

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, April 26, 1948. The Board met in the Board Room at 2:45 p.m.

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

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

Before this meeting the Federal Advisory Council submitted a memorandum covering topics discussed at a separate meeting of the Council on April 25, 1948, which were to be reviewed with the Board at a joint meeting to be held at 10:30 tomorrow morning. The Board considered the topics and it was agreed that Chairman McCabe would state the views of the Board substantially along the lines recorded in the minutes of the joint meeting.

Chairman McCabe read a draft of letter which he had prepared to the Chairmen of the Federal Reserve Banks stating that he expected to be called before the committees of Congress shortly to testify on the need for further monetary controls and he would like to have any comments that the boards of directors might wish

4/26/48

-2-

to make for his consideration in preparing for his appearance before the committees. Chairman McCabe said that he would propose to send the letter as a personal communication and that he would appreciate the views of the other members of the Board as to whether it would be appropriate for him to send the letter.

The matter was discussed and Messrs. Draper and Clayton raised the question whether, particularly in the time available for the boards of directors to reply, the letter would be productive of results that would be helpful. Mr. Draper questioned whether the directors would understand that it was a personal letter as distinguished from a Board communication.

Chairman McCabe stated that, based on his experience as Chairman at the Federal Reserve Bank of Philadelphia, the receipt of such an inquiry from the Board would cause the directors to give a great deal of thought to the problem and would be a means of improving the relations between the directors and the Board of Governors. It was his view that it would be helpful if the directors could be consulted on System problems of this kind and that all subsequent requests for the views of the directors on such matters might be sent by the Board.

At the conclusion of the discussion the majority of the members of the Board present were of the opinion that the letter might be sent in the following form:

4/26/48

-3-

"In adjusting its policies to current developments, the Federal Reserve System is confronted from time to time with the necessity of making basic choices among alternative courses of action. In arriving at such decisions it is obviously important to explore thoroughly all aspects of the situation. With a conviction that the Federal Reserve Banks can contribute significantly to sound policy, I intend, whenever time permits, to secure the judgment of their boards of directors and officers on important System matters.

"An important immediate problem is that concerning the adequacy of the System's authority over reserve requirements of commercial banks. It is likely that I will be called shortly to testify on this problem before the appropriate congressional committees. In anticipation of such a call, I am coming to you for help. I will appreciate it greatly if you would discuss the adequacy of commercial bank reserve requirements with your Board and officers and give me the advantage of your counsel and advice as I prepare myself to appear before the committees. No specific date has yet been set for my appearance, but I expect to be called shortly.

"I would appreciate also receiving any suggestions your Board may have with respect to other problems of the System. I expect to call on you from time to time for help on specific problems. Do not, however, feel that it is necessary to wait for a specific request. Instead, please feel free to make suggestions and to share your advice at any time."

At this point Messrs. Smead, Vest, and Young 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 April 23, 1948, were approved unanimously.

Memorandum dated April 20, 1948, from Mr. Leonard, Director of the Division of Examinations, recommending that, effective as of

4/26/48

-4-

the date upon which he enters upon the performance of his duties after having passed the usual physical examination, Lloyd M. Schaeffer be appointed as an Assistant Federal Reserve Examiner with basic salary at the rate of \$3,021 per annum and with official headquarters at Denver, Colorado. The memorandum also stated that Mr. Schaeffer was a member of the Federal Reserve retirement system and would remain in that system.

By unanimous vote, Lloyd M. Schaeffer was appointed an examiner to examine Federal Reserve Banks, member banks of the Federal Reserve System, and corporations operating under the provisions of sections 25 and 25(a) of the Federal Reserve Act, for all purposes of the Federal Reserve Act and of all other acts of Congress pertaining to examinations made by, for, or under the direction of the Board of Governors of the Federal Reserve System, and was designated as an Assistant Federal Reserve Examiner, with official headquarters at Denver, Colorado, and with basic salary at the rate of \$3,021 per annum, all effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination.

Letter to Mr. Rosco Stone, Manager, T. A. Ledford Estate, Hickman, Kentucky, reading as follows:

"Your letter to Mr. Evans of April 15, 1948, submitting your resignation as a director of the Louisville Branch of the Federal Reserve Bank of St. Louis has been brought to the attention of the Board of Governors. The members of the Board have asked me to say that they sincerely regret that you feel it necessary to take this action, and it is with reluctance that the Board accepts your resignation, effective today.

4/26/48

-5-

"Your service of over three years as a director of the Louisville Branch is genuinely appreciated and the Board hopes that your interest will continue after the termination of your official connection with the Federal Reserve System."

Approved unanimously.

Letter to Mr. Leedy, President of the Federal Reserve Bank of Kansas City, reading as follows:

"In accordance with the request contained in your letter of April 20, 1948, the Board approves the payment of salaries to the nine employees in the Building Department of the Federal Reserve Bank of Kansas City at the rate indicated opposite the name of each employee in the list submitted with your letter."

Approved unanimously.

Letter to Mr. Harl, Chairman of the Federal Deposit Insurance Corporation, reading as follows:

"In accordance with the request contained in your letter of April 19, 1948, the Board of Governors of the Federal Reserve System hereby grants written consent, pursuant to the provisions of subsection (k)(2) of Section 12B of the Federal Reserve Act, for examiners for the Federal Deposit Insurance Corporation to make an examination of The Kinsley Bank, Kinsley, Kansas, in connection with its application for continuance of insurance after withdrawal from membership in the Federal Reserve System.

"There are no unfulfilled conditions or incomplete corrective programs with respect to the member bank in connection with which the Board would suggest incorporation of conditions for continuing its status as an insured bank.

"Successive examinations of the member bank have shown a low ratio of capital to total assets but the ratio of capital to risk assets has been high. In the latest report of examination of the bank by examiners

4/26/48

-6-

"for the Federal Reserve Bank of Kansas City attention was called to the inadequacy of fidelity insurance coverage the amount of which is below the minimum recommended by the American Bankers Association."

Approved unanimously.

Letter to the Honorable Homer Ferguson, United States Senate, reading as follows:

"This refers to your letter of April 20, 1948, addressed to Mr. Vest, which enclosed a letter from Mr. Theodore Bargman, 16425 Hamilton Avenue, Detroit 3, Michigan. Mr. Bargman's letter is returned herewith as you requested. We have noted his report that there has been some difficulty in financing trailer coaches, and we are glad to have this opportunity to clarify our position in the matter.

"The Board has not taken any action specifically to limit trailer financing. On the other hand, the Board has been concerned about the general expansion of bank credit which has been taking place and the effect of that expansion on the economic situation, particularly the stimulation it has given to inflation.

"Since last fall, several developments have taken place which have tended to bring about some tightening in bank credit. The Federal bank supervisory agencies joined in a statement issued November 24, 1947, urging banks to exercise caution in their lending policies. A copy of this statement is enclosed. Another statement of a similar character by the Board related to consumer credit. The American Bankers Association has also been active in a program to acquaint bankers with the importance of avoiding inflationary loans. The Federal Reserve System has taken several steps to restrain the growth of bank reserves and bank lending power. Finally, and probably most important, the cash surplus of the Federal Government in the first quarter of the year has been used to retire Government debt in such a way as to put pressure on bank reserves.

"None of these developments were of a character which singled out trailer financing for special attention. If dealers or manufacturers in this field

4/26/48

655

-7-

"have been affected, it is because of the general tightening of credit or because of the decision of the individual bank with respect to its particular lines of credit.

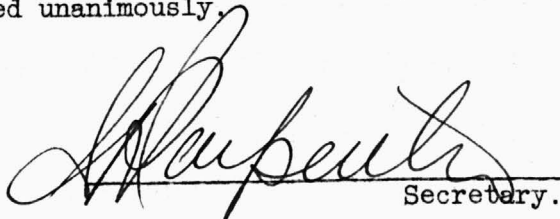
"The inflationary situation with which the country has been confronted for some time is in considerable part a result of too much money and credit for the goods and services that can be produced with the materials, labor, and plant facilities available. In seeking ways to restrain the growth of credit, the Board is endeavoring to promote a better balance between the money side and the goods side and in particular to reduce the bidding up of prices for materials and labor. It is but natural that each line of business would prefer to have the credit restriction fall upon other lines. With the present general excess of demand and limited supplies of materials and labor, output of any particular product can be further expanded only by shifting materials and labor from other products.

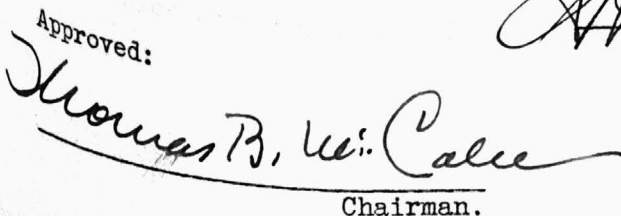
"Governor Eccles covered these matters in greater detail in a statement before the Joint Committee on the Economic Report on April 13, 1948. A copy of this statement, which makes some mention of housing in general, is also enclosed."

Approved unanimously, together with
a similar letter to the Honorable Raymond H.
Burke, House of Representatives.

Memorandum dated April 21, 1948, from Mr. Carpenter, recommending, for the reasons stated in the memorandum, that the Board approve a payment of \$2,489 in addition to the \$10,000 approved on November 26, 1947, to defray the cost of the publication by the Treasury Department, of a sales manual for use in the current savings bond campaign.

Approved unanimously.


Secretary.

Approved:

Chairman.