

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, March 19, 1948. The Board met in the Board Room at 10:30 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Smead, Director of the Division of Bank Operations
Mr. Parry, Director of the Division of Security Loans
Mr. Bethea, Director of the Division of Administrative Services
Mr. Thomas, Director of the Division of Research and Statistics
Mr. Vest, General Counsel
Mr. Leonard, Director of the Division of Examinations
Mr. Nelson, Director of the Division of Personnel Administration
Mr. Hammond, Assistant Secretary
Mr. Young, Associate Director of the Division of Research and Statistics
Mr. Knapp, Assistant Director of the Division of Research and Statistics
Mr. Dembitz, Chief, International Financial Operations Section, Division of Research and Statistics
Mr. Allen, Personnel Technician, Division of Personnel Administration

Mr. Szymczak stated that this meeting had been delayed from a date earlier in the week with the hope that Mr. Vardaman could be present, but that word was received from his office that he would not be released from the hospital until some time next week.

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There was presented a telegram to the Federal Reserve Bank of Chicago reading as follows:

"Retel March 18, Board approves effective March 20, 1948, rate of 1-1/4 per cent in connection with purchases of Government securities under resale agreement as authorized by Federal Open Market Committee. Otherwise Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule, advice of which was contained in your telegram dated March 18."

Approved unanimously.

There were presented telegrams to the Federal Reserve Banks of New York, Philadelphia, St. Louis, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on March 16, by the Federal Reserve Bank of St. Louis on March 17, and by the Federal Reserve Banks of New York and Philadelphia on March 18, 1948, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

At Mr. Szymczak's request, Mr. Knapp outlined the provisions of the European Recovery Program bill as it passed the Senate on March 13, 1948, and discussed the purposes of the Program, the basis of estimates used in its formulation, and the operating procedures contemplated. Mr. Knapp also reported on recent activities of the National Advisory Council including a discussion of the British loan agreement, the problem of aid to China, the operations of the Inter-

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national Monetary Fund and the International Bank, and the attitude of the National Advisory Council toward continuation of the Bank for International Settlements.

In connection with Mr. Knapp's review, reference was made to the proposal of the National Advisory Council for liquidating foreign accounts which were blocked under Foreign Funds Control, which proposal was discussed at the meeting of the Board and the Federal Advisory Council on February 17, 1948, at which time Chairman Eccles stated that the Board agreed with the proposal and suggested that the Federal Advisory Council, which opposed the program, might wish to submit an alternative to Secretary of the Treasury Snyder, who was Chairman of the National Advisory Council.

Mr. Szymczak stated that at its meeting yesterday the National Advisory Council reaffirmed its proposal for liquidation of such accounts along the lines previously discussed, that he (Mr. Szymczak) asked Secretary Snyder whether any proposal for an alternative procedure had been made by the banks which objected to the proposal, and that Secretary Snyder stated that no alternative proposal had been received and that the banks had merely indicated they were opposed to the program as outlined.

Reference was made to a memorandum prepared in the Legal Division under date of March 17, 1948, stating that Mr. Charles S.

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Dewey, a Vice President of The Chase National Bank of New York, telephoned Mr. Clayton's office that day (in the absence of Mr. Clayton from his office at the time the call was referred to the Legal Division) to discuss the provision that the Board recommended be included in the pending Hawaiian Statehood bill which would require national banks in Hawaii to become members of the Federal Reserve System. The memorandum stated that Mr. Dewey felt difficulties would arise because the Bishop National Bank of Honolulu, Hawaii, a correspondent of The Chase National Bank, would no longer have ready access to currency and it would have to carry an unusually large amount of currency and cash in its vaults. Mr. Dewey indicated, the memorandum said, that the matter was of some urgency because a favorable report on the bill was expected shortly by the subcommittee of the Senate Public Lands Committee and he requested that he be informed as to the possibility of an amendment to the bill which would help the Bishop National Bank.

In discussing the matter, it was stated that, before sending a letter dated January 27, 1948, to Chairmen Butler of the Senate Public Lands Committee recommending inclusion of the provision in question, the Board had given specific consideration to the question whether a national bank in Hawaii, if required to

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become a member, could obtain currency as quickly as at present, that it had concluded that no disadvantage in this respect would result, and that it was not felt that a modification in the Board's recommendation should be made.

Upon motion by Mr. Clayton, it was agreed unanimously that he would telephone Mr. Dewey and inform him of these views.

Messrs. Hammond, Dembitz, and Allen left the meeting at this point.

Mr. Thomas stated that when he was in New York yesterday Mr. Sproul raised the question whether the President's program with respect to the European Recovery Program and military service, outlined in his message to Congress on Wednesday of this week, would result in a return to deficit financing which would affect the fiscal policies of the Government and have an important bearing on future policies of the Federal Reserve System. He also said that Mr. Sproul indicated he now felt that if there was to be no Treasury surplus for debt retirement there was more danger of inflationary developments over the next several months than of a deflationary movement, and that System policies should be maintained with a view to putting pressure on credit expansion, including a further rise in short term interest rates and avoidance of another period with a "pattern of rates" such as existed

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during the last war which would defeat any restrictive policy that the System might want to follow. It was thought, Mr. Thomas said, that because of less liquidity, higher prices, unsatisfied demand, and capital expenditures, there would be a greater demand for credit in a period of military activity in the near future than was the case during the last war. Mr. Thomas went on to say that in a conversation with Mr. John D. Clark of the Presidents' Council of Economic Advisers this morning, Mr. Clark said that the program outlined by the President, together with other proposals that might be made, could result in Federal expenditures in the course of a year or so of as much as \$50 or \$55 billion and that he (Mr. Clark) felt such developments would mean a return to a very easy money policy to provide all the funds needed to meet proposed expenditures. Mr. Thomas made the further comment that the situation would raise a number of questions about which the Board would be asked and which would affect the policies of the Board and the Federal Open Market Committee. If the situation should develop, he said, the need for the special reserve plan, or some other authority to enable the System to regulate credit expansion, would be greatly increased.

Following a brief discussion, Mr. Szymczak asked Mr. Thomas to prepare a memorandum on the matter so that it would be available

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for Chairman Eccles' use when he testified before the Joint Committee on the Economic Report on April 7.

At this point Messrs. Smead, Parry, Bethea, Thomas, Vest, Leonard, Nelson, Young, and Knapp withdrew and the action stated with respect to each of the matters hereinafter set forth was taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on March 18, 1948, were approved unanimously.

Letter to the board of directors of the "Star Valley State Bank", Afton, Wyoming, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H, the Board approves the bank's application for membership and for the appropriate amount of stock in the Federal Reserve Bank of Kansas City.

Approved unanimously, together with a letter to Mr. Leedy, President of the Federal Reserve Bank of Kansas City, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the Star Valley State Bank, Afton, Wyoming, for membership in the Federal Reserve System, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the board of directors of the institution. Two copies of such letter are also enclosed, one of which is for your files and the other of which you are requested to forward to the State Examiner for the State of Wyoming, for his information.

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"It is noted that the bank has been subject to criticism by the supervisory authorities for some time because of lax operations, particularly with respect to the supervision of loans, attributed largely to lack of attention on the part of the Vice President and Cashier who has numerous outside interests. It is assumed that the Reserve Bank will follow carefully his promised further corrections and closer attention to the affairs of the bank.

"In its application, the bank represented it had a capital of \$32,500, consisting of \$7,500 of class B preferred stock and \$25,000 of common stock, and we are advised that a stock dividend was declared on January 12, 1948, to increase the common capital to \$30,000. As pointed out by your Counsel, the available information indicates that the proper legal steps were not taken when the bank increased its common capital from \$10,000 to \$25,000 in 1947, and it is probable that similar questions exist as to the validity of the recent increase from \$25,000 to \$30,000. The Board has not deemed it necessary to delay the admission of the bank pending the correction of this matter or to prescribe a condition of membership with respect to it. It will be expected, however, that you will bring this matter to the attention of the bank in advising it of the Board's action upon its application and will follow it to a conclusion in order that any question as to the validity of the increases in the bank's capital will be eliminated without undue delay. It appears desirable, also, for the bank to take such action as may be necessary to eliminate the question as to the authorized number of directors which was commented upon by your Counsel."

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

"Reference is made to your letter of March 12, 1948, submitting the request of The Peninsula Bank of Ishpeming, Ishpeming, Michigan, for approval of an additional investment in banking premises of approximately \$140,000, in connection with plans for the alteration and improvement of its banking quarters.

"In accordance with your recommendation, the Board of Governors approves the additional investment of approximately \$140,000 in banking premises by The Peninsula

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"Bank of Ishpeming under the program as submitted."

Approved unanimously.

Letter prepared for Mr. Szymczak's signature to Mr. Charles W. McBride, President, Ohio Bankers Association, Farmers State Bank, West Salem, Ohio, reading as follows:

"Mr. Needham, General Counsel for the American Bankers Association, has advised us of the visit to Washington on April 27, 28 and 29 of officers of the Ohio Bankers Association, and we have suggested to him that you arrange to include in your program a visit with the Board of Governors.

"The members of the Board will be delighted if the members of your group, together with Mr. Needham and other officers of the American Bankers Association who may be in Washington at that time, will join us for luncheon at the Board's offices on Thursday, April 29, 1948, at one o'clock. Mr. Needham has told us that he believed this would fit in with your plans. It is anticipated that all of the members of the Board will be here at that time and we will be looking forward to your visit."

Approved unanimously.

Telegram to Mr. Knoke, Vice President of the Federal Reserve Bank of New York, reading as follows:

"Your wire March 18. Board approves three months extension by your Bank of \$10,000,000 loan to Banque de France maturing March 22, on the terms and conditions specified in your wire as follows:

A. Such loan to be made up to 98 per cent of the value of the refined gold bars held in your vaults as collateral;

B. Such loan to mature not later than three months from the date thereof;

C. Such loan to bear interest from the date such loan is made until paid at the discount rate of your Bank in effect on the date on which such loan is made.

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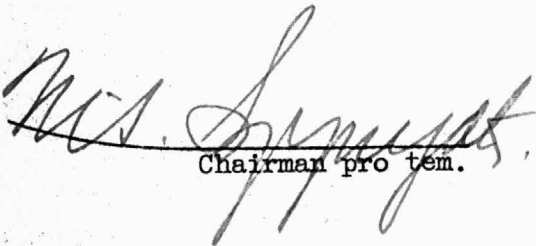
"It is also understood that the usual participation in any extension of this loan will be offered to the other Federal Reserve Banks.

"We will respond next week to the proposal contained in your wire concerning the renewal of outstanding loans to the Bank of France maturing on subsequent dates."

Approved unanimously.


Secretary.

Approved:


Chairman pro tem.