

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, January 23, 1948. The Board met in the Board Room at 10:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Draper
Mr. Evans
Mr. Vardaman

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. Townsend, Associate General Counsel

Mr. Carpenter stated that telegrams had been received under date of January 22 from the Federal Reserve Bank of Cleveland advising of the establishment by the directors of a minimum buying rate of 1-1/4 per cent on bankers' acceptances at that Bank and otherwise reestablishing rates of discount and purchase in its existing schedule, and from the Federal Reserve Bank of Atlanta establishing a rate of 2-1/2 per cent on advances to individuals, partnerships, and corporations other than member banks under the last paragraph of section 13 and a minimum buying rate of 1-1/4 per cent on bankers' acceptances, and reestablishing other rates of discount and purchase previously in effect.

There was a brief discussion of the rates submitted, and the following telegrams were approved unanimously:

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Telegram to the Federal Reserve Bank
of Cleveland

"Retel January 22 Board approves effective January 26, 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 22."

Telegram to the Federal Reserve Bank
of Atlanta

"Retel January 22 Board approves effective January 24, 1948, rate of 2-1/2 per cent on advances to individuals, partnerships, and corporations other than member banks under last paragraph of Section 13, and 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 22."

There were also presented telegrams to the Federal Reserve Banks of New York, Philadelphia, Richmond, Chicago, Minneapolis, Dallas, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on January 20, by the Federal Reserve Bank of Chicago on January 21, and by the Federal Reserve Banks of New York, Philadelphia, Richmond, Minneapolis, and Dallas on January 22, 1948, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

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There was then presented a memorandum from the Personnel Committee under date of January 14, 1948, which stated that, in accordance with the action of the Board at the meeting on October 21, 1947, the Division of Personnel Administration had sent a questionnaire to certain officers and employees asking that they submit a report of outside business and teaching activities, and that 261 questionnaires had been returned, 30 of which showed some form of outside teaching or business activity. The memorandum listed three cases of outside employment and fourteen cases of outside teaching activities.

Mr. Evans said that the Personnel Committee had reviewed these cases, that in no instance did the connection appear to be of a nature inconsistent with employment by the Board, and that the Committee had no recommendation as to any action to be taken by the Board.

Mr. Vardaman stated that he was interested in the survey as a means of determining whether members of the Board's staff were engaging in outside business or teaching activities of a nature which the Board had disapproved for officers and employees of the Federal Reserve Banks. He also expressed the opinion that the staff should be notified of the Board's views concerning such activities, and that before an officer or employee formed an outside business or teaching connection it should have the approval

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of the Board.

In the discussion that followed, it was suggested that the staff be notified that the Board had taken the position (1) that employees of Federal Reserve Banks should not have outside business interests which might embarrass the Reserve Bank in the conduct of any of its operations or result in questions being raised as to the independence of their judgment or their disinterestedness in the discharge of their official responsibilities or their ability to perform satisfactorily all the duties of their positions, and that teaching connections need not be regarded as coming within the scope of this policy provided (a) the teaching engagement was clearly secondary and in keeping with employment by the Reserve Bank, (b) the teaching engagement did not interfere with the work of the Reserve Bank, (c) the teaching engagement had the prior approval of the Reserve Bank; (2) that the same policy would be followed with respect to the Board's staff; and (3) that no outside business activities should be undertaken until the matter had been presented to the head of the division under whose supervision the employee worked and the approval of the Personnel Committee had been obtained.

This suggestion was approved
unanimously.

In this connection there was a discussion of the procedure

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followed by the Federal Reserve Banks in carrying out the policies set forth in the Board's letters of May 7, 1924 (X-4048, F.R.L.S. # 9054) and June 25, 1945 (S-855, F.R.L.S. # 9054.1) with respect to outside business affiliations and teaching activities, and Chairman Eccles stated that the question of determining whether an outside business or teaching activity was objectionable should be the responsibility of an appropriate official of each Federal Reserve Bank, within the policy limits set forth by the Board, that the necessary determination should be made by that official before the outside connection was undertaken, and that the Board's examiners should include in the review, made in connection with each examination of a Reserve Bank, advice as to whether this procedure was being carried out.

Following a discussion, it was agreed unanimously that a draft of letter to the Federal Reserve Banks outlining the views expressed during the discussion and superseding outstanding letters of May 7, 1924, and June 25, 1945, having to do with outside business or teaching activities, should be prepared and submitted to the Board for consideration.

Mr. Townsend left the meeting at this point.

Chairman Eccles referred to the discussion at the meeting on January 9, 1948, concerning possible action to increase reserve requirements of member banks located in central reserve cities and

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asked Mr. Thomas to report upon changes that had occurred in loans of such banks during the past few weeks.

Mr. Thomas stated that commercial loans at New York City banks had increased by \$16 million during the week ending January 21 and at Chicago banks by \$7 million while in the same period total loans at New York City banks had increased \$73 million and at Chicago banks had decreased by \$9 million.

There was a discussion of the significance of these increases in loans and of the relative changes that had taken place in the comparable period a year ago, and the view was expressed by the members of the Board present that the banks were apparently in a position to make additional loans and were willing to do so, and that therefore an increase in reserve requirements of two percentage points should be announced by the Board to become effective in the near future as a means of helping to restrain the further inflationary expansion of bank credit. Chairman Eccles stated that although, to a considerable extent, the move would be psychological in its effect, the announcement at this time of an increase would put some pressure upon banks and would be interpreted as a move which might be followed by further increases at a later date.

Mr. Evans moved that reserve requirements of member banks in central reserve cities be increased from 20 per cent of net demand deposits to 22 per

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cent of net demand deposits, effective as of the opening of business on Friday, February 27, 1948. Mr. Evans' motion was put by the Chair and carried unanimously.

In accordance with this action, unanimous approval was given to the following amended supplement to Regulation D, Reserves of Member Banks:

"Supplement to Regulation D

"Effective as to each member bank at the opening of business on February 27, 1948

"Reserves required to be maintained by member banks with Federal Reserve Banks

"Pursuant to the provisions of section 19 of the Federal Reserve Act and section 2(a) of its Regulation D, the Board of Governors of the Federal Reserve System hereby prescribes the following reserve balances which each member bank of the Federal Reserve System is required to maintain on deposit with the Federal Reserve Bank of its district:

6 per cent of its time deposits plus--

14 per cent of its net demand deposits if not in a reserve or central reserve city;

20 per cent of its net demand deposits if in a reserve city, except as to any bank located in an outlying district of a reserve city or in territory added to such city by the extension of the city's corporate limits, which, by the affirmative vote of five members of the Board of Governors of the Federal Reserve System, is permitted to maintain 14 per cent reserves against its net demand deposits;

22 per cent of its net demand deposits if located in a central reserve city, except as to any bank located in an outlying district of a central reserve city or in territory added to such city by the extension of the city's corporate limits, which, by the affirmative vote of five members of the Board of Governors of the Federal Reserve System, is

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"permitted to maintain 14 per cent or 20 per cent reserves against its net demand deposits."

Unanimous approval also was given to a statement for publication in the Federal Register which, after quoting the supplement, read as follows:

"This amendment is issued pursuant to the authority granted to the Board of Governors by section 19 of the Federal Reserve Act in the light of existing economic conditions and the present inflationary credit situation. The notice and public procedure described in sections 4(a) and 4(b) of the Administrative Procedure Act, and the prior publication described in section 4(c) of such Act, are impracticable, unnecessary and contrary to the public interest in connection with this amendment for the reasons and good cause found as stated in section 262.2(e) of the Board's Rules of Procedure [Part 262], and especially because such notice, procedure and prior publication would prevent the action from becoming effective as promptly as necessary, would unreasonably interfere with necessary efforts to prevent injurious credit expansion, and would serve no useful purpose."

The following announcement of the Board's action was also approved unanimously, with the understanding that it would be given to the papers this afternoon after the market closed and that the Federal Reserve Banks would be informed by wire of the Board's action prior to release of the announcement:

"As a step towards restraining further inflationary expansion of bank credit, the Board of Governors today increased from 20 to 22 per cent of net demand deposits the amount of reserves required to be maintained with Federal Reserve Banks by central reserve city member banks. This action is to become effective Friday, February 27, 1948.

"The effect of this increase will be to raise the required reserves of central reserve city banks in New York City by about 420 million dollars and those in Chicago by nearly 100 million dollars. The present required reserves for these banks amount to about 4,300 million and 1,000 million dollars, respectively.

"Under the provisions of Section 19 of the Federal Reserve Act, the Board of Governors has authority to

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"establish reserve requirements for the various classes of member banks within the following limits:

	<u>Minimum</u>	<u>Maximum</u>
<u>Against net demand deposits</u>		
Central reserve city banks	13	26
Reserve city banks	10	20
Country banks	7	14
<u>Against time deposits</u>		
All classes of banks	3	6

"Reserve requirements are now at the maximum limits in all cases except for net demand deposits at central reserve city banks, which, after the present increase becomes effective, will be 4 points less than the maximum under existing authority."

At this point Mr. Leonard joined the meeting.

There was a discussion of the response to be made to a letter received under date of January 17, 1948, from the Acting Secretary of the Federal Advisory Council requesting a list of topics that the Board would like to have considered by the Council at its meeting to be held in Washington on February 15 and 16, and it was agreed that a draft of reply should be prepared along the lines discussed during the meeting.

Mr. Vardaman left the meeting at this point.

Mr. Leonard stated that yesterday afternoon the Finance Minister of the Government of Haiti, accompanied by a representative of the State Department, came to the Board's offices and asked whether, if a formal request were made, the Board would make an examination of the National Bank of Haiti, the costs of the examination to be borne by the Government of Haiti. Mr. Leonard said that the National Bank of Haiti, which in addition to being the bank of issue conducted a commercial business, was wholly owned by the Government of Haiti having been purchased from the National City Bank of New

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York some 12 years ago, that by agreement the directors of the bank consisted in part of citizens of Haiti and in part of citizens of the United States until October 1, 1947, when the agreement was terminated and citizens of Haiti were appointed to replace the Americans, and that the reasons for the request that the Board make an examination were: (1) to obtain constructive suggestions which the examining body might have to make relating to internal operations, (2) such an examination made by examiners who were accustomed to examining or auditing central banks would increase confidence in this bank, and (3) the desire to have an examination made in connection with the change in management October 1, 1947. He also said that the request was not solicited and he had no recommendation to make as to the decision to be reached.

Mr. Draper expressed his doubt about the advisability of accepting the proposed request from the central bank authorities of Haiti, at least until we had received assurances from the proper authorities of the State and Treasury Departments that they approved our acceptance of this proposed request. Mr. Leonard said that an examination of the National Bank of Haiti had been made by the Office of the Comptroller of the Currency in 1941, that the Finance Minister had stressed the fact that the Government of Haiti felt it would be desirable to have the proposed examination made by the Board's examiners because they were accustomed to central bank audits and examinations, that the Finance Minister had called upon the Treasury Department before coming to the Board to make known the wishes of the Government of Haiti in this instance and the reasons therefor,

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and that the representative of the State Department had stated informally in the presence of the Finance Minister that the Department would be glad to have the Board respond favorably to the request. He added that the examination would place some burden upon the Division of Examinations, but that Messrs. Wilkes and Goodman could be made available, that the services of one or two examiners or auditors from Federal Reserve Banks probably could be obtained, and that if Mr. Bertol, Captain of the Board's guard force who had spent several years in Haiti and spoke French and Creole fluently, could be made available, it would be very helpful. He also stated that the Finance Minister, who was leaving Washington this afternoon, was interested in receiving an indication today if possible as to whether the Board would be disposed toward making the examination, and that if the reply was favorable his Government would submit a formal request through the State Department. Mr. Leonard made the further statement that, before communicating with the Finance Minister, he had in mind talking again with the representative of the State Department who called at his office yesterday to confirm the understanding that the Department would favor the Board assisting the Government of Haiti in this connection.

It was agreed unanimously that Mr. Leonard should advise the Finance Minister of Haiti informally that, if a formal request from his Government

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were transmitted to the Board by the State Department with a recommendation that the examination be made, and if it were understood that the costs of the examination would be borne by the Government of Haiti, the Board would give favorable consideration to the request.

At this point Messrs. Smead, Thomas, Vest, and Leonard 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 January 22, 1948, were approved unanimously.

Telegram to Mr. Lewis B. Swift, Taylor Instrument Companies, Rochester, New York, reading as follows:

"Board of Governors of Federal Reserve System has appointed you Director of Buffalo Branch of Federal Reserve Bank of New York for unexpired portion of term ending December 31, 1950, and will be pleased to have your acceptance by collect telegram."

Approved unanimously.

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

"Reports of examination of State member banks carry on the face statement 'Under no circumstances shall the bank, or any of its directors, officers, or employees disclose or make public in any manner the report or any portion thereof.' Accordingly, in response to your telephone inquiry, a State

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"member bank is not authorized to make such reports of examination available to representatives of a surety company."

Approved unanimously.

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

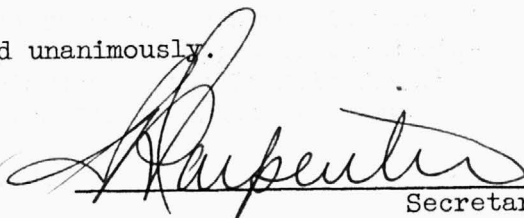
"The Board of Governors concurs in the December 1947 action of the Presidents' Conference in approving, with modifications, the report of the Committee on Collections with respect to Federal Reserve Exchange drafts. In order to facilitate convenient reference relevant excerpts from the report of the Committee on Collections dated November 14, 1947, and from the minutes of the Presidents' Conference above referred to will be included in the Loose-Leaf Service.

"This letter supersedes all previous instructions relating to the issuance and payment of Federal Reserve Exchange drafts including letters X-102, X-1121, X-4362, and S-970. Federal Reserve Banks paying Federal Reserve Exchange drafts drawn on other Federal Reserve Banks should continue to deduct the amount paid from the total credits reported in the Interdistrict Settlement Fund clearing for the day."

Approved unanimously.

Memorandum dated January 19, 1948, from Mr. Morrill stating that he had been advised of a proposed visit to Washington by a representative group of the Independent Bankers Association, and recommending that the Board entertain the group at luncheon at the time of their visit.

Approved unanimously.


Secretary.

Approved:


Chairman.