

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, May 27, 1948. The Board met in the Board Room at 11:35 a.m.

PRESENT: Mr. Eccles, Chairman pro tem.
 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 Board
 Mr. Smead, Director of the Division
 of Bank Operations
 Mr. Vest, General Counsel
 Mr. Townsend, Associate General Counsel
 Mr. Chase, Assistant Counsel

Mr. Eccles stated that Chairman McCabe was taken ill on his way to Swarthmore, Pennsylvania, yesterday afternoon and was confined to his home and therefore was not able to attend this meeting which was called for the purpose of giving further consideration to action by the Board to increase reserve requirements of member banks in central reserve cities.

Mr. Eccles was elected Chairman pro tempore to serve as such during the illness of Mr. McCabe.

Mr. Vardaman stated that he was willing to vote with a majority of the Board on the question whether reserve requirements of member banks in central reserve cities should be increased further by two percentage points, that he would prefer to have the increase

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put into effect during the early part of June but that, in view of the statement submitted by Mr. Thomas to the members of the Board before the meeting yesterday morning, if it was the decision of the majority of the Board that the increase should not be made effective before July, he would concur in that decision. He felt, however, that the Board should vote at the meeting today on the action it would take in this connection.

Mr. Eccles referred to the consideration which had been given by the Board from time to time during the last year to further increases in the reserve requirements of central reserve city banks and outlined the reasons why, in his opinion, action should be taken by the Board immediately to increase such requirements by two percentage points, effective June 11, 1948, even though it was recognized that it could not be expected that the action would have a marked effect in preventing further expansion of bank credit. He felt that the failure of the Board to act on the matter during recent weeks was a source of embarrassment and made the Board vulnerable to the charge that had been repeated so often that the Board should not be granted any additional credit powers because it had not used the powers that it already has.

At this point Messrs. Riefler, Assistant to the Chairman, Thomas, Director of the Division of Research and Statistics, and Eopp, Vice President of the Federal Reserve Bank of Philadelphia, joined the meeting.

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Mr. Eccles then stated that, while he would like to take action as promptly as possible, he would hesitate to do so today in the absence of Chairman McCabe.

Mr. Szymczak suggested that, since all of the members of the Board would be at White Sulphur Springs on Saturday for the meetings of the Chairmen's Conference, a meeting of the Board be held at that time to consider the matter.

Mr. Eccles stated that if action were not taken at White Sulphur Springs, he would like to have the record for this meeting of the Board show that he favored an increase in the reserve requirements of central reserve city banks, effective June 11, 1948, but that he was willing to defer a vote on the matter if Chairman McCabe wanted to take the responsibility of requesting that action be deferred.

After some further discussion, Mr. Vardaman moved that the Board act today to increase reserve requirements of member banks in central reserve cities by two percentage points to be effective June 11, 1948, with the understanding, however, that advice of the action would be communicated to Chairman McCabe and if he felt strongly enough about the matter to ask that action be deferred until it could be discussed at White Sulphur Springs, the action to make the increase effective June 11, 1948, would not take effect.

The matter was then discussed at considerable length, during which Mr. Evans stated that he probably would be away from Washington

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when the question of a further increase in the short-term rate was discussed with the Treasury in June and that he would like the record to show that he was opposed to a further increase in the rate, but that he would favor an increase promptly in central reserve city bank reserve requirements.

At the conclusion of the discussion, Mr. Vardaman withdrew his motion and Mr. Clayton moved that a meeting of the Board be called to convene at White Sulphur Springs on Saturday, May 29, at 10:00 a.m., at which time a decision would be made to act or not to act on an increase in reserve requirements of central reserve cities, effective in June, that the meeting be held even if Chairman McCabe was not able to attend, and that Chairman McCabe be advised that the meeting had been called.

Mr. Clayton's motion was approved unanimously.

There was presented a draft of letter to Mr. Sproul, President of the Federal Reserve Bank of New York, prepared in response to his letter of May 4, 1948, transmitting material which had been assembled by the staff at the request of the Board for his use in considering the questionnaire submitted to Mr. Sproul in connection with the work of the Hoover Committee in the field of Government lending. The letter stated that Mr. Sproul would appreciate that the statements contained in the material being supplied which did not expressly refer to positions taken by the Board might not necessarily reflect the Board's views.

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Upon motion by Mr. Clayton, the letter was approved unanimously.

Mr. Clayton stated that, in accordance with the action at the meeting yesterday morning, he and Mr. Evans met with Mr. Townsend yesterday afternoon for the purpose of working out the procedure to be followed in connection with instituting a proceeding against Transamerica Corporation under Section 11 of the Clayton Act.

At Mr. Clayton's request, Mr. Townsend then reviewed the discussion, stating that as a result of the meeting it was proposed that:

(1) The time for hearing be set early in October, probably during the week commencing October 11, 1948.

(2) The hearing be ordered to be held before the Board at the Board's offices in Washington, at which time the Board would indicate its intention to have one of its members hear the evidence to be presented and to make a recommendation to the Board at the conclusion of the hearing.

(3) Mr. Evans be designated as the member of the Board to receive evidence during the hearing.

(4) The Board authorize one of its members, together with counsel, to confer with the Comptroller of the Currency, the Chief National Bank Examiner, and such other persons in the Comptroller's Office as may be desired and request their cooperation in connection with the hearing.

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(5) The Board designate Mr. Paul C. Hodge, General Counsel for the Federal Reserve Bank of Chicago, to confer and advise with the member of the Board designated to receive evidence in connection with the hearing, including the drafting of the opinion of the Board after it had decided the position it should take on the matter after hearing all the evidence.

(6) The Board authorize the Legal Division to continue to assemble material for the hearing, including authorization for Mr. Townsend to visit the Pacific Coast during the summer months for the purpose of interviewing bankers and obtaining their testimony for the hearing.

(7) The Board authorize the payment out of Board funds of the usual witness fees and travel expenses for witnesses at the hearing, in accordance with the customary practice for witnesses in United States District Courts.

(8) The Board authorize arrangements for stenographic services to maintain a complete record of the hearings, such arrangements to be made by Counsel in consultation with the Secretary's Office.

With respect to the proposal that Mr. Hodge be designated as Counsel to advise the member of the Board who would receive testimony, it was stated that the matter had been discussed informally with Mr. Young, President of the Chicago Bank, who had indicated he would be glad to make Mr. Hodge available upon request, and with Mr.

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Hodge, who was agreeable to the assignment. In this connection there was also a discussion of the suggestion made by Chairman McCabe yesterday that consideration be given to the possibility of hiring a lawyer not connected with the Federal Reserve System to serve as adviser to the member of the Board designated to hear testimony, and it was stated that, for reasons which were discussed, it was felt that designation of Mr. Hodge would be preferable.

There was also a discussion of a suggestion that the Board authorize negotiations for a consent decree if at any time it should appear that the other side would accept a settlement which would be acceptable to the Board. Mr. Clayton asked that this suggestion be explored before a decision was reached with respect to it, and the other members concurred in that suggestion.

Following a further discussion, upon motion by Mr. Clayton, it was voted unanimously to approve the proposals as outlined by Mr. Townsend. Question was raised whether an alternate should be designated to serve in the absence of Mr. Evans as the member of the Board to receive evidence, but it was the consensus that that was not necessary at this time.

Mr. Townsend then read a draft of letter to the Honorable Tom C. Clark, Attorney General, prepared in accordance with the action taken at the meeting yesterday and reading as follows:

"You will remember that, on November 7, 1947, the Board advised you that it had adopted a resolution that an investigation be undertaken under the direction of

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"its Legal Division to ascertain whether there is just cause for the Board to institute the statutory proceeding contemplated by section 11 of the Clayton Act looking to the entry of an order requiring Transamerica Corporation to divest itself of any or all of the bank stocks which it now owns.

"This is to advise you that, on the basis of the information developed by that investigation, the Board yesterday unanimously decided to institute such a proceeding, and directed its Legal Division to prepare the Complaint as promptly as possible so that it may be served upon the respondent not later than July 1, 1948. It is contemplated that the Complaint will give Transamerica Corporation a minimum of three months to prepare for the hearing.

"The Board's present intention is to make no announcement of its decision prior to the issuance of the Complaint. If in the meantime there is any phase of this matter which you or others in your Department might wish to discuss with the Board, it will of course be pleased to do so. I should add that the Board will hope to receive the assistance of your Department in assembling and presenting certain parts of the evidence to be introduced at the hearing."

Upon motion by Mr. Evans, the letter was approved unanimously, with the understanding that if it was satisfactory to Chairman McCabe it would be sent over his signature, together with similar letters to the Honorable Preston Delano, Comptroller of the Currency, and the Honorable Maple T. Harl, Chairman of the Federal Deposit Insurance Corporation, except that the letter to Mr. Harl would not contain the last sentence of the letter quoted above.

In taking this action it was understood that the letters would be delivered personally by Mr. Clayton or some person whom he designated, and that each recipient would be informed that the Board would appreciate their treating the matter as strictly confidential until the Complaint had been served upon the respondent.

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At this point Messrs. Riefler, Smead, Thomas, Vest, Townsend, Chase, and Bopp withdrew from the meeting and the action taken with respect to each of the matters hereinafter referred to was taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on May 26, 1948, were approved unanimously.

Memorandum dated May 26, 1948, from Mr. Nelson, Director of the Division of Personnel Administration, recommending that the Board approve a lump sum payment to the Retirement System of the Federal Reserve Banks of \$421,972 to cover the added costs of the revision in the Board Plan which, by action taken on March 23, 1948, the Board permitted to be incorporated in the Plan because of the applicable changes brought about by the amendment of February 28, 1948, Public Law 426, to the Civil Service Retirement Act. The memorandum also recommended that the payment be made on July 1, 1948, because by that date the second semi-annual assessment on the Federal Reserve Banks for the expenses of the Board would have been made.

Approved unanimously.

Memorandum dated May 17, 1948, from Mr. Draper recommending that the basic salary of Mrs. Mary B. Dellatorre, a stenographer in his office, be increased from \$2,394 to \$2,544.48 per annum, effective May 30, 1948.

Approved unanimously.

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Memorandum dated May 19, 1948, from Mr. Morrill recommending that the basic salary of Miss Anne Malia, secretary to Mr. Morrill, be increased from \$3,146.40 to \$3,271.80 per annum, effective May 30, 1948.

Approved unanimously.

Memorandum dated May 24, 1948, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that the basic salary of Albert R. Koch, an economist in that Division, be increased from \$6,862.80 to \$7,102.20 per annum, effective May 30, 1948.

Approved unanimously.

Memorandum dated May 24, 1948, from Mr. Thomas, Director of the Division of Research and Statistics, recommending increases in the basic annual salaries of the following employees in that Division, effective May 30, 1948:

<u>Name</u>	<u>Designation</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Orville K. Thompson	Economist	\$4,149.60	\$4,275.00
Wilellyn Morelle	Economist	3,522.60	3,648.00
Ruth J. Halvorsen	Clerk	2,770.20	2,845.44
Ileen C. Shepherd	Clerk	2,544.48	2,619.72
Betty Ann Stanley	Clerk	2,469.24	2,544.48
Doris Bruderer	Clerk-Stenographer	2,394.00	2,469.24

Approved unanimously.

Memorandum dated May 19, 1948, from Mr. Thomas, Director of the Division of Research and Statistics, recommending increases in the basic annual salaries of the following employees in that Division, effective May 30, 1948:

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<u>Name</u>	<u>Designation</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Mary E. McDonald	Clerk-Stenographer	\$2,318.76	\$2,394.00
June A. Truitt	Clerk-Stenographer	2,168.28	2,318.76
Franc S. Valentine	Clerk-Stenographer	2,168.28	2,394.00
Patricia Anne Vandoren	Clerk-Stenographer	2,168.28	2,318.76

Approved unanimously.

Memorandum dated May 21, 1948, from Mr. Thomas, Director of the Division of Research and Statistics, stating that advice had been received that the State Department had no objections to the proposed trip of Albert O. Hirschman, an economist in that Division, as discussed at the meeting of the Board on April 2, 1948, and recommending that the trip be approved for travel during September and October of this year, with the provision that actual necessary transportation expenses plus per diem in lieu of subsistence at the rate of \$8 would be paid, except that a per diem of \$9 would be allowed during the period Mr. Hirschman was serving on official business in Italy, \$10 in Paris and \$7 elsewhere in France, in conformance with the present provisions regarding those countries in the Standardized Government Travel Regulations.

Approved unanimously.

Memorandum dated May 21, 1948, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that Mr. Thompson, temporarily on duty in that Division, be authorized to sign such correspondence and telegrams as are ordinarily handled by the Division over the title "Acting Associate Director".

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Approved unanimously.

Memorandum dated May 18, 1948, from Mr. Leonard, Director of the Division of Examinations, recommending increases in the basic annual salaries of the following employees in that Division, effective May 30, 1948:

<u>Name</u>	<u>Designation</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
H. H. Hagler	Asst. Fed. Res. Examiner	\$4,275.00	\$4,400.40
W. B. Lassen	Asst. Fed. Res. Examiner	3,648.00	3,773.40
Anna Mae S. Cowger	Stenographer	2,394.00	2,469.24

Approved unanimously.

Memorandum dated May 21, 1948, from Mr. Leonard, Director of the Division of Examinations, recommending that, effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination, William C. Bender be appointed as an Assistant Federal Reserve Examiner, with basic salary at the rate of \$3,021 per annum, and with official headquarters at Washington, D. C. The memorandum also stated that Mr. Bender was a member of the Civil Service retirement system and would remain in that system.

By unanimous vote, Mr. William C. Bender was appointed an examiner to examine Federal Reserve Banks, member banks of the Federal Reserve System, and corporations operating under the provisions of sections 25 and 25(a) of the Federal Reserve Act and of all other acts of Congress pertaining to examinations made by, for, or under the direction of the Board of Governors of the Federal

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Reserve System, and was designated as an Assistant Federal Reserve Examiner, with official headquarters at Washington, D. C., and with basic salary at the rate of \$3,021 per annum, all effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination.

Memorandum dated May 20, 1948, from Mr. Smead, Director of the Division of Bank Operations, recommending the appointment of Miss Geraldine Kelso as a clerk in that Division, on a temporary indefinite basis, with basic salary at the rate of \$2,168.28 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination. The memorandum also stated that it was contemplated that Miss Kelso would become a member of the Federal Reserve retirement system.

Approved unanimously.

Memorandum dated May 17, 1948, from Mr. Nelson, Director of the Division of Personnel Administration, recommending that the basic salary of Miss Anna J. Markevich, a clerk-stenographer in that Division, be increased from \$2,168.28 to \$2,318.76 per annum, effective May 30, 1948.

Approved unanimously.

Memorandum dated May 20, 1948, from Mr. Bethea, Director of the Division of Administrative Services, recommending the appointment of Miss Carolyn M. Wilkes as a stenographer in that

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Division with basic salary at the rate of \$2,394 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination. The memorandum also stated that it was contemplated that Miss Wilkes would become a member of the Federal Reserve retirement system.

Approved unanimously.

Memorandum dated May 17, 1948, from Mr. Bethea, Director of the Division of Administrative Services, recommending increases in the basic annual salaries of the following employees in that Division, effective May 30, 1948:

<u>Name</u>	<u>Designation</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Helen B. Wolcott	Secretary to Mr. Bethea	\$3,397.20	\$3,522.60
Frank W. Constable	Operator (Dup. Devices)	2,770.20	2,845.44
Lee W. Langham	Sergeant	2,619.72	2,694.96
Franklin Taylor	Operator (Dup. Devices)	2,619.72	2,694.96
Benjamin D. Berry	Foreman Opr. (Mim.)	2,394.00	2,469.24
Claiborne Johnson	Mail Clerk	2,394.00	2,469.24
Ralph A. Sherrod	Operator (Dup. Devices)	2,394.00	2,469.24
Peggy Lee Wall	Clerk-Stenographer	2,168.28	2,243.52
Cecile C. Wiesner	Page	1,756.00	1,822.00
Alton W. Cassidy	Laborer	1,690.00	1,756.00

Approved unanimously.

Memorandum dated May 20, 1948, from Mr. Bethea, Director of the Division of Administrative Services, recommending the appointment of Brisco G. Lynch as a laborer in that Division, on a temporary basis for a period of two months, with basic salary at the rate of \$1,690 per annum, effective as of the date upon

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which he enters upon the performance of his duties after having passed the usual physical examination. The memorandum also stated that it was not contemplated that Lynch would become a member of the Federal Reserve retirement system during the period of his temporary employment.

Approved unanimously.

Letter to Mr. Leach, President of the Federal Reserve Bank of Richmond, reading as follows:

"The four men who went to Haiti last March in response to the request of the Government of that country that the Board arrange to send examiners to make an examination of the Banque Nationale de la Republique d'Haiti for the Government of Haiti, have completed their mission and returned to the United States.

"The group consisted of Mr. G. Harold Snead, Assistant Chief Examiner, Federal Reserve Bank of Richmond, Mr. Arthur M. Gustavson, Assistant Auditor, Federal Reserve Bank of Chicago, who were designated Federal Reserve Examiners for the purpose of this assignment, and Messrs. Glenn Goodman and M. R. Wilkes of the Board's Division of Examinations.

"The American Embassy in Haiti reported to the State Department that the mission had been a great success with the Haitian Government and that all information available to the Embassy indicated that the work of the examiners had been excellent and extremely thorough. The Ambassador also reported that personally the men had made a most favorable impression on all with whom they had come in contact.

"Mr. Wilkes, who was the examiner in charge of the mission, has reported that Mr. Snead, with his fine cooperation and extensive knowledge of commercial bank examining procedure, was of great assistance in the examination and that his work left nothing to be desired in any respect.

"The Board appreciates the cooperation of your Bank in making Mr. Snead available to participate in the examination and is writing this letter in order that the fine work done by Mr. Snead in this assignment may be a matter of official record."

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Approved unanimously, together with a similar letter to Mr. Young, President of the Federal Reserve Bank of Chicago, with respect to the services of Mr. Gustavson.

Letter to Mr. Leach, President of the Federal Reserve Bank of Richmond, reading as follows:

"In accordance with a request contained in your letter of May 24, the Board approves the appointment of Robert L. Miller, at present an assistant examiner, as an examiner for the Federal Reserve Bank of Richmond. If the appointment is not made effective July 1, 1948, as planned, it will be appreciated if you will advise us. Kindly advise as to any change in the salary rate."

Approved unanimously.

Letter to Mr. Smyth, Vice President of the Federal Reserve Bank of Dallas, reading as follows:

"In accordance with the request contained in your letter of May 21, 1948, the Board approves the payment of salary to Douglas H. Beck at the rate of \$2,906.97 per annum effective July 2, 1948, which rate is in excess of the maximum of his present position."

Approved unanimously.

Letter to Mr. Koppang, First Vice President of the Federal Reserve Bank of Kansas City, reading as follows:

"This refers to your letter of May 20 regarding the penalty of \$60.64 incurred by the Star Valley State Bank, Afton, Wyoming, as a result of a deficiency in reserves for the period ending April 30, 1948.

"In the circumstances stated in your letter, the Board authorizes your Bank not to make the assessment."

Approved unanimously.

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Memorandum dated May 10, 1948, from Mr. Clayton recommending, for the reasons stated in the memorandum, that he be authorized to call an early meeting of the Inter-Agency Committee to consider changes in the 1938 agreement among the Federal supervisory agencies with respect to the uniform examination procedure, and thereafter to invite the committee to confer with the Federal agencies before any changes were finally adopted.

Approved unanimously.

Memorandum dated May 10, 1948, from the Division of Examinations bringing to the attention of the Board recent discussions with Dr. B. Di Venuti of the University of Puerto Rico regarding possible revisions in the banking laws of Puerto Rico and requesting permission to continue such discussions at a later date in cooperation with the Federal Deposit Insurance Corporation and the Comptroller of the Currency.

Approved unanimously.

Letter prepared for Chairman McCabe's signature to Mr. Vernon L. Clark, National Director, U. S. Savings Bonds Division, Treasury Department, reading as follows:

"It will be a pleasure to comply with the request contained in your letter of May 11, 1948, that the Board ask the members of the staff to include a reference to savings bonds in their talks.

"As you of course know, the Federal Reserve System is intensely interested in a wide distribution of savings bonds as part of an effective monetary and debt management policy and the Board will be pleased to cooperate in every way it can. We are bringing

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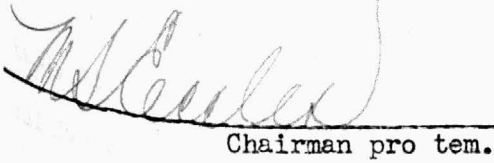
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"your letter and a copy of this reply to the attention of members of the staff and you may be assured that your suggestion will be carried out."

Approved unanimously.


Secretary.

Approved:


Chairman pro tem.