

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, April 28, 1949. The Board met in the Board Room at 10:05 a.m.

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

Mr. Carpenter, Secretary  
Mr. Sherman, Assistant Secretary  
Mr. Morrill, Special Adviser  
Mr. Thurston, Assistant to the Board  
Mr. Vest, General Counsel  
Mr. Leonard, Director, Division of Bank Operations  
Mr. Nelson, Director, Division of Personnel Administration  
Mr. Millard, Director, Division of Examinations  
Mr. Young, Associate Director, Division of Research and Statistics  
Mr. Hostrup, Assistant Director, Division of Examinations  
Mr. Smith, Special Counsel

Mr. Smith reported his observations of the Clayton Act proceeding against Transamerica Corporation on the West Coast. In the course of his comments, Mr. Smith stated that, thus far, the Board's lack of subpoena power did not appear to have prevented Mr. Townsend, the Board's Solicitor, from offering any evidence of facts which he wished to prove, but it had tended to make the presentation of the Board's case more time-consuming than it otherwise would be and had forced Mr. Townsend to rely to a considerable degree on secondary evidence of a character which would not ordinarily be admitted even in an administrative proceeding. Mr. Smith stated that he was unable to say whether the lack of subpoena power would prejudice

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the respondent's case but that the respondent was carefully laying the ground for taking an appeal on the basis that it had. In response to a question from Mr. Vardaman, Mr. Smith stated that according to statements made by Mr. Townsend at the hearings, none of the evidence introduced by Mr. Townsend had been taken from national bank examination reports, that because of the lack of subpoena power it was necessary for the Board's Solicitor to present secondary evidence, that such evidence was taken from the records of the respondent and its affiliates by examiners of Federal Reserve Banks, that in his opinion such evidence was admissible for the purpose intended, and that it had been made clear in the records that the respondent could verify the evidence and, if it found it wrong, bring in its records to show such error.

Mr. Vardaman stated that he understood that pursuant to action of the Board on January 31, 1945, at least some of the examination reports of Transamerica Corporation had not been made available to the Corporation, that he felt that such reports should be made available to the Corporation on the same basis on which reports of examination of banks are made available to the banks, and that he would raise for consideration at a future meeting of the Board the question of returning to the former practice of furnishing reports to holding companies.

Chairman McCabe suggested that, for reasons which he stated, letters and telephone calls made to Messrs. Evans and Townsend in connection with the proceeding against Transamerica be channeled through Mr. Morrill's office, and it was understood this procedure would be followed in the future.

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At this time Chairman McCabe withdrew from the meeting to keep another appointment.

Mr. Vardaman stated that he was opposed to the introduction into the record of the Clayton Act proceeding of any testimony extracted from national bank examination reports or from any privileged section of any Federal Reserve reports which the respondent had not been allowed to examine in due course. He also stated that he would like to have the Board clarify the position taken by its action of January 31, 1945, with respect to making material from examination reports of holding companies available to these companies and the ruling of the Hearing Officer in the Clayton Act proceeding under which certain information contained in reports of examination of Transamerica Corporation were made available to the Corporation. He reiterated that he felt if such information was going to be used in a public hearing, the examination reports should be made available to the subject company in the same manner and to the same degree that examination reports were made available to member banks.

Mr. Vardaman also referred to a letter from the Comptroller of the Currency dated February 24, 1949, stating that that office would not permit national bank examiners to appear as witnesses in the Clayton Act proceeding. He said that the letter did not reach his office until the morning of April 25 and that he would like to discuss the handling of the letter at a meeting at which Chairman McCabe was present.

At this time Messrs. Hostrup and Smith withdrew and Mr. Eccles entered the meeting.

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Mr. Vardaman then referred to a memorandum from Mr. Thomas, dated March 31, 1949, recommending increases in the salaries of Messrs. Dembitz, Williams, Hersey, and Tamagna, economists in the Division of Research and Statistics. He stated that he was not questioning the justification of the increases on the basis of the ability of the individuals but that he felt the method used in re-classifying their positions was not in accordance with the procedure agreed upon by the Board at the time it approved changes in the organization of the International Section of the Division of Research and Statistics on December 17, 1948.

During a discussion of the proposed salary increases, Mr. Eccles suggested that the matter be referred to the Personnel Committee with a request that it submit a recommendation to the Board as to (1) the maximum salaries that the Board would be justified in paying to heads of the various units of the International Section of the Research Division, (2) the maximum salaries that would be justified for heads of other sections and units in the Research Division, and (3) the relationship of such maximums in the Research Division to the maximum salaries for section and unit heads in other Divisions of the Board's organization. Mr. Eccles also stated that since Mr. Williams, Chief of the National Income, Moneyflows, and Labor Section of the Division of Research and Statistics, had taken on substantial additional duties in recent months in connection with the moneyflows

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and income studies, the reclassification of his position to a higher level, (Group Y - salary \$10,305 - \$10,330) seemed appropriate. He suggested, therefore, that the Board approve an increase in Mr. Williams' salary from \$9,407.25 to \$10,305, the minimum of his present group, effective as of the beginning of the next payroll period.

Chairman McCabe entered the meeting at this time.

Following a discussion, upon motion by Mr. Eccles, his suggestions were approved unanimously.

In taking this action, it was understood that until the report requested was submitted, no action would be taken with respect to the recommendations for increases in the salaries of Messrs. Dembitz, Hersey, and Tamagna.

Mr. Draper referred to a memorandum prepared in the Legal Division under date of April 18, 1949, with respect to the possible amendment of Section 13b of the Federal Reserve Act. Copies of the memorandum had been sent to all members of the Board before this meeting in accordance with the action taken at the meeting on April 5, 1949. During the ensuing discussion, it was stated that the topic was listed on the agenda of the forthcoming President's Conference, and Chairman McCabe suggested that the matter be considered at a meeting of the Board after it had been discussed with the Presidents.

This suggestion was approved unanimously.

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A draft of memorandum with respect to investment policy of the Retirement System, prepared in accordance with the discussion at the meeting of April 26, 1949, was then read.

The memorandum was discussed and, upon motion by Mr. Draper, approved unanimously in the following amended form for use in the discussion at the meeting to be held on April 29, 1949, with certain of the Presidents of the Federal Reserve Banks who were officers of the Retirement System of the Federal Reserve Banks:

"The Board of Governors has given further consideration to the problem of the investment policy of the Retirement System of the Federal Reserve Banks in the light of discussions with the Presidents of the Federal Reserve Banks and the report of the special committee of the Presidents' Conference, of which Mr. Earhart is Chairman. While it is understood that the Presidents' Conference has not considered the committee's report, the Board wishes to state its views on investment policy for consideration at the forthcoming conference.

"It is understood to be the consensus of the Presidents that they would prefer to continue the present policy with changes in investments designed to increase the average earnings to a 3 per cent level. This is the approach of the special committee report which states that 'if earnings can be ultimately brought up to an average of approximately 3 per cent, that would be the best solution to the problem.'

"The Board of Governors would be willing to agree to such a policy until say, December 31, 1950, with the hope that by following a somewhat more diversified, but at the same time a satisfactory and sound policy from the Board's point of view, the earnings on investments could be brought up to 3 per cent. In the event that objective was not attained by the end of 1950, or the 3 per cent rate was not maintained thereafter, the Board would expect that action would be taken to:

- (1) Reduce the interest base to some appropriate figure, or
- (2) Adopt an investment policy which would justify a guarantee by the Federal Reserve Banks of the benefits provided by the Retirement System. This position on the part of the Board represents a compromise of the varying views of its members and was arrived at after a number of discussions of the entire problem.

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"It would be the suggestion of the Board as a part of the above procedure that the present arrangement with the Northern Trust Company be discontinued and that, as suggested by the special committee report, the Retirement System employ a qualified individual as an investment counselor who would work under the direction and supervision of the investment committee. It is also suggested that it would promote better understanding and would be helpful in keeping the Board in touch with the problems arising in connection with the investment of Retirement System funds if two members of the Board, or one member of the Board and one member of its staff, served as associates of the investment committee."

There followed a further discussion of the question whether reserve requirements of member banks should be reduced along the lines proposed at the meeting on April 26. There was a discussion of the contraction in bank credit in recent months during which it was stated that the decline had been one of the most severe on record, and of the possible effect of a reduction in reserve requirements on the Government security market.

Chairman McCabe stated that he had discussed the proposed reduction with Mr. Sproul, Vice Chairman of the Federal Open Market Committee, that he would also discuss it with Mr. Leach, the remaining member of the Executive Committee of the Federal Open Market Committee, and that Mr. Sproul felt that a reduction such as that proposed would be wise.

At the close of the discussion, Mr. Vardaman moved that member bank reserve requirements against net demand deposits be reduced by 2 percentage points for banks in central reserve cities and 1 percentage

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point for other member banks, and that reserve requirements against time deposits be reduced by 1/2 percentage point for all member banks, effective May 1, 1949 as to banks in nonreserve cities and May 5, 1949 at other banks.

Mr. Vardaman's motion was put by the Chair and carried unanimously.

To carry out the foregoing action, unanimous approval was given to the following amendment to the supplement of Regulation D, Reserves of Member Banks:

"SUPPLEMENT TO REGULATION D

"Pursuant to the provisions of section 19 of the Federal Reserve Act and section 2(a) of its Regulation D, the Board of Governors of the Federal Reserve System hereby prescribes the following reserve balances which each member bank of the Federal Reserve System is required to maintain on deposit with the Federal Reserve Bank of its district:

"7 per cent of its time deposits plus --

15 per cent of its net demand deposits if not in a reserve or central reserve city;

21 per cent of its net demand deposits if in a reserve city, except as to any bank located in an outlying district of a reserve city or in territory added to such city by the extension of the city's corporate limits, which, by the affirmative vote of five members of the Board of Governors of the Federal Reserve System, is permitted to maintain 15 per cent reserves against its net demand deposits;

24 per cent of its net demand deposits if located in a central reserve city, except as to any bank located in an outlying district of a central reserve city or in a territory added to such city by the extension of the city's corporate limits, which, by the affirmative vote of five members of the Board of Governors of the Federal Reserve System, is permitted to maintain 15 per cent or 21 per cent reserves against its net demand deposits."

The following statement for the Press for release in the morning newspapers of April 29, 1949 was approved unanimously, with the understanding that it would be sent by telegram to the Presidents of all Federal Reserve Banks at once:



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"The Board of Governors has reduced the amount of reserves required to be maintained with Federal Reserve Banks by banks which are members of the Federal Reserve System as follows:

<u>On net demand deposits</u>		<u>Effective</u>
Central reserve city banks	From 26 to 24 per cent	May 5, 1949
Reserve city banks	" 22 to 21 " "	May 5, 1949
Nonreserve city banks	" 16 to 15 " "	May 1, 1949
<u>On time deposits</u>		
Central reserve and reserve city banks	From 7-1/2 to 7 per cent	May 5, 1949
Nonreserve city banks	" 7-1/2 to 7 " "	May 1, 1949

"The effect of these decreases will be to lower the required reserves of banks in central reserve cities by approximately 500 million dollars, of banks in reserve cities by approximately 350 million dollars, and of banks in nonreserve cities by 350 million dollars.

"On September 8, 1948, the Board increased reserve requirements of member banks to the higher figures given above, under the temporary additional authority granted by Congress in the preceding August. This supplemental authority permitted a maximum of 4 per cent to be added to statutory reserve requirements on demand deposits and of 1-1/2 per cent on time deposits.

"The present action," Chairman McCabe stated, "was taken in furtherance of the Board's policy of adjusting all of its credit regulations in accordance with changing economic conditions and the credit requirements of the current business situation. Since the first of the year there has been a decline of approximately one and one-half billion dollars in loans at member banks. About one billion of this decline has occurred at member banks in New York and Chicago -- the central reserve cities. The remainder of the decline was largely at banks in reserve cities. In view of this trend of loans and the fact that requirements at the New York and Chicago banks had been increased from 20 to 26 per cent during 1948 the Board felt that it was appropriate at this time to reduce the requirements for the central reserve city banks somewhat more than for other member banks. We have frequently stated that credit regulations are not a one-way street. They should be tightened or relaxed as general economic conditions require."

Unanimous approval was also given to the following statement for publication in the Federal Register:

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"This amendment is issued pursuant to the authority granted to the Board of Governors by section 19 of the Federal Reserve Procedure Act, and the prior publication described in section 4(c) of such Act, are impracticable, unnecessary and contrary to the public interest in connection with this amendment for the reasons and good cause found as stated in section 262.2(e) of the Board's Rules of Procedure (Part 262), and especially because such notice, procedure and prior publication would prevent the action from becoming effective as promptly as necessary, and would serve no useful purpose."

At this point Messrs. Vest, Leonard, Nelson, Millard 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 April 27, 1949, were approved unanimously.

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

"Reference is made to your letter of April 18, 1949, submitting the request of The Washington Loan and Trust Company, Washington, D. C., for approval under the provisions of Section 24A of the Federal Reserve Act, of an additional investment of \$50,000 in bank premises, for the purpose of modernizing its main office quarters.

"In view of your recommendation, the Board of Governors approves the investment of not more than \$50,000 as proposed."

Approved unanimously.

Letter to the Office of the Chief of Finance, Department of the Army, reading as follows:

"This refers to your letter of March 21, 1949, with respect to a shortage of two notes in a package of \$10 denomination Federal Reserve notes of the Federal Reserve

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Bank of Kansas City. Upon receipt of your letter we asked the Federal Reserve Bank to investigate the matter. A report has been received, from which the following is quoted:

"According to the people in our Money Department, the package of \$10 bills in question was paid out by us about two months ago to an officer in the United States Army by the name of Ginette, who at the time was acting as Finance Officer at the Quartermaster Depot here in Kansas City. About ten days after the money was paid out to Officer Ginette, a Captain Seamands brought to the bank a package of new ten's and claimed there was a shortage of two bills in it. We were informed that during the interval from the time we paid the package of money to Officer Ginette and the day Captain Seamands brought the package in to claim the shortage Officer Ginette had been transferred to another post (St. Louis, we believe) and was succeeded here at the Quartermaster Depot by Captain Seamands. The latter seemed uncertain as to whether or not the money was counted when he took over from Officer Ginette.

"While our people are unable to say definitely that Officer Ginette actually piece-counted before leaving the bank the money in which the shortage is reported to have occurred, they do recall that it was usually his practice to do so, using a cage off our lobby for this purpose.

"When Captain Seamands came in to report the shortage, we explained to him that new money was paid out by us without count as received from the Treasury Department, and that we would be glad to report the claimed shortage to the Treasury. However, the Captain said he thought he could get the matter adjusted without reporting it to the Treasury, and that, up until now, was the last we had heard of it.'

"For your further information there is enclosed a copy of the Board's letter dated December 18, 1943, to the Bureau of Supplies and Accounts of the Department of the Navy, which sets forth the uniform policy of the Federal Reserve System with respect to honoring claims for shortages in currency paid to Navy disbursing officers. This policy relates as well to shortages in currency paid to Army disbursing officers, and your attention is particularly directed to the items numbered 3 and 4 in the letter, which cover deliveries made over the counter at the Federal Reserve Bank, as the case in question was a transaction of this type."

Approved unanimously.

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Letter to Mr. N. L. Armistead, Chief Examiner at the Federal Reserve Bank of Richmond, reading as follows:

"This refers to your letter of April 20, 1949, transmitting papers in connection with an amendment to the charter of The Peoples Bank, Beaufort, South Carolina, and a copy of an opinion of your Counsel with respect to the validity of the amendment. The Board's Legal Division agrees with the opinion and recommendation of Mr. Wallace that steps taken to carry out this amendment are substantially effective for their purpose and that no objection on behalf of the Federal Reserve System be interposed to the issuance of the stock in accordance with the certificate of the Secretary of State of South Carolina."

Approved unanimously.

Letter prepared in accordance with the action at the meeting on April 19, 1949, to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, reading as follows:

"In our letter of February 24, 1949 it was stated that the question of the motion picture project for which an item of \$20,000 was included in your 1949 budget would be discussed further with you by Chairman McCabe and be reviewed with you briefly at the time of the recent President's Conference.

"The Board has recently given further consideration, in the light of Chairman McCabe's discussion with you, to the question of remaking your motion picture, "Back of Banks and Business", and approves your proceeding with the project, with the understanding that the total expenditure will not exceed \$20,000, of which one-half is to be paid by your Bank and an equal amount by the Board. In taking this action it was understood that, in accordance with the discussion with Mr. Powell of your Bank when he showed the picture to members of the Board on April 12, 1949, the picture would be made adaptable for use by all Federal Reserve Banks in so far as that was practicable. Mr. Thurston, Assistant to the Board, has been designated to consult with you and Mr. Powell in revising the film along these lines and he has been given full authority to make

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decisions so far as the Board is concerned as to the content of the film.

"As soon as you are ready to proceed with work on the film, it will be appreciated if you will get in touch with Mr. Thurston so that he may make such arrangements for collaboration as seem to be mutually desirable."

Approved unanimously.

*[Handwritten Signature]*  
Secretary.

Approved:

*[Handwritten Signature]*  
Chairman.