

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, October 8, 1948. The Board met in the Special Library at 10:35 a.m.

PRESENT: Mr. McCabe, Chairman  
Mr. Eccles  
Mr. Szymczak  
Mr. Draper  
Mr. Evans

Mr. Carpenter, Secretary  
Mr. Sherman, Assistant Secretary  
Mr. Morrill, Special Adviser  
Mr. Thurston, Assistant to the Board  
Mr. Vest, General Counsel  
Mr. Leonard, Associate Director of the  
Division of Bank Operations  
Mr. Daniels, Technical Assistant of the  
Division of Bank Operations

There were presented telegrams to the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on October 5, by the Federal Reserve Bank of St. Louis on October 6, by the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, Minneapolis, Kansas City, and Dallas on October 7, 1948, and by the Federal Reserve Bank of Boston today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Chairman McCabe stated that Mr. Stewart, General Counsel for Transamerica Corporation, called to see him at 10 o'clock this

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morning and that he was still in his office. He said that Mr. Stewart first commented that he was distressed that he (Chairman McCabe) had not had time to get over to see Mr. L. M. Giannini at a local hospital, to which comment Chairman McCabe said he replied that he had been very busy but that whenever Mr. Giannini was ready to come over to the Board's building he would be glad to see him. Chairman McCabe said that Mr. Stewart then told him that he had come to tell him that Transamerica Corporation intended to go into court immediately to challenge the authority of the Board under the Clayton Act to undertake the proceeding against the Corporation. In this connection, Chairman McCabe said that Mr. Stewart referred to the refusal of the Board to give specific points of information which would enable him to prepare a defense of the case against the so-called "indictment". Chairman McCabe said Mr. Stewart then asked him whether he (Chairman McCabe) saw anything wrong in the course proposed by the Corporation to which the response was it was the privilege of Transamerica Corporation to take the matter to the court, and if they wanted to exercise that privilege it was a decision for them to make. Mr. Stewart also commented, Mr. McCabe said, that if a decision on the matter was not received from the court before October 12, 1948, when the hearing was scheduled to start, the Corporation would ask for an order restraining the Board from proceeding with the hearing until the legal question was settled. Chairman McCabe stated that

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he then told Mr. Stewart that he did not understand the Corporation's approach, that this country had entered into a new era back in the 1930's, that he as a businessman had at first resisted the trend of increased Government regulation of business but that he had come to realize that that trend was inevitable, that business had a responsibility to cooperate with the Government, and that the largest concern had the greatest responsibility.

Chairman McCabe made the further comment that Mr. Stewart asked to meet Mr. Evans as the member of the Board who had been appointed by the Board as hearing officer. He added that he could see no objection to having Mr. Evans meet Mr. Stewart, and Mr. Vest stated there was no legal question involved.

The other members of the Board who were present concurred and Chairman McCabe and Mr. Evans left the meeting.

When Chairman McCabe and Mr. Evans returned they had a copy of the complaint for injunction which Mr. Stewart contemplated filing in the District Court and Chairman McCabe stated that Mr. Stewart wanted to know whether the Board would agree to postponement of the hearing until the court had given a decision on the complaint for injunction. There was a discussion of the response that should be made to Mr. Stewart, at the conclusion of which Chairman McCabe suggested that Mr. Vest call Mr. Stewart on the telephone and inform

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him that the Board would reserve consideration of the question that he had raised and any decision upon it until after Transamerica Corporation filed its complaint or took whatever legal steps it proposed at this time.

Chairman McCabe's suggestion was approved unanimously.

In this connection, Chairman McCabe stated that Mr. Stewart said he had made an investigation of Mr. Evans in the State of Iowa, that he was concerned as to whether Mr. Evans knew enough about the case to act as hearing officer and whether he could be independent enough to conduct an impartial hearing.

There was a discussion of the line of questioning that Mr. Stewart followed and it was the consensus that, in view of the expressed intention of Transamerica to take the matter into the courts, if Mr. Stewart or other attorneys for the Corporation called again for an appointment with Chairman McCabe or any other member of the Board he would be informed that, inasmuch as the matter had gotten into the courts, he should confine his conferences to meetings with the Board's Counsel.

Chairman McCabe made the further statement that Mr. Stewart questioned whether Mr. Eccles should participate in any discussions by the Board in the proceeding and all of the members present were agreed that there would be a proper time in the proceeding when the Corporation could challenge the qualifications of a member of the Board.

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Mr. Stewart also stated, Chairman McCabe said, that the Corporation would question whether Mr. Clayton was qualified to participate in the proceeding since Mr. Clayton had applied to the Corporation for a position in 1940 and since he did not get a position on the terms he wanted he would be prejudiced.

Mr. Eccles reviewed the circumstances surrounding Mr. Clayton's correspondence with the Corporation, stating that representatives of the Corporation first approached Mr. Clayton in response to which he stated the terms on which he would accept employment and that the terms were not acceptable to the Corporation.

Reference was made to a memorandum dated October 7, 1948, prepared in the Division of Bank Operations reading as follows:

"On September 27, 1948, Mr. Smead transmitted a memorandum to Governor Vardaman on the difficulties being experienced by the Bureau of Engraving and Printing in supplying desired amounts of Federal Reserve and Treasury currency. Part of the modernization program contemplated by the Bureau to meet the problem is the immediate acquisition of 20 printing presses which were built for the Soviet Union but the export of which has been held up by the Government. As the Bureau does not have available the \$250,000 necessary to purchase the presses and cannot go to Congress at this time for a deficiency appropriation, it has been proposed that the Federal Reserve System be asked to supply the funds. Acting Secretary of the Treasury Foley's letter of October 4, 1948, to Chairman McCabe requests that consideration be given by the Board of Governors to transferring \$250,000 to the Bureau of Engraving and Printing for this purpose.

"The price charged by the Bureau of Engraving and Printing for printing Federal Reserve notes does not

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"include any amount for depreciation of equipment. In 1920, however, the Federal Reserve Banks paid the Bureau \$540,000 for the purchase of new equipment, which amount was estimated to be equivalent to depreciation charges on equipment used in the production of Federal Reserve notes from the establishment of the System to the middle of 1923. A precedent exists, therefore, for making a lump sum payment to the Bureau of Engraving and Printing for the purchase of new equipment.

"The presses it is proposed to purchase have two wipers, the use of which will eliminate the need for hand wiping of the plates, a procedure now performed by the plate printers. Elimination of hand wiping will make possible a daily output of 4,000 sheets--faces or backs--for each press, as compared with the present 2,600 faces or 3,000 backs. The presses now in use at the Bureau will be modernized by the addition of another wiper, also. It is estimated that after this program is completed the savings resulting from the increased production might exceed \$10 per 1,000 sheets. On this basis the System would save about \$300,000 a year in the cost of printing Federal Reserve notes.

"It is recommended that the Board approve the request of the Treasury Department. It is suggested, however, that the presidents of the Reserve Banks be advised first of the Board's intention before an assessment is levied, and there is attached a proposed telegram to the presidents of the Reserve Banks for this purpose."

Mr. Evans stated that this matter had been discussed with Mr. Smead, Mr. Leonard, and Mr. Van Fossen, that it was obviously a good business deal for the Federal Reserve Banks since it was estimated that the cost of the new presses would be more than saved in costs of printing Federal Reserve notes during a year's time, and that he would recommend approval of the following telegram to the Federal Reserve Banks:

"Board understands that Bureau of Engraving and Printing under present conditions will not be able to increase production of Federal Reserve notes during fiscal year to desired

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"amounts. However, there are available for immediate delivery 20 modern printing presses which were manufactured for a foreign government. Bureau of Engraving has no funds for purchase of this equipment and because Congress is not in session Treasury cannot ask for deficiency appropriation. It has been proposed to Board that the \$250,000 price of the presses be advanced by Federal Reserve Banks and amount prorated as a cost of printing notes. Proration would be made on basis total production of Federal Reserve notes during a period of years. Acquisition of these presses and modernization of existing presses, also contemplated, appears to be only practicable way for Bureau to increase production of Federal Reserve notes and Treasury currency, stocks of which are both below levels deemed desirable. Upon completion of program it is estimated average production might be increased by approximately 40 per cent and resulting savings in cost of printing notes might exceed \$10 per thousand sheets. Board favors approving Treasury's proposal and assessing amount stated against Federal Reserve Banks pursuant to section 16 Federal Reserve Act, but before doing so will appreciate advice as to whether you know of any objection. Precedent exists for such payment, since in November 1920 Reserve Banks were assessed \$540,000 for payment to Bureau of Engraving and Printing for purchase of additional equipment in lieu of charges from 1915 to 1923 for depreciation on equipment used in production of Federal Reserve currency. No depreciation on equipment has since been charged to Federal Reserve Banks as a part of the cost of printing Federal Reserve notes although such cost includes a charge for maintenance of equipment. It is understood others are interested in purchasing the presses, so please wire answer by Tuesday, October 12."

Upon motion by Mr. Evans the telegram was approved unanimously.

At this point Mr. Evans left the meeting.

Mr. Vest stated that Mr. L'Heureux, Counsel of the Senate Banking and Currency Committee, had asked the Legal Division for assistance in preparing a draft of bill creating a National Monetary Commission. He stated that the assistance would be entirely informal

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and that the services of the Board's Legal Division were sought because it was felt that its knowledge of banking and monetary matters would be of great technical assistance in preparing a draft of the proposed legislation.

There was a brief discussion of what would constitute a satisfactory membership of such a commission after which by unanimous vote, Mr. Vest was authorized to give Mr. L'Heureux the assistance requested, it being understood that Mr. Vest would report to the Board from time to time as the matter progressed.

Before this meeting an informal inquiry had been received from Mr. Shepard, Chairman of the Chairmen's Conference, as to the date for the next Chairmen's Conference. It was suggested that, since there was tentative agreement at the joint meeting of the Board and the Presidents on October 5, 1948, that the next Presidents' Conference and Federal Open Market Committee meeting would be held on November 29 and 30 and December 1, 1948, the Chairmen's Conference should be held sometime during the following week. It was understood that a telegram would be sent to the individual Chairmen asking them their preference of dates for a conference during the week beginning December 6, 1948.

Messrs. Sherman, Thurston, Leonard, and Daniels left the meeting at this time.

Chairman McCabe referred to the action of the members of the



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Board as set forth in the minutes of October 1, 1948, authorizing the preparation for the National Security Resources Board of two studies relating to the planning of wartime economic stabilization, and the employment of Mr. Musgrave in connection with the preparation of one of the studies. He stated that it would appear that the National Security Resources Board is making an increasing number of requests for participation by the Board or its staff in studies being initiated by the Resources Board, and that for that reason it would be his recommendation that work with the National Security Resources Board be included in the assignments for initial consideration by a member of the Board with the understanding that he would bring before the Board such matters in that connection as might require its attention. Chairman McCabe also recommended that the assignment be given to Mr. Eccles, with Mr. Szymczak as his alternate.

Upon motion by Mr. Draper, Chairman McCabe's recommendations were approved unanimously.

Mr. Vest withdrew from the meeting at this point.

There was a further informal discussion of the procedure to be followed in the future by the Board's research staff in submitting and distributing reports and recommendations but it was agreed unanimously that no action would be taken until a meeting of the Board at which Mr. Evans could be present to present the recommendation which he had prepared in accordance with the request made at the meeting of the Board on Friday, October 1.

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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 October 7, 1948, were approved unanimously.

Memorandum dated August 6, 1948, from Mr. Young, Associate Director of the Division of Research and Statistics, recommending the appointment of Gregory Grossman as an economist in that Division, on a temporary indefinite basis, with basic salary at the rate of \$5,232 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination. The memorandum also stated that Mr. Grossman was a member of the Civil Service retirement system and would remain in that system.

Approved unanimously.

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

"The Board of Governors approves the payment of salaries to the following officers of the Federal Reserve Bank of New York for the period October 1, 1948 through March 31, 1949, at the rates indicated which are the rates fixed by the Directors as reported in your letter of September 29, 1948:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
Marcus H. Harris	Asst. General Auditor	\$11,000
Walter C. Warner	Acting Manager, Credit Dept. and Discount Dept.	7,995"

Approved unanimously.

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

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"Reference is made to your letter of September 29, 1948, submitting a certified copy of a resolution adopted by the Board of Directors of the Tipton State Bank, Tipton, Iowa, signifying its intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six months' notice usually required.

"In view of the Reserve Bank's favorable recommendation, the Board of Governors waives the usual requirement of six months' notice, as requested. Accordingly, upon surrender of the Federal Reserve Bank stock issued to the Tipton State Bank, Tipton, Iowa, the Federal Reserve Bank is authorized to cancel such stock and make appropriate refund thereon.

"It is noted the bank wishes to continue as an insured bank and has been fully informed as to the status of its insurance upon withdrawal from membership. In the circumstances, the bank will have four months from the date of this letter to accomplish termination of its membership. (F.R.L.S. #3548)

"Please advise the Board of Governors when cancellation is effected and refund is made. The certificate of membership issued to the bank should also be obtained, if possible, and forwarded to the Board. The State banking authorities should be advised of the bank's proposed withdrawal from membership and when it has been effected."

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks reading as follows:

"With the Board's letter S-1038 of September 2, 1948, there was enclosed a statement regarding the status under Regulation W, effective September 20, 1948, of rulings or interpretations issued under the old Regulation which expired November 1, 1947.

"There now has been prepared a summary of interpretations issued by the Board before November 2, 1947, which are applicable under the Regulation as reinstated. Also applicable under the new Regulation are the three interpretations published at page 270 of the March 1947 Federal Reserve Bulletin and referred to, but not summarized in, the summary, a copy of which is enclosed herewith. Interpretations issued under the old Regulation but which are not

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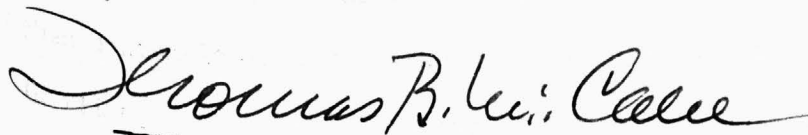
"included in the enclosed summary are no longer applicable, and, therefore, any such inapplicable interpretation should not be applied as a governing basis for answers to questions under the new Regulation. The summary in substantially the attached form was published in the Federal Register for September 29, 1948.

"We are forwarding under separate cover additional copies of the summary as requested in response to the Board's letter of September 23, 1948."

Approved unanimously.

  
Secretary.

Approved:

  
Chairman.