

Minutes of actions taken by the Board of Governors of  
the Federal Reserve System on Monday, July 11, 1949.

PRESENT: Mr. Eccles, Chairman pro tem.  
Mr. Szymczak  
Mr. Clayton

Mr. Carpenter, Secretary  
Mr. Sherman, Assistant Secretary  
Mr. Morrill, Special Adviser  
Mr. Thurston, Assistant to the Board

Memorandum dated June 30, 1949, from Mr. Young, Associate Director of the Division of Research and Statistics, recommending the appointment of Homer Jones as Chief of the Consumer Credit and Finances Section of that Division, with basic salary at the rate of \$10,330 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 July 11, 1949, from Mr. Carpenter, Secretary of the Board, recommending the appointment of Miss Elizabeth Jean Startup as a clerk-typist in the Office of the Secretary on a temporary basis for a period not to exceed six months, with basic salary at the rate of \$2,284 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. Sproul, President of the Federal Reserve Bank of New York, reading as follows:

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"Governor Szymczak has brought to the Board's attention your letter of June 20 respecting representation of the Federal Reserve Bank of New York at the Santiago conference of central banks to be held in Santiago, Chile, next December.

"The Board approves your proposal that Mr. Horace Sanford, Assistant Vice President in the foreign function, and Mr. Ernest Moore, Manager of your Bank's Research Department, attend the conference.

"Details respecting the Board's representation and representation by some other Federal Reserve Bank will be furnished you later."

Approved unanimously.

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

"In accordance with the request contained in your letter of July 6, 1949, the Board approves the payment of salary to Mr. Joseph C. Auchter for a period of six months beginning July 16, 1949, at the rate of \$5,585 per annum, which rate is in excess of the maximum of his present position."

Approved unanimously.

Letter prepared for Chairman McCabe's signature to the Presidents of all Federal Reserve Banks, reading as follows:

"With the termination of the authority for the regulation of consumer instalment credit, the Board would like to record its appreciation of the contribution made by the Federal Reserve Banks and their branches in the administration of Regulation W.

"The part of the Federal Reserve Banks in this connection has been a most important one. They have been helpful in their comments and suggestions regarding matters of policy which has given the Board the advantage of practical experience in the field. They have also provided effective administration of a temporary regulation and, while many of the registrants and associations with which the banks have had to deal have not been in favor of consumer credit legislation, they appear to have a wholesome respect for the manner in which the responsibilities of the

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" system were discharged in the field.

"For this cooperative accomplishment under difficult circumstances, the Board is indeed grateful and will be pleased if you will express its appreciation to the other Officers and Directors of your Bank.

"With warmest regards."

Approved unanimously.

Letter prepared in accordance with the action taken at a meeting of the Board on June 29, 1949, to the Honorable John L. McClellan, Chairman of the Committee on Expenditures in the Executive Departments, United States Senate, reading as follows:

"This is in response to your letter of May 23, 1949, with respect to the reports of the Commission on Organization of the Executive Branch of the Government.

"The Board has difficulty in furnishing the comment which your Committee desires, partly because the Commission makes relatively few specific recommendations with respect to the Federal Reserve System and partly because important recommendations made by the task forces are at variance with each other or with recommendations of the Commission itself.

"For example, the task force report on Regulatory Commissions--the report which deals most comprehensively with the Federal Reserve System--contains recommendations, among others, to the general effect that all Federal bank supervisory activities, with the qualified exception of the Federal Deposit Insurance Corporation, be combined in one agency, preferably the Federal Reserve Board. On the other hand, the Commission's report on the Treasury Department recommends that supervision of the operations of the Federal Deposit Insurance Corporation, the Reconstruction Finance Corporation, and the Export-Import Bank be vested in the Secretary of the Treasury, to which recommendation, however, there are numerous dissents within the Commission. Furthermore, the task force report on Lending Agen-

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"cies recommends that the Reconstruction Finance Corporation be discontinued and the Federal Reserve Banks be authorized to guarantee loans, whereas the Commission itself in its report on Federal Business Enterprises states that it would be preferable that the Reconstruction Finance Corporation be reorganized to guarantee loans by commercial banks.

"As you know, suggestions have been made recently for the establishment of a monetary commission to study what changes are necessary or desirable in the banking and monetary system of the United States. The Board has expressed itself as being in favor of the creation of such a commission, and in a statement which Chairman McCabe made recently on behalf of the Board before a subcommittee of the Senate Banking and Currency Committee he included the following with reference to a review by Congress of the authority and responsibility of the Federal Reserve System:

'We in the Federal Reserve System are naturally concerned over the areas of controversy that surround the System's functioning and responsibilities as a central banking, monetary, regulatory, and supervisory authority. We trust that Congress will review its delegation of authority and responsibility to the System to be sure that they are commensurate with each other and with the objectives established by Congress. Such a review would include consideration: (1) of the System's open-market powers and their relation to Federal financing and the administration of the public debt; (2) of the use of selective credit controls such as those over security loans and consumer instalment loans and of the proper sphere for the application of such types of control; (3) of the distribution of regulatory and supervisory power among the various Government agencies; (4) of the need for some mechanism of policy coordination on the domestic financial front as we have available through the N.A.C. on the international financial front; (5) of the objectives of central banking and supervisory policies; and (6) of the relation of the Federal Reserve System as a central banking organization to the banks of the nation, both member and non-member.'

"The Board feels that such an overall study by a

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"national monetary commission would be the most desirable approach to the problem of changes in the basic law governing the Federal Reserve System."

Approved unanimously.

Letter prepared for Chairman McCabe's signature to His Excellency Kim Do Yun, Minister of Finance, Seoul, Korea, reading as follows:

"This is to acknowledge receipt of your letter of June 7 requesting the Board's assistance for the reorganization of the Bank of Korea, the drafting of central bank legislation and the preparation of a currency reform.

"The Board has transmitted a copy of your letter to the Economic Cooperation Administration requesting its advice, as well as the views of the U. S. Mission to Korea, on the possible integration of any such assistance with the technical and financial program of E.C.A. When their advice has been received, the Board will give further consideration to your request, subject of course to the limits imposed by the availability of its staff and the obligations assumed for similar assistance to other foreign countries."

Approved unanimously.

Letter prepared for Mr. Clayton's signature to the Honorable Joseph C. O'Mahoney, United States Senate, reading as follows:

"This letter has reference to the pleasant and interesting luncheon which I attended last month in place of Chairman McCabe, who had a conflicting engagement. Mr. Ralph A. Young, Associate Director of our Division of Research and Statistics, attended with me.

"Mr. Young and I wish to thank you for sending to us for comment the investment outline that was discussed at your recent luncheon. In our mind it is in general an excellent outline, one that should bring forth much interesting and valuable information on the investment and financing problems that face the country.

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"One question that comes to mind, however, concerns the timeliness of the investigation as now outlined. Does not the outline stress the problems of a late inflationary period, when it perhaps should stress more the problems of a readjustment or even a recession period? For example, the special emphasis in the investment study might very well be upon the problem of the instability of investment during business cycles. Problems such as what Government policies should be taken to counteract cyclical instability in private investment might very well be high-lighted. Matters of this kind would, of course, be treated in the investigation as now outlined, but perhaps the focus should be modified somewhat in view of the continued downward drift in production and employment.

"A similar shift in focus might be given to the financing phase of the investigation to emphasize the financial problems in the downward phase of business activity. Particular attention might be given to equity financing during such a period. Do, for example, our attempts to make debt obligations more riskless through Government guarantees and the like make equity financing even more difficult at such a time? What about the relation of debt financing to the ultimate equity portion of enterprise (debt financing properly used can accelerate growth of equity)?

"We mention these specific points to illustrate the main question in our minds whether in view of recent economic and business developments, the investigation should not be focused on the problems in the investment and financing fields that may characterize the period just ahead.

"Mr. Young mentioned in a statement at your recent luncheon that available information regarding the equity investment problem was not all that one might wish for the purposes of your Committee's inquiry, and referred to the large sums being spent by foundations and other private sources to support research in this and related areas. He had in mind the following investigations:

1. Committee for Economic Development--  
Study of the flow of savings into equity investment. Homer Jones of the Committee's staff in charge.
2. Insurance Companies Investment Research Committee--  
Study of the volume and composition of sav-

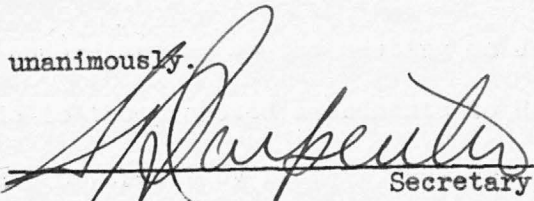
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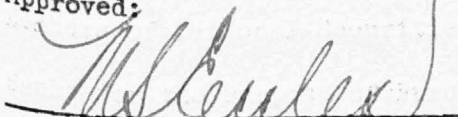
- "ings, 1896-1949. Dr. Raymond Goldsmith in charge.
3. Insurance Companies Investment Research Committee--  
Study of the market behavior and experience of corporate bonds, 1900-1949. Dr. Braddock Hickman, National Bureau of Economic Research, in charge. The Savings Bank Division of the American Bankers Association is cooperating in the support of this study.
  4. Merrill Lynch Foundation--  
Study of the functioning of the over-the-counter markets. Dr. G. Wright Hoffman, University of Pennsylvania, in charge, in collaboration with Messrs. Willis J. Winn and Irwin Friend. The National Association of Security Dealers is cooperating in this study.
  5. Merrill Lynch Foundation--  
Study of the relation between Business Expectations and Business Investment, Dr. Franco Modigliani, University of Illinois, in charge.
  6. Merrill Lynch Foundation--  
Effect of Taxation on Business Investment. Drs Dan Smith and Keith Butters, Harvard Graduate School of Business Administration, in charge.
  7. Twentieth Century Fund--  
America's needs and resources and their financing. Dr. Frederic Dewhurst, of the Fund's staff in charge.

"Please be assured that the Board and its staff will follow your Committee's investigations into this subject with keen interest. Please do not hesitate to call upon us for such technical assistance as we can appropriately provide."

Approved unanimously.

  
Secretary.

Approved:

  
Chairman pro tem.