

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, June 24, 1947.

PRESENT: Mr. Eccles, Chairman
 Mr. Szymczak
 Mr. Draper
 Mr. Evans
 Mr. Vardaman
 Mr. Clayton

Mr. Carpenter, Secretary
 Mr. Sherman, Assistant Secretary
 Mr. Morrill, Special Adviser

Minutes of actions taken by the Board of Governors of the Federal Reserve System on June 23, 1947, were approved unanimously.

Memorandum dated May 27, 1947, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that Miss Sylvia Levinson be appointed as a research assistant in that Division, on a temporary indefinite basis, with basic salary at the rate of \$2,644.80 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination. The memorandum also stated that it was contemplated that Miss Levinson would become a member of the Federal Reserve retirement system.

Approved unanimously.

Memorandum dated June 17, 1947, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that increases in the basic annual salaries of the following employees in that Division be approved, effective June 29, 1947:

6/24/47

-2-

<u>Name</u>	<u>Designation</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Robert A. Rennie	Economist	\$4,525.80	\$4,651.20
Viola A. Hodson	Clerk	3,522.60	3,648.00
Harvey A. Robinson	Clerk	3,271.80	3,397.20
Esther G. Crews	Clerk	3,021.00	3,146.40
Mary White	Clerk	3,021.00	3,146.40
Mary Frances Weaver	Clerk	2,845.44	3,021.00
Melba M. Coone	Clerk	2,394.00	2,469.24
Eleanor Wirth	Clerk-Stenographer	2,544.48	2,619.72
Mae J. Stohlman	Clerk-Stenographer	2,394.00	2,469.24

Approved unanimously.

Memorandum dated June 18, 1947, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that an increase in the basic salary of Mrs. Evelyn L. Hempstead, a clerk-stenographer in that Division, from \$2,544.48 to \$2,694.96 per annum be approved, effective June 29, 1947.

Approved unanimously.

Memorandum dated June 12, 1947, from Mr. Thomas, Director of the Division of Research and Statistics, recommending the permanent appointment of the following employees in that Division, now on temporary indefinite appointments, effective today, with no change in their present basic salaries:

<u>Name</u>	<u>Title</u>
Doris Bruderer	Clerk-Stenographer
A. Regina Hurley	Clerk-Stenographer
Geraldine Loyd	Clerk-Stenographer
Mary E. McDonald	Clerk-Stenographer
Mae J. Stohlman	Clerk-Stenographer
Joan M. Gough	Clerk-Typist
Beverly C. Lacey	Clerk-Typist

6/24/47

-3-

<u>Name</u>	<u>Title</u>
Helen V. McInturff	Clerk-Typist
Genevieve Gilardi Duarte	Clerk
Dorothy J. Lichens	Clerk
Betty Ann Stanley	Clerk
Elva H. Townsend	Clerk
Mary R. Wilkinson	Clerk
Margaret R. McHone	Draftsman
Lucile R. MacLean	Library Assistant

Approved unanimously.

Letter to Mr. Francis Adams Truslow, President, New York Curb Exchange, 78 Trinity Place, New York 6, New York, reading as follows:

"This is in reply to your letters of June 9 and June 12, which were forwarded by Mr. Allan Sproul, President, Federal Reserve Bank of New York.

"The fundamental issue to which your letters direct attention is what general purpose Congress intended to be served by the administration of margin requirements. These letters take the narrow view that stock market credit is to be restrained only to the extent necessary to prevent the stock market from 'absorbing' credit that is needed by commerce and industry.

"It is true that the idea of a pool of credit allocatable among the various sectors of the economy is one which appears at several points in the documents which record the legislative history of the Securities Exchange Act of 1934. That this is only one of the ideas which were deemed relevant is manifest, however, in the references -- made in Section 2 of the Act and in the Reports of the Congressional Committees -- to speculation, fluctuations in prices, overoptimism on the part of industry, overstimulation of production, and encouragement of unnecessary new security issues.

"The 'absorption' point itself is one which needs to be interpreted in the light of the way the credit

6/24/47

-4-

"system works. The funds created by stock market credit do not, except in small part, stay in the market. They flow out to commerce, industry, and consumers through the sellers of the securities which are bought on credit. They add to the money supply which is circulating in the economy. Commerce and industry are being deprived only in the sense that the distribution of the funds is influenced by the channel through which they flow with the consequence that certain sectors of commerce and industry may be at a handicap as compared with others. It will be noted that the relevant paragraph in the Report of the House Committee which you have quoted in your letter expresses concern for 'local commerce, industry, and agriculture' (underscoring supplied).

"But even on the credit aspect the evidence is clear that the 'absorption' point was only a part of the reasoning leading to the adoption of the Act. That Congress was thinking of the general monetary situation of the country is shown by the references to the banking system, the total amount of credit outstanding, and the phase of the business and financial cycle.

"In this connection, it is significant that in giving the Board authority to prescribe lower margin requirements than would be called for by the formula set forth in the Act, Congress used the words 'as it deems necessary or appropriate for the accommodation of commerce and industry, having due regard to the general credit situation of the country.' This is a paraphrase of language in Section 12A of the Federal Reserve Act, as amended by the Act of June 16, 1933, which has to do with the Federal Open Market Committee. This language is as follows: 'The time, character, and volume of all purchases and sales of paper described in Section 14 of this Act as eligible for open-market operations shall be governed with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country.'

"Congress thus indicated an intention that margin requirements should be administered in the light of the considerations which govern the Federal Reserve System in determining its general monetary and credit policy. Even more to the specific point you stress, the language is definitely in conflict with your theory that the Board

6/24/47

-5-

"is limited in its authority to keeping stock market credit down when it would deprive commerce and industry of needed credit. Lower margin requirements would permit more stock market credit and, under your theory, could never be necessary to accommodate commerce and industry.

"While we believe that this general discussion disposes of your reference to the statutory formula, it is of some significance that Congress expected that there would be higher margin requirements when the economy had recovered from the low levels of 1934. The House Committee Report states: 'The 55-per cent standard expressed in the statute is, however, so deliberately over-lenient for the purpose of encouraging the markets at this particular point in the recovery program, that the Board in exercising its discretion would be expected to lower this 55-per cent figure considerably after the market reaches more normal levels.' The 55-per cent figure mentioned is, of course, the loan value, so that lowering the loan value would raise the margin requirements. Certainly it would appear that conditions now are much more favorable than in 1934. Production and employment are at all-time highs and stock prices as measured by the Standard Statistics index of 402 common stocks (the most appropriate index for long-term comparisons) are at about 120 as compared with 70-80 in the first six months of 1934.

"The Board feels that the reasons for its actions on margin requirements have been fully set forth in official statements of the Board, or the Chairman of the Board, most of which are referred to in your letter. Some of these, however, which you appear to have overlooked, should also be consulted; they appear in 'Record of Policy Actions -- Board of Governors' in the Board's Annual Report for 1945, pages 82-89. A copy of this Annual Report is enclosed. Your attention is also invited to the Board's 1946 Annual Report which is expected to be issued in the near future. We will send you a copy as soon as it becomes available. It seems to us that Mr. Sproul made some very apposite observations in his letter to you of June 10."

Approved unanimously, for transmission through the Federal Reserve Bank of New York.

6/24/47

-6-

Letter to the Presidents of all the Federal Reserve Banks
(except New York) reading as follows:

"The International Bank for Reconstruction and Development has informed the Board that it is preparing certain forms to be used by commercial banks in reporting disbursements under letters of credit in connection with transactions financed by the Bank. The Bank has indicated that the arrangements which it contemplates would be greatly facilitated if each of the Federal Reserve Banks would be prepared to distribute these forms upon request of commercial banks. It does not appear that the provision of this service would involve any significant burden, and the Board believes that it would be appropriate and desirable for the Federal Reserve Banks to provide this service. We are informing the International Bank accordingly, and you may expect a formal request from the Bank in the near future."

Approved unanimously.

Memorandum dated June 2, 1947, from Messrs. Thurston, Thomas, and Bethea, making the following recommendations in connection with the preparation of the booklet entitled "The Federal Reserve System-- Its Purposes and Functions" authorized by the Board on June 12, 1946:

- "(1) That, after approval of manuscript by Governor Evans, 40,000 cloth-and 100,000 paper-bound copies be printed.
- (2) That a contract for this work be awarded to the National Publishing Company, Washington, D. C., the lowest competitive bidder. It is estimated that the over-all cost, including expenses incidental to initial distribution, will be \$30,000.
- (3) That the appropriate account classifications in the budget of the Division of Administrative Services be increased by the amount necessary to cover the cost of printing and handling the initial distribution of the booklet.
- (4) That cloth-bound copies with cards enclosed, reading 'With the Compliments of the Board of Governors of the Federal Reserve System,' be sent according to the attached schedule.

6/24/47

-7-

- "(5) That cards--similar to those used in connection with the Board's 1946 Annual Report--be sent to all banks in the United States, including branches of member banks receiving the Federal Reserve Bulletin on a complimentary basis. (16,213)
- (6) That, aside from copies forwarded to groups on the attached schedule and to a limited number of selected addressees, distribution of cloth-bound copies on a complimentary basis be limited to (a) Government departments, agencies and establishments (foreign and domestic, including central banks); (b) libraries and teachers at educational institutions; (c) public libraries; and (d) the press.
- (7) That, in the case of groups not covered by (6) above, there be a charge of 75 cents each for one to nine cloth-bound copies and a special price of 50 cents for ten or more copies sent in a single shipment.
- (8) That paper-bound copies be distributed upon request without charge, including reasonable quantity requests for classroom use."

Approved unanimously.

Memorandum dated June 19, 1947, from Mr. Hooff, Assistant Counsel, recommending that there be published in the law department of the July issue of the Federal Reserve Bulletin a statement in the form attached to the memorandum with respect to the following subject:

Purchase of International Bank Debentures.

Approved unanimously, together with a letter to the Presidents of all the Federal Reserve Banks quoting the above-mentioned statement.

"For your information, the following statement will appear in the July issue of the Federal Reserve

6/24/47

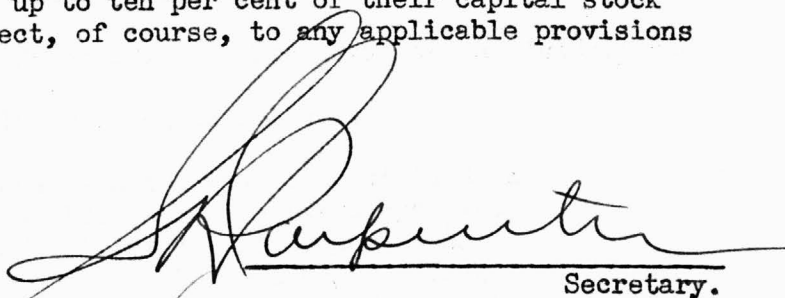
-8-

"Bulletin with respect to the purchase by member banks of debentures of the International Bank:


'The Treasury Department on May 29, 1947, issued the following press release No. S-347:

'It was announced today by Preston Delano, Comptroller of the Currency, that national banks may purchase the debentures of the International Bank for Reconstruction and Development up to the full legal limit of ten per cent of their capital and surplus.

'In view of the provisions of section 9 of the Federal Reserve Act and of section 5136 of the U. S. Revised Statutes, State banks which are members of the Federal Reserve System may likewise purchase debentures of the International Bank up to ten per cent of their capital stock and surplus subject, of course, to any applicable provisions of State law.'"


Secretary.

Approved:


Chairman.