildings, it had been agreed to call Mr. Earhart and request that he withhold further action with respect to the Los Angeles addition until he heard further from the Board, and that

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he submit the final plans and specifications for the Portland building to the Board before asking for bids. He made the further statement that the preliminary plans for the Los Angeles and Portland Branches had been approved as a basis for preparation of detailed and final plans because they appeared to be reasonable and within the limits outlined by Chairman Eccles in his testimony before Congress in connection with the amendment to the Federal Reserve Act approved July 30, 1947, authorizing the expenditure, with the approval of the Board of Governors, of an amount not to exceed \$10 million for construction of branch buildings by all Federal Reserve Banks. Mr. Clayton said that definite standards for construction had not been adopted by the Board, that it would be helpful to the Banks in preparing final plans and would assist the Board in carrying out its responsibility under the law, to have some broad standards adopted with respect to buildings to be erected, and that the employment of a consulting architect by the Board might be helpful in this connection.

Chairman Eccles stated that his questions had been prompted by the fact that the Jacksonville plans appeared to be more elaborate than was justified or than was contemplated under the policies of the Board as expressed in letters sent to the Federal Reserve Banks on this subject. It seemed to him that some general standards

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should be established and sent to the Federal Reserve Banks before further detailed plans and specifications were prepared.

Mr. Smead stated that, under the usual procedure, the Banks would submit preliminary plans which would provide an opportunity for the Board to consider them before authorizing preparation of final plans.

There was a general discussion of standards that might be adopted with respect to construction of branch buildings by Federal Reserve Banks, in the course of which Chairman Eccles said that, in considering proposed building plans, it would be helpful to have, as a basis of comparison with standards to be established by the Board, data showing for each proposed building or addition, (a) the estimated cost per cubic foot; (b) the estimated cost per square foot; (c) the ratio of working space to total area of building; (d) the number of square feet per employee; (e) the size of building relative to the volume of operations, such as the volume of currency handled, volume of checks processed, etc.; and (f) the number of employees at present and amount of space available for expansion.

Mr. Smead stated that the Division of Bank Operations had substantially all of this information on existing branch buildings and would prepare a statement along the lines outlined by Chairman Eccles for consideration by the Board.

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Chairman Eccles then said that he felt special consideration should be given to the types of vaults to be constructed by the Federal Reserve Banks or branches, that no attempt had been made to enter a Federal Reserve Bank vault, that in the past vaults had been unnecessarily elaborate and costly, and that steel linings such as were being proposed at Jacksonville were entirely unnecessary.

The meeting then recessed and reconvened at 2:25 p.m. with the same attendance as at the close of the morning session, except that Mr. Townsend was not present.

The discussion of vault construction at the Federal Reserve Banks and branches was continued, but no conclusion was reached as to standards that might be adopted. With specific reference to the proposals for vaults in the Los Angeles and Portland Branches, Mr. Smead suggested that Mr. Earhart be notified by telephone that the preliminary plans submitted be used as a basis for preparing final plans, with the understanding that the Board might have some questions as to vault construction. Mr. Clayton stated that he felt a letter should be written to Mr. Earhart confirming the telephone conversations with him and authorizing the Bank to proceed to have final plans drawn for the Los Angeles and Portland Branches, and requesting that these plans be submitted to the Board for consideration before calling for bids for construction.

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It was agreed unanimously that Mr. Smead should prepare a draft of letter along the lines suggested by Mr. Clayton.

Mr. Smead left the meeting at this point and Mr. Townsend entered the room.

Chairman Eccles referred to a memorandum submitted to him by Mr. Thomas under date of October 16, 1947, with respect to the possible appointment of Mr. Eugene Oakes to succeed Mr. Musgrave as head of the Government Finance Section of the Division of Research and Statistics. He stated that difficulty was being experienced in obtaining a suitable replacement for Mr. Musgrave, that it was important that the person obtained be thoroughly trained in taxation and fiscal policy, that the recommendations concerning Mr. Oakes indicated he was the best available person, and that a question concerning Mr. Oakes' appointment had been raised because Mr. Oakes would not consider the position at a salary less than he was presently receiving (\$8,750 per annum) and he would not wish to give up teaching one evening a week at Georgetown University for which he received \$600 a year. Mr. Thomas' negotiations with Mr. Oakes had been on the basis of the minimum for the grade, which was \$8,179.50 per annum.

Chairman Eccles stated that the question of outside teaching activities had been considered in previous discussions, and at

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his suggestion Mr. Carpenter read the Board's letter of June 25, 1945, to the Federal Reserve Banks outlining conditions under which officers and senior members of staffs of those Banks might engage in outside teaching activities. Chairman Eccles said that the arrangement for Mr. Oakes to continue teaching would not differ from that authorized for the Federal Reserve Banks and followed by other members of the Board's staff, but that he felt it would be desirable to request all officers and employees of the Board to submit annually a statement concerning any outside teaching or business activities in which they were engaged, together with a statement of the income received, in order that the Board might be in a position to determine whether the extent of such activities was objectionable.

It was agreed unanimously that the Personnel Committee would prepare and submit to the Board for approval a procedure for the submission annually of information relating to outside business activities by members of the Board's staff.

✓ In connection with the possible appointment of Mr. Oakes, Mr. Draper raised the question whether the Board was following as closely as it could the policy of developing men from within the organization to fill senior positions. He stated that he felt the best results in the Board and in the System could be achieved by following as closely as possible the best features of a career system of advance. This does not mean, Mr. Draper said, automatic advancement regardless of merit but it did mean, in so far as possible, a recognition of the best features of the career system so that each employee

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would always have before him the possibility of advancement if the opportunity offered and he could qualify for such advancement.

In the discussion of this question it was stated that this policy was being followed to the fullest extent possible but that, because of the small size of the Board's staff and frequent resignations in some instances, it was not always possible to develop satisfactory personnel within the staff to fill all vacancies and that this was true of the vacancy created by Mr. Musgrave's resignation.

Upon motion by Mr. Clayton, and by unanimous vote, Mr. Thomas was authorized to negotiate with Mr. Oakes for appointment at a salary at the rate of \$8,778 per annum, the middle of the grade in which his position would probably be classified, with the understanding that the Board would have no objection to his continuing his present teaching activities at Georgetown University.

Chairman Eccles then read a letter from Mr. Julian Baird, President of the Association of Reserve City Bankers, with respect to the absorption by the Federal Reserve Banks of transportation costs for cash items sent direct by member banks to other Federal Reserve Banks or branches, and suggesting that whenever actions which might affect correspondent bank relationships were being considered by the Board, they be discussed with the Association in advance.

There was a discussion of the kind of reply to be made to Mr. Baird, and it was agreed that a draft of reply should be prepared and submitted to the Board for consideration.

At this point Messrs. Vest, Young, and Townsend withdrew and

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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 20, 1947, were approved unanimously.

Letter to Mr. Williams, President of the Federal Reserve Bank of Philadelphia, reading as follows:

"The Board of Governors approves the payment of salaries to the following officers of the Federal Reserve Bank of Philadelphia for the period from October 1, 1947, through April 30, 1948, at the rates indicated which are the rates fixed by the Executive Committee of the Board of Directors as reported in your letter of October 10, 1947:

<u>"Name</u>	<u>Title</u>	<u>Annual Salary</u>
W. M. Catanach	Assistant Cashier	\$8,500
Richard G. Wilgus	Assistant Cashier	8,000
Norman G. Dash	General Auditor	8,500
James V. Vergari	Assistant Vice President	9,000
R. R. Williams	Assistant Vice President	9,000"

Approved unanimously.

An application had been received under date of September 19, 1947, from "The Chase National Bank of the City of New York", New York, New York, requesting approval of the Board to establish and maintain in Frankfurt am Main, Germany, a branch of "The Chase National Bank of the City of New York", and a letter had been received under date of September 19, 1947, from Mr. Rounds, First Vice President of the Federal Reserve Bank of New York, recommending that the application be approved. The Board had also been

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advised by the Department of the Army on October 17, 1947, and by the Office of the Comptroller of the Currency informally on September 24, 1947, that those departments had no objection to the establishment of the proposed branch.

The following order was adopted
by unanimous vote:

"ORDER

"WHEREAS The Chase National Bank of the City of New York has made application to the Board of Governors of the Federal Reserve System, pursuant to the provisions of section 25 of the Federal Reserve Act, for permission to establish a branch at Frankfurt am Main, Germany; and

"WHEREAS it appears that the said bank may properly be authorized to establish a branch at Frankfurt am Main, Germany;

"NOW, THEREFORE, The Chase National Bank of the City of New York is authorized to establish a branch at Frankfurt am Main, Germany and to operate and maintain it subject to the provisions of section 25 of the Federal Reserve Act, upon condition that unless the branch is actually established and opened for business on or before November 1, 1948, all rights hereby granted as to such branch shall be deemed to have been abandoned and the authority hereby granted shall automatically terminate on such date.

Dated: October 21, 1947"

In connection with the above matter, the following letters to the Honorable Kenneth C. Royall, Secretary of the Army, and Mr. Wiltse, Vice President of the Federal Reserve Bank of New York, respectively, were also approved unanimously.

Letter to Mr. Royall

"Enclosed for your information is a copy of an order of the Board of Governors of the Federal Reserve System authorizing The Chase National Bank of

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"the City of New York to establish a branch at Frankfurt am Main, Germany.

"Your letter of October 14, 1947, advised the Board that your Department had no objection to the establishment by the national bank of a branch at Frankfurt am Main instead of a branch at Berlin as was authorized by the Board by its order of April 7, 1947. It is understood that the actual establishment of a branch either at Berlin or at Frankfurt, or both, is dependent upon the issuance of a license by the military occupation authorities who are thus in a position to determine the locality at which a branch shall be permitted to open for business."

Letter to Mr. Wiltse

"Enclosed is a certified copy of an order of the Board of Governors authorizing The Chase National Bank of the City of New York to establish a branch at Frankfurt am Main, Germany, which you will please deliver to the bank. A copy of the order is enclosed for your files.

"Please ask the bank to note that the authority to establish the branch will automatically terminate on November 1, 1948, if the branch is not actually established and opened for business on or before that date, and request the bank to advise the Board in writing through the Federal Reserve Bank of New York when the branch is so established and opened for business."

Telegram to Mr. McConnell, Vice President of the Federal Reserve Bank of Minneapolis, reading as follows:

"Reurtel Board extends to December 22, 1947, time within which The Bank of Rhame, North Dakota, may accomplish membership. Also, in view your recommendation, Board will interpose no objection to admission of bank to membership with only three directors with understanding that number will be increased as required at stockholders meeting in January 1948."

Approved unanimously.

Letter to Mr. Myers, Deputy Chairman of the Federal Reserve Bank of New York, reading as follows:

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"The Board of Governors has received your letter of September 18, 1947, advising that the Auditing Committee has considered the report of examination of the Bank made as of June 27, 1947, by the Board's examiners, and President Sproul's letter of August 22 covering the review made by the officers of the Bank of the report and that the report and the letter were presented to the board of directors at its meeting on September 18.

"The Board is naturally pleased at the expression of the appreciation of your directors of the thorough manner in which the examination was conducted and of the helpful suggestions made by the examiner and his staff during and following the examination.

"Although the report does not appear to contain any information of a critical or unfavorable nature, the Board has been advised by the examiner that at the time of reviewing his findings with your Auditing Committee at the close of the examination, he informed the Committee that, in his opinion, the Auditing Department might well have taken a more active part in the investigation of the recent defalcation in the Clearings Division of the Check Collection Department, which investigation was conducted by the Bank's operating staff rather than by the Auditing Department. While a thorough investigation is reported to have been made by the operating staff and it is understood that the General Auditor was kept advised as to developments during the investigation, nevertheless the Board feels that the Auditing Department has a direct responsibility in such matters. The Board is in accord with the position taken by its examiner and would appreciate being advised of the views of the directors with respect to the question of policy and responsibility in such situations.

"Because of the nature of the expenditure and the question of policy involved, the Board also has been advised of an item in the amount of \$1,264 representing additional 'Per Diem' payments to former Assistant Vice President Overby while serving as Assistant to the Secretary of the Treasury. It is understood that these payments were made to defray the excess of living expenses in Washington over the regular per diem allowed by the Government, and that they covered the period August 19, 1946, to June 30, 1947.

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"It is understood that Mr. Overby was granted leave of absence without pay in order that his services might be made available to the Treasury and that in his capacity as Assistant to the Secretary he was an employee of the Government, received his salary from the Government, and was subject to the same Government regulations, including per diem allowances, as other Treasury employees. In view of all of the circumstances involved, including particularly the facts that Mr. Overby was an employee of the Government, the larger per diem allowance was not authorized by regulations under which he was employed, and that he was not on the active payroll of the Federal Reserve Bank, the Board, while it appreciates the motives underlying the arrangement, does not feel that such additional per diem payments are proper expenses to be borne by a Federal Reserve Bank. This matter is brought up at this time for your consideration should similar arrangements be proposed in the future."

Approved unanimously.

Letter to the Comptroller of the Currency, Treasury Department, reading as follows:


"It is respectfully requested that you place an order with the Bureau of Engraving and Printing, supplementing the order of June 19, 1947, for the printing of Federal Reserve notes of the Federal Reserve Bank of St. Louis in the amount and denomination stated below:

"Denomination	Number of sheets	Amount
\$5	250,000	\$15,000,000"

Approved unanimously.

Approved:


Chairman.


Secretary.