

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, August 24, 1948. The Board met in the Board Room at 10:30 a.m.

PRESENT: Mr. Szymczak, Chairman pro tem.
 Mr. Draper
 Mr. Vardaman
 Mr. Clayton (last part of meeting)

Mr. Carpenter, Secretary
 Mr. Hammond, Assistant Secretary
 Mr. Morrill, Special Adviser
 Mr. Thurston, Assistant to the Board
 Mr. Riefler, Assistant to the Chairman
 Mr. Vest, General Counsel
 Mr. Young, Associate Director of the
 Division of Research and Statistics
 Mr. Townsend, Associate General Counsel

On Friday, August 20, 1948, a letter to President Peyton of the Federal Reserve Bank of Minneapolis was approved in which it was stated that, for reasons explained over the telephone, the Board did not feel that an increase as large as \$2,200, to the rate of \$8,000 per annum should be approved at this time for Mr. Clarence W. Groth, who had been appointed by the directors as Assistant Vice President assigned to the Helena Branch, but that the Board would approve a salary at the rate of \$7,000 per annum for Mr. Groth if fixed by the directors at that rate. It was understood that Mr. Carpenter would call Mr. Peyton and explain the reasons for the Board's decision, i.e., that an increase of \$2,200 would be equivalent to 38% of Mr. Groth's present salary, that a salary of \$8,000 per annum would be \$1,500 higher than

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was paid to Mr. Larson whom Mr. Groth was to succeed, that the increase of \$2,200 would be more than the total increases that Mr. Groth could look forward to in the future if he should succeed Mr. Towle as Manager of the Helena Branch and eventually was paid the salary that Mr. Towle is now receiving of \$10,000 per annum, that the difference between the salary proposed for Mr. Groth and that now paid Mr. Towle was smaller percentagewise than the difference between the salary of the first and second man at any of the other branches of Federal Reserve Banks, and that if a salary were fixed at \$7,000 at this time it could be considered again in April when the salaries of all of the officers of the Bank were reviewed.

Mr. Carpenter said that he talked to Mr. Peyton over the telephone yesterday about the matter, that Mr. Peyton stated that the selection of Mr. Groth had been the result of a great deal of study and negotiation to find a suitable man to go into the Helena Branch as a possible successor to Mr. Towle, that because Mr. Larson was leaving to accept another position and his leaving was being announced, Mr. Peyton had felt it was necessary to announce the appointment of Mr. Groth, and that Mr. Groth had already accepted the appointment and had gone to Helena with the understanding that his salary would be at the rate of \$8,000 per annum.

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Mr. Peyton requested, Mr. Carpenter said, that the Board reconsider its action on the basis of the fact that the proposal was the result of a great deal of consideration at the Federal Reserve Bank and that as second man at the Branch Mr. Groth would have to assume substantially greater responsibility than had been undertaken by Mr. Larson and, therefore, would have more contact with the bankers of the area and be put to considerable expense which he would have to pay from his own salary.

In a discussion of Mr. Peyton's request, Mr. Vardaman stated that he thought the Board should take whatever steps were necessary to prevent situations of this kind from arising in the future and that the Federal Reserve Banks should be informed that they should make no changes in their principal examining staff or in officers of the branches without first taking the matter up with the Board. He added that the reason for his feeling in this matter was the responsibility of the Board under the law for examinations of member banks and for branches of the Federal Reserve Banks.

At the conclusion of the discussion it was voted unanimously to request the Secretary to tell Mr. Peyton by telephone that, for the reasons which prompted the original decision, the Board did not feel it could approve a salary at the rate of \$8,000 per annum for Mr. Groth at this time but that if Mr. Peyton felt that the salary should be approved the Board would be glad to have him present fully the reasons for his position.

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In connection with the above matter Mr. Vardaman suggested that the Secretary be requested to prepare a draft of letter to the Chairman of the Presidents' Conference stating that because of the Board's responsibility for the examination of State member banks and for the branches of Federal Reserve Banks, the Board would appreciate it if the matter were placed on the agenda for the next meeting of the President's Conference with the view to discussing the desirability of a procedure which would contemplate that no change would be made in the officers of the branches of a Federal Reserve Bank or in the senior examining staff of a Federal Reserve Bank without first taking the matter up with the Board.

This suggestion was approved unanimously.

In an informal discussion of the question whether members of the staff should serve in their individual capacity as members of committees of organizations such as the American Bar Association and the American Bankers Association, Mr. Szymczak suggested that a survey be made to ascertain to what extent employees of the Board were serving on committees of outside organizations and that the question of what, if any, action should be taken by the Board in connection with the matter be placed on the docket for consideration at a meeting of the Board in September.

This suggestion was approved unanimously.

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Mr. Clayton and Mr. Townsend, Associate General Counsel, joined the meeting at this point, having just returned from a conference with the Comptroller of the Currency in accordance with the understanding at the meeting of the Board on Friday, August 20, 1948. Mr. Clayton made substantially the following statement with respect to the conference:

"We had a very satisfactory meeting with the Comptroller of the Currency and I think it was very beneficial to discuss with him the whole question of the approval of further branches for banks in the Transamerica group. I delayed until toward the end of the conference the delivery of the two letters prepared in accordance with the action taken at the meeting last Friday. Messrs. Delano, Townsend and I were the only ones present. Mr. Townsend having just arrived back in town, I asked him to go along with me. I thought Mr. Delano would appreciate a first-hand report from Mr. Townsend as to what he had been doing in the Pacific Coast area and Mr. Townsend made such a report.

"The Comptroller of the Currency did not change the position which he had previously taken, viz. that, while he did not favor further expansion by the Transamerica group, he was following a policy established first by Secretary of the Treasury Vinson and later followed by Secretary of the Treasury Snyder. Their opinion was that there was not sufficient legal basis for his office to take the position that, with respect to every point in the area covered by banks in the Transamerica group, not a single additional branch office would be approved under any conditions. Therefore He said that that was the policy the Comptroller's Office is following at the present time and he assured us that so far as the general problem was concerned he feels exactly as the Board does, that the Transamerica group is already larger than it should be, but he is basing

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"his present policy of approving the establishment of a branch here and there on the fact that usually there is no other facility in the community and no other bank in the area that wants to establish the additional office."

At this point Mr. Clayton was called from the meeting to answer a telephone call and asked that Mr. Townsend complete a report on the conference with the Comptroller. Mr. Townsend's statement was substantially as follows:

"There was complete agreement that it was unfortunate that the question of granting additional branches to the Transamerica group was the subject of comment in the papers, that when the articles appeared in the Washington Times-Herald last week they precipitated a press conference at the Treasury by Secretary Snyder and Comptroller of the Currency Delano, that the two officials felt that they were being unjustly criticized in the public press and the whole incident created an atmosphere in which ill-considered statements might be made which would not be made in a more deliberate situation. While the Comptroller had been reluctant to grant authority for any additional branches, he referred to the fact that the Attorney General had been asked to consider the matter of a Sherman Act proceeding, that he (Mr. Delano) had participated in meetings with the Attorney General at which that matter had been discussed, and that the Attorney General had not been willing to take action. That decision put the office of the Comptroller of the Currency in a position where it could not say that monopolistic conditions existed in the Transamerica group and therefore he was not in a position to deny permission in any and all cases to establish additional branches, particularly when strong representations were being made to him from various sources that additional banking facilities were needed which other banks were not willing and could not be prevailed upon to provide. Apparently Mr. Vinson, while he was Secretary of the Treasury, told the Comptroller of the Currency he would be in a stronger position if he had to defend himself in the courts if a limited number of branches were

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"granted than he would be if he took the position that he would approve no branches whatsoever.

"Referring to the discussions between Messrs. Vinson and Eccles with respect to the 1942 agreement, the Comptroller's approach had been that if there was a place without banking services, there was no other way to supply the services, and there was a strong local pressure for the establishment of a branch, his office would approve it. Mr. Clayton also called attention to the fact that Mr. Eccles' recollection of his discussion with Secretary Vinson was that the Secretary himself had not taken the position that he was abandoning the 1942 agreement but rather that he was seeking concurrence of the Board for approval of a limited number of branches as an exception to the terms of the agreement. Mr. Eccles had also stated that he had not concurred in behalf of the Board. However, the Comptroller of the Currency did not comment on that or say that the Board would be consulted in the future.

"Toward the end of the discussion, Mr. Clayton delivered the two letters approved by the Board. Mr. Delano read them and after referring to the subject of foreign branches expressed the feeling that the global expansion of Transamerica by the establishment of foreign branches was as inconsistent with the policy of limiting the expansion of Transamerica as was the granting of authority for additional domestic branches, that the advantage that Transamerica would have in the domestic area because of the existence of a number of foreign branches of the Transamerica group would be felt very keenly by other banks in that area, and that most of the domestic branches authorized by the Comptroller's office were at points where the deposits would be small whereas an expansion through foreign branches could be of very large dimensions. Mr. Clayton's response was that the latter point was an important distinction so far as the capital position of the bank was concerned but that the question involved in the Clayton Act proceeding was expansion in the West Coast area and only to the extent that foreign branches would increase dominance in that area were they important from the standpoint of the Clayton Act proceeding. Mr. Clayton

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"did not tell the Comptroller of the Currency that the Board had not advised the Federal Reserve Bank of San Francisco of its decision on the applications of Bank of America National Trust and Savings Association for the establishment of three branches in Germany.

"Mr. Clayton added that the atmosphere of the conference was very good and it appeared that Mr. Delano would sincerely welcome a defensible basis for limiting the further expansion of the Transamerica group. He (Mr. Clayton) had suggested that the letters from the Board will afford him an additional means of justifying such limitation. Mr. Delano's position and attitude, however, does not mean that further branches will not be approved but rather that any authorizations given will be on the basis of necessity.

"Mr. Townsend told Mr. Delano that we would need his help and that of his office, particularly the Chief National Bank Examiner, in the Twelfth Federal Reserve District, in developing information to go into the record on the hearing on the Transamerica case and that later on he would come over and go over the matter. Mr. Delano indicated that he would be glad to cooperate."

During Mr. Townsend's statement, Mr. Clayton reentered the room.

Mr. Vardaman expressed the view that the Board should be prepared to carry out the Clayton Act proceeding against Transamerica without seeking the assistance of the Comptroller of the Currency or the Treasury. The reason for his position on this point was that the Treasury had not cooperated with the Board in its efforts to curb the expansion of the Transamerica group and Mr. Vardaman did not think the Board should expect cooperation in the future.

Mr. Townsend stated that while it would be possible to

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develop the information that the Board would need from other sources, it would be difficult to do so and he hoped that it would be possible to get the information from the office of the Comptroller. The advantage of such a procedure, he said, would be that it would indicate during the hearing that the Board and the Comptroller were in agreement with respect to the Clayton Act proceeding.

Mr. Clayton made the further statement that he had urged during the conference with the Comptroller of the Currency that the latter issue no further permits for the establishment of branches by national banks in the Transamerica group and that while the Comptroller reiterated several times that he felt that the group was already too large, he did not indicate that he would feel justified in departing from the policy that he had been following in the recent past. It was Mr. Clayton's view, however, that following the receipt of the Board's letters he would be more resistant to the establishment of additional branches than heretofore.

Mr. Clayton concluded with the statement that regardless of all of the uncertainties in the picture, there was no doubt that the Comptroller of the Currency was in accord with the Board's views in the matter and Mr. Clayton was confident that the cooperation of the Comptroller in the Clayton Act proceeding would be forthcoming.

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At the conclusion of the discussion, Mr. Vardaman suggested that an excerpt from the minutes of this meeting covering the conference with the Comptroller of the Currency be sent to each of the absent members of the Board so that they would be currently informed of developments.

This suggestion was approved unanimously.

Mr. Clayton made the further comment that Mr. Delano was very much concerned about the appearance in the press of the recent articles relating to branches of the Transamerica group and expressed the strong opinion that it was important that no further information regarding the matter be given to the press.

At the conclusion of the discussion it was understood that any further developments in this situation would be reported to the Board by Mr. Clayton.

Mr. Vardaman stated that at the meeting of the Board on September 7, which would be the first meeting after Labor Day, he proposed to ask for a vote on a motion which he would make at that meeting to the effect that reserve requirements of all classes of member banks be increased as follows, effective as of a date or dates not later than October 1, 1948:

Net demand deposits	2%
Time deposits	1-1/2%

Mr. Vardaman stated that he was bringing the matter to the attention of the Board at this time so that the members might be

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informed of his proposed motion and be prepared to vote on it at the meeting on September 7. He also said that with the permission of the Board he would ask the Secretary to send a memorandum to each member of the Board (including all absent members of the Board to whom the memorandum would be sent by registered mail) so that they would be informed that the motion would be made and so that they would be prepared to vote on it.

Mr. Vardaman's comment was discussed in the light of the decision previously made by the Board to take up the matter of a further increase in reserve requirements on September 7, and also in the light of the letter addressed to the Secretary of the Treasury on August 11 in which it was stated that at the first meeting after Labor Day the Board would take up the question of a further increase in member bank reserve requirements and that at that time Chairman McCabe would advise Secretary Snyder as to any action contemplated by the Board. Mr. Vardaman's motion would contemplate that there would be a vote on the motion at the meeting of the Board on the morning of September 7, that Chairman McCabe could then inform Secretary Snyder of the contemplated action, and that upon receipt of Chairman McCabe's report of his conversation with Secretary Snyder the Board could then decide on September 7, 1948, whether the contemplated action would be made effective.

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Mr. Clayton stated that he would not want to indicate at this time what action should be taken on September 7, as the decision would depend on conditions at that time.

There was a discussion of statements by Messrs. Young and Riefler with respect to the present business and credit situation and continued inflationary pressures and Mr. Vardaman made it clear that the reason he was bringing the matter up at this time was to inform the members of the Board that he would make the motion at the meeting on September 7 and would ask for a vote on it at that time.

At the conclusion of the discussion it was agreed unanimously that the Division of Research and Statistics would prepare the necessary current memoranda containing information which would have to be considered by the Board in reaching a decision on the question of a further increase in member bank reserve requirements, that the memoranda would be sent to the members of the Board to be read by them before the meeting on September 7, 1948, so that any member who did not attend the meeting could, if he wished to do so, submit his views for presentation at the meeting. It was understood that a memorandum would be sent to each member of the Board by the Secretary informing them of Mr. Vardaman's proposed motion.

Mr. Vardaman raised a question whether the terms of the Board's new Regulation W, Consumer Instalment Credit, were as

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restrictive as they should be in the existing inflationary situation and whether steps should be taken to tighten the regulation. This matter was discussed and was referred to Mr. Clayton, in the absence of Mr. Evans, for recommendation to the Board.

At this point Messrs. Hammond and Young withdrew from the meeting.

It was reported that yesterday a letter was received from Mr. Rogers, Chief Counsel for the Senate Investigation Subcommittee, in which it was stated that in connection with an official inquiry being conducted by the Committee it would be appreciated if the Board would permit Mr. Bellino, of the Committee's staff, to examine the personnel file of Lauchlin Currie. It was also stated that the personnel file of Mr. Currie had been reviewed and contained only routine personnel matters and that the question raised by the request was whether a strictly personnel file came within the purview of the President's directive of March 13, 1948. The directive stated that any subpoena, or demand, or request for information, reports, or files relative to the loyalty of employees, received from sources other than those persons in the executive branch of the Government who are entitled thereto by reason of their official duties, shall be respectfully declined on the basis of the directive, and that the subpoena or demand or other

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request should be referred to the office of the President for such response as the President may determine to be in the public interest in the particular case.

The request from Mr. Rogers was discussed and it was agreed that action with respect to it should be deferred until Messrs. McCabe, Eccles, and Evans could be informed by Mr. Szymczak of its receipt and the Board could consider any comments that they might have to make in connection with it.

At this point Messrs. Riefler, Vest, and Townsend 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 August 23, 1948, were approved unanimously.

Memorandum dated August 23, 1948, from Mr. Bethea, Director of the Division of Administrative Services, recommending that the temporary appointment of Clyde D. Divers, a laborer in that Division, be extended on a temporary indefinite basis, without change in his present basic salary of \$2,020 per annum, effective August 30, 1948. The memorandum also stated that it was contemplated that Mr. Divers would become a member of the Federal Reserve retirement system.

Approved unanimously.

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Letter to Mr. Sproul, President of the Federal Reserve Bank of New York, reading as follows:

"The Board approves the payment of salary to Donald J. Cameron as Assistant Vice President for the period August 16, 1948 to March 31, 1949, inclusive, at the rate of \$12,000 per annum, which is the rate fixed by your Board of Directors as reported in your letter of August 19, 1948."

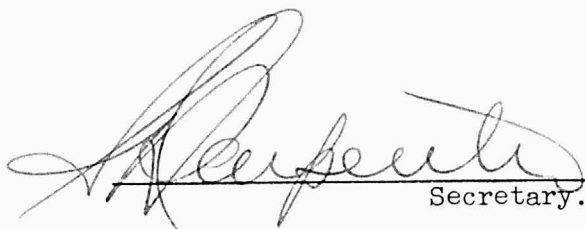
Approved unanimously.

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

"The Board approves, for the reasons outlined in your letter of August 19, 1948, payment of salary to Mr. Albert M. Stannard at the rate of \$4138.80 per annum through December 31, 1948.

"It is hoped that arrangements will be made to effect Mr. Stannard's retirement at the end of the year, in order to adhere more closely to the general retirement policy."

Approved unanimously.


Secretary.

Approved:


Chairman pro tem.