

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, November 5, 1947. The Board met in the Board Room at 12:00 noon.

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

Mr. Carpenter, Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Chairman
Mr. Thomas, Director of the Division of Research and Statistics
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
Mr. Solomon, Assistant Counsel
Mr. Youngdahl, Economist, Division of Research and Statistics.

Mr. Thomas stated that Chairman Eccles had been discussing the problem of what could be done to give the Federal Reserve System a more effective means of restricting expansion of bank credit during the period of the present and prospective inflationary situation, and that it had been suggested that the System be given authority to impose what might be called a special reserve requirement on all commercial banks. Such a requirement, which would be in addition to the reserves now required to be maintained by the banks, would be held in the form of cash in vault, items in process of collection, balances with other banks, and short term Government securities.

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The authority, he said, would extend over a three-year period, to be exercised in the discretion of the Federal Open Market Committee under regulations issued by the Board of Governors, and the Committee would have authority to vary the requirement as changes in the situation might make necessary within limits established by the statute.

After a more detailed statement by Mr. Thomas of the plan and the possible effects of its application, Chairman Eccles expressed the opinion that conditions were such and the need for an effective means of controlling further expansion of bank credit was so great that it was believed that there was an excellent chance of Congress passing legislation authorizing the proposed special reserve plan.

During a general discussion, some of the members of the Board stated that they would like to study the plan before reaching a decision with regard to it. Chairman Eccles said that Messrs. Clifford and Steelman, Assistants to the President, telephoned this morning to ask if the Board had any ideas that it wished to suggest for inclusion in the anti-inflationary program to be presented by the President to the Congress and to say that the Board's suggestions should be submitted by the end of this week. Chairman Eccles also said that the President had asked the Council of Economic Advisers for a report on how to deal with the inflationary situation,

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that Secretary of Commerce Harriman was also asked to submit a program, and that Mr. Harriman had brought in Mr. Brownlee to write the report. Under Secretary of Commerce Foster and Mr. Brownlee came to the Board's offices early in the week to discuss the report, at which time he (Chairman Eccles) outlined the proposed plan presented by Mr. Thomas at this meeting, and Mr. Brownlee thought it was an excellent idea. Chairman Eccles added that in response to an inquiry he had told Messrs. Brownlee and Foster that there was not much the System could do under its present powers effectively to deal with the existing situation, but that there were two things that could be done that would be effective: (1) restore the authority to regulate consumer instalment credit, which would be a minor but very helpful step; and (2) establish the special reserve plan, which would give the System a major control in the monetary and credit field that it does not now have. In these circumstances, Chairman Eccles said, the Board should decide whether it wished to propose the special reserve plan and, if so, the general form in which it should be submitted.

There was a discussion of whether the plan should be administered by the Federal Open Market Committee under regulations issued by the Board or whether the entire authority should be placed in the Committee. Chairman Eccles stated that, because of the great responsibility that administration of the plan would involve and because of

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the legislative situation, he felt strongly that the authority to issue regulations as well as the administration of the plan should be placed in the Federal Open Market Committee and not in the Board.

At the conclusion of the discussion, upon motion by Mr. Clayton, it was voted unanimously to authorize Chairman Eccles to submit a recommendation that (1) legislation giving the Board authority to regulate consumer instalment credit be enacted in the form proposed by the Board and considered by the Congress at the last session, and (2) a special reserve plan be adopted which would include the following principal features:

1. Power to impose the requirement would be of an emergency nature limited by law to a three-year period.
2. It should apply to all banks holding demand deposits, including member banks of the Federal Reserve System and nonmember banks -- insured and noninsured. Application of the requirement to member banks only would be inequitable and would seriously limit its effectiveness in restraining credit expansion.
3. The special reserve requirement should apply to total demand deposits, including Government and interbank deposits, as well as those of individuals, businesses, and others. It would not apply to time and savings deposits.
4. The special reserve requirement would be independent of, and in addition to, any basic or primary reserves required under existing banking statutes.
5. The special reserves would include the following assets:
 - (a) Treasury bills, certificates, and notes (with original maturities of 2 years or less)
 - (b) The excess of certain specified cash assets over specified percentages of demand and time deposits. The exact formula is more fully set forth below with reasons for its selection.
6. Authority to fix the amount of the special reserve requirement and to vary it from time to time as the credit situation might require and to issue regulations governing the administration of this power should be vested in

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- "the Federal Open Market Committee. This Committee, composed of all seven members of the Board of Governors of the Federal Reserve System and five representatives of Federal Reserve Banks, has authority over Government security and other open market operations of the System. The use of this new power would be closely related to these operations.
7. The maximum ratio at which the special reserve requirement could be established should be fixed by law. A maximum of 25 per cent of gross demand deposits will probably be adequate for the emergency covered by the proposed statute.
 8. Reserve requirements would be computed on a daily average basis for monthly periods or for other periods for different classes of banks as the Committee may require. Average deficiencies in reserves would be subject to a penalty payable to the United States Government.
 9. While authority for imposing and regulating the requirement, including authority to require reports, should be vested in the Federal Reserve System, its administration with respect to nonmember banks could be delegated to other appropriate Federal and State banking agencies."

Mr. Draper stated that while he had had no opportunity to study the proposed special reserve plan, since this was the first time he had heard of it, he felt the program as outlined was too drastic in its possible effects. He also stated that it was difficult for him to accept a proposal of this kind in which final authority would be vested in the Federal Open Market Committee instead of in the Board of Governors. For these reasons, he felt inclined to vote "no" on Mr. Clayton's motion, but since time was of the essence and Chairman Eccles had been called upon to explain in detail and immediately the proposal to White House authorities, Mr. Draper felt he should join with the other members of the Board in making the decision unanimous. It was primarily for this reason, he said, that he decided to join the other members and vote "yes" on the motion.

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At this point Messrs. Thomas, Horbett, Young, Townsend, Solomon, and Youngdahl 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 November 4, 1947, were approved unanimously.

Letter prepared for Chairman Eccles' signature to Mr. Grove, an economist in the Division of Research and Statistics, reading as follows:

"The Board has been officially informed by the State Department and by the Banco Central del Ecuador that the Government of Ecuador has granted you the decoration of the National Order of Merit, with the rank of Officer. We are informed that this honor is conferred upon you in appreciation of the excellent work you did as adviser to the Government of Ecuador early this year. The Board congratulates you on this evidence of the appreciation of your work. We are informed by the State Department that since the Constitution and statutes of the United States do not permit your acceptance of this award while in Government service, except with the consent of Congress, the decoration and diploma bestowed by the Government of Ecuador will be held in the custody of the Department of State until such time as you may be in a position legally to receive the award.

"You will find enclosed photostats of the letter from the Banco Central del Ecuador and from the State Department communicating information of the award."

Approved unanimously.

Memorandum dated November 3, 1947, from Mr. Thomas, Director of the Division of Research and Statistics, recommending the appointment of Miss June A. Truitt as a clerk-stenographer in that Division,

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on a temporary indefinite basis, with basic salary at the rate of \$2,168.28 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 also stated that it was contemplated that Miss Truitt would become a member of the Federal Reserve retirement system.

Approved unanimously.

Memorandum dated November 3, 1947, from Mr. Bethea, Director of the Division of Administrative Services, recommending the appointment of Mrs. Helen Marie Capozio as a tabulating machine operator in that Division, on a temporary basis for a period of six months, with basic salary at the rate of \$2,168.28 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 it was contemplated that Mrs. Capozio would become a member of the Federal Reserve retirement system.

Approved unanimously.

Letter to Mr. Mangels, First Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"The Board of Governors of the Federal Reserve System has considered the recommendation contained in your letter of October 7 and, pursuant to the provisions of Section 19 of the Federal Reserve Act, grants permission to West Seattle National Bank of Seattle, Seattle, Washington, to maintain the same reserves against deposits

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"as are required to be maintained by banks outside central reserve and reserve cities, effective with the first semi-monthly reserve computation period beginning after the date of this letter.

"Please advise the bank of the Board's action in this matter, calling its attention to the fact that such permission is subject to revocation by the Board of Governors of the Federal Reserve System."

Approved unanimously.

Telegram to Mr. Wilbur, Federal Reserve Agent at the Federal Reserve Bank of San Francisco, authorizing him to issue a limited voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to "Transamerica Corporation", San Francisco, California, entitling that corporation to vote the stock which it owns or controls of the "First National Bank of Arizona", Phoenix, Arizona, at any time prior to March 1, 1948, to act upon a proposal or proposals (a) to increase the capital stock of such bank, and (b) to amend the articles of association of such bank to conform to articles recommended by the Comptroller of the Currency, provided that all action taken shall be in accordance with a plan satisfactory to the Comptroller of the Currency.

Approved unanimously.

Letter to Mr. Schlaikjer, Vice President and General Counsel of the Federal Reserve Bank of Boston, reading as follows:

"This refers to your letter of October 24, 1947, to Mr. Vest, with reference to changes in procedures and in the cash collection operating letter of the

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"Federal Reserve Bank of Boston proposed to be made in view of the recent enactment of a Massachusetts statute permitting delayed remittance for cash items. The purpose of the proposed revision of the cash collection operating letter would be to eliminate therefrom all language inconsistent with delayed returns of cash items by Massachusetts drawee banks.

"As you know, statutes authorizing delay in payment of checks until the next succeeding business day after presentment or authorizing conditional payment subject to the right to return dishonored items on the day after presentment have been adopted in a number of States, and a large number of clearing houses also permit the return of unpaid items on the day following presentment. The question of what changes it would be desirable to make, as the result of these developments, in the check collection circulars of the Federal Reserve Banks and in the Board's Regulation J is now under active consideration by the Committee on Collections and a special Committee of Counsel pursuant to direction of the Presidents' Conference. It is understood that these committees are to meet with representatives of the Bank Management Commission of the American Bankers Association at an early date to discuss the matter.

"The purpose of the consideration which is now being given the question is to arrive at a conclusion as to a course of action to be followed by all of the Federal Reserve Banks. In the circumstances it seems undesirable for one Federal Reserve Bank to take action in this matter until the System consideration of the question has been completed. The proposed changes in the operating circular may or may not prove to be consistent with changes, if any, which may ultimately be found desirable in the check collection circulars of all banks and in the Board's Regulation J. We believe you will agree that frequent changes in the check collection circulars, particularly with respect to the same subject matter, should be avoided if possible. Other Federal Reserve Banks have been confronted with this problem in varying degrees for several years past and in the circumstances the Board feels that it is advisable, and hopes that you will decide, to defer changes in your operating circular on this subject until completion of the System consideration of this matter.

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"If, however, after further consideration in the light of this letter, the Federal Reserve Bank of Boston concludes that, because of questions of relationship with its member banks or commitments which have been made, changes in the operating letter are essential at this time notwithstanding the probable need for further changes at a reasonably early date, the Board will offer no objection to the changes which you propose in section 9 of your operating letter. The change proposed in section 2, however, would expressly permit conditional payment and return of dishonored items without limitation as to time. While it is understood this provision is intended to apply to special cases of delivery of cash items to non-clearing house banks other than through the mails, the language of the provision seems broader in its effect. Moreover, this change does not appear to be consistent with the view expressed by the Committee of Counsel in its Interim Report of September 25, 1947. If, therefore, it should be determined to make changes at this time in your operating letter, the Board believes that instead of making the proposed change in section 2, the third paragraph of this section, or the first sentence thereof, should be eliminated or some other change made which would not expressly indicate that drawee banks may make conditional payment and return dishonored items after the day of presentment."

Approved unanimously.

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

"In accordance with the request contained in your letter of October 23 that our office and field staffs be advised that the experimental program of your Corporation for the audit of Certified Statements submitted for assessment purposes by insured banks in Illinois, Iowa, and Indiana with deposits in excess of \$5,000,000 has been extended to cover insured banks with deposits of over \$5,000,000 in the States of Wisconsin and Michigan, copies of your letter have been forwarded to the Federal Reserve Banks of Chicago and Minneapolis and circulated among the Board's staff.

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"It is understood that the extent to which the program will be carried eventually is as yet undetermined. The Board requested that it be advised of the results of the experiments so far as they pertain to the State member banks in the States of Illinois, Iowa, Indiana, Wisconsin, and Michigan so that if the audit program is to be extended further consideration can be given to the program as it pertains to State member banks in general.

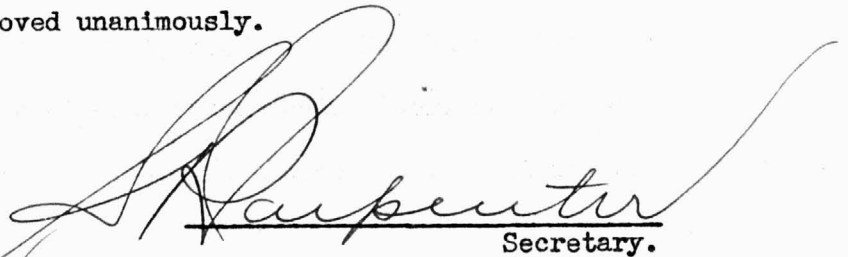
"In case the audits of State member banks in Indiana, Wisconsin, and Michigan should disclose any cases of a serious nature of improper reporting by the bank, it will be appreciated if the situation be brought to the attention of the Federal Reserve Bank of the District."

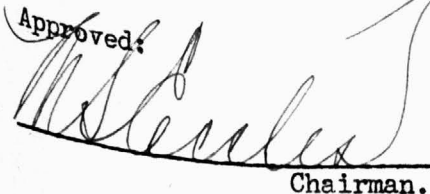
Approved unanimously, with the understanding that copies would be sent to Messrs. Young, Davis, and Peyton, Presidents of the Federal Reserve Banks of Chicago, St. Louis, and Minneapolis, respectively.

Telegram to Mr. Gilbert, President of the Federal Reserve Bank of Dallas, reading as follows:

"Referring to budget for 1948 enclosed with your letter of October 29, it is noted that estimate of total cafeteria expense for year 1947 is \$92,791 and net expense is \$48,059, or approximately 52 per cent. Please advise what action is being taken to bring percentage absorbed for year 1947 within the 50 per cent authorized by the Board."

Approved unanimously.


Secretary.

Approved:

Chairman.