

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, May 19, 1949. The Board met in the Board Room at 2:30 p.m.

PRESENT: Mr. McCabe, Chairman  
Mr. Eccles  
Mr. Szymczak  
Mr. Draper  
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. Vest, General Counsel  
Mr. Leonard, Director, Division of Bank Operations  
Mr. Nelson, Director, Division of Personnel Administration

Mr. Szymczak referred to a memorandum dated May 17, 1949, from Mr. Noyes, Assistant to the Director of the Division of Research and Statistics, stating that one of the members of the Research Division, Mr. Dembitz, had been asked to write a short article on the International Bank for Reconstruction and Development for publication in The Reporter and that the editors had indicated they would be prepared to pay for the article at their standard rate. The memorandum stated that this raised the following questions: (1) Was there any objection to staff members writing for commercial publications? (2) If there was no objection, should the article be charged for at regular rates and what disposition

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should be made of the funds received? (3) Were there any special considerations such as whether the article should be signed? Mr. Szymczak went on to say that the Personnel Committee had considered the memorandum and that it seemed desirable to consider the matter in the light of what the Board's general policy should be, having in mind that if the article is written and the usual fee is refused, members of the staff might receive a larger number of such requests.

There followed a discussion of the questions presented, during which it was stated that staff members frequently contributed articles to professional and technical publications for which they received no fee and that speeches by members of the Board and of the staff occasionally were published, but the question had not arisen in connection with articles for a commercial periodical. It was agreed during the discussion that it would not be appropriate for a member of the staff to write an analytical article on the International Bank for publication in a private commercial periodical. It was suggested that it be the policy of the Board that the staff be encouraged to write articles on the Federal Reserve System and its functions for professional and technical publications for which they would receive no fee, that this was desirable as a means of bringing about a better understanding of the Federal Reserve System by bankers and by the public, and that before publication, such articles

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be submitted to Mr. Thurston for review and to the Personnel Committee for decision as to whether the article should be published, it being understood that in cases where the Personnel Committee wished to refer the matter to the Board for consideration, that course would be followed.

Upon motion by Mr. Eccles, the foregoing suggestion was approved unanimously.

At this point, Mr. Nelson withdrew.

Mr. Eccles referred to the decision of the Conference of Presidents at their meeting on May 2, 1949, to hold the next meeting of the Conference at San Francisco during the two days following the day on which the sessions of the American Bankers Association were concluded, and stated that he would like to have the Board consider the desirability of such meetings outside of Washington in the light of the consideration given to the matter by the Board in the past. He also said that, at his request, Mr. Carpenter had prepared a memorandum dated May 19, 1949, reviewing the question whether meetings of the Presidents should be held outside of Washington and reviewing also the events which led up to the discontinuance of these meetings in 1944. Copies of the memoranda had been sent to each member of the Board before this meeting.

During a discussion, it was stated that it was desirable to have the Conference of Presidents meet in Washington at the time the

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Federal Open Market Committee held its meeting so that the Presidents who were not members of the Open Market Committee could attend and participate in the discussions of the Committee, and the view was expressed that the Board would favor continuation of the policy with reference to holding the Conference in Washington in accordance with the established practice since 1944. It was stated that in the present instance, Mr. Davis, Chairman of the President's Conference, had indicated that most of the presidents would attend the American Bankers Association meeting to be held in San Francisco and that the holding of a President's Conference at that time might represent an exception to rather than a change in the policy.

Following a discussion, it was understood that Chairman McCabe would talk by telephone with Mr. Davis with a view to ascertaining the reasons for the proposed meeting and whether it represented anything in the nature of future policy to hold meetings outside of Washington.

At this time, Messrs. Millard, Director of the Division of Examinations, and Young, Associate Director of the Division of Research and Statistics, entered the meeting, and Mr. Clayton withdrew because he preferred not to be in the meeting during the discussion of the following matter which dealt with the Clayton Act proceeding against Transamerica Corporation.

Mr. Vardaman referred to previous discussions of the questions whether (1) the Board should change the policy adopted at a meeting on

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January 31, 1945, under which reports of examination of holding company affiliates were not made available to the subject company and (2) whether information from reports of examination of national banks should be presented in the Clayton Act proceeding against Transamerica Corporation. He expressed the view that the Board should take the position that no information contained in reports of examination of national banks should be used in the proceeding without the consent of the Comptroller of the Currency and the Board. He also felt that the policy with respect to reports of holding companies should be changed and, for reasons which he discussed, that all such reports including those withheld since 1945 should be made available to the companies examined on the same basis that reports of examination of banks were made available to the banks.

Mr. Morrill stated that in accordance with the informal request made by the Board on May 2, 1949, he discussed these matters by telephone with Mr. Townsend, Solicitor of the Board, who expressed himself substantially as follows:

"Mr. Townsend said that he would recommend that the Board reverse the 1945 ruling because he could not see the justification for differentiating between reports of examination of holding companies and reports of examination of banks. He thought that holding companies should receive the same treatment as banks with respect to copies of examination reports.

"Mr. Townsend added that he saw no relation between this question and the ruling of the Hearing Officer because that ruling was made in a formal proceeding instituted by the Board itself which necessitated making use of pertinent information from whatever source might be available to the

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"extent necessary to determine the facts involved. He added that the courts have many times said discovery is obtainable against the Government just like any other litigant.

"Mr. Townsend also said that the Hearing Officer had permitted Counsel for Transamerica Corporation to see only such pages of the report of examination of Transamerica as in the opinion of the Hearing Officer were pertinent to the banks or corporations about which testimony had been admitted in the course of the proceeding.

"He suggested that the Board might wish to consider the question of the manner in which the 1945 ruling should be reversed and its timing. He thought it would be preferable simply to return to the former practice as to reports of examination hereafter received from the examiners, without any formal announcement, especially in view of the fact that he understood that no holding company has made any complaint.

"With respect to reports of examination of national banks, Mr. Townsend said that such reports had not been used in the Transamerica proceeding and that he had no intention of using them. He said that all that had been put into the record were portions of the reports of examination of the Transamerica Corporation which had been made under the Board's authority; that in exercising this authority the Board had permitted national bank examiners to make the portions of the examination which related to national banks; that in the course of the examination certain specific questions had been referred to the national bank examiners to obtain and furnish certain information; that the information which had been used was of a kind that is not regarded as a confidential part of the examination of a national bank such as, for example, whether a particular individual was an officer. Some additional information was certified by the Comptroller's office at the request of the Board and that information has been utilized in the hearings, but Mr. Townsend said that he had practically exhausted that material."

Mr. Morrill also said that Mr. Evans had stated in a telephone conversation that he would like to have a meeting of the Board on either June 13 or 14 for the purpose of permitting him and Mr. Townsend to bring the Board up to date on the Clayton Act proceeding and

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and to discuss any questions that the Board might wish to ask.

During the ensuing discussion, Mr. Vest expressed the view that the decision of the Hearing Officer to make portions of withheld reports of examination of Transamerica available to counsel for the Corporation during the Clayton Act proceeding was not subject to criticism from a legal standpoint. He also said that he would not favor a change at this time in the 1945 action of the Board with respect to reports of examination of holding company affiliates but that if such reports were to be made available, he would favor making the action retroactive to the date of the previous action.

It was suggested that no action be taken in connection with these matters until the meeting at which Mr. Evans and Mr. Townsend would be present, on the 13th or 14th of June.

Mr. Vardaman stated that he felt the questions should have consideration before that time, that the Board should have an opinion from Mr. Smith, Special Counsel, on the matter, and that the Board should take the matter up as soon as that opinion was received.

Mr. Vest said that the reports in question were very voluminous, and there was some question whether Mr. Smith could submit an opinion before the middle of June, but he would do so as soon as possible.

Mr. Vardaman stated that he would be willing to defer the matter until Mr. Smith's opinion was received.

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Thereupon, it was agreed that, as requested by Mr. Evans, a meeting of the Board would be held at 2:30 p.m. on Monday, June 13, 1949, at which Mr. Evans' report would be heard, and other matters relating to the Clayton Act proceeding would be discussed.

Mr. Clayton reentered the meeting at this point.

Mr. Vardaman stated that he felt Mr. Clayton should reach a decision as to whether he was going to participate in Board consideration of and action on matters pertaining to the Clayton Act proceedings or whether he would disqualify himself for such participation.

Mr. Clayton said that he had not felt there was urgency about his reaching a decision in the matter, that he would like to discuss questions involved with Mr. Evans upon his return from the West Coast, and that he would prefer to defer a decision until after that time.

Mr. Clayton then stated that in view of the possibility that Congress might not extend the authority of the Board to regulate consumer instalment credit beyond June 30, 1949, the question had been raised whether Regulation W, Consumer Instalment Credit, should be suspended as soon as the intention of Congress became clear. He expressed the view that this would not be desirable and that the Board's action should depend upon economic conditions rather than upon other considerations.

In the ensuing discussion, Mr. Vardaman stated that he felt



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the Regulation should be suspended immediately in its entirety but that when he was in Kansas City last week, he discussed the matter with some of the directors of that Bank who expressed the view that no change should be made in the Regulation until it automatically expired at the end of June.

Chairman McCabe reviewed his recent conversations with Chairman Maybank and Senator Robertson of the Senate Banking and Currency Committee and raised the question whether the Board should press for enactment of the pending legislation to continue authority over supplemental reserve requirements and consumer instalment credit even though it appeared very doubtful that either bill could be passed at this session. This question was discussed informally, and it was understood that having heard the views of the various members present, Chairman McCabe would be guided by his own judgment in his further conversations with Senators Maybank and Robertson as to how far he should go in urging the passage of the pending legislation.

During the discussion Mr. Solomon, Assistant General Counsel, entered the meeting.

The discussion then returned to the question of what action, if any, should be taken to liberalize further Regulation W and whether such action was justified by recent economic developments. In this connection, Mr. Young reviewed the preliminary findings of the recent survey of consumer finances which led him to conclude that the economic situation did not call for further action at this time.

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There was a general discussion of the economic justification of continuation of the present Regulation or the suspension of the Regulation in whole or in part and it was agreed that the matter would be considered again at a meeting of the Board on Friday, May 27.

At this time, Mr. Leonard withdrew from the meeting.

Mr. Vardaman then stated that he felt it would be desirable for the Board to take action prior to June 30 to discontinue the supplemental reserve requirements that were still in effect if it became clear before that date that Congress would not extend the existing authority. He suggested that this matter also be considered at the meeting on May 27. This suggestion was agreed to.

Mr. Clayton then referred to a memorandum which he had prepared under date of May 16, 1949, with reference to the proposed amendments to the rules and regulations of the Federal Savings and Loan System to which reference was made in the Board's letter to Mr. Divers, Chairman of the Home Loan Bank Board, dated April 7, 1949. Mr. Clayton stated that the Congressional Record of April 26 contained a statement by Senator Maybank, Chairman of the Banking and Currency Committee, to the effect that the Home Loan Bank Board had withheld putting the amended rules and regulations into effect with the thought that they could probably reach an agreement with the Board and the various independent and Government banking institutions of the country. Mr. Clayton suggested, for reasons which he discussed, that a letter be sent to Mr. Divers stating that representatives of the Board would be available for consultation or discussion relating to this matter at the invitation of the Home Loan Bank Board.

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Following a discussion, upon motion by Mr. Clayton, unanimous approval was given to the following letter to Honorable William K. Divers, Chairman, Home Loan Bank Board, Washington 25, D. C., with the understanding that a copy would be sent to Senator Maybank:

"The Board's attention has been called to the Congressional Record for April 26, 1949, wherein appears a reproduction of a letter dated April 13, 1949, which Mr. O. K. LaRoque, a member of the Home Loan Bank Board, addressed to Senator Maybank with regard to the proposed amendments to the rules and regulations for the Federal Savings and Loan System.

"Mr. LaRoque's letter appears to be an answer to the brief which the American Bankers Association filed with your organization on March 30, 1949, with regard to the proposed amendments to the regulations for Federal savings and loan associations. We have no desire or intention to enter into any legal discussion concerning the interpretation of the statutes which your Board administers. The Board of Governors feels, however, that in view of the publication in the Congressional Record of Mr. LaRoque's letter we should point out that irrespective of any technical legal interpretation of the statutes administered by your Board, the fact remains that the use of the terms 'savings account' and 'Federal savings association' in place of the less ambiguous terms used in earlier regulations will have the effect of further confusing and misleading the public into the belief that their purchases of shares in Federal savings and loan associations are in the nature of deposits in savings or commercial banks.

"We have also noted Senator Maybank's statement that your Board has held up putting the proposed rules and regulations into effect with the thought that you could probably reach an agreement with the Federal Reserve Board and the various independent and Government banking institutions of the country. In this connection, we wish to take this opportunity to say that, in the event that your Board should give further consideration to this matter, representatives of this Board would be available to discuss the matter if you should so desire."

At this time, Mr. Morrill withdrew from the meeting.

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Before this meeting members of the Board had been furnished with copies of a memorandum from Mr. Clayton dated May 19, 1949, recommending that the Board authorize negotiations with the Survey Research Center of the University of Michigan for a fifth survey of consumer finances during 1950 as well as an interim survey to be made this summer, with the understanding that the total cost would not exceed \$180,000 less any amount that might be contributed toward the interim survey by the Treasury Department or the Graduate School of Business Administration of Harvard University. Mr. Clayton's memorandum was accompanied by a memorandum from Mr. Young dated May 18, 1949, with respect to the 1950 Survey of consumer finances and by a letter from Mr. Evans dated May 12, 1949, in which he stated that he felt the interim survey would be very helpful.

During a discussion of previous surveys of consumer finances, it was stated that the material provided in such surveys had been very useful to the Board in analyzing economic conditions and prospective conditions, that the results had been highly accurate, and that the methods used in sampling had been reviewed by Mr. Deming, Adviser on Sampling to the Director, Division of Statistical Standards of the Bureau of the Budget, that Mr. Deming was an outstanding authority on statistical methods and techniques, and that while Mr. Deming makes several specific suggestions which will be given careful consideration, his appraisal indicates that the Survey Research

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Center has utilized the best available statistical techniques and that they have adhered to the highest of statistical standards.

Upon motion by Mr. Clayton, it was agreed unanimously to authorize the Division of Research and Statistics to conduct negotiations with the Survey Research Center with a view to having made a fifth survey of consumer finances and an interim survey as described in Mr. Young's memorandum of May 18, 1949, with the understanding (1) that the cost of the 1950 survey would not exceed \$135,300, (2) that the cost of the interim survey would not exceed \$35,000 to be reduced by such amounts as were contributed by the Treasury Department and the Harvard University Graduate School of Business Administration toward the cost of the survey, (3) that an additional sum of \$10,000 for contingencies and special costs in connection with the surveys was also authorized, and (4) that the current budget of the Division of Research and Statistics would be adjusted as proposed in Mr. Young's memorandum.

At this point Messrs. Riefler, Vest, Millard, Solomon, 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 May 18, 1949, were approved unanimously.

Memorandum dated May 16, 1949, from Mr. Nelson, Director of the Division of Personnel Administration, recommending the appointment of Mrs. Edna Bell Hardesty, R.N., as a substitute nurse in that Division, to be employed from time to time as the need occurs, with compensation at the rate of \$11.60 per day of her employment.

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Approved unanimously.

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

"Reference is made to your letter of May 9, 1949, submitting the request of the "Norfolk County Trust Company", Brookline, Massachusetts, for approval of the establishment of a branch at 2 Eliot Street, Milton, Massachusetts, in connection with the proposed absorption of the Blue Hill Bank and Trust Company, Milton, Massachusetts.

"In view of your recommendation, the Board of Governors approves the establishment and operation of a branch in Milton, Massachusetts, at the address indicated, by the Norfolk County Trust Company, Brookline, Massachusetts, provided the proposed absorption of the Blue Hill Bank and Trust Company is effected substantially in accordance with the terms and conditions of the purchase agreement submitted and the prior approval of the appropriate State authorities is obtained; and with the understanding that Counsel for the Reserve Bank will review and satisfy himself as to the legality of the steps taken to effect the absorption and establish the branch.

Approved unanimously.

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

"We have been notified that National Used Car Market Report, Inc. is supplementing its regular quarterly editions with auxiliary editions listing revised appraisals to be published approximately six weeks after the effective date of each quarterly edition. For the purposes of Part 4 of the Supplement to Regulation W, the values listed in the auxiliary editions will supersede those listed in the quarterly edition for that period on and after the effective date of each auxiliary edition. The first such edition was effective May 15, 1949. The appraisal guides published by this concern are Blue Book Executives Edition, Official Wisconsin

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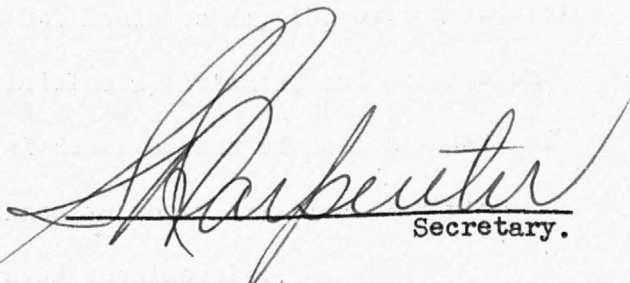
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"Automobile Valuation Guide and Red Book National Used Car Market Report.

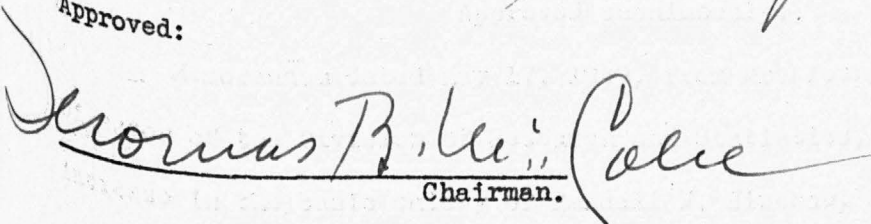
Approved unanimously, together with a letter to Mr. G. A. Leukhart, General Manager, National Used Car Market Report, Inc., 900 So. Wabash Avenue, Chicago 5, Illinois, reading as follows:

"Thank you for your letter of May 16 with further reference to your plan to supply your subscribers with revised appraisals at intervals of approximately six weeks and the copies enclosed of the auxiliary editions effective May 15, 1949.

"The auxiliary editions appear to be satisfactory for the purposes of Regulation W. The Board has no objection to your plan of supplementing the regular quarterly editions with the six-week auxiliary editions with the understanding that, for the purposes of Part 4 of the Supplement to the regulation, on and after the effective date of each auxiliary edition the values listed will supersede the values given in the regular quarterly edition for the period."

  
Secretary.

Approved:

  
Chairman.