

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, July 25, 1949.

PRESENT: Mr. McCabe, Chairman
Mr. Szymczak

Mr. Carpenter, Secretary
Mr. Hammond, Assistant Secretary
Mr. Morrill, Special Adviser

Memorandum dated July 21, 1949, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that the resignation of Merton H. Miller, an economist in that Division, be accepted to be effective, in accordance with his request, at the close of business August 12, 1949.

Approved unanimously.

Letter to Mr. Shepard, Chairman of the Federal Reserve Bank of Minneapolis, reading as follows:

"At the completion of the examination of the Federal Reserve Bank of Minneapolis, made as of May 16, 1949, by the Board's examiners, a copy of the report of examination was left for your information and that of the directors. A copy was also left for President Peyton.

"The Board will appreciate advice that the report has been considered by the Board of Directors. Any comments you may care to offer regarding discussions with respect to the examination, or as to action taken or to be taken as a result of the examination, will also be appreciated."

Approved unanimously.

Letter to the Honorable Burnet R. Maybank, Chairman of the Committee on Banking and Currency, United States Senate, reading as

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follows:

"This is in reply to Mr. Parson's letter of July 14, 1949, requesting a report on S. 2197, which would amend the Export-Import Bank Act of 1945 to vest in the Export-Import Bank of Washington the power 'to guarantee United States private capital invested in productive enterprises abroad which contribute to economic development in foreign countries against risks peculiar to such 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 the Council has agreed that such powers should be requested for the Bank.

"The Board of Governors is in accord with the purpose of this bill, which is to promote the economic development of underdeveloped areas by encouraging the flow of United States private capital into productive investments in such areas. It is believed that this would contribute to the maintenance of economic activity and employment in the United States, to the expansion of international trade, and to the maintenance of world stability. These objectives are in the long-run interest of the United States.

"The capital for such development should as far as possible be supplied by the countries themselves. However, in many cases internal sources of funds are inadequate to achieve substantial progress toward the goal. Moreover, most underdeveloped countries lack the organizational, managerial, and technical skills which are essential to development and which United States private enterprises can supply. For these reasons, it is often desirable to encourage the flow of United States private capital to underdeveloped countries.

"The rate at which United States private capital in recent years has become available to foreign countries has been limited by the special risks which prospective investors consider to accompany such investment. An increase in the rate of foreign investment might be expected if guarantees could be provided against such risks.

"It is understood that the Export-Import Bank would keep the program under continuous review, with the advice and coordination of the National Advisory Council. Since the bill does not provide for any appropriation and it is

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"understood that operations under it would be expected to be confined to present resources of the Export-Import Bank, it would appear to be essentially a modification of operating procedures within the limits of previous appropriations.

"Of course, it is not to be expected that this or any other guarantee program would by itself provide a complete solution to the problems of foreign investments, international trade, and world stability. However, the Board believes that a guarantee program of the type envisaged in connection with S.2197 would represent a useful contribution to the solution of many problems, and the Board accordingly favors enactment of the measure."

Approved unanimously.

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

"The Board recently received from the Department of Justice an invitation to submit proposals for State legislation in connection with the program of the Council of State Governments for 1950. Any proposals submitted by Federal agencies will be considered for inclusion in such program at the meeting in Washington on October 13-14, 1949, of the Drafting Committee of the Council. Proposals approved by the Council will be circulated to State legislatures at forthcoming sessions.

"We are giving consideration to suggesting as a proposal, for adoption in those States in which it has not already been enacted, the Model Deferred Posting Statute recommended by the American Bankers Association and already adopted in a large number of States. If you should have any other suggestion for State legislation which you feel should be considered as a possibility for submission on behalf of the Federal Reserve System, please advise us not later than August 5, since the Department of Justice has asked that all proposals be submitted by August 15, 1949.

"The Board, on occasion, has written similar letters to the Federal Reserve Banks following the receipt of invitations in previous years from the Department of Justice for State legislative proposals."

Approved unanimously.

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L. Carpenter
Secretary.

Approved:

Thomas B. Lee: Clee
Chairman.