

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, April 29, 1949. The Board met in the Board Room at 10:35 a.m.

PRESENT: Mr. McCabe, Chairman  
Mr. Eccles  
Mr. Szymczak  
Mr. Draper  
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. Vest, General Counsel  
Mr. Nelson, Director of the Division of Personnel Administration

Messrs. Davis, Earhart, Leedy, Peyton, and Young, Presidents, respectively, of the Federal Reserve Banks of St. Louis, San Francisco, Kansas City, Minneapolis, and Chicago, and Mr. Rounds, First Vice President of the Federal Reserve Bank of New York.

Pursuant to the understanding at the meeting on April 21, 1949, this meeting was arranged with the officers of the Federal Reserve Banks listed above, who are also officers of the Retirement System of the Federal Reserve Banks, for the purpose of discussing investment policy of the Retirement System.

At Chairman McCabe's request, Mr. Earhart discussed briefly the report prepared under date of February 24, 1949, by the special committee of the Presidents' Conference on investment policy of which he was Chairman. Mr. Earhart pointed out that the report had

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not yet been considered by the Presidents, but that it was to be discussed at the forthcoming Presidents' Conference.

Following Mr. Earhart's statement of the contents of the committee's report, Chairman McCabe stated that the Board had discussed the question of Retirement System investment policy at some length and had agreed that a program might be presented for the consideration of this group and the Presidents' Conference. At his request, the statement approved at the meeting of the Board yesterday was then read, and copies were distributed to those present.

Mr. Davis asked whether the alternatives set forth in the third paragraph of the statement meant that if the 3 per cent rate of earnings on Retirement System funds was not attained by the end of 1950 or maintained thereafter, it would then be necessary to choose between a reduction in the interest base for calculation of retirement fund operations or the adoption of an investment policy which would include only Government and Government guaranteed obligations as a basis for a guarantee of all of the benefits of the Retirement System by the Federal Reserve Banks.

There followed a lengthy discussion, during which Messrs. Eccles, Vardaman, and Clayton stated that they would prefer to determine at this time the basis upon which a full guarantee of Retirement System benefits would be justified. However, they joined with the other members of the Board present in the understanding that

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the second alternative in the third paragraph of the statement did not necessarily imply a policy which would limit investments to Government and Government guaranteed securities but that if at the end of 1950 the 3 per cent rate was not earned, there would be a determination of the policy which would justify a guarantee of Retirement System benefits.

Changes in the language of the statement were suggested during the discussion but none of the changes was agreed upon. At the conclusion of the discussion, it was agreed that the suggestions contained in the Board's statement would be presented for consideration at the meeting of the Board of Trustees of the Retirement System to be held on May 4, 1949.

Chairman McCabe then referred to a draft of letter which had been discussed at the meeting of the Board on April 22, 1949, in which the Federal Reserve Banks would be authorized to supplement allowances of retired members of the Retirement System, and he raised the question whether authorization should permit the supplementing of allowances of persons who retired before age 65.

In the ensuing discussion, Mr. Rounds stated that a considerable number of persons had retired between the ages of 60 and 65 at what was in effect the request of the employing Banks, and that it was believed to be desirable to supplement the allowances of those persons, many of whom were receiving comparatively small allowances. It was also stated that while there was no obligation to supplement



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allowances of individuals who voluntarily retired between the ages of 50 and 60, where persons within that age group were retired at the request of the Reserve Banks and where the Banks considered that especially meritorious circumstances warranted, they might be given authority to increase allowances along the lines suggested for those who retired after attaining age 60.

At this time Messrs. Davis, Earhart, Leedy, Peyton, Young, and Rounds withdrew from the meeting.

There was a further discussion at the conclusion of which it was agreed unanimously that the draft of letter referred to above should be revised along the lines of the discussion and resubmitted to the Board.

There were presented telegrams to the Federal Reserve Banks of New York, Cleveland, Richmond, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on April 26, by the Federal Reserve Bank of St. Louis on April 27, and by the Federal Reserve Banks of New York, Cleveland, Richmond, Chicago, Minneapolis, Kansas City, and Dallas on April 28, 1949, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

The meeting recessed and reconvened at 2:30 p.m. with the same attendance as at the close of the morning session.

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Mr. Clayton referred to the discussion at the meeting on April 21, 1949, with respect to proposed legislation regarding capital requirements of member banks and stated that the Budget Bureau had furnished the Board with a copy of a letter dated April 28, 1949, from Chairman Harl of the Federal Deposit Insurance Corporation opposing such legislation and suggesting an alternative form that the legislation might take. He also said that the proposed alternative was entirely unacceptable, for the reasons which he outlined, and that he would recommend that the Board authorize sending the legislation to the Senate and House Banking and Currency Committees with a letter in the form sent to the Bureau of the Budget on March 17, 1949.

Mr. Clayton's recommendation was approved unanimously.

At this point Messrs. Riefler, Vest, and Nelson 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 April 28, 1949, were approved unanimously.

Memorandum dated April 29, 1949, from Mr. Young, Associate Director of the Division of Research and Statistics, recommending increases in the basic annual salaries of the following employees in that Division, effective May 1, 1949:

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<u>Name</u>	<u>Title</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Mary P. McCormick	Draftsman	\$2,949.72	\$3,024.96
Monica F. Jones	Clerk	2,724.00	2,799.24

Approved unanimously.

Memorandum dated April 27, 1949, from Mr. Millard, Director of the Division of Examinations, recommending that the resignation of Lawrence H. Bugg, an Assistant Federal Reserve Examiner in that Division, be accepted to be effective, in accordance with his request, at the close of business May 5, 1949.

Approved unanimously.

Memorandum dated April 28, 1949, from Mr. Millard, Director of the Division of Examinations, recommending that the resignation of Mrs. Anna Mae S. Cowger, a stenographer in that Division, be accepted to be effective, in accordance with her request, at the close of business May 13, 1949.

Approved unanimously.

Memorandum dated April 27, 1949, from Mr. Bethea, Director of the Division of Administrative Services, recommending the appointment of Mrs. Mary E. Sanders as a stenographer in that Division, with basic salary at the rate of \$2,874.48 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination.

Approved unanimously.

Letter to Mr. Peyton, President of the Federal Reserve Bank of



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Minneapolis, reading as follows:

"In accordance with your letter of April 25, 1949, the Board of Governors approves the payment of salary to Herbert Hallenberg for a period not to exceed December 31, 1949 with the understanding that if Regulation W should be terminated before that time Mr. Hallenberg will be separated from service as soon thereafter as feasible."

Approved unanimously.

Letter to the board of directors of "The Thompsonville Trust Company", Thompsonville, Connecticut, stating that, subject to conditions of membership numbered 1 and 2 contained in the Board's Regulation H, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Boston.

Approved unanimously, together with a letter to Mr. Erickson, President of the Federal Reserve Bank of Boston, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of 'The Thompsonville Trust Company', Thompsonville, Connecticut, for membership in the Federal Reserve System, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the board of directors of the institution. Two copies of such letter are also enclosed, one of which is for your files and the other of which you are requested to forward to the Bank Commissioner for the State of Connecticut, for his information.

"With respect to the eight nonconforming savings accounts and the excess balance carried with a nonmember bank as cited in the report of examination for membership, it is assumed that you will follow the matter of bringing such accounts into conformity with the law and the Board's regulations; also, that the matter of effecting improvement in the bank's credit files will be followed to a satisfactory conclusion.

"It is noted that the bank's management has agreed to increase the amount of its fidelity coverage to \$150,000."

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Letter to Mr. Erickson, President of the Federal Reserve Bank of Boston, reading as follows:

"The Board will interpose no objection to your Bank's proceeding with the repairs and alterations to the Bank building, as outlined in your letter of April 27, 1949, to Governor Vardaman, with the understanding that the cost will not exceed approximately \$190,000, plus any required architect's fees.

"The Board realizes how eager your Bank is to proceed with these repairs and hopes that the work progresses smoothly."

Approved unanimously.

Letter to Mr. Harvey T. Hill, Executive Director, Diesel Engine Manufacturing Association, 1 North La Salle Street, Chicago 2, Illinois, reading as follows:

"Your letter of April 7, addressed to Chairman McCabe, suggesting that the Board lift all restrictions on stock market credit, has been read with interest. We note your view that the 'exercise of such authority should be applied when we have a runaway market such as we had early in 1929' and that present margin requirements are restricting equity financing.

"The security loan regulations were first issued in 1934 at the direction of Congress. The Securities Exchange Act of 1934 authorized and directed the Board to prevent the excessive use of credit for the purchase or carrying of securities. At that time, of course, there was no runaway market but nevertheless the statute suggested margin requirements within a range of from 25 to 45 per cent of the market price of each issue and specifically directed that regulations be issued on the subject by October 1, 1934. Under the circumstances, it would not seem to have been the intent of Congress for the regulations to be used only when we have a runaway market.

"It is a source of strength in the present business situation that, in spite of the serious inflation elsewhere, there has not been a dangerous expansion of credit in the stock market. That fact has helped to prevent the general inflation from being even worse, and it will inevitably lessen the shock of any readjustment, not only so far as the stock



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market is concerned but also in other parts of the economy.

"As you know, there are many factors which contribute to the state of the market, at any given time, for equity securities. At a time like the present, however, when the total money supply of the country has been so greatly expanded as to be altogether redundant, it would seem most unlikely that a shortage of money or credit is a factor of much importance in restraining equity financing. In further support of this view it should be noted that in the spring of 1946, when margin requirements were 100 per cent, the stock market was at a considerably higher level, more active, and more receptive to new issues, than it is at present when margin requirements are 50 per cent.

"The Board feels that present margin requirements of 50 per cent following the reduction from the 75 per cent level effective March 30, 1949, are appropriate to present stock market and credit conditions. We are, however, continually studying the effect of the margin requirements on the economy and will be prepared to make any further changes that are required in the public interest. The points you raise will be carefully considered in this connection.

"We appreciate your point of view on this subject and your interest in writing to us."

Approved unanimously.

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

"Your wire April 28. Board approves the making of further loan or loans on gold by your Bank to Banco Central del Ecuador on the terms and conditions specified in your wire as follows:

- (A) The amount to be advanced under this arrangement not to exceed \$3,400,000 in the aggregate at any one time outstanding; such loan or loans to be made up to 98 per cent of the value of gold bars held in your vaults as collateral;
- (B) Each such loan or renewal thereof to run for 90 days, but no loan or renewal thereof to mature later than 180 days after the date of the first such loan and in no event later than November 30, 1949;
- (C) Each such loan and any renewal thereof to bear interest from the date such loan is made or

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renewed until paid, at the discount rate of your Bank in effect on the date on which such loan or renewal is made.

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

Approved unanimously.

Letter to Mr. John R. Steelman, Acting Chairman of the National Security Resources Board, reading as follows:

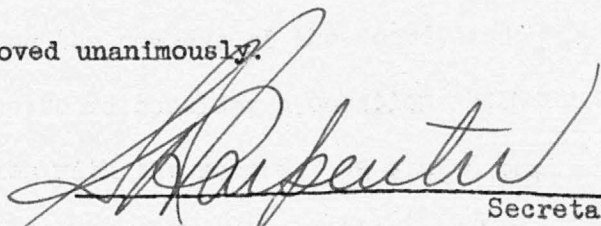
"In response to a request made in September 1948, by Mr. Arthur M. Hill, the staff of the Board of Governors has made a survey of the issues that would be encountered in the monetary field in the event that war mobilization became necessary. The results, in preliminary and strictly confidential draft form, are enclosed for comment and discussion.

"This survey is intended to bring out key issues that may need to be considered in developing an over-all policy. It does not represent recommendations or views of either the Board of Governors of the Federal Reserve System or the National Security Resources Board."

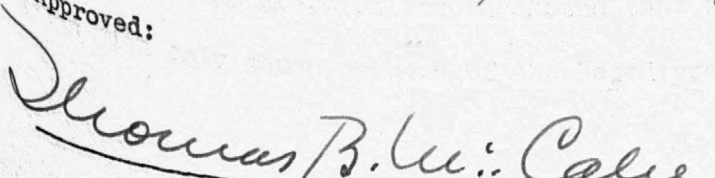
Approved unanimously.

Memorandum dated April 27, 1949, from Mr. Young, Associate Director of the Division of Research and Statistics, recommending the disclosure of a list of 25 banks holding the largest volume of consumer instalment paper, the information to be based on call report data, to the Committee on Consumer Credit of the American Bankers Association.

Approved unanimously.

  
Secretary.

Approved:

  
Chairman.