

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, July 30, 1946, at 10:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Szymczak (First part of meeting)
Mr. Evans
Mr. Vardaman

Mr. Carpenter, Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Chairman
Mr. Paulger, Director of the Division
of Examinations
Mr. Smead, Director of the Division of
Bank Operations
Mr. Vest, General Counsel
Mr. Thomas, Director of the Division
of Research and Statistics
Mr. Young, Assistant Director of the
Division of Research and Statistics
Mr. Youngdahl, Economist in the Division
of Research and Statistics

Before this meeting the members of the Board had been furnished copies of two memoranda prepared by Messrs. Thomas and Young under date of July 19, 1946, recommending that the Board approve plans as outlined in the memoranda under which selected groups of banks in the various Federal Reserve Districts would be invited to cooperate in surveys of bank loans to farmers and to commercial and industrial concerns. The memoranda stated that preliminary drafts of the survey schedules had been field tested and found effective and practicable and that the program had been discussed at a meeting in Washington of the System Research Advisory Committee and the Subcommittee of the Presidents' Conference Committee on Research held on July 16-17, 1946, with the results stated in the memoranda, including a preference on the part of the Federal

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Reserve Bank representatives for the late spring as the date for the survey of loans to farmers and a suggestion that the survey of commercial and industrial loans be made as of an appropriate date this fall. The memoranda reviewed the contemplated value of the surveys, the extent to which other organizations had indicated a willingness to cooperate and the considerations favorable to the surveys, and suggested that, for the reasons stated, the survey on farm loans be made as of October 31, 1946, if satisfactory arrangements could be made with the Federal Reserve Banks for that date and, if that should not be possible, that the survey be made next spring as of a date satisfactory to the Federal Reserve Banks.

At this meeting, Mr. Thomas discussed the scope and nature of the surveys and the procedure to be followed in carrying them out. In response to questions by members of the Board, Mr. Thomas stated that representatives of the Comptroller of the Currency and the Federal Deposit Insurance Corporation had participated in some of the discussions of the proposed program, that the representatives of the Federal Deposit Insurance Corporation had stated that they would like to cooperate in the survey and representatives of the Comptroller's Office had indicated a favorable attitude, and that although the Presidents of the Federal Reserve Banks had discussed the matter at the time of the last Presidents' Conference, and at their suggestion the matter had been referred to the System Research Advisory Committee for consideration, the Presidents had not had an opportunity to consider the details

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of the program as now proposed. It was the consensus of the members of the Board present that it would be desirable to have the support of the Comptroller of the Currency and the Federal Deposit Insurance Corporation for the program and, if possible, to state in the letter to the banks cooperating in the survey that it was being made with their approval and support.

As to the support of other agencies, Mr. Thomas stated that the Bureau of Agricultural Economics would support the survey as a substitute for a survey which it had planned to make this year, that the National Bureau of Economic Research was interested and would cooperate in the analysis of the survey materials, and that representatives of the American Bankers' Association had informally assured the Board's staff that the Association would cooperate fully in the surveys and, if desirable, would address a letter to the Board expressing the Association's interest and desire to cooperate.

At this point Mr. Szymczak left the meeting to keep another appointment.

Mr. Vardaman raised the question whether, if the objective was to get a picture of agricultural loans at their highest seasonal point, it would be desirable to make the survey as of the same date in all Federal Reserve districts. This point was discussed and it was suggested that Mr. Thomas give further consideration to it.

Mr. Vardaman also suggested that, because of the work and inconvenience to participating banks in studies of this kind, the surveys

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should not be made unless it could be made clear to the banks that the results would be of help to them and would be worth the effort required, and unless the Presidents of the Federal Reserve Banks were in accord with the program.

There was a discussion of the number of banks that would be requested to participate in the program, how the banks were selected which were used for the field test that had been made and their reaction to the test, and the use that would be made of the information produced by the survey if made. It was the consensus of the meeting that the information would be valuable to the bank supervisory agencies, the Congress, the banks, and other interested parties in the consideration of the whole problem of inflation and postwar adjustments and the manner in which that problem should be met.

In a discussion of timing of the surveys and the question raised by Mr. Vardaman whether the present was the proper time to undertake the program, Mr. Thomas stated that since the study of the Bureau of Agricultural Economics had been planned for this summer, the Bureau would like to have the survey of loans to farmers made this year. He also said that the National Bureau of Economic Research would like to have the surveys made this fall rather than next spring, but that the Federal Reserve Banks, because of the shortness of time and the personnel and other problems involved, would prefer to make them next spring.

At the conclusion of the discussion, it was suggested that Mr.

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Thomas be requested to prepare for consideration by the Board a draft of letter to the Federal Reserve Banks sending them full information with respect to the proposed surveys, stating that it had been suggested that the survey of loans to farmers be made in the spring (perhaps on different dates in different Federal Reserve districts in order to get a picture of the peak demand for these loans), that the survey of loans to commercial and industrial concerns be made as of a date not later than the first of November of this year, and asking the Presidents to be prepared to discuss the matter at the forthcoming Conference of Presidents of the Federal Reserve Banks. It was also suggested that steps be taken to get letters from the American Bankers' Association, the National Bureau of Economic Research, the Department of Agriculture, the National Association of State Bank Supervisors, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation so that when the matter was discussed with the Presidents the Board would be in a position to state what the situation was with respect to the support and cooperation of the Federal bank supervisory agencies and the other organizations referred to. In a discussion of the latter suggestion it was proposed and agreed that when the letter to the Federal Reserve Banks was ready to be sent, the matter be taken up personally with the proper representatives of the Comptroller of the Currency and the Federal Deposit Insurance Corporation.

Upon motion by Mr. Vardaman, the procedure outlined above was approved unanimously.

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Chairman Eccles stated that representatives of the investment banking firm of Kuhn Loeb & Co. of New York, New York, had called on him yesterday, after having met with representatives of the Treasury and the Comptroller of the Currency, in connection with an undertaking by the firm to underwrite a 50 million dollar long-term loan to the Dutch Government which would replace an equal amount of the 200 million dollar short-term loan to the Netherlands recently negotiated by the Export-Import Bank. He said that it appeared that the securities representing the loan might not meet the requirements of the investment securities regulation of the Comptroller of the Currency, and would not be purchased by member banks in the absence of an understanding on the part of the Federal bank supervisory agencies that examiners from these agencies would not criticize banks for having the securities in their portfolios. In these circumstances, Chairman Eccles said, the representatives of Kuhn Loeb & Co. wanted to know what the position of the Board would be in the matter and that he had stated that he would be opposed to the banks taking any of the securities. He added that the reason for his position was that, from the standpoint of the monetary situation in this country, purchases of such securities by the banks would have the same effect as purchases of long-term United States Government securities, that it was the current policy to place as much of the Government debt as possible in the hands of nonbank investors, that the purchase of additional securities by the banks would add to inflationary pressures and from a monetary standpoint would be entirely

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inconsistent with the present policies, and that, aside from the question of risk involved, if approval were given by the Federal bank supervisory agencies in connection with the proposed loan to the Dutch Government it would set a precedent for similar loan arrangements with other governments which would be highly undesirable.

He made the further statement that, in response to an inquiry from the representatives of Kuhn Loeb & Co. as to the appropriate agency of the Government with which the matter might be taken up, he had suggested that they discuss it with the Chairman of the Export-Import Bank who, undoubtedly, would place it on the agenda of the National Advisory Council on International Monetary and Financial Problems which had responsibility for foreign lending.

Upon motion by Mr. Vardaman, it was voted unanimously to approve the position which Chairman Eccles had taken.

At this point Messrs. Paulger, Smead, Vest, Thomas, Young, and Youngdahl withdrew from the meeting and the action stated with respect to each of the matters hereinafter referred to was then taken by the Board:

Memorandum dated July 26, 1946, from Mr. Thomas, Director of the Division of Research and Statistics, recommending, for the reasons stated therein, that Mr. David L. Grove, an Economist in that Division, be directed to proceed directly from Guatemala to Mexico City in time to attend the Central Bank Conference in Mexico City which will open there on August 15, 1946.

Approved unanimously.

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Memorandum dated July 29, 1946, from Mr. Bethea, Director of the Division of Administrative Services, submitting the resignation of Mr. James A. Cameron, Jr., a Guard in that Division who has been on military leave, and recommending that the resignation be accepted, effective at the close of business July 27, 1946.

The resignation was
accepted as recommended.

Letter to the "Bank of Northumberland, Incorporated, of Heathsville, Virginia," Heathsville, Virginia, reading as follows:

"The Board is glad to learn that you have completed all arrangements for the admission of your bank to membership in the Federal Reserve System and takes pleasure in transmitting herewith a formal certificate of your membership.

"It will be appreciated if you will acknowledge receipt of this certificate."

Approved unanimously.

Letter to Mr. Earhart, First Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"This will acknowledge your letter of July 19, 1946, enclosing a copy of a resolution adopted by the Executive Committee of the Motor Car Dealers Association of San Francisco, Inc., recommending that the automotive industry be treated separately under Regulation W.

"The idea that there should be no dollar limit in connection with credit for automobiles while the \$1,500 limit should apply to all other credits is an interesting suggestion. As you know, we are studying this and other matters and hope to be able to come forward with some changes fairly promptly that will make the regulation more satisfactory to all concerned."

Approved unanimously.

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Thereupon the meeting adjourned.

[Handwritten Signature]
Secretary.

Approved:

[Handwritten Signature]
Chairman.