

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, August 26, 1948. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Board
Mr. Vest, General Counsel

Mr. Szymczak stated that he had asked that this meeting be held to consider what, if any, action should be taken by the Board with respect to a report on the Board of Governors prepared by Mr. George L. Bach for the committee on Independent Regulatory Commissions of the Hoover Commission. He said that copies of the report had been sent by Mr. Bowie, a member of the Committee, last week to Mr. McCabe as Chairman of the Board and to Mr. Eccles with a letter of transmittal dated August 17, 1948, and reading as follows:

"Mr. Owen D. Young, Ex-Senator Robert M. LaFollette, Jr., and the writer have been named by the Commission on Organization of the Executive Branch of the Government as a Committee to prepare a report for it on the Independent Regulatory Commissions.

"In order to provide a basis for its own report our Committee has adopted the following procedure.

"1. A small staff is making a study of each of the Independent Regulatory Commissions for submission to our Committee. These staff studies reflect only the views of their authors and not those of the Committee.

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"2. Our Committee is submitting these staff studies to a few qualified people to obtain the benefit of their comments and criticisms in order to assist the Committee in reaching its own conclusions.

"3. From these staff studies, the comments on them, and other materials, our Committee will prepare its own report to the Commission.

"We are enclosing a copy of the staff report on the Federal Reserve Board for your consideration. Let me repeat that the report has not been considered by the Committee and that the recommendations are solely those of the author.

"Our Committee would greatly appreciate having your comments on this report and especially on its conclusions and recommendations. Because of the limited time for us to complete our report it will be necessary to ask you to send us your comments within two weeks. While we realize this imposes a real burden, we will greatly appreciate your cooperation.

"These studies have not been published and are only for the use of our Committee. Accordingly, you are asked to treat the copy as confidential."

He added that two copies of the report were received by the Chairman's office, one of which was sent to him in Maine and the other (together with an extra copy obtained from Mr. Bowie) were put in circulation among the members of the Board who were in Washington on August 26, 1948, at the request of Chairman McCabe. It was understood that Mr. Eccles had expressed his views on the recommendations contained in the report orally to Mr. Bowie and Mr. Sidney Mitchell, a member of the staff of the Committee, and that these views were being written into a memorandum substantially in the form in which Mr. Eccles had stated them to

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Messrs. Bowie and Mitchell.

Mr. Szymczak stated that the question before the Board was whether, in view of the language of Mr. Bowie's letter to the Chairman, the report could be considered as being before the Board for comment and, if so, whether the Board should undertake to comment on the accuracy of the statements in the report or whether it should confine its comments to the recommendations made in the report.

Mr. Szymczak said he called Mr. Bowie this morning to ascertain what his committee had in mind in sending the report to the Chairman and Mr. Eccles and Mr. Bowie responded that the committee would like to get whatever information it could from any individual member of the Board and that he was interested in knowing whether there were any differences of opinion on the recommendations. Mr. Szymczak inquired whether the members of the staff should be requested to study the report and make recommendations to the Board or whether members of the Board would wish to make no recommendations and wait to express their views as a Board or as individual members until the matter came before the Congress for consideration.

In the discussion Mr. Clayton suggested that the Board should ascertain the views of Chairman McCabe on the question

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whether the Board should undertake to express its views or whether the Chairman expected to present his own views.

Mr. Vardaman stated that if individual members of the Board were to express their individual views he would insist that the Board's views be presented also.

The suggestion was made that, regardless of whether Mr. Bowie's committee expected comments from the Board or individual members of the Board, the Board should not forego the opportunity to make comments on the recommendations contained in the report if it were felt that that should be done.

At the conclusion of the discussion, it was agreed unanimously that Mr. Szymczak should call Mr. Bowie and request additional copies of the report so that one could be furnished to each member of the Board and that he would also call Chairman McCabe and inquire whether he felt the Board should comment on the report or whether, since it appeared that he and Mr. Eccles had been asked to comment on the report, he would prefer to have it handled on the basis of their submitting individual reports. In this connection the opinion was expressed that it would be unfortunate if two individual reports were submitted which did not agree on important points.

Mr. Vardaman stated that he would like to suggest that members of the staff meet with Mr. Bach and discuss the report with him.

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His suggestion was agreed to and it was understood that Messrs. Morrill, Thurston, Riefler, Carpenter, and Young would meet with Mr. Bach for that purpose.

On the question of whether the report was now officially before the Board for comments it was the consensus that it was not but that it had been sent to Messrs. McCabe and Eccles individually.

Secretary's Note: Following the meeting Mr. Szymczak talked with Mr. Bowie, who subsequently sent two additional copies of the report to Mr. Szymczak for use of the members of the Board. During the conversation Mr. Bowie said that he had in mind getting comments on the report from as many individuals as he could but not necessarily from the Board as such. In response to Mr. Szymczak's inquiry as to whether the comments would have to be submitted within two weeks from the date of his letter to Mr. McCabe, Mr. Bowie stated that the committee would like to get the comments as promptly as possible and that it would be desirable if they could be submitted at least by September 8. He also told Mr. Szymczak that if there were three or four members of the Board who were in agreement in their conclusions with respect to one or more of the recommendations contained in the report that opinion would be helpful but that it would not be helpful if each member of the Board had a different opinion. Mr. Szymczak stated to Mr. Bowie that it would be very helpful if Mr. Bach could come down next week to discuss the report with members of the staff and Mr. Bowie responded that that would be arranged.

Mr. Szymczak also talked with Chairman McCabe and ascertained that while the latter had in mind that it might be better to make no comment on the report and had not felt that the Board as such should comment, he had asked that the report be circulated among the members of the Board so that they would know about it. He had felt that it

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"would be a mistake for the Board to comment on the report unless it went over it very carefully and made a thorough analysis of it. It was understood during the conversation with Chairman McCabe that Mr. Szymczak would discuss with Mr. Riefler on Monday, August 30, 1948, the question whether the Board should comment on the report and if so what the nature of that comment might be.

Mr. Carpenter stated that in accordance with the action taken at the meeting of the Board on August 24, 1948, he had talked again with Mr. Peyton about the salary of \$8,000 per annum proposed by the directors of the Federal Reserve Bank of Minneapolis for Mr. Groth as Assistant Vice President assigned to the Helena Branch and that Mr. Peyton's response had been substantially as follows: He felt very strongly that the arrangement as it had been proposed to the Board of Governors was a very desirable solution that had been worked after a long series of negotiations to find the man who would be satisfactory to all concerned and who would be able to succeed Mr. Towle as Manager upon his retirement (Mr. Towle is now 60 years of age). He also felt that the salary for Mr. Groth at the rate of \$8,000 per annum was an essential part of that arrangement, that if the Board did not approve the salary it would make a mistake which would seriously hamper if not destroy the effectiveness of the arrangement, that the action of the Board would injure the morale of the officers of the Bank and Mr. Peyton's standing with them, and that it amounted to questioning

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the judgment of Mr. Peyton and the directors of the head office and of the Helena Branch who had approved it.

Mr. Carpenter also said that he stated to Mr. Peyton that the Board was satisfied with the arrangement and felt that it was a step in the right direction but that it could not see, and had not been given a satisfactory explanation as to why, a salary at the rate of \$8,000 was an essential part of the arrangement, and that, in any event, the matter could be reviewed in April of next year in connection with the annual review of salaries of other officers of the Bank, at which time, if Mr. Groth had lived up to expectations, an increase in his salary could be recommended by the board of directors.

Mr. Peyton felt, Mr. Carpenter said, that he would not be justified in asking Mr. Groth to wait that long for an increase in his salary to \$8,000 and he asked that the Board consider as a compromise a salary at the rate of \$7,000 per annum until January 1, 1949, with an agreement on the part of the Board at this time to consider in late December or early January an increase to \$8,000 per annum, effective January 1, 1949.

The members of the Board were unanimously of the opinion that the Board could not at this time commit itself to take favorable action on an increase at the end of the year. While the proposal made by Mr. Peyton was carefully weighed, it was the consensus

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of the members present that there was nothing new in the situation which would justify the Board in changing its original position as stated in the letter approved by the Board on August 20, 1948.

Accordingly, it was voted unanimously to request the Secretary to tell Mr. Peyton by telephone of the Board's conclusion and to mail the letter approved on August 20, 1948.

At this point Mr. Vest 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 24, 1948, were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on August 25, 1948, were approved and the actions recorded therein were ratified unanimously.

Memorandum dated August 24, 1948, from Mr. Young, Associate Director of the Division of Research and Statistics, recommending that the resignation of Mr. Robert W. Bean, an economist in that Division, be accepted to be effective, in accordance with his request, at the close of business on August 25, 1948, and that a lump sum payment would be made for annual leave remaining to his credit as of that date.

Approved unanimously.

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Letter to Mr. Volberg, Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"In accordance with the request contained in your letter of August 18, 1948, the Board approves the appointment of LeRoy Larsen as an assistant examiner for the Federal Reserve Bank of San Francisco."

Approved unanimously.

Letter to Mr. John T. Tabor, The Seven-Up Company, 1316 Delmar Boulevard, St. Louis 3, Missouri, reading as follows:

"This is in answer to your letter of August 20, 1948, in which you inquire, in effect, whether automatic vending machines which cool as well as dispense soft drinks would constitute listed articles under the provisions of Regulation W, as announced on August 20.

"Such machines, which are essentially vending units, would not be considered 'refrigerators, mechanical, of less than 12 cubic feet rated storage capacity (including food freezers)' and therefore would not be listed articles under the provisions of the regulation."

Approved unanimously.

Memorandum dated August 26, 1948, from Mr. Hooff, Assistant Counsel, recommending that there be published in the law department of the Federal Reserve Bulletin statements in the form attached to the memorandum with respect to the following subjects:

Legislation

Consumer Credit and Bank Reserves

State Bank Membership

Amendment to Regulation H

Consumer Instalment Credit

Regulation W

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Criminal Code
Amendments to Federal Reserve Act

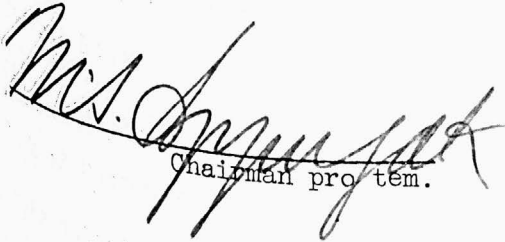
Foreign Funds Control
Treasury Department Release

Approved unanimously.



Secretary.

Approved:



Chairman pro tem.