Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, June 1, 1948. The Board met in the Board Room at 9:30 a.m.

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

Mr. Carpenter, Secretary

Mr. Vardaman stated that Mr. Nelson, Director of the Division of Personnel Administration had received this morning from President Davis of the Federal Reserve Bank of St. Louis, (who was in Washington), a letter submitting informally the changes in officers' salaries, effective June 1, 1948, which he proposed to submit for action at the next meeting of the board of directors of the Bank. Mr. Vardaman also stated that, since the Personnel Committee and the Board could not consider and approve the proposed changes in salaries by June 1, he had asked Mr. Nelson to tell Mr. Davis that the Board would not be able to consider the matter today, that Chairman McCabe was ill, and that action would have to be deferred until the members of the Personnel Committee returned to Washington the latter part of the month. Mr. Vardaman also stated that he had suggested to Mr. Nelson that whenever informal advice of annual salary changes proposed for officers of Federal Reserve Banks was not received 30 days in advance of the date upon which the information was due, he should take the matter up with the Bank informally to ascertain when it would be forthcoming. Upon inquiry from Mr. Vardaman, all the members present indicated that they concurred in the statements which Mr. Vardaman had made to Mr. Nelson.

Inasmuch as it appeared that the Board would not be able to act on the salary increases, to be proposed by the Federal Reserve Bank of St. Louis, before the first pay day at the Bank after June 1, 1948, it was voted unanimously to advise Mr. Davis that, since the Board was not in a position to consider the proposed adjustments in salaries immediately, it authorized the Bank to continue the payment of officers' salaries at the respective rates existing on May 31, 1948 until such time as the matter could be given the necessary consideration.

Mr. Clayton made a further report on developments in connection with the bill pending before Congress (S-2417) which would reduce the rate of assessment for insurance of savings and loan shares.

There was a discussion of the practice followed in the past with respect to attendance of members of the Board's staff at the meetings of the Board, and it was suggested that, in order to limit attendance to those who were necessary for the consideration of matters on the agenda, staff attendance hereafter be restricted to the Secretary and Assistant Secretary, the Assistant to the Board, the Special Adviser to the Board, the Assistant to the Chairman, and the General Counsel, it being understood (1) that other members of the staff would be called into the meeting when the matter or matters with which they were concerned were reached on the agenda, (2) that any member of the Board would be free at any time to request that any member of the staff be asked to attend the meeting, and (3) that when a division head was called into a meeting in connection with a matter on the agenda, he would be free to bring any other member or members of his division who, in the opinion of the division head, should be present in connection with the discussion.

This suggestion was approved unanimously.

At this point, Mr. Riefler, Assistant to the Chairman, was invited into the meeting.

In accordance with the decision reached at the meeting of the Board at White Sulphur Springs on May 30, 1948, this meeting was held for the purpose of giving further consideration to action to increase reserve requirements of member banks in central reserve cities. The reasons that had been advanced for and against the action at earlier meetings of the Board were again reviewed and Mr. Szymczak made the following statement of reasons for opposing action at this time:

"My opposition relates solely to the timing of the action; I believe that if inflationary prospects continue the increase should definitely be made at some early date. At this time member banks in New York and Chicago do not have any excess reserves. The result of an increase in reserve requirements, therefore, will simply be the sale of Government securities by New York and Chicago banks to the Federal Reserve Banks. Moreover, there has been no expansion in loans by member banks in these cities. Although bank loans at country banks have continued to increase, in central reserve cities the trend of loans over the past few months has been downward.

"Action now, moreover, would be interpreted by the public and the market as being contrary to the Treasury intention to maintain the 1-1/8 per cent interest rate for the present and might endanger the success of the July refunding.

"It is my judgment that the Board's power to increase reserve requirements in central reserve cities should be reserved for later use when it might be combined with measures to raise short-term interest rates. After the June and July Treasury refunding program is out of the way, the Federal Reserve should consult with the Treasury preliminary to entering upon open market operations which will permit short-term security prices to go down and yields to go up. It seems to me now that after such operations have begun, it would be advisable later, and perhaps in August, to make a two percent increase in the reserve requirements of member banks in central reserve cities. This, in my opinion, would be more effective and more timely than action now. It would not be wasting our ammunition and it would have the distinct advantage of cooperation with the Treasury, at a time when the size of the public debt demands close cooperation of the Treasury and the Federal Reserve System and at a time when joint action is much more effective and therefore in the public interest.

"We could look forward to making the other and final two per cent increase in central reserve city requirements perhaps a few months later; after the September and October refunding.

"I think that it is a mistake to act now and that it would be much more advisable and effective to act later for the reasons I have indicated."

The following letter from Chairman McCabe, who was still confined to his home by illness, was read by the Secretary:

"It will be impossible for me to be with you tomorrow, Tuesday, June 1, because due to my illness the doctors insist that I remain in bed for another day or two.

"Under the circumstances I do not feel justified in asking you to defer action further on the problem of reserve requirements, although I would wish that you might do so. I do, however, want to reiterate my objection to an increase effective at this time and make the record clear as to my position.

1. I am opposed to any action by the Board of Governors of the Federal Reserve System which would have the effect of raising the reserve requirements of member banks in New York City or Chicago during the present month (June 1948). To take such action now would be inconsistent with the decision taken by the Open Market Committee to support the refinancing of Treasury certificates maturing in June and July at a 1-1/8 per cent rate. The effect would be largely to make the System a market at the existing rates for additional securities, equivalent in amount to the increase in reserve requirements. Under these conditions the anti-inflationary effects of the action would be minimized.

2. I am in favor of action now by the Board of Governors to increase the reserve requirements of central reserve city member banks in New York City and Chicago by 2 per cent on a date after July 15th, when the July certificate refinancing will have been largely absorbed, and before August 15th, after which time decisions will have to be made with respect to September Treasury refinancing. To raise the reserve requirements during this period will be consistent with, and further, will support the decision of the Open Market Committee to take up the question of a higher certificate rate with the Treasury during July, as well as the support price of the certificates outstanding. In my judgment, action raising reserve requirements during this period will exert a much greater anti-inflationary effect than action that becomes effective in June.

"3. In order to get the maximum benefit from timing, I would welcome it if the Board in taking such action now would leave the establishment of the exact date on which the increase in reserve requirements is to go into effect, between July 15th and August 15th, as well as the exact date on which the action is to be announced, to the discretion of the chairman, the decision to be taken in the light of conditions then prevailing in the market after consultation with the executive committee of the Open Market Committee."

There was a discussion particularly of Chairman McCabe's suggestion that if action were taken today the effective date and announcement of the action be left to the discretion of the Chairman for determination. There was agreement that it would be undesirable to take action and withhold announcement at this time for several reasons including (1) if information regarding the action should leak out it might enable those who learn of it to take unfair advantage, (2) there would be a possible element of unfairness in the action in that holders of July certificates would be permitted to exchange their holdings for the new issue at 1-1/8 per cent, the market for certificates in July would decline as result of the Board's action, and banks might be forced to sell securities to the Federal Reserve Banks at a loss in order to meet the increased reserve requirements, and (3) if action was to be taken now it should be announced so that when the July financing was done the market would have adjusted to the action.

At the conclusion of the discussion, Mr. Evans moved that reserve requirements of member banks in central reserve cities be increased from 22 per cent of net demand deposits to 24 per cent of net demand deposits, effective as of the opening of business on Friday, June 11, 1948.

Before putting the motion, Mr. Eccles inquired whether the members of the Board would consider taking action today to increase central reserve city member bank reserve requirements, the action to be announced today to be effective on a date in July, perhaps July 2 or 9. In his opinion that action was not as desirable as action effective June 11 for the reasons that (1) if the effective date was made on June 11 the market would have adjusted to the action by the time the July refunding was undertaken, and (2) any certificates that were going to be sold to the Federal Reserve Banks as result of the action would have been purchased by the Federal Reserve Banks by July 1, whereas, if the effective date were after July 1, the Banks holding certificates might let their holdings run off instead of refunding them with the result that the July financing might appear less successful than otherwise would be the case.

Mr. Szymczak stated that his position was that he would prefer that the Board defer any action until Chairman McCabe could be present and there could be a discussion of the matter when all members of the Board were present. He agreed that if action were taken today it should be announced to become effective June 11, but he felt that as a compromise and to obtain unanimous Board action, the Board could announce that it had decided to increase reserve requirements some time between July 15 and August 15 so that the market would know the increase was coming but would still be uncertain as to the exact date; however, his own position was still not to increase reserve requirements for central reserve city banks at this time.

The views expresses by Messrs. Eccles and Szymczak were discussed after which Mr. Evans' motion was put by the Chair and carried, Messrs. Eccles, Draper, Evans, Vardaman, and Clayton voting "aye", and Mr. Szymczak voting "no", for the reasons previously stated.

To carry this action into effect, the following actions were taken, Mr. Szymczak voting "no":

Approval was given to the following amended supplement to Regulation D, Reserves of Member Banks:

"<u>Supplement to Regulation D</u>

"ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

"Effective as to each member bank at the opening of business on June 11, 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;
24 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 permitted to maintain 14 per cent or 20 per cent reserves against its net demand deposits."

Approval was also given to a statement for publication in the Federal Register which, after quoting the amended 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 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. It was also understood that Mr. Eccles would advise Chairman McCabe and Under Secretary of the Treasury Wiggins of the Board's action:

"As a further step towards restraining inflationary expansion of bank credit, the Board of Governors today increased from 22 to 24 per cent of net demand deposits the amount of reserves required to be maintained with Federal Reserve Banks by central reserve city banks. This action is to become effective Friday, June 11, 1948.

"The effect of this increase, like the one which became effective on February 27, 1948, will raise the required reserves of central reserve city banks in New York City by approximately 400 million dollars and those in Chicago by nearly 100 million dollars.

"Under the provisions of section 19 of the Federal Reserve Act, the Board of Governors has authority to establish reserve requirements for the various classes of member banks within the following limits:

	Minimum	Maximum
Against net demand deposits		
Central reserve city banks	13	26
Reserve city banks	10	20
Country banks	7	14
Against time deposits		
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 2 percentage points less than the maximum under existing authority."

Upon motion by Mr. Vardaman, Mr. Eccles was requested to prepare for consideration by the Board a statement for the policy record of the reasons for the Board's action increasing reserve requirements of member banks in central reserve cities to 24 per cent of net demand deposits.

Reference was then made to the contemplated absences of members of the Board during June and July and it was agreed that when all of the members of the Board were present there would be a discussion at a meeting of the Board of the following matters:

(1) The responsibility of the Board for the maintenance of a quorum in Washington.

(2) The procedure to be followed by members of the Board in advising other members of contemplated absences.

(3) The procedure to be followed in order to afford an absent member an opportunity to return to Washington, or to express his views before action was taken by the Board, on a matter in which he was interested.

(4) Board members assignments.

(5) The procedure to be followed whenever changes are contemplated in the Board's official staff.

In connection with the last item Mr. Eccles stated it had always been the position of the Board that no division or portion thereof and no members of the staff of a division were to be regarded as being attached to a particular Board member, that all members of the staff were to serve all members of the Board, and that while one member of the Board might have occasion to call on a certain division or certain members of the staff more than others they were not attached to, or subject to the control of, that member.

Mr. Eccles referred to the suggestion that had been made that Mr. Young, Associate Director of the Division of Research and Statistics, take over the duties of Mr. Knapp as head of the international section of the Division, and requested that advice of any action proposed in that connection be given to all the members of the Board in ample time so that, if they should desire, all members could arrange to be present when the matter was taken up. He also referred to the recommendations with respect to official salaries of the Federal Reserve Bank of New York which were left with the Board by the Committee on Welfare of Staff of the Bank on May 14, 1948, and requested that when the recommendations of the Bank with respect to salaries of $20,000 and above were passed upon by the Board it be done, if possible, when all the members of the Board could be present or, if members were absent, that they be given adequate notice so that if they desired they could arrange to be present or express their views for consideration when action on the recommendations was taken.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on May 28, 29, and 30, 1948, were approved unanimously.

Memorandum dated May 26, 1948, from Mr. Thomas, Director of the Division of Research and Statistics, recommending, for the reasons stated in the memorandum, that payment to Messrs. Grove and Exter, economists in that Division, of their claims for flight insurance and a $12 per diem while in Shanghai be authorized, and that their vouchers be approved as submitted.

Approved unanimously.

Telegram to Mr. Woolley, Vice President of the Federal Reserve Bank of Kansas City, reading as follows:

"Relet May 27 Board extends waiver of six months' notice for withdrawal of The Kinsley Bank, Kinsley, Kansas, to August 2, 1948."

Approved unanimously.

Letter to Mr. Dearmont, Chairman of the Federal Reserve Bank of St. Louis, reading as follows:

"Reference is made to your request of May 18, 1948, for authority to complete the rehabilitation of the so-called Nugent Building, which was purchased by your Bank in 1944.

"During the presentation of this request to the Board by you and Mr. Smith on Tuesday, the 18th, and as set forth in your letter of the same date and its enclosures, you pointed out that there is at present a shortage of desirable rentable space in downtown St. Louis; that four and one-half floors of the building are now unoccupied; and that to make them suitable for occupancy it will be necessary to make extensive repairs and improvements.

"In view of these considerations, the Board of Governors will interpose no objection to the expenditure of approximately $650,000 for such work, as "summarized in Mr. Hanssen's memorandum of March 16, 1948. It is understood that the cost estimates given therein include architect's and contractor's fees and 15 per cent for contingencies. It is also understood that upon completion of the rehabilitation program the space will be rented, insofar as possible, to Federal financial agencies."

Approved unanimously.

Memorandum dated May 21, 1948, from Mr. Sherman transmitting a list of records in the Board's files which had been approved for destruction by the interested divisions, and recommending that those records be destroyed by incineration.

Approved unanimously.

Secretary.

Approved:

Chairman pro tem.