

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, June 30, 1950. The Board met in the Board Room at 10:35 a.m.

PRESENT: Mr. Eccles, Chairman pro tem.
Mr. Szymczak
Mr. Draper
Mr. Evans

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thomas, Economic Adviser to the Board
Mr. Vest, General Counsel
Mr. Young, Director, Division of Research
and Statistics
Mr. Chase, Assistant Solicitor

There were presented telegrams to the Federal Reserve Banks of Boston, Atlanta, Chicago, St. Louis, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on June 27, by the Federal Reserve Bank of St. Louis on June 28, by the Federal Reserve Banks of Atlanta and Chicago on June 29, 1950, and by the Federal Reserve Bank of Boston today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Pursuant to the discussion at the meeting on June 23, 1950, during which it was agreed that the Board would proceed with the organization within its staff of a Division of International Finance as of July 1, 1950, there was presented a memorandum from Mr. Marget dated June 28, reading as follows:

"In accordance with the Board's decision to set up

6/30/50

-2-

"in its staff, effective July 1, 1950, a Division of International Finance, I wish to make the following recommendations as to the internal organization of the Division. A separate memorandum, on coordination of work between the new Division and the Division of Research and Statistics is being simultaneously submitted as a joint memorandum from Messrs. Thomas and Young, and myself.

"The new Division should be set up by the transfer of that part of the existing personnel and functions of the Division of Research and Statistics which is now engaged in international work. The establishment of the new Division will therefore not require the creation of any new positions except those of Director and Assistant Director (as contemplated by the Board's action of September 27, 1949), and their secretaries. The present position of Adviser on International Finance (and of his secretary) would be abolished.

"For the new position of Assistant Director, I recommend that the Board appoint Mr. Lewis N. Dembitz. Mr. Dembitz has already been performing to a large extent the functions of supervising and coordinating the staff work in the field of international finance, which would be among the principal functions of the new position. I regard him as thoroughly qualified for the proposed new position, and I do not know of any equally suitable candidate who would be available. I recommend that Mr. Dembitz' salary be fixed at \$11,000.

"For the resulting vacancy in the position of Chief of the Financial Operations and Policy Section, I recommend that Mr. Frank M. Tamagna, now an economist in the section, be designated as Acting Chief. His training and experience, both here at the Board and in preceding positions, make him outstandingly qualified for this assignment.

"The proposed organization does not make provision for the positions referred to in the Board's action of September 27, 1949, relating to the employment of additional staff to carry the work in the absence of individuals who might be sent on foreign assignments. Specific recommendations to implement this proposal will be submitted for the Board's consideration as the need arises and as suitable candidates can be recruited. The establishment of a separate Division of International Finance does not in itself require such additional positions.

"Neither is it recommended at this time to make any change in the classifications of any positions. Some changes in individual classifications will, of course,

6/30/50

-3-

"be proposed in accordance with the established policies governing promotion and position classification, but these are not directly affected by the change to a new Division.

"In addition to the organization chart, attached as Exhibit A, there is attached as Exhibit B a proposed budget which shows a full list of the proposed positions in the new Division. It is my understanding that, except for the change in salary incident to the recommendation of Mr. Dembitz as Assistant Director, and for such salary arrangements as the Board may decide to establish with respect to the Director, proposed expenditures for personal and non-personal services are covered in the current budget of the Division of Research and Statistics. The provision for non-personal services indicated in Exhibit C is based primarily on the approximate percentage which the number of persons to be assigned to the new Division bears to the total personnel of the Division of Research and Statistics. These budgetary arrangements have been discussed with, and agreed to by, the Director of the Division of Research and Statistics and the Director of the Division of Administrative Services. It is requested that this tentative budget be approved with the understanding that the appropriate account classifications in the budget of the Division of Research and Statistics will be reduced accordingly, and that such further detail as may be required to comply with the Board's policies and procedures will be worked out in cooperation with the appropriate members of the staff."

There was also presented a memorandum from Messrs. Thomas, Young, and Marget, dated June 30, 1950, which was in the following form:

"In connection with the constitution of the Division of International Finance, in accordance with previous action by the Board, Mr. Marget has submitted a memorandum with respect to the organization, staffing, and budget of the new Division. His recommendations contemplate that the new Division would arise from the International Group of the Division of Research and Statistics as now constituted, without any change or enlargement at this time except for the appointment of a Director and Assistant Director. No expansion of its

6/30/50

-4-

"activities as presently carried on would be made without prior approval of the Board. The purpose of the present memorandum is to outline a basis for coordinating the work of the new Division with that of the Division of Research and Statistics with the view to assuring effective cooperation, avoidance of unnecessary duplication, and preventing undue expansion of activities.

"It is proposed that this coordination be effected mainly through the Research and Statistical Coordination Committee authorized by the Board last September under the Chairmanship of the Economic Adviser (Mr. Thomas) and consisting of the Economic Adviser and the Directors of the Divisions of Research and Statistics and International Finance. With the activation of the new Division, this Committee would come into operation, to meet as frequently as occasion demands. It is expected that Mr. Thomas will maintain contact with the activities of the two Divisions and that there will also be frequent consultation between the Directors.

"It is expected that the work of the two Divisions will require frequent cooperation on projects of both domestic and foreign interest. This cooperation will be accomplished not only through the coordination committee but also, as at present, through meetings of selected section chiefs or other staff members from the domestic and international fields, to draw up joint analyses and recommendations, and through informal contacts and exchange of information.

"Both the Economic Adviser and the Director of the Research Division, as well as the Assistant to the Chairman (Mr. Riefler), will continue to receive all documents of the Staff Group on Foreign Interests, and it is expected that they will participate to the fullest possible extent in its work. It is also proposed that the Director of the Division of International Finance should serve as Chairman of this Staff Group. This will be a further means of coordination of problems having both international and domestic aspects. With respect to foreign missions, in which Federal Reserve representatives engage, major responsibility on behalf of the Board will be taken by the Division of International Finance, in consultation with the Coordination Committee and the Staff Group on Foreign Interests.

"The Research Division will have major responsibility, under the direction of the Editorial Committee, for preparation of the monthly leading article in the

6/30/50

-5-

"Federal Reserve Bulletin and for the preparation of other material for inclusion in the Bulletin and the Board's Annual Report. Established editorial procedures will be continued. The Directors of all divisions will continue to have primary responsibility for the selection and preparation of material in their particular fields for inclusion in these publications. For example, when it appears that a leading article for the Bulletin on an international subject might be desirable, this would be discussed with the Director of the Division of International Finance. After the timing and the subject of the article have been agreed upon, that Division would have primary responsibility for its preparation, although drafts would be circulated for Research Division comments and suggestions, as heretofore.

"It is understood that the Library and Charting services will remain in the Division of Research and Statistics but will continue to serve the Division of International Finance as well as other Divisions of the Board. It is also understood that the Division of International Finance will be responsible for the operations of the international information center, which will continue within the present scope."

The recommendations contained in the two memoranda were approved unanimously, effective July 1, 1950, together with the following statement for the press which was for immediate release, it being understood that the press release would be wired to the Federal Reserve Banks today and that a letter to the Banks would also be prepared giving them further details of the change in the staff organization:

"The Board of Governors of the Federal Reserve System has announced the establishment in its staff, effective July 1, 1950, of a new Division of International Finance. The Board announced, at the same time, the appointment of Arthur W. Marget as Director and of Lewis N. Dembitz as Assistant Director, of the new Division.

"Mr. Marget, whose previous position with the Board was Adviser on International Finance in the Division of Research and Statistics, was Director of the Finance

6/30/50

-6-

"Division, Office of the Special Representative (ECA), in Paris from May 1948 to December 1949. Prior thereto, he had been Chief of the Economics and Finance Division, U. S. Element, Allied Commission for Austria, from 1945 to 1948. Before entering the Army, in which he held the rank of Lieutenant-Colonel, in 1943, Mr. Marget was Professor of Economics and Finance at the University of Minnesota. Mr. Dembitz, who has been a member of the Board's staff since 1934, was previously Chief of the International Financial Operations and Policy Section.

"Heretofore the work by the Board's staff in international finance has been performed in the international unit of the Board's Division of Research and Statistics. That unit will now constitute the new Division. The Board's decision to establish a separate Division of International Finance was taken in recognition of the importance of the Board's work in the international field."

A recommendation by Mr. Szymczak that Mr. Marget's salary as director of the new division be increased from \$13,500 to \$14,000 per annum was approved unanimously.

Mr. Szymczak referred to the discussion at the meeting on June 23 with respect to a proposed memorandum of System policy in providing technical assistance in the foreign area, and stated that there remained a difference of opinion between President Sproul, of the Federal Reserve Bank of New York, and the Board's staff concerning the inclusion of a clause in this memorandum relating to the approval of all foreign missions by the Board. He said that, owing to the Board's statutory responsibilities, the memorandum should not, in his opinion, be approved without the inclusion of such a provision, and that, therefore, he would suggest that the memorandum be placed in the files as background material and that there be prepared a memorandum setting forth criteria to be considered by the Board's staff

6/30/50

-7-

in connection with requests for foreign missions, which after approval by the Board would be used for the guidance of the staff and the Board and sent to the Reserve Banks for their information.

Following a discussion, which included a review of the functions and activities of the policy group and the staff group on foreign interests, the suggested procedure outlined by Mr. Szymczak was approved unanimously. X

Mr. Carpenter reported receipt of a telephone call from Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, who advised that the Congress had passed bill S. 3527, extending for two years, until June 30, 1952, the Treasury's direct borrowing authority from the Federal Reserve System up to a limit of \$5 billion and that the Bureau of the Budget would like to have a recommendation today as to whether the President should sign the bill. He said he assured Mr. Jones that the Board would recommend that the bill be signed and that a letter to that effect would be sent to the Bureau today.

The sending of such a letter was approved unanimously.

Secretary's note: The letter sent today in accordance with this action was as follows:

"This is in response to your telephone request for the views of the Board regarding the Enrolled Bill S. 3527, 'To amend section 14(b) of the Federal Reserve Act as amended'.

"There is attached a copy of the report on this bill which the Board sent to the Senate Banking and Currency Committee. A similar report was sent to the House Banking and Currency Committee.

"As indicated in this report, the Board favors enact-

6/30/50

-8-

"ment of the bill. In view of the fact that the authority to which the measure relates will expire on June 30 without this legislation, the Board recommends prompt approval of the bill by the President."

Mr. Thomas reported on recent developments in the Government securities market, following which there was a general discussion.

Pursuant to the discussion at the meeting on June 21, 1950, concerning the suggested postponement until after the next meeting of the Federal Advisory Council, of the effective date of the proposed two-day maximum deferment schedule for cash items collected through the Federal Reserve check collection system, there was presented a telegram to the Presidents of all the Federal Reserve Banks reading as follows:

"Referring to discussion at joint meeting of Presidents and Board with respect to reduction to two days in maximum deferment for cash items. When Chairman McCabe talked with Mr. Brown, President of the Federal Advisory Council, the latter expressed appreciation of the Board's having taken the matter up with him and suggested that the effective date of the change be deferred until after the next meeting of the Federal Advisory Council which will be held on October 1-3 to afford the Council an opportunity to discuss the matter fully with the Board. Chairman McCabe discussed this suggestion with President Peyton and he concurred. In accordance with the understanding at the joint meeting, the effective date of the reduction in maximum deferment will be postponed until a date to be fixed following the meeting of the Board with the Council. Suggest that, if you have not already done so, you discuss matter with member of Council from your district so that he will be informed as to reasons for proposed reduction."

In the course of discussion, Mr. Eccles stated that he regarded the proposed reduction in deferment as long overdue, that he

6/30/50

-9-

questioned the desirability of deferring the change until after a meeting of the Federal Advisory Council particularly since the decision has already been made to make the change, and that his preference was to announce an effective date before the next Council meeting and to advise the Presidents of the Reserve Banks accordingly.

At this point Chairman McCabe joined the meeting.

Referring to the above mentioned matter, Chairman McCabe stated that in his opinion it would not be desirable from the viewpoint of the Board's relationships with the Federal Advisory Council to fix the date of adoption of the two-day maximum deferment schedule now, and that Mr. Peyton had concurred in the belief that it would be advantageous to defer the date out of deference to the Council.

Following a discussion as to whether the telegram to the Presidents of the Reserve Banks could be revised to indicate that the decision to reduce the maximum deferment schedules had already been made, the wire was approved, Mr. Eccles voting "no".

In accordance with the request made at the meeting on Wednesday, June 28, there had been prepared a draft of statement of the facts as to the extent of the information of the Board, and when it received that information, with respect to the granting by the Comptroller of the Currency to Bank of America of permits to establish branches at the locations of some 22 banks controlled by the Transamerica Corporation. With the thought that the information should be in such form as could be used by Mr. Townsend in the con-

6/30/50

-10-

tempt proceeding on the West Coast if that should prove to be necessary, the statement had been prepared in the form of a draft of a reply to the letter received by the Board from the Comptroller of the Currency on June 26, 1950, to which reference was made at the meeting on June 26, 1950.

At this point, all of the members of the staff with the exception of Messrs. Carpenter, Morrill, Vest, and Chase withdrew from the meeting.

Chairman McCabe reviewed the circumstances surrounding further conversations which he had had this morning with Mr. Bergson, Assistant Attorney General, and others regarding the action of Bank of America in acquiring the assets of some 22 banks controlled by Transamerica Corporation.

During the course of the meeting there was sent to the Chairman's office a statement which grew out of the discussions referred to above which it was understood had been given to Secretary of the Treasury Snyder who was to read the statement to Mr. Giannini, President of Bank of America, N. T. & S. A., San Francisco, California, over the telephone. The statement was as follows:

"If the bank will come into court and say that they did not willfully disobey the court's restraining order and that the bank will comply with this restraining order (which amounts to holding things in status quo as of the date the restraining order was issued) and stops the effort to get depositions from the Comptroller of the Currency and other officers, then the attorney of the Board will recommend that the contempt proceedings be quashed.

6/30/50

-11-

"Thereafter, if the bank asks that the Board and the Comptroller's office confer with them to work out a settlement, the Board will be glad to participate."

During a discussion of the statement Mr. Eccles said that he would not want to make a commitment on the last sentence without discussing the matter with the Board's Solicitor.

Chairman McCabe stated that, if the procedures contemplated by the statement were carried out, the designees of the Board, and its Solicitor, would sit down with the other parties named for the purpose of discussing a settlement.

In response to an inquiry from Chairman McCabe, Mr. Vest stated that he saw no objection to the last sentence of the statement as there was no commitment in it except to have a discussion.

At this point Chairman McCabe left the meeting to talk on the telephone and upon his return stated that when he discussed with the Attorney General recently the matter of a possible settlement of the Clayton Act proceeding, the latter asked if the Board would be willing to sit down and discuss settlement and that he replied that the Board had never taken the position that it would not discuss the matter, but that any discussion should be with the Solicitor or through the Solicitor, and that the Board was not willing to participate in a discussion without a definite proposal for consideration but if the other side had a definite proposal, the Board would be willing to participate in the discussion of it with its Solicitor present.

Consideration was then given to the draft of reply to the

6/30/50

-12-

letter dated June 26, 1950, from the Comptroller of the Currency and certain changes were made. During the discussion of the draft, the meeting recessed and reconvened at 2:50 p.m. with the same attendance as at the conclusion of the morning session except that Mr. Morrill was not present.

During the ensuing discussion Chairman McCabe was called from the room and upon his return stated that Mr. Townsend had called to say that attorneys for Bank of America were interpreting the words "status quo" in the statement above referred to in such a manner as to permit the new branches of Bank of America to continue in existence, and that Mr. Townsend was not willing to accept that interpretation of the statement but rather that it meant a return to the status as of June 23, before the branches came into existence.

During the remainder of the meeting Chairman McCabe was called from the meeting several times to talk on the telephone and upon his return, stated that Mr. Bergson, Assistant Attorney General concurred in Mr. Townsend's position that the term "status quo" in the statement meant the status as of the day on which the temporary restraining order was issued, that any attempt to construe the statement otherwise would be wrong and would not be acceptable to the court, and that he, Mr. Bergson, had called the Comptroller of the Currency and Secretary of the Treasury and told them of his views and that the Comptroller of the Currency stated he would get in touch with the Bank of America's representatives.

6/30/50

-13-

There was a further discussion of the draft of reply to the letter dated June 26, 1950, from the Comptroller of the Currency and further changes therein were agreed upon. It was understood, however, that no action would be taken at this time with respect to the draft pending developments in the proceedings on the West Coast and consideration of any suggestions that Mr. Townsend might wish to make as to changes in the draft.

Mr. Szymczak reported that Daniel W. Bell, President of the American Security and Trust Company, Washington, D. C., who has been named to head a special State Department mission to the Philippines, had requested that the Board make David L. Grove, a member of its staff, available to him as a member of the mission, that it was felt that Mr. Grove could not be spared for this purpose, and that Mr. Gidney, President of the Federal Reserve Bank of Cleveland, had approved the assignment of Vice President Donald S. Thompson of that Bank as a member of the mission with the understanding that the assignment would require approximately two months.

Upon recommendation of
Mr. Szymczak, the Board interposed
no objection to this arrangement.

At this point all of the members of the staff with the exception of Mr. Carpenter 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 June 29, 1950, were approved unanimously.

Memorandum dated June 14, 1950, from Messrs. Young and

6/30/50

-14-

Noyes, Director and Assistant Director of the Division of Research and Statistics, respectively, recommending an increase in the basic salary of Mrs. Evelyn L. Hempstead, Secretary to Mr. Garfield, from \$3,475 to \$3,600 per annum, effective July 9, 1950.

Approved unanimously.

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

"In accordance with the request contained in your letter of June 21, 1950, the Board approves the appointment of H. Wendell Chittim, at present an assistant examiner, as an examiner for the Federal Reserve Bank of Boston. Please advise us of the date upon which the appointment becomes effective."

Approved unanimously.

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

"In accordance with the request contained in your letter of June 27, 1950, the Board approves the designation of Clemence A. Halmers as a special assistant examiner for the Federal Reserve Bank of Minneapolis."

Approved unanimously.

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

"Reference is made to your letter of June 22, 1950, submitting for approval of the Board of Governors, the change in location of its Waban Branch by the 'Newton-Waltham Bank and Trust Company', Waltham, Massachusetts, from 1625 Beacon Street to 466 Woodward Street, Waban, Massachusetts, as effected June 16, 1950.

6/30/50

-15-

"It is noted that approval of the appropriate State authorities has been obtained and it is assumed that the branch has been relocated in rented quarters, or, if in a newly acquired location, that the bank's investment therein will not bring the total investment of the institution in banking premises to an amount exceeding its present capital stock. The Board interposes no objection to the removal of the branch, as indicated."

Approved unanimously.

Letter to Mr. Wayne C. Grover, Archivist of the United States, The National Archives, Washington 25, D. C., reading as follows:

"Attached are three lists in quadruplicate, prepared on Standard Form No. 115, requesting authority to dispose of the records listed thereon. Samples of the material proposed for destruction accompany the respective lists.

"Some of the records referred to in the attached lists are confidential and inasmuch as the rest of the material listed does not have a sufficient volume to justify its sale as waste paper it is felt that all of the records should be incinerated.

"It will be appreciated if you will review the lists and inform us when a decision is made with respect to the proposed authorization for destruction."

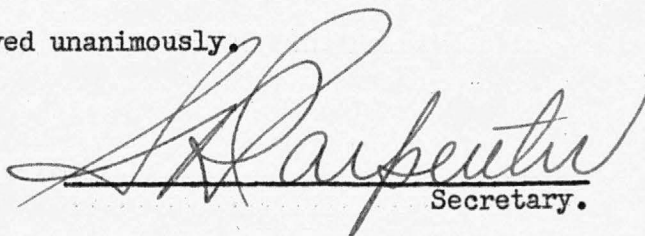
Approved unanimously.

Memorandum dated June 28, 1950, from Mr. Bethea, Director of the Division of Administrative Services, referring to an inquiry received by Mr. Szymczak from General Draper regarding space in the Federal Reserve Board Building which would be made available during the period July 19-28, 1950, inclusive, except Saturdays and Sundays, for the use of Gordon Gray, Special Assistant to the President, and stating that Room 2019 could be made available for this purpose.

6/30/50

-16-

Approved unanimously.


Secretary.