Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, July 23, 1948. The Board met in the Board Room at 10:30 a.m.

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

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

There were presented telegrams to the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, Minneapolis, Kansas City, Dallas, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of Kansas City on July 17, by the Federal Reserve Bank of San Francisco on July 20, and by the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, Minneapolis, and Dallas on July 22, 1948, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Mr. Evans stated that he had asked that the question of a further increase in reserve requirements of member banks in central reserve cities be considered at this meeting, with the understanding that the matter would be discussed but that action would not be taken until more members of the Board could be present and a response had been received from the Treasury to the anti-inflation program outlined in a draft of proposed letter from the Chairman of the Federal Open Market Committee to the Secretary of the Treasury, a copy of which was handed by Chairman McCabe to Secretary Snyder on July 16, 1948.

Chairman McCabe said he had an appointment on July 29, 1948, to discuss the draft of letter with Secretary Snyder, that the latter would meet with the American Bankers Association Committee on Government Borrowing at noon on that day, and that he (Chairman McCabe) anticipated a response from Mr. Snyder shortly thereafter.

In connection with the question of a further increase in reserve requirements of member banks in central reserve cities, reference was made to memoranda prepared by Mr. Thomas under date of July 21, 1948, on the reserve position of central reserve city banks and their holdings of Government securities, and July 22, 1948, on the relationship of an increase in reserve requirements to earnings of central reserve city banks. Copies of these memoranda had been sent to each member of the Board before this meeting.

At Chairman McCabe's request, Mr. Thomas reviewed the situation along the lines presented in the memoranda, stating that central reserve city banks had adequate short-term assets to meet a further increase of two percentage points in required reserves against net demand deposits, but that since Treasury operations would not be increasing reserves at any time in the next few months except for a short time early in September, it was not possible to select a period that would be most propitious for an increase in reserve requirements. He also said that the increase in reserve requirements on June 11, 1948, a loss of deposits, and a growth in loans had resulted in a decrease in the liquidity of New York City banks because they had substantially reduced their holdings of short-term bonds to meet these changes, and that the effectiveness of a further increase in reserve requirements depended entirely upon how far banks were willing to go in reducing their liquid assets.

> Following a discussion, it was agreed unanimously that the question of a further increase in reserve requirements of central reserve city banks should be deferred until a response had been received from the Treasury to the program outlined in the draft of letter referred to above.

Chairman McCabe stated that he received a telephone call this morning from Mr. William J. Meinel, President of Heintz

Manufacturing Company, Philadelphia, during which the latter had advised that he would not be able to accept appointment as a Class C director and designation as Chairman and Federal Reserve Agent of the Philadelphia Bank. There was a brief discussion of others who might be considered for the appointment, but no conclusions were reached.

Mr. Thomas then reviewed the replies which he had received to a wire sent to the directors of research at all Federal Reserve Banks following the meeting on July 20, 1948, asking their views with respect to Federal Reserve policy and recommendations for legislation which might be desirable to restrain inflationary forces. Mr. Thomas stated that nearly all of the Reserve Bank economists felt there would be further inflationary pressures during the next 12 months, with accompanying large demand for bank credit, and that further System action to restrain inflationary credit expansion would be needed. Ten of the economists, Mr. Thomas said, recommended that request be made for additional powers to raise primary reserve requirements in some way, but opinion was rather general that another request for authority to impose a special reserve requirement should not be made. It was also widely recommended, Mr. Thomas reported, that the System renew its request for authority to regulate consumer instalment credit. A summary of the replies is contained in a memorandum prepared by Mr. Thomas under date of July 23, 1948.

During Mr. Thomas' report, Chairman McCabe was called from the meeting and upon his return stated that Mr. Clark Clifford, Administrative Assistant to the President, had informed him that a meeting of various departments and agencies of the Government would be held at the White House at 2:00 p.m. today for the purpose of reviewing the recommendations to be included in the President's message to the special session of Congress to convene on July 26, 1948, and that he would like to have the Board designate someone to attend the meeting who could speak for the Board. Mr. Clifford commented, Chairman McCabe said, that the White House was interested in control of inflationary bank credit and instalment credit control, and that it was contemplated that the message would ask for a renewal of consumer credit control and would state that the Board undoubtedly would ask for increased authority over bank reserves and would be in a position to present specific recommendations to Congress.

During the ensuing discussion, Mr. Thomas stated that, pursuant to the understanding at the meeting on July 20, 1948, he had talked further with Mr. Clark, member of the Council of Economic Advisers, and had called his attention to bills introduced in the 80th Session of Congress with respect to consumer credit and the special reserve plan, that on April 13, 1948, the Board submitted to the Joint Committee on the Economic Report a recommendation with respect to primary bank reserves, and that although no legislation had been submitted on the latter recommendation, it could be prepared readily. Mr. Clark made it clear, Mr. Thomas said, that he was not asking for the recommendations of the Board but information as to drafts of legislation that had been prepared.

Following a discussion, it was agreed unanimously that Mr. Thomas should attend the meeting and that he would be authorized to say that the Board favored (1) consumer credit legislation in the form in which it passed the Senate on December 17, 1947, except that the authority should continue for three years from date of enactment of the legislation, and (2) inclusion in the President's message of a general recommendation that additional authority be granted to the Board to increase bank reserves, the recommendation to be in such form that the Board would be free to propose an increase in authority over bank reserves in such form as it might wish.

In taking this action, it was understood that, if called upon to be specific with respect to the additional authority for increasing bank reserves, without raising the question whether the authority should apply to all banks or member banks only, Mr. Thomas might say that the Board favored legislation granting authority to increase reserve requirements against demand deposits by 10 percentage points and against time deposits by 4 percentage points above the maximum rates now permissible.

It was also understood that the Secretary would telephone each member of the Board who was not at this meeting and inform him of Mr. Clifford's request and the action taken thereon.

Chairman McCabe stated that Mr. Creighton, Chairman of the Boston Bank, telephoned him yesterday afternoon to say that Mr. Thomas D. Cabot had declined to accept appointment as a Class C director and that, in accordance with the action at the meeting on July 13, Mr. Ames Stevens, of Ames Worsted Company, Lowell, Massachusetts, had been approached and had indicated he would accept the appointment if tendered.

At Chairman McCabe's suggestion, the following telegram to Mr. Stevens was approved unanimously:

"Board of Governors of Federal Reserve System has appointed you Class C Director of Federal Reserve Bank of Boston for unexpired portion of term ending December 31, 1948, and will be pleased to have your acceptance by collect telegram. It is understood that in order to qualify you will resign as a Director of the New England Trust Company and dispose of any Bank stocks you may own."

There was presented a telegram to the Presidents of the Federal Reserve Banks reading as follows:

"The Board of Governors of the Federal Reserve System under authority of the fourth paragraph of Section 16 of the Federal Reserve Act hereby establishes for the three months' period ending June 30, 1948, the rate of (1) per cent interest per annum on that amount of the Federal Reserve notes of your Bank which equals "the average daily amount of its outstanding Federal Reserve notes during such period less the average daily amount of gold certificates held during such period by the Federal Reserve Agent as collateral security for such notes. Interest in an amount calculated in the manner and at the rate specified above shall be paid to the United States on July 28, 1948.

"According to daily balance sheets, the average daily amount of outstanding notes of your Bank during the second quarter of 1948 not covered by gold certificates with the Federal Reserve Agent was $ (2) . At rate specified above, payment to Treasury for second quarter will be $ (3) . Payment should be credited to Treasurer's General Account as Miscellaneous Receipts, Symbol 1841-Interest Collected, Section 16 Federal Reserve Act as amended. Your Bank's pro rata share of $10,000,000 deduction referred to in Board's July 1 wire is $ (4) . No statement being given to press with respect to this action.

	"(1)	(2)	(3)	(4)
Boston	.90	$1,014,591,627	$2,276,576.83	$ 656,240
New York	2.80	1,167,680,355	8,151,368.61	2,443,605
Philadelphia	.91	1,117,495,971	2,535,338.12	724,723
Cleveland	.96	1,410,152,726	3,375,094.30	975,707
Richmond	.87	1,049,919,108	2,277,317.69	638,606
Atlanta	1.00	686,424,058	1,711,358.61	489,798
Chicago	1.02	1,923,651,080	4,891,871.05	1,417,507
St. Louis	.95	808,011,269	1,913,769.16	531,615
Minneapolis	.96	432,669,874	1,035,562.74	302,357
Kansas City	.96	663,974,804	1,589,173.67	456,324
Dallas	1.36	451,223,662	1,529,957.27	448,973
San Francisco	2.35	531,775,868	3,115,623.82	914,545"

In this connection, Mr. Smead reported that, following the meeting on June 25, 1948, he had talked with Mr. Bartelt, Fiscal Assistant Secretary of the Treasury, and informed him of the decision to set aside from second quarter earnings of the Federal Reserve Banks an additional reserve of $10,000,000. Mr. Bartelt responded, Mr. Smead said, that he was particularly pleased that the Board had decided to handle the matter in that way, which avoided raising the question of changing the existing arrangement under which 90% of the net earnings of the Federal Reserve Banks are paid to the Treasury.

Upon motion by Mr. Evans, the telegram was approved unanimously.

Mr. Thurston stated that at Chairman McCabe's request he attended a meeting yesterday afternoon in the office of Mr. Pace, Assistant Director of the Bureau of the Budget, at which meeting there were also present representatives of the Housing and Home Finance Agency, the Treasury Department, and the General Accounting Office, for the purpose of discussing possible changes in H. R. 2799 along the lines referred to by Mr. Thomas at the meeting of the Board on July 20. Mr. Thurston also said that he had informed the group that he knew of no change in the Board's position as outlined in its letter to Mr. Staats, Assistant Director, Legislative Reference, Bureau of the Budget, under date of July 20, 1948, but that he would report the discussion at the meeting to the Board of Governors and communicate with Mr. Pace again.

It was agreed unanimously that Mr. Thurston should inform Mr. Pace that the Board's position was unchanged from that presented in its letter of July 20, 1948.

At this point Messrs. Riefler, Smead, Thomas, Vest, and

Horbett withdrew and the action stated with respect to each of the matters hereinafter set forth was taken by the Board:

Letter to Mr. Carstarphen, Secretary of the Federal Reserve Bank of St. Louis, reading as follows:

"This is in reply to your letter of July 16, 1948, regarding the adoption of a procedure for the establishment of discount rates under which it is understood that the executive committee of your Bank, which meets on Wednesday of each week, would reestablish discount rates effective the day following its meeting, and that the full board of directors at its regular meeting on the second Thursday of each month would reestablish the rates on that day thus avoiding a meeting of the executive committee on the preceding day.

"It is believed that the provision of section 14(d) of the Federal Reserve Act requiring the establishment of discount rates every 14 days is intended to refer to the time between actual consideration of the rates by a Federal Reserve Bank rather than the interval which may exist between the dates upon which the rates are made effective. It is the view of the Board, therefore, that the procedure suggested in your letter, since it would involve the lapse of more than 14 days between the dates of consideration, would not technically comply with the requirement of the law. While for all practical purposes there would probably be substantial compliance with the law even though, in a few isolated instances where it cannot be avoided, there may be a lapse of 15 days between the dates of action on discount rates, the Board feels that, in making arrangements for the future for the purpose of considering discount rates, all practicable steps should be taken to insure compliance with the requirement of the law."

Approved unanimously.

Letter to Mr. Stevens, Chairman of the Federal Reserve Bank of New York, reading as follows:

"The Board of Governors approves the payment of salaries to the following officers of the Federal Reserve Bank of New York and the Buffalo Branch for the period April 1, 1948 to March 31, 1949, inclusive, at the rates indicated, which are the rates fixed by the Board of Directors, as reported in your letter of July 15, 1948:

Name	Title	Annual Salary
Sproul, Allan	President	$50,000
Rounds, Leslie R.	First Vice President	35,000
Douglas, Edward O.	Vice President	16,500
Kimball, Herbert H.	Vice President	16,500
Knoke, L. Werner	Vice President	22,500
Logan, Walter S.	Vice President and General Counsel	25,000
Phelan, Arthur	Vice President	19,500
Roelse, Harold V.	Vice President	18,000
Rouse, Robert G.	Vice President	25,000
Willis, Valentine	Vice President	18,500
Wiltse, Reginald B.	Vice President	16,000
Tiebout, Todd G.	Assistant General Counsel	16,500
Trimble, Rufus J.	Assistant General Counsel	15,000
Bilby, Harold A.	Assistant Vice President	13,500
Davis, Felix T.	Assistant Vice President	12,000
Davis, Norman P.	Assistant Vice President	12,500
Miller, Silas A.	Assistant Vice President	15,000
Sanford, Horace L.	Assistant Vice President	13,500
TenEyck, Otto W.	Assistant Vice President	12,000
Treiber, William F.	Assistant Vice President and Secretary	15,500
Wurts, John H.	Assistant Vice President	13,500
Sheehan, William F.	Chief Examiner	15,000
Abrahams, William F.	Manager, Security Custody Department	9,000
Bowman, Curtis R.	Manager, Credit and Discount Depts.	10,000
Boyd, Harry M.	Manager, Safekeeping Department	9,500
Burt, Wesley W.	Manager, Savings Bond Department	10,500
Carroll, James J.	Manager, Planning Department	10,500

Name	Title	Annual Salary
Crosse, Howard D.	Manager, Collection Department	$ 9,000
Fitchen, Paul R.	Manager, Cash Custody Department	8,500
Harris, Marcus A.	Manager, Government Bond Department, R.F.C. Custody Department	11,000
Heinl, William A.	Manager, Personnel Department	9,500
Lang, Peter P.	Manager, Foreign Department	10,500
Marsh, Spencer S., Jr.	Manager, Securities Department	9,250
McLaughlin, Michael J.	Manager, Government Check Department	8,500
Moore, O. Ernest	Manager, Research Department	10,500
Peterson, Franklin E.	Manager, Bank Relations Department	9,500
Rozell, Walter H., Jr.	Manager, Foreign Department	9,750
Scheffer, Ralph W.	Manager, Check Department	9,500
VanHouten, Charles N.	Manager, Cash Department	10,000
Wendell, Roy E.	Manager, Check Department	9,750
Wessel, Harold M.	Manager, Accounting Department	9,500
Clarke, John J.	Assistant Counsel and Assistant Secretary	10,500
Dillistin, William H.	General Auditor	16,000
Cameron, Donald J.	Assistant General Auditor	12,000
	Buffalo Branch	
Smith, Insley B.	General Manager	13,000
Snow, Halsey W.	Cashier	9,500
Doll, George J.	Assistant Cashier	8,700
Myers, M. Monroe	Assistant Cashier	7,000

"The Board of Governors also approves the payment of salary to Mr. John H. Williams as Economic Adviser for the period April 1, 1948 through March 31, 1949, at the rate of $22,000 per annum when he is engaged in the work of the Bank on a full-time basis; and when he is not engaged in the work of the Bank on a full-time "basis, at the rate of $84.62 per day for each day on which he spends any time, on behalf of the Bank, at the Bank or at a Federal Reserve or related meeting elsewhere, plus his reasonable travel, lodging and subsistence expenses."

Approved unanimously.

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

"This refers to your letter of July 9 regarding a proposed arrangement with respect to certain securities owned by The Chase National Bank of the City of New York and held in custody by you to secure certain deposits of the Philippine Republic in the Chase National Bank.

"It is understood that prior to July 4, 1946 your bank, as fiscal agent for the United States and at the request of the Secretary of the Treasury, received from the Chase National Bank and held in custody, subject to the order of the Secretary of the Interior or such person as he might designate, securities deposited as collateral for deposits of Philippine public funds in the Chase National Bank. As of July 4, 1946, when the Commonwealth of the Philippines assumed its independence, the Department of the Interior terminated the authority for officers of the Department to issue instructions to your bank with respect to the securities. At that time you held approximately $40,000,000 in principal amount of securities in that connection.

"Since then you have had conferences with the officers and counsel of the Chase National Bank with reference to establishing the authority of someone to control the collateral and with reference to continuing, at least temporarily, an arrangement whereby deposits of Philippine public funds in the Chase National Bank might be secured by the deposit of collateral with your bank.

"Upon consideration of the proposed arrangement as described in your letter and in the documents furnished by your Counsel to the Board's General Counsel, the Board feels that the arrangement is one with respect to which "the Board's permission is necessary and herewith gives its consent to the arrangement. We note, however, that you anticipate that eventually most Philippine public funds in this country will be deposited with you on an unsecured basis pursuant to Philippine monetary and central bank legislation. In this connection we understand that the Philippine Republic has recently enacted legislation for the creation of a central bank. Accordingly, you will doubtless find it desirable to review the proposed arrangement after the central bank has been actually established and we will appreciate your keeping us advised of further developments in the matter."

Approved unanimously.

Letter to Mr. John E. Peurifoy, Assistant Secretary, Department of State, reading as follows:

"We have read with interest your letter of July 2 with its enclosures pertaining to international conferences that may be held during the fiscal year 1950. On the first five points in your questionnaire we have no information to offer but suggest with reference to No. 3 that you communicate with Mr. Bray Hammond, Assistant Secretary of the Board, for coordination and exchange of information.

"With respect to No. 6 there are two things that seem to call for mention. One is that the statutory responsibilities of the Board as a central banking organization involve an active interest in international monetary affairs. In addition, the membership of the chairman of the Board on the Advisory Board of the Export Import Bank and on the National Advisory Council, besides participation of members of the Board's staff in the work of the Council, give occasion for the Board to participate in international conferences dealing with monetary subjects within the terms of your letter. In the second place, however, the Board does not operate with appropriated funds and consequently its participation in international conferences does not involve the budgetary procedure you mention.

"The Board has in mind at the present time no conferences not already included in your list. We might mention, however, the possibility that another conference of representatives of central banks of the Western Hemisphere, such as met in Mexico City in August 1946, may possibly be held in the period of your inquiry. This is purely an inter-bank conference dealing with central banking technique and involves no outside representation, though it is arranged with the State Department's knowledge and approval.

"We note that the third annual meeting of the Board of Governors of the International Monetary Fund and of the International Bank to be held in Washington in September of this year is included in your list. As in the past, the Board will wish to have representatives participate in these meetings at the technical level. It will probably wish also to participate in the Special Conference on Economic Cooperation to be held, as your list shows, in Buenos Aires this coming winter.

"The Federal Reserve Bank of New York, partly as fiscal agent of the United States and partly as the correspondent of foreign central banks and governments, has, as you know, a large and continuous volume of financial transactions of an international nature. These transactions entail frequent visits from the officials of foreign countries and central banks to the United States and corresponding calls on foreign central banks and finance ministries by our own people. The Board under the terms of the Federal Reserve Act has a special responsibility with respect tc such matters. The latter, however, do not entail conferences such as your letter is concerned with."

Approved unanimously.

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

"Your wire July 22. Board approves the making of a loan or loans on gold by your Bank to Banco Central del Ecuador on the terms and conditions specified in your wire, as follows:

"(a) The amount to be advanced not to exceed $1,700,000 in the aggregate at any one time outstanding; such loan or loans to be made up to 98 per cent "of the value of refined gold bars held in your vaults as collateral;

"(b) Each such loan or renewal thereof to run for 90 days, but no loan or renewal thereof to mature later than 180 days after the date of the first such loan;

"(c) Each such loan and any renewal thereof to bear interest from the date such loan is made or renewed until paid, at the discount rate of your bank in effect on the date on which such loan or renewal is made.

"It is understood that the usual participation will be offered to the other Federal Reserve Banks."

Approved unanimously.

S R Carpenter
Secretary.

Approved:

Thomas B. McCabe
Chairman.