Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, November 23, 1948. The Board met in the Board Room at 10:30 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Smead, Director of the Division of Bank Operations
Mr. Thomas, Director of the Division of Research and Statistics
Mr. Vest, General Counsel
Mr. Young, Associate Director of the Division of Research and Statistics
Mr. Leonard, Associate Director of the Division of Bank Operations
Mr. Horbett, Assistant Director of the Division of Bank Operations

Reference was made to a memorandum from Mr. Smead prepared under date of November 22, 1948, pursuant to the discussion at the joint meeting of the Board and the Presidents of the Federal Reserve Banks on October 5, 1948, concerning the proposal contained in the Board's letter of October 22, 1947, to the Presidents of all Federal Reserve Banks that member banks having a daily average of more than 300 cash items payable in the territory of another Federal Reserve

Bank or branch be required either to route such items direct or sort and list them separately. The memorandum stated that the number of banks depositing with Federal Reserve Banks a daily average of more than 300 cash items payable in the territory of another Federal Reserve Bank or branch declined from 60 in August 1947 to 38 in June 1948, that assurances had been received from several of the 38 banks that they would begin sending direct in the near future, and that most of the remaining cases involved items payable in States which were "split" between Federal Reserve districts, particularly in the Chicago Federal Reserve District. The memorandum recommended that the Board concur in the action of the Conference of Presidents at its meeting on October 1, 1948, in approving a recommendation from the Presidents' Conference's Committee on Operations that the Board's proposal be not effectuated, with the understanding (1) that the Federal Reserve Banks would continue their efforts to get member banks to route direct in all cases where the volume warrants; (2) that the Board would ask the Federal Reserve Banks at least once a year for reports with respect to the failure of member banks to route direct when they had a daily average of more than 300 items payable in the territory of another Federal Reserve Bank or branch; and (3) that when the next reports were received, the Board would again review the situation with respect to items drawn on member banks located in "split states". There was attached to the memorandum a draft of letter to the Federal Reserve Banks outlining the procedure proposed in the above recommendation.

There was a discussion of the memorandum, in the course of which Mr. Eccles suggested that the question whether member banks should direct-send should not be left optional with them, but that a general rule requiring such procedure eventually should be established, and that individual exceptions be made in any instance in which it appeared that it would be undesirable to require a bank to comply. He also suggested that the Federal Reserve Banks be requested to report at intervals of approximately three months as to the progress being made in getting the remaining banks to direct-send cash items, and that they be informed that the Board would expect that within a year the Reserve Banks should be able to determine whether there were any cases in which exceptions should be made to the Board's proposal.

Upon motion by Mr. Draper, Mr. Eccles' suggestions were approved unanimously, with the understanding that Mr. Smead would revise the draft letter to the Presidents of the Federal Reserve Banks along the lines indicated in the discussion.

There was presented a memorandum from Mr. Vest dated November 17, 1948, stating that the Economic Cooperation Administration had advised the Treasury that it desired to establish a procedure whereby the facilities of the Federal Reserve Bank of New York, as Fiscal Agent of the United States, would be utilized in the payment of drafts drawn on the Economic Cooperation Administration by participating countries, and that in response to a letter from the Treasury the Federal Reserve Bank of New York had suggested that, in view of the possibility that the arrangement might deprive commercial banks of business which they were currently performing for the Economic Cooperation Administration in making payments under letters of credit, the services the Reserve Bank would perform be limited to paying drafts drawn in the United States to the order of domestic suppliers.

Mr. Vardaman stated that he had requested that the memorandum be circulated among the members of the Board prior to consideration at a meeting because it appeared to him that this was another instance in which a Government agency was proposing to encroach on private business, that he was opposed to such encroachment, and that he strongly favored the suggestion made by the New York Bank that its services be limited in such a way as to avoid as much as possible competition with commercial banks.

In a discussion of the matter, Mr. Vardaman said that he understood that no action was called for by the Board at this time, but that he wanted the record to show his objection to any arrangement that would encroach on the proper activities of commercial banks.

Reference was then made to a memorandum from Mr. Leonard dated November 5, 1948, with respect to a suggestion by Mr. Vardaman that arrangements be made whereby representatives of Reserve Banks, on a selective basis, would participate with representatives of the Division of Bank Operations in the field surveys which the Division makes of various operations of Reserve Banks. The memorandum stated that the proposal should be adopted if satisfactory arrangements could be made with the Reserve Banks and it suggested that the matter be taken up informally with the Chairman of the Presidents' Conference's Committee on Operations to determine whether such arrangements could be made.

Mr. Vardaman stated that he felt such arrangements would be beneficial to the Reserve Banks in that representatives from one Bank would have an opportunity to get the benefit of observations of operating procedures in other Reserve Banks.

Mr. Smead stated that he concurred in the suggestion.

> Following a discussion, upon motion by Mr. Vardaman, the procedure proposed in the memorandum was approved unanimously.

Before this meeting there had been sent to each member of the Board a copy of a memorandum dated November 9, 1948, from Mr. Smead with respect to larger additions to the contingent reserves of Federal Reserve Banks which was discussed at the meeting on October 27, 1948. The memorandum stated that, in view of present market conditions and of the policy of the Federal Reserve System with respect to the support of the Government bond market, it would not seem unreasonable for the Federal Reserve Banks to build up promptly their contingent reserves to a point equal to the premium account, that the premium on Government securities held by the Federal Reserve

Banks on November 3, 1948, amounted to $83,863,000, that at the end of 1948 reserves for contingencies (assuming $15 million would be added to such reserves from the last quarter earnings of this year) would total $58 million, and that if additions to contingent reserves were continued at the rate of $15 million a quarter the total of such reserves at the end of June 1949 would exceed the present premium on securities. With respect to the question whether such additions should be placed in the surplus accounts of the Reserve Banks instead of being carried as reserves for contingencies, the memorandum stated that a further increase in surplus would necessitate reducing below 90 per cent the portion of net earnings payable to the Treasury, that if that ratio were reduced it would no doubt occasion considerable comment in the financial press, and that for the present it would seem best to continue the practice of adding such amounts as are thought desirable to contingent reserves.

Mr. Eccles stated that at the meeting with the Presidents on October 5, 1948, there was a strong feeling in favor of increasing the amount withheld by the Federal Reserve Banks before making the payments to the Treasury, that he felt the reserve should be brought up to the amount of the premium on Government securities as quickly as possible, that the premium on securities purchased by the System resulted largely from the fact that the Treasury was unwilling to allow the short-term rate to advance as it should do in a period of heavy demand for credit which caused the intermediate issues to sell at a higher premium, and that as long as the System was under obligation to purchase such issues it should be in a position to offset the premiums paid. He suggested, therefore, that there be withheld from Reserve Bank earnings during the last quarter of 1948 an amount sufficient to bring contingent reserves to the amount of premiums on Reserve System holdings of Government bonds and that the reserve be transferred to surplus unless there was a valid reason for not doing so.

There was a discussion of Mr. Eccles' proposals, in the course of which it was suggested that the matter be discussed with the Presidents at their joint meeting with the Board on December 1, 1948, following which the Board would again consider the matter.

This suggestion was approved unanimously.

Mr. Vardaman referred to a memorandum dated October 19, 1948, reviewing various aspects of the official personnel problem at the Federal Reserve Bank of St. Louis prepared by Mr. Morrill in accordance with the action taken at the meeting of the Board on September 29, 1948. Copies of the memorandum were sent to each member of the Board under date of October 25, 1948.

Mr. Vardaman stated that there had been numerous discussions of the officer personnel of the St. Louis Bank at meetings of the Board over the past two years, that Mr. Morrill's memorandum had been prepared as a result of a suggestion which he (Mr. Vardaman) made, and that he felt that action taken by the Board in calling to the attention of the Chairman of the St. Louis Bank the need for solving the problems with respect to the officer personnel would strengthen the hands of the Chairman and President of the Bank in bringing about changes which they had recognized were needed.

In this connection Chairman McCabe stated that although he had talked with Mr. Davis, President of the St. Louis Bank, pursuant to the understanding at the meeting on June 25, 1948, he had not been able to talk with Chairman Dearmont but had written him asking that when he was in Washington at the time of the forthcoming Chairmen's Conference he take such time as might be necessary for discussion of the entire officer personnel at the Bank.

> Following a discussion, it was agreed unanimously that Chairman McCabe should discuss the matter with Mr. Dearmont when he was in Washington at the time of the next Chairmen's Conference. In taking this action, it was understood that Chairman McCabe would use his judgment as to whether a copy of Mr. Morrill's memorandum should be furnished to Mr. Dearmont before or at the time of the discussion.

Before this meeting a copy of a memorandum from Mr. Thomas dated November 22, 1948, entitled "Considerations Regarding Further Increases in Reserve Requirements" was sent to each member of the Board. At Mr. Eccles' suggestion the Secretary read the memorandum, which reviewed the basic economic situation and outlined prospective developments during the remainder of this year, during the first two or three weeks of January 1949, and during the period from then until the end of the fiscal year. The memorandum also discussed the need for an increase in reserve requirements and suggested alternative procedures with respect to the timing of an increase in requirements if such action should be taken.

In connection with a statement contained in the memorandum that the Treasury would continue during the remainder of this year to retire bills at the rate of $100 million a week while maintaining its balances at the Federal Reserve Banks, Mr. Vardaman asked whether this suggestion had been discussed with the Treasury. Mr. Thomas stated that he talked with Mr. Bartelt, Fiscal Assistant Secretary of the Treasury, who stated that while no commitment would be made at this time, the probabilities were that the Treasury would continue to use its balances for retiring bills during the remainder of this year.

> There was a general discussion of the memorandum, and it was the consensus that no action with respect to a change in reserve requirements should be taken at this time, but that the matter should be given further consideration at a meeting of the Board on Friday, December 3, 1948.

During the discussion of the question of a possible increase in reserve requirements, reference was made to a memorandum dated November 19, 1948, sent to Chairman McCabe by Mr. Burgess, member of the Federal Advisory Council from the Second Federal Reserve District, outlining a proposal for a capital goods committee. The memorandum was read and it was agreed that a copy should be sent to each member of the Board for consideration.

Chairman McCabe reported that he had received a call from Mr. Nourse, Chairman of the Council of Economic Advisers, in which he had stated that the President had asked him to serve as coordinator of proposals and suggestions in connection with the economic problems facing the Government. Mr. Nourse stated, Chairman McCabe said, that he was calling a meeting of a small group tomorrow afternoon to go over the matter and would like to have him (Chairman McCabe) attend. He added that apparently the meeting would be the first of a number of meetings that would extend over a considerable period to discuss long-range policy problems as distinguished from current day-to-day matters.

At this point Messrs. Riefler, Smead, Thomas, Vest, Young, Leonard, and Horbett withdrew from the meeting and the action stated with respect to each of the matters hereinafter referred to was taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on November 22, 1948, were approved unanimously.

Telegram to Mr. Purrington, Assistant Vice President of the Federal Reserve Bank of Chicago, reading as follows:

11/23/48

"Retel 18th. Board authorizes your Bank not to assess penalty incurred by Merchants National Bank, Chicago, Illinois, for deficient reserves during periods ending November 4 and 11."

Approved unanimously.

Memorandum dated November 22, 1948, from Mr. Vest, General Counsel, recommending, for the reasons stated in the memorandum, that he be authorized to serve as an advisory member of the Legal Subcommittee appointed by the Chairman of the Insurance Committee of the Presidents' Conference to study the revision of the Loss Sharing Agreement of the Federal Reserve Banks.

Approved unanimously.

S R Carpenter
Secretary.

Approved:

Thomas B. McCabe
Chairman.