

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, April 16, 1948.

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

Mr. Carpenter, Secretary  
 Mr. Sherman, Assistant Secretary  
 Mr. Morrill, Special Adviser  
 Mr. Thurston, Assistant to the Board

Minutes of actions taken by the Board of Governors of the Federal Reserve System on April 15, 1948, were approved unanimously.

Telegrams to the Federal Reserve Banks of Boston, New York, Philadelphia, Atlanta, Chicago, and St. Louis stating that the Board approves the establishment without change by the Federal Reserve Bank of St. Louis on April 14, by the Federal Reserve Banks of New York, Philadelphia, Chicago, and Atlanta on April 15, and by the Federal Reserve Bank of Boston on April 23, 1948, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated April 15, 1948, from Mr. Carpenter recommending increases in the basic annual salaries of the following employees in the Secretary's Office effective April 18, 1948:

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<u>Name</u>	<u>Designation</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
M. Elizabeth Jones	Supervisor	\$3,021.00	\$3,146.40
Lillie B. Brow	File Clerk	2,770.20	2,845.44
Adaline R. Beeson	File Clerk	2,394.00	2,544.48
Mildred E. Pilger	File Clerk	2,394.00	2,544.48

Approved unanimously.

Memorandum dated April 7, 1948, from Mr. Thomas, Director of the Division of Research and Statistics, recommending increases in the basic annual salaries of the following employees in that Division, effective April 18, 1948:

<u>Name</u>	<u>Designation</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Katharyne P. Reil	Economist	\$4,651.20	\$4,776.60
Philip T. Allen	Economist	4,525.80	4,651.20
Paul H. Banner	Economist	4,149.60	4,275.00
Helen R. Grunwell	Chief Draftsman	4,024.20	4,149.60
Helen A. Lupton	Asst. Chief Draftsman	3,648.00	3,773.40
Mary P. McCormick	Draftsman	2,544.48	2,619.72
Mary Florence Miller	Clerk	2,318.76	2,394.00
Ruth D. Stone	Secretary to Mr. Brown	2,895.60	3,021.00

Approved unanimously.

Memorandum dated March 23, 1948, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that the temporary indefinite appointments of the following employees in that Division be made permanent, effective immediately:

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<u>Name</u>	<u>Designation</u>
Paul H. Banner	Economist
Arthur L. Broida	Economist
Merton H. Miller	Economist
Ernest C. Olson	Economist
Charles H. Schmidt	Economist
Stanley J. Sigel	Economist
Louis Weiner	Economist
John B. Churchill	Research Assistant
Sophia Cooper	Research Assistant
Harry A. Gillis, Jr.	Research Assistant
Otto G. Kiehn, Jr.	Research Assistant
Caroline Lichtenberg	Research Assistant
Helen B. Arnold	Clerk
Monica F. Jones	Clerk
Mary Florence Miller	Clerk
M. Elva Morse	Clerk
Mary G. Offut	Clerk
Rita I. Ryhal	Clerk
Lois I. Steidel	Clerk
Elsie N. Carrick	Clerk-Stenographer
Dorothy J. Kane	Clerk-Stenographer
Patricia Anne Vandoren	Clerk-Stenographer
Dorothy V. Wright	Clerk-Typist
William Edward Hardy	Messenger
Samie Reed	Messenger

Approved unanimously.

Memorandum dated April 12, 1948, from Mr. Leonard, Director of the Division of Examinations, recommending that the basic salary of George S. Sloan, Assistant Director of that Division, be increased from \$9,376.50 to \$9,750 per annum, effective May 2, 1948.

Approved unanimously.

Memorandum dated April 12, 1948, from Mr. Leonard, Director of the Division of Examinations, recommending increases in the basic

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annual salaries of the following employees in that Division, effective April 18, 1948:

<u>Name</u>	<u>Designation</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
J. C. Smith	Federal Reserve Examiner	\$6,144.60	\$6,384.00
L. P. Eager, Jr.	Asst. Federal Reserve Examiner	3,021.00	3,146.40
M. R. Wilkes	Federal Reserve Examiner	9,077.25	9,376.50
J. R. Radford	Federal Reserve Examiner	6,623.40	6,862.80
Esther Severud	Secretary to Mr. Sloan	3,021.00	3,146.40

Approved unanimously.

Memorandum dated April 12, 1948, from Mr. Leonard, Director of the Division of Examinations, recommending increases in the basic annual salaries of the following employees in that Division, effective May 2, 1948:

<u>Name</u>	<u>Designation</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
John J. Hart	Asst. Federal Reserve Examiner	\$3,522.60	\$3,648.00
Carl A. Smith	Asst. Federal Reserve Examiner	3,522.60	3,648.00
Geo. Williams	Asst. Federal Reserve Examiner	3,271.80	3,397.20
C. H. Bartz	Federal Reserve Examiner	4,776.60	4,902.00
Thelma Zarin	Stenographer	2,394.00	2,469.24

Approved unanimously.

Memorandum dated March 24, 1948, from Mr. Bethea, Director of the Division of Administrative Services, recommending that the temporary indefinite appointments of the following employees in that

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Division be made permanent, effective immediately:

<u>Name</u>	<u>Designation</u>
Helen Louise Sweeney	Clerk
Peggy Lee Wall	Clerk-Stenographer
Robert B. Carter	Laborer
Hiram H. Florea	Guard
Preston E. Fowler	Laborer
William M. Myers	Cafeteria Helper
Ruth I. Buck	Page
Fannie L. Mock	Elevator Operator
Anna M. Utz	Charwoman
Cecile C. Wiesner	Page
Mabel E. Wike	Page
Benjamin L. Dinkins	Laborer
Hazel M. Glover	Elevator Operator
Constance H. Richardson	Charwoman
Louise A. Wrightson	Charwoman

Approved unanimously.

Memorandum dated April 13, 1948, from Mr. Nelson, Director of the Division of Personnel Administration, recommending that the temporary indefinite appointments of the following employees in that Division be made permanent, effective immediately:

<u>Name</u>	<u>Designation</u>
Anna J. Markevich	Clerk-Stenographer
Elaine Quarforth	Leave Clerk

Approved unanimously.

Telegram to Mr. Joseph W. Seacrest, Carlton Hotel, Washington, D. C., reading as follows:

"Board of Governors of Federal Reserve System has appointed you Director of Omaha Branch of Federal Reserve Bank of Kansas City for unexpired portion of term

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"ending December 31, 1949, and will be pleased to have your acceptance by collect telegram."

Approved unanimously.

Letter to The National City Bank of New York, New York 15, New York, reading as follows:

"This refers to the letter of April 1, 1948, from Vice President W. G. Speer of your bank requesting an extension of time within which you may establish and open for business the additional branch at Manila, Republic of the Philippines, for which authorization was given by the Board on May 9, 1947. Permission for the establishment of such branch was granted provided the branch were actually established and opened for business on or before June 1, 1948.

"The Board of Governors of the Federal Reserve System extends to June 1, 1949, the time within which The National City Bank of New York may establish and open for business the additional branch at Manila, Republic of the Philippines, in accordance with the provisions of its order of May 9, 1947."

Approved unanimously.

Letter to Mr. Elmer B. Staats, Assistant Director, Legislative Reference Division, Bureau of the Budget, reading as follows:

"This is in response to your letter of March 29, 1948, asking for our comments regarding H.R. 2799, a bill 'To amend the Federal Home Loan Bank Act, Title IV of the National Housing Act, and for other purposes' and an amendment to it proposed by the Housing and Home Finance Agency. The amendment would strike out all the language of the bill after the enacting clause and insert new provisions. Consequently, our comments will be directed entirely to the proposed amendment.

"The important question raised by the amendment to H.R. 2799 here proposed is to what extent share

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"accounts in savings and loan associations are to be clothed with the attributes of money.

"This legislation would encourage associations to anticipate that they would always be able to repurchase share accounts in cash, on demand. They would be able to call on the Federal Savings and Loan Insurance Corporation 'to make loans to, purchase the assets of, or make a contribution to,' an insured institution which was having difficulty in repurchasing shares, in the knowledge that the Corporation could borrow substantially from the Treasury (section 6). They would be able to anticipate that the Treasury would make cash available to them for the repurchase of share accounts through loans to the Federal Home Loan Banks (section 3). They would be encouraged to anticipate and to represent that, should they nevertheless go into default, the Insurance Corporation would pay the claims of shareholders in cash (section 7).

"The Board is of the opinion that the Government should not encourage savings and loan associations to anticipate such a degree of liquidity unless, at the same time, it requires them to follow policies which can reasonably be expected to produce liquidity. A Government guarantee of liquidity, in other words, should supplement, not substitute for, policies appropriate to liquidity.

"Furthermore, by the very act of assuring, or seeming to assure, the convertibility into cash of assets which by their nature are not liquid, the Government would restrict the range within which it is free to adopt the fiscal and credit policies appropriate under various conditions. At a time when the management of fiscal and credit policy has been made as difficult as it has by events of the past few years, it seems to us unwise for the Government to restrict its freedom further.

"It is principally for these reasons that the Board has, in the past, opposed certain changes in the operations of the Home Loan Bank System, and now opposes the major provisions of the proposed amendment to H.R. 2799. Our specific objections to these provisions, which must be considered within the framework of the broad effects of the amendment are set forth in the following paragraphs.



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"Conditions for liquidity. The Government has undertaken to guarantee the liquidity of bank deposits principally because deposits in commercial banks are the most important part of the money system of the country, as is illustrated by the fact that the bulk of all payments is made by check, and experience has shown that a breakdown in this part of the financial system paralyzes economic life. This guarantee of liquidity by the Government is provided partly through the insurance of deposits by the Federal Deposit Insurance Corporation, but more largely through the ability of the Federal Reserve System to supply cash to members, and through members to nonmembers, in time of need. Just as important as these Government provisions, however, is the fact that by law, by the requirements of supervisory authorities, and by a tradition arising out of business necessity, banks must pursue management policies designed to achieve a degree of liquidity appropriate to the circumstances. Thus, the immediate operating responsibility for maintaining the liquidity of deposits falls on the banks themselves; the Government's guarantee of liquidity involves only supplementary and residual responsibilities.

"Moreover, the ability of banks to obtain liquidity by borrowing from, or selling assets to, the Federal Reserve Banks is subject to such restraints or such encouragement as the Federal Reserve authorities may impose through discount rates and open market operations. These policies of the Federal Reserve are determined with reference to the needs of the economy for money and with the aim of maintaining a desirable degree of economic stability. To provide savings and loan associations with similar privileges, operating through the Treasury, but without the same restraints, would be equivalent to setting up another Federal Reserve System without the same objectives and responsibilities for the economy as a whole.

"Savings and loan associations are neither required nor expected to maintain more than a nominal degree of liquidity. Share accounts in savings and loan associations are not, and should not be, a part of the money system. The insurance of these accounts is not the insurance of deposits but the insurance of stock equities in mutual thrift and home financing institutions. The essential purpose of the insurance is to protect the



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"owner of the shares in his long-term plan of thrift or home financing and not to provide him with liquidity. By foregoing liquidity, the owner of shares receives a comparatively high rate of return on his savings, and because liquidity is not required, savings and loan institutions are able to invest most of their assets in long-term, relatively non-marketable obligations and thus to pay comparatively high rates of dividend. If savings and loan associations wish to be liquid, they must be prepared to accept the restraints which liquidity requires, and which the proposed legislation does not impose.

"If the Government is to guarantee the liquidity of shares in savings and loan associations, not only must the associations be required to pursue policies designed to achieve an appropriate degree of liquidity, but the reserve and discount system for these associations--the Federal Home Loan Bank System--must follow policies which reinforce rather than diminish the liquidity of its members. In time, such policies would change the character of savings and loan association operations and also the character of the Federal Home Loan Bank System. The former would become more like commercial banks while the latter would tend to function more in a typical central banking role. The desirability of an evolutionary addition to the economy's banking organization of this type, which would further complicate our banking structure and make more difficult a unified national policy with regard to bank credit expansion, is highly doubtful.

"Section 3 of the amendment. The problem of the appropriate role of the Federal Home Loan Bank System, consistent with our present financial organization, is raised quite clearly by section 3 of the proposed amendment. Under existing law, the Federal Home Loan Banks, or the Home Loan Bank Board, on behalf of the Banks, may borrow from the money market, but there is no provision for borrowing from the Treasury. Section 3 would authorize the Secretary of the Treasury to purchase obligations of the Federal Home Loan Banks in an amount up to three times the capital stock, reserves, and surplus of the Banks.

"The System now has adequate power as a self-sustaining System to perform its functions as a discount agency

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"for mortgage lending institutions. With these powers, it can, by pursuing proper policies, assure its members of assistance in maintaining the degree of liquidity appropriate to such institutions.

"The Treasury support provided for in section 3 is likely, despite the discretion lodged with the Secretary, to be mandatory. It is not difficult to conceive of a situation in which the Secretary of the Treasury, if he refused to exercise his authority to purchase Bank obligations, would be held responsible for the inability of savings and loan associations to repurchase shares on demand. The Home Loan Bank System, therefore, assured of cash resources apart from the policies pursued, would be encouraged to invest in illiquid assets, such as long-term advances to members. The burden of providing assistance to savings and loan associations would thus be thrown upon the Treasury, where it does not belong.

"This situation could arise in either an inflationary or a deflationary period. If the Treasury were required to purchase obligations of the System because private investors could obtain better yields than the System's obligations could bear, and the Treasury in turn had to borrow the funds, the effect might be to expand bank credit, and thereby further increase inflationary pressures. In practice it would become necessary for the Reserve Banks, in supporting the market, to purchase Treasury issues not absorbed by investors, and in the process the Reserve System would create bank reserves. On the basis of these reserves, banks could increase their holdings of Treasury obligations or other earning assets and concurrently create bank deposits, thus increasing the money supply.

"Considering what we regard to be proper Government credit policy, we believe that the enactment of section 3 is undesirable. We recognize, however, that as things stand, the Government has assumed a responsibility toward the Home Loan Bank System, and that it would be undesirable in the public interest for Home Loan Banks to be unable to meet maturing obligations due to a temporary emergency. We have no objection, therefore, to a provision permitting the Secretary of the Treasury, if he determines that the market situation warrants such action, to retire from the market such maturing obligations as the System cannot redeem without undue sacrifice and giving him power to negotiate with

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"the Federal Home Loan Bank Board such terms and conditions as he feels to be desirable for the protection of the Treasury in connection with such action.

"Sections 6 and 7 of the amendment. In considering the effect of the proposed changes in the powers of the Federal Savings and Loan Insurance Corporation, it must be borne in mind that the Corporation, in order to prevent a default, is authorized 'to make loans to, purchase the assets of, or make a contribution to, an insured institution . . .' (U.S.C. Title 12, Sec. 1729(f)). The effect of sections 6 and 7 together, and especially in the context of the proposed amendment to H.R. 2799, is to place on the Treasury the burden of providing insured savings and loan associations with a very high degree of artificial liquidity.

"Section 405(b) of the National Housing Act authorizes the Federal Savings and Loan Insurance Corporation to make available to each insured member, in the event of default by an insured institution, either (1) a new insured account in another institution or (2) at the option of the insured member not to exceed 10 per cent in cash, and the remainder in negotiable non-interest bearing debentures of the Corporation. Section 7 of the proposed amendment would amend this section by adding a provision authorizing the Corporation, at its option, to settle any insured account in cash.

"The Board is of the opinion that this provision should not be enacted. Under section 7, the right to pay cash to the shareholders of an association in default would be exercised at the option and for the convenience of the Insurance Corporation, and the implication is that it would be exercised only when there is no general problem of liquidity. However, if the Insurance Corporation in fact pays claims in cash over a period of time, insured institutions and shareholders will probably expect cash payment in more critical times, and, having created the expectation, the Corporation will have to satisfy it, possibly to the great embarrassment of Government fiscal programs.

"At the present time, the Federal Savings and Loan Insurance Corporation has no authority to borrow from the Treasury. By section 6 of the proposed amendment the Corporation would receive this authority and the Secretary of the Treasury would be 'authorized and

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"directed to loan to the Corporation on such terms as may be fixed by the Corporation and the Secretary, such funds as in the judgment of the Home Loan Bank Board are from time to time required for insurance purposes,' up to three times the capital, reserves, and surplus of the Corporation.

"The law under which the Federal Savings and Loan Insurance Corporation operates now provides that insured institutions shall pay premiums, which shall cease when the reserve of the Corporation reaches 5 per cent of the insured risk, but the Corporation is authorized to assess each insured institution additional premiums equal to the amount of all insurance claims and operating expenses.

"These provisions would indicate that the Congress contemplated that the premium would be used to provide the reserves and that the assessment would be used to pay losses and expenses, but the Corporation has never exercised its right to assess, with the result that, in effect, insurance losses and operating expenses have come out of the reserve. This reserve is now much smaller than the 5 per cent which Congress determined would be appropriate for the insurance of the safety of accounts. While we are not in a position to make an accurate computation as of this date, the indication is that after nearly fourteen years of operation the reserve is still less than one per cent.

"We feel that, if the Treasury is to guarantee the ability of the Corporation to meet its insurance contracts, it should be called upon to do so only after the Corporation has in good faith used the facilities already furnished by Congress for providing adequate reserves.

"We should have no objection, therefore, to a measure which authorized the Secretary of the Treasury to purchase obligations of the Corporation provided that the Corporation has already placed in effect a program of crediting to the reserve each year a sum sufficient to build up its reserve to 5 per cent of the insured risk within a period to be set by Congress.

"The President has recommended that all Government corporations be required to obtain their funds from the Treasury. We are in general agreement with this policy, but believe that, if the Insurance Corporation is to borrow directly from the Treasury, it should be required to meet some test, such as that suggested, of its compliance with the conditions imposed by Congress.

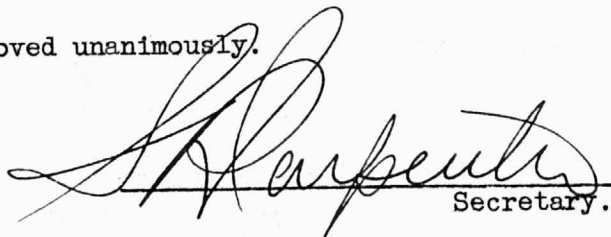
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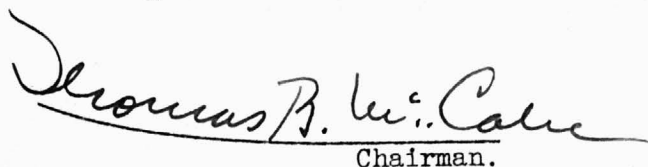
"Sections 9 and 10 of the amendment. These sections would both serve to weaken the distinction between savings and loan share accounts and demand deposits, and therefore should not be enacted. Section 9 would change the name of the Federal Savings and Loan Insurance Corporation to 'Federal Savings Insurance Corporation.' The purpose of the proposed change is to remove any possible misapprehension that loans are insured by the Corporation. However, it seems to us that the number of people who are now misled into this belief must be extremely small compared with the number of people who would be deceived by the change proposed into thinking that liquidity is insured. Section 10 would make savings and loan shares in insured associations lawful investments for 'all fiduciary, trust, and public funds the investment or deposit of which shall be under the authority or control of the United States or any officer, officers, agency or agencies thereof.' Share accounts, which are not payable on demand, are not marketable, and are not readily transferrable, are obviously not appropriate investments for such funds, but the fact that they were approved as such would convey a misleading sense of liquidity to other investors.

"To summarize: The provisions of the proposed amendment to which we take exception are subject to criticism standing alone. Viewed in the context of the entire proposal, and against the background of previous proposals for changes in the organization and operations of the savings and loan system, they are even more objectionable. It is for Congress, of course, to say whether we shall have yet another banking system, enjoying the liquidity of the commercial banking system and, at the same time, the higher earning capacity, along with the greater risk, of the savings and loan system. In justice to the country's economy, however, the issue should be presented this way. If it is, we believe there are important considerations that weigh against the kinds of changes envisaged."

Approved unanimously.

  
Secretary.

Approved:

  
Chairman.