

Form F. R. 511

TO Mr. Eccles

FROM V.E.

REMARKS:

Mr. Carpenter asked that I mail this copy of memo which he has written to McCabe re letter from Stevens -- he thought you should see it as soon as possible.

*File
Myself*

C O P Y

July 2, 1948

The Board of Governors

Messrs. Thurston, Vest, and Carpenter

At the meeting of the Board on May 25 we were requested to prepare for consideration by the Board alternative drafts of replies to Mr. Stevens' letter of June 10, 1948, with respect to the action of the Board increasing reserve requirements. The drafts prepared in response to this request are attached. One is a short letter along the lines suggested by Mr. Vest at the meeting and the other is a more complete statement of the Board's position.

Inasmuch as Mr. Stevens will be in Washington on Wednesday, July 7 to discuss salary matters the Board may wish to consider these drafts at the meeting of the Board on Tuesday, July 6.

It would be our suggestion that Mr. Stevens' visit affords a good opportunity for a discussion of the matter, which may make a letter unnecessary.

Attachments

*Replies never
sent*

Dear Mr. Stevens;

In your letter of June 10, 1948, which I acknowledged on June 16, you advised that, in view of my personal letter of April 27 to the Chairmen of the Federal Reserve Banks, the directors of the Federal Reserve Bank of New York had requested you to express their view that there would have been a mutual advantage in seeking the opinion of the Bank as to the effectiveness and timing of the Board's recent action increasing reserve requirements in central reserve cities, effective June 11th. I am now writing to acquaint you with the views of the Board in this matter, after discussing your letter at a recent meeting.

The action in question was the second step in a long contemplated and thoroughly considered policy. Its timing and effectiveness are matters of judgment that should, of course, be based upon the best and most complete available information, but a decision of such questions involves a responsibility of the Board which it feels cannot properly be shared with directors or officers of the Federal Reserve Banks, particularly since some of the directors, of course, represent banks affected by such action.

The members of the Board desire at all times to have the benefit of the advice and counsel of the directors and officers of the Federal Reserve Banks in all matters of System policy and operations which may properly be made the subject of common counsel. It is hoped that the directors and officers will not wait for an invitation to express their views to the Board on any question which is being or may be considered, and the Board will at all times welcome

an expression from them in such matters. Moreover on occasions when the nature of the subject matter and time permitted, the Board has in the past requested and will wish in such cases in the future to request the views of the Reserve Banks before coming to a conclusion and taking action. In other circumstances, however, the Board cannot undertake to seek the opinion of the Reserve Banks before reaching a decision and this is particularly likely to be the case with respect to such matters as changes in reserve requirements and other actions involving national credit policy.

The Board feels, however, that it would be very desirable to have an opportunity to discuss this whole matter with you. I hope that you will be in Washington in the near future and that when you are you will plan to have lunch with us here, so that we can have a full and frank discussion of this and any related questions. Please let me know, therefore, of the next occasion when you may be in Washington, and I hope we can look forward to seeing you soon.

With warmest regards,

Sincerely,

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Governor Eccles

Office Correspondence

Date June 29, 1948.

To Chairman McCabe

Subject: _____

From Mr. Carpenter

In accordance with your request I talked yesterday with Mr. Stevens, Chairman of the Federal Reserve Bank of New York and advised him substantially as follows:

The Personnel Committee and the Board has had considerable discussion of the recommendations of the Board of Directors of the Federal Reserve Bank of New York with respect to salaries of officers of the Bank and feels that it would be desirable for the available members of the Personnel Committee and the Board to have a conference with Messrs. Stevens and Sproul (or Mr. Rounds in Sproul's absence) and inasmuch as Chairman McCabe is to be away the rest of this week and Mr. Sproul will be on vacation beginning next week, Mr. Stevens might want to come down as soon as he could. The Board is not favorable to increasing the salaries of the president and first vice president for various reasons which will be explained to Mr. Stevens when he comes down, and, so far as the proposals of the other senior officers were concerned, the Board feels that their salaries have to be related to the salaries of the presidents and first vice presidents of other Federal Reserve Banks, and that, therefore, they could not be increased above the ranges provided for the presidents and first vice presidents of the other Banks. It was the feeling of the Board in suggesting that Mr. Stevens come down for this discussion that, it would be mutually helpful if he could have the benefit of the Board's views and if the Board could have full information as to the reasons for increases that might be finally agreed upon.

Mr. Stevens was in Washington when he called me and he said that he would call me from New York today regarding a date for the suggested conference. He called this morning and stated that he had talked with Mr. Sproul who would be away beginning next week, but that Mr. Rounds would be available, and that it was suggested that the date for the conference be set for the afternoon on Wednesday, July 7. The reason for this suggestion was that Mr. Stevens will be

June 29, 1948.

in Washington for a meeting with the State Department on the morning of July 7 and if possible he would like to avoid making two trips. He made it clear, however, that if the time did not suit the convenience of the Board he would make other arrangements.

I talked with your office and the other members who were present in Washington and the time suggested by Mr. Stevens is agreeable to them. I then called Mr. Stevens back and told him the meeting had been set for 2:30 p.m. in Washington on July 7 and that if he and Mr. Rounds could arrange to take luncheon here the Board members would be delighted. He responded that whether he could come for lunch would depend on the meeting at the State Department, that he would call me on Wednesday morning on that point, and that, since Mr. Calkins was Chairman of the Committee on Welfare of the Staff, he was inviting Mr. Calkins to attend the conference but did not know whether he would be able to do so.



C O P Y

Mr. Eccles

FEDERAL RESERVE BANK
OF NEW YORK

New York 45, N. Y.

June 17, 1949.

Hon. Thomas B. McCabe, Chairman,
Board of Governors of the
Federal Reserve System,
Washington 25, D. C.

Dear Tom:

This letter is in reply to that part of your letter of June 1, 1949, which asks for the current thoughts of our directors and officers on the use of our statutory responsibilities under section 13b of the Federal Reserve Act. The subject was discussed at the meetings of our directors on June 2 and 9 and, as you know, again on June 16. The views set forth in this letter are the consensus of our directors and officers.

Credit accommodation under section 13b is, of course, but an incidental aspect of Federal Reserve operations. Our principal concern is with the general credit situation, and our operations under section 13b must bear some relation to general credit policy. In a period of strong inflationary pressures, when we are trying to restrain credit expansion, we would not be likely either to have or to grant many applications for loans under section 13b. Indeed, during the period of inflationary pressures of recent years, business showed little interest in credit accommodation under section 13b. In a period of readjustment, such as we have been going through, it becomes more difficult to have a general attitude toward these loans, because credit does tend to tighten up at the usual sources, and yet it is not our function to delay necessary readjustments with too liberal doses of reserve funds. In a period of serious deflation, however, we would probably tend to lean far out to make loans, taking into account such things as general community problems, employment, and other factors which are not the ordinary loan criteria.

In addition to this general approach, we have always been mindful of the statutory provision that we are not to extend credit under section 13b unless it is not otherwise obtainable "on a reasonable basis from the usual sources". We believe that we should not intervene in the making of loans which can and will be made by the private banking system, either by an individual bank entirely, or by participation with a correspondent.

What it finally comes down to is a policy of trying to look at every application for a 13b loan (or for participation in such a loan), on its individual merits, but gearing our publicity or promotion of such loans to the times. Up to the end of last year, with inflationary pressures strong, we did not want to advertise our 13b loan powers. In the present situation, however, we are having our bank relations men discuss this facility in their rounds of the banks, and we shall remind groups of bankers, who visit the bank at our invitation from month to month, that the facility still exists and is in working order. Depending upon how the economic situation develops we might, of course, want to become more aggressive in reviving district awareness of our 13b loan powers.

While we would always consider every inquiry and application carefully and sympathetically, and would try to help solve financial problems whenever and wherever we can, we would not want to make a loan or commitment unless we believed that the borrowing concern would really benefit from the assistance. Our previous experience in 13b operations demonstrated that the encouragement of incompetent management usually brings grief to the lender, the borrower and his competitors. We would also continue our established policy of refusing to bail out banks, in weak situations, by taking over any part of existing loans that the banks may have.

Sincerely yours,

(Signed) Bob

Robert T. Stevens,
Chairman.

C O P Y

Dear Bob,

I have discussed with the other members of the Board your letter of June 10, 1948, which I acknowledged on June 16, with respect to the recent increase in reserve requirements of central reserve city banks.

You will appreciate, I am sure, and in fact your letter recognizes, that certain functions vested in the Board must be discharged upon its own responsibility, and it is not always possible, in view of the time element or for other reasons, to take these matters up with the directors or officers of the Federal Reserve Banks. The possibility of this particular change in reserve requirements had been under discussion by the Board for some months past.

The Board feels, however, that it would be very desirable to have an opportunity to discuss this whole matter with you. I hope that you will be in Washington in the near future and that when you are you will plan to have lunch with us here, so that we can have a full and frank discussion of this and any related questions. Please let me know, therefore, of the next occasion when you may be in Washington, and I hope we can look forward to seeing you soon.

With warmest regards,

Sincerely.

C O P Y

June 16, 1948

Dear Bob:

I am pleased to acknowledge your letter of June 10 in which you express the views of the Directors of the Federal Reserve Bank of New York concerning the recent increase in reserve requirements of Central City Banks. I will be very glad to show this letter to the members of the Board of Governors.

With warmest regards,

Sincerely,

Mr. Robert T. Stevens, Chairman
Federal Reserve Bank of New York
New York 45, N. Y.

*Shurston's
suggested reply
not sent*

Dear Mr. Stevens:

At a recent meeting Chairman McCabe brought to the attention of the Board your letter to him of June 10, 1948, suggesting that, in view of his personal letter of April 27 to the chairmen of the Federal Reserve banks, the directors of the Federal Reserve Bank of New York had requested you to express their view that there would have been a mutual advantage in seeking the opinion of the Federal Reserve Bank of New York in regard to the effectiveness and timing of the Board's action which increased reserve requirements at Central Reserve Cities, effective June 11.

The Board would welcome an opportunity to discuss with you, at a mutually convenient time, the specific and related questions which your letter raises. The particular action, to which you refer, was the second step in a long contemplated and thoroughly considered policy. Its timing and effectiveness were matters of judgment, which need to be based upon the best and most complete available information, but for which the Board has a responsibility that could not properly be shared, particularly with directors of Federal Reserve banks who represent banks affected by such action.

The members of the Board desire at all times to have the benefit of the advice and counsel of directors and officers of Federal Reserve banks in all matters of System policy and operations which may properly be made the subject of common counsel. The Board has always endeavored to adhere to that practice as a matter of course, and believes that a full and frank discussion with you would be helpful in clarifying and improving the respective relationships.

C O P Y

FEDERAL RESERVE BANK OF NEW YORK

June 10, 1948

Dear Chairman McCabe:

At the meeting of our Board of Directors last week there was a discussion of the action of the Board of Governors in increasing the reserves which central reserve city banks are required to maintain against net demand deposits, effective June 11, 1948. Without attempting to argue the merits of the action, it was the view of the directors that here was a case in which the approach to System problems, set forth in your letter of April 27, 1948, might have found application, and I was asked to write to you in this vein.

It was recognized by the directors, of course, that the power to change reserve requirements is vested by the Federal Reserve Act in the Board of Governors, and that the directors and officers of the Federal Reserve Banks have no statutory authority or responsibility in the matter, and that their advice need neither be sought nor used. Nevertheless, in view of the consideration which has been given to changes in reserve requirements during recent months, and in view of the relation of such a change to other aspects of credit policy, and in view of the fact that the principal impact of the action would be in New York, it seemed to our directors that there would have been a mutual advantage in seeking the opinion of this bank as to the effectiveness and timing of the Board's action. It was recognized also that, as you indicated in your letter of April 27th, time and circumstances will not always permit of seeking the judgments of boards of directors and officers of Reserve Banks on important System matters, but we were not aware of any compelling urgency in this instance which made such procedure impossible.

Our directors have asked me to write you this "after the fact" letter, therefore, not in a critical spirit, but in the hope that the really constructive suggestion which you made last April will not be lost to sight amid the pressures of day-to-day administration. We are sure that you are aware of the instant response of our directors to this appeal to their interest in and participation in the affairs of the System, and we want to confirm to you our strong desire to play our part in making your suggestion bear fruit.

Yours sincerely,

/s/ Robert T. Stevens
Robert T. Stevens,
Chairman.

Hon. Thomas B. McCabe, Chairman,
Board of Governors of the
Federal Reserve System,
Washington 25, D. C.