

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, June 14, 1949. The Board met in the Board Room at 10:30 a.m.

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

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. Leonard, Director, Division of Bank Operations
Mr. Nelson, Director, Division of Personnel Administration
Mr. Townsend, Solicitor
Mr. Young, Associate Director, Division of Research and Statistics
Mr. Dembitz, Chief of the International Financial Operations Section of the Division of Research and Statistics

Mr. Eccles stated that he had asked that the matter of proposed bank holding company legislation be discussed at this meeting because he felt it was necessary to have such legislation introduced in the Congress promptly if there were to be hearings held on it during the present session.

Chairman McCabe stated that he had had numerous conversations with Comptroller of the Currency Delano and Federal Deposit Insurance Corporation Chairman Harl regarding the request in his letter to them

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dated March 2, 1949, for comments on the draft of the bank holding company bill but that no response had yet been received from either of them other than the comment from Mr. Delano that he saw no purpose in giving time to the bill when it was recognized that Congress would not act at this session. Chairman McCabe reviewed his conversations with Senator Robertson of the Senate Banking and Currency Committee as reported at the meeting with the Federal Advisory Committee on May 17, 1949, stating that he had informed Mr. Delano of these developments and that when Messrs. Delano and Harl were at luncheon a few days ago, he told them that if the Board did not hear from them shortly there was nothing that it could do but send the draft of the bill to the Budget Bureau for clearance after which it would be transmitted to Senator Maybank for introduction in the Senate.

Mr. Townsend stated that a number of bankers on the West Coast had inquired as to the status of the legislation and that introduction of the bill would indicate to the bankers that the Board was still actively interested in the program.

During a further discussion of the proposed bill and procedure that might be followed in having it introduced, question was raised as to whether the draft of the bill as discussed and approved at the meeting on February 24, 1949, should be sent to representatives of the various groups with which Chairman McCabe had discussed the

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matter pursuant to the understanding at the meetings on July 6 and 15, 1948, so that they might have an opportunity to see it before it is introduced in Congress. It was the consensus that this should be done a few days before the bill is introduced in the Congress.

Mr. Eccles questioned the need for submitting the bill to the Budget Bureau inasmuch as an earlier draft of the bill had been introduced in previous sessions of Congress and had been favorably reported by the Senate Banking and Currency Committee in the 80th Congress. There was unanimous agreement that the bills should be introduced as promptly as possible, that Messrs. Delano and Harl had been given every opportunity to comment on the bill, and that no purpose would be served in delaying longer for that purpose.

At the conclusion of the discussion, it was agreed that Chairman McCabe should discuss the matter with the Director of the Bureau of the Budget this afternoon with the view to getting an immediate clearance so that copies of the bill could be sent this week to the Federal Reserve Banks and representatives of interested groups who had conferred with Chairman McCabe and the bill could be sent next week to Chairman Maybank for introduction in the Senate.

Messrs. Nelson and Townsend withdrew from the meeting at this point.

Reference was then made to a proposed report prepared in response to a letter from the Bureau of the Budget dated June 8, 1949, regarding proposed legislation authorizing the Export-Import

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Bank to offer guaranties to United States private capital newly invested in enterprises contributing to economic development in foreign countries. Mr. Szymczak stated that the question came up at a recent meeting of the National Advisory Council and that after full discussion, the Council approved the proposed legislation.

In commenting upon the bill, Chairman McCabe stated that it was a very cautious approach to a guaranty program, that no new funds would be made available to the Export-Import Bank, that the proposal would permit the use of existing funds of the Bank for guaranteeing loans rather than for making direct loans, and that he was satisfied that the authority would be used on a careful, conservative basis.

Following statements by Mr. Dembitz regarding the limitations on the proposed authority and by Chairman McCabe on the consideration given to the matter by the National Advisory Council, Mr. Eccles stated that he would be opposed to giving additional funds to the Export-Import Bank for making loans or guaranteeing credits abroad because he did not believe that such loans or guaranties provided the real solution to the problem of foreign investment or of promoting a better balance of international trade, but that inasmuch as this was simply an authority to make limited guaranties of American investments with funds which would otherwise be available for direct loans, he felt that the Board should approve the proposed

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legislation. He suggested, however, that the Board should not state its broad approval of the proposed bill but should merely indicate it was in favor of the specific proposal to authorize the Export-Import Bank to guarantee American investments abroad with funds presently available to the Bank.

Following a further discussion of the matter, the draft of letter to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, was read and changed and upon motion by Mr. Szymczak, approved in the following form with the understanding that if a request were received from Congress for a report on the bill the Board might wish in its reply to discuss the matter in some detail:

"This refers to your letter of June 8 requesting our comments on a bill which has been distributed by the State Department and which would amend section 2(a) of the Export-Import Bank Act of 1945, as amended, to authorize the Export-Import Bank of Washington 'to guarantee United States private capital invested in enterprises contributing to economic development in foreign countries against risks peculiar to those investments.'

"This subject has received consideration by the National Advisory Council on International Monetary and Financial Problems of which, as you know, the Chairman of this Board is a member, and on June 8 the Council agreed that such powers should be requested for the Bank.

"The Board of Governors is in accord with the purposes of the bill."

Mr. Dembitz withdrew from the meeting at this point.

Mr. Vardaman referred to the discussion of construction of Federal Reserve branch bank buildings at the meeting on May 6, 1949, stating that he felt further consideration should be given to the

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question whether the Board should now request Congress to increase the amount that might be expended for buildings at branches of Federal Reserve Banks. At his request Mr. Leonard outlined the commitments that had been made against the \$10,000,000 authorization granted by Congress on July 30, 1947, stating that purchase of the Cincinnati branch building and allocations for construction of the Seattle and Portland branch buildings, plus a tentative allocation for the Detroit branch building, totaled approximately \$6,400,000, leaving some \$3,600,000 available for additional construction. Mr. Leonard also said that the greatest need existed at the Jacksonville branch of the Federal Reserve Bank of Atlanta, that there was also a possibility that plans for alterations at the Los Angeles branch of the San Francisco Reserve Bank would be ready before the end of this year, and that the remaining sum of \$3,600,000 probably would be sufficient to cover the costs of such construction. He added that no plans for alterations at the Pittsburgh branch of the Cleveland Federal Reserve Bank had been prepared and it was almost certain that such plans would not be made available until sometime after the close of 1949.

In the course of the discussion, question was raised as to whether the plans for the Jacksonville branch building were going forward along the lines of the Board's letter of April 19, 1949, to Mr. Neely, Chairman of the Federal Reserve Bank of Atlanta. Chairman

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McCabe stated that while he was at the recent Chairmen's Conference at White Sulphur Springs, Mr. Neely spoke to him about the project and handed him a personal letter indicating that the Directors of the Atlanta Bank were not favorable to the modified plans for the Jacksonville branch as outlined in the Board's letter of April 19, 1949. He also said that he had asked Mr. Leonard to prepare a memorandum with respect to the matter and that he would like to discuss it at a later meeting of the Board.

With respect to the question raised by Mr. Vardaman as to whether additional authority for construction of branch buildings should be sought at this session of Congress, Mr. Eccles said he did not feel there was any chance of action by Congress before the end of the year, that funds were already available for the Jacksonville and Los Angeles branch buildings when those projects were ready to go ahead, and that it would be preferable to defer raising the question with Congress until the next session when need would be clearer for removal of the existing limitations or an increase in the \$10,000,000 limitation.

Upon motion by Mr. Vardaman, it was agreed unanimously that no action toward introducing such legislation into Congress would be taken at the present time.

Mr. Leonard then withdrew from the meeting.

Mr. Vardaman referred to the draft of letter to Mr. Dearmont,

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Chairman of the Federal Reserve Bank of St. Louis, prepared in accordance with the discussion at the meeting on June 7, 1949, with respect to appointment of a committee from among the Class C Directors of the Federal Reserve Banks to study margin requirements, stating that he felt the letter should specifically indicate that the study was to be made on a confidential basis and that the results were not to be communicated to anyone other than the Chairmen's Conference and the Board.

There followed a discussion of the letter which was changed and approved unanimously to be forwarded under date of June 16, 1949, in the following form:

"As you know, the suggestion has been made that a committee of the Chairmen's Conference be formed to make an analysis of the factors to be considered in approaching a change in margin requirements and to study the method or formula used in regulating margins, as distinguished from the determination of the actual level of margins. Since that time, the Board has reduced margin requirements from 75 per cent to 50 per cent and has liberalized substantially the requirements with respect to the purchase of securities through the exercise of rights. Certain other technical amendments are presently under consideration by the Board.

"Because of the changes which are occurring in the economy and the questions that might arise in the future in the field of security credit, the Board has given special consideration to steps that might be taken to assure that the responsibility of the System for the proper exercise of its authority will be adequately met. At the request of the Board, Mr. Parry, formerly Director of the Board's Division of Security Loans, has prepared a short history of Regulations T and U, a copy of which is enclosed. Dr. Parry has emphasized that at this stage the study is not what he would regard as a finished job and

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"that it should not be circulated outside the Board and the Federal Reserve Banks.

"In addition to the continuing study given the subject by the Board and its staff, it is believed that it would be helpful to have the benefit of the viewpoint of the Chairmen of the Federal Reserve Banks. Accordingly, it is the feeling of the Board that it would be helpful if there could be appointed a special committee of the Chairmen's Conference, consisting of two or three members who would be selected from among the 36 Class C directors of the Federal Reserve Banks, for the purpose of conducting a study as outlined in the first paragraph hereof. The conduct of the study would be strictly confidential and the findings of the committee would be for the confidential and exclusive use of the Chairmen's Conference and the Board of Governors. It was the thought of the Board that if the committee, using the history prepared by Dr. Parry and such other background material as is available, could get its study underway promptly, its report could be formulated and presented as an item on the agenda for the next Chairmen's Conference.

"The Board would appreciate your comments with respect to the appointment of such a committee and if you feel that it would be desirable, you may wish to discuss the membership of the committee with Mr. Clayton who is the member of the Board having the assignment of margin requirements for initial consideration."

Before this meeting a memorandum from Mr. Carpenter dated May 17, 1949, had been sent to all members of the Board transmitting a revised draft of policy record of Board actions for inclusion in the Annual Report covering the year 1948, incorporating changes agreed upon at the meeting on May 2, 1949. Mr. Draper had attached a memorandum under date of June 9, 1949, stating that, for reasons stated in the memorandum, he could not agree with the proposed procedure of showing votes of members of the Board when they were not present at the meeting. In commenting on the memorandum, Mr. Draper

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stated that he would not wish to be recorded as favoring any policy action taken at any meeting when he was not present.

There followed a discussion of Mr. Draper's memorandum and of the action taken at the meeting on May 2, during which Mr. Carpenter read samples of some of the policy actions proposed for inclusion in the 1948 Annual Report as revised in accordance with the discussion at that meeting. At the close of the discussion, it was the consensus that the form of policy record agreed upon at the meeting on May 2 should be followed.

Thereupon, the policy record was approved unanimously in the form attached to Mr. Carpenter's memorandum dated May 17, 1949, for inclusion in the Annual Report, Messrs. McCabe, Eccles, Szymczak, Evans, and Vardaman voting "Aye" and Mr. Draper voting "No".

In taking this action, it was understood that the form of the record of policy actions taken by the Federal Open Market Committee during 1948, approved by the Board on March 22, 1949, would be changed to conform to the form of the policy record of the Board as approved at this meeting.

At this point all of the members of the staff withdrew with the exception of Mr. Carpenter.

There was a further informal discussion of the memorandum dated May 25, 1949, from Mr. Young stating that if there were no objection he would like to accept the invitation of the London Institute of Bankers to attend the forthcoming summer school of the Institute

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from September 3 to September 17 at Oxford, England. The memorandum also stated that in addition to spending two weeks at Oxford he would plan to spend from five to seven days in London visiting with various bankers and economists.

Mr. Vardaman stated that he was opposed in principle to trips by members of the staff abroad but that he would favor a policy of having members of the Board go abroad in connection with the work of the Board and of having them accompanied by such members of the staff as was appropriate, and that in view of the circumstances in connection with the invitation of the London Institute he would favor acceptance of the invitation by Mr. Young.

At the conclusion of the discussion, upon motion by Mr. Szymczak, it was voted unanimously to authorize Mr. Young to go to England for the purpose indicated, it being understood (1) that the expenses of his trip would be paid by the Board and (2) that at a future meeting there would be a discussion of policy with respect to travel abroad by members of the Board's staff.

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 June 13, 1949, were approved unanimously.

Memorandum dated June 13, 1949, from Mr. Young, Associate Director of the Division of Research and Statistics, recommending the appointment of Richard C. Pickering as a research assistant in that

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Division, with basic salary at the rate of \$2,974.80 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination.

Approved unanimously.

Memorandum dated June 10, 1949, from Mr. Young, Associate Director of the Division of Research and Statistics, recommending that the resignation of Miss Georgiana B. Grimball, a clerk in that Division, be accepted, to be effective, in accordance with her request, at the close of business June 15, 1949.

Approved unanimously.

Memorandum dated June 10, 1949, from Mr. Leonard, Director of the Division of Bank Operations, recommending that Mrs. Charlotte A. Kelly be appointed on a permanent basis as a clerk in that Division with no change in her present basic salary of \$2,498.28 per annum, effective as of the expiration of her temporary appointment at the close of business on June 14, 1949.

Approved unanimously.

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

"In accordance with the request contained in your letter of June 10, 1949, the Board of Governors approves, effective July 1, 1949, the payment of salaries to the following members of the Federal Reserve Agent's

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"staff at the rates indicated:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
Charles J. Scanlon	Alternate Assistant Federal Reserve Agent	\$7,000
Carl Schelling	Assistant Federal Reserve Agent	6,300

Approved unanimously.

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

"Reference is made to your Bank's letter of May 31, 1949, in which you advised that it appears expenses at your head office and branches for the Consumer Credit function will approximate the amounts shown below. It is noted that the total of these amounts exceeds the 1949 budget estimates, which in the case of this function cover the first six months only, in the amount of \$26,276.

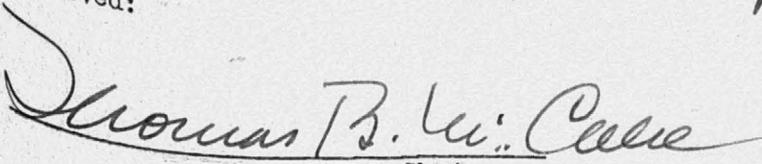
Head Office	\$41,300
Los Angeles	25,000
Portland	10,200
Salt Lake City	20,300
Seattle	11,000

"The Board accepts the revised figures as submitted and appropriate notations are being made in the Board's records."

Approved unanimously.


Secretary.

Approved:


Chairman.