Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, December 17, 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. Clayton

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. Nelson, Director of the Division of Personnel Administration
Mr. Townsend, Solicitor
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, Dallas, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on December 14, by the Federal Reserve Banks of Atlanta, St. Louis, and Chicago on December 15, by the Federal Reserve Banks...
of New York, Philadelphia, Cleveland, and Kansas City on December 16, 1948, and by the Federal Reserve Bank of Boston today of the rates of discount and purchase in their existing schedules.

Approved unanimously.

There was presented a memorandum from Mr. Vest dated December 16, 1948, reading as follows:

"Pursuant to the action of the Board on December 6, 1948, it is recommended that the Board authorize the retaining of Mr. Joseph J. Smith, of the law firm of Hogan and Hartson of this city, to give the Board such advice and assistance as it may require in its consideration of matters arising in connection with the Transamerica proceeding. Mr. Smith to be paid a retainer fee at the rate of $1250 per month during the period that the arrangement continues, without regard to the portion of his time required for this work, plus reimbursement for his traveling and other expenses incurred in this connection. Instead of being an employee of the Board as was contemplated by the Board's action of December 6, Mr. Smith will be on a retainer basis.

"In the discussions of this matter with Mr. Smith it has been estimated that his services in this capacity will not require more than fifty per cent of his time on the average throughout the course of the arrangement, but with the understanding that this could not be guaranteed and that the arrangement might take more time and might take less.

"Mr. Smith, who is a graduate of Harvard Law School of about 1930, was employed in the Federal Trade Commission for nine years, beginning in 1936. During the last four of those years he was in charge of the appellate court work of the Commission, briefing and handling about sixty cases in the United States Circuit Courts of Appeal. During the last three years he has been associated with Hogan and Hartson, where he has continued work in the field of administrative law. Mr. Smith has been highly recommended both by Mr. Kelley, General Counsel of the Federal Trade Commission, and Mr. Hartson, head of his law firm."
"It is recommended that a letter substantially in the form of that attached be sent to Mr. Smith, with the understanding that minor changes may be made in the letter, not materially affecting its substance, before it is dispatched.

"It is further recommended that the Miscellaneous Account classification in the budget of this division for 1949 (and also 1948 if necessary) be increased by the amount necessary to pay Mr. Smith the retainer fee and expenses as indicated above."

Following a discussion, upon motion by Mr. Clayton, it was voted unanimously to approve Mr. Smith's retention as special counsel and to advise him by letter as follows:

"The Board of Governors of the Federal Reserve System is prepared to retain you to give to the Board such advice and assistance as it may require in its consideration of matters arising in connection with the proceeding which the Board has instituted against Transamerica Corporation under the provisions of the Clayton Antitrust Act. Under this arrangement you will not be an officer or employee of the Board but will be on a retainer basis as a special counsel and as such will be expected to use your best professional judgment and discretion in advising the Board from time to time on such matters relating to the Transamerica proceeding as the Board may wish.

"It is estimated that your services in this capacity will require not more than fifty per cent of your time on the average throughout the course of this proceeding, but you will appreciate, of course, that we are not in a position to guarantee that this will be the case. On the other hand, it may be that less than fifty per cent of your time will be required for the task. As has been explained to you, during a part of the time it will be necessary for you to be away from Washington.

"The Board will pay you a retainer fee at the rate of $1250.00 per month during the period that the arrangement continues, without regard to the portion of your time actually required for this work, plus reimbursement for your expenses incurred in this connection.

"It is contemplated that the arrangement will be continued throughout the life of the proceeding which has been instituted by the Board, but nevertheless either
"party may terminate the arrangement at any time by first giving thirty days' notice in writing to the other. By mutual agreement the arrangement may be continued during any court proceedings which may be instituted to enforce or set aside such order, if any, as may be issued by the Board after completion of the hearings in the proceeding which it has instituted.

"This arrangement does not preclude you in any way from continuing as a member of the firm of Hogan & Hartson, from maintaining offices with Hogan & Hartson, or from engaging in the general practice of law; but it is understood that you will give your primary and preferred attention to any questions which the Board may wish you to consider in connection with the Transamerica proceeding.

"If the arrangement as described above is agreeable to you, we will appreciate your written confirmation as promptly as possible. We trust that the arrangement will prove to be a mutually satisfactory and agreeable one in every way."

Chairman McCabe left the meeting at this time to attend a meeting with Dr. Nourse, Chairman of the Council of Economic Advisers.

Reference was then made to a memorandum dated December 15, 1943, transmitting drafts, prepared by Messrs. Morrill, Thurston, Kefler, and Thomas in accordance with the understanding at the meeting on December 14, 1943, of (1) a suggested paragraph for inclusion in the President's Economic Report, and (2) a statement relating to legislation in regard to reserve requirements. In the course of a discussion, it was suggested that a separate paragraph be submitted for inclusion in the President's State of the Union message.

At the conclusion of the discussion, by unanimous vote, the following statements were approved:
"Suggested Paragraph for Inclusion in the President’s State of the Union Message

"Adequate means should be provided so that monetary authorities may at all times be in a position to carry out their traditional function of exerting effective restraint upon excessive credit expansion in an inflationary period and conversely of easing credit conditions in a time of deflationary pressures. To this end, particularly in view of the need for maintaining support of the Government bond market, it is essential that Congress promptly provide the Federal Reserve System with supplemental authority covering reserves of the banking system. In order to be equitable, such supplemental reserve requirements must be applicable to all insured banks."

"For the President

"Legislation Needed by the Federal Reserve Board

"1. Continuing authority to require additional reserves to be held by all member banks up to 10 per cent of demand deposits and 4 per cent of time deposits. These supplemental requirements are the same as were requested of Congress by the President last August. Congress granted 4 per cent against demand deposits and 1-1/2 per cent against time deposits to expire June 30, 1949.

"2. New authority to extend substantially the same additional requirements to all banks, not members of the Federal Reserve System, which are insured by the Federal Deposit Insurance Corporation. These additional reserves would be held as balances with the Federal Reserve Banks.

"3. New authority to the Federal Reserve Board to authorize Federal Reserve Banks to pay interest on reserve balances held to meet these supplemental requirements, and also on any excess balances. Such interest would be not higher, under present conditions, than the average rate paid by the Treasury on bills.

"4. The Federal Reserve System is studying methods of determining reserve requirements which would be more equitable and simpler to administer. If the Board should desire later to recommend such changes, it will first submit its proposals to the President."

The substance of a suggested paragraph for inclusion in the Economic Report was approved unanimously, with
the understanding that it would be subject to such changes in form as the Chairman, in consultation with the staff, might wish to make.

Secretary's Note: The paragraph as approved by the Chairman read as follows:

"Suggested Paragraph for Inclusion in the President's Economic Report"

"I have heretofore recommended that adequate means be provided in order that monetary authorities may at all times be in a position to carry out their traditional function of exerting effective restraint upon excessive credit expansion in an inflationary period and conversely of easing credit conditions in a time of deflationary pressures. The temporary authority to increase reserve requirements of member banks of the Federal Reserve System, granted by Congress last August, will expire on June 30, 1949. The expiration of this authority without further action of the Congress would automatically release a substantial volume of bank reserves irrespective of credit needs at the time. The Congress should promptly provide continuing authority to the Board of Governors of the Federal Reserve System to require banks to hold supplemental reserves up to the limits requested last August. This authority to the Board of Governors should not be confined to member banks of the Federal Reserve System but should be applicable to all insured banks. It might well authorize the Board in its discretion to permit the Federal Reserve Banks to allow some return on these supplemental balances. Authority for the regulation of consumer instalment credit, which likewise expires on June 30, 1949, should be continued in order to exert a stabilizing influence on this highly fluctuating type of credit."

Chairman McCabe returned to the meeting at this point.

In connection with a discussion of further action to increase reserve requirements of member banks, Mr. Thomas referred to a memorandum prepared in consultation with Messrs. Riefler, Rouse, Manager of the System Open Market Account, and Bartelt, Fiscal Assistant
Secretary of the Treasury, under date of December 16, 1948, with respect to a proposed schedule of Treasury calls on war loan deposits that would minimize any large temporary additions to the supply of bank reserves along the lines of the discussion at the meeting on December 3. The memorandum outlined prospective developments and a proposed program, including a proposal that the Treasury retire Federal Reserve-held certificates and notes maturing in February and March in the amount of $700 million, and Mr. Thomas stated that the program would accomplish reasonable restraints assuming that no substantial additional purchase of securities by the System was necessary as a result of sales by nonbank investors. A copy of the memorandum has been placed in the Board's files.

In the discussion that followed Mr. Eccles suggested that, in view of the apparent slackening of credit demand and in view of other developments, no increase in reserve requirements be made at this time, but that, if the Treasury should be unwilling to adjust its balances at the Federal Reserve Banks as outlined in the memorandum of December 16, 1948, referred to above so as to continue the policy discussed at recent meetings of the Federal Open Market Committee of keeping pressure on member bank reserves, the Board should again consider action to increase reserve requirements of member banks.

Mr. Eccles' suggestion was approved unanimously.
Mr. Draper stated that at a meeting of the Personnel Committee this morning, reference was made to a letter dated December 15, 1948, from Mr. Stettinius, a Class C director of the Federal Reserve Bank of Richmond whose term will expire December 31, 1949, stating that he would not be able to continue as a director of that Bank after the end of this year, and that the Personnel Committee recommended that Mr. Stettinius' resignation be accepted effective December 31, 1948.

Approved unanimously.

Recommendations of the Personnel Committee, submitted by Mr. Draper, with respect to further appointments of Class C directors, Chairmen, and Deputy Chairmen and directors of branches of Federal Reserve Banks were discussed, and unanimous actions were taken by the Board as set forth below:

Mr. Wysor was reappointed as a Class C director for the Federal Reserve Bank of Richmond for the three-year term beginning January 1, 1949.

The following were appointed as Class C directors of the respective Federal Reserve Banks shown, each for a term of three years beginning January 1, 1949:

<table>
<thead>
<tr>
<th>Name</th>
<th>Federal Reserve Bank</th>
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<tbody>
<tr>
<td>Leo L. Rummell</td>
<td>Cleveland</td>
</tr>
<tr>
<td>A. L. M. Wiggins</td>
<td>Richmond</td>
</tr>
</tbody>
</table>

Mr. A. Z. Baker was appointed Deputy Chairman of the Federal Reserve Bank of Cleveland for the year 1949.

Mr. A. L. M. Wiggins was designated Chairman and Federal Reserve Agent of the Federal Reserve Bank of Richmond for the year 1949 and his compensation was fixed.
on the uniform basis for the same position at all Federal Reserve Banks; i.e., the same amount as the aggregate of the fees payable during the same period to any other director for attendance corresponding to his at meetings of the board of directors, executive committee, and other committees of the board of directors.

Mr. Charles P. McCormick was reappointed as Deputy Chairman of the Federal Reserve Bank of Richmond for the year 1949.

Mr. Ernest H. Hahne was appointed as a director of the Cincinnati Branch of the Federal Reserve Bank of Cleveland for the three-year term beginning January 1, 1949.

The following were appointed directors of the respective branches shown, each for a two-year term beginning January 1, 1949:

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<tr>
<th>Name</th>
<th>Federal Reserve Bank Branch</th>
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<tbody>
<tr>
<td>James A. McCain</td>
<td>Helena</td>
</tr>
<tr>
<td>G. Norman Winder</td>
<td>Denver</td>
</tr>
</tbody>
</table>

At this point Mr. E. A. Goldenweiser, former Economic Adviser to the Board and now Consultant to the Board, entered the meeting for the purpose of discussing a proposal for a ceiling plan for reserve requirements. Messrs. Solomon, Assistant General Counsel, and Youngdahl and T. L. Smith, economists in the Division of Research and Statistics, also joined the meeting at this time.

Mr. Goldenweiser outlined the background of the current problem with respect to reserve requirements and expressed his views on steps that might be considered by the Board to enable the Federal Reserve System to use more effectively the instruments of central
banking in influencing the credit situation at the same time that it
gave support to the market for public debt securities.

A summary of Mr. Goldenweiser's remarks has been placed in
the Board's files, and he stated that he would have no objection to
the distribution of the summary to the Federal Reserve Banks and
Possibly others.

At this point Messrs. Goldenweiser, Riefle, Smead, Thomas,
West, Nelson, Townsend, Leonard, Young, Horbett, Solomon, Young-
dahl, and Smith withdrew from the meeting 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 Fed-
eral Reserve System on December 16, 1948, were approved unanimously.

Memorandum dated December 1, 1948, from the Personnel Com-
mittee recommending that the Board approve the organization struc-
ture of the international group of the Division of Research and
Statistics, as set forth in an accompanying memorandum, and also
the future classification of the senior positions in that group to
higher grades whenever qualified personnel is recruited or trained
to fill these positions.

Approved unanimously.

Memorandum dated November 30, 1948, from Mr. Thomas, Direc-
tor of the Division of Research and Statistics, recommending an
Increase in the basic salary of Louis Weiner, an economist in that Division, from $6,235.20 to $7,432.20 per annum, effective December 26, 1948.

Approved unanimously.

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

"In accordance with the request contained in your letter of December 14, 1948, the Board approves the appointment of Luther Milton Hoyle as an assistant examiner for the Federal Reserve Bank of Boston.

"In your letter of July 6, 1943, regarding the transfer of Mr. Hoyle from the Research Department to the Examination Department, you furnished certain information regarding his mortgage indebtedness and outside business connections. It is assumed that the information contained therein is substantially the same at this time. However, in order that our files may be complete, it will be appreciated if you will furnish current information regarding his indebtedness as outlined in paragraph numbered 5 of letter S-178 of August 25, 1939 (F.R.L.S. #9181).

"Please advise us of the date upon which the appointment becomes effective."

Approved unanimously.

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

"Reference is made to your letter of December 13, 1948, submitting a certified copy of a resolution adopted by the Board of Directors of E. O. Young & Company Bank, Oakland, Oregon, signifying its intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six months' notice that may be required.

"In view of your favorable recommendation, the Board of Governors waives the requirement of six months'
"notice, as requested. Accordingly, upon surrender of
the Federal Reserve Bank stock issued to E. G. Young &
Company Bank, Oakland, Oregon, the Federal Reserve Bank
is authorized to cancel such stock and make appropriate
refund thereon.

"Please advise the Board of Governors when cancel-
lation is effected and refund is made. The Certificate
of Membership issued should also be obtained, if possible,
and forwarded to the Board. The State banking authori-
ties should be advised of the bank's proposed withdrawal
from membership and when it has been effected."

Approved unanimously.

The following amendment to Regulation
W, Consumer Instalment Credit, was approved
unanimously:

"AMENDMENT NO. 2 TO REGULATION W

Issued by the Board of Governors of the Federal Reserve System

"Regulation W is hereby amended in the following
respects, effective January 1, 1949:

"By inserting after "$50.00" in Part 1 of the Sup-
plement to Regulation W the following language and foot-
note reference:

'exclusive of any applicable sales tax',
and by adding the following footnote to Part 1 of the
Supplement:

'5/ The exclusion of sales taxes in this Part
of the Supplement does not affect the use of
the term "Cash Price" elsewhere in the regula-
tion. "Cash Price" as defined in section
8(h)(7) generally includes applicable sales
taxes.'"

In connection with the above action,
the following telegram to the Presidents
of all Federal Reserve Banks was approved
unanimously:

"The Board has today adopted Amendment No. 2 to Regu-
lation W, effective January 1, 1949, which will release
from the scope of the Regulation articles selling for $50
or more only because of the inclusion of any applicable
"sales taxes in the price of the article to the purchaser. Although the Reserve Banks were not unanimously in favor of such an amendment at this time, the majority was in favor. The Board's view is that the situation warrants a technical exception of this kind, especially since it does not represent any substantial change in the Regulation and can also serve to indicate that the Federal Reserve approaches the problems of Registrants with a reasonable attitude and with a willingness to avoid unnecessary trade dislocations. Please print the amendment and make appropriate distribution.

"The Board has issued the following press statement containing the text of the amendment for release in the morning papers, Saturday, December 18, 1948:

"The Board of Governors of the Federal Reserve System has adopted an amendment to Regulation W -- Consumer Instalment Credit -- which will release from the scope of the regulation articles priced just under $50 in localities having sales taxes which make the price to the purchaser exceed $50. Hitherto certain articles which sold for $50 or more only because of the inclusion of the applicable sales tax were subject to the regulation.

'The amendment, which becomes effective January 1, 1949, was adopted to reduce operating difficulties in the trade, particularly for those merchants serving areas which include some localities with and others without sales taxes.'"

The following statement for publication in the Federal Register was also approved unanimously:

"The purpose of the amendment is to release from the scope of Part 222 articles selling for $50.00 or more only because of the inclusion of any applicable sales taxes in the price of the article to the purchaser.

'The notice, public participation, and deferred effective date described in section 4 of the Administrative Procedure Act are not followed in connection with this amendment for the reasons and good cause found, as stated in section 2(e) of the Board's Rules of Procedure 12 CFR 262.2(e), and especially because in connection with this permissive amendment such procedures are unnecessary as they would not aid the persons affected and would serve no other useful purpose."
12/17/48

-R-14-

Secretary.

Approved:

Chairman.