

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, September 19, 1949. The Board met in the Board Room at 2:45 p.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Leonard, Director, Division of Bank Operations
Mr. Thomas, Director, Division of Research and Statistics
Mr. Vest, General Counsel
Mr. Millard, Director, Division of Examinations

Before this meeting Chairman McCabe discussed with the available members of the Board the information that he had received from Mr. Sproul, President of the Federal Reserve Bank of New York, following the meeting of the Board on Friday, September 16, 1949, when consideration was given to the action of the directors of the New York Bank in reducing the discount rate of the Bank from 1-1/2 to 1-1/4 percent. Mr. Sproul had informed the Chairman that when he recommended to the board of directors of the Bank on Thursday that the reduction be approved, he knew of the proposed announcement over the weekend of the devaluation of the British pound, that he had not disclosed that fact to the board of directors because of its confidential nature but had made his recommendation on other grounds including the economic situation and the view that the reduction was a logical step to be taken as

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part of the System's easier money policy initiated during the summer when reserve requirements were reduced.

At this meeting Chairman McCabe stated that Mr. Sproul felt strongly that the devaluation of foreign currencies was an additional strong reason for reducing the discount rate and that it would be better to announce the change immediately as a part of the System's program rather than to have the announcement come at a later time when it might appear that the reduction was being made to offset the effects of devaluation.

It was Chairman McCabe's opinion that immediate action was desirable as a part of the System's program as contemplated at the August meeting of the Federal Open Market Committee and as a part of the System's credit policy as agreed upon at that time for which devaluation of foreign currencies afforded an additional reason.

In the ensuing discussion, question was raised whether action should be taken before the Board had had an opportunity to discuss the matter with the Federal Advisory Council, and Chairman McCabe stated that while, as indicated at the meeting of the Board on Friday, there were reasons for not taking the action at this time, he felt that on balance it would be better to take immediate action on the grounds that, if there should be any adverse reactions to the devaluation of foreign currencies, action to reduce the rate a week or ten days from now would appear to be for the purpose of counteracting those reactions.

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In a further discussion, the other members of the Board present indicated agreement that action should be taken to reduce the discount rate.

Thereupon, in order to enable Chairman McCabe to keep another appointment, the meeting recessed with the understanding that it would reconvene later during the afternoon when Messrs. Eccles and Clayton could be present.

The meeting reconvened at 4:05 p.m. with the same attendance as at the earlier session except that Messrs. Eccles and Clayton were also present.

There was a further discussion of the action of the board of directors of the Federal Reserve Bank of New York in reducing the discount rate of the Bank, and in that connection reference was made to the statement submitted by the Federal Advisory Council on the subject of discount rates which was to be discussed by the Council with the Board at a joint meeting tomorrow morning.

Mr. Eccles stated that he did not see any relationship between the discount rate and the devaluation program, that the effects of the devaluation program would be long-term in nature, and that in the immediate future it might have no effect upon the domestic economy. He went on to say that if discount rates were now reduced, it would indicate that the Federal Reserve System wanted to cheapen money further, that the System was expecting further deflation, and that the move was being taken as a means of counteracting such deflation. He

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also said that for several weeks economic activity and bank loans had been expanding, that it was not clear whether this expansion would continue or be reversed, and that he did not feel a reduction in discount rates should be made in anticipation of a possible downturn which might not take place. Continuing, Mr. Eccles said that irrespective of the economic effects of devaluation, there were some reasons which might now justify a reduction of $1/8$ percent in discount rates in order to bring them more into line with short-term rates established in the market since action was taken by the System late in June to make credit more readily available. He suggested that the matter be taken up with the other Federal Reserve Banks, that it be discussed with the Federal Advisory Council at the meeting of the Council with the Board tomorrow, and that after the discussions, consideration be given by the Board to whether some reduction in the discount rate, perhaps $1/8$ percent instead of $1/4$ percent, should be made in line with the prevailing rate on certificates in the short-term Government securities market.

Chairman McCabe stated again that if a reduction in discount rates were to be made as part of the System's easier credit program, it seemed to him that it would be better to take such action immediately rather than to wait a week or two when any repercussions of the devaluation of foreign currencies might have become evident and when it would appear as though the Federal Reserve System was taking

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the step as a means of counteracting the effects of devaluation. He added that it would have been preferable to reduce the rate before the weekend, that the longer the reduction was delayed the less desirable it would be, and that he would favor approval today of the action of the New York Bank directors.

Mr. Thomas stated that last week he thought on balance that the argument was against a reduction in discount rates although a pretty good argument could be made either for or against the action. He added it seemed to him that in the long run foreign currency devaluation should have beneficial effects on the whole world situation, but that in the short run it might cause hesitance, particularly in the domestic situation, by causing declines in prices of those things the United States buys and sells in world markets. He added that if a reduction in discount rates was going to be made it would be better to take action now, that such action would do no harm and would not lead to a resumption of inflationary pressures because the deflationary influence of currency devaluation would prevent that, and that if inflationary conditions should develop over the next few weeks in the domestic situation, a reduction in the discount rate now would pave the way for an increase a few weeks hence for the purpose of counteracting an undesirable expansion.

There was a general discussion of the relationship of foreign currency devaluation to the action proposed by the board of directors of the Federal Reserve Bank of New York and in the light of the views

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expressed by Chairman McCabe and Mr. Eccles earlier in this meeting.

Mr. Clayton suggested that having failed to take action on Friday of last week a reduction in the discount rate now after devaluation had been announced might be interpreted as an indication that the Board already was taking action to counteract the effects of deflation.

Mr. Szymczak stated that he had discussed the possible effects of devaluation with members of the staff this morning, that at the beginning of that discussion he had felt that no action should be taken to reduce discount rates, but that he had come to the conclusion that, separate and apart from the problem of devaluation, it had been expected by the public that the discount rate would be reduced as part of the policy the System had followed in recent months and that a reduction now would be consistent with that policy.

Mr. Eccles stated that inasmuch as the matter was to be discussed with the Federal Advisory Council tomorrow the members of the Council should be given an opportunity to be heard and that he would like to discuss the proposed reduction with the Presidents of the other Federal Reserve Banks and to act on the problem as a System decision. It was his thought that the matter could be discussed again on Wednesday, September 21, 1949, that the situation was not urgent enough to require action before that time, and that consideration should be given to whether the reduction, if made, should be 1/4 percent or 1/8 percent or whether the action should be taken in the form of a preferential discount rate on short-term Government securities.

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Chairman McCabe stated again the reasons for his view that action should be taken as promptly as possible and that if action were to be taken, the sooner it was taken the better particularly for the reason that the longer it was delayed the weaker the position for action would be.

During the discussion, Chairman McCabe called Mr. Sproul on the telephone and the latter reiterated the view that he had previously expressed that action should be taken immediately. He also said that his directors had considered whether the reduction should be $1/4$ or $1/8$ percent and had concluded that the larger reduction should be made because it put the discount rate more nearly in line with the current rate on certificates and a reduction of $1/8$ percent was too small to have any real significance.

The Chairman also called Messrs. Gidney and Williams, Presidents of the Federal Reserve Banks of Cleveland and Philadelphia, respectively, and, while they indicated that their directors would act to reduce the rate as part of a System program, Mr. Gidney questioned whether action should be taken at this time and Mr. Williams, having in mind the relationship of the Board with the Federal Advisory Council, advised against action until the matter had been discussed with the Council at its meeting tomorrow.

In a further conversation between Chairman McCabe and Mr. Sproul, the latter, upon being informed of the suggestion that the matter be discussed with the Federal Advisory Council before action was taken, expressed the view that action should be taken today, that

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the British markets were closed today, that the devaluation was one of the most dramatic things that had happened in 25 years, that it would be most logical if the announcement of a reduction in the discount rate could be made coincidental with currency devaluation, and that if action were taken later it would be interpreted as a move to counteract the adverse effects of deflation.

It appeared from the discussion that it was the view of three members of the Board that action should be deferred, that the matter should be discussed with the Federal Advisory Council tomorrow morning, and that the Board should consider the matter again at a meeting to be held tomorrow afternoon.

The suggestion was also made that the Presidents of the Federal Reserve Banks be advised by telephone of what had occurred and that their views be obtained for the information of the Board in connection with its further consideration of the matter tomorrow afternoon.

It was the unanimous view of the Board that this suggestion should be carried out.

At this point Messrs. Leonard, Thomas, Vest, and Millard withdrew, and the action stated with respect to each of the matters herein-after referred to was taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on September 16, 1949, were approved unanimously.

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Mr. Carpenter reported that the Comptroller of the Currency today advised that the next call on all national banks for reports of condition would not be made prior to October 1, 1949, and that in accordance with the usual practice, a call would be made simultaneously on behalf of the Board of Governors of the Federal Reserve System on all State member banks for reports of condition.

Approved unanimously.

Letter to Mr. Leach, President of the Federal Reserve Bank of Richmond, reading as follows:

"The Board of Governors approves the payment of salary to Mr. Roger W. Mercer as Vice President and Cashier of the Federal Reserve Bank of Richmond at the rate of \$11,000 per annum from September 8, 1949, through September 30, 1949, and at the rate of \$12,000 per annum effective October 1, 1949, through May 31, 1950. These rates, according to your letter of September 13, 1949, are the rates which were fixed by the Directors at their meeting on September 8, 1949."

Approved unanimously.

Letter prepared in accordance with a discussion at the meeting of the Board on September 16, 1949, to the Honorable Preston Delano, Comptroller of the Currency, reading as follows:

"There is enclosed herewith a copy of a Notice and Demand for Production of Papers in the Board's Files, received by the Board September 12, 1949, from the attorneys for Transamerica Corporation, in connection with the now pending Clayton Act proceeding involving the Corporation. You will observe that Item 7 of this Notice and Demand reads as follows:

'(7) A record, to the extent available in the files of the Board of Governors of the Federal

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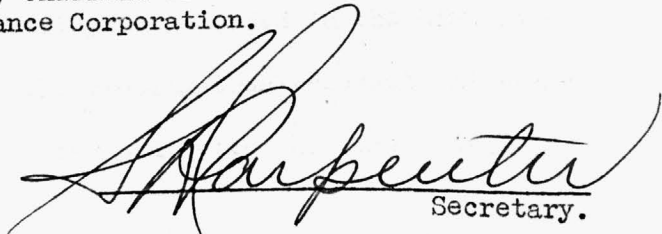
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"Reserve System, and to the extent that the same can be acquired if not available in those files, of the number of applications for permission to establish new national banks or to obtain federal deposit insurance for new state nonmember banks or to establish new branches of both of such classes of banks, filed with the office of the Comptroller of the Currency or the Federal Deposit Insurance Corporation each year during the period from December 31, 1938 to date, together with the action taken upon such applications. Such information is required for the United States as a whole and for each state in the Twelfth Federal Reserve District individually.'

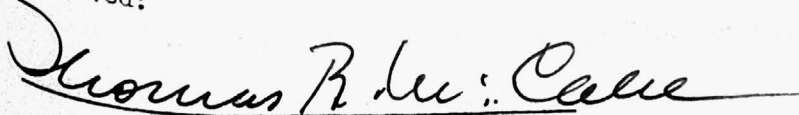
"The Board's files contain references to some of the applications referred to in Item 7 but are not believed to be complete in this respect. In order that the Board may decide upon a statement with reference to Item 7 to be included in an order to be issued by it pursuant to this notice and demand, we will appreciate being advised as to whether you are willing to supply us with the information indicated in Item 7 for transmission to Transamerica's attorneys or, if not, whether you would object to the Board's furnishing to them the information requested in Item 7 to the extent that it is available in the files of the Board.

"We wish to advise Transamerica in this matter as soon as possible and, accordingly, we will greatly appreciate hearing from you at your earliest convenience."

Approved unanimously, together with a similar letter to the Honorable Maple T. Harl, Chairman of the Federal Deposit Insurance Corporation.


Secretary.

Approved:


Chairman.