

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, August 2, 1948. The Board met in the Board Room at 9:00 a.m.

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
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

Chairman McCabe stated that this meeting had been called at the request of Mr. Eccles who was concerned whether the three paragraph statement approved by the members of the Board on July 28, and recorded in the minutes of July 29, 1948, for presentation to the Banking and Currency Committees of Congress correctly represented the Board's position with respect to the inclusion of non-member banks in legislation authorizing the Board to increase reserve requirements. The Chairman said he had discussed the matter with Mr. Eccles and that following that conversation the statement to be presented before the House Banking and Currency Committee today had been changed and copies of the revised statement had

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been sent to each member of the Board for his information before consideration at this meeting. He also said that after the copies of the revised statement had been distributed the first two and a half pages, which undertook to speak for the Board, had been changed to read as set forth below. The purpose of the entire revision, he said, was to avoid changing the three paragraph statement approved by the members of the Board on July 28, 1948, and at the same time to state the reasons for making the authority of the Board to increase reserve requirements applicable to nonmember banks.

"I deeply appreciate the consideration your Chairman has extended to me in making the time of my appearance here as convenient as possible. Although Congressman Wolcott had asked me to come before you earlier, he kindly consented in deference to my request to wait until this morning. I therefore acceded to the urgent request of Senator Tobey to appear before the Senate Banking and Currency Committee last Thursday morning. Since your Committee has been fully occupied with the testimony of Mr. Porter, I trust that the postponement until this morning has not caused you inconvenience.

"On the evening before going to the Senate Committee, I canvassed the members of the Board by telephone to ascertain their views on the two titles of the proposed anti-inflation bill which relate to consumer credit and bank reserves. The members of the Board agreed unanimously to the following statement:

Anti-Inflation Act of 1948

"The proposed 'Anti-Inflation Act of 1948' includes two titles relating to credit controls. Both are, in substance, part of the comprehensive anti-inflationary program which the Board of Governors has previously recommended to Congress. Title One relates to regulation of consumer credit and Title Two relates to bank reserves. As you gentlemen know, the proposed regulation of consumer

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"credit is identical, except for the date, with the bill passed by the Senate, and acceptable to the Board of Governors as one part of an overall program.

"The proposal with respect to bank reserves is similar to that advanced by the Board in April, except that the increased requirements would be applicable only to member banks, whereas the Board had recommended that they be made applicable to all commercial banks. This is a significant difference. We feel deeply that it is not fair to member banks in their competitive relations to non-member banks to require that they be singled out to carry the additional reserves that may be necessary to combat this inflationary situation. As an emergency measure, however, the bill would be adequate to meet the immediate need for additional authority to deal with reserves.

"In thus stating the views of the Board on these two titles of direct concern to the System, I do not want to create the impression that action in the credit field alone will solve our inflationary problems. Other areas, particularly a budgetary surplus, are more important.

"Since I presented that statement to the Senate Committee, we have been in touch with the Presidents of several of the Federal Reserve Banks, and others. There is strong concurrence with the statement that it would be very unfair to single out member banks to carry the additional reserves to combat this inflationary situation. This is particularly true of the Presidents from those districts where there are large numbers of non-member banks, which would be given a competitive advantage as against member banks. It might result in a serious loss of membership in the System and weaken the effectiveness of its policies. As you know, the effective reserve requirements in most states are substantially below those carried by member banks, and thus non-member banks have greater latitude and earning power.

"The question of the inclusion of non-member banks is very important and we would appreciate it greatly if the Committee would give this problem serious consideration. Unquestionably from the point of view of equity, the proposed legislation should apply to all commercial banks. It is of course a question for the Congress to decide.

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"All of us on the Board are very much concerned about the best way to deal with this problem in this emergency without weakening the power of the Federal Reserve System to adopt and carry out national monetary policies in the broad public interest. Some members of the Board feel that on balance they would prefer not to have this emergency legislation unless it applies to all commercial banks in the United States--non-member as well as member. Others feel that, since the legislation is of an emergency character, lasting for only two years, enactment of the present bill is preferable to no legislation at all. All members recommend that Congress in the interval give fundamental reconsideration to the problem of bank reserves in this country. As you know, the System had had an expert committee working on this problem. Its findings were presented last May to the Joint Committee on the Economic Report."

During a discussion of the revised pages, Mr. Eccles stated that his reason for suggesting that the matter be considered was that when he was testifying before the Senate Banking and Currency Committee on the afternoon of Friday, July 30, Senator McCarthy had asked about the views of the Board with respect to the inclusion of nonmember banks in the proposed reserve legislation, that he (Mr. Eccles) replied that he did not know what the views of the Board were at the present time but that he did know that on April 13, 1948, when he testified before the Joint Committee on the Economic Report the Board had taken the position that the legislation should be made applicable to nonmember banks. At that point, Mr. Eccles said, Senator McCarthy referred to the statement presented by Chairman McCabe at the hearing before the Senate Banking and

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Currency Committee on July 29 which stated that as an emergency measure a bill which would give authority to increase reserve requirements of member banks only would be adequate to meet the immediate need for additional authority to deal with reserves. Mr. Eccles said that, while he had approved the three paragraph statement over the telephone, he did not realize that it included a statement which implied that legislation covering member banks only would be a satisfactory immediate solution to the problem. He did not think the legislation should be regarded as emergency legislation which would have effect for only a two-year period because at the end of that time it would not be practicable to permit the law to lapse and create excess reserves for member banks in the amount by which reserves had been increased under the authority during the interim. It was his view that experience with other legislation affecting nonmember banks made it clear that the proposed legislation could not be regarded as emergency legislation and that therefore the sentence in the Board's statement should be explained by a statement to the effect (1) that for the first time this morning the members of the Board had an opportunity to discuss the three paragraph statement and that it was agreed upon further consideration that the last sentence of the second paragraph did not express the present

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views of the Board or was somewhat inconsistent with the balance of the statement and therefore should be deleted or (2) that at a meeting this morning the Board, after further consideration, decided to modify the last sentence of the second paragraph of the statement because it was not consistent with the balance of the statement and that the Board's statement of April 13, 1948, presented to the Joint Committee on the Economic Report, stated fully the Board's views on the subject of bank reserves.

In the discussion of Mr. Eccles' suggestions, Chairman McCabe stated that the three paragraph statement had been discussed and approved by the members of the Board and had been presented to the Senate Banking and Currency Committee and that he did not think it should be changed, particularly since the revised statement as he had presented it at this meeting stated that unquestionably from the point of view of equity the proposed legislation should apply to all commercial banks.

There was a discussion of the circumstances in which the telephone approval of the three paragraph statement was given by the individual members of the Board. Mr. Vardaman stated that he had suggested that the statement be considered at a meeting and Mr. Draper stated that he had approved the statement and would assume full responsibility for that action on his part but that

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he felt the statement in its present form reversed a position previously taken by the Board and placed the Board in an embarrassing position. Mr. Szymczak did not feel that the Board was placed in an embarrassing position as the statement was to the effect that there was a bill now pending before the Congress and that the Board favored it as being adequate. Mr. Vardaman responded that his objection to the statement was that he did not think the pending bill was adequate.

Chairman McCabe stated that if, after testifying before the Senate Committee, he should make a statement along the lines proposed by Mr. Eccles it would be taken as a reversal by the Board of its position.

Mr. Eccles expressed the view that it would not be a reversal of the previous position of the Board but an explanation of a sentence that was not consistent with the rest of the statement.

Mr. Morrill suggested that the problem might be met by striking out the last sentence of the next to the last paragraph and the entire last paragraph of the statement as set forth above.

Mr. Vardaman responded that the sentence would still be in the statement that the proposed bill would be adequate to meet the immediate need for additional authority to deal with reserves.

Mr. Evans stated that he would stand by his vote approving the statement although if the statement could be toned down so far

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as it related to nonmember banks he would prefer that course.

Mr. Szymczak stated that in April the Board made a recommendation that Congress grant to the Board additional authority to increase reserve requirements of all commercial banks, so that the record was clear on that point. The pending administration bill providing for an increase of reserve requirements by 10 per cent on demand and 4 per cent on time deposits does not include nonmember banks because it is considered by those who planned strategy that it would stand a better chance of passage without nonmember banks. He also said when it was decided that Chairman McCabe should testify before the Senate Banking and Currency Committee last week, the three-paragraph statement had been prepared and approved by all of the members of the Board, that the Chairman had testified before the Committee at which time the three-paragraph statement was presented by him as the views of the Board, and that if that statement should now be changed it would prove embarrassing to the Chairman by showing a division in the Board or a sudden change in position which would be harmful to the success of the legislation. While Mr. Szymczak preferred to have nonmember banks covered by the legislation from the standpoint of equity to member banks (and this was amply covered in the Chairman's statement before the Senate Committee and clearly brought out again in his proposed statement before the House Committee), he said it

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must be remembered this is not our bill and he felt that legislation applying only to member banks would be adequate from the economic standpoint of the amount of credit involved and, therefore, would be preferable to no legislation at all.

Mr. Clayton suggested that the statement be further revised to include a comment to the effect that the Board only this morning for the first time had an opportunity to meet and discuss the statement at length and that all were agreed that the inclusion of non-member banks was essential to the effectiveness of the proposed legislation.

In a discussion of Mr. Clayton's suggestion, Mr. McCabe stated that he would not favor such a change, that all of the members of the Board had approved the original statement, and that it should not be changed because a question had arisen with respect to it during the hearing before the Senate Banking and Currency Committee.

After some further discussion, Mr. Vardaman moved that the first sentence of the third from the last paragraph of the statement as set forth above be changed to read as follows, and that the last sentence of the next to the last paragraph and the entire last paragraph be deleted:

"Since I presented that statement to the Senate Committee, the Board has this morning had an opportunity to meet and to discuss the proposed legislation at length. A majority of the Board is agreed that the inclusion of the nonmember banks is essential to make the proposed legislation fully effective. I have also been in touch with several of the Presidents of the Federal Reserve Banks, and others."

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Mr. McCabe stated that he would be willing to accept the deletion of the last sentence of the next to the last paragraph and the entire last paragraph of the statement but that he felt the inclusion of the changed sentences proposed by Mr. Vardaman's motion would be a grave mistake.

At the conclusion of the discussion, Mr. Vardaman's motion was put by the Chair and carried, Messrs. Eccles, Draper, Vardaman, and Clayton voting "aye" and Messrs. McCabe, Szymczak, and Evans voting "no".

The statement as thus approved was as follows:

"I deeply appreciate the consideration your Chairman has extended to me in making the time of my appearance here as convenient as possible. Although Congressman Wolcott had asked me to come before you earlier, he kindly consented in deference to my request to wait until this morning. I therefore acceded to the urgent request of Senator Tobey to appear before the Senate Banking and Currency Committee last Thursday morning. Since your Committee has been fully occupied with the testimony of Mr. Porter, I trust that the postponement until this morning has not caused you inconvenience.

"On the evening before going to the Senate Committee, I canvassed the members of the Board by telephone to ascertain their views on the two titles of the proposed anti-inflation bill which relate to consumer credit and bank reserves. The members of the Board agreed unanimously to the following statement:

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"credit is identical, except for the date, with the bill passed by the Senate, and acceptable to the Board of Governors as one part of an overall program.

"The proposal with respect to bank reserves is similar to that advanced by the Board in April, except that the increased requirements would be applicable only to member banks, whereas the Board had recommended that they be made applicable to all commercial banks. This is a significant difference. We feel deeply that it is not fair to member banks in their competitive relations to non-member banks to require that they be singled out to carry the additional reserves that may be necessary to combat this inflationary situation. As an emergency measure, however, the bill would be adequate to meet the immediate need for additional authority to deal with reserves.

"In thus stating the views of the Board on these two titles of direct concern to the System, I do not want to create the impression that action in the credit field alone will solve our inflationary problems. Other areas, particularly a budgetary surplus, are more important.

"Since I presented that statement to the Senate Committee, the Board has this morning had an opportunity to meet and to discuss the proposed legislation at length. The Board is agreed that the inclusion of the non-member banks is essential to make the proposed legislation fully effective. I have also been in touch with several of the Presidents of the Federal Reserve Banks, and others. There is strong concurrence with the statement that it would be very unfair to single out member banks to carry the additional reserves to combat this inflationary situation. This is particularly true of the Presidents from those districts where there are large numbers of non-member banks, which would be given a competitive advantage as against member banks. It might result in a serious loss of membership in the System and weaken the effectiveness of its policies. As you know, the effective reserve requirements in most states are substantially below those carried by member banks, and thus non-member banks have greater latitude and earning power.

"The question of the inclusion of non-member banks is very important and we would appreciate it greatly if the Committee would give this problem serious consideration. Unquestionably from the point of view of effectiveness as well as equity the proposed legislation should apply to all commercial banks."

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Messrs. McCabe, Evans, Riefler, and Thomas left the meeting to attend the hearing before the House Banking and Currency Committee at which Chairman McCabe was to testify on the proposed legislation with respect to reserve requirements and Mr. Evans was to testify on the proposed restoration of authority to regulate consumer instalment credit.

There was a further discussion of the change made in the statement by the approval of Mr. Vardaman's motion and he suggested that, if acceptable to Chairman McCabe, a further change be made to eliminate the reference to "A majority of the Board" and to substitute therefor the words "The Board" so that the sentence would read, "The Board is agreed that the inclusion of the nonmember banks is essential to make the proposed legislation fully effective." This suggestion was telephoned to Chairman McCabe and was acceptable to him and the statement as presented by him before the House Committee was changed accordingly.

There was a discussion of a question by Mr. Vardaman as to how situations of the kind which had arisen at this meeting could be avoided in the future. He also raised the question whether the Board's position had been made entirely clear to the Congress that the Board did not advocate the restoration of authority to regulate consumer credit as a single piece of legislation. During

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a discussion of the latter point, Mr. Thurston read an excerpt from the statement to be presented before the House Banking and Currency Committee by Mr. Evans in which it was stated that consumer credit legislation by itself could not do the job and that to be adequately effective it must be buttressed by the basic bank credit controls which the Board had advocated repeatedly.

Mr. Vest reported that on Saturday afternoon, July 31, he received a telephone call from Mr. McKenna, one of the attorneys for the Senate Banking and Currency Committee, who said that he had been commissioned to draft legislation which would bring non-member banks within the proposal for increased authority over reserve requirements and that he would like Mr. Vest's assistance. Mr. Vest stated that, after some discussion, he agreed to assist Mr. McKenna in working out some wording for the legislation, and that he would like advice as to whether the legislation should provide for a certification by State bank supervisors that non-member banks were maintaining the required reserves and whether the authority for making changes in reserve requirements should be placed in the Federal Open Market Committee or with the Board of Governors. The members present indicated that they would favor such certification and placing the authority to change reserve requirements in the Board.

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At this point Messrs. Smead and Vest 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 July 30, 1948, were approved unanimously.

Memorandum dated July 26, 1948, from Mr. Boothe, Assistant Director of the Division of Administrative Services, recommending that Carl J. Nickens be appointed as a laborer in that Division, on a temporary basis for a period of two months with basic salary at the rate of \$2,020 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination. The memorandum also stated that, because of the temporary nature of his appointment Nickens would not become a member of the Federal Reserve retirement system.

Approved unanimously.

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

"Reference is made to your letter of July 26, 1948, submitting the request from Commercial Trust Company of New Jersey, Jersey City, New Jersey, for the approval to the establishment of three branch offices at Bayonne, New Jersey, in connection with the proposed absorption of the banking business of the Bayonne Trust Company, Bayonne, New Jersey.

"In view of your recommendation, the Board of Governors approves the establishment and operation

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"of the three branches in Bayonne by the Commercial Trust Company of New Jersey, provided the absorption is effected substantially in accordance with the plan submitted; the prior approval of the appropriate State authorities is obtained; and with the understanding that counsel for the Reserve Bank will review and satisfy himself as to the legality of the steps taken to effect the proposed absorption and establishment of the branches."

Approved unanimously.

Letter prepared for Chairman McCabe's signature to Mr. B. C. Forbes, President, Investors League, Inc., 175 Fifth Avenue, New York 10, New York, reading as follows:

"While the Board of Governors appreciates very much the invitation contained in your letter of July 14, 1948, to attend the meeting being sponsored by your organization in New York on September 16 to discuss the advisability of reducing margin requirements, you can readily appreciate that it would not be possible for the Board to be represented at all meetings of this kind that might be called to consider matters in the fields in which the Board has responsibility.

"As you know, the Board has received from time to time the views of the New York Stock Exchange, the New York Curb Exchange, and individual brokers with respect to margin requirements, and in my letter of June 22 I discussed the matter in response to your letter of June 4, 1948. The Board is glad at any time to receive and consider the views of the Investors League or any other organization or individual who is interested in the distribution of securities and, if the proposed meeting at the Bankers' Club is held on September 16 and any conclusions are reached, the Board would be pleased to be advised regarding them."

Approved unanimously.

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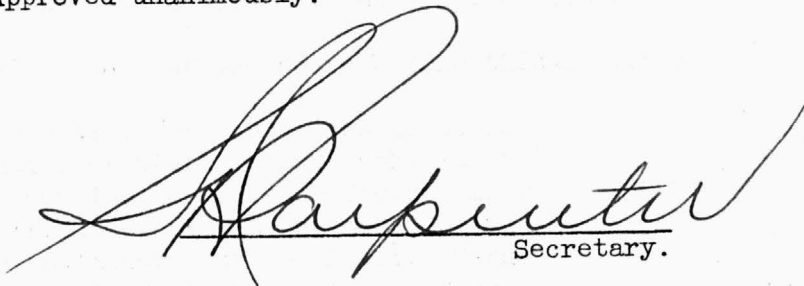
Letter to Mr. Sproul, President of the Federal Reserve Bank of New York, reading as follows:

"This refers to Mr. Wiltse's letter dated June 18, 1948 transmitting a protest submitted by Mr. Arnold Markel on behalf of himself and Mr. Ralph Dubin in connection with the Board's tentative ruling as to the applicability of section 32 of the Banking Act of 1933 to Mr. Dubin.

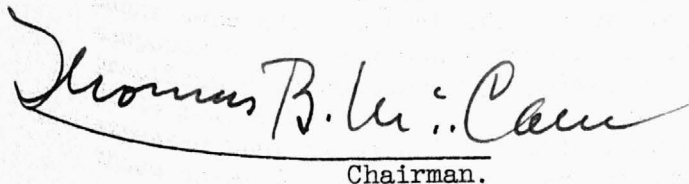
"It will be appreciated if your bank will advise Mr. Markel that the Board of Governors has given careful consideration to the protest which he submitted and on the basis of the information and arguments contained therein the Board is not inclined to change the position which it took in its letter of March 29, 1948.

"In these circumstances if Mr. Markel still wishes to have a conference in Washington for the purpose of discussing this matter in further detail, it is suggested that he take the matter up with your bank in an effort to arrange a time mutually convenient to him and representatives of the Board."

Approved unanimously.


Secretary.

Approved:


Chairman.