

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, September 7, 1948. The Board met in the Board Room at 10:30 a.m.

PRESENT: Mr. McCabe, Chairman
 Mr. Szymczak
 Mr. Draper
 Mr. Vardaman
 Mr. Clayton

Mr. Sherman, Assistant Secretary
 Mr. Hammond, Assistant Secretary
 Mr. Morrill, Special Adviser
 Mr. Riefler, Assistant to the Chairman
 Mr. Thomas, Director of the Division of Research and Statistics
 Mr. Vest, General Counsel
 Mr. Nelson, Director of the Division of Personnel Administration
 Mr. Leonard, Associate Director of the Division of Bank Operations
 Mr. Young, Associate Director of the Division of Research and Statistics
 Mr. Horbett, Assistant Director of the Division of Bank Operations

There was presented a letter from Mr. Whittemore, President of the Federal Reserve Bank of Boston, dated August 23, 1948, stating that the directors of that bank had voted to increase the salary of Mr. Hult, Vice President, from an annual rate of \$14,000 to \$16,000, effective September 1, 1948, in recognition of additional duties undertaken by Mr. Hult and of the outstanding performance by him of various other official duties. The letter was accompanied by a memorandum from Mr. Nelson dated August 30, 1948, recommending that the proposed salary be not approved but that a salary at the annual

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rate of \$15,000 be approved if fixed at that figure by the directors of the bank, and by a memorandum from Mr. Nelson dated September 2, 1948, stating that the Personnel Committee had requested that the matter be considered at a meeting of the Board.

Mr. Vardaman stated that he felt the matter should be considered on the basis of whether the work Mr. Hult was doing justified a salary increase and also in terms of whether it was good policy to increase the salary of a senior officer who was close to retirement (Mr. Hult will be 62 in November) and who was not being advanced in position.

There followed a discussion of the senior officer staff at the Boston bank during which Mr. Clayton stated that when he was at that Bank recently he was informed that Mr. Hult had been given additional responsibilities and that he was carrying his duties very satisfactorily. He suggested, however, that, since Mr. Whittemore had accepted another position and was expected to leave the Bank shortly, a salary at an annual rate of \$15,000 rather than \$16,000 be approved, which would afford an incoming president an opportunity to review the matter.

The question of salary increases for senior officers who were near retirement age was also discussed briefly but there was no conclusion as to adoption of a definite policy in this respect.

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Upon motion by Mr. Clayton, unanimous approval was given to a letter to Mr. Whittemore in the following form:

"Reference is made to your letter of August 23, 1948, requesting the Board's approval for the payment of salary at the rate of \$16,000 per annum to Vice President Ellis G. Hult.

"The Board has given careful consideration to your recommendation and appreciates the circumstances which prompted the action of your board of directors. However, in order to afford an incoming president of your Bank an opportunity to review the matter, the Board does not feel that it should authorize an increase as large as \$2,000 at this time, but in view of the circumstances set forth in your letter it does approve the payment of salary to Mr. Hult at the rate of \$15,000 per annum for the period September 1, 1948 through April 30, 1949, if this rate is fixed by your directors."

Mr. Vardaman stated that at the meeting yesterday the Personnel Committee considered requests from three members of the staff for permission to accept part-time teaching assignments during the next school term and that he had suggested that, before the Personnel Committee passed on these requests, the Board's policy with respect to such outside activities be reviewed. He added that, for reasons which he outlined, he seriously questioned whether it was desirable to permit members of the staff of the Board or of the Federal Reserve Banks to participate in teaching or other outside business activities.

Chairman McCabe said that he felt teaching activities were in a different category from most other outside business connections,

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that such teaching assignments were beneficial to the individuals, and that in the research field it was highly desirable that the staff members have such connections in order to develop properly. He also felt that the connections were beneficial to the Federal Reserve System because they brought the System to the attention of more people and helped get Federal Reserve thinking into the universities.

Mr. Szymczak said that the teaching connections represented activities carried on outside office hours and that he felt the Board should not object unless it appeared that the teaching work was interfering with the proper performance of the individual's work for the Board.

In response to Chairman McCabe's question as to present Board policy, Mr. Sherman read excerpts from the memorandum to all employees approved by the Board on March 24, 1948 outlining the Board's policies with respect to outside business affiliations and teaching activities of members of the Board's staff and of the officers and employees of the Federal Reserve Banks. During a discussion of the memorandum Chairman McCabe stated that he felt it contained a clear statement of a reasonable and workable policy, and he suggested that no change be made in it.

Chairman McCabe's suggestion was approved unanimously.

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Before this meeting there had been circulated among the members of the Board the following memorandum from the Division of Personnel Administration, prepared under date of August 27, 1948, recommending certain revisions in the Board's form of application for a position (Form FR 28) to make it conform more closely to Civil Service Form 57, Application for Federal Employment:

"While there is some question whether it is advisable to ask an applicant for a position whether he has ever been a member of a subversive group, because of the policy followed by the Board of cooperating fully in the loyalty program of the Government, it is recommended that the first of the two questions relating to loyalty in the Board's form of application for a position be changed to read as follows:

Are you now, or have you ever been, (1) a member of the Communist Party, U.S.A. or any Communist organization, (2) a member of a Fascist organization, or (3) a member of any organization, association, movement, group, or combination of persons which advocates the overthrow of our Constitutional form of Government, or of an organization, association, movement, group, or combination of persons which has adopted a policy of advocating or approving the commission of acts of force or violence to deny other persons their rights under the Constitution of the United States or of seeking to alter the form of Government of the United States by unconstitutional means?

If your answer to any of the above questions is 'yes', state the names of all such organizations, associations, movements, groups, or combination of persons and dates of membership. Give complete details of your activities therein and make any explanation you desire regarding your membership or activities therein.

"It is also recommended that there be inserted immediately following the statement in parentheses above the applicant's signature the following:

False statement on this application is punishable by law."

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Mr. Szymczak stated that in a recent informal discussion between members of the Legal Division and representatives of the Department of Justice with respect to the loyalty program the question came up as to whether the Board's application form contained the foregoing questions, and that the recommendation for the changes was prepared in the light of that discussion.

Upon motion by Mr. Draper, the recommendations contained in the memorandum were approved unanimously.

Mr. Szymczak referred to the understanding at the meeting on August 31, 1948 that the Board would not submit a statement with respect to the report prepared for the Hoover Commission by Mr. G. L. Bach concerning the Federal Reserve. He added that Mr. Bach and Mr. Bowie, a member of a subcommittee of the Hoover Commission, were interested in receiving comments and that Mr. Bach would be in the Board building in a few days for the purpose of discussing the report with members of the staff. It was understood that when Mr. Bach called the Board members would be informed so that they could discuss the report with him if they were available and wished to do so.

In taking up the question of increasing reserve requirements of member banks, Chairman McCabe referred to memoranda prepared in the Division of Research and Statistics under dates of August 31 and September 1, 1948 on the position of central reserve city, reserve

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city, and country banks and on current monetary developments and a suggested increase in member bank reserve requirements, and to a memorandum prepared by Messrs. Thomas, Young, and Horbett under date of September 3, 1948 on technical considerations governing timing of action in reserve requirements. Copies of these memoranda had been sent to all members of the Board before this meeting, as had a memorandum dated August 25, 1948, informing them of Mr. Yardaman's statement at the meeting on August 24, 1948 that he would move at this meeting that reserve requirements be increased and would ask for a vote on the motion at this time.

After reading excerpts from his testimony before the House Banking and Currency Committee on August 2, 1948, in which he discussed what could and could not be accomplished through increases in reserve requirements and stated that such increases must be related to other instruments of credit policy, Chairman McCabe said that in connection with consideration of an increase in reserve requirements he felt it would be desirable to call a meeting of the executive committee of the Federal Open Market Committee so as to have the benefit of the advice of that committee in developing an over-all program which might include not only an increase in reserve requirements but also further increases in rediscount rates and, more particularly, a lowering of the support prices for Government bonds. He added that his suggestion contemplated

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there would be a thorough discussion at this meeting of the question of increasing reserve requirements but that no final action would be taken today and, if the executive committee could meet tomorrow, it would be understood that, following that meeting, the Board would meet for the purpose of voting on the question of an increase in reserve requirements. He reiterated that he felt any action taken to increase reserve requirements should be part of an over-all program and should not be an isolated action, and that it was for the purpose of developing such a program that he suggested a meeting of the executive committee of the Federal Open Market Committee before action was taken by the Board with respect to changing reserve requirements. He also said that he had an appointment to see Secretary of the Treasury Snyder this afternoon at which time he planned to inform him of the action the Board proposed to take with respect to reserve requirements, in accordance with the understanding stated in a letter from Chairman McCabe to Secretary Snyder on August 11, 1948.

Mr. Clayton stated that he felt consideration of the government bond support program was timely but that he did not feel the question of action by the Board on reserve requirements was in any way conditioned upon a change in support prices or on an opinion which the Secretary of the Treasury might express.

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Mr. Vardaman said he felt the Board should take action today independently of any view of the executive committee or the Treasury but that he would favor calling the executive committee to meet this afternoon or tomorrow morning before the Board's action was made public so that the executive committee could consider whether any change in open market operations was desirable in the light of the Board's action.

Mr. Szymczak said the Board should not give the impression it was allowing any other agency such as the executive committee or the Treasury or any other group to decide whether it should increase reserve requirements since that was a matter for which the Board had responsibility, but that he felt there could be a full discussion at this meeting and a consensus as to the action to be taken, that the executive committee could be asked to meet tomorrow morning for the purpose of considering operations in the System account in the light of the Board's action, that in the meantime Chairman McCabe could inform Secretary Snyder of the action that was planned in accordance with the earlier understanding, and that following the meeting of the executive committee the Board could meet for the purpose of taking final action.

Mr. Szymczak then said that, as agreed informally among the members of the Board last week, Messrs. Thomas and Young went over to talk with Mr. Bartelt, Fiscal Assistant Secretary of the

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Treasury, last Friday concerning the possible effects of an increase in reserve requirements.

Mr. Thomas said that he informed Mr. Bartelt the Board would consider today the question of increasing reserve requirements, that he could not say whether there would be any action, but that the Board members felt that the Treasury should know what was involved. He said he then told Mr. Bartelt that the System had been called upon to buy large amounts of government bonds over the past several weeks and that it would unquestionably be called upon to purchase large additional amounts during the next several weeks since there was a considerable demand for loans and the initiative was in the banks and nonbanking lenders as to whether to sell securities and obtain the funds to make the loans; and that in view of the action by Congress in giving the Board additional authority to limit credit expansion it appeared that it was incumbent upon the Board to take some action to immobilize the reserves being created and which would be created by sales of bonds to the System, since the only alternative was to continue to buy the bonds and thus permit the volume of reserves to grow and credit to expand. Mr. Thomas said he also told Mr. Bartelt it was a matter of absorbing additional reserves that would be created by sales of bonds to the System as well as by gold imports and a return flow of currency from circulation. With respect to timing, Mr. Thomas said he indicated several possibilities, including Sep-

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September 16, October 1, and October 16 as effective dates, and that several possible amounts of increase in reserve requirements were also discussed.

Mr. Thomas said that Mr. Bartelt did not express any opinion as to an increase in reserve requirements other than to ask what good it would do to increase the requirements if the System would then buy securities from the banks and supply them with the funds to meet the increase. He felt, however, that Mr. Bartelt understood the situation.

Mr. Vardaman then asked what had been heard from Messrs. Eccles and Evans as a result of the informal understanding last Thursday that their views would be obtained by telephone before this meeting.

Mr. Morrill stated that he talked by telephone with Mr. Eccles last Thursday evening and at his request Mr. Sherman read the following excerpt from a memorandum of the conversation prepared by Mr. Morrill under date of September 3, 1948:

"Governor Eccles said that he felt very strongly in view of the legislative history that the Board would be making a mistake if it did not use the authority which had been granted to it. It seemed to him that in view of the inflationary situation it would be absurd for the Board not to use all the powers available to it. He said that he would not even consider using the power in terms of only 1 per cent at a time. He thought more in terms of 4 per cent than of 1 per cent. Considering the discussions

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"that had taken place in Congress and the allegation that the administration and the Board had not used the powers already available to them, he felt that we might be subject to severe criticism in case we did not proceed vigorously. He would favor taking the first step of at least 2 per cent effective September 16, and in any event not later than September 23, coupled with the full 1-1/2 per cent on time deposits. That would leave 2 per cent as the next step to be applied on October 16 and the remaining 2 per cent for central reserve cities to be effective in November. He added that he would not hesitate to make the first step 4 per cent on demand deposits in September followed in October by the final 2 per cent on central reserve cities."

Mr. Morrill said that he also talked with Mr. Evans who sent in a telegram under date of September 6, 1948 giving his views as follows:

"I believe the effect of the small increases in reserve requirements which we can still make will be largely psychological, therefore, maximum attention to inflationary dangers would result from four increases of one per cent each on demand deposits followed by two per cent at central reserve cities and then maximum on savings but if Board favors two increases of two per cent on demand I am entirely agreeable. I thought pressure should start in October and continue through holiday season and completed early February. However, any timing Board decides on is agreeable. Bankers everywhere are happy over regulation W. One banker said 'I don't like control but if people cannot exercise judgement themselves someone must do it for them and I am glad Federal Reserve has W back'".

Chairman McCabe raised the question whether it would be desirable to have a conference with some of the insurance company officials at the time an increase in reserve requirements was

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adopted in an effort to have them stop their heavy selling of government securities for the purpose of making loans in competition with banks. He said that, aside from the inflationary character of the loans which insurance companies were making, there was a growing complaint by member banks that they were being asked to restrict credit while insurance companies were making loans which the banks might have made, and that if an increase in reserve requirements was made effective it would accentuate the problem of member bank relations.

There was an extended discussion of this matter, during which some of the members of the Board indicated that there was serious objection to the current activities of the insurance companies in selling securities for the purpose of making loans in competition with banks. The consensus, however, was that there was considerable doubt as to whether it would be either desirable or effective for the Board to approach the insurance companies with a request or suggestion that they discontinue such activities.

Turning again to a discussion of the proposed increase in reserve requirements, Chairman McCabe said the only question seemed to be the effective date of the increase and the amount.

Thereupon, Mr. Draper moved that an increase of 2 percentage points against demand deposits and 1-1/2 percentage points against time deposits, effective October 1, 1948, be ordered.

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Mr. Vardaman suggested that Mr. Draper's motion be changed to provide that the increase become effective, in the case of banks in nonreserve cities, on September 16, 1948, and for other banks on September 24, 1948, and Mr. Draper asked that his motion be restated as follows:

Mr. Draper moved that reserve requirements of member banks be increased as follows, effective September 16, 1948 as to member banks in nonreserve cities and September 24, 1948 as to member banks in reserve and central reserve cities:

On net demand deposits

Nonreserve city banks	From 14 to 16 per cent
Reserve city banks	" 20 to 22 " "
Central reserve city banks	" 24 to 26 " "

On time deposits

Nonreserve city banks	From 6 to 7-1/2 per cent
Central reserve and reserve city banks	From 6 to 7-1/2 per cent

There was a discussion of Mr. Draper's motion and of various alternatives as to effective dates and amounts of increase, among which were (1) an increase of 1 percentage point on demand deposits and of 1-1/2 percentage points on time deposits, effective September 16, 1948, to be followed by a further increase of 1 percentage point on demand deposits effective October 1, 1948, and perhaps a third increase of 1 percentage point in mid October; (2) an increase of 2 percentage points on demand deposits and of 1-1/2 percentage points on time deposits, effective October 1, 1948; (3) an

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increase of 4 percentage points on demand deposits and of 1-1/2 percentage points on time deposits effective October 1, 1948.

Mr. Vest stated that, while there was nothing in the Administrative Procedure Act to preclude making the proposed action effective as early as September 16, such date would result in an extremely short period for giving official notice to all member banks. It was the view of the members of the Board that, by use of telephone and telegraph wherever necessary, proper notification would be given and that this consideration should not prevent taking action effective at the times proposed.

During the discussion of alternatives Mr. Thomas was questioned concerning the desirability of making a series of small increases over a short period of time which would promote uncertainty, and in reply he said that uncertainty would be desirable in order to obtain the greatest effect, and that he did not feel that an increase of 4 percentage points in requirements against net demand deposits and of 1-1/2 percentage points against time deposits, taken at one time, would be as effective as a series of increases of one per cent each.

Mr. Riefler stated that he felt early action should be taken, that the amount of the increase was not of principal importance, that the most effective action would be to combine a lowering of support prices on government bonds with some increase in reserve requirements,

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and that such action might make it unnecessary to make further increases in reserve requirements for some months to come.

Chairman McCabe suggested that if there was to be a meeting of the executive committee of the Federal Open Market Committee tomorrow morning, Mr. Draper's motion not be voted on until after that meeting. There was a further discussion of such a meeting at the conclusion of which it was understood that Chairman McCabe would call a meeting of the executive committee to convene at 10:30 tomorrow morning, Wednesday, September 8, 1948, and that he would invite all members of the Federal Open Market Committee to attend so that those who were not on the executive committee could have the benefit of the discussion.

During a further discussion of the proposed action, there was an informal agreement among the members of the Board that a vote on Mr. Draper's motion would not be taken at this meeting, but that the executive committee of the Federal Open Market Committee should be informed that it was the consensus of the members of the Board that an increase of 2 percentage points in reserve requirements against net demand deposits, and of 1-1/2 percentage points in reserve requirements against time deposits should be made effective on September 16, 1948, for banks in non-reserve cities, and on September 24, 1948, for banks in reserve and central reserve cities. It was understood that this information also would be telephoned to Messrs.

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Eccles and Evans by Mr. Morrill, and that at the meeting of the Board tomorrow he would report any comments they might wish to make.

Mr. Vardaman stated that in view of the understanding arrived at at this meeting, he waived the notice that he had given at the meeting on August 24, 1948, that he would ask for a vote at this meeting on a motion to increase reserve requirements of all member banks.

At this point Messrs. Riefler, Thomas, Vest, Nelson, Leonard, Young, and Horbett 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 31, 1948, were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on September 1, 2, and 3, 1948, were approved and the actions recorded therein were ratified unanimously.

Letter to Mr. Stevens, Acting Chairman of the Federal Reserve Bank of Boston, reading as follows:

"Reference is made to your letter of August 31, 1948, regarding the informal arrangement agreed to by your board of directors with respect to the continuation of Mr. Whittemore's services as President of the Bank after September 1, 1948, the date of his acceptance of the Presidency of the New York, New Haven & Hartford Railroad Company.

"It is understood that Mr. Whittemore will continue temporarily in the office of President of the Bank for a reasonable length of time until his successor is appointed, and devote such time to the

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"affairs of the Bank as he can consistent with his association with the railroad company. It is also understood that he will serve without salary except for the first four weeks of that period which represents the 1948 vacation with pay to which he is entitled under the Bank's vacation policy, but that in the event a successor is appointed prior to the expiration of the first four weeks of that period he will receive compensation only to the date on which the new President takes office.

"The Board approves the temporary arrangement as outlined in your letter."

Approved unanimously.

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

"Receipt is acknowledged of your letter of August 25, 1948, transmitting a letter addressed to the Board by Transamerica Corporation relating to the question whether certain assets which have been the subject of prior correspondence are readily marketable assets within the meaning of section 5144 of the Revised Statutes.

"We are enclosing a letter of this date addressed to Transamerica Corporation with respect to this matter and will appreciate your forwarding it to that Corporation. A copy of the letter is enclosed for your files."

Approved unanimously, together with the following letter to Transamerica Corporation, San Francisco, California:

"Receipt is acknowledged of your letter of August 23, 1948, transmitted through the Federal Reserve Bank of San Francisco, relating to the question whether certain assets which have been the subject of prior correspondence are readily marketable assets within the meaning of section 5144 of the Revised Statutes.

"Your letter restating your position with respect to this matter does not contain any new facts or arguments which in the Board's opinion warrant any change in the views previously expressed by it concerning the assets in question.

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"We understand from the closing paragraph of your letter that at all times since December 31, 1947, your Corporation has possessed other assets in the required amount which would qualify as readily marketable assets under any interpretation of the statute."

Letter to Mr. William A. Roberts, Roberts & McInnis, Transportation Building, Washington 6, D. C., reading as follows:

"Your letter of August 20, addressed to Chairman McCabe, regarding the regulation of instalment credit terms on television receivers has been read with interest. We note your concern that the credit restrictions may limit production and sales of this new and promising industry.

"It has seemed to us that the terms provided for television receivers by Regulation W---20 per cent down and 15 or 18 months to pay---are liberal enough so that they will not unduly interfere with sales of these sets over coming months. We have had comments from some people in the trade that the provisions, particularly the 20 per cent down payment, are too liberal to provide security for the seller or equity for the buyer in the case of some of the receivers which may show rapid obsolescence. It is likely that many instalment sellers have been obtaining down payments at least as large as 20 per cent. Where a smaller payment has been advertised, it appears that the seller often has obtained the installation charge as an additional cash down payment.

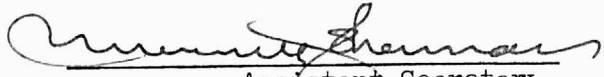
"As we understand it, in any event, there is no shortage of demand for these sets in areas where adequate television programs are available. The aggregate demand appears to exceed the number that can be produced under present conditions. With production limited by other factors, a further encouragement of demand by means of excessively easy credit terms would be inflationary, as it would tend to support relatively high prices. Over the longer-range future, easy credit terms might delay the price reductions to be expected as production costs are reduced which are perhaps the most effective means of broadening the market for television receivers.

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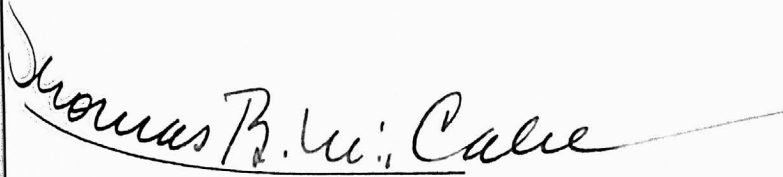
"We appreciate your interest in writing to us on this subject. You may be sure that the points you raise will be considered fully in our continuing study of the provisions of the regulation."

Approved unanimously.



Assistant Secretary.

Approved:



Chairman.