

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

PRESENT: Mr. McCabe, Chairman
Mr. Eccles
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

Chairman McCabe reviewed briefly the testimony he had given before the Senate Banking and Currency Committee yesterday with respect to proposals that authority to regulate consumer instalment credit and to increase reserve requirements be given to the Board of Governors. He also stated that he had been asked to appear before the House Banking and Currency Committee on Monday, August 2, 1948, and that he would like to have any comments that the other members of the Board might have to make on his testimony before the Senate Banking and Currency Committee yesterday. In response to a question by Mr. Vardaman, Chairman McCabe said that he expected to make a statement similar to that made before the Senate Banking and Currency Committee yesterday, including the statement approved by the Board as set forth in the minutes for July 29, 1948 which did not appear to require amplification. Mr. Evans suggested that in order to meet the comment that the System had not used the

7/30/48

-2-

powers it had, Chairman McCabe, in the personal portion of his testimony, might point out what those powers were and what the results would be of letting the Government securities market decline substantially. It was agreed that this point might well be stressed before the House Committee together with the additional point of why the existing credit powers of the System cannot be used fully as long as the policy is maintained of supporting the Government securities market.

In connection with a comment by Mr. Evans that he had a statement ready for presentation on the regulation of instalment credit, Chairman McCabe stated that he would like to have Mr. Evans attend the hearings before the House Banking and Currency Committee on Monday so that he would be prepared to discuss the question of consumer credit legislation when that matter came up.

This procedure was agreed to.

Mr. Vardaman asked the question whether the Board members were agreed that the Board should not be given authority to regulate consumer credit if legislation with respect to bank reserves was not enacted.

There was a discussion of the position that the Board might take with respect to the desirability of the Congress granting only authority to regulate consumer instalment credit, during which Mr.

7/30/48

-3-

Vardaman stated that he favored the reimposition of consumer credit controls only as an integral part of the Board's announced program for credit control, and that he was unalterably opposed to the reimposition of consumer credit controls alone because he did not think they would be effective.

Mr. Eccles stated that he felt the Board should make it clear to the Congress at this time that it felt consumer credit controls alone were entirely inadequate to deal with the inflationary situation, and that, if Congress were to give the Board additional powers in the credit field, increased authority over bank reserves was essential if the consumer credit controls were to be effective.

Chairman McCabe stated that he had made it clear in his testimony before the Senate Banking and Currency Committee yesterday that authority to regulate consumer credit was a minor instrument of control, and that it would not be effective alone as a means of combating the inflation. He questioned, however, that the Board should take the position that the granting of authority for the regulation of consumer credit without other legislation would be undesirable, as it was his view that the authority could be used to curb the extension of excessive credit for the purchase of durable goods, particularly automobiles.

7/30/48

-4-

Mr. Evans stated that in his testimony before the Senate Banking and Currency Committee on the regulation of consumer instalment credit on November 24, 1947, he had pointed out that the regulation of consumer credit was needed as a supplement to, and not as a substitute for, general credit control powers, and that it should be looked upon as a type of regulation which had its proper place in a well-rounded anti-inflation program. He added that, if called upon to make a statement, he would contemplate saying that the regulation of consumer instalment credit was one of the minor tools in the kit of powers the Reserve System might have for use in the discharge of its responsibilities for the regulation of credit.

Mr. Vardaman suggested that at the hearing before the House Banking and Currency Committee Congress might be asked for an expression whether the policy of supporting the Government securities market should be abandoned. This point was discussed but no conclusions were reached.

Following the discussion, it was understood that when Chairman McCabe appeared before the House Banking and Currency Committee on August 2, 1948, he would present the Board's views as set forth in the three paragraph statement approved in the minutes of the Board on July 29, 1948, and that, in the light of the discussion at this meeting, he would consider revising the part of his statement before the House Committee which represented his personal views.

7/30/48

-5-

There were presented telegrams to the Federal Reserve Banks of Boston, Chicago, St. Louis, Kansas City, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Banks of Kansas City and San Francisco on July 27, by the Federal Reserve Bank of St. Louis on July 28, by the Federal Reserve Bank of Chicago on July 29, and by the Federal Reserve Bank of Boston today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

At this point Messrs. Riefler, Thomas, and Vest withdrew and the action stated with respect to each of the matters herein after set forth was taken by the Board:

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

Telegram to Mr. Walden, First Vice President of the Federal Reserve Bank of Richmond, reading as follows:

"Reference letter July 27. Board approves appointment, effective August 1, 1948, of Jesse Harold Ellsworth as assistant examiner for Federal Reserve Bank of Richmond."

Approved unanimously.

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

7/30/48

-6-

"Inquiry has been received from a Federal Reserve Bank as to the policy to be followed with respect to employees entering service in the Armed Forces of the United States under the Selective Service Act of 1948. It has been suggested that a policy similar to that in effect during the last war would be desirable except for reimbursement for insurance premiums and the payment of unearned salary. In view of the desirability of reaching an agreement as soon as practicable on the policy to be followed, the Board is sending the following draft of policy statement to the Presidents of all of the Federal Reserve Banks for their comments instead of suggesting that the matter be referred to a committee of the Presidents' Conference for recommendation. If this procedure is agreeable the Board will appreciate your comments as promptly as possible on the draft of policy statement set forth below:

'In accordance with the intent of Congress as expressed in the Selective Service Act of 1948 the following policy has been adopted with respect to employees who may enter upon active service in the Armed Forces.

'The benefits mentioned below will be granted to employees other than temporary employees, entering upon active duty in the Armed Forces of the United States pursuant to the Selective Service Act of 1948, including persons who voluntarily enlist thereunder, but such benefits will not apply to employees who voluntarily remain in the service longer than required under said Act.

'While an employee is in such military service he shall be deemed not to be in the active service of the Bank within the meaning of the rules and regulations of the Federal Reserve Retirement System.

'At the expiration of such military service the employee will be reinstated (provided the Bank's circumstances have not so changed as to make it impossible or unreasonable to do so) in the position he left, or one of like seniority, status, and pay, provided:

- '1. He presents a certificate in evidence of satisfactory completion of training and service;

7/30/48

-7-

- " 2. He makes application for reemployment within 90 days after he is relieved from training and service or from hospitalization continuing after discharge for a period of not more than one year;
- '3. He is still qualified to perform the duties of such position.

'If the employee meets the above conditions but is found to be not qualified for the position he left (or one of like seniority, status, and pay) because of disability sustained during training and service he will be restored to such other position, the duties of which he is qualified to perform, as will provide him like seniority, status, and pay, or the nearest approximation thereof, consistent with the circumstances in his case, unless the Banks circumstances have so changed as to make it impossible or unreasonable to do so.

'Upon reinstatement the employee will be restored to membership in the Retirement System and, provided he has not withdrawn his accumulated contributions, or if they have been withdrawn provided they are redeposited, he will retain all benefits based on creditable service rendered prior to entering into military service and in addition will receive full service credit for the period of military service without additional cost to him.

'If after being reemployed following return from training and service the employee is subsequently retired for disability, the disability allowance which he would otherwise receive from the Federal Reserve Retirement System may be reduced by the amount he receives, if any, from the Government for disability incurred in the military or naval service.

'The foregoing statement is subject to modification or revision within the limitations of law whenever deemed necessary.'

Approved unanimously.

Telegram to Mr. Shepard, Chairman of the Federal Reserve Bank of Minneapolis, stating that, subject to the condition set

7/30/48

-8-

forth in the telegram, the Board of Governors of the Federal Reserve System authorizes the issuance of a general voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the "First Bank Stock Corporation", Minneapolis, Minnesota, entitling such organization to vote the stock which it owns or controls of the "First National Bank of Hopkins", Hopkins, Minnesota, at all meetings of shareholders of such bank, and that the period within which a permit may be issued pursuant to the authorization contained in the telegram is limited to 30 days from the date of the telegram unless an extension of time is granted by the Board. The condition contained in the telegram upon which the permit was authorized was as follows:

"Prior to issuance of general voting permit authorized herein, applicant shall execute and deliver to you in duplicate an agreement in form accompanying Board's letter S-964 (F.R.L.S. #7190)."

Approved unanimously.

Letter to Dr. Theodore N. Beckman, Chairman, Committee on Consumer Credit Statistics, The Ohio State University, Columbus 10, Ohio, reading as follows:

"This is with reference to your letter of July 12 concerning the meeting which your committee would like to have with Board representatives on the subject of improvement of the consumer credit statistics. We would suggest that the meeting be held August 18, 25, or 26, whichever day might be suited to the schedules of the members of the committee. It would seem best

7/30/48

-9-

"to have it at the Board's offices and we would be pleased to provide lunch for the group.

"As to the Budget Bureau, we should be glad to arrange for someone from that agency to be present. It might be mentioned that the Bureau would have to approve any change in reporting forms which might eventuate from the discussions, and it has a general responsibility with reference to the adequacy and burden of Government statistical operations.

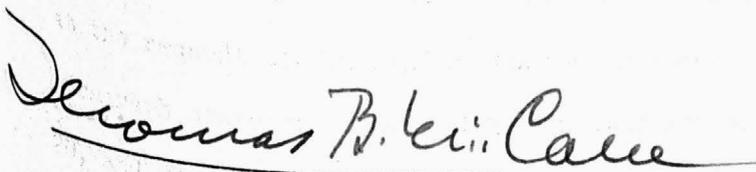
"Mr. Brown will be writing you further about the topics for discussion and the procedure to be followed."

Approved unanimously.



Secretary.

Approved:



Chairman.