

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, September 20, 1949. The Board met in the Special Library at 9:35 a.m.

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

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 Bank Examinations

Before this meeting the Federal Advisory Council submitted a memorandum covering topics which were considered at a separate meeting of the Council on September 18 and 19, 1949, and which were to be discussed with the Board at a joint meeting to be held at 10:30 this morning. The Board considered the statements of the Council on the various topics and it was agreed that Chairman McCabe would state the views of the Board substantially as recorded in the minutes of the meeting with the Council. The meeting then recessed and reconvened in the Special Library at 2:40 p.m. with the same attendance as at the morning session.

There was a further full discussion of the reasons for and against approval of the reduced rates of discount and purchase fixed

9/20/49

-2-

by the Federal Reserve Bank of New York and considered at the meetings of the Board on September 16 and 19, 1949. Full consideration was given to the views expressed by the Federal Advisory Council at the joint meeting of the Council and the Board this morning.

It appeared from the discussion that Messrs. McCabe, Szymczak, and Draper favored approval of the rates established by the directors of the New York Bank and that Messrs. Eccles, Vardaman, and Clayton felt such rates should not be approved at this time. The reasons advanced for approving the lower rates were that (1) devaluation of British and other currencies over the weekend was an outstanding new factor in the situation which might tend to have a depressing effect on the domestic economy, (2) a reduction would be a logical part of the program agreed upon at the last meeting of the Federal Open Market Committee and was justified by existing conditions, (3) although there had been some indication of an upturn in economic activity in recent weeks, it was probable that the depressing effects of devaluation would be reflected in the domestic situation shortly and a move to reduce discount rates in anticipation of such a development would be a step toward keeping the economy strong, and (4) while action could not offset the effects of strikes it could establish a climate which would be more favorable to recovery from such effects.

The reasons advanced against a reduction in discount rates

9/20/49

-3-

at this time were that (1) the upturn in economic activity and in credit expansion during recent weeks had been sufficiently general to suggest the possibility of a resumption of inflationary conditions later on, (2) the elements that might be most depressing to the economy such as existing or prospective strikes in the coal, steel, railroad, and automobile industries, were not monetary in character and their effects could not be cured by monetary action, (3) there was no immediate relation between discount rates and devaluation, and a reduction in discount rates at this time would be a signal to the world that devaluation would have a depressing influence on the domestic economy which the System was trying to offset, and (4) a reduction in discount rates at the present time would use ammunition which might be needed later on if it turned out that monetary action was needed to counteract a resumption of a downward trend and credit contraction.

During the discussion, Mr. Carpenter reported his conversations with seven Presidents of the Federal Reserve Banks. He said that the Presidents with whom he talked indicated their directors would approve a reduction in the rate as a System program, that Messrs. McLarin and Gilbert of the Atlanta and Dallas Banks did not feel the matter was of great importance, and that Messrs. Peyton, Leedy, and Earhart of the Minneapolis, Kansas City, and San Francisco Banks were prepared to go ahead, Mr. Earhart stating that the availability of credit to dealers should be taken care of by lowering

9/20/49

-4-

the discount rate rather than by continuing the authority for re-purchase agreements. Mr. Carpenter also said that Mr. Young of Chicago and his directors were strongly opposed to a reduction in discount rates but that they probably would go along as a matter of System policy although Mr. Young questioned whether action should be taken so soon after devaluation, and that Mr. Davis of the St. Louis Bank felt that his directors were prepared to approve a reduction but that they would prefer to take action in October rather than lead out in action at their meeting next Thursday, September 22.

Chairman McCabe stated that Mr. Erickson of the Boston Bank felt a reduction in discount rates was logical but it would have been preferable if action could have been taken last Friday in conjunction with devaluation, that Mr. Williams of the Philadelphia Bank felt that the Board should not act until after it had met with the Federal Advisory Council and that he (Mr. Williams) was inclined to wait to see what the economic developments were before making a reduction, and that Mr. Leach of the Richmond Bank stated that he had considered the matter last week, that he concluded action should not be taken at that time, but that the devaluation altered the situation somewhat and he would be inclined to go along with a System move to reduce the rates. Mr. Gidney's views were reported at the meeting of the Board yesterday.

At the conclusion of the discussion it was understood that the matter would be discussed at the meeting of the executive committee of the Federal Open Market Committee to be held tomorrow morning on the

9/20/49

-5-

basis of the relationship of the discount rate to open market policy and that in the meantime Chairman McCabe would ascertain whether Mr. Evans wished to express any views on the matter. It was also understood that the Board would meet again following the meeting of the executive committee of the Federal Open Market Committee. At this point Messrs. Eccles and Clayton withdrew from the meeting. X

Reference was made to a draft of statement and order prepared by the Legal Division in response to the "Request for Formal Determination of Power to Issue Subpoenas and Applications for Subpoenas" filed by counsel for Transamerica Corporation under date of September 10, 1949. Mr. Vest stated that the order was in the same form in which it was discussed at the meeting on September 16, 1949.

Following a discussion, upon motion by Mr. Szymczak, unanimous approval was given to the following statement and order:

"UNITED STATES OF AMERICA
BEFORE THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
IN THE MATTER OF
TRANSAMERICA CORPORATION
STATEMENT AND ORDER ON RESPONDENT'S REQUEST
FOR FORMAL DETERMINATION OF POWER TO ISSUE
SUBPOENAS AND APPLICATION FOR SUBPOENAS

"Respondent has filed with the Board a request, dated September 10, 1949, entitled 'Request for Formal Determination of Power to Issue Subpoenas and Application for Subpoenas.'

"Responsive to respondent's request that the Board 'determine whether or not it has power to issue subpoenas requiring the attendance of witnesses and the production of documents upon application of respondent,' the Board is of the opinion, and hereby determines, that it has no power to issue subpoenas on behalf of the Board or on behalf of the respondent in a proceeding under the Clayton Act. In the circumstances, the Board has no

9/20/49

-6-

"alternative but to deny respondent's application for subpoenas.

ORDER

For the reasons set forth in the foregoing statement, it is ORDERED that:

1. The respondent be, and it hereby is, advised that the Board of Governors of the Federal Reserve System is of the opinion, and has determined, that the Board has no power to issue subpoenas requiring the attendance of witnesses or the production of documents in a proceeding instituted by the Board under the Clayton Act.

2. Respondent's application for the issuance of 50 subpoenas ad testificandum and 25 subpoenas duces tecum be, and it hereby is, denied.

"This 20th day of September, 1949.

"By the Board.

(signed) S. R. Carpenter,
S. R. Carpenter,
Secretary

(Seal)

"Governors Eccles and Clayton took no part in the consideration or decision of the request and application referred to in the foregoing statement and order."

At this point Messrs. Leonard, Thomas, Vest, and Millard 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 September 19, 1949, were approved unanimously.

Memorandum dated September 20, 1949, from Mr. Vest, General Counsel, recommending that the resignation of Mrs. Erma Lee Hufford, a stenographer in the Legal Division, be accepted to be effective, in accordance with her request, at the close of business September 30, 1949.

Approved unanimously.

Letter to Mr. Brainard, Federal Reserve Agent at the Federal

9/20/49

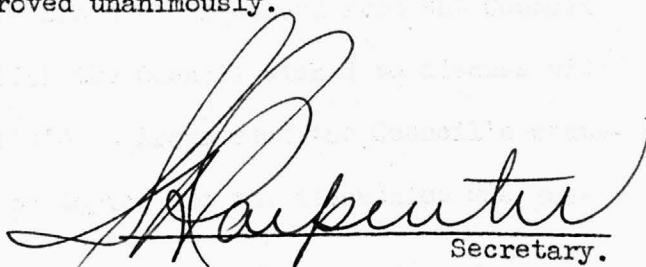
-7-

Reserve Bank of Cleveland, reading as follows:

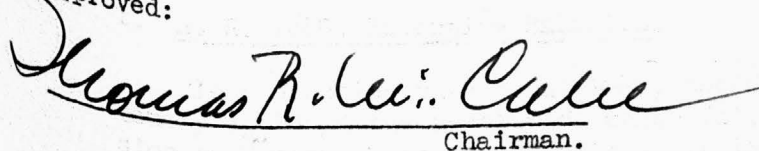
"In accordance with the request contained in your letter of September 15, 1949, the Board of Governors approves, effective October 1, 1949, the payment of salaries to the following members of the Federal Reserve Agent's staff at the rates indicated:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
	<u>Main Office</u>	
James K. Armstrong	Alternate Assistant Federal Reserve Agent	\$4,370
Lester J. Henk	Alternate Assistant Federal Reserve Agent	4,780
	<u>Cincinnati Branch</u>	
Harry H. Ostendorf	Federal Reserve Agent's Representative at Cincinnati Branch	4,900
W. Howard Marsh	Federal Reserve Agent's Representative at Cincinnati Branch	4,400
	<u>Pittsburgh Branch</u>	
Wm. J. Cosgrove	Federal Reserve Agent's Representative at Pittsburgh Branch	3,720
Gordon M. Trowbridge	Federal Reserve Agent's Representative at Pittsburgh Branch	3,900"

Approved unanimously.


Secretary.

Approved:


Chairman.