

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, March 30, 1948. The Board met in the Board Room at 10:40 a.m.

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

Mr. Sherman, Assistant Secretary  
Mr. Morrill, Special Adviser  
Mr. Thurston, Assistant to the Board  
Mr. Thomas, Director of the Division of Research and Statistics  
Mr. Vest, General Counsel  
Mr. Townsend, Associate General Counsel  
Mr. Horbett, Assistant Director, Division of Bank Operations

Minutes of actions taken by the Board of Governors of the Federal Reserve System on March 29, 1948, were approved unanimously.

Mr. Evans said that it seemed to him substantial inflationary pressures were continuing and would continue, especially in view of proposed world aid and military expenditures, and that he felt consideration should be given to a further increase in reserve requirements of central reserve city banks, perhaps to become effective in May, as a means of putting additional restraint on credit expansion.

Mr. Thomas stated that Treasury tax receipts during March were about a billion dollars below earlier estimates, that as a result pressure on the reserve position of banks had been less

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than anticipated, that Treasury receipts during April and May probably would be less than expenditures, that the resulting cash deficit would be met by transfers of Treasury funds from war loan accounts which were built up during March, and that the effect of these transfers probably would be to put a little more pressure on the banking system during April - May than had been expected earlier this year. He also said that loans and investments of member banks had shown little change in recent weeks.

Chairman Eccles said that at the time reserve requirements of central reserve city banks were increased in January, to become effective in February, an expansion in loans was anticipated during February and March, that loans had shown no increase during this period, that there was some indication banks were taking a more cautious view of real estate and other loans, that excess reserves of banks in central reserve cities were negligible, that it appeared that calls on war loan accounts would be substantial during the next few weeks, and that it looked to him as though there was not much of a case for increasing reserve requirements of central reserve city banks at this time.

Mr. Szymczak said that neither loans nor excess reserves of New York and Chicago banks were increasing now and that he felt it would be premature to increase reserve requirements in central reserve cities now.

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Mr. Clayton stated that if reserve requirements were not increased in the near future and if the country went into a deficit financing period there would then be opposition to raising reserve requirements on the ground that such action might interfere with the Treasury financing program.

There was general agreement with the view that if a deficit financing program developed the System should make every effort to avoid a "pattern of rates" such as existed during the war and that it would be necessary for the System to have some kind of additional authority to increase reserve requirements if it was to be expected to cope with inflationary pressures that might arise in a new period of deficit financing.

Mr. Evans reiterated his feeling that consideration should be given to increasing reserve requirements in the near future, and added that it seemed to him this was a good time to apply additional pressure when there was evidence that other pressures, such as those growing out of Federal Reserve actions in recent months and the voluntary credit restraint program of the bankers, were having some effect. He also said that this seemed to him an especially good time to do anything which might "nip in the bud" a new inflationary expansion of credit as a result of the world aid program and increased military expenditures.

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Following the discussion, it was agreed unanimously that the matter should be considered again at a meeting soon after the middle of April with a view to determining whether the situation at that time had changed so as to make an increase in reserve requirements desirable.

Mr. Horbett left the meeting at this point and Mr. Bethea entered.

Reference was made to a draft of letter to the Legislative Reference Division, Bureau of the Budget, prepared in response to a request dated March 25, 1948, for a report by the Board on H. R. 4790, a bill to reduce individual income tax payments and for other purposes. The draft, which took the position that while there were some good features in the tax bill there should be no net reduction in taxes at the present time because of continuing inflationary pressures, was read and discussed. Chairman Eccles said that the draft did not bring out features of the bill which, for reasons which he discussed, he felt were desirable, and he raised the question whether it was necessary for the Board to respond to the request for a report on the bill.

Mr. Szymczak stated that he felt the request should be replied to, that the Board had a very real interest in fiscal policy and customarily had expressed its views with respect to tax legislation, and that at the present time the arguments against a tax

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reduction bill were even stronger than they were when the Board recommended a veto of the tax reduction bill passed by the Congress during the year 1947.

During the ensuing discussion the view was expressed that, while some parts of the bill were desirable as a matter of equity (for example the provision which would permit the splitting of income in States which did not now have community property laws and, as a corollary to that provision, the provision for increasing personal exemptions which would benefit chiefly persons who did not benefit from the split income provision), it was very undesirable that total tax revenues be reduced at this time because of continuing inflationary pressures and impending increases in Government expenditures as a result of the world aid and expanded military programs, and it was the consensus that a letter setting forth these views should be sent to the Bureau of the Budget.

Upon motion by Mr. Szymczak, it was agreed unanimously that the letter should be revised in accordance with the discussion and resubmitted to the Board for consideration.

Mr. Szymczak stated that hearings were now being held by the Senate Banking and Currency Committee on housing credit legislation which would extend and in some ways liberalize inflationary provisions of existing laws, that in February the Board discussed

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the question of placing its views on housing credit before the Joint Committee on Housing and decided that, in view of the fact that the President had sent to Congress a message with respect to housing on February 23, 1948, it would not send a letter at that time, and that he was bringing the matter up for further consideration at this meeting since he felt it would now be desirable for the Board to place itself on record with the Senate Banking and Currency Committee that it still held the general views with respect to housing finance which were expressed in the statement submitted by Chairman Eccles to the Joint Committee on the Economic Report on November 25, 1947. Mr. Szymczak also stated that the Senate committee would probably close hearings on the housing legislation within the next few days and he suggested that the Board send a letter to the Committee opposing the extension of Title VI of the National Housing Act and the further liberalization of down payment and maturity provisions.

Upon motion by Mr. Clayton, it was agreed unanimously that a draft of letter along the lines discussed should be prepared and submitted to the Board.

Mr. Draper stated that last Friday Mr. Thurston received an inquiry from Mr. Lawrence Richey, Special Assistant to the Chairman of the Commission on Organization of the Executive Branch

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of the Government, as to whether the Commission could obtain space for its use in the Board's building. In this connection there was presented and read a memorandum from Mr. Draper dated March 30, 1948, in which it was stated that space totaling 4,862 square feet could be made available by assigning the 1,900 square feet which would be released when the Division of Security Loans was discontinued on March 31, 1948, and by asking the Appeal Board of the Office of Contract Settlement to vacate the 2,962 square feet of space which that office was now using, and that Mr. Richey had displayed considerable interest in obtaining the space. The memorandum also stated that it was understood the Commission had been requested to submit its report to Congress by January 1949.

Chairman Eccles said that he felt it would be very desirable to accommodate the Commission by making space available, and this view was concurred in by all of the members of the Board.

Mr. Bethea stated that if this were done it would require giving notice to the Office of Contract Settlement that it would be necessary for them to vacate the space they now occupy in the Board's building. He also expressed the opinion that that Office, which now comes under the jurisdiction of the Treasury Department, would not have difficulty in obtaining other suitable space.

Following the discussion, it was voted unanimously that the matter be referred to Mr. Draper with power to act.

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Mr. Sherman read a memorandum prepared in the Legal Division under date of March 25, 1948, with respect to the question whether the service of Mr. Henry Parkman, Jr., as a member of the board of trustees of the Boston Metropolitan Transit Authority would contravene the Board's resolution of 1915 forbidding officers and directors of Federal Reserve Banks to hold political office, if Mr. Parkman should be appointed a Class C director of the Federal Reserve Bank of Boston. The memorandum stated that the Metropolitan Transit Authority was established by Massachusetts statute in 1947 for the purpose of taking over and operating the Boston Elevated Railway, that it was managed by a board of five "public trustees" appointed by the Governor with the advice and consent of the Governor's Council, that not more than three of the trustees may be members of the same political party, that the chairman received an annual salary of \$10,000 and the other trustees an annual salary of \$8,000, and that the duties of the trustees were important and included management and operation of the Boston metropolitan transportation system, issuance of bonds, fixing of rates of fares and charges, determination of the character and extent of services and facilities, and collective bargaining with labor organizations. It concluded that since the salary of a trustee of the Metropolitan Transit Authority was so substantial as to

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make the office politically desirable, it was believed that the service of a Federal Reserve Bank director as a trustee of the Authority would fall within the general intent and spirit of the Board's resolution of December 23, 1915, with respect to political activities of directors and officers of Federal Reserve Banks.

Mr. Evans stated that the foregoing memorandum was prepared by the Legal Division in accordance with the discussion at the meeting of the Board on March 23, 1948, that the Personnel Committee was completely satisfied as to Mr. Parkman's personal qualifications, and that the only question with respect to the appointment was whether it conflicted with the 1915 resolution. Mr. Clayton expressed a similar view.

Mr. Szymczak stated that he had suggested Mr. Parkman's name, that he felt he was eminently qualified as an individual to serve as a director of the Federal Reserve Bank of Boston, but that he did not wish to urge his appointment if it meant an exception to the Board's policy with respect to political affiliations.

Following a discussion of the matter, it was agreed that action on Mr. Parkman's appointment should be deferred and that the Personnel Committee should look into the matter of recommending some other person for the vacancy.

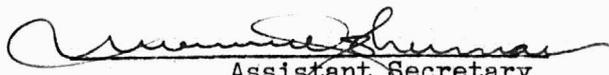
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In this connection, Chairman Eccles stated that he had not had an opportunity to talk with Joseph H. Willits, Chairman of the Board of Trustees of the Rockefeller Foundation, with respect to the possibility of his accepting appointment as a Class C director of the Federal Reserve Bank of New York and designation as Chairman and Federal Reserve Agent along the lines discussed at the meeting on February 19, 1948. He said that he had, however, discussed the possibility of Mr. Willits' appointment with Mr. McCabe, Chairman designate of the Board, and that Mr. McCabe had said that he would be happy to have either Mr. Willits or Mr. Raymond Rubicam as a Class C director and Chairman of the Federal Reserve Bank of New York. There was a discussion of the desirability of making an appointment before the next Conference of Chairmen to be held on May 29, 30, and 31, 1948, and Chairman Eccles said that he would discuss the matter with Mr. Willits to find out whether he would accept the appointment if tendered.

Approved:

  
Chairman pro tem.

  
Assistant Secretary.