

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, October 7, 1949. The Board met in the Board room at 10:40 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Young, Director, Division of Research and Statistics
Mr. Solomon, Assistant General Counsel

Mr. Szymczak stated that he had received informal advice from the Federal Reserve Bank of New York that the United Nations had requested that Mr. Charles A. Coombs, a member of the staff of the New York Bank, be permitted to serve as a special financial consultant on the United Nations Economic Survey Mission for the Middle East and that the Bank proposed to make Mr. Coombs available for about two months, with the understanding that the United Nations would pay his salary and travel and subsistence expenses during the period of his absence from the Bank. Mr. Szymczak stated that no action on the matter was required by the Board at this time but that he understood a letter was being sent by the New York Bank to the Board concerning the request and that he would recommend approval of the action of the directors of the Bank upon receipt of the formal advice. The members of the Board present indicated they would have

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no objection to such an arrangement.

There were presented telegrams to the Federal Reserve Banks of Boston, Philadelphia, Richmond, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on October 4, by the Federal Reserve Bank of St. Louis on October 5, by the Federal Reserve Banks of Philadelphia, Richmond, Chicago, Minneapolis, Kansas City, and Dallas on October 6, 1949, and by the Federal Reserve Bank of Boston today of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Mr. Carpenter stated that word had been received from the Federal Reserve Bank of New York by telephone that a telegram with respect to action taken by the directors of that Bank on discount rates at a meeting yesterday was to be sent this morning but that it had not yet been received. In the course of a discussion of developments in the economic situation during recent weeks and the bearing of these developments on the question of a reduction in discount rates, Mr. Thomas stated that numerous indicators of trade and production were holding up surprisingly well, that the stock market was currently showing an increase in activity, and that downward price adjustments during the past month had been less than were generally anticipated might result from the devaluation of foreign

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currencies. He also stated that commercial loans had continued to expand but that he did not think the increase was as large as might ordinarily be expected at this season of the year.

Mr. Eccles stated that in view of the large volume of Treasury refunding to be undertaken in December and if there should be a tendency toward inflationary expansion during the interim period, it might be desirable to increase the market rate on certificates rather than reduce the discount rate and, therefore, it would be desirable to defer action on the discount rate until the trend over the next few weeks could be determined.

During the discussion, the telegram from Mr. Sproul referred to above and reading as follows was received:

"Our Board of Directors yesterday voted, subject to review and determination of the Board of Governors of the Federal Reserve System, to eliminate the rate of 1-1/2 percent on discounts for and advances to member banks under sections 13 and 13a and to establish a rate of 1-1/4 percent thereon, to eliminate the rate of 2 percent on advances to member banks under section 10(b), and to establish a rate of 1-3/4 percent thereon, to eliminate the minimum buying rates of 1-1/2 percent on bankers acceptances and 1-1/2 percent on trade acceptances, and to establish minimum buying rates of 1-1/4 percent thereon, and to eliminate the rate of not less than 1-3/8 percent in connection with purchases of government securities under resale agreement as authorized by the Federal Open Market Committee on August 5, 1949, and to establish a rate of 1-1/4 percent in connection with purchases of such securities under resale agreement as authorized by the executive committee of the Federal Open Market Committee at its meeting held January 20, 1948. Otherwise the Federal Reserve Bank of New York has today established without change the rates of discount and purchase in existing schedule.

"This action was taken after review of considerations prompting our earlier action, and of intervening events. In taking yesterday's action however, directors expressed the view that, if Board's favorable review and determination of

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"their action cannot now be had, no useful purpose would be served by continuing to press action upon your Board each week. Consequently, if Board does not now approve reduction of rate, our directors contemplate acting to reestablish existing rates at future meetings, unless and until there are further changes in the situation would affect possible discount rate policy. Would appreciate acknowledgment of this wire and advice of Board's action or lack of action."

The members of the Board who were present stated that their individual views as to whether the New York action should be approved had not changed since the matter was last discussed. Thereupon, Mr. Eccles suggested that in view of the recent discussions by the Board of the reduction proposed by the Federal Reserve Bank of New York, a telegram be sent to Mr. Sproul stating that the Board is not prepared at this time to approve the rates of discount and purchase fixed by the Board of Directors of the New York Bank at a meeting October 6, 1949, and action on the proposed rates is, therefore, being deferred, and that the Secretary be asked to call Mr. Sproul on the telephone and inform him that his wire would be given further consideration at a meeting early next week and that if there were any change in the Board's position in the matter he would be advised.

Mr. Draper stated that he was in favor of approving the action taken by the New York Board, but since it appeared that a majority of our Board would not uphold that action, he would move that Mr. Eccles' suggestion be approved.

Mr. Draper's motion was put by the Chair and carried unanimously.

At this point Mr. Young withdrew and Mr. Cherry, Assistant Counsel, entered the meeting.

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Reference was made to a memorandum from Mr. Cherry dated October 6, 1949, stating that the House Banking and Currency Committee was reporting a bill, H. R. 6316, to reduce the premium on Federal savings and loan insurance from 1/8th to 1/12th of 1 percent on insured savings accounts, that it would no doubt pass the House next week, and that the bill had a good chance of passing the Senate during the closing days of the session unless a successful effort was made to have it referred to the Senate Committee on Banking and Currency.

There followed a discussion of the position taken by the Board in previous years in opposition to such legislation and of the reasons why it would not now be desirable to make a reduction in the premium rate for savings and loan insurance at this time. Mr. Eccles suggested that a letter be prepared to Senator Maybank, Chairman of the Senate Banking and Currency Committee, asking that if the bill was passed by the House and was referred to the Senate steps be taken to have it referred to the Senate Banking and Currency Committee and that the Board be given an opportunity to express its views before action on the bill was taken by the Senate Committee.

Mr. Eccles' suggestion was approved, with the understanding that the proposed letter would be sent only if approved by Messrs. McCabe and Clayton upon their return to the office on Monday, October 10, 1949, and that Chairman McCabe would call Senator Maybank and inform him that the letter was being sent.

Secretary's Note: Messrs. McCabe and Clayton

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approved the letter prepared for Chairman McCabe's signature in accordance with this action, and it was sent to Senator Maybank on October 10, 1949, in the following form:

"The Board of Governors has noted that the House Banking and Currency Committee has reported a bill, H. R. 6316, which would reduce the Federal savings and loan premium rate from 1/8 to 1/12 of 1 percent on insured accounts. It is our understanding that there is some possibility that this bill will pass the House at the current session of Congress and will be referred to the Senate.

"The Board has asked me to suggest to you that, if the bill is passed by the House and sent to the Senate, the necessary steps be taken to have it referred to your Committee and that action on the bill be deferred by your Committee until the Board has had an opportunity to express its views. In this connection, it may be recalled that in a statement before the House Banking and Currency Committee on July 20, 1949, Mr. Divers, Chairman of the Home Loan Bank Board, made the comment that the reduction which would be effected by the bill would not be in accord with the program of the President."

Mr. Cherry withdrew from the meeting at this point.

Mr. Carpenter presented a draft of telegram to the Federal Reserve Bank of New York reading as follows:

"Your wire October 6. Board approves granting of loan or loans to Commonwealth Bank of Australia on terms and conditions outlined in your wire as follows:

- A. The amount to be advanced not to exceed \$15,000,000 in the aggregate at any one time outstanding; such loan or loans to be made up to 98 percent of the value of gold held in your vaults as collateral;
- B. Each such loan to run for a maximum period of 90 days;
- C. Any such loan to be requested and made on or before April 30, 1950;
- D. Each such loan to bear interest from the date it is made until paid at the discount rate of your bank in effect on the date on which such loan is made.

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"It is understood that the usual participation in any loan or loans will be offered to the other Federal Reserve Banks."

Approved unanimously.

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

Memorandum dated October 5, 1949, from Mr. Young, Director of the Division of Research and Statistics, recommending the appointment of Mrs. Hildreth P. Franklin as a clerk in that Division on a temporary indefinite basis with basic salary at the rate of \$2,498.28 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. Willett, First Vice President of the Federal Reserve Bank of Boston, reading as follows:

"The Board of Governors approves, as requested in your letter of October 3, 1949, the payment of salaries to the following employees at the rates indicated which are in excess of the maximums of the grades in which their jobs are classified.

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
Muriel M. Hokanson	Invoice Clerk	\$2,700
Daniel P. McCarthy	Block Corrector	2,940
Rose F. Plant	Floor Girl	1,316*
Agnes C. Odell	Tray Girl	1,316*

*part-time basis

Approved unanimously.

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

"In accordance with the request contained in your letter of October 4, 1949, the Board approves the designation of William H. Rose as a special assistant examiner for the Federal Reserve Bank of Richmond."

Approved unanimously.

Letter to Mr. Denmark, Vice President of the Federal Reserve Bank of Atlanta, reading as follows:

"In accordance with the request contained in your letter of October 4, 1949, the Board approves the designation of Edward E. Smith of the New Orleans Branch as a special assistant examiner for the Federal Reserve Bank of Atlanta."

Approved unanimously.

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

"Supplementing Board's October 5 telegram, the option to compute deficiencies in reserves over the six-day period ending on Tuesday, October 11, 1949, and an eight-day period ending on Wednesday of the following week, may be extended to member banks located in central reserve and reserve cities in States in which Columbus Day is not observed as a holiday, since Interdistrict Settlement Fund will be closed on that day. Same procedure may be observed in any other week in which Interdistrict Settlement Fund is closed on the last day of the weekly reserve computation period."

Approved unanimously.

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

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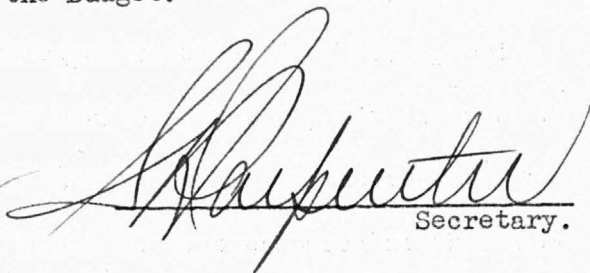
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"It appears that Public Law 211 - 81st Congress, providing for the insurance of military housing by the Federal Housing Administration failed to make the change in section 24 of the Federal Reserve Act which would be necessary in order to authorize national banks to make such loans.

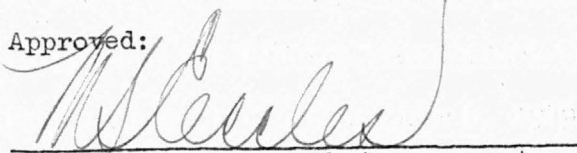
"It is further understood that in order to correct this omission, and also in order to take care of the fact that many such loans might be made upon real estate involving a long-term lease, it is proposed to enact separately a provision identical with that contained in section 304 of H. R. 6070 (as referred to your Committee on August 25, 1949) page 32, line 3 through line 22, except that the language in line 22 of such provision would be changed to read 'Title VI, or Title VIII.' instead of 'Title VI, Title VIII or section 8 of Title I'.

"The Board is pleased to advise you that it would have no objection to the adoption of such an amendment to section 24 of the Federal Reserve Act."

Approved unanimously, together with a similar letter to the Honorable Brent Spence, Chairman of the Committee on Banking and Currency, House of Representatives, and also a letter forwarding a copy of the above letter to the Honorable Frank Pace, Jr., Director of the Bureau of the Budget.


Secretary.

Approved:


Chairman pro tem.