Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, August 5, 1949. The Board met in the Board Room at 2:45 p.m.

PRESENT: Mr. McCabe, Chairman
Mr. Eccles
Mr. Draper
Mr. Clayton

Mr. Carpenter, Secretary
Mr. Hammond, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Riefler, Assistant to the Chairman
Mr. Vest, General Counsel
Mr. Thomas, Director, Division of Research and Statistics
Mr. Young, Associate Director, Division of Research and Statistics

A draft of letter to Senator Maybank, Chairman of the Senate Banking and Currency Committee, revised in accordance with the discussion at the meeting of the Board yesterday, was read and after certain additional changes, was approved in the following form:

"This is in response to your letter of August 2, 1949, requesting the views of the Board of Governors with respect to the bill S. 2344. The principal effects of this bill would be to remove all maturity limitations on loans made by the Reconstruction Finance Corporation and to increase the aggregate amount of such loans that may be outstanding at any one time to $5 billion.

"The Reconstruction Finance Corporation was established in 1932 as an emergency organization. In that capacity, during the economic depression of the 1930's and again during the war period the Corporation performed a very useful service to the Government and to the nation. The Board feels that the Corporation should continue to be regarded as essentially of an emergency character. In ordinary peace times the lending functions of the Corporation, if continued at all, should be held to a minimum and it should

"not be aggressive in soliciting or accepting loans. Even in such circumstances the Corporation should avoid as far as possible competition with private credit sources.

"In his recent Economic Report the President suggested legislation to extend the maximum maturities of loans by the Corporation to permit financial assistance to business ventures which are economically sound and urgently needed in an expanding economy but which require long periods of time to develop and produce earnings which will permit orderly amortization of debt. It is the view of the Board that the present 10-year limitation on ordinary business loans by the Corporation is entirely adequate and that in the types of cases referred to by the President the limitation could well be fixed at 15 years but should not be removed altogether. The Board concurs with the view expressed by the Secretary of the Treasury that there be regular amortization of loans having maturities in excess of 10 years.

"The Board is not in accord with the provision of the bill which would increase the aggregate limitation on loans made by the Corporation. The Board is in sympathy with the policy of stimulating employment at this time through the encouragement of necessary financing of business enterprises, particularly small business. However, it believes that such financing of enterprises worthy of credit should be encouraged to the greatest extent possible through regular private banking channels and that financing by the Government should be undertaken only when financing is not available on a reasonable basis from the usual credit sources. In the case of ordinary business loans, the Board feels that the use of the private credit system can best carry out the objective of the President's statement in his recent Economic Report that the Government's policy should be 'to encourage banks and other institutions to maintain and expand their productive lending activity'. Commercial banks have available ample funds to meet the financing requirements of business, and there appears to be little evidence that sound credit is unavailable on reasonable terms to an extent that would call for increasing the aggregate dollar amount of authority for Reconstruction Finance Corporation loans.

"It should also be noted that loans made by the Corporation involve the use of Government funds and that a further enlargement of the aggregate lending authority of the Corporation would thus increase the amount of the prospective Government deficit.

"Since the bill is now the subject of hearings before your Committee, time has not permitted us to take the matter up with the Bureau of the Budget."

Reference was made to the consideration given by the Board at recent meetings, and particularly at the meeting yesterday, to a further reduction in reserve requirements of member banks and to the discussion of the entire problem of System credit policy at the meeting of the Federal Open Market Committee this morning. At the latter meeting, action was taken by the Federal Open Market Committee looking to the reduction of the System's holdings of Government securities to whatever extent would be necessary to absorb the reserves released by the proposed reduction in reserve requirements, and members of the Board stated that action would be taken by the Board following the meeting of the Federal Open Market Committee to reduce reserve requirements in an amount equal to 2 percent of demand deposits and 1 percent of time deposits of all member banks.

Messrs. Szymczak and Vardaman were on vacation, but before leaving Mr. Szymczak stated that he would favor a reduction. Mr. Vardaman had informed the Secretary that he would not return from vacation until August 8 or 9 and therefore was not prepared to say whether he would favor the reduction. Mr. Evans was on the West Coast in connection with the Clayton Act proceeding against Transamerica, and he had stated to Mr. Morrill over the telephone

that while he questioned the desirability of a reduction at this time and while he was still of the opinion that there should be no retreat from the policy of supporting long-term Government bonds at par, he had not had an opportunity to participate in the recent discussions and would not object to the proposed reduction if the majority of the Board felt that such action should be taken.

Accordingly, at this meeting of the Board the following actions were taken by unanimous vote for the reasons stated at the meeting of the Federal Open Market Committee this morning:

The following amended supplement to Regulation D, Reserves of Member Banks, was approved:

"SUPPLEMENT TO REGULATION D
"Issued by the Board of Governors of the Federal Reserve System on August 5, 1949

"RESERVES REQUIRED TO BE MAINTAINED BY MEMBER BANKS WITH FEDERAL RESERVE BANKS

"Pursuant to the provisions of section 19 of the Federal Reserve Act and section 2(a) of its Regulation D, the Board of Governors of the Federal Reserve System hereby prescribes the following reserve balances which each member bank of the Federal Reserve System is required to maintain on deposit with the Federal Reserve Bank of its district:

1. If not in a reserve or central reserve city --
   (a) 6 percent of its time deposits until the opening of business on August 16, 1949, and 5 percent of its time deposits thereafter, plus
   (b) 13 percent of its net demand deposits from August 1 to August 15, 1949, inclusive, and 12 percent of its net demand deposits thereafter.
2. If in a reserve city (except as to any bank located in an outlying district of a reserve city or in

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"territory added to such city by the extension of the city's corporate limits, which, by the affirmative vote of five members of the Board of Governors of the Federal Reserve System is permitted to maintain the reserves specified in paragraph 1 above) --

(a) 6 percent of its time deposits until the opening of business on August 11, 1949, and 5 percent of its time deposits thereafter, plus

(b) 20 percent of its net demand deposits until the opening of business on August 11, 1949, 19-1/2 percent of its net demand deposits from August 11 to August 17, 1949, inclusive, 19 percent of its net demand deposits from August 18 to August 24, 1949, inclusive, 18-1/2 percent of its net demand deposits from August 25 to August 31, 1949, inclusive, and 18 percent of its net demand deposits thereafter.

3. If in a central reserve city (except as to any bank located in an outlying district of a central reserve city or in territory added to such city by the extension of the city's corporate limits, which, by the affirmative vote of five members of the Board of Governors of the Federal Reserve System, is permitted to maintain the reserves specified in paragraph 1 or 2 above) --

(a) 6 percent of its time deposits until the opening of business on August 11, 1949, and 5 percent of its time deposits thereafter, plus

(b) 24 percent of its net demand deposits until the opening of business on August 11, 1949, 23-1/2 percent of its net demand deposits from August 11 to August 17, 1949, inclusive, 23 percent of its net demand deposits from August 18 to August 24, 1949, inclusive, 22-1/2 percent of its net demand deposits from August 25 to August 31, 1949, inclusive, and 22 percent of its net demand deposits thereafter.

The following statement for the

press was approved with the understanding that it would be released immediately and would be sent by telegram to the Presidents of all Federal Reserve Banks with the request that they print and distribute the amended supplement to their member banks:

"The Board of Governors has reduced by 2 percent of net demand deposits and 1 percent of time deposits the amount of reserves required to be maintained by member banks of the Federal Reserve System. The reduction, which will amount to approximately $1.8 billion, will become effective as follows:

On net demand deposits		
Central reserve city banks	Reserve city banks	Effective
From 24 to 23½ percent	From 20 to 19½ percent	August 11, 1949
" 23½ " 23 "	" 19½ " 19 "	August 18, 1949
" 23 " 22½ "	" 19 " 18½ "	August 25, 1949
" 22½ " 22 "	" 18½ " 18 "	September 1, 1949
	Non-reserve city banks	
	From 14 to 13 percent	August 1, 1949
	" 13 " 12 "	August 16, 1949
On time deposits		
Central reserve and reserve city banks	From 6 to 5 percent	August 11, 1949
Non-reserve city banks	" 6 " 5 "	August 16, 1949

"The effect of these decreases will be to lower the reserve requirements of banks in central cities by approximately $500 million, of banks in reserve cities by approximately $675 million, and of banks in non-reserve cities by approximately $625 million.

"In announcing this action, Mr. McCabe, Chairman of the Board of Governors of the Federal Reserve System, stated that it was taken after full discussion by the Board and the Federal Open Market Committee of the coordination of policies with respect to reserve requirements, open market operations, and other System credit instruments, with primary regard to the general credit and business situation and the maintenance of orderly conditions in the Government security market."

Approval was also given to the following statement for publication in the Federal Register:

"This amendment is issued pursuant to the authority granted to the Board of Governors by section 19 of the Federal Reserve Act with primary regard to the general credit and business situation and the maintenance of orderly conditions in the Government security market. The notice and public procedure described in sections 4(a) and 4(b) of the Administrative Procedure Act, and the prior publication described in section 4(c) of such Act, are impracticable, unnecessary and contrary to the public interest in connection with this amendment for the reasons and good cause found as stated in section 262.2(e) of the Board's Rules of Procedure (Part 262), and especially because such notice, procedure and prior publication would prevent the action from becoming effective as promptly as necessary, and would serve no useful purpose."

Mr. Young, Associate Director, Division of Research and Statistics, presented a memorandum dated August 5, 1949, in which he reviewed the question of extending the stay in Manila of Mr. David L. Grove, an economist in the Division of Research and Statistics, on leave from the Board to act as adviser at the Central Bank of Philippines. The memorandum referred to the insistent request of the State Department that Mr. Grove's stay be prolonged at least until after the Philippine elections early in November and to the possibility that an adviser be found to succeed him.

The Secretary said that Mr. Szymczak, before he left on vacation, stated that as a compromise the Board might agree to an arrangement under which it would endeavor to find someone to go to Manila for the purpose of relieving Mr. Grove and Mr. Grove's stay would be extended for the necessary period after the arrival of the new man but not to exceed sixty days from August 26, 1949.

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The matter was considered in the light of the urgent request made by Mr. Myron M. Cowen, U. S. Ambassador to the Republic of the Philippines, and Mr. W. Walton Butterworth, Director for Far Eastern Affairs, Department of State, during a recent luncheon meeting with members of the Board, that Mr. Grove be permitted to remain until after the Philippine elections early in November, and after discussion, it was voted unanimously to advise the State Department and Mr. Cuaderno, Governor of the Central Bank of the Philippines, that the Board would extend Mr. Grove's stay for a maximum of three months from August 26, 1949, but that in the meantime the Board would endeavor to find someone to succeed Mr. Grove as adviser to the Central Bank for a more extended period, and that if this were done it would be understood that Mr. Grove would remain in Manila only a short time after the arrival of the new man and would not stay until the end of the three-months' period.

There were presented telegrams to the Federal Reserve Banks of New York, Philadelphia, Atlanta, Chicago, St. Louis, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on August 2, by the Federal Reserve Bank of St. Louis on August 3, and by the Federal Reserve Banks of New York, Philadelphia, Atlanta, and Chicago on August 4, 1949, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

At this point Messrs. Riefler, Vest, Thomas and, Young 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 August 4, 1949, were approved unanimously.

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

"In accordance with the request contained in your letter of August 2, 1949, the Board approves the appointment of John C. Morris, Jr., at present an assistant examiner, as an examiner for the Federal Reserve Bank of San Francisco. Please advise us of the date upon which the appointment becomes effective."

Approved unanimously.

Letter prepared for Chairman McCabe's signature to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, reading as follows:

"As you know, we have been studying here the suggestion contained in the correspondence from A. J. Kane, President of The First National Bank of Brewster, Minnesota, enclosed with your letter of April 13, 1949, that the Federal Reserve System set up a retirement system that might be operated for the benefit of member banks.

"While it is obvious that the Federal Reserve System could be of some service to some member banks in this connection, particularly the smaller banks, and it might encourage membership in the System and enhance the attractiveness of the banking field as a profession, it is believed that the following considerations, and perhaps others, would make this step an undesirable one notwithstanding the advantage that might accrue.

"There does not appear to be authority under the present law for the Federal Reserve System to set up and operate such a retirement system. This obstacle, of course, could be met by obtaining the necessary legislation from

"Congress but it is our view that strong objections would be raised to any such legislation as an attempt on the part of the System to embark in a field which was not originally contemplated when the Federal Reserve Act was enacted and which might be interpreted as an effort to obtain greater control over member banks and their personnel.

"Another point to be borne in mind would be that the System would be entering into competition with insurance companies and banks for the business of operating retirement system trusts. The administration of a retirement system for member banks poses a question as to who should operate the plan and foremost among the problems involved would be the administration and investment of the plan's funds.

"Many of the larger member banks have their own retirement systems and since it is doubtful that they would participate in a retirement system operated by the Federal Reserve System, there is no assurance that many banks would join a System plan. Furthermore, several State banking associations operate retirement systems for their members; in fact, the Minnesota Bankers Association already has such a plan. If a retirement system were to be established which would be made available to banks throughout the country, it should have the sponsorship of an organization which would be representative of all of the banks and it would seem to us that the American Bankers Association might be the logical group to look to for this purpose.

"While I must confess that the idea attracted me when it was first presented, and although it may seem strange to Mr. Kane that a Government organization in Washington would appear to be avoiding an opportunity to expand its activities, we have come to the conclusion that this is a task that it would not be appropriate for us to undertake."

Approved unanimously.

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

"Your wire August 5. Subject to the usual terms and conditions upon which you maintain accounts for

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"foreign central banks, Board approves the opening and maintenance of an account on your books for and in the name of the Union Bank of Burma if formally requested to do so.

"It is understood that you will offer participation in this account to the other Federal Reserve Banks."

Approved unanimously.

S R Carpenter
Secretary.

Approved:

Thomas B. McCabe
Chairman.