

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, December 3, 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. Clayton

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Board
Mr. Smead, Director of the Division of Bank Operations
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 were presented telegrams to the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Atlanta, Chicago, St. Louis, Kansas City, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on November 30, by the Federal Reserve Bank of St. Louis on December 1, by the Federal Reserve Banks of New York, Philadelphia, Cleveland, Atlanta, Chicago, and Kansas City on December 2, 1948, and by the

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Federal Reserve Bank of Boston today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Pursuant to the understanding at the meeting on November 23, 1948, further consideration was given at this meeting to the question whether reserve requirements of member banks should be increased.

Mr. Thomas stated that there had been no significant change in the economic situation since November 23 at which time credit expansion had slackened since the increase in reserve requirements effective in September 1948, that there were indications that the recent slackening in various phases of the economy had included a slackening in the sales of Government securities by nonbank investors, that during the next few weeks banks would be under pressure because of the holiday demand for currency, and that although there would be an easing in the reserve position of banks early in January when there was a return flow of currency, the second half of January would be a period of renewed pressure on banks because of tax payments.

Summing up, Mr. Thomas said that there was no particular reason for acting to increase reserve requirements at this time unless it seemed desirable to the Board to impose additional pressure on the situation, in which event he would not feel that an increase of more than one percentage point effective January 1 would be called for.

There was a general discussion of the question and it was the consensus that no action should be taken at this time, but that the

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matter should be considered again at the meeting on December 17, 1948.

In connection with the discussion of reserve requirements the question was raised as to Treasury policy with respect to reducing or increasing balances in war loan accounts during the next few weeks to offset the effects of seasonal withdrawals and returns of currency and other factors. Mr. Thomas suggested that through informal discussions with Mr. Bartelt, Fiscal Assistant Secretary of the Treasury, a schedule might be worked out to accomplish the desired objectives. It was understood that Mr. Thomas would get in touch with Mr. Rouse, Manager of the System Open Market Account, with a view to working out with Mr. Bartelt a suitable program of adjusting Treasury balances so that they might serve to keep pressure on member bank reserves over the next few weeks.

Messrs. Leonard and Horbett left the meeting at this point.

Reference was made to a bill, H. R. 6570 and S. 2842, introduced in the Eightieth Congress which would authorize national banks to convert into or consolidate with State banks without going into liquidation, and to the position that the Board had taken in its letter of June 14, 1948, to the Chairman of the Senate Banking and Currency Committee that it would not object to such legislation.

Mr. Eccles stated that he felt the situation had changed since the Board's letter was approved, that in the meantime the Congress had indicated it would not make nonmember banks subject to reserve requirements on a basis comparable to member banks, and that the Board

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should no longer take the position that it had no objection to the proposed legislation since its enactment might result in numerous withdrawals from membership in the System in order to escape the relatively high reserve requirements applicable to member banks.

During the discussion, Mr. Clayton suggested that a draft of letter to Mr. Needham, General Counsel of the American Bankers Association, be prepared along the lines of the discussion which would be submitted to the Federal Reserve Banks for comment in accordance with the procedure proposed at the meeting of the Presidents and the Board on December 1, 1948.

Mr. Clayton's suggestion was approved unanimously.

Mr. Evans stated that the final agenda for the Chairmen's Conference to be held on December 9 and 10, 1948, provided that the Board would give those attending the Conference a dinner at a hotel in Washington on Thursday evening, December 9, 1948, and he recommended that, in keeping with the custom that had been followed in the past, the Board pay the costs of the dinner meeting.

Upon motion by Mr. Evans, it was agreed unanimously that, in accordance with the procedure followed in recent years, a dinner would be given for the Chairmen of the Federal Reserve Banks on the evening of December 9, 1948, the cost of such a dinner and appropriate entertainment to be paid by the Board. In taking this action, it was understood that the appropriate item in the 1948 non-personal budget of the Division of Administrative Services would be increased to cover the costs of the dinner and entertainment.

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Mr. Szymczak stated that a number of foreign central banks made a practice of sending Christmas greeting cards to the Board and he raised the question whether the Board should adopt a similar practice. He said that he understood that the Federal Reserve Bank of New York sent such greetings to the foreign central banks which maintained accounts with it.

Following a brief discussion, it was agreed that cards would not be sent by the Board but that there would be no objection to a member of the Board sending letters or other greetings if he cared to do so.

Before this meeting there had been circulated among the members of the Board a memorandum from the Personnel Committee prepared under date of October 27, 1948, recommending the adoption of a revised procedure with respect to approval of appointments, classification of positions, and salary changes.

The Secretary reviewed the proposed procedure and stated that Mr. Vardaman had raised a question whether the Board had the legal right to adopt it, and that Counsel for the Board had answered that question in the affirmative. Mr. Carpenter added that Mr. Vardaman also suggested the desirability of requiring (1) that each recommendation for the appointment of a new employee be accompanied by a statement that the head or assistant head of the division had personally interviewed the applicant, and (2) that the Division of Personnel Administration make monthly reports on new appointments,

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transfers, resignations, salary increases, etc. Mr. Carpenter went on to say that if the proposed procedure were adopted, the Personnel Committee had indicated that it would follow these suggestions.

With respect to the proposal contained in the memorandum that the Personnel Committee approve recommendations for appointment of persons to positions having salaries of not less than \$4,855.80 and not more than \$7,432.20 per annum, Mr. Eccles suggested that all appointments to positions having salaries above the rate of \$4,855.80 per annum be submitted to the entire Board for consideration so that all of the members of the Board would be kept personally in touch with appointments at salaries above the lower amount. It was the consensus that the memorandum should be revised to incorporate this suggestion.

In connection with Mr. Vardaman's suggestion that the division head or an assistant division head interview applicants before submitting recommendations for their appointment, Mr. Thomas raised the question whether Mr. Noyes, Assistant to the Director of the Division of Research and Statistics, would be authorized to hold such interviews, and in a discussion of the point Mr. Vardaman stated that such an arrangement would meet his suggestion.

Following a further discussion, it was voted unanimously to approve the proposed procedure as follows:

"It is the policy of the Board, and the instructions to the staff provide, that each appointment to the Board's staff (including transfers from one division to another) shall be made (1) only for the purpose of filling a vacancy

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"or a new position authorized by the Board, (2) solely on the basis of merit and only of the best qualified person available for the position, and (3) by promotion from within the organization whenever there is someone on the staff who can qualify to fill the position. The Board has placed on each division head the responsibility of making a thorough canvass of all persons known to be available and to make a recommendation for employment solely on the basis of merit and only of the person best qualified for the position, having due regard for veterans' preference. This policy should continue to be strictly adhered to. However, it is believed that the present procedure with respect to appointments and adjustments in salary can be simplified without loss of any of the safeguards of the quality of the staff provided by the policy.

"Under the present procedure, memoranda recommending appointments or adjustments in salary (with two very minor exceptions) are submitted to the Personnel Committee, and after they have been cleared by that Committee are sent to the other members of the Board. This requires the circulation to, and consideration by, not only the Personnel Committee but also by all other members of the Board present, in the lower salary ranges and normal one-step salary increases. This practice imposes an unnecessary burden upon the time of the members of the Personnel Committee and the other members of the Board and could well be eliminated by entering such cases in the minutes as approved when they conform to the established policy of the Board.

"Therefore, it is recommended that the following procedure be authorized by the Board:

"Board Personnel

"1. Recommendations for the appointment of heads, associate heads, and assistant heads of Divisions, members of the staff of the Board Members' section, and employees with salaries at the rate of \$4,855.80 per annum and above shall continue to be submitted to the Personnel Committee and then to the other members of the Board in accordance with present procedure. Recommendations for increases in salaries of these members of the staff shall also continue to be submitted to the Personnel Committee and then to the other members of the Board, except that increases in salaries up to \$7,432.20 per annum of employees who are not members of the Board Members' section shall be handled as provided in Paragraphs 2 and 3 below.

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"2. When approved by the Personnel Committee, upon recommendation of the appropriate division head with the concurrence of the Director of the Division of Personnel Administration and the Secretary of the Board, the Secretary shall be authorized to enter in the minutes approval of special increases in salaries below \$7,432.20 per annum.

"3. Upon the recommendation of the appropriate division head with the concurrence of the Director of the Division of Personnel Administration and the Secretary of the Board, the Secretary shall be authorized to enter in the minutes approval of appointments of employees with salaries at rates up to \$4,855.80 per annum and normal one-step increases in 12 or 18 months in the salaries of employees up to \$7,432.20 per annum, except that when a recommendation for such an appointment or salary increase involves a member of the staff of the office of the Secretary or the Division of Personnel Administration, it shall also be submitted to the Assistant to the Chairman for approval.

"4. All recommendations relating to involuntary separations and reductions in salary shall continue to be submitted to the Personnel Committee and then to the other members of the Board in accordance with the present procedure. Resignations shall be accepted by entry in the minutes without prior circulation to the Board unless there are special circumstances involved which should be brought to the attention of the Board. It would also be expected that whenever a division head learned of the contemplated resignation of a member of his division which would result in the necessity of filling a vacancy in a category requiring approval by the Personnel Committee, he will notify the Division of Personnel Administration which will promptly bring the matter to the attention of the Personnel Committee in accordance with instructions issued by the Committee.

"5. All recommendations for appointments and adjustments in salaries shall be made in accordance with the policy adopted by the Board on March 18, 1948, and all members of the Board and the official staff shall take special care to see to it that the existing policy of promotion from within and appointment only on the basis of merit and of the person best qualified for the position to be filled is strictly adhered to.

"6. The responsibility for classification of employees in the various divisions of the staff, other than in the offices of the Board members, shall continue in the Division of Personnel Administration in collaboration with the heads of the respective divisions of the

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"staff. The existing practice of submitting all classifications to the Personnel Committee shall be discontinued, but whenever the Division of Personnel Administration and the head of the division or office concerned are unable to reach an agreement with respect to the classification of a position the matter shall be referred to the Personnel Committee for decision.

"7. Except as changed by the procedure set forth above, the procedures contained in the Statement of Personnel Policy adopted by the Board on March 18, 1948, shall be continued.

"Federal Reserve Bank Personnel

"1. Appointments of directors and of Presidents, First Vice Presidents, officers in charge of examinations and research and statistics, and other principal officers requiring the approval of the Board, and salaries of all officers of the Federal Reserve Banks, shall be submitted to the Personnel Committee and the Board for approval in accordance with the existing procedure.

"2. When submitted by the Federal Reserve Banks in accordance with the existing procedure and when recommended by the Director of the Division of Personnel Administration with the concurrence of the Secretary of the Board, the Secretary shall be authorized to enter in the minutes approvals of (1) appointments of Assistant Federal Reserve Agents, Alternate Assistant Federal Reserve Agents, and Federal Reserve Agents' Representatives, (2) appointments of examiners and assistant examiners upon the recommendation of the Director of the Division of Examinations, and (3) salaries of employees of the Banks which are above the maximum or below the minimum of their respective groups under the job evaluation plan, except that if in any case there is any question whether such approval would be in accordance with the established policies of the Board the matter shall be submitted to the Personnel Committee for approval."

At this point Messrs. Smead, Thomas, Nelson, and Young withdrew from the meeting and Mr. Townsend, Associate General Counsel, entered the room.

Mr. Townsend referred to two motions which had been filed on December 1, 1948, by Transamerica Corporation in the proceeding which the Board had instituted against that Corporation under the

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Clayton Act. The first motion sought to disqualify Messrs. Eccles and Clayton on grounds of personal bias and prejudice and the second asked that the qualified members of the Board hear and determine the issues presented by all motions which may be filed or otherwise presented on behalf of Transamerica in advance or at the opening of the hearing.

With respect to the first motion, Mr. Eccles referred to a statement which he gave to the press on Wednesday, December 1, 1948, at 7:40 p.m. concerning the motion to disqualify him in which he stated that he wanted to make clear that the Board had understood for some time that he had disqualified himself as a participant in any decisions by the Board in the case for the reason that he was going to be a witness, that ever since the proceeding was instituted Transamerica had from time to time charged in the press that the proceeding itself came about as a result of his personal bias against A. P. Giannini and his associates in Transamerica, that one of the reasons he agreed to the request of counsel for the Board to appear as a witness in the case was to dispel once and for all the idea that there could be any truth in the charges, and that he was informed that upon taking the witness stand he subjected himself to such examination as counsel for Transamerica might see fit to conduct which would provide an opportunity for Transamerica to verify their charges, if there was any truth in them.

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Mr. Townsend stated that although Mr. Eccles had disqualified himself, the question of the motion as applied to Mr. Clayton still required consideration. He read two affidavits filed with the motion for disqualification, one by L. M. Giannini dated November 29, 1948, and the other by Sam H. Husbands dated November 30, 1948, after which he stated that Transamerica Corporation was entitled to an oral argument on their motion if Mr. Clayton did not disqualify himself and that, inasmuch as the entire proceeding had been made public, the hearing with respect to the motion would also be public. In response to an inquiry, Mr. Townsend stated that if Mr. Clayton were to disqualify himself, he would have an opportunity to make such explanation of his reasons for withdrawing as he desired.

Following a discussion of the motions, the meeting recessed and reconvened at 4:00 p.m. with the same attendance as at the close of the morning session.

Mr. Townsend stated that since the meeting recessed Transamerica Corporation filed another motion requesting the production for inspection of Board minutes, records, and papers as described in the motion relating to the Transamerica proceeding.

Turning again to the motion of disqualification of Messrs. Eccles and Clayton, the latter stated that while he had a feeling of resentment because of the lengths to which Transamerica Corporation had gone in drawing false deductions and making false insinuations

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against him and the Board, and while his personal inclination was to disqualify himself and issue a statement which would answer the insinuations in the affidavit, he would like a frank expression of the views of the other members of the Board as to whether the proceeding against Transamerica Corporation would be enhanced or damaged by his disqualification.

There followed a discussion of Mr. Clayton's question, at the close of which he stated that he had reached a decision to disqualify himself.

At this point all members of the staff excepting Mr. Carpenter and Mr. Morrill withdrew from the meeting.

Mr. Vardaman stated that there was a matter which he felt should have immediate consideration by the Board. He pointed out that Mr. Townsend had been serving in effect as prosecutor in the Clayton Act proceeding against the Transamerica Corporation and that questions had arisen and would arise hereafter which necessitate the consideration of the advisability of either borrowing or otherwise obtaining the services of a special counsel with expert knowledge gained in handling governmental proceedings under the Administrative Procedure Act and relevant provisions of law, to assist the General Counsel in advising the Board in connection with this proceeding. It was also pointed out during the subsequent discussion that there was a fundamental question of organization with respect to the Legal Division that should be given full consideration.

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Mr. Eccles commented that the special counsel referred to by Mr. Vardaman should be under the General Counsel, and suggested that it might be desirable for the Board to adopt an arrangement followed in some other organizations of having a Solicitor in addition to the General Counsel. Mr. Vardaman said that he felt that should have been the status of Mr. Townsend from the beginning. It was also stated that, whatever the organizational arrangement might be, it was essential that the General Counsel be kept currently informed of developments in all formal proceedings to which the Board was a party, so that he would be in position at all times to advise the Board on matters that might come before it.

All members of the Board expressed agreement with these views and it was suggested that the Personnel Committee submit appropriate recommendations to the Board.

Chairman McCabe summarized the discussion by stating that it appeared to be the consensus of the Board that Mr. Townsend's title should be changed to Solicitor; that he should handle litigation and enforcement proceedings on behalf of the Board; that he should keep Mr. Vest informed of all developments in connection with such actions so that the Legal Division would be in position to advise the Board when necessary; that there should be obtained the services of a special counsel who was thoroughly versed in governmental administrative procedure and who would be a member of the Legal Division responsible to the General Counsel; and that the Personnel Committee

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should make a recommendation to the Board as promptly as possible as to the formal actions which should be taken to put this arrangement into effect.

Upon motion by Mr. Vardaman, the procedure outlined by Chairman McCabe was approved unanimously.

The action stated with respect to each of the matters hereinafter referred to was then taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on December 2, 1948, were approved unanimously.

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

"The Board approves the payment of salaries to the following officers effective December 1, 1948 through April 30, 1949, at the rates indicated which are the rates approved by the Board of Directors as reported in your letter of November 23, 1948:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
T. W. Barrett	<u>Head Office</u>	
R. C. Milliken	Assistant Cashier	\$6,500
	Assistant Cashier	6,500
W. L. Sandstrom	<u>Seattle Branch</u>	
	Assistant Manager	6,000"

Approved unanimously.

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

"As stated at the joint meeting of the Board of Governors and the Presidents' Conference, the Board approves the uniform paragraphs for inclusion in the circulars of the Federal Reserve Banks regarding the collection of cash items as approved by the Presidents' Conference;

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"that is, as submitted with the report of the Committee on Collections dated November 12, 1948 (as amended by Mr. Willis' letter of November 22) and with the understanding that each Reserve Bank should have the option of including or excluding the paragraph headed 'Check routing symbol' in the circular or modifying the paragraph as the Reserve Bank concerned might deem appropriate or desirable."

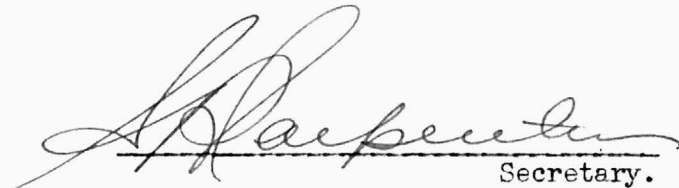
Approved unanimously.

Telegram to Mr. Knoke, Vice President of the Federal Reserve Bank of New York, reading as follows:

"Your wire December 2. Board approves three month renewal by your Bank to Bank Polski of the following gold loans: (1) \$10,000,000 of the \$15,000,000 loan due December 9; (2) \$1,500,000 of the \$2,250,000 loan due December 23; and (3) \$1,750,000 of the \$2,625,000 loan due January 3, 1949, on the same terms and conditions as apply to the maturing loans and on the same understanding, namely, that any further renewal of these loans would, if granted, be contingent upon a repayment calculated on the basis of at least 25 per cent of the amount outstanding on June 9, 1948.

"It is understood that the usual participation will be offered to the other Federal Reserve Banks."

Approved unanimously.


Secretary.

Approved:


Chairman.