

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, February 11, 1949. The Board met in the Board Room at 2:30 p.m.

PRESENT: Mr. Eccles, Chairman pro tem.
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. Riefler, Assistant to the Chairman
Mr. Thomas, Director of the Division of Research and Statistics
Mr. Vest, General Counsel
Mr. Leonard, Director of the Division of Bank Operations
Mr. Townsend, Solicitor
Mr. Young, Associate Director of the Division of Research and Statistics

Mr. Szymczak referred to earlier discussions of the request of Bank of America N.T. & S.A. for permission to open a branch in Bangkok, Siam, and stated that a letter had been received from the Federal Reserve Bank of San Francisco dated February 7, 1949, transmitting a letter from the Bank of America also dated February 7, 1949, inquiring about the action to be taken by the Board with respect to the application. Mr. Szymczak said that, pursuant to the understanding at the meeting on January 27, a luncheon had been arranged with Comptroller of the Currency Delano and Chairman Harl of the Federal Deposit Insurance Corporation for Tuesday, February

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15, that day having been set by them as one on which they could meet with Mr. Clayton and himself for the purpose of discussing questions relating to foreign branches. He also said that he and Mr. Clayton would not be ready to make a recommendation as to actions on the applications of the Bank of America for foreign branches in Siam and Germany until after that meeting.

Mr. Clayton referred to his statement at the meeting on January 18, 1949, with reference to a telephone conversation with Mr. Rapport, Chairman of the Executive Committee of the National Association of Supervisors of State Banks, with respect to legislation authorizing the conversion or absorption of national banks into State banks. He said that in a letter dated February 9, 1949, Mr. Rapport stated that the views which he expressed to Mr. Clayton on January 17, 1949, as those of himself and Messrs. Bell, Brumbaugh, and Hospelhorn, concerning the legislation had been transmitted to the other members of the Executive Committee of the Association, and that replies had been received from all but one of them supporting the position as presented by Mr. Rapport that they could see no logic in the Board's opposition to legislation permitting national banks to convert to State banks without going into voluntary liquidation and such opposition would impair the friendly relations between the Association and the Board which had been built up in past years.

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There were presented telegrams to the Federal Reserve Banks of Boston, New York, Cleveland, Richmond, St. Louis, Minneapolis, Dallas, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of Boston on February 7, by the Federal Reserve Bank of San Francisco on February 8, and by the Federal Reserve Banks of New York, Cleveland, Richmond, St. Louis, Minneapolis, and Dallas on February 10, 1949 of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Reference was made to a memorandum from Mr. Clayton dated February 4, 1949, recommending that (1) as a preliminary to any action with respect to a change in requirements under Regulation T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, Mr. Parry, formerly Director of the Division of Security Loans, be asked to prepare for the Board a history of both the legislation and the operation of Regulation T and an analysis of the factors that should be taken into consideration in approaching a change in the margin requirements under either Regulation T or Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange, and (2) that the Board consider the desirability of setting up a "System Margin Committee", the establishment

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of which Chairman McCabe had recommended.

There followed a discussion of the recommendations during which Messrs. Thomas and Young stated that the Division of Research and Statistics was sufficiently staffed to consider the current problems relating to administration of Regulations T and U but that they felt it would be desirable to have an objective history of their origin and administration prepared for the benefit of those who might be dealing with current administration problems and who were not thoroughly familiar with the background of the regulations. Mr. Thomas stated that he felt that Mr. Parry would be the best person to make such a study if he were available.

Following the discussion, upon motion by Mr. Clayton and by unanimous vote (a) Mr. Clayton was authorized to discuss with Mr. Parry the question of his employment for the purpose recommended with the understanding that if it were determined that Mr. Parry would be available to undertake the study, Mr. Clayton would submit a recommendation as to the specific terms of his employment, and (b) it was agreed to defer consideration of the question of setting up a System Margin Committee until a meeting when Chairman McCabe could be present.

Mr. Coleman, Administrative Assistant to Chairman McCabe, entered the meeting at this time.

Before this meeting there had been sent to all members of the Board a draft of statement to be presented by Chairman McCabe

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when he appeared before the Joint Committee on the Economic Report next week to discuss proposed legislation with respect to reserve requirements and consumer instalment credit.

The statement was read, changed, and approved in substance with the understanding that if, upon his return, Chairman McCabe desired to change the form of the statement he would be free to do so but that if he proposed to make changes in substance, they would be considered at another meeting of the Board.

In connection with the above matter there was a discussion of how far Chairman McCabe should go at the hearing in undertaking to answer questions on consumer instalment credit. It was stated that a full statement was being prepared on the subject and that inasmuch as Mr. Evans had been giving primary consideration to it, Chairman McCabe might say that Mr. Evans was prepared to testify and would be glad to appear before the committee if that was desired.

It was agreed unanimously that this would be a desirable course to pursue.

Mr. Clayton stated that in accordance with the understanding at the meeting on February 4, 1949, he appeared at the hearings of the Senate Committee on Labor and Public Welfare on February 5 at which he made a statement as to why the exemption of the Federal Reserve Banks from the National Labor Relations Act provided in the Taft-Hartley Act should be continued in any labor legislation which

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might be passed at this session of Congress. He also said that there appeared to be little likelihood that the Committee would favor the exemption and that there would be little likelihood of it being continued unless some individual members of the committee or members of the Banking and Currency Committees could be interested in supporting it.

Mr. Townsend referred to the case of Rodda vs. Federal Reserve Bank of Chicago, a suit of a former employee of the Detroit Branch of the Federal Reserve Bank of Chicago against that bank, alleging a violation of the Fair Labor Standards Act which was discussed at the meetings of the Board on April 15 and July 2, 1947. He stated that it had appeared that the plaintiff might dismiss the suit but that it had been set down for trial and in a pretrial hearing the court had asked the production of certain information in the possession of the Branch. He also said that in the light of the status of labor legislation in the Congress the Board might wish to consider whether it would again take the position that the Fair Labor Standards Act does not apply to the Federal Reserve Banks and use this case to get a decision on that point.

There was a discussion of the matter and it was agreed unanimously that, if possible, the trial of the case should be postponed until the form of labor legislation adopted at this session of the Congress was determined.

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There was a discussion of the schedule of meetings to be held during the week commencing February 28, 1949, when meetings of the Federal Open Market Committee and Presidents Conference will be held, and Mr. Carpenter stated that one of the Presidents had suggested that the meeting of the Presidents with the Board be held on the afternoon of Monday, February 28 so that he could leave Washington on Tuesday morning, March 1. The members of the Board present indicated that they would have no objection to such a schedule.

At this point Messrs. Riefler, Thomas, Vest, Leonard, Townsend, Young, and Coleman withdrew 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 February 9, 1949, were approved unanimously.

Telegram to Mr. Earhart, President of the Federal Reserve Bank of San Francisco, reading as follows:

"Retel 10th. Board approves appointments of Messrs. Shannon Crandall, Wakefield Baker, Edmund Hayes, Walter A. Starr and James A. Folger as members of Industrial Advisory Committee for 12th Federal Reserve District to serve for year beginning March 1, 1949."

Approved unanimously.

Letter to the officers in charge of Regulation W at all Federal Reserve Banks, reading as follows:

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"Messrs. Orchard and Blumgren of the Bureau of Federal Credit Unions, Federal Security Agency, called on representatives of the Board's staff recently to discuss a uniform reporting system to be used by the Regional Supervisors of the Bureau in advising the Reserve Banks of Regulation W investigations.

"Subsequently the Board received the attached copy of a memorandum on the subject, addressed by Mr. W. E. Allen, Chief, Division of Supervision, Bureau of Federal Credit Unions, to all Regional Directors, together with the attached list of names and addresses of the Regional Directors. You will note that reports will be made only to the Reserve Bank of the district in which the regional offices are located. This may, in some cases, make it necessary for the Reserve Bank receiving a report of violations to forward such information to the Reserve Bank in whose district the violations were detected."

Approved unanimously.

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

"Inquiries have been received concerning the application of Regulation W to the so-called 'policy loans', in amounts of \$5,000 or less, by a life insurance company. It is understood that the provisions of certain life insurance policies require the company to make these loans and to make them on the sole security of the policy. The case as presented to the Board shows further that under the terms of the policy and the loan agreement, the borrowing policyholder would not be bound to repay the loan in instalments or otherwise.

"On the basis of the foregoing, the Board's view is that the making of such 'policy loans' by a life insurance company does not constitute the extension of instalment credit under the regulation. This would be true even though the borrowing policyholder may be afforded an opportunity to make periodic payments voluntarily if he wishes to do so from time to time."

Approved unanimously.

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Telegram dated February 10, 1949 to Mr. Watkins, Assistant Manager of the Los Angeles branch of the Federal Reserve Bank of San Francisco, reading as follows:

"Refer your letter of February 3 and wire of February 7 re Kelley Kar Company plan relative to service contract in connection with instalment sale of automobile under Regulation W.

"On the basis of facts presented it is clear that amount specified for so-called service contract is part of 'cash price' of automobile under section 8(h)(7). This is true not only because the definition specifically includes 'service charges' but also because it is clear from all the facts and circumstances presented that the amount here involved is essentially a part of the selling price of the car. Section 6(i) regarding evasive agreements also is relevant. Please advise Kelley and any other interested parties accordingly."

Approved unanimously.

Letter to Mr. J. C. Capt, Director, Bureau of the Census, Department of Commerce, reading as follows:

"The Board of Governors appreciates very much the invitation extended in your letter of February 7, 1949, to send a representative to a conference to be held in New York City on February 25, 1949, at 9:30 a.m., in connection with plans for the proposed 1950 census on housing.

"The field of real estate financing is a matter in which the Board has a special interest and it is arranging to have Mr. Ramsay Wood, an economist on the staff of the Board's Division of Research and Statistics who specializes in housing matters as they relate to the Board's responsibilities, attend the conference.

"We are asking Mr. Wood to get in touch with the appropriate members of your staff with respect to the agenda for the conference so that he can make the necessary preparation."

Approved unanimously.

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Letter to Mr. Haldore Hanson, Executive Director, Executive Committee of the Interdepartmental Committee on Scientific and Cultural Cooperation, Department of State, Washington, D. C., reading as follows:

"The following information is submitted in compliance with your request of January 10, 1949 (SCC D-21). The information is presented according to the outline provided.

"I. The Board has no program activities under Public Laws 355, 63, and 402. Its relevant activities are carried on under the general powers given it by the Federal Reserve Act. As a Government agency, however, it has used its powers in parallel ways and with the same general objectives as are contemplated by the legislation governing other Governmental departments.

"During the past few years the Board, upon the request of foreign central banks and governments seconded by the State Department, has sent experts abroad to assist in the formulation of banking legislation and in the organization of central banks in Cuba, Paraguay, Guatemala, the Dominican Republic, the Republic of the Philippines, and Ceylon. It has also sponsored studies in the United States by banking students, mostly employees of foreign central banks and finance ministries. These have come from Argentina, Australia, Bolivia, Brazil, China, Colombia, Dominican Republic, India, Iran, Mexico, New Zealand, Nicaragua, the Philippines, El Salvador, Turkey, and Uruguay. About six of the foregoing have had the status of in-service trainees.

"The Board sends the Federal Reserve Bulletin, its official publication, without charge to the central banks of all countries and to libraries and educational institutions in all countries that request it.

"II. (a) It is believed that the reformation of banking laws and the establishment of central banking operations have tended to stabilize and improve economic and social conditions in the countries concerned.

"(b) The work of System experts abroad has not been widely publicized, but it is believed that it has created influential friends for the United States in other governments. The work is necessarily carried on with important members of those governments.

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"(c) There seems to be no direct connection between the System's activity and national security.

"(d) American business may be expected to benefit from improved economic and financial conditions in other countries.

"(e) The System's activities have had no connection with loans.

"(f) The System's activities have had the result of improving the statistical reporting in the countries concerned, and this means that better data are available to the United States.

"(g) We are not aware that the System's activity carries out any of the specific commitments of the UN Assembly, ECOSOC, UN specialized agencies, or Inter-American conferences.

"(h) The System's activities are Governmental; accordingly, they do not stimulate American private organizations to carry on similar activities.

"III. In all cases the central bank established with the technical assistance of System representatives has been continued by the country concerned. In no case have any funds been provided by the United States.

"IV. The Federal Reserve System is not concerned in any signed agreements or moral commitments of the SCC.

"V. Each activity in the Federal Reserve program is directly related to general foreign policy as conducted by the State Department but not to any other agency program.

"VI. The System has no separate legislation other than the Federal Reserve Act, as mentioned. At the present time the Board has a representative in Ceylon assisting the Singhalese authorities with the preparation of central banking legislation and organization of a new central bank. The System's activity in this field depends upon the requests it receives from foreign governments, and no other requests are pending.

"VII. Of students proper and trainees the Board probably has an average of a half dozen a year. This does not count officers and other members of the staffs of foreign central banks and ministries that have occasion to call at the Board in connection with the Board's foreign relationships. No estimate has been made of the manhours involved in handling student visitors. In the past, in a few cases, the Board has

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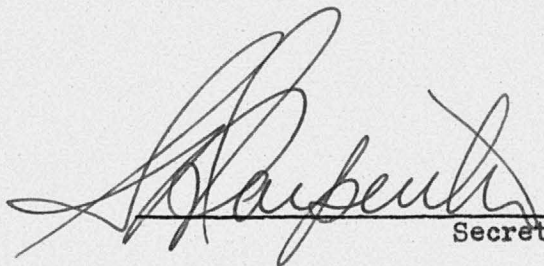
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"granted living allowances to foreign students in the United States for periods of a year or more. In the past few years it has had about 20 students entirely supported by their own central banks or governments.

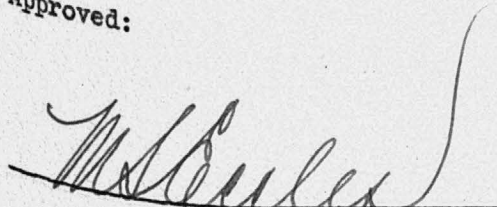
"VIII. The Board does not obtain its funds by appropriation but by assessment on the twelve Federal Reserve Banks.

"I trust that this information is in the form you wish, and shall be glad to be called on for any further explanation that may be desired."

Approved unanimously.


Secretary.

Approved:


Chairman pro tem.