

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, November 17, 1947. The Board met in the Special Library at 2:30 p.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. 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. Horbett, Assistant Director of the Division of Bank Operations
Mr. Young, Assistant Director of the Division of Research and Statistics
Mr. Solomon, Assistant Counsel
Mr. Hackley, Assistant Counsel

Before this meeting the Federal Advisory Council submitted a memorandum covering topics discussed at a separate meeting of the Council on November 16 which were to be reviewed with the Board at a joint meeting to be held at 10:30 tomorrow morning. The Board considered the topics and it was agreed that Chairman Eccles would state the views of the Board substantially along the lines recorded in the minutes of the joint meeting.

At Mr. Szymczak's request there was a further discussion of the proposed special reserve plan which had been considered at the

11/17/47

-2-

meeting on November 5, and the matter was discussed on the basis of a memorandum from Chairman Eccles dated November 13, 1947, which contained certain changes from the plan outlined on November 5. Mr. Szymczak raised the following questions with respect to the plan:

1. Why should the plan cover time deposits, and if it should cover time deposits, why not include mutual savings banks and building and loan associations?
2. Would it in fact be possible substantially to increase the discount rate without affecting the rates on Government securities?
3. Should we not determine upon the timing for increases in the reserve requirements of central reserve city banks and exhaust the authority which the Board has in this field before requesting more authority from Congress?
4. If the plan worked to increase interest rates on commercial loans and investments, would it not increase costs of production and prices of goods, and thus fail to accomplish the anti-inflation objectives the Board has in mind in proposing the plan?
5. Would the plan be interpreted as a credit control plan which was justified or as a disguised attempt to support the Government security market?
6. The Reserve System has urged the public to buy savings bonds and to get the public debt out of the banking system in so far as that is feasible. Throughout the war we emphasized with the Treasury the importance of placing as much of the debt outside the banks as possible and the final policy followed in this connection was a compromise of the position of the System and the Treasury. Since the proposed plan would encourage banks to hold Government securities, would it not seem inconsistent with the policies advocated by the System?
7. The Federal Reserve System was set up with a view to having the reserves of the banking system carried with the Federal Reserve rather than with commercial banks, whereas the proposed plan permits banks to count inter-bank deposits as part of their reserve. Therefore, is not the plan inconsistent with the general concept of the Federal Reserve Act?

11/17/47

-3-

8. The proposed plan would make penalties for deficient reserve payable to the U. S. Government. Would it not be preferable to make these penalties payable to the Reserve Banks as is now done with penalties incurred by member banks?

The questions raised by Mr. Szymczak were discussed, and Chairman Eccles commented on them along the lines of the memorandum which he had submitted under date of November 13. With respect to allowing interbank deposits to be counted as part of the special reserve, Chairman Eccles expressed the view that it was necessary to include interbank deposits as part of the special reserve in order to equalize the reserve position of all banks as much as possible. As to the payment of penalties, Chairman Eccles stated that this provision was made because penalties would be collected from nonmember as well as member banks and there was no basis on which the receipt of payments from nonmember banks by the Reserve System could be justified.

During the meeting Chairman Eccles was called from the room to answer the telephone and upon his return stated that the call was from Senator Taft, Chairman of the Joint Committee on the Economic Report, who had stated that there was not much time to consider various phases of the proposals presented by the President in his message to Congress, that it was expected that the Joint Committee on the Economic Report and the Banking and Currency Committees of both the Senate and the House would commence joint hearings on Thursday of this week in connection with the President's recommendation to Congress that additional credit controls be adopted, and that he (Senator Taft) would like to

11/17/47

-4-

have Chairman Eccles appear before the committees on Thursday, November 20, 1947. Chairman Eccles added that he told the Senator that while he had given considerable thought to the problem, he would appreciate it if he could be given until Monday of next week to prepare for the hearing. He also said that when he appeared he would make it entirely clear that credit control measures, such as the special reserve plan and the regulation of consumer credit, would be effective only as part of a program which included a fiscal policy which contemplated a very substantial reduction in the public debt.

Mr. Clayton referred to a draft of the statement which was being prepared to be issued jointly by the Federal and State bank supervisory agencies with respect to bank credit policies during the inflation. Copies of the draft had been sent to members of the Board before this meeting. Mr. Clayton stated that Comptroller of the Currency Delano had gone over the statement in his capacity as Comptroller, and also as a director of the Federal Deposit Insurance Corporation in the absence of Chairman Harl and Director Cook, that he and Mr. Delano had reached agreement on the wording of the statement, and that he expected to discuss it with the executive committee of the National Association of Supervisors of State Banks at a meeting to be held in the Board's building on Friday, November 21, 1947.

Mr. Clayton raised the question whether, in view of the President's message to Congress today recommending an overall anti-inflation program, it would be undesirable to issue a joint statement of the type

11/17/47

-5-

proposed. In the discussion that followed it was pointed out that the statement had been prepared as a part of the program discussed by the Federal Open Market Committee at its meeting on October 6 and 7, that its issuance at this time might well be interpreted as reinforcing and implementing the President's message, and that therefore steps should be taken to reach agreement on it. Chairman Eccles said that the statement must be approved by the Treasury Department as well as the other agencies mentioned before it could be released.

Following the discussion, it was understood that Mr. Clayton would revise the statement in the light of changes suggested during the meeting and that he would discuss it with a representative of the Treasury Department before reviewing it with the executive committee of the National Association of Supervisors of State Banks on November 21.

Chairman Eccles stated that in accordance with the action taken by the Board on October 31, 1947, he sent letters to Mr. Clark, Attorney General, Mr. Delano, Comptroller of the Currency, and Mr. Harl, Chairman of the Federal Deposit Insurance Corporation, advising that the Board had directed that an investigation be made to determine whether it should issue a complaint against the Transamerica group under the provisions of the Clayton Antitrust Act. He also said that Mr. Delano replied stating that there were pending in his office applications for approval of the conversion of banks which had been acquired by the Transamerica interests into branches of Bank of America National Trust

11/17/47

-6-

and Savings Association and the First National Bank of Portland, that the applications had already received considerable study and it was hoped to give a reasonably prompt reply to the applicants, but that the action of the Board in directing the investigation above referred to would be a factor which would require serious consideration in connection with the applications, and that it would be appreciated if the Board could give some idea as to when it would make its decision whether to start the proceeding against Transamerica. Chairman Eccles added that he proposed to advise Mr. Delano that the Board could not state at this time when a decision could be made but that it was expected that the information necessary to a decision would be developed within the next two or three months and that it was hoped that in the meantime the Comptroller of the Currency would defer any action approving applications for the establishment of branches by the Transamerica group. The other members of the Board indicated that such a reply would be acceptable to them.

Mr. Clayton stated that Mr. Leonard received a telephone call from the Federal Deposit Insurance Corporation this afternoon stating that representatives of the General Accounting Office had requested access to reports of examination of five State member banks in connection with its current review of Federal Deposit Insurance Corporation operations. He referred to the fact that in a letter to the Federal Deposit Insurance Corporation on February 4, 1947, the Board authorized the Corporation to make available to a representative of the General Accounting

11/17/47

-7-

Office, under the same terms and conditions as it did with respect to the reports of examination of insured nonmember banks, reports of examination of the State member banks included in the list forwarded with its letter of January 10, 1947. Mr. Clayton added that Comptroller of the Currency Delano recently discussed with him the question of making such reports available to the General Accounting Office, that Mr. Delano felt that the examination of banks was a professional function and the General Accounting Office could not determine by looking at reports of examination whether the Federal Deposit Insurance Corporation was operating efficiently, that it was undesirable to permit access to the reports, and that in response to a similar request the Office of the Comptroller had refused to make available to the General Accounting Office reports of examination of other than closed national banks. In a discussion of the matter Mr. Leonard said that the Federal Deposit Insurance Corporation was willing to make reports of examination of operating insured nonmember banks available.

Chairman Eccles suggested that Mr. Leonard advise the representatives of the General Accounting Office that if the five reports were desired as a supplement to the other reports in connection with the same review of operations, there would be no objection to giving access to them on the same basis as other reports were made available earlier in the year, but that if they were desired in connection with a new review of operations of the Federal Deposit Insurance Corporation by the General Accounting Office, and if the procedure was to be a continuing one,

11/17/47

-8-

the Board would want to consider the matter further, as it did not want to establish a precedent of making the reports available as a matter of course.

Upon motion by Mr. Vardaman, Chairman Eccles' suggestion was approved unanimously.

At this point Messrs. Smead, Thomas, Vest, Leonard, Horbett, Young, Solomon, and Hackley 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 14, 1947, were approved unanimously.

Memorandum dated November 17, 1947, from Mr. Thomas, Director of the Division of Research and Statistics, recommending the reemployment of Miss Wilellyn Morelle (Mrs. L. Jay Atkinson), an economist in that Division, effective as of November 17, 1947, with no change in her previous basic salary of \$3,522.60 per annum. The memorandum stated that Miss Morelle had been on maternity leave since May 19, 1947, and that she was a member of the Federal Reserve retirement system.

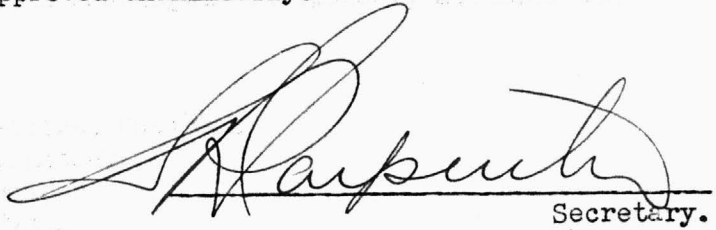
Approved unanimously.

Memorandum dated November 4, 1947, from Messrs. Thomas and Brown, Director and Assistant Director, respectively, of the Division of Research and Statistics, recommending, for the reasons stated in the memorandum, that the Board conduct a one-time national survey,

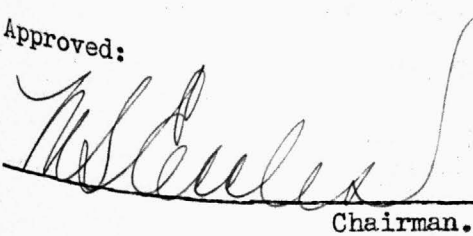
11/17/47

in cooperation with the Federal Reserve Banks, of the volume of sales
finance company credit operations.

Approved unanimously.


Secretary.

Approved:


Chairman.