

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, November 21, 1947. The Board met in the Board Room at 2:30 p.m.

PRESENT: Mr. Szymczak, Chairman pro tem
 Mr. Draper
 Mr. Evans
 Mr. Clayton

Mr. Carpenter, Secretary
 Mr. Sherman, Assistant Secretary
 Mr. Morrill, Special Adviser
 Mr. Smead, Director of the Division of Bank Operations
 Mr. Vest, General Counsel
 Mr. Leonard, Director of the Division of Examinations
 Mr. Horbett, Assistant Director of the Division of Bank Operations

Chairman Eccles' office advised that he was working on the statement to be presented when he appeared before the Joint Committee on the Economic Report on Tuesday, November 25, 1947, and therefore could not attend this meeting. Mr. Vardaman's office advised that he would be unable to attend a meeting this afternoon.

There were presented telegrams to the Federal Reserve Banks of Boston, New York, Philadelphia, Chicago, St. Louis, and San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on November 18, by the Federal Reserve Banks of New York, Philadelphia, and Chicago on November 20, 1947, and the Federal Reserve Banks of Boston and St. Louis today of the rates of discount and purchase in their existing schedules.

Approved unanimously.

11/21/47

-2-

There was presented a telegram to Mr. Clark, First Vice President of the Federal Reserve Bank of Atlanta, reading as follows:

"Board of Governors has approved for your Bank effective November 24, 1947, range of rates of one per cent to five per cent on advances to financing institutions under Section 13b applicable both to portion for which financing institution is obligated and to remaining portion. Otherwise the Board of Governors of the Federal Reserve System approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule advice of which was contained in your telegram dated November 20."

Approved unanimously.

Mr. Szymczak stated that Chairman Eccles had requested members of the staff to prepare a draft of reply to the statement submitted by the Federal Advisory Council on the expansion of bank credit and that the draft would be submitted to the Board for approval as soon as it was finished.

In that connection, Mr. Clayton stated that this morning he met with the executive committee of the National Association of Supervisors of State Banks, Comptroller of the Currency Delano, and Federal Deposit Insurance Corporation Director Cook to discuss a draft of the statement on bank credit policy during the inflation proposed to be issued by the supervisory agencies and on which agreement as to the wording previously had been reached with Comptroller of the Currency Delano as reported at the meeting on November 17. At this morning's meeting, he said, tentative agreement was reached on the statement as follows:

11/21/47

-3-

"BANK CREDIT POLICY DURING INFLATION"

"Our country is experiencing a boom of dangerous proportions. The volume of bank credit has been greatly inflated in response to the needs for financing the war effort. The demands for goods and services, both domestic and foreign, are exerting a strong upward pressure on prices in spite of the high volume of physical production. These demands would be inflationary without any further increase in the use of bank credit, but the demand is being steadily increased through continued rapid expansion in bank loans, in addition to other factors outside the control of the banking system.

"A further increase in production is desirable but this can only take place slowly and to a limited degree with the available supply of raw materials, plant capacity and labor. Therefore a further growth of outstanding bank credit tends to add to the already excessive demand and to make for still higher prices.

"The Board of Governors of the Federal Reserve System, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Executive Committee of the National Association of Supervisors of State Banks are unanimously of the view that present conditions require the bankers of the country to exercise extreme caution in their lending policies. It is at times such as these that bad loans are made and future losses become inevitable.

"It is recognized that a continued flow of bank credit is necessary for the production and distribution of goods and services. The banks of the country have adequately met this important need in the reconversion period. Under existing conditions, however, the banks should curtail all loans either to individuals or businesses for speculation in real estate, commodities or securities. They should guard against the over-extension of consumer credit and should not relax the terms of installment financing. As far as possible extension of bank credit under existing conditions should be confined to financing that will help production rather than merely increase consumer demand.

"The bank supervisory authorities strongly urge directors to see that their banks follow these policies and maintain adequate capital in relation to risk assets."

11/21/47

-4-

Mr. Clayton also said that the executive committee of the Association would clear the statement with a representative group of the supervisors, and, if they approved it, it would be in form for final consideration by the Board. In response to a question, Mr. Clayton said that the representatives who went over the draft did so with the understanding that their group approved the issuance of a statement on the subject, but that final acceptance of the form of statement was a matter for decision by the governing bodies of the respective agencies.

During a discussion, he also said there was no chance of obtaining agreement by the other participants on a change in wording which would give greater emphasis to the overall expansion of bank credit, since they do not consider it part of their function to regulate the total volume of credit extended, and that the Board might consider the possibility of issuing an additional statement which would make it clear that the joint statement was not intended to discuss the problem of bank credit in the light of the Board's special responsibilities in that field.

In accordance with a suggestion by Mr. Szymczak, it was agreed unanimously that a copy of the statement would be sent to each member of the Board for consideration while it was being reviewed by the representative group of Supervisors of State Banks.

11/21/47

-5-

Mr. Szymczak stated that since publication in the Federal Register of the notice of proposed changes in reserve city designations, which was approved at the meeting on October 21, 1947, a number of protests had been received from banks in cities whose designation would be changed if the proposed formula were adopted. He also said that President Leedy of the Federal Reserve Bank of Kansas City had addressed a letter to the Board under date of November 17, 1947, to provide (1) that paragraph (B)(2) of the proposal be changed by substituting "one-tenth of one per cent" for "one-fourth of one per cent", in referring to the percentage of the aggregate amount of demand interbank deposits of all members of the Federal Reserve System which must be held by member banks in any city designated a reserve city under that paragraph; and (2) that a new paragraph be added which would provide that, in addition to reserve cities that would be designated under the proposed formula, the classification would include every other city now classified as a reserve city in which all member banks now subject to reserve city requirements, prior to December 31, 1947, had, in writing, requested the Board to designate such city as a reserve city. It was also stated that if the first of these changes were made Kansas City, Kansas, and St. Joseph, Missouri, would be continued as reserve cities, that banks in these cities had requested a hearing before action was taken by the Board to put the published formula

11/21/47

-6-

into effect, and that if the Board was not prepared to adopt Mr. Leedy's suggestions and the banks in these cities and other banks which had protested the proposed action were given an opportunity to present oral objections, it would not be possible for the action to become effective on January 1, 1948, as originally contemplated. Mr. Carpenter added that a letter had been received this afternoon from the National Stock Yards National Bank, National Stock Yards, Illinois, objecting to the designation of that city as a reserve city and questioning the Board's authority to take such action.

All of the members of the Board present agreed that a decision on Mr. Leedy's suggestion should not be made at this time, and that the banks which desired to make oral objection to the adoption of the proposed formula should be given an opportunity to do so.

Accordingly, it was voted unanimously to advise the Presidents of the Federal Reserve Banks of the districts in which there were cities the designation of which would be changed by the formula under consideration by the Board, substantially as follows:

Banks in two cities have requested an opportunity to present their views orally before action is taken changing the designation of the cities in which they are located. Representatives of these banks will be given an opportunity to present oral objections to Board or members thereof on Wednesday, December 10, 1947, at 10 a.m.

11/21/47

-7-

in the Board's offices in Washington. The Board assumes from letters received that few banks would wish to make oral objection but if there is any bank in your district, in a city the classification of which would be changed by the Board's proposal, which has made objection to the proposal orally or in writing since October 20, 1947, it is requested, if you feel that the bank would be interested in making oral objection, that you notify the bank that it may appear if it wishes at the time and place stated above. If such bank signifies a desire to appear, please advise by wire as promptly as possible who will appear on its behalf. It is requested that not more than one representative appear on behalf of any one bank and in any event representation will be limited to two. This is not intended as an invitation to all banks but is merely to afford the banks which definitely desire to make oral objection an opportunity to do so.

It was also voted unanimously that Messrs. Szymczak and Clayton be designated to conduct the proceeding with the understanding (1) that any other members of the Board who might wish would attend, and (2) that a full stenographic record of the proceeding would be made.

In a discussion of procedure, question was raised whether the representatives of banks from each district should be heard separately from the representatives from other districts or whether the proceeding should be conducted with all representatives present at the same time. It was the consensus of the members present that this question should be decided at the time of the opening of the proceeding.

11/21/47

-8-

One of the items on the agenda as approved by the Chairmen of the Federal Reserve Banks for their conference to be held in Washington on December 1 and 2, 1947, was the topic: "Relations of the Boards of Directors of the Federal Reserve Banks to the Board of Governors". In preparation for the discussion of this subject with the Chairmen, the statement of responsibilities of the directors of Federal Reserve Banks and their relation to the Board of Governors, which since 1943 had been sent to each new head office director of a Federal Reserve Bank, had been revised and sent to each member of the Board for consideration at this meeting, with the understanding that the statement as approved by the Board, together with any statement on the subject agreed upon by the Chairmen, would be used as the basis for the discussion at the Chairmen's Conference.

The statement was discussed and approved unanimously as follows:

"One of the first things that impresses a new Director of a Federal Reserve Bank is the special character of the activities of the Banks and of his responsibility as a Director. These responsibilities have little resemblance to the duties of directors of privately managed banks. They spring from the nature of the Federal Reserve Banks and can be understood only in the light of the purposes of central banking and the regional structure of the Federal Reserve System. Every Federal Reserve Bank serves its own district, yet its actions are interlaced with those of other Federal Reserve Banks in carrying out the purposes of the System

11/21/47

-9-

"which are principally (1) to accommodate commerce, industry, and agriculture through the exercise of the System's influence upon the general credit situation of the country; (2) to meet the currency needs of the country; (3) to operate an efficient system for the clearing and collection of checks; (4) to provide a more effective supervision of banks; and (5) to act as fiscal agent of the United States.

"It has been the custom of important nations in the past to have central banking functions of the respective countries performed by a single institution. However, when the Federal Reserve Act was passed in 1913 Congress decided that the wide diversification of interests in the United States called for a regional system and that the operations of the regional banks should be supervised by a Government agency in Washington. Advantages of both centralization and decentralization were sought. Therefore, provision was made for the Board of Governors and the 12 Federal Reserve Banks.

"The supervisory and other powers of the Board of Governors are very broad, in fact so broad that, if they were exercised to the extent the language of the various provisions of law would seem to permit, they would center in the Board all important decisions of policy (except open market policy which is determined by the Federal Open Market Committee) and would leave the Federal Reserve Banks largely as instruments in the field to carry out these policies. A statement of the broad character of the Board's responsibilities as defined in the law is attached. On the other hand, it is clear that Congress also placed very substantial responsibilities on the Boards of Directors of the Federal Reserve Banks in connection with the operations of the Banks in their respective districts. Under the terms of the Federal Reserve Act every Federal Reserve Bank is conducted under the supervision and control of the Board of Directors who 'shall perform the duties usually appertaining to the office of directors of banking associations and all such duties as are prescribed by law' and who 'shall administer the affairs of said bank fairly and impartially without discrimination in favor of or against any member bank or banks.'

"Since the passage of the Banking Act of 1935 when authority to direct the purchase and sale of Government

11/21/47

-10-

"securities by the Federal Reserve Banks was taken from the Boards of Directors of the Federal Reserve Banks and placed in the Federal Open Market Committee, question has frequently arisen concerning what appeared to be an inconsistency in the provisions of law referred to in the previous paragraph and the authority given the Board of Governors and the Federal Open Market Committee. Directors have asked what is left for them to do and how can they perform the duties usually performed by directors of banking associations when they have no authority over the investments of the Reserve Banks, when the rules under which and the rates at which discounts and advances made to member banks are determined by the Board of Governors, when the Directors do not have final authority for the selection of senior executive officers of the Bank and the salaries to be paid officers and employees, and when other policy decisions of the kind referred to in the attached statement are made by the Board of Governors.

"It is only natural that this question should arise. Usually the Directors of the Federal Reserve Banks are men who are used to making top policy decisions without their being subject to review by a coordinating agency such as the Board of Governors. However, a study of the responsibility of the System and its place in our economy will make it clear why Congress has made certain acts of the Boards of Directors of the Federal Reserve Banks subject to approval by the Board of Governors and in some instances also to the direction of the Board of Governors. For example, the Board, as the agency established by Congress and required to make reports to it, must exercise certain supervisory powers with respect to appointment of official personnel, salaries and expenses, and certain other matters which in the absence of the Board probably would be exercised by the Treasury, the Bureau of the Budget, the General Accounting Office, or the Civil Service Commission. Therefore, while the responsibility for the control of the cost of operating the Federal Reserve Banks is shared by the Boards of Directors and officers of the Federal Reserve Banks and the Board of Governors, the Board should be able to demonstrate whenever necessary that it is in a position to and does adequately supervise expenditures of the Federal Reserve Banks for salaries and for other purposes. For this reason the Board recently reestablished the arrangement (discontinued during the war) under which annual

11/21/47

-11-

"budgets are submitted by the Federal Reserve Banks and the Directors have responsibility for the adoption by the Banks of effective budget procedures.

"Each Federal Reserve Bank is both regional in scope and an integral part of a national monetary and credit system. That system should operate in a smooth working system that serves both the district and the nation. Therefore, while authority with respect to matters which are regional in their scope rests with the Directors, on questions of policy having nation-wide application (other than open market policy which is determined by the Federal Open Market Committee) and in matters which involve coordination of the System's activities and operations, the final decision must rest with the Board of Governors.

"In these System policy decisions Directors of the Federal Reserve Banks can play a very important advisory part. Selected as they are as the representatives of banking, commerce, industry, and agriculture and for their outstanding accomplishment in their chosen fields, they are able to make available to the formulation of System policies their seasoned experience in business and public affairs and their broad knowledge of regional conditions. Therefore, they are in a position effectively to advise the Board as to actions that it might take with respect to such policies. Furthermore, when the decisions have been made, the Directors are able to explain and thereby to bring about an understanding and an acceptance of them in their various communities. There is a widespread feeling that fiscal and monetary programs and procedures are difficult if not impossible for the average individual to understand. However, actions taken by the Government and its central bank in this field are of the utmost importance to the public generally, and it is desirable that an understanding of them be as widespread as possible. This will be particularly true in future years which will be characterized by a large national debt, a large Federal budget, and increased importance of fiscal and monetary policies in the economic life of the country. Although the System has no direct responsibility for fiscal policy, that problem is so closely related to the System and its responsibilities that the Directors, through the information developed by the System, should keep in touch with it as it affects the System and the Federal Reserve Banks and be prepared to express opinions regarding the policies that might be followed.

11/21/47

-12-

"Much has been said in recent years about the Federal Reserve Banks as centers of information and leadership and it is believed that the Directors can play a most effective part in bringing this about. In this connection the following is a summary of a statement made by the Chairmen at their conference in April 1941: 'There should be no limit to the work of the Federal Reserve Banks in the field of cooperation, education, and leadership. The good that the Banks can do is limited only by the intelligence, courage, and leadership of their directors and officers. On the other hand, we must not underestimate the routine or operating functions and responsibilities of central banking as they form a vital part of the System. On the assumption that there will be further centralization with respect to fiscal and monetary policy and that the objectives of that policy will be different and novel involving measures which will take on an increasing explicit regional differentiation, it seems desirable that the Reserve Banks be firmly established as centers of information, enlightenment, and leadership. They must be able to submit comprehensive information wisely interpreted on economic problems and regional trends. They must be able to act as centers for interpretation in their districts of national policy and methods in the fiscal and monetary area. They must be able to assume leadership in times of emergency and to exert proper influence on national policy especially from the point of view of regional considerations.' This assignment is one to challenge the abilities of the best qualified men we can find to serve as Directors of Federal Reserve Banks.

"In addition to this service, the Directors of the Federal Reserve Banks have some specific and important responsibilities. Perhaps the most important of these is to see to it that the Federal Reserve Banks have competent and efficient management. The President is the chief executive officer of the Bank and all other executive officers and employees of the Bank are directly responsible to him. In his absence the First Vice President acts in this capacity. The importance of the selection of competent management, and particularly the President and First Vice President, is clearly

11/21/47

-13-

"demonstrated by a consideration of the responsibilities of the President whose work can be classified into four major areas: (1) the operation of the Federal Reserve Bank, (2) analysis of information for and consultation with the Board of Directors, the Board of Governors, and the Federal Open Market Committee in connection with policy decisions, (3) leadership in his district in interpreting System policies and in the formulation and adoption of sound commercial banking policies, and (4) membership on the Federal Open Market Committee.

"The operating functions of the Federal Reserve Banks have been organized to a point where they are at times referred to as routine functions, but they do not run automatically. They require continuous supervision by men who are well qualified to keep them functioning economically and efficiently and who are able to adapt the procedures to changes as they come along so that the Banks' operations will be kept abreast of the times. The responsibility for a well balanced and qualified staff rests in the first instance with the President and he is expected to anticipate as much as possible the demands that may be made on the Bank and to make recommendations to the Board of Directors as to how these demands may best be met. The importance of the regular operations of the Federal Reserve Banks should be kept constantly in mind because they constitute the daily contact of the public with the System and the principal basis for public judgment of the quality of System administration.

"In the formulation of policy the President occupies a unique position and plays a most important part. The policies of the System and his Bank find expression in the operations of the Bank. Because of his close relationship with the member banks and others in the district he is able to see firsthand how these policies are applied in the field. Therefore, he is able to appraise their effectiveness and to formulate valuable recommendations as to actions that should be taken. Through the research departments of the Bank he is able to develop information which is necessary to the Directors, the Board of Governors, and the Federal Open Market Committee in reaching their decisions. Through the medium of the

11/21/47

-14-

"Presidents' Conference and its committees, the Presidents are able to compare notes on, and make studies of, conditions and problems in their respective districts and thereby to place themselves in a position to make recommendations on matters of System and district policy and Reserve Bank operations.

"From the standpoint of public service, perhaps the most important function of the President is the leadership which he is able to give in his district. This falls under two major headings. First, upon the President rests the primary responsibility to interpret and obtain acceptance of the policies adopted by his Bank and by the System. Actions on monetary and credit matters have a vital effect on commerce, industry, and agriculture and if they are to succeed as they should they must be understood. The President is in a better position than anyone else to bring this understanding about. He is a part of the community and as the full-time executive head of the Bank is expected to be the spokesman for the System in the district and to explain the meaning of Federal Reserve actions and why they are in the public interest. Second, it is believed that the Federal Reserve Banks, because of their special relationship to the commercial banks, the Government, and the public, should furnish constructive leadership in everything that will contribute to sound commercial banking and credit policies. The interest of the System in this connection is much greater than that of agencies which are concerned primarily with deposit insurance and bank supervision since the System is interested in the whole monetary and credit picture as it affects not only the commercial banks but all phases of community and national life. This affords to the System a basis for leadership that looks not only to the maintenance of the solvency of the commercial banking system but also to its greatest possible public service. The System can well afford to furnish leadership in the principles of sound commercial bank lending, investment, and other policies, the relationship of the banks to the public, and the place that the banks should occupy in connection with fiscal and other policies of the Government.

"Five of the Presidents serve with the members of the Board of Governors as members of the Federal Open

11/21/47

-15-

"Market Committee and by rotation each President serves from time to time as a member of the Committee. As such he has direct responsibility for policy formation in a tremendously important field which calls for a broad knowledge of the background of all credit control actions of the System whether taken by the Board, the Federal Reserve Banks, or the Open Market Committee, ability to analyze the possible reactions of the banks and the public to the different forms of System action, and sound judgment as to the extent to which and the form in which action should be taken.

"For these reasons exceptional care should be taken in the selection of the President and the First Vice President to see that they are men who can command respect in the community and who can furnish leadership of the kind described above. While their responsibilities are greatly different from those of officers of private banks, if they are able to render this kind of service their work will be more important from the standpoint of the maintenance of sound economic and financial conditions than that of officers of large private commercial banks. As suggested in the Board's letter of March 28, 1947, however, they can not expect to command the salaries that are paid to heads of large commercial institutions and must derive a part of their compensation from the performance of a valuable public service. The fact that the law makes the appointment of the President and First Vice President and salaries fixed for them by the Board of Directors as well as the salaries fixed for other officers and employees subject to approval by the Board of Governors does not lessen the responsibilities of the Directors for their selection or for constant study of the management for the purpose of assuring that the Bank will continue to be properly and efficiently managed.

"Several years ago, as a means of enabling the Board and the Banks to provide more effective administration of salaries of employees (as distinguished from officers), the Banks adopted personnel classification plans. Recently these plans were completely revised and brought up to date. Within the limitations of the minimum and maximum salaries provided by the plans the Federal Reserve Banks are free to fix salaries without specific approval of the Board.

11/21/47

-16-

"As previously stated, the Board of Directors is responsible for the conduct of the affairs of the Federal Reserve Bank and is required to administer the affairs fairly and impartially without discrimination. In regard to credit accommodations each Bank may extend to each member bank such discounts, advancements, and accommodations as may be safely and reasonably made with due regard to the claims and demands of other member banks, the maintenance of sound credit conditions, and the accommodation of commerce, industry, and agriculture. Each Federal Reserve Bank is required to keep its fingers on the economic pulse of the district and 'to keep itself informed of the general character and amount of loans and investments of its member banks with a view to ascertaining whether undue use is being made of bank credit for speculative carrying or trading in securities, real estate, or commodities or for any other purpose inconsistent with the maintenance of sound credit conditions'. The law contemplates that the rates at which discounts and advances will be made by the Federal Reserve Banks shall be established by the Boards of Directors subject to review and determination by the Board. The fact that the Board of Governors has authority, if it feels it is necessary to do so, to determine that the rates shall be different from those fixed by the Directors does not alter the responsibility of the Directors to initiate these rates.

"In their operations the Federal Reserve Banks perform functions which are essential to the effective workings of the banking system and the economy generally. In addition to administering the regulations of the Board they are responsible for seeing that the currency functions of the System operate effectively. They have an important share in bank supervision and examination. Through the maintenance of an efficient system for the collection of checks, the Banks serve business and banking by promoting a smooth flow of money transfers. The fiscal agency operations conducted for the United States provide essential services for the Government and the public in the transactions involved in the sale of Government obligations, in the collection of Federal taxes, and in the disbursement of Federal funds. The relationship of the Reserve Banks to the Government is demonstrated most forcibly in the issue of Federal Reserve notes which make up the bulk

11/21/47

-17-

"of the country's currency, in their services to the Treasury and other Governmental agencies, in the field of international relationships, and in their administration of regulations relating to margin requirements for loans on securities (Regulations T and U). Moreover, in the event of the liquidation of a Federal Reserve Bank, any surplus remaining after payment of all claims belongs to the United States, and, under a policy adopted by the Board, approximately ninety per cent of the earnings of the Banks after expenses and dividends are paid to the Government as an interest charge on Federal Reserve notes.

"Each Federal Reserve Bank has a full-time auditor who reports directly to the Board of Directors through the Chairman and the Audit Committee. The auditor and the examiners for the Board of Governors maintain close relations with each other evidencing the common interest of the Board of Directors and the Board of Governors in seeing that the practices and procedures of the Bank are sound and in conformity with the law and applicable regulations.

"The Directors also have responsibility for the branches of the Federal Reserve Bank. They appoint a majority of the branch directors, the remainder being appointed by the Board of Governors. As is done in the selection of directors of Federal Reserve Banks, care is taken to appoint men as directors of branches who are leaders and who will bring to the branches the benefit of good judgment and tested experience. The matters which are within the province of the branch directors vary in the different districts but in recent years the activities of the branches have been increased. This has tended to increase the responsibilities of the branch board, subject, of course, to the supervision of the Directors of the Federal Reserve Bank who are responsible for the operations of the Bank as a whole.

"The Board has repeatedly said that the strength of the regional organization of the System is in the existence in the principal cities of the United States of 12 Banks and 24 branches which are close to and familiar with the problems of the respective territories which they serve and which have the organization and 'know how' to render real service in the banking and credit fields and as fiscal agents for the various branches of the Government. It

11/21/47

-18-

"would not be expected that either strength or ability for leadership would characterize the Federal Reserve Banks if all of the important decisions of policy were made in Washington and the Banks were merely service stations through which these decisions were carried into effect. On the other hand, it could not be said that the Board was discharging adequately the responsibility placed on it by the law if, in a rubber stamp fashion, it approved all of the actions taken by the Board of Directors of each Bank with respect to salaries, credit policies, foreign relations, service to member banks, and other important matters of that kind. Even when the Directors of the Federal Reserve Bank have carefully considered a matter on the basis of all the information available to them, there are occasions when the Board, because of broader questions of System policy based on national and at times international considerations, is obliged to disapprove the action or suggest that it be modified. This is not a pleasant task for the Board and it is not undertaken any oftener than necessary.

"There is no question that the Board of Governors, the directors, and the executive officers of the Federal Reserve Banks have a place in the System in which each individual can find problems which will test his abilities and afford ample opportunity for public service of the highest order. The central banking function is one of utmost importance and will continue to be so in the years of reconstruction that lie ahead. All of the men who are in positions of responsibility in the System can look forward to the future with the assurance that only if their job is well done will that function continue to be entrusted to the System. In order that all of its parts may be forceful and forward looking, each group should concentrate its energies on its particular task, keeping in mind as a general guiding principle that the Board has primary responsibility for general supervision and for System policies and that, within the limitations established by such policies, the decisions on local matters that can be made by the individual Federal Reserve Banks and all operations that can be carried on effectively in their respective districts should be in the hands of the Banks.

11/21/47

-19-

"Inasmuch as the Chairman of the Federal Reserve Bank in his capacity of Federal Reserve Agent is the official representative of the Board at the Federal Reserve Bank, there are certain matters in the policy field which should be discussed by the Board directly with him and through him with the Board of Directors of the Bank. In connection with certain other matters, the Board communicates with both the Chairman and the President and on other matters which are handled by the President or should be presented to the directors through him, the Board communicates only with the President. It is believed that this arrangement is a most satisfactory one and should be continued.

"The Conference of Chairmen which meets periodically affords an excellent opportunity for a discussion of broad questions of System and national policy and other matters relating directly to the System's work. The Board welcomes these discussions as it believes that they clarify the respective areas in which the Board of Governors and the Federal Reserve Banks have responsibility and make possible a greater degree of cooperation.

"SUPERVISORY AND OTHER RESPONSIBILITIES OF
THE BOARD OF GOVERNORS

"In addition to the activities of the Federal Reserve Banks (including fiscal agency operations) being under the general supervision of the Board, the Banks are subject to examination by the Board, which may also require from the Banks such reports and statements as it may deem necessary. It is required to appoint three of the nine directors of the Federal Reserve Banks, to designate the Chairman and Deputy Chairman of the board of directors, and to approve the appointments of Presidents and First Vice Presidents and the salaries of all Reserve Bank officers and employees. It can remove any director, officer, or employee for cause and may suspend the operation, and take possession, of any Federal Reserve Bank which violates the provisions of the Federal Reserve Act.

"The authority of the Board over the credit functions of the Federal Reserve Banks is very broad inasmuch as the discounts, advancements, and accommodations extended by the Reserve Banks to their member banks are subject to the orders and regulations of the Board. Discount rates charged by the Reserve Banks are subject to approval and determination by the Board, and it can suspend for cause any member

11/21/47

-20-

"bank from the use of the credit facilities of the Federal Reserve Banks. The Board also may require a Federal Reserve Bank to rediscount, at rates fixed by the Board, paper acquired by other Federal Reserve Banks, and to write off doubtful or worthless assets. The issuance and retirement of Federal Reserve notes are under the supervision and regulation of the Board.

"The Board is required to exercise special supervision over the foreign relationships and transactions of the Federal Reserve Banks. The responsibility for policy with respect to the establishment, operation, and discontinuance of branches of the Federal Reserve Banks rests in the first instance with the Board of Governors. The Federal Reserve districts provided by the Federal Reserve Act may be readjusted by the Board. The Board may require each Federal Reserve Bank to exercise the functions of a clearing house for its member banks, and the existing check-clearing and collection system has been set up under that authority. The Board may regulate the transfer of funds between the Federal Reserve Banks and their branches.

"The conditions under which State banks will be admitted to membership in the System are prescribed by the Board, and the disciplinary actions provided by the law with respect to member banks are taken by the Board, including the removal of officers and directors of member banks for violations of the law and unsafe and unsound practices. Discretion with respect to the examination of member banks, the assessment of the cost of such examinations, and the reports and statements to be required from member banks is placed in the Board, including approval of appointments of examiners made by the Reserve Banks. The granting of trust powers to national banks is the responsibility of the Board. Permits authorizing holding company affiliates to vote the stock which they own or control in member banks are issued by the Board. Maximum rates of interest that may be paid by member banks on time and savings deposits are determined by the Board.

"The most important function of the System, the determination of credit policies, rests largely with the Board. While it is true that the Federal Open Market Committee has responsibility for directing the

11/21/47

-21-

"open market operations of the Federal Reserve Banks, the Board constitutes a majority of the membership of that Committee and, in addition, has other broad powers over reserves of member banks, the extension of credit to member banks, and the other instruments available to the System for credit regulation. Therefore, as long as the law continues in its present form, the responsibility for a consistent System credit policy is one which the Board must accept."

In taking the above action, it was understood that if, during the meeting with the Chairmen, any changes in the Board's statement were suggested, these changes would be considered by the Board, but that otherwise the statement in the future would be sent to each new head office director with a letter of transmittal reading as follows:

"Your telegram of _____, advising of your acceptance of appointment by the Board of Governors as a Class C Director of the Federal Reserve Bank of _____ for the three-year term beginning _____, has been received. On behalf of the Board, I wish to welcome you into the official family of the Federal Reserve System and to express the hope that you will enjoy your new duties and associations. If he has not already done so, Mr. _____, Chairman of the Reserve Bank, will communicate with you in the near future and advise you of the steps to be taken to qualify as a Director. We trust that whenever you have occasion to come to Washington you will call at our offices for a visit and a personal welcome into the System.

"The suggestion has been made from time to time in the past that it would be helpful if there were made available to Directors of Federal Reserve Banks a short statement of their duties and responsibilities. To fill that need there has been prepared a statement outlining in the space of a few pages the nature of the principal responsibilities of a Director of a Reserve Bank and his relationship to the Board of Governors and the System as a whole. This statement is enclosed and I would urge that you read it carefully. A detailed discussion of the duties and powers

11/21/47

-22-

"of the Federal Reserve System as a central banking mechanism and the authority of the System with respect to banking and credit matters is beyond the scope and purpose of the statement. These matters are discussed in the booklet entitled 'The Federal Reserve System--Its Purposes and Functions' and the larger volume entitled 'Banking Studies'. Copies of these two publications will be placed in your hands by the Federal Reserve Bank and you will find it to your advantage to read them carefully. As an aid in obtaining an understanding of the organization of the System a chart is attached to this letter which shows the principal duties and relationships of the groups comprising the System.

"It was not possible in the statement to recognize the differences in the organization and operations of individual Federal Reserve Banks, and to meet this situation the Federal Reserve Bank of _____ will furnish you a memorandum which will describe the organization of the Bank and the relationship of the Board of Directors, the executive and other committees of directors, the directors of the branches, and the President and executive officers to each other and to the functions performed by the Bank."

Mr. Baumann, Assistant Counsel, joined the meeting at this point.

Before this meeting there had been circulated among the members of the Board a memorandum prepared in the Legal Division under date of October 21, 1947, following the discussion at the meeting of the Presidents and the Board on October 7, 1947, of the question whether a recommendation should be made that legislation be enacted by the Congress to require the approval by the Board for the establishment by a State member bank of an intracity branch. The

11/21/47

-23-

memorandum stated that the following questions should be decided by the Board in connection with the contemplated submission to the Congress of proposed legislation with respect to the capital required for admission of a State bank to membership in the Federal Reserve System and for the establishment of a branch by a member bank:

"1. Should the law contain any minimum capital stock requirement for the admission of State banks to membership? If so, should the minimum be \$25,000 or \$50,000?

"2. Should the Board recommend that the existing capital requirements for the organization of national banks be eliminated and replaced by a provision vesting discretion in the Comptroller of the Currency similar to that which the Board would have in admitting State banks to membership? If so, should the same minimum, if any, be prescribed?

"3. Should the requirements for the establishment of out-of-town branches by State member banks be divorced from those for the establishment of branches by national banks and the Board seek legislation only with respect to branches of State member banks?

"4. Should the Board's approval be required for the establishment of intracity branches by State member banks? Should its approval be required for the moving of a branch to a new location?"

During a discussion of the background of these questions, at Mr. Clayton's request, Mr. Baumann outlined present capital requirements for admission to membership and for the establishment of branches by member banks.

Mr. Szymczak suggested that it would be preferable if a decision on the questions could be deferred until Messrs. Eccles

11/21/47

-24-

and Vardaman could be present and Mr. Clayton suggested that inasmuch as some of the questions concerned the Comptroller of the Currency, they be discussed with him on the basis that the Board had reached no decision as to the action to be taken and that the matter would be considered by the Board in the near future.

Mr. Clayton's suggestion was approved unanimously.

At this point Messrs. Smead, Vest, Leonard, Horbett, and Baumann 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 20, 1947, were approved unanimously.

Letter to the Presidents of all Federal Reserve Banks reading as follows:

"Summaries of Regulation W Enforcement Reports are enclosed, covering the month of October. Concerns that had failed to register were reported at 72, in addition to the tabulated violators."

Approved unanimously.

Telegram to Mr. Whittemore, President of the Federal Reserve Bank of Boston, reading as follows:

"Re Willett's letter November 13, 1947. Board approves as the revised budget for Bank Examination Department for the year 1947 the estimated expenditures for the department amounting to \$144,785, as submitted in connection with the budget for 1948."

Approved unanimously.

11/21/47

-25-

Telegram to Mr. McLarin, President of the Federal Reserve Bank of Atlanta, reading as follows:

"Board approves revised budget of \$43,450 for the Examination Department for last half of 1947 as requested in Bowman's telegram of November 12, 1947."

Approved unanimously.

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

"Re Gentry's telegram of November 10, 1947. Board approves as the revised budget for Bank Examination Department for the year 1947 the estimated expenditures for the Department amounting to \$100,434 as submitted in connection with the budget for 1948."

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks reading as follows:

"There have been forwarded to you today under separate cover the indicated number of copies of the following forms, a copy of each of which is attached, for use of State member banks and their affiliates in submitting reports as of the next call date:

| <u>Number of</u> | <u>Copies</u> |
|--|---|
| Form F. R. 105 (Call No. 107), | Report of condition of State member banks. |
| Form F. R. 105b (Revised August 1939), | Loans and advances to affiliates and investments in and loans secured by obligations of affiliates. |
| Form F. R. 105e (Revised November 1946), | Publisher's copy of report of condition of State member bank. |
| Form F. R. 105e-1 (Revised November 1946), | Publisher's copy of report of condition of State member bank. |
| Form F. R. 105k (Schedule K), | Balances to the credit of United States Government officers and agencies. |

11/21/47

-26-

"Form F. R. 220 (Revised August 1946), Report of affiliate or holding company affiliate.

Form F. R. 220a (Revised August 1946), Publisher's copy of report of affiliate or holding company affiliate.

Form F. R. 220b (Revised August 1946), Instructions for the preparation of reports of affiliates and holding company affiliates.

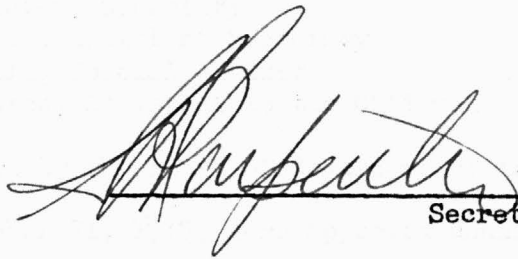
"With the exception of form F. R. 105 and the new Schedule K, all of the forms are the same as those used on October 6, 1947. Schedule K was added at the request of the United States Treasury Department in order to obtain a complete record of official accounts to the credit of United States Government officers and agencies. We were informed that similar information was requested subsequent to the first World War and that it was very helpful in locating and properly disposing of many accounts comprised of funds belonging to the United States Government. Only three copies of form F. R. 105k need be sent to each State member bank (two for the use of the member bank, and one to be completed and returned to the Reserve bank). The original copies should be checked for reasonableness and sent directly to the Treasury Department, Division of Deposits, Washington 25, D. C., when they have been received from all State members in your District. This information will be collected only on the next call date; similar forms are being requested of banks reporting to the Comptroller of the Currency and the Federal Deposit Insurance Corporation.

"The following changes have been made in form F. R. 105:

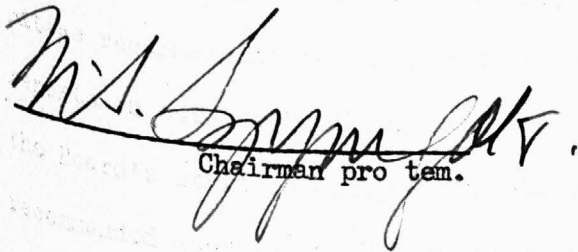
- (1) Schedules A and B, omitted from the fall call, have been reinserted with a change in the wording of item 4, Schedule B: 'United States savings bonds (series C, D, F, G)', changed to 'United States non-marketable bonds (savings series C, D, F, G; investment series A-1965; and depositary bonds)'. The new item provides for the classification of the recent issue of Treasury Bonds, investment series A-1965, and combines all United States non-marketable bonds in one item; formerly depositary bonds were classified according to the appropriate maturity against items 5 to 7, inclusive.
- (2) The heading of Schedule D has been changed to conform to the wording of item 1 on the face of the report."

11/21/47

Approved unanimously, with the understanding that the letter would be sent when the forms referred to therein were printed and ready for distribution.


Secretary.

Approved:


Chairman pro tem.