

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, January 16, 1948. The Board met in the Board Room at 10:45 a.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. Vest, General Counsel
 Mr. Leonard, Director of the Division of Examinations
 Mr. Nelson, Director of the Division of Personnel Administration
 Mr. Townsend, Associate General Counsel

There was presented a telegram to the Federal Reserve Bank of New York stating that the Board of Governors approves the establishment without change by that Bank, effective January 15, 1948, of the rates of discount and purchase in their existing schedule.

Approved unanimously.

Mr. Carpenter stated that wires dated January 15 had been received from the Federal Reserve Banks of Philadelphia and Chicago stating that the respective Banks had established a minimum buying rate of 1-1/4 per cent on bankers' acceptances, and from the Federal Reserve Bank of Kansas City stating that that Bank had established a rate of 1-1/4 per cent on discounts and advances under

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Sections 13 and 13a of the Federal Reserve Act, except on advances to individuals, partnerships, and corporations other than member banks under the last paragraph of Section 13 on which the rate had been set at 2-1/2 per cent, and a rate of 1-3/4 per cent on advances under Section 10(b).

There was agreement that the rates established were in accordance with the policy adopted by the Board in approving advances in discount rates at other Federal Reserve Banks during the past few days, and the following wires were approved unanimously:

Telegram to the Federal Reserve Banks
of Chicago and Philadelphia

"Retel January 15 Board approves effective January 19, 1948 minimum buying rate of 1-1/4 per cent on bankers' acceptances. Otherwise Board of Governors of 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 January 15."

Telegram to the Federal Reserve Bank
of Kansas City

"Retel January 15 Board approves effective January 19, 1948, rate of 1-1/4 per cent on discounts and advances under Sections 13 and 13a except advances to individuals, partnerships, and corporations other than member banks; 2-1/2 per cent on advances to individuals, partnerships, and corporations other than member banks under last paragraph of Section 13; and 1-3/4 per cent on advances under Section 10(b). Otherwise Board of Governors of Federal Reserve System approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule, advice of which

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"was contained in your telegram dated January 15. Board will announce change at 4:00 PM, EST, today.

"Board feels that minimum buying rate on bankers' acceptances should not in times like the present be below discount rate on eligible paper. It is suggested, therefore, that present minimum buying rate of 1 per cent on bankers' acceptances be increased accordingly."

Reference was made to a letter received from Mr. Calkins, Acting Chairman of the Federal Reserve Bank of New York under date of January 8, 1948, commenting upon the statement "Responsibilities of Directors of Federal Reserve Banks and their Relations to the Board of Governors" sent to the Deputy Chairman of that Bank with the Board's letter dated December 22, 1947. The letter from Mr. Calkins pointed out that a copy of the statement had not been submitted to the Deputy Chairman of the Federal Reserve Bank of New York prior to its distribution and that no representative of that Bank had had an opportunity to express its views before final adoption and use of the statement. It went on to say that the directors of the New York Bank did not believe that a statement should be sent by the Board of Governors to new directors, but that the Chairman of the individual Federal Reserve Bank should distribute a statement to new directors. The letter questioned whether the statement would contribute to the harmonious integration of the work of the Board of Governors and the directors and officers of the Federal Reserve Banks, and stated that the

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directors believed that if the Board was going to send out such a statement in the future it should be confined to the relations between the directors of the Federal Reserve Banks and the Board, and that substantial changes in the form and structure of the statement would help to achieve better understanding and greater cooperation within the System. The suggestion was also made in the letter that it would be better to allow the evolution of the relationship of directors and the Board to continue to develop rather than to try to crystallize it in a written document.

Mr. Szymczak said that a draft of the statement which was approved by the Board on November 21, 1947, had been handed to each Chairman present at the Conference of Chairmen on December 2, 1947, with the understanding that they would read it and submit any suggested changes in it through the Chairman of the executive committee of the Conference, to reach the Board by December 16, 1947, that the New York Bank had not been represented at the Conference and therefore did not receive a copy of the statement at that time, that only one suggestion from a Chairman had been received up to December 22 when copies of the statement were sent to the Chairman of each Federal Reserve Bank and to directors newly elected or appointed for terms beginning January 1, 1948, that the one change received had been incorporated

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in the statement, and that additional suggestions for change had reached the Board through Chairman Shepard on December 26. He added that the executive committee of the Chairmen's Conference, at a meeting in Washington on January 12, had referred to the statement briefly and had tentatively agreed that it should be discussed at the time of the next Conference of Chairmen.

With respect to a suggestion that a brief acknowledgment of the letter from Mr. Calkins should be prepared, Chairman Eccles suggested that failure of the Board to answer the letter might be interpreted as an admission of the points made in the letter, that in his opinion the reply should state the reasons for issuing the statement in the form in which it was distributed and should indicate that, although the Board believed the position taken in the statement was sound, it would be glad to give consideration to the views expressed by Mr. Calkins with the view to making revisions in the statement. He also suggested that the letter refer to the discussions in 1943 when an earlier form of the statement was proposed for distribution, and that it should point out that the general question whether the Board of Governors should send a statement to new directors of the Federal Reserve Banks was then considered and settled in favor of distributing such a statement.

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There was a general discussion of the nature of the reply that should be made to the letter from the New York Bank, and it was agreed unanimously that Mr. Thurston and Mr. Townsend, in consultation with such other members of the staff as they might wish, would prepare for consideration by the Board a draft of reply along the lines discussed.

Mr. Szymczak stated that the executive committee of the Chairmen's Conference met in Washington on January 12, 1948 and tentatively decided to hold the next Conference of Chairmen at White Sulphur Springs, West Virginia, on May 29, 30, and 31, 1948, that all of the Chairmen except Mr. Wilbur, who was in Africa, had indicated the date and location were satisfactory, and that the necessary reservations had been made at the Greenbrier Hotel.

The members of the Board indicated that these arrangements were satisfactory to them.

Mr. Evans said that, as the member of the Board designated to keep in touch with the Chairmen for the purpose of keeping them better informed of matters of current interest in connection with the Federal Reserve System, he had met with the executive committee when it was in Washington on January 12. He reviewed the matters discussed with the executive committee, as set forth in the minutes of the meeting of the executive committee, including the manner in which he proposed to keep the Chairmen informed, and members of the

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Board expressed agreement with the conclusions that had been reached in that connection.

Mr. Cherry entered the meeting at this point.

(2) Mr. Carpenter read a draft of letter to Mr. Sproul, President of the Federal Reserve Bank of New York, as follows:

"This refers to Mr. Wiltse's letter of December 31, 1947 and previous correspondence with regard to the question whether the service of Mr. Bernon S. Prentice as a special partner of Dominick & Dominick and as a director of Fulton Trust Company, New York, New York, is in conformity with the provisions of section 32 of the Banking Act of 1933, as amended.

"On the basis of the information which your bank has furnished the Board, it appears that the firm of Dominick & Dominick may be 'primarily engaged' in the types of business described in section 32, but before the Board expresses any opinion in the matter it will afford Mr. Prentice an opportunity, if he desires to do so, to come to Washington in the near future and present to a member of the Board any additional information that he may wish. Will you kindly ascertain and advise the Board whether Mr. Prentice wishes to do so."

In response to an inquiry from Chairman Eccles as to why the matter referred to in the letter was being taken up, Mr. Vest stated that on April 16, 1947, the Federal Reserve Bank of New York sent the Board a copy of a letter it had written that day to the firm of Dominick & Dominick, New York, in which the Bank expressed the opinion that the firm did not appear to be "primarily engaged" in the types of business set forth in Section 32 of the Banking Act of 1933 and that, therefore, it did not

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appear that the law prohibited a member of the firm from serving at the same time as a director of a member bank. Mr. Vest went on to say that on the basis of (1) the information now at hand, and (2) the decision of the Supreme Court of the United States in the Agnew Fayerweather case, the Legal Division was of the opinion that the firm of Dominick & Dominick was "primarily engaged" in the types of business described in Section 32. Mr. Vest also said that while Mr. Dominick, the member of the firm concerning whom the New York Bank had written on April 16, had subsequently resigned as a director of a member bank for reasons not connected with Section 32, the question was of importance because Mr. Prentice, another member of the firm, was also a director of a member bank. Mr. Vest made the further comment that this case focused attention upon the need for reviewing the applicability of Section 32 of the Banking Act of 1933 in the light of the decision in the Agnew Fayerweather case and that he would recommend that such a review be made of the cases in which advice previously had been given that the law was not applicable.

Mr. Clayton stated that he recommended a general review of firms engaged in underwriting and distributing securities, as outlined by Mr. Vest, but that he felt that, since the Legal Division had come to the tentative conclusion that the services of

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Mr. Bernon S. Prentice, a special partner of Dominick & Dominick and a director of Fulton Trust Company, New York, New York, were not in conformity with the provisions of Section 32 of the Banking Act of 1933, as amended, the proposed letter should be sent without further delay to the Federal Reserve Bank of New York.

Upon motion by Mr. Clayton, the Board unanimously approved the letter to the Federal Reserve Bank of New York, with the understanding that a review would be made by the Legal Division of security underwriters with a view to determining whether, in each individual case previously considered by the Board as not being covered by the law, the firm should now be regarded as being "primarily engaged" in the underwriting business.

Mr. Evans referred to the discussion at the meeting on December 15, 1947, when the Personnel Committee recommended that Mr. Joe W. Seacrest of Lincoln, Nebraska, publisher of the Nebraska State Journal and head of a chain of radio stations, be appointed a director of the Omaha Branch of the Federal Reserve Bank of Kansas City. The appointment was not made because of the possibility that, in his capacity as a publisher of a daily newspaper, Mr. Seacrest might find it necessary to take a position on local and national questions which would be embarrassing in the light of his position as a director of a Federal Reserve Bank or branch. Mr. Evans stated that an extensive review of other persons for appointment had been made by the Personnel

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Committee, that all of the persons who were considered to be desirable appointees were presently bank directors, and that in view of additional information which had come to the Personnel Committee, including a report by Mr. John D. Clark, formerly a director of the Omaha Branch and presently a member of the President's Council of Economic Advisers, the Personnel Committee was again submitting Mr. Seacrest's name with the recommendation that he be appointed as a director of the Omaha Branch for the unexpired portion of the two-year period beginning January 1, 1948, notwithstanding the fact that he was the publisher of a newspaper.

There was a further discussion of the possible appointment of Mr. Seacrest and it was the consensus that, while the Board should not follow a hard and fast rule that it would not appoint newspaper publishers and operators of radio stations as directors of branches, it would be preferable for the Personnel Committee to consider the matter further before reaching a conclusion on the appointment of Mr. Seacrest.

Mr. Vardaman stated that a letter had been received under date of January 13, 1948, from Mr. Whittemore, President of the Federal Reserve Bank of Boston, outlining and requesting Board approval of plans for installing fluorescent lighting and an acoustical ceiling in parts of the Boston Bank building and for replacing the present glass and concrete roof over a court.

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at an estimated total cost of approximately \$306,000. Mr. Carpenter read the letter and Mr. Vardaman stated that in his opinion this was not a proper time to authorize projects of the magnitude outlined by the Boston Bank unless an emergency condition existed.

In a discussion, the members of the Board concurred in the view that, because of existing inflationary conditions as well as shortages of construction materials, which in some respects were more acute than at the time the Board's letter S-871 dated September 14, 1945, was mailed, and since construction undertaken at this time would compete with materials and labor urgently needed for veterans' housing, they did not feel that the project should be authorized on the basis of the information available.

Upon motion by Mr. Vardaman, it was agreed unanimously (1) that Mr. Vardaman would telephone Mr. Whittemore and tell him that a letter was being sent to him setting forth the views of the Board and (2) that Mr. Smead should prepare a draft of letter to Mr. Whittemore outlining the views expressed and a draft of letter to all Federal Reserve Banks stating that it was the Board's view that it should not approve at this time construction work, either for new buildings or for alteration or modernization of existing buildings, when any substantial sum was involved unless the work was clearly of an urgent, emergency character.

At this point Messrs. Smead, Vest, Leonard, Nelson, Townsend, and Cherry withdrew and the action stated with respect to

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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 January 15, 1948, were approved unanimously.

Memorandum dated January 9, 1948, from Mr. Thomas, Director of the Division of Research and Statistics, recommending an increase in the basic salary of Charles H. Schmidt, an economist in that Division, from \$4,902 to \$5,152.80 per annum, effective January 25, 1948.

Approved unanimously.

Letter to Mr. W. T. Bland, Blandford Groves, Lake Jem, Florida, reading as follows:

"Your letter to Mr. Lanford of January 5, 1948, submitting your resignation as a director of the Jacksonville Branch of the Federal Reserve Bank of Atlanta has been brought to the attention of the Board of Governors. The members of the Board have asked me to say that they sincerely regret that you feel it necessary to take this action, and is with reluctance that the Board accepts your resignation, effective today.

"Your service of almost a year as a director of the Jacksonville Branch is genuinely appreciated and the Board hopes that your interest will continue after the termination of your official connection with the Federal Reserve System."

Approved unanimously.

Letter to Mr. Powell, Secretary of the Board of the Federal Reserve Bank of Minneapolis, reading as follows:

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"Thank you for your letter of January 8, 1948, advising of the various actions taken by the Board of Directors at the meeting held on that date.

"In accordance with the action taken with respect to the Industrial Advisory Committee, the Board of Governors approves the reappointments of Messrs. Sheldon V. Wood, John M. Bush and Albert L. Miller as members of the Industrial Advisory Committee for the Ninth Federal Reserve District to serve for terms of one year each beginning March 1, 1948.

"It is noted that Mr. C. O. Follett of Fargo, North Dakota, was not reelected as a member of the Industrial Advisory Committee."

Approved unanimously.

Telegram to Mr. Henry C. Isaacson, President, Isaacson Iron Works, Seattle, Washington, reading as follows:

"Board of Governors of Federal Reserve System has appointed you Director of Seattle Branch of Federal Reserve Bank of San Francisco for unexpired portion of term ending December 31, 1949, and will be pleased to have your acceptance by collect telegram."

Approved unanimously.

Letter to Mr. Charles L. Kaufman, 513-518 National Bank of Commerce Building, Norfolk 10, Virginia, reading as follows:

"This refers to your letter of December 16, 1947 requesting advice as to whether United States Savings Bonds may be considered readily marketable securities within the meaning of the last paragraph of section 17(c)(5) of Regulation F which requires that not less than 40 per cent of the assets of a common trust fund shall consist of cash and readily marketable securities.

"Series F and G United States Savings Bonds were not being issued by the Government when Regulation F

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"was amended in 1937 to authorize common trust funds. If these bonds had been in existence at that time, consideration undoubtedly would have been given to the inclusion of a provision specifically providing that they should be treated as readily marketable securities. The regulation does not now contain such a provision and, in view of the terms of these bonds, there is considerable question whether, as a technical matter, they may be regarded as readily marketable securities, as that term is presently defined by the regulation. However, we have not had previous occasion to consider this question and action in the matter does not appear necessary because it seems most unlikely that over 60 per cent of the assets of a common trust fund would consist of United States Savings Bonds and securities which are not clearly readily marketable.

"If it should appear that the common trust fund to which you refer may acquire assets of such character that the treatment of United States Savings Bonds as readily marketable securities will become material to the fiduciary bank, the Board will be glad to give further consideration to this matter and the possible need for an amendment to the regulation. In keeping with the System policy, copies of your letter and this reply are being sent to the Federal Reserve Bank of Richmond and it is requested that any further information or inquiry be directed to the Federal Reserve Bank."

Approved unanimously.

Letter to Mr. C. F. Burton, President, The City Bank, 9th and Massachusetts Avenue, N. W., Washington, D. C., reading as follows:

"This is in reply to your letter of December 29, 1947 addressed to the Chairman of the Board of Governors, regarding the recent action of the Board with respect to the classification of central reserve and reserve cities, as published in the Federal Register for December 24, 1947. In accordance with your request, there is enclosed a mimeographed copy of a statement which explains and incorporates the Board's action.

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"As indicated in the enclosed statement, this action was taken by the Board only after careful consideration of the matter over a considerable period of time. On October 24, 1947, the Board published in the Federal Register a notice of the then proposed action which stated that interested persons might submit to the Board written data, views and arguments with respect to the proposal; and, accordingly, a number of banks submitted letters expressing their views and comments. In addition, representatives of banks in a number of the cities whose status would be changed by the proposal appeared before the Board and made an oral presentation of their views.

"In the course of its extended consideration of this matter, it seemed to the Board that Washington, D. C., is more analagous to Federal Reserve Bank and Branch cities than to nonreserve cities. The location of the Treasury and the Bureau of Engraving in Washington provides Washington banks with currency and coin facilities comparable to those available to banks located in Federal Reserve Bank and Branch cities. Accordingly, Washington was continued as a reserve city under paragraph (b)(1) of the Board's action along with Federal Reserve Bank and Branch cities.

"Apart from the above circumstances, which in the Board's judgment justify the reserve city designation of the City of Washington, it is to be noted that even if Washington had not been continued as a reserve city under paragraph (b)(1), it would have met the standard prescribed in paragraph (b)(2) since, for the base period of two years ending June 30, 1947, member banks in Washington held demand deposits owing to banks equal, on the average, to more than one-third of one per cent of the aggregate amount of demand deposits owing to banks by all member banks of the Federal Reserve System.

"Your letter suggests that, since Washington banks are not unanimous with respect to the continuance of Washington as a reserve city, its designation as such should be terminated. It is true that the Board's recent action provided for the continuance of any reserve city which would otherwise have been discontinued by the reclassification, provided all member banks in such city unanimously request that

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"the designation be continued. That provision, however, merely gave recognition to the fact that certain cities had held the status of reserve cities for many years and it related only to the continuance of that status in the case of any such cities which did not meet the prescribed standard. The provision is not applicable to the City of Washington which, as above indicated, falls within the standard prescribed in paragraph (b)(2) of the Board's action.

"Your letter requests that the Board reverse the position heretofore taken by the Federal Reserve Bank of Richmond that your bank is not in an 'outlying' district and may not therefore be permitted to carry a fourteen per cent reserve. As indicated in the Federal Reserve Bank's letter of July 2, 1945, and the Board's letter of June 25, 1946, the law expressly provides that the Board of Governors may permit a member bank to hold and maintain the reserve balances required of banks located outside of central reserve and reserve cities only if such bank is 'located in the outlying districts of a reserve city or in territory added to such a city by the extension of its corporate charter.' Since the main office of your bank is located at 9th Street and Massachusetts Avenue and one of your branches is located at 10th Street and Pennsylvania Avenue, the Board must again conclude that the specific provision of law mentioned above precludes the granting of your request by the Board.

"The Board is always glad to have your views regarding any matters pertaining to member banks of the Federal Reserve System and you may be assured that your letter received our most careful consideration."

Approved unanimously.

Telegram to Mr. Knoke, Vice President of the Federal Reserve Bank of New York, reading as follows:

"Your wire January 15. Board approves increasing amount of loan or loans authorized by your Bank to Bank of France from \$81,500,000 to about \$100,000,000 on the same terms and conditions as set forth in your letter to us of November 21, 1947 and Board's approval

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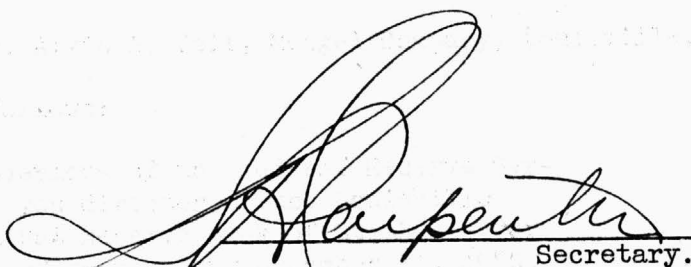
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"by wire of November 26, 1947. It is understood that the usual participation will be offered to the other Federal Reserve Banks."

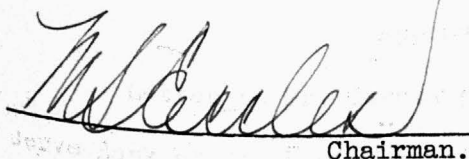
Approved unanimously.

Memorandum dated January 13, 1948, from Mr. Clayton stating that he had been informed by Mr. D. J. Needham, General Counsel of the American Bankers Association, that the officers of the Indiana Bankers Association would visit Washington on February 3, 4, and 5, and recommending that the Board entertain them at luncheon on Thursday, February 5.

Approved unanimously.


Secretary.

Approved:


Chairman.