

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, July 20, 1948. The Board met in the Board Room at 10:40 a.m.

PRESENT: Mr. McCabe, Chairman  
Mr. Szymczak  
Mr. Evans  
Mr. Vardaman

Mr. Carpenter, Secretary  
Mr. Sherman, Assistant Secretary  
Mr. Thurston, Assistant to the Board  
Mr. Riefler, Assistant to the Chairman  
Mr. Thomas, Director of the Division of Research and Statistics  
Mr. Vest, General Counsel  
Mr. Van Fossen, Assistant Director of the Division of Bank Operations

Reference was made to a memorandum prepared in the Division of Bank Operations under date of July 9, 1948, summarizing replies to the Board's letter of June 2, 1948, to the Federal Reserve Banks requesting information regarding the existence of emergency electric power facilities at the various Banks and branches. The memorandum, which had been circulated among the members of the Board before this meeting, stated that nine Federal Reserve Banks reported that they had provision in their head office buildings for the supply of emergency electric power in the event of disruption of the normal supply, and that of the other three (Richmond, Atlanta, and St. Louis), Richmond had emergency gas lighting and battery-powered lamps in certain areas and St. Louis was planning to convert its

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own power plant to stand-by service. The memorandum went on to say that at only two of the branches (Pittsburgh and Los Angeles) were there emergency electric power facilities, although at Buffalo, Baltimore, and Charlotte battery-powered lamps were provided in vault areas.

Mr. Vardaman suggested that the matter be placed on the agenda for discussion at the next Conference of Presidents but that before that was done the Board reach a conclusion as to what stand-by facilities should be provided in the Board's building and at the Federal Reserve Banks or branches which do not now have such equipment.

In this connection, Mr. Vardaman raised the question whether plans should be made for the evacuation of the Board's building and some of the Federal Reserve Banks in the event of an attack or invasion.

Mr. Szymczak suggested that before the matter was discussed at a Board meeting information be obtained showing what emergency lighting facilities were available to other Governmental agencies in Washington, and to what extent plans for evacuation in event of an attack or invasion had been or were being made.

It was agreed unanimously that Mr. Bethea should obtain the information suggested by Mr. Szymczak and that the matter should be discussed at a meeting of the Board early in September.

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Mr. Thomas stated that on Sunday, July 18, 1948, he received a telephone call from Mr. John D. Clark, a member of the Council of Economic Advisers, in which the latter stated that consideration was being given to the inclusion in the President's message to the special session of Congress which was to convene on July 26, 1948, of recommendations for legislation relating to credit controls. Mr. Thomas also said that Mr. Clark had indicated there was some difference of opinion concerning whether the anti-inflation legislation to be proposed should be in the form of price and related controls or whether it should be through the credit field. Mr. Clark was not asking for anything from the Board, Mr. Thomas said, but was merely passing the information on to the Board.

The matter was discussed and it was understood that Mr. Thomas would prepare a memorandum containing recommendations which, in the independent view of the Division of Research and Statistics, should be made with respect to restraining further inflationary developments. It was also understood that if, in the preparation of the memorandum, he wished to consult with the directors of research at the Federal Reserve Banks he would be at liberty to do so.

In this connection, Chairman McCabe suggested that it would be desirable to address a letter to the Chairmen of the Federal Reserve Banks asking for their suggestions as to legislation which might be recommended in the event the Board should be called upon at a later date for its views.

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It was understood that Mr. Evans, in consultation with the editorial committee, would prepare a draft of letter along the lines suggested by Chairman McCabe and submit it to the Board for consideration.

Mr. Thomas stated that Mr. Joseph E. Reeve of the Bureau of the Budget had telephoned him this morning to say that Mr. Pace, Assistant Director of the Bureau, would like to have a meeting for the purpose of trying to come to some agreement on an amendment to the law which would authorize Treasury purchases of Federal Home Loan Bank and Federal Savings and Loan Insurance Corporation obligations in the event of an emergency. In this connection, reference was made to the following draft of letter to Mr. Staats, Assistant Director, Legislative Reference, Bureau of the Budget:

"This refers to your letter of June 14, 1948 requesting an expression of views with respect to an amendment which the Housing and Home Finance Agency has proposed to H. R. 2799. The present proposal is a modification of one previously transmitted by the Housing and Home Finance Administrator to Senator Tobey, Chairman of the Senate Banking and Currency Committee.

"The present proposal would omit section 8 of the previous proposal. That was the provision which would have authorized investment of fiduciary and public funds in insured share accounts of savings and loan associations. The Board is convinced that such share accounts are not appropriate investments for such funds and it agrees completely with the elimination of the provision.

"However, for the reasons which are indicated below (and set forth more fully in our letter of April 16, 1948 on a similar proposal), the Board feels that the present proposal is subject to objection in other respects.

"Treasury Purchase of Home Loan Bank Obligations.  
As a result of objections to previous proposals for authorizing Treasury purchase of Home Loan Bank obligations, the present proposal would add to section 3

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"of the amendment a provision that such authority in the Secretary of the Treasury is to be 'in his discretion.' The proposal also suggests language on the point for inclusion in a Senate Committee Report.

"The Board believes that the reference to 'discretion' is not an adequate protection against efforts, which the provision would encourage in the future, to further shift to the Treasury the burden of maintaining an artificial liquidity of savings and loan shares. It is one thing to authorize the Treasury to purchase and temporarily hold obligations of the Home Loan Banks when it would not otherwise be practicable for the Home Loan Banks to retire maturing obligations. It is quite another to authorize such purchases with what would in practice amount to no restriction whatever.

"The first type of authorization would be adequate for the Home Loan Bank System to assure its member savings and loan associations of assistance in maintaining the degree of liquidity appropriate to such institutions. The second type would be likely to encourage savings and loan associations to (1) hold out false hopes of complete liquidity to owners of share accounts, and (2) neglect the maintenance of an appropriate degree of liquidity. The net result would be to shift the burden of artificial liquidity to the Federal Government — a consequence which would complicate the already difficult job of administering national fiscal and monetary policies.

"It seems to us too broad to state, as the language proposed for a Committee Report would do, that the Treasury funds should be provided not only in 'emergency' but also in 'other special conditions.' In addition, the last sentence of the proposed language would imply that for present purposes the operations of the Home Loan Bank System are comparable with those of the Federal Deposit Insurance Corporation and the Farm Credit and commercial banking systems, an assumption which we believe to be unwarranted. Over and above the question of language, however, a statement in a Committee Report could not provide an adequate safeguard. The statutory provision could be misunderstood by people who would never see or hear of the Committee Report, and it could encourage them to expect a liquidity that they would then call upon the Government to provide.

"Treasury Purchase of FSLIC Obligations. Inasmuch as the Federal Savings and Loan Insurance Corporation is a Government corporation, there are reasonable grounds

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"for having it come to the Treasury rather than the open market in the event it should need to borrow. However, if it is to be given such access to the Treasury, it should first be required to use the facilities already furnished by Congress for providing adequate reserves. It should be required to institute a regular program of crediting to the reserve each year a sum sufficient to build up its reserve within a reasonable time to 5% of insured risk as already specified by Congress, and of assessing insured institutions if necessary for this purpose.

"To summarize, the Board believes that the problems dealt with in the proposed legislation are important, but they are important as part of the broader problems of credit and fiscal policy, and, as we indicated in our letter of April 16, should be considered in this larger context. So considered, we believe it becomes clear that these proposals could tend to make Treasury funds, and the prospect of getting them, an active force for instability in the economy."

The position of the Board on these matters, as evidenced by letters which it had approved in the past, was discussed and Mr. Vardaman stated that he would oppose the inclusion in a permanent statute of emergency legislation of the kind suggested by Mr. Pace.

Mr. Vest stated that there had been conferences from time to time of members of the staff of the Legal and Research Divisions with representatives from other Governmental agencies interested in housing and Home Loan Bank legislation.

Chairman McCabe suggested that if Mr. Pace desired a meeting with members of the staff, such a meeting might be held in the usual course and that, if Mr. Pace should ask that members of the Board's staff be present at such a meeting, Messrs. Vest and Thomas be authorized to select representatives from their respective divisions for the purpose of discussing the matter at the meeting and reporting to the Board.

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Chairman McCabe's suggestion and the letter to Mr. Staats as set forth above were approved unanimously.

At this point Messrs. Riefler, Thomas, Vest, and Van Fossen left the meeting and the action stated with respect to each of the matters hereinafter referred to was taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on July 16, 1948, were approved unanimously.

Memorandum dated July 19, 1948, from Mr. Leonard, Director of the Division of Examinations, recommending that, effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination, Malcolm F. Johnson be appointed as an Assistant Federal Reserve Examiner, with basic salary at the rate of \$3,852.60 per annum, and with official headquarters at Washington, D. C. The memorandum also stated that Mr. Johnson was a member of the Civil Service retirement system and would remain in that system.

By unanimous vote, Malcolm F. Johnson was appointed an examiner to examine Federal Reserve Banks, member banks of the Federal Reserve System, and corporations operating under 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 Washington, D. C., and with basic salary at the rate of \$3,852.60



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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.

Memorandum dated July 16, 1948, from Mr. Nelson, Director of the Division of Personnel Administration, recommending the transfer of Mrs. Dorothy V. Wright, a clerk-typist in the Division of Research and Statistics, to the Division of Personnel Administration as a clerk-typist with no change in her present basic salary of \$2,648.76 per annum, effective July 25, 1948. The memorandum also stated that the Division of Research and Statistics had been consulted and was agreeable to the transfer.

Approved unanimously.

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

"In accordance with the request contained in your letter of July 13, 1948, the Board approves the payment of salary to Mr. Joseph C. Auchter for a period of six months beginning July 16, 1948 at the rate of \$5,585.00 per annum, which rate is in excess of the maximum of his present position."

Approved unanimously.

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

"In accordance with the request contained in your letter of July 14, 1948, the Board approves the designations of Harold M. Scott and L. Harold Paxton as special assistant examiners for the Federal Reserve Bank of Richmond."

Approved unanimously.



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

"In accordance with the request contained in your letter of July 13, 1948, the Board approves the appointment of Hugh Anthony Barrett as an assistant examiner for the Federal Reserve Bank of Atlanta. If the appointment is not made effective August 1, 1948, as planned, please advise us."

Approved unanimously.

Letter to Mr. Gilbert, President of the Federal Reserve Bank of Dallas, reading as follows:

"The Board of Governors approves the payment of salary to Mr. Harry A. Shuford as an officer of the Federal Reserve Bank of Dallas with the title of Counsel at the rate of \$8,500 per annum for the period beginning on the date he reports for duty through May 31, 1949."

Approved unanimously.

Letter to Mr. J. Clayton Miller, Commission on the Organization of the Executive Branch of the Government, Room 5420, Commerce Building, reading as follows:

"In response to your request of June 28 to Mr. Ralph Young, the Board's staff, at the request of the Board, has prepared a report on certain international activities of the Board which it is hoped will be useful to you in the work you have undertaken for the Foreign Affairs Project of the Commission on the Organization of the Executive Branch of the Government. Two copies of the report are enclosed. You will appreciate, we are sure, that the statements contained in the report being supplied which do not expressly refer to positions taken by the Board may not necessarily reflect the Board's views."

Approved unanimously.

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Letter to the Presidents of all Federal Reserve Banks reading as follows:

"In accordance with the Board's telegram of June 17, there is enclosed a proof copy of the proposed new issue of the Par List. The printer was unable to deliver the proofs until today, and there is little possibility that final copies can be ready for distribution prior to the early part of August. For this reason, it has been decided to have the new issue reflect changes through July 31, to date it August 1948, and to issue an August supplement to the October 1946 Par List.

"It will be appreciated if you will have the enclosed proof carefully checked, insofar as it pertains to your District, and inform the Board as early as practicable of any changes in headings, listings, or otherwise, that may be necessary to reflect the current situation in your District. In addition, please inform the Board by telegram on the morning of August 2 of any additional changes necessary to reflect the situation as of July 31.

"Information for the August supplement to the October 1946 Par List should be submitted in the usual manner. For ease of handling, it is requested that data for the supplement be reported separately from changes in the proof of the new Par List."

Approved unanimously.

Letter dated July 19, 1948, to Mr. C. A. Richards, Director, Export Division, Interchemical Corporation, 350 Fifth Avenue, New York 1, New York, reading as follows:

"We are pleased to have your letter of June 18 in which you inform us of the value to exporters of information compiled and released monthly by the Federal Reserve Bank of New York regarding export bills and letters of credit outstanding. We have subsequently received from Mr. Philip J. Gray, Manager of the Foreign Credit Interchange Bureau, a copy of the Bureau's resolution on the same subject.

"The suggestion made by you and also by Mr. Gray that similar and more comprehensive surveys be prepared by other Federal Reserve Banks for the country as a

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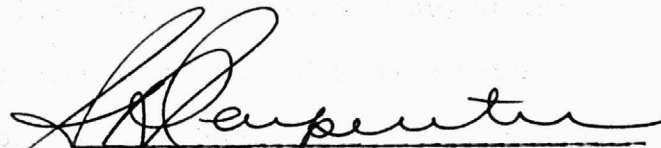
"whole is of great interest to us, and we are glad to assure you that steps will be taken to study the feasibility of the suggestion. I am sure you will understand, however, that the proposal must take account of the general program for the collection of banking statistics and of the burden that will be placed upon the respondents by new requests."

Approved unanimously.

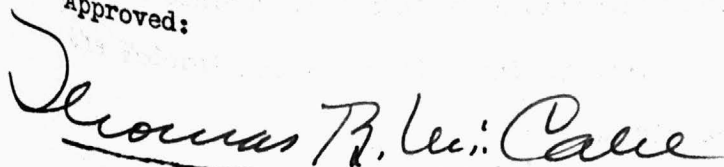
Telegram to Mr. Knoke, Vice President of the Federal Reserve Bank of New York, reading as follows:

"Your wire July 16 re gold loans to Banque de France. Board approves three months' extension by your bank of loans of \$10,000,000 each maturing July 26 (two loans), July 29, August 3, and August 20, on the same terms and conditions and subject to the same understandings as were specified in the Board's wire of June 18, which applied to earlier renewals of gold loans to Banque de France."

Approved unanimously.

  
Secretary.

Approved:

  
Chairman.