

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, January 25, 1949. 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. Riefler, Assistant to the Chairman  
Mr. Thomas, Director of the Division of Research and Statistics  
Mr. Vest, General Counsel  
Mr. Leonard, Director of the Division of Bank Operations  
Mr. Townsend, Solicitor  
Mr. Young, Associate Director of the Division of Research and Statistics  
Mr. Solomon, Assistant General Counsel  
Mr. Horbett, Assistant Director, Division of Bank Operations

Mr. Vardaman referred to a letter from Mr. Young, President of the Federal Reserve Bank of Chicago, dated January 22, 1949, stating that it was expected that, at a meeting on January 27, the directors of that Bank would approve plans for construction in connection with the Detroit Branch building, and asking that the Board approve the obtaining of bids for such construction on the basis of the plans submitted.

The matter was discussed briefly, and it was understood that when Mr. Leonard

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visited the Chicago Bank tomorrow he would inform Mr. Young that as stated in the Board's letter of February 27, 1948 (S-1015) the Board of Governors would not look with favor upon such building operations at the present time unless an emergency situation existed.

Reference was made to a memorandum from Mr. Vest dated January 24, 1949, with respect to views expressed by the Federal Reserve Banks on the supplemental reserve requirements bill sent to them with the Board's letter of January 7, 1949. The memorandum stated that six, and probably seven, of the Reserve Banks were opposed to the payment of interest on reserve balances, four favored payment of interest, and one favored interest on required reserve balances only, and that a copy of the bill which would not provide for interest had been changed in the light of the suggestions made by the Reserve Banks. The memorandum, together with a draft of bill containing such changes, had been sent to the members of the Board before this meeting.

Mr. Vest stated that, in commenting on the draft bill, the Federal Reserve Bank of St. Louis suggested that it be changed to provide that any increase in reserves under the bill must be supplemental to the maximum reserves that might be required under section 19 of the Federal Reserve Act and not to the reserves actually required at any time under that section. This point was discussed and it was the consensus that the bill should make it

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clear that the supplemental reserves would be in addition to the maximum reserves provided by section 19.

Question was raised as to what the Board's position would be if, after introduction of the proposed draft bill, the Board were asked for comments on the special reserve plan such as that introduced into the 80th Congress, and Chairman McCabe stated that he felt that question should be covered in a carefully written statement to be submitted in connection with the introduction of the proposed legislation, and that such a statement should be considered and approved by the Board before submission to the Banking and Currency Committees.

In this connection, Chairman McCabe stated that the tentative plan for testimony on the anti-inflation program of the President called for hearings before the Joint Committee on the Economic Report beginning the first part of February to be followed by hearings before the Banking and Currency Committees sometime before the end of February.

Reference was then made to a memorandum from Mr. Solomon dated January 24, 1949, with respect to Reserve Bank comments on the draft of consumer credit legislation which was also sent to them with the Board's letter of January 7, 1949. The memorandum stated that most of the Reserve Banks suggested no changes in the draft, but that they expressed preferences as to the form of consumer credit legislation that might be sought and that a majority

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of the Banks preferred permanent self-contained legislation rather than temporary self-contained legislation or an extension of Public Law 905. A copy of the memorandum and a draft of the bill containing changes made since it was sent to the Reserve Banks had been sent to the members of the Board before this meeting.

Following a discussion, the Legal Division was requested to revise the drafts of the supplemental reserve requirements and consumer credit bills in the light of the comments received from the Reserve Banks and of the discussion at this meeting, and to resubmit them to the Board.

Messrs. Horbett and Solomon left the meeting at this time.

Mr. Vardaman stated that, following the approval at the meeting on November 23, 1948 of a suggested arrangement whereby representatives of the 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 the Reserve Banks, Mr. Leonard discussed the proposal with Mr. Leach, President of the Federal Reserve Bank of Richmond and Chairman of the Presidents' Conference Committee on Operations, who then indicated no objection to the arrangement. However, Mr. Vardaman said, Mr. Leach wrote a letter to Mr. Leonard under date of January 10, 1949, in which he stated that he did not think it would be advisable to adopt any plan that would provide for a representative of a low-cost Bank to study and review the methods followed by high-

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cost Banks, although he thought visits by representatives of high-cost Banks to low-cost Banks at the proper times might prove beneficial. Mr. Vardaman added that Mr. Leach's letter also suggested that, after statements of local conditions that caused high and low costs had been prepared, the Conference of Presidents of the Federal Reserve Banks might consider what, if any, additional steps would be appropriate for System-wide action.

Mr. Leonard said that the question was one of relations with the Presidents of the Federal Reserve Banks and whether the Board should go ahead in February with a proposed review of certain fiscal agency operations which would involve a contemplated exchange visit of personnel between the Minneapolis and Dallas Banks on a basis mutually agreeable to those Banks.

Chairman McCabe suggested that if there was agreement between the Presidents of the Minneapolis and Dallas Banks with respect to the program outlined by Mr. Leonard, it could be carried out as an experiment and Mr. Leach informed that the arrangements were being made with the thought of having something to report to the Presidents' Conference at a later meeting.

Upon motion by Mr. Clayton, Chairman McCabe's suggestion was approved unanimously.

Reference was made to a memorandum from Mr. Baumann, Assistant General Counsel, dated December 17, 1948, with respect to a

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request by Representative Robert W. Kean that some action be taken which would permit him to continue to serve as President and Director of Livingston National Bank, Livingston, New Jersey, despite the fact that he is a partner in the firm of Kean, Taylor & Co., a New York City firm which the Board has tentatively determined to be primarily engaged in the securities business within the meaning of section 32 of the Banking Act of 1933. The memorandum had been circulated among the members of the Board before this meeting.

In response to an inquiry as to why the case of Mr. Kean was now under consideration when it appeared that the existing relationship had continued for more than 20 years, Mr. Vest stated that, subsequent to the Supreme Court decision in the Agnew-Fayerweather case in January 1947, and in accordance with the action at the meeting on January 16, 1948, the Legal Division undertook to review all cases in which the conclusion had been reached that section 32 was not applicable, that in a number of cases it had concluded the earlier findings were still correct, and that in a few instances, such as that involving Mr. Kean, it appeared that the relationship was contrary to the law as interpreted by the court in the Agnew-Fayerweather case.

Mr. Clayton stated that, while the Board had no authority under the law to make an exception in an individual case such as that of Mr. Kean, he felt consideration should be given to the

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question whether the provisions of Regulation R, Relationships with Dealers in Securities under Section 32 of the Banking Act of 1933, should be revised so as to make a general exception where the Board believed that a bank's investment policy and the investment advice which it gave to its customers would not be unduly influenced as a result of an interlocking relationship between the bank and a securities underwriting firm. He went on to say that Representative Kean suggested that, in determining whether a firm was primarily engaged in the securities business, the Board disregard transactions in municipal securities since member banks were permitted to underwrite and distribute such securities. Mr. Clayton also said that there were other possible alternatives but that there was no alternative which he was prepared to recommend at this time.

Mr. Vest stated that the Legal Division had studied the matter carefully and that he would not recommend that the Board make an exception as permitted under the law because any of the logical exemptions that had been proposed might open the door to requests for exemptions that should not be made.

There was a general discussion of the procedure followed in determining whether a firm was primarily engaged in the securities business, in the course of which Chairman McCabe suggested that before taking action which would require that Representative Kean discontinue his present relationship with either the Livingston

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National Bank or the firm of Kean, Taylor & Co., the matter be given further study.

Upon motion by Mr. Eccles, it was agreed unanimously that action notifying Mr. Kean of a decision in his case be deferred pending a review by the Legal Division of Regulation R in the light of the decision in the Agnew-Fayerweather case, the statutory provisions and their legislative history, and the statements made by the Board's attorney in presenting arguments in the Agnew-Fayerweather case. In taking this action, it was understood that the review, which was to be completed and presented to the Board within a period of thirty days if possible, would be for the purpose of determining whether it might be desirable to modify the standards which are used in determining whether a firm is primarily engaged in the securities business within the meaning of section 32 of the Banking Act of 1933.

Reference was made to a memorandum from the Legal Division dated January 18, 1949, with respect to a bill, S. 249, which would repeal the Taft-Hartley Act which expressly exempts Federal Reserve Banks from the provisions of the National Labor Relations Act, and which would reenact substantially the former National Labor Relations Act.

Mr. Clayton stated that the existing provision exempting Federal Reserve Banks from the National Labor Relations Act was inserted in the law as a result of a recommendation from the Board and on the grounds that the Board took the place of the National



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Labor Relations Board in supervising labor policies of the Federal Reserve Banks, that it was strongly supported by the Presidents of most of the Federal Reserve Banks, and that it would seem desirable in any amendment of the labor laws to request that a similar provision be included in new legislation.

Mr. Clayton was requested to take such steps as appeared necessary to bring to the attention of the Chairmen of the appropriate committees of Congress the desirability of continuing the existing provision exempting the Federal Reserve Banks from the National Labor Relations Act.

Chairman McCabe stated that he had talked informally with Mr. Philip T. Sharples, President of the Sharples Corporation, Philadelphia, concerning the possibility of his serving as a Class C director of the Federal Reserve Bank of Philadelphia. He outlined Mr. Sharples' activities and background and stated that, in the absence of objection by members of the Board, he would like to continue informal discussions with Mr. Sharples with a view to recommending to the Board at a subsequent meeting as to whether the appointment should be made. He added that he had been giving consideration to an arrangement under which the Chairmanship at the Philadelphia Bank might be rotated, and that for that reason he was not yet ready to recommend designation of a Chairman and Federal Reserve Agent at that Bank.

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Chairman McCabe was authorized to continue his informal discussions with Mr. Sharples with the understanding that no tender of the appointment would be made to Mr. Sharples until the matter had been discussed at another meeting of the Board.

At this point Messrs. Riefler, Thomas, Vest, Leonard, Townsend, and Young withdrew 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 January 24, 1949, were approved unanimously.

Memoranda from the heads of the divisions indicated below recommending appointments to the staff in those divisions, to be effective as of the dates upon which the appointees enter upon the performance of their duties after having passed the usual physical examination:

<u>Date of Memo.</u>	<u>Name</u>	<u>Title</u>	<u>Salary</u>	<u>Duration of appointment</u>
<u>RESEARCH AND STATISTICS</u>				
1/13/49	Miss Marilyn Marlor	Clerk	\$2,284.00	Temporary Indefinite
<u>ADMINISTRATIVE SERVICES</u>				
1/25/49	Mrs. Mary Frances Murphy	Elevator Operator	2,020.00	Permanent

Approved unanimously.

Memoranda from the heads of the divisions indicated below recommending increases in the basic annual salaries of the following

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employees in those divisions, effective February 6, 1949:

Date of Memo.	Name	Title	Salary Increase	
			From	To
<u>RESEARCH AND STATISTICS</u>				
1/14/49	Jesse D. Smith	Messenger	\$2,498.28	\$2,573.52
<u>ADMINISTRATIVE SERVICES</u>				
1/24/49	F. Allison Kramer	Accounting Clerk	3,601.80	3,727.20
1/24/49	Joseph G. Tulenko	Tabulation Planner	3,476.40	3,601.80
1/24/49	John N. Lyon	Accounting Clerk	3,351.00	3,476.40
1/24/49	Susie T. Oros	Accounting Clerk	3,351.00	3,476.40
1/24/49	Donald W. Moon	Clerk	2,949.72	3,024.96
1/24/49	Mary Crawford	Head Cook	2,799.24	2,874.48
1/24/49	Charles E. Crowell	Chauffeur	2,573.52	2,648.76
1/24/49	Mary A. Weikel	Telephone Operator	2,573.52	2,648.76
1/24/49	Reba M. Gehrett	Clerk	2,498.28	2,573.52
1/24/49	Edward J. Beaton	Guard	2,350.00	2,423.04
1/25/49	Sampson H. Bass	Chief, Fiscal Section	6,474.60	6,714.00

Approved unanimously.

Letter to Mr. Fulton, Vice President of the Federal Reserve

Bank of Cleveland, reading as follows:

"In accordance with the request contained in your letter of January 14, 1949, the Board approves the designation of the following as special assistant examiners for the Federal Reserve Bank of Cleveland.

Main Office

Russell I. Haley  
Raymond C. Hoffman  
Harry Palmer  
Donald Potts

Cincinnati Branch

James Kelly  
John C. McGinnis  
Wilber L. Noelcke  
Wesley H. Pelstring  
Ralph Sleight  
Kenneth T. Willis

Pittsburgh Branch

A. W. Caughey  
James L. Lutton  
C. R. Moore

"Appropriate notations have been made in the Board's records of the names reported as deletions."

Approved unanimously.

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

"Reference is made to your telegram of January 25, 1949, regarding the request of The Cleveland Trust Company, Cleveland, Ohio, for a six months' extension of time within which the establishment of its proposed branch in University Heights, Ohio, may be accomplished under the approval granted by the Board of Governors on July 27, 1948.

"In view of your recommendation, the Board extends to July 27, 1949, the time within which establishment of the branch may be accomplished."

Approved unanimously.

Telegram to Mr. Watkins, Assistant Manager of the Los Angeles Branch of the Federal Reserve Bank of San Francisco, reading as follows:

"Re your conversation today with Leonard and Solomon regarding recent post card issued by Kelley Blue Book which suggested a 5 per cent reduction in January-February book prices, and also contained the statement that 'the recommended 5 per cent reduction does not constitute an official lowering of January-February Kelley Blue Book prices for purposes of Regulation W.'

"The average retail prices shown in designated appraisal guides are expected to reflect the actual market for individual makes and models. It is questionable whether a flat percentage change accurately reflects the true market.

"Present question, however, is not approval of a proposed change in prices but how best to deal with unfortunate situation arising from the fact that the post card has already been mailed and gives the misleading impression that a designated appraisal guide can have two sets of average retail prices -- one for Regulation W purposes and another for other purposes.

"Suggest, therefore, that Kelley Blue Book advise those to whom post card in question was sent that the

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"last paragraph thereof was in error and that the 5 per cent reduction suggested by the post card must be considered applicable for Regulation W purposes as well as any other purposes.

"In view of special circumstances, Board approves use during February of new edition which it is understood Kelley Blue Book plans to issue early in February. It will be appreciated, however, if you will advise us regarding Kelley Blue Book's plans as to period to be covered by the new edition and as to effect, if any, it will have on Kelley's regular schedule for publication of future issues."

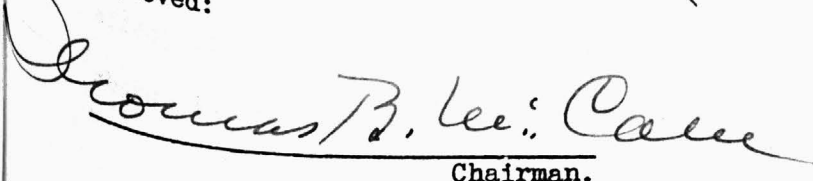
Approved unanimously.

Memorandum dated January 18, 1949, from Messrs. Thomas and Southard, Director and Associate Director, respectively, of the Division of Research and Statistics, recommending that a joint staff meeting with the Treasury and the Economic Cooperation Administration be held in the near future to discuss the present pattern of exchange rates in Europe, and recommending that Professor Frank D. Graham of Princeton University be invited to be present to express his views on the subject. The memorandum further recommended that the Board reimburse Professor Graham for his expenses in connection with his trip from Princeton, New Jersey, to Washington and return.

Approved unanimously.

  
Secretary.

Approved:

  
Chairman.