Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, May 6, 1947. The Board met in the Board Room at 10:15 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Chairman
Mr. Thomas, Director of the Division of Research and Statistics
Mr. Vest, General Counsel
Mr. Nelson, Director of the Division of Personnel Administration

Mr. Evans stated that the American Agricultural Editors Association would be meeting in Washington next week, that about 60 editors of agricultural papers located throughout the United States would be in attendance, that with the informal approval of the Board he had invited them to come to the Board's offices and had arranged for a program at which they would hear informal talks on the economic, fiscal, and monetary situation by Chairman Eccles and by Mr. Thomas, Director, and Messrs. Young and Knapp, Assistant Directors, of the Division of Research and Statistics, and that he had asked them to have luncheon in the Board's dining rooms.

It was agreed unanimously that a luncheon should be served to the agricultural editors as guests of the Board in connection with their meeting at the Board's offices on May 12, 1947, and that the appropriate classification in the budget
of the Division of Administrative Services be increased to cover the cost of the luncheon.

At this point Messrs. Thomas, Vest, and Nelson, withdrew and the action stated with respect to each of the matters herein-after set forth was taken by the Board:

Memorandum dated April 30, 1947, from Mr. Thomas, Director of the Division of Research and Statistics, recommending the appointment of Daniel H. Brill as an economist in that Division, on a temporary indefinite basis, with basic salary at the rate of $6,144.60 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination. The memorandum also stated that Mr. Brill was a member of the Civil Service retirement system and would remain in that system.

Approved unanimously.

Telegram to Mr. Davis, President of the Federal Reserve Bank of St. Louis, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H, the Board approves the application of the "Gallatin County State Bank", Ridgway, Illinois, for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of St. Louis, effective if and when the bank is duly authorized to
commence business by the appropriate State authorities. The tele-
gram requested that the Federal Reserve Bank advise the applicant 
bank of the Board's approval of the application and conditions of 
membership prescribed, together with necessary instructions as to 
the procedure for accomplishing membership, and stated that a let-
ter containing detailed advice regarding such approval would be 
forwarded to the applicant bank through the Reserve Bank. The tel-
gram contained the following special condition:

"4. At the time of admission to membership, 
such bank shall have a paid up and un-
impair capital stock of not less than 
$50,000, surplus of $25,000 and other 
capital funds of approximately $25,000."

Approved unanimously.

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

"Reference is made to your letter of April 28, 
1947, submitting the request of the Provident Trust 
Company of Philadelphia, Philadelphia, Pennsylvania, 
for approval, under the provisions of Section 24A of 
the Federal Reserve Act, of an expenditure of approxi-
mately $900,000 for the purpose of building an addi-
tion to the trust company's main office which present-
ly would result in an investment in bank premises of 
about $185,000 in excess of its capital stock.

"It is understood that the proposed expenditure 
of approximately $900,000 is not to be capitalized, 
and in view of your favorable recommendation the 
Board of Governors approves the additional invest-
ment as proposed."

Approved unanimously.
Letter to "The Commerce Guardian Bank", Toledo, Ohio, reading as follows:

"The Board of Governors of the Federal Reserve System has considered the application for permission to exercise fiduciary powers made by you on behalf of the Commerce National Bank of Toledo, Toledo, Ohio, the national bank into which The Commerce Guardian Bank, Toledo, Ohio, is to be converted, and grants such national bank authority, effective if and when it is authorized by the Comptroller of the Currency to commence business, to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of Ohio, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

"After the conversion of The Commerce Guardian Bank, Toledo, Ohio, into the Commerce National Bank of Toledo, Toledo, Ohio, becomes effective and the Comptroller of the Currency authorizes the national bank to commence business, you are requested to have the board of directors of the national bank adopt a resolution ratifying your application for permission to exercise fiduciary powers, and a certified copy of the resolution so adopted should be forwarded to the Federal Reserve Bank of Cleveland for transmittal to the Board for its records. When a copy of such resolution has been received by the Board, a formal certificate covering the national bank's authority to exercise trust powers will be forwarded."

Approved unanimously.

Letter to the Honorable Charles W. Tobey, United States Senate, reading as follows:

"We are glad to comply with your request for our comments on a letter referred to you by Senator Brooks,
"from Mr. Russell G. Longmire of Chicago, which relates to the control of stock market credit as exercised by this Board.

"It appears from Mr. Longmire's letter that he can see no economic reason -- but only some political reason -- why the Board should have raised the margin requirements last year to 100 per cent or failed to lower them this year to 40 per cent (instead of 75). The actual reason, as Chairman Eccles undertook to explain in his statement of January 17, has been altogether an economic one, to assist in combatting the strong inflationary forces which have been at work in the national economy for years and have not yet fully run their course.

"The statutory mandate resting on the Board is to fix margin requirements 'for the purpose of preventing the excessive use of credit for the purchase or carrying of securities'. It is quite true, of course, that the amount of credit extended by brokers to their customers has not been above the moderate amount of 1.1 billion dollars during the last two years, but in judging whether any given amount of credit is excessive the Board must take into consideration, as Mr. Longmire's letter does not do, the general economic situation of the country. On that score, the outstanding fact has been that the money supply of the country has been altogether excessive in relation to the available supply of goods. To make credit easy for speculators in stocks would add to the money supply without bringing about any increase whatever in the available supply of goods. That is to say, it would tend to make a dangerous inflationary situation still more inflationary.

"It is true also that the amount of credit used for carrying Government securities, on which margin requirements are not subject to the Board's regulations, amounted at one time to several billions. This came about, as you know, as an incident to the War Loan drives, and has now been largely eliminated. On the question at issue, however, it cannot be argued that the extensive use of credit to carry Government securities was a reason for relaxing control on credit for carrying stocks -- especially in view of the fact that the statute exempts Government securities from the margin-requirement control.

"We appreciate the opportunity you have given us to
"comment on this correspondence, which is returned herewith."

Approved unanimously.

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

"It will be recalled that at the Presidents' Conference held in September 1942 it was voted that any Federal Reserve Bank should be permitted during the war to hold in safekeeping for nonmember banks Treasury Bills and Certificates of Indebtedness. In accordance with this action the Board advised all Federal Reserve Banks under date of October 14, 1942 that it offered no objection to the Federal Reserve Banks' rendering such service to nonmember banks for the duration of the war.

"Since over a year and a half has elapsed since V-J Day the Board sees no reason for continuing the practice any longer, and accordingly requests that if any Reserve Banks now have such custody accounts for nonmember banks they take steps to terminate them by July 1, 1947.

"This letter supersedes the Board's letter of October 14, 1942 referred to above."

Approved unanimously.

Secretary.

Approved:

Chairman pro tem.