

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, August 31, 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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Riefler, Assistant to the Chairman
Mr. Townsend, Associate General Counsel

At Mr. Szymczak's request, Mr. Carpenter read two letters received this morning from Comptroller of the Currency Delano dated August 30, 1948, and August 27, 1948, in response to the Board's letters to Mr. Delano dated August 24, 1948. The letters from Mr. Delano were as follows:

Letter dated August 30, 1948

"Acknowledgment is made of your letter of August 24, 1948 with its reference to conversations between Governor Szymczak and myself concerning the Clayton Act proceeding of the Board against Transamerica Corporation and the influence that branches granted the Bank of America may have upon such proceeding.

"This office has every desire to cooperate with the Board in all matters. However, I find it difficult to follow the reasoning that the granting of de novo branches to the Bank of America embarrasses the Board in its present action against Transamerica Corporation. It is our opinion that branch applications of the Bank of America fall into two classes: (1) those applications which contemplate the branching of Transamerica-controlled banks into the Bank of America system, with the resulting extinction of the stock of such banks, and (2) applications for new branches where no present facilities exist and where there is no interference in the status quo of Transamerica-controlled institutions.

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"Since receipt of your advice of the intention of the Board to institute Clayton Act proceedings against Transamerica Corporation we have consistently refused to grant applications which fall into the first class, i.e., applications for branching Transamerica-owned banks into the Bank of America system. We have followed this policy in order that no question might be raised as to possible interference with the Board's action.

"Where local need and convenience and all other factors clearly justify the approval of applications for branches which fall into the second class, it is our opinion that such applications could only be denied on the ground that the Bank of America is already a monopoly or tending toward a monopoly in its field. You are aware, of course, that the Attorney General of the United States has stated both to the Treasury and representatives of the Federal Reserve Board that at the present time there is insufficient evidence to support this view.

"It is also difficult to follow the reasoning of the Board in its contention that, where vitally needed to take care of growing communities, domestic branches granted by the Comptroller contribute to the Bank of America monopoly, while foreign branches granted by the Board of Governors to the same institution do not. It is our opinion that foreign branches, in comparison with domestic branches, constitute a greater expansion of the Bank of America system and a much greater drain upon the capital position of the bank."

Letter dated August 27, 1948

"Permit me to acknowledge your letter of August 24, 1948 with its comment upon the policy of this office in granting branches to the Bank of America National Trust and Savings Association and to banks of the Transamerica group.

"It has been my understanding that our policy with respect to that situation was outlined by Secretary Vinson particularly after the conversations in December 1945 between the Secretary and the Chairman of your Board, and was thoroughly understood by the Board. Subsequent conversations between my office, the Attorney General and members of the Board of Governors would seem to confirm this understanding. We have consistently followed the policy there outlined."

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The letters were discussed in the light of the agreement reached in 1942 between the Board, the Comptroller of the Currency, and the Chairman of the Federal Deposit Insurance Corporation with respect to policies to be followed in approving additional branches of Transamerica-controlled banks and in the light of the possible effect which the policies set forth in Mr. Delano's letters might have on the proceeding instituted by the Board against Transamerica Corporation under section 11 of the Clayton Act.

During the discussion it was pointed out that the letter from Mr. Delano dated August 30, 1948, might provide a basis for the Comptroller of the Currency continuing to grant approval of de novo branches for Bank of America N. T. & S. A. regardless of the outcome of the Board's proceeding under the Clayton Act on the grounds that the bank (as distinguished from Transamerica Corporation) had not been found by the Department of Justice to be monopolistic under the terms of the Sherman Act. There was also a discussion of the policy referred to in the second paragraph of Mr. Delano's letter of August 27, 1948.

Following the discussion, it was agreed unanimously that the staff should prepare a memorandum reviewing the agreement among the three Federal bank supervisory agencies in 1942 concerning the granting of additional branches to Transamerica-controlled banks and subsequent

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developments in connection with the agreement, (including a review of the discussions of the matter with Secretary of the Treasury Vinson) and suggesting the substance of the replies to be made to the two letters from Mr. Delano.

Mr. Carpenter read a memorandum from Mr. Horbett to Mr. Yardaman under date of August 31, 1948, in which it was stated that Mr. Findeisen, Assistant Vice President of the Federal Reserve Bank of Cleveland, had telephoned yesterday afternoon to ask whether there would be any objection from the Board's standpoint to the Federal Reserve Bank of Cleveland holding Treasury bills in safekeeping for the Bankers Trust Company, New York. The memorandum went on to say that the Cleveland Trust Company, apparently in anticipation of an increase in reserve requirements, wanted to keep its funds as fully invested as practicable and yet be in a position to make quick adjustments in its reserve position, that it occasionally sold Treasury bills to the Bankers Trust Company, New York, under a repurchase agreement, and that it proposed to have the bills held in safekeeping at the Cleveland Reserve Bank to expedite adjustments in the reserve position of the Cleveland Trust Company, since, if the bills were held by the Bankers Trust Company or for its account by the Federal Reserve Bank of New York, it would not be practicable to transfer their ownership late in the

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day or on the last day of the month if adjustments in reserves of Cleveland Trust Company were required at such times.

Mr. Vardaman suggested that the Federal Reserve Bank of Cleveland be advised to use its own judgment in deciding whether it should accede temporarily to the request of the Cleveland Trust Company, with the understanding that if it should accede to the request the bank should be informed that the action did not constitute a precedent and might be discontinued after further consideration of the matter by the Board and other Reserve Banks. He also suggested that the matter be placed on the agenda for discussion at the next President's Conference.

Mr. Vardaman's suggestions were approved unanimously.

Reference was made to a draft of letter prepared pursuant to the action at the meeting on August 24, 1948, to Mr. Davis, Chairman of the President's Conference, asking that at the next meeting of the Conference there be a discussion of the desirability of a procedure which would contemplate that no change would be made in the senior examining staffs of the Federal Reserve Banks or in officers at Reserve Bank branches without first taking the matter up with the Board. The draft had been prepared in the light of the discussion at the meetings on August 24 and 26 concerning the appointment by the Federal Reserve Bank of Minneapolis of Mr. Groth

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Assistant Vice President assigned to the Helena Branch.

Mr. Vardaman stated that he had asked that this letter be prepared, but that subsequently he had received a letter from Mr. Peyton dated August 26 with further regard to the Board's action in not approving a salary for Mr. Groth at the level originally set by the directors of the Federal Reserve Bank of Minneapolis. Mr. Vardaman also said that Mr. Draper had received a somewhat similar letter, that telegrams had been sent by Mr. Peyton to Messrs. Szymczak and Evans, and that he (Mr. Vardaman) had prepared a draft of reply to the letter he had received but that he would suggest that a reply to Mr. Peyton's several communications be made over the Secretary's signature on behalf of the Board rather than by separate replies by individual members of the Board.

There was a discussion of the nature of the reply that should be made to Mr. Peyton and it was agreed unanimously that the Secretary should prepare a draft of reply for consideration by the Board.

It was also agreed unanimously that the letter to Mr. Davis as Chairman of the Presidents Conference, prepared in accordance with the action on August 24, 1948, should not be sent, and that further action on the matter should be deferred until there appeared to be a need for taking the matter up on a System-wide basis.

Mr. Clayton stated that at an informal conference yesterday which he and Mr. Townsend had with Mr. Delano, Comptroller of

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the Currency, and Messrs. Harl, Chairman, and Cook, Director, of the Federal Deposit Insurance Corporation, reference was made to the application of Bank of America National Trust and Savings Association for permission to establish branches at Bremen, Frankfurt-am-Main, and Hamburg, Germany, and in the light of the discussion at that conference it would be his suggestion that the Board ask for the comments of the Comptroller of the Currency and the Federal Deposit Insurance Corporation on the advisability of authorizing the establishment of the three branches in the light of the capital position of the applicant bank and other relevant information. The reason for the reference to the two agencies, Mr. Clayton said, would be to determine whether, independently of the Clayton Act proceeding, the Comptroller of the Currency and the Federal Deposit Insurance Corporation have any material objections to the establishment of the branches. He also said that during the informal conference referred to above Chairman Harl indicated that he felt the establishment of the branches should be considered from the standpoint of the additional risk that might be involved in the insurance of the bank's deposits and that Mr. Delano questioned whether, because of its capital position and lending and dividend policies, the national bank should be permitted to assume additional liabilities through the establishment of foreign branches.

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In connection with Mr. Clayton's suggestion, it was stated that the views of the Comptroller of the Currency had been requested and that in a letter dated July 22, 1948 he had stated that his office would enter no objection to the establishment of the branches. Reference was also made to the fact that a further statement of his views was contained in a memorandum addressed to the Board by Mr. Szymczak under date of August 13, 1948.

Mr. Clayton stated that since he had not handled the applications for the three branches, he had not been aware that the views of the Comptroller of the Currency previously had been requested and that in the informal conference the Comptroller had made no mention of having written to the Board or having talked with Mr. Szymczak about the matter.

Mr. Townsend stated that he favored Mr. Clayton's suggestion because, in his opinion, the question whether the application for permission to establish the three branches would be approved should be considered on its merits entirely independently of the Clayton Act proceeding against Transamerica, and that if there were reasons from the standpoint of the bank's capital position or its lending or dividend policies why the application should not be approved, the decision of the Board should be on that basis and should not be related in any way to the Clayton Act proceeding.

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In a discussion of Mr. Clayton's suggestion, during which Mr. Leonard, Director of the Division of Examinations, joined the meeting, the opinion was expressed that in view of developments since Mr. Delano's letter of July 22 was written, the Board would be justified in taking the matter up with him again.

At the conclusion of the discussion, upon motion by Mr. Vardaman, it was voted unanimously to request the Legal Division to prepare for consideration by the Board drafts of letters to the Comptroller of the Currency and to the Chairman of the Federal Deposit Insurance Corporation along the lines suggested during the discussion.

Mr. Szymczak referred again to the report on the Board of Governors prepared by Mr. George L. Bach for the Committee on Independent Regulatory Commissions of the Hoover Commission, and stated that in accordance with the action taken at the meeting of the Board on August 26 he had talked with Mr. Bowie, a member of the Committee, and Chairman McCabe about the report. He said Mr. Bowie had made it clear 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, and that Chairman McCabe was inclined to the view that no comment should be made by the Board.

There was a brief discussion, after which, at the suggestion of Mr. Szymczak, it was unanimously agreed that the matter should be placed on the docket for further

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consideration at the meeting of the Board to be held on Tuesday, September 7, 1948, at which Chairman McCabe would be present.

At this point Messrs. Riefler, Townsend, 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 August 30, 1948, were approved unanimously.

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 25, 1948, the Board approves the appointment of James Grant Bickmore as an examiner for the Federal Reserve Bank of San Francisco. Please advise us of the date upon which the appointment becomes effective."

Approved unanimously.

Letter to Mr. Wysor, Chairman of the Federal Reserve Bank of Richmond, reading as follows:

"At the completion of the examination of the Federal Reserve Bank of Richmond, made as of June 7, 1948, by the Board's examiners, a copy of the report of examination was left for your information and that of the directors. A copy was also left for President Leach.

"The Board will appreciate advice that the report has been considered by the board of directors. Any comments you may care to offer regarding discussions with respect to the examination, or as to action taken or to be taken as a result of the examination, will also be appreciated."

Approved unanimously.

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

"Reference is made to your letter of August 20, 1948, submitting the request of the Farmers and Merchants Bank, Huron, South Dakota, for approval of an additional investment in banking premises in connection with its program for the expansion and remodeling of its banking quarters, installation of a new vault, and purchase of new equipment and furniture and fixtures, all at a cost of approximately \$100,000.

"In accordance with your recommendation, the Board approves the additional investment in banking premises by the Farmers and Merchants Bank under the program as submitted."

Approved unanimously.

Letter to Mr. Arthur M. Hill, Chairman, National Security Resources Board, reading as follows:

"The Board of Governors has reviewed Mr. Griffith Johnson's preliminary memorandum of May 11 entitled 'Some Suggestions for the Development of an Economic Stabilization Program for a War Emergency', and has noted with particular interest the sections dealing with monetary matters. The Board appreciates the opportunity offered in your letter of May 21 to comment on this memorandum in advance of its consideration by the National Security Resources Board.

"As Mr. Johnson's memorandum shows, under existing conditions even the most skillful handling of war procurement would instantly release overwhelming inflationary pressures. Not only would we have little or no time for deliberation but also we would have much less leeway for absorbing the consequence of the kinds of mistakes in financial policy that were made during the most recent war emergency. A repetition of these errors might change the future direction of our economic and social development. It is urgent, therefore, to obtain the broadest counsel in exploring the foundations

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"of fiscal and monetary policy for an emergency. Exploration of these foundations, in our opinion, should have a high priority in the advance development of any wartime stabilization program.

"It is particularly important that the Treasury, as the financier of the Government and the chief wartime borrower of funds, have the benefit of a full exchange of information and views with other Government financial agencies or groups before undertaking to establish a wartime financial policy for the nation. Greater consideration should be given in any future emergency than was accorded in the past to the aftermath of war finance. Because certain policies were followed in the last war, the ability of the monetary authorities to cope with postwar stabilization problems has been greatly complicated.

"In planning economic mobilization for war, it should be possible to consider the effects of emergency war policies on postwar as well as war conditions so that when reasonable alternatives present themselves, decisions can be made with possible long range postwar consequences in mind. This objective can be best achieved if all agencies concerned with a given field, both those with related interests and responsibilities, and those with more primary statutory duties and responsibilities, participate jointly in the advance planning.

"The bearing of these general comments on the development of emergency policies in the monetary field is evident. In Mr. Johnson's memorandum, it is suggested that material on 'Investment Expenditures and Limitation of Production' might be prepared by the Department of Commerce; that controls over real estate prices should be the subject of consultation with the Office of Rent Control; and that 'the practicality of measures (such as forced savings) designed to prevent or immobilize dangerous expansion in money and incomes' should be explored by the Department of the Treasury. It is even said, with reference to the broad field of 'Fiscal and Monetary Measures' that 'It is understood that the NSRB has made arrangements with the Treasury Department to provide mobilization plans for this area'.

"In each of these cases the problems are complex and far reaching. Any program would affect the statutory responsibilities of several Government departments or

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"agencies. It is the view of the Board of Governors that adequate consideration of all the important issues involved in each case can be obtained only through study by all the agencies directly concerned, and the fullest possible exchange of information and views. Fiscal and monetary developments and policies, for example, are very closely interrelated and should be considered together. The whole field of mortgage finance, in farm as well as non-farm areas, is closely related to the flow of savings and the inflationary expansion of bank credit and also to the operations of important groups of financial institutions and of various supervisory Government agencies.

"Preparation of specific plans will involve a number of fairly detailed projects each of which will probably have to be assigned to qualified individuals in the interested agencies. In order to secure the desired joint participation in developing plans and policies for fiscal, monetary, and related action, and the desired understanding and cooperation in their eventual execution, however, it is the Board's view that these projects could best be carried on under the aegis of a special committee including representatives of each of the following agencies:

- National Security Resources Board
- The Council of Economic Advisers
- Treasury Department
- Board of Governors of the Federal Reserve System
- Federal Deposit Insurance Corporation
- Farm Credit Administration
- Department of Agriculture
- Housing and Home Finance Agency
- Reconstruction Finance Corporation
- Securities and Exchange Commission
- Department of Commerce

"We believe further that the broader objectives of economic stabilization and effective mobilization for war would be better served if the departments of the armed services and other war agencies were also represented on this committee.

"In conclusion, the Board wishes to say again that the opportunity to comment on Mr. Johnson's memorandum is very much appreciated."

Approved unanimously.

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Letter to Mr. Roger W. Jones, Acting Assistant Director,
Legislative Reference, Bureau of the Budget, Executive Office of
the President, reading as follows:

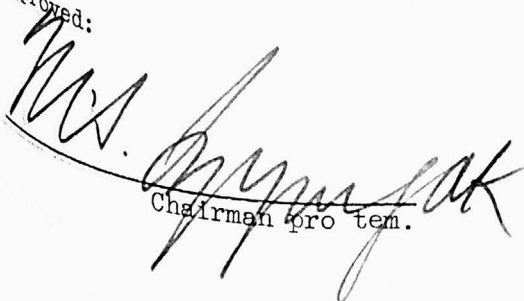
"In reply to your letter of August 17, I wish to inform you that the Board has no objections to the proposed Executive Order entitled 'Regulations Governing the Furnishing of Statistical Information to Public International Organizations' as amended at the National Advisory Council staff meeting on August 25. It is our understanding that paragraph 1 of the amended Executive Order will now read:

'Except as provided in paragraph 2 hereof, the Director of the Bureau of the Budget (hereinafter referred to as the Director) shall determine (a) in consultation with the Secretary of State, what statistical information should be provided in order that the Government of the United States may comply with official requests received by it from any public international organization, and (b) which Federal executive agency or agencies shall furnish the information.'

Approved unanimously.


Secretary.

Approved:


Chairman pro tem.