

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, February 18, 1949. The Board met in the Board Room at 10:40 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Vest, General Counsel
Mr. Leonard, Director of the Division of Bank Operations
Mr. Horbett, Assistant Director of the Division of Bank Operations
Mr. Smith, Special Counsel
Mr. Hodge, Technical and Legal Adviser to Mr. Evans

Mr. Evans stated that the following demand for production of information was filed by attorneys for Transamerica Corporation at the close of the hearing in the proceeding against that Corporation under the Clayton Act on Tuesday, February 15, 1949:

"UNITED STATES OF AMERICA
BEFORE THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

"IN THE MATTER OF
TRANSAMERICA CORPORATION

- - - - -
"DEMAND FOR PRODUCTION OF INFORMATION

"SIRS:

"The respondent, Transamerica Corporation, hereby demands that the following Exhibits, or at least the unpublished source material therefor, as may be requested by respondent's counsel, be assembled and prepared by the staff of the Board of Governors of the Federal Reserve System and be made available to

2/18/49

-2-

"Transamerica Corporation a reasonable time prior to the reconvening of hearings in this proceeding in San Francisco, California:

"Exhibits comparable to Board's Exhibits 13, 14, 15, 16, 17, 18, 19, and 20 for each of the following banks and their predecessors, for each location in which they operate, together with county and state totals:

"1. Security First National Bank of Los Angeles, and its predecessors.

"2. American Trust Company of San Francisco, and its predecessors.

"3. Anglo-California National Bank, San Francisco, and its predecessors.

"4. Citizens National Trust and Savings Bank of Riverside, and its predecessors.

"5. Valley National Bank of Arizona, and its predecessors.

"6. United States National Bank of Portland, and its predecessors.

"7. National Bank of Commerce, Seattle, and its predecessors.

"8. Seattle First National Bank, and its predecessors.

"The basis for this demand is the testimony of the Board's witness, John E. Horbett, and Board's Exhibits Nos. 13, 14, 15, 16, 17, 18, 19, and 20. From said testimony and Exhibits it appears that the Board has purported to present county and state tabulations showing 'the relative growth' of Bank of America and banks in which Transamerica has an investment, but it has not shown the growth of competitor banks to which the growth of the banks shown in the Board's Exhibits must be related if an honest, fair and accurate picture is to be presented. While counsel for Transamerica Corporation strenuously objected and still objects to the publication of the facts and figures in question from confidential sources, the hearing officer has allowed the introduction of these Exhibits into evidence, which constitutes their publication. The comparable information as to competing banks is not available to the respondent except to the extent that it may be made available from similar sources by the Board. It is respectfully submitted that if the information in the Board's Exhibits referred to is to be left in the record, comparable exhibits as to the competitor banks must also

2/18/49

-3-

"be put there, unless the record is to be left in an incomplete, inaccurate and misleading condition.

"Dated: February 15, 1949.

(signed) Samuel B. Stewart, Jr.
Samuel B. Stewart, Jr.

(signed) Hugo A. Steinmeyer
Hugo A. Steinmeyer
Attorneys for Respondent,
Transamerica Corporation.

"TO: THE BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM."

At Mr. Evans' request, Mr. Hodge discussed the demand, stating that in his opinion the preferable course would be to refuse the demand without prejudice to the right to renew it later. He also suggested that, since the information would probably become relevant later in the hearings, it would be desirable for the Board's staff to start assembling it.

There followed a discussion of the demand during which questions were raised as to whether the data requested were confidential, whether they were relevant to the cross-examination of Mr. Horbett, whether they were likely to be introduced into the case as evidence in the proceeding, and whether if made available in response to the request the data could be prepared by March 28, 1949, when the hearings were scheduled to be resumed in San Francisco.

Messrs. Vest and Smith expressed the view that the data

2/18/49

-4-

requested were relevant to the cross-examination of Mr. Horbett and that the information should be prepared.

Following the discussion, by unanimous vote, the following statement and order was approved:

"UNITED STATES OF AMERICA
BEFORE THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

"IN THE MATTER OF
TRANSAMERICA CORPORATION

"STATEMENT AND ORDER ON DEMAND
FOR PRODUCTION OF INFORMATION

"On February 15, 1949, respondent filed with the Board a 'Demand for Production of Information', in which it requested that the Board's staff assemble and prepare certain information and data in exhibit form and make the same available to respondent 'a reasonable time prior to the reconvening of hearings in this proceeding in San Francisco, California.' On the same date the Hearing Officer announced that he would refer respondent's Demand to the Board, and, with the consent and agreement of counsel, he recessed the hearing to reconvene in San Francisco, California, on March 28, 1949.

"The information requested by respondent in its Demand is extremely comprehensive. Counsel for respondent has recognized on the record that it will require considerable time to prepare such information, and members of the Board's staff estimate that its preparation may require most of the time of three men for as much as three months. In the opinion of the Board, the Board is under no legal obligation to produce the information sought by respondent, and it is impossible for such information to be prepared and made available prior to March 28, 1949. Nevertheless, in the interest of affording respondent every reasonable opportunity to prepare and present its defense to the Board's complaint, the Board is granting respondent's request for the information desired. Such information will therefore be prepared as expeditiously as circumstances permit and, when prepared, will be forwarded to counsel for respondent and the Solicitor for the Board.

2/18/49

-5-

"In granting respondent's request for the information referred to, the Board expresses no opinion upon the relevance of such information, at whatever time it may be offered in evidence. Further, the Board notes the statement of counsel for respondent at the hearing held February 15, 1949, that 'I have no desire to hold up these proceedings to have these things i.e. the information requested prepared.' The Board therefore assumes that pending the preparation and production of such information, the hearings will proceed in due course and as may be ordered from time to time by the Hearing Officer.

O R D E R

"It is hereby ordered that there be prepared and served upon counsel for respondent and the Solicitor for the Board as expeditiously as possible, the exhibits requested by respondent in its 'Demand for Production of Information' dated and filed February 15, 1949.

"This 18th day of February, 1949.

"By the Board

(signed) S. R. Carpenter
Secretary.

"Governors Eccles and Clayton took no part in the consideration or decision of the Demand referred to in the foregoing Statement and Order."

There were presented telegrams to the Federal Reserve Banks of New York, Philadelphia, Atlanta, Chicago, St. Louis, Kansas City, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on February 15, by the Federal Reserve Banks of Atlanta and St. Louis on February 16, and by the Federal Reserve Banks of New York, Philadelphia, Chicago, and Kansas City on February 17, 1949, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

2/18/49

-6-

Mr. Clayton and Mr. Townsend, Solicitor for the Board, entered the meeting at this time and Messrs. Horbett, Smith, and Hodge withdrew.

Mr. Evans referred to a letter received under date of February 4, 1949 from John Oden Bennett, Maxim Radio, Bartow, Florida, in reply to the Board's letter of February 2, 1949, in which he refused to permit inspections of records of his business in connection with the administration of Regulation W, Consumer Installment Credit, as reported in a memorandum from Mr. Solomon, dated February 11, 1949. The memorandum also stated that the matter was being referred to Mr. Townsend for further consideration.

Mr. Evans stated that if it were decided to take the necessary steps to enforce compliance by the concern, consideration might be given to whether Mr. Cherry, attorney in the Legal Division, might be spared for that assignment.

In response to a question from Chairman McCabe, Mr. Vest stated that, while the handling of litigation was under Mr. Townsend's supervision, he felt that if it were decided to go ahead at this time, it would be preferable, because of Mr. Cherry's other assignments, to handle the matter with the assistance of counsel for the Federal Reserve Bank of Atlanta, who would work under Mr. Townsend's direction.

Chairman McCabe said the question for consideration was

2/18/49

-7-

whether the Board should take action against the Maxim Radio at this time.

Speaking to that point, Mr. Townsend expressed the view that if respect for Regulation W was to be maintained, the Board should be prepared to take vigorous steps when necessary to enforce it, that he would prefer to take the first formal action against a larger concern so that there could be no charge of attacking small businesses, but that the Board should handle the cases as they arise even though the violator happens to be a small concern. Another point, he said, is that any proceeding of this kind might raise the constitutionality of the statute on which Regulation W was based, that there had never been a test of that question, and that, while he felt the Supreme Court would hold the law constitutional, it was not certain that it would do so. Mr. Townsend added that while the case before the Board probably would raise the constitutional question it was as good a case as could be found to test the Board's authority.

During the discussion of the question, it was suggested that, since the administration of the regulation was decentralized among the Federal Reserve Banks and since Mr. Bennett was a registrant in the territory of the Federal Reserve Bank of Atlanta, it would be desirable to discuss the case with Mr. McLarin, President of that Bank, when he was in Washington next week. It was also

2/18/49

-8-

suggested that, if necessary, Mr. Patterson, General Counsel of the Federal Reserve Bank of Atlanta, be asked to come to Washington when Mr. McLarin was here to participate in the discussion.

The foregoing suggestion was approved unanimously with the understanding that, following the discussion with Mr. McLarin, the matter would be considered by the Board again.

Chairman McCabe stated that Mr. Thorp, Assistant Secretary of State, called him on the telephone yesterday to inquire about the action of the Board with respect to the application of the Bank of America N.T. & S.A., for a branch in Bangkok, Siam, saying that, because of the pressure upon the State Department for having an American bank established in Siam, the delay was becoming somewhat embarrassing to the Department.

Mr. Millard, Director of the Division of Examinations, entered the meeting at this time.

Mr. Clayton stated that Mr. Szymczak and he met with Comptroller of the Currency Delano on Tuesday, February 15, 1949, (Mr. Cook, Director of the Federal Deposit Insurance Corporation, could not be present because of illness) at which meeting Messrs. Millard and Townsend were also present. He said that Mr. Delano made it very clear that he would not deviate from his previously stated position that he would interpose no objection to the Board's granting permission to the Bank of America for the establishment of

2/18/49

-9-

the foreign branches under consideration, and that he was not willing to say that the capital position of the Bank of America or any other factor in the situation was such as to cause him to take the position that he would deny any application for a de novo domestic branch. Also, he would object to the Board stating to the applicant that the Comptroller's office felt that the capital position of the Bank of America was not satisfactory and that for that reason additional foreign branches should not be granted. The reason for the Comptroller's position, Mr. Clayton said, was that there were other national banks in substantially the same capital position as Bank of America and while he felt the office of the Comptroller of the Currency should continue to press for additional capital, he did not feel he should take the position that no further branches should be granted where the needs of the community call for approval of a branch.

Mr. Clayton went on to say that he still believed that, in the light of all the circumstances and for reasons substantially the same as those he advanced at the meeting on January 27, 1949, the application of Bank of America N.T. & S.A., for permission to establish branches at Bremen, Frankfurt-am-Main, and Hamburg, Germany, and at Bangkok, Siam, should be granted and that at the time of giving its approval, the Board should inform the Bank that the Board was disturbed by certain factors in the condition and

2/18/49

-10-

operating policies of the Bank and felt they should be corrected, and that because of such factors very careful consideration would have to be given to them before taking favorable action on any future applications that might be filed for foreign branches. He added that he did not feel it was inconsistent for the Board to grant permission for the four branches requested and at the same time to make clear that it felt there should be improvement in the capital position and certain operating practices before any additional applications would be considered favorably.

In response to a question from Mr. Clayton, Mr. Vest stated his opinion that the Board had broad legal authority for denying to a bank permission to establish foreign branches if it concluded such action was desirable.

Mr. Szymczak stated there was a great deal to be said for the position Mr. Clayton presented, but that he was afraid that it would not be effective in correcting the unsatisfactory capital position and lending and dividend policies of the Bank of America and that he felt the best course would be to deny the pending applications. If that were done and the reasons given, he said, the Bank might come in and want to know what it should do to correct the situation. He added that if the necessary corrections were brought about, he would not now say the Bank should not be given permission to establish additional foreign branches.

2/18/49

-11-

There was a further discussion during which Chairman McCabe suggested that the applications for three branches in Germany be denied and the application for a branch in Siam be granted on the grounds that other American banking facilities were already available in Germany and the Board should ascertain how they are working out before authorizing additional branches, whereas no American banking facilities were available in Siam and the State Department was extremely anxious that a branch of an American bank be established in that country as soon as possible.

Mr. Szymczak felt that such a procedure would beg the question, since it was not a matter of Siam or Germany, but rather how the unsatisfactory extended position of the Bank of America could be corrected. He said the Board must take that position sooner or later -- because otherwise additional de novo domestic branches will be granted by the Comptroller and applications for additional foreign branches will be submitted by the Bank of America to the Board. He pointed out that no bank supervisory authority is satisfied with the bank's present extended position and the Board has frequently stated it does not look with approval on further expansion by the Bank of America in the domestic branch field -- and the Comptroller had stated that the Board's action in granting foreign branches to the Bank of America is as expansionary, if not more so, as action in granting domestic de novo branches. Therefore, he said, the sooner

2/18/49

-12-

the Board acts to correct that condition the better in the public interest.

Mr. Clayton stated that his preference would be to grant all the pending applications and place the Bank on notice that the Board felt the unsatisfactory conditions should be corrected, but that as a compromise he would go along with the suggestion made by Chairman McCabe. He made the additional statement that the deposits to be held at the proposed foreign branches and the operating costs of such branches would be negligible in relation to the Bank of America as a whole, that the unsatisfactory conditions of the Bank resulted almost entirely from its domestic operations, and that in his opinion Congress did not give the Board authority over foreign branches with the intention that such authority should be used as a club to bring about corrections in the domestic condition of a Bank which was primarily the responsibility of another supervisory authority.

Mr. Szymczak said the condition of the Bank is likewise a Board responsibility.

The meeting then recessed and reconvened at 2:45 p.m. with the same attendance as at the close of the morning session, except that Messrs. Morrill and Leonard were not present.

Mr. Szymczak stated that in a telephone conversation with Mr. Eccles on Wednesday morning he (Mr. Eccles) said that he did

2/18/49

-13-

not favor approving the applications of Bank of America for branches in Germany and Siam, that he did not agree that the question involved in the branches was entirely separate from the question of monopoly, and that it did involve the establishment of a string of foreign branches which indirectly added to the monopolistic position of the bank on the Pacific Coast in handling the business of its customers.

Mr. Carpenter stated that at Mr. Szymczak's request he talked with Mr. Vardaman on February 16 who said that, while he was opposed in principle to granting the branches, he felt that since the Board had granted permission to establish branches in Manila, Shanghai, and three cities in Japan without raising the question of the bank's capital and loan and dividend policy, the only thing the Board could do was to grant the pending applications and advise the bank that it would not approve any additional branches until the capital situation had been remedied. He also felt, Mr. Carpenter said, that regardless of whether additional branch applications were filed, the Board should insist that the bank correct the matters which were subject to criticism.

After a further discussion, it was suggested that the matter be taken up for action at a meeting on Monday, February 21, 1949, when all members of the Board would be present.

The foregoing suggestion was approved unanimously.

2/18/49

-14-

Reference was made to a letter from the Senate Banking and Currency Committee dated January 28, 1949, requesting a report on S. J. Res. 9 to provide for the establishment of a national monetary commission, which was referred to at the meeting on February 4, 1949.

It was agreed unanimously that the Legal Division should prepare a reply to the request, stating that the Board would prefer to defer comments on the proposal until the Commission on Organization of the Executive Branch of the Government had submitted its recommendations with respect to bank supervisory agencies and there had been an opportunity to study it.

At this point Messrs. Vest, Townsend, and Millard withdrew and the action stated with respect to each of the matters herein after referred to was taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on February 17, 1949, were approved unanimously.

Memorandum dated February 15, 1949, from Mr. Thomas, Director of the Division of Research and Statistics, recommending an increase in the basic salary of Miss Rita I. Ryhal, a clerk in that Division, from \$2,799.24 to \$2,949.72 per annum, effective February 20, 1949.

Approved unanimously.

Memorandum dated February 15, 1949, from Mr. Thomas, Director of the Division of Research and Statistics, recommending

2/18/49

-15-

increases in the basic annual salaries of the following employees in that Division, effective February 20, 1949:

Name	Title	Salary Increase	
		From	To
Helen E. Dyer	Library Assistant	\$4,354.20	\$4,479.60
Caroline M. Burgess	Library Assistant	4,103.40	4,228.80
Verna L. Hodge	Library Assistant	3,024.96	3,225.60
Rosa Ernst	Research Assistant	4,354.20	4,479.60
Gretchen Hill Fowler	Research Assistant	2,949.72	3,100.20
Mary G. Offutt	Clerk	2,799.24	2,874.48
Florence R. Cox	Clerk-Stenographer	3,024.96	3,100.20

Approved unanimously.

Memorandum dated February 17, 1949, from Mr. Leonard, Director of the Division of Bank Operations, recommending an increase in the basic annual salaries of the following employees in that Division, effective February 20, 1949:

Name	Title	Salary Increase	
		From	To
Mary M. Durkan	Analyst	\$3,727.20	\$3,852.60
Thelma C. Millican	Clerk	3,476.40	3,601.80

Approved unanimously.

Memorandum dated February 17, 1949, from Mr. Hammond, Assistant Secretary, recommending that Frank M. Tamagna, Assistant Chief of the International Section in the Division of Research and Statistics, undertake the six-week trip to Korea approved by the Board on January 28, 1949, on the Board's orders and that he receive a per diem of \$8 with the understanding that, should this allowance prove inadequate, adjustment would be made. The memorandum stated that Mr. Tamagna's travel expenses would be reimbursed

2/18/49

-16-

to the Board by the Economic Cooperation Administration. The memorandum further recommended that the purchase of flight insurance be authorized, which would amount to approximately \$25.

Approved unanimously.

Memorandum dated February 17, 1949, from Mr. Carpenter recommending increases in the basic annual salaries of the following employees in the Secretary's Office, effective February 20, 1949:

Name	Title	Salary Increase	
		From	To
Beatrice E. Hunter	Asst. Chief, Files Section	\$3,974.00	\$4,103.40
Marion H. Derr	File Clerk	2,724.00	2,799.24

Approved unanimously.

Memorandum dated February 14, 1949, from Mr. Nelson, Director of the Division of Personnel Administration, recommending, for the reasons stated in the memorandum, that Dwight L. Allen, Personnel Assistant in that Division, be authorized to attend the Management Conference on Job Evaluation to be held March 14 to 18, inclusive, at Oklahoma A. and M. College, Stillwater, Oklahoma, and that the Board defray the expenses, including \$60 Conference fee, transportation, and per diem at the rate of \$8, in accordance with the Board's travel regulations. The memorandum also stated that it was expected that Mr. Allen would stop at the Federal Reserve Bank of Kansas City in the course of the trip for the purpose of making the annual review of the operation of the job evaluation plan of that Bank.

Approved unanimously.

2/18/49

-17-

Memorandum dated February 17, 1949, from Mr. Nelson, Director of the Division of Personnel Administration, recommending an increase in the basic salary of Mrs. Ruth L. Jarvis, a maid in that Division, from \$2,350 to \$2,423.04 per annum, effective February 20, 1949.

Approved unanimously.

Memorandum dated February 17, 1949, from Mr. Bethea, Director of the Division of Administrative Services, recommending an increase in the basic salary of Thomas V. Kopfman, a clerk in that Division, from \$2,284 to \$2,498.28 per annum, effective February 20, 1949.

Approved unanimously.

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

"This will acknowledge your letter of January 13, 1949, enclosing information regarding the personnel of the Federal Reserve Bank of Richmond, as requested in the Board's letter of November 9, 1948.

"An examination of Schedule A indicates that the following employees are receiving basic salaries which are not within the ranges of their respective grades and which have not been specifically approved by the Board of Governors or on which the authorization has expired. Accordingly, the Board approves the payment of salaries to the following employees at rates which are below the minimum for a period of one year beginning January 1, 1949:

<u>Name</u>	<u>Title</u>	<u>Department</u>
Alice B. Lamkin	Return Checks Clerk	Transit
Sallie M. Puller	Return Checks Clerk	Transit

2/18/49

-18-

"The Board also approves the payment of salaries to the following employees at the rates indicated which are above the maximums for the grades in which their jobs are classified:

<u>Name</u>	<u>Title & Dept.</u>	<u>Salary</u>
Mrs. Robert Burruss	Cafeteria Hostess Cafeteria	\$2,180*
Estelle Cauthorne	Currency Counter C Money	2,130

"The Board has heretofore approved the payment of salaries to Joseph C. Knapp, Credit Analysis Clerk, and John J. Beall, Old Records Clerk, Baltimore Branch, at their present rates.

*When converted to a full-time basis."

Approved unanimously.

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

"In accordance with the request contained in your letter of February 10, 1949, the Board approves the appointment of Ray A. Barrett as an assistant examiner for the Federal Reserve Bank of Chicago.

"Please advise us as to the salary rate and the date upon which the appointment becomes effective."

Approved unanimously.

Letter to Mr. Woolley, Vice President of the Federal Reserve Bank of Kansas City, reading as follows:

"In accordance with the request contained in your letter of February 12, 1949, the Board approves the designation of the following as special assistant examiners for the Federal Reserve Bank of Kansas City.

Dorothy Burns	Charles Patterson
R. L. Compton	Edna Polfer
Virgil Curp	Lucile Porter
Alice Dulle	Ethel Savidge
Hazel F. Goebel	Robert M. Shanklin
Marjorie Hansen	Catherine Strada
Barbara Jean Held	Eunice Swinney
Aileen Johnson	Harry R. Trimble
Mary Lynn	Arthur Wangler"

Approved unanimously.

2/18/49

-19-

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

"The Board of Governors approves the reappointments of Messrs. Charles R. Moore, E. P. Simmons, Lawrence S. Pollock, Ira T. Moore and Jake L. Hamon as members of the Industrial Advisory Committee for the Eleventh Federal Reserve District to serve for terms of one year each, beginning March 1, 1949, in accordance with the action taken by the Board of Directors of the Federal Reserve Bank of Dallas, as reported in your letter of February 14, 1949."

Approved unanimously.

Letter to the Honorable Maple T. Harl, Chairman, Federal Deposit Insurance Corporation, reading as follows:

"In connection with the request contained in your letter of February 9, 1949, the Board of Governors of the Federal Reserve System hereby grants written consent, pursuant to the provisions of sub-section (k) (2) of Section 12B of the Federal Reserve Act, for examiners for the Federal Deposit Insurance Corporation to make an examination of the Kansas State Bank, Kansas, Illinois, in connection with its application for continuance of insurance after withdrawal from membership in the Federal Reserve System.

"There have been no corrective programs urged upon the bank or agreed to, which have not been fully consummated and in connection with which the Board would suggest incorporation of conditions for continuing its status as an insured bank."

Approved unanimously.

Telegram to Mr. Watkins, Assistant Manager, Los Angeles Branch of the Federal Reserve Bank of San Francisco, reading as follows:

2/18/49

-20-

"It is noted from your letter of February 14 that Kelley Kar Company has stated that it will correct its practices with respect to so-called service contract. Referring to your wire of February 17, when insurance in connection with listed article is sold or financed in connection with the listed article by person who sells or finances the listed article, insurance cannot be treated as separate exempted sale of unlisted article. It must be included in 'time balance' as specified in section 6(c), and must be repaid within applicable maximum maturity as specified in sections 3(a) and 3(b). Same treatment is required in case of instalment loans. Please advise Kelley accordingly."

Approved unanimously.

Letter to Mr. Elmer B. Staats, Assistant Director, Legislative Reference, Bureau of the Budget, reading as follows:

"This is in response to your letter of January 31, 1949, requesting the Board's views with respect to S. 281, a bill 'To insure the maintenance of full employment in the United States.'

"Briefly, this bill would provide for the establishment of a Capital Development Fund of not to exceed \$15 billion which would be administered by the Board of Directors of the Reconstruction Finance Corporation. For the purpose of maintaining levels of production, employment, and investment called for in the annual economic report of the President, the Corporation would be authorized to use the Fund to make loans to new or existing business enterprises, to State Governments for the construction of needed industrial facilities, and to the Tennessee Valley Authority and similar regional authorities. An advisory board composed of twelve members would be created for the purpose of advising the directors of the Corporation in the management of the Fund; and certain other amendments would be made to the RFC Act.

"The Board is, of course, sympathetic with the objectives of maintaining maximum employment; and the Employment Act of 1946, which provided for annual economic reports by the President and for the Council of Economic Advisers, declared the policy and responsibility of the

2/18/49

-21-

"Federal Government to use all practicable means in promoting maximum employment, production and purchasing power.

"The Board believes, however, that there is no evidence at this time of such a general lack of sources of private financing as to justify the establishment and use of the \$15 billion fund which would be provided by this bill, without a more specific indication of the purposes for which the fund is to be used and of the time and circumstances which warrant such use. At the present time, provisions making such a large volume of Government capital available without limitation would have the effect either of displacing private capital or of injecting a further inflationary factor in our economy.

"In the Economic Report of the President transmitted to the Congress on January 7, 1949, the President recommended, as measures for restraining excessive credit expansion, that Congress should promptly provide the Board of Governors of the Federal Reserve System with continuing authority to require all insured banks to hold supplemental reserves against their deposits and that the Board's present temporary authority for the regulation of consumer instalment credit should be continued in order to exert a stabilizing influence on the economy. As you know, the Board hopes that legislation to effectuate these recommendations with respect to the regulation of bank reserves and consumer credit will be enacted at this session of Congress. However, active use of the fund which would be set up by the bill S. 281 would, at the present time, tend to defeat the purposes of such legislation.

"The Federal Reserve System is vested by Congress with important responsibilities in the credit field and is authorized by existing law to take certain steps through the conduct of open market operations and other means to increase or reduce the volume of credit. Present use of the authority provided in the proposed bill would render more difficult the effective discharge of the Board's responsibilities in this field and would be inconsistent with the policies now being followed by the Federal Reserve System in the exercise of its credit functions. If it should become necessary in a period of deflationary pressures to provide authority along the lines of the legislation here proposed, it is

2/18/49

"important that some provision should be made for the coordination of such authority with the credit and fiscal functions and policies of other agencies of the Government.

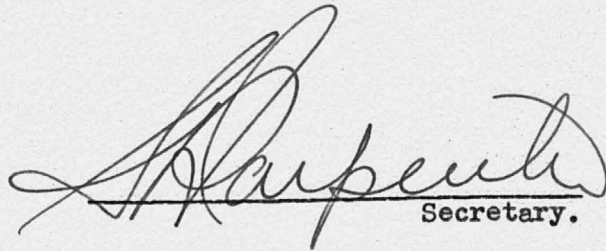
"In the circumstances, it is the view of the Board that legislation which would provide for the expenditure of such large amounts of funds, thus increasing the inflationary potential in the economy, would be undesirable at this time."

Approved unanimously.

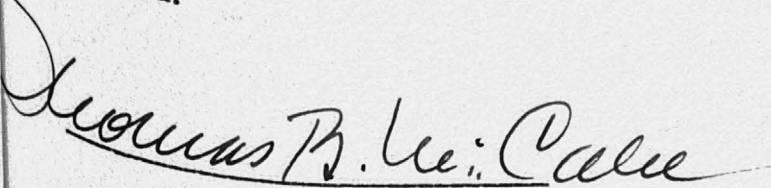
Letter to the Presidents of all Federal Reserve Banks reading as follows:

"In view of inquiries received from some Reserve Banks, it is felt that the attached excerpts from a December 14, 1948 letter to a Vice President of one of the Reserve Banks might be helpful in answering certain queries from member banks concerning reserves for bad debt losses on loans."

Approved unanimously.


Secretary.

Approved:


Chairman.