

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, February 7, 1950. The Board met in the Board Room at 10:40 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser
Mr. Leonard, Director, Division of
Bank Operations
Mr. Vest, General Counsel
Mr. Nelson, Director, Division of
Personnel Administration
Mr. Millard, Director, Division of
Examinations
Mr. Young, Director, Division of
Research and Statistics
Mr. Marget, Specialist on International
Economic Policy, Division of
Research and Statistics
Mr. Dembitz, Chief, International Financial
Operations Section, Division
of Research and Statistics
Mr. Hirschman, Economist, Division of
Research and Statistics

Mr. Marget, Specialist on International Economic Policy in the Division of Research and Statistics, gave a report on the proposed European clearing union and further steps in the Economic Cooperation Administration aid program. At the end of this report Messrs. Marget, Dembitz, and Hirschman withdrew from the meeting.

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Mr. Thomas then commented briefly on developments in the open market during the past few days, particularly with reference to demands for Government securities and sales of such securities from the system open market account.

Chairman McCabe stated that in accordance with the understanding at the meeting last Friday, he talked with Chairman Spence of the House Banking and Currency Committee this morning regarding H.R. 6618, a bill to provide cooperative housing for the middle income group, and that Chairman Spence indicated the committee was always glad to receive views of the Board with respect to legislation but did not ask for a report on the bill. Chairman McCabe went on to say that Mr. Spence emphasized the fact that the proposed bill was an Administration measure, that he was pressing for its passage, and that the ground on which the Administration was advocating the measure was the vital necessity for providing homes for persons in the income group that would be affected. Chairman McCabe added that in the light of this conversation he questioned the advisability of submitting an adverse report on the bill.

Mr. Vardaman expressed the view that inasmuch as the Board had submitted an adverse report on the bill to the Bureau of the Budget and had indicated to Chairman Spence of the House Banking and Currency Committee that the Board had some views on the bill, it would not be desirable to submit a report to the House Committee in the absence of a request for it.

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Mr. Szymczak stated that he felt the Board should submit a report, but only if requested to do so.

In the ensuing discussion Mr. Eccles stated that, for reasons which he discussed, he felt the Board's record should show its position in connection with the proposed legislation and that if the record brought out the fact that the Board had opposed the bill in a letter to the Bureau of the Budget and had indicated its views informally to Senator Robertson and Chairman Spence, he would consider that sufficient.

In a further discussion, Chairman McCabe suggested that he discuss the matter with Mr. Pace, Director of the Budget, during the next day or so and it was understood that this procedure would be followed.

Mr. Wilkes, Federal Reserve Examiner, Division of Examinations, joined the meeting at this time.

There was presented a draft of letter to Mr. Russell G. Smith, Executive Vice President, Bank of America, New York, prepared in response to an inquiry submitted by Mr. Smith through the Federal Reserve Bank of New York under date of December 13, 1949, as to whether Bank of America, an Edge Act Corporation chartered under section 25(a) of the Federal Reserve Act, could (a) act when so requested by Bank of America N.T. & S.A., to advise the beneficiary of an irrevocable letter of credit of the issuance of the credit, and (b) make payment for Bank of America N.T. & S.A., under such credit in New York. The question

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involved a transaction in which an Italian correspondent of Bank of America N.T. & S.A. would request the latter to advise and confirm a letter of credit issued by the Italian bank in connection with payment for wheat purchased by an Italian firm from an American exporter. Bank of America N.T. & S.A. would advise and confirm the credit directly to the American exporter, but in order to expedite such notification, it might also request Bank of America, an Edge Act Corporation, by wire to advise the exporter. Also, in order to make payment at New York where the wheat would be shipped, Bank of America N.T. & S.A. would have Bank of America, an Edge Act Corporation, check the shipping documents and pay the exporter's draft on its behalf. The draft letter, together with an opinion from the Legal Division dated January 31, 1950, had been circulated among the members of the Board for consideration prior to this meeting. The opinion of the Legal Division stated that section 25(a) of the Federal Reserve Act prohibited a corporation chartered thereunder from carrying on any part of its business in the United States except such as, in the judgment of the Board, is incidental to its international or foreign business, and that the answer to the question whether Bank of America, an Edge Act Corporation, could perform the functions described depended on whether, in the judgment of the Board, such functions would be incidental to the international or foreign business of Bank of America, an Edge Act Corporation.

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Mr. Szymczak stated that the inquiry was submitted by Mr. Smith as a hypothetical question in an effort to determine the extent to which the Edge Act Corporation formed by Bank of America N.T. & S.A. could carry on operations for the parent institution. In this connection, he referred to a circular, a copy of which was sent to him this morning by Mr. Pierotti, Washington Representative of the Bank of America N.T. & S.A. in which the First National Bank of Boston offered to handle foreign transactions through its subsidiary, First of Boston International Corporation, a State-chartered institution operating under section 25 of the Federal Reserve Act, which were similar in character to those proposed for Bank of America. In this connection, Mr. Szymczak presented a memorandum summarizing the arguments for and against determining that the type of transaction referred to in Mr. Smith's letter was incidental to the foreign business of Bank of America, an Edge Act Corporation, and reviewed these in the light of the provision in Paragraph 10 of section 25(a) of the Federal Reserve Act, that "no corporation organized under this section shall carry on any part of its business in the United States except such as in the judgment of the Board of Governors of the Federal Reserve System shall be incidental to its international or foreign business".

During the consideration of the points covered by Mr. Szymczak's memorandum, he suggested that, in view of the legal questions involved, it would be difficult to determine on the basis of the facts now before

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the Board that the type of transaction referred to might not be incidental to the foreign business of Bank of America, an Edge Act Corporation, and that therefore the Board might well take the position that it was not prepared at this time to answer the question raised in Mr. Smith's letter, but on the other hand would offer no objection to the performance of the functions proposed.

This suggestion was approved, and in the ensuing discussion, unanimous approval was given to a letter to Mr. Smith in the following form:

"This refers to your letter of December 13, 1949, transmitted through the Federal Reserve Bank of New York, requesting a ruling by the Board on a question concerning the authority of your institution to perform certain functions in connection with letters of credit confirmed by Bank of America National Trust and Savings Association, San Francisco, California.

"Your question relates to a transaction involving the purchase of wheat by an Italian firm from an American exporter. As you describe the transaction, the Italian importer, in order to provide for payment for the wheat, would request an Italian bank to establish an irrevocable letter of credit in favor of the American exporter; the Italian bank would request Bank of America National Trust and Savings Association to advise and confirm the credit to the exporter and would give instructions that the credit be made available for payment in New York; Bank of America National Trust and Savings Association would advise the credit directly to the exporter, adding its confirmation and rendering the credit available for payment at Bank of America; in order to expedite the notification of the credit to the exporter, Bank of America National Trust and Savings Association might request Bank of America by wire to advise the exporter that the credit had been issued and that the original was being forwarded by air mail; and, when the wheat was shipped, the exporter would present the required documents to Bank of America and, if they were in order, Bank of America would pay the exporter's draft.

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"As you know, under section 25(a) of the Federal Reserve Act corporations are organized for the purpose of 'engaging in international or foreign banking or other international or foreign financial operations.' The language of this section is somewhat different from that of section 25 of the Federal Reserve Act, which authorizes national banks to invest in corporations 'principally engaged in international or foreign banking'. Under section 25(a), Bank of America is not permitted to carry on any part of its business in the United States except such as in the judgment of the Board shall be incidental to its international or foreign business.

"The question which you raise is at the present time a hypothetical one and it is probable that the transactions as they actually develop will vary from case to case and may differ in some respects from the hypothetical situation presented. Moreover, we do not know at this time to what extent your corporation may have occasion to engage in transactions of this or a related character in the United States or what the volume of its business in the international or foreign field may be.

"After careful consideration of the various aspects of this matter, the Board has decided that, without passing upon the question presented, it will offer no objection at this time to the performing by Bank of America of the functions described in your letter. The Board, however, from time to time on the basis of information developed by examination of your corporation or otherwise, will consider whether or not the business conducted by Bank of America in the United States, including transactions similar to those outlined in your letter, is in the judgment of the Board incidental to the international or foreign business of Bank of America. The Board's judgment upon any such question will be based upon the nature of the business conducted by Bank of America in the United States, its relationship to the international or foreign business of the corporation, and upon such other factors as the Board may deem relevant to a proper determination of the question. In any case in which the Board, after such discussion as may be necessary, may hereafter determine and advise that in its judgment a particular type of business in the United States is not incidental to the international or foreign

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"business of Bank of America, the Board will, of course, expect the corporation as promptly as possible to make such adjustments as may be necessary to bring its affairs into conformity with the Board's determination in the matter."

Unanimous approval was also given to a letter to Mr. Sproul, President of the Federal Reserve Bank of New York, transmitting the letter quoted above to Mr. Smith, reading as follows:

"This refers to your letter of December 16, 1949, transmitting a letter dated December 13, 1949 from Mr. Russell G. Smith, Executive Vice President, Bank of America, New York, New York, requesting a ruling by the Board on a question concerning the authority of Bank of America to perform certain functions in connection with letters of credit confirmed by Bank of America National Trust and Savings Association, San Francisco, California. Reference also is made to Mr. Tiebout's letter of January 13, 1950, concerning this matter.

"Enclosed herewith is the Board's letter of this date replying to Mr. Smith's letter. It will be appreciated if you will forward the letter to Mr. Smith. A copy of the letter is enclosed for your files and a copy also is being sent to the Federal Reserve Bank of San Francisco for its information."

Further reference was then made to the situation described by Mr. Szymczak in connection with the circular distributed by First National Bank of Boston as to the service that could be rendered by its New York subsidiary, First of Boston International Corporation. In response to an inquiry from Chairman McCabe, Mr. Millard reviewed the policy and practice followed with respect to the supervision and examination of foreign banking corporations operating under the provisions of sections 25 and 25(a) of the Federal Reserve Act, as

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Provided in the memorandum approved by the Board on February 16, 1937.

It was agreed unanimously that Mr. Millard would review the current policy of examination of foreign banking corporations operating under agreement with the Board and submit a recommendation to the Board with respect thereto.

Mr. Wilkes withdrew at this time and Messrs. Horbett, Assistant Director, Division of Bank Operations, Noyes, Assistant to the Director, Division of Research and Statistics, and Anderson, Economist, Division of Research and Statistics, joined the meeting.

Before this meeting each member of the Board had been furnished a copy of a memorandum from Mr. Young dated February 7, 1950, prepared in accordance with the discussion at the meeting on January 31, 1950, with respect to the uniform reserve plan. After presenting the results of test percentages of 26, 15, and 4, respectively, to interbank, other demand, and time deposits of all member banks and of 26, 14, and 4 to similar classes of deposits of all commercial banks, the memorandum raised the question whether, in view of the release of reserves and their control that apparently would be necessary in order to gain support for the uniform reserve plan, it might be desirable to consider an alternative approach which would eliminate the present problem with reserve city designations. Such an alternative, the memorandum suggested, would be to request Congress to eliminate the present requirement of Section 19 of the Federal Reserve Act that, to be eligible for permission to carry reduced reserves, a central reserve or reserve city

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member bank must be located in an outlying district of the city, and to give the Board authority (1) to grant permission to any member bank located in a central reserve city to maintain the reserves required of reserve city banks or "country banks", provided the general character of its business was similar to that of member banks located in reserve cities or in nonreserve cities, respectively, and (2) to grant permission to any member bank located in a reserve city to maintain the reserves required of country banks, provided the character of its business was similar to that of member banks located in non-reserve cities.

There followed a general discussion of the test percentages presented in the memorandum and of the alternative proposal for a change in the law with respect to permitting banks to carry reduced reserve requirements. It was the consensus that the memorandum, which it was agreed should be sent to the Federal Advisory Council as a basis for discussion at the meeting with the Council on February 21, should be revised to present the uniform reserve plan with maximum and minimum percentages, and that it should also include a suggestion as to the desirability of amending Section 19 of the Federal Reserve Act to permit the Board to reclassify central reserve and reserve city banks for reserve purposes on the basis of the nature of their deposits, rather than their location.

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Following a discussion, it was understood that Mr. Young would revise the memorandum in the light of the discussion at this meeting and that the revised draft would be submitted for the consideration of the Board at a meeting on Friday, February 10, 1950.

Messrs. Horbett, Noyes, and Anderson withdrew from the meeting at this time.

Mr. Szymczak referred to the letter from Mr. Sproul, President of the Federal Reserve Bank of New York, dated January 23, 1950, with respect to his proposed trip to Europe in May and June of this year and to the understanding at the meeting of the Board on January 31, 1950, that he (Mr. Szymczak) would prepare a draft of reply to the letter for consideration by the Board. Mr. Szymczak stated that after considering all the circumstances, he would recommend a brief letter to Mr. Sproul telling him that the Board concurred in his making the trip.

Following a discussion, unanimous approval was given to a letter to Mr. Sproul reading as follows:

"I have brought to the attention of the Board of Governors your letter of January 23, 1950, regarding your trip to Europe this spring and I am pleased to say that the Board concurs in your making the trip as you have outlined it, including some vacation while you are abroad. The other members of the Board join me in wishing you a most pleasant journey with beneficial results to your health and that of Mrs. Sproul."

Before this meeting there had been circulated among the members of the Board a draft of letter to Mr. Meyer, Assistant Vice President

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of the Federal Reserve Bank of Chicago, prepared in response to his letter of January 27, 1950, with respect to a new salary structure for employees of the Detroit branch of that Bank. The draft of reply had been circulated at the request of the Personnel Committee for approval and Mr. Vardaman raised a question as to how frequently the employee salary structure at a Federal Reserve Bank or branch would be revised under the procedure being followed. During a discussion of the draft, it was stated that it was contemplated that salary structures of the Reserve Banks and branches would be revised only on the basis of local surveys made from time to time covering the level of salaries among progressive industrial and business firms in the same localities, that as a matter of practice changes in such structures were made only infrequently, and that this was the first change in the structure for the Detroit branch since the present personnel classification plan was approved on August 28, 1947.

Thereupon, unanimous approval was given to the letter as follows:

"Reference is made to your letter of January 27, 1950, requesting approval of a new salary structure under the Job Classification and Salary Administration Plan for the Detroit Branch of the Federal Reserve Bank of Chicago which you state was approved by the Board of Directors on January 26, 1950.

"The Board approves, effective March 1, 1950, the following minimum and maximum salaries for the respective grades at the Detroit Branch:

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<u>"Grade</u>	<u>Minimum Salary</u>	<u>Maximum Salary</u>
1	\$1500	\$1980
2	1680	2220
3	1860	2520
4	2100	2820
5	2340	3120
6	2580	3480
7	2880	3900
8	3180	4300
9	3540	4700
10	3900	5200
11	4300	5800
12	4800	6500
13	5400	7200
14	6000	8100
15	6700	9000
16	7500	10100

"The Board approves the payment of salaries to the employees, other than officers, within the limits specified for the grades in which the positions of the respective employees are classified. It is assumed that all employees whose salaries are below the minimum of their grades as a result of the structure increase will be brought within the appropriate range as soon as practicable and not later than June 1, 1950."

Reference was then made to a memorandum from Mr. Thomas dated January 13, 1950, recommending that the Board authorize publication in pamphlet form of a statistical study of Regulation V loans prepared in the Division of Research and Statistics. The memorandum had been in circulation for approval and Mr. Vardaman had stated that he questioned the need for printing 3,000 copies of the pamphlet as proposed and that he considered it desirable to review all such publications in the light not only of their usefulness but the extent to which they should be given free distribution.

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Following a discussion, the recommendations in the memorandum were approved unanimously with the understanding that in accordance with the action at the meeting of the Board on February 3, 1950, further consideration would be given by the Personnel Committee to the extent to which the proposed publication should be given free distribution.

At this point Messrs. Riefler, Thomas, Leonard, Vest, 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 February 6, 1950, were approved unanimously.

Memoranda from Mr. Bethea, Director of the Division of Administrative Services, recommending that the resignations of the following employees in that Division be accepted to be effective, in accordance with their requests, at the close of business on the dates indicated:

Date of Memo	Name	Title	Effective Date
2/6/50	Leone W. Klaprat	Clerk	February 17, 1950
2/6/50	Carl J. Nickens	Laborer	February 10, 1950
2/7/50	Evelyn B. Shafferman	Clerk	March 31, 1950

Approved unanimously.

Letter to Mr. James A. McCullough, Director, Fiscal and Trade Policy Division, Economic Cooperation Administration, reading as follows:

"The Board has considered the request contained in your letter of February 2, 1950, addressed to Mr. Ralph A. Young, Director of the Division of Research and Statistics,

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"and is willing to make available the services of Mr. Solomon and Miss Lichtenberg for the purpose of assisting you in your analysis of the use of ECA funds for 'offshore procurement'. This is on the understanding that the work will require some part of the time of these two staff members for a period of approximately two weeks."

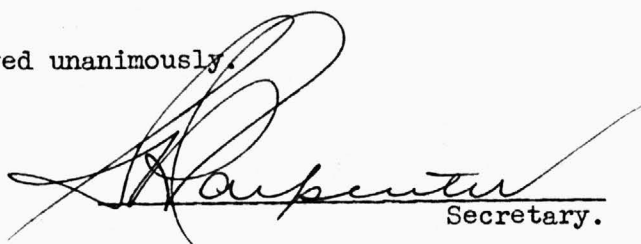
Approved unanimously.

Letter to Mr. Clarke, Secretary of the Federal Reserve Bank of New York, reading as follows:

"The Board of Governors approves the reappointments of Messrs. Arthur G. Nelson, Edward J. Noble and William H. Pouch as members of the Industrial Advisory Committee for the Second Federal Reserve District to serve for terms of one year each beginning March 1, 1950, in accordance with the action taken by the Executive Committee, as reported in your letter of February 2, 1950.

"It is noted from your letter that, in view of the small volume of applications for loans under Section 13b of the Federal Reserve Act, the directors consider it inadvisable at this time to seek additional members of the Committee to fill the two existing vacancies."

Approved unanimously.


Secretary.

Approved:


Chairman.