Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, November 8, 1949. The Board met in the Board Room at 10:30 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Corkhum, Minutes Clerk, Office of the Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser
Mr. Leonard, Director, Division of Bank Operations
Mr. Vest, General Counsel
Mr. Young, Director, Division of Research and Statistics

Earlier this morning there had been sent to each member of the Board a draft of statement prepared by the Division of Research and Statistics in connection with the request in a letter from the President dated September 26, 1949, that the Board submit to him material for inclusion in the State of the Union Message and the Economic Report of the President to be presented to Congress in January 1950.

During a discussion of the draft, it was suggested that comments of the individual members of the Board and staff be submitted to Mr. Evans and that he, with the assistance of Messrs. Thurston and Thomas, prepare a final draft of statement which Chairman

McCabe would be authorized to transmit to the President.

The foregoing suggestion was approved unanimously.

Secretary's Note: Pursuant to the foregoing action, the following letter, prepared for Chairman McCabe's signature, was sent to the President under date of November 10, 1949:

"On behalf of the Federal Reserve System I want to express again our appreciation of the opportunity to suggest subjects for inclusion in your State of the Union message and your Economic Report to be submitted to Congress. As you know, the Federal Reserve, in view of its responsibility for monetary and credit policies, is particularly interested in economic conditions and Governmental policies that will contribute to the objectives of the Employment Act of 1946, namely, to promote the highest sustainable levels of employment and production. A year ago, as you will recall, you stated in your Economic Report:

"On previous occasions I have recommended that adequate means be provided in order that monetary authorities may at all times be in a position to carry out their traditional function of exerting effective restraint upon excessive credit expansion in an inflationary period and conversely of easing credit conditions in a time of deflationary pressures."

"In response to your previous request the Congress granted to the Reserve Board limited and temporary authority, which expired last June, covering reserve requirements for member banks only and also providing for regulation of consumer instalment credit. Abatement of inflationary pressures made the expiration of these two temporary measures less important than would otherwise have been the case. However, the Board cannot help being concerned by the subsequent excessive relaxation of terms upon which consumer durable goods are being sold today, frequently with no down payments whatever being required and instalments being spread over longer and longer periods of time. This does not make for "sound credit conditions.

"For the purposes of your message it would be consistent and appropriate to reiterate what you said in the above-quoted general statement. While the Federal Reserve System is better prepared today than ever before to meet the credit needs of business, industry and agriculture in a downswing, it continues to be inadequately forearmed to deal with excesses on a upswing. Present bank reserve requirements, which are a necessary instrument for making monetary policies effective through open market operations and discount rates, are archaic, ineffective, and entirely inequitable. It would again sound a note of reassurance, I believe, if your message referred to the fact that the Federal Reserve is in a better position than ever before to deal with problems in a downswing and if you were to recommend that Congress consider modernizing and improving means of restraining excessive credit expansion in a boom period.

"This will form a background so that if the auspices are favorable we may be able later on to present appropriate legislative proposals for dealing with the various aspects of this problem.

"Although any survey of the economic situation covers ground that you have already traversed, I am venturing nevertheless to include the following general statement to set forth some matters for consideration since they bear particularly on the interests and responsibilities of the Federal Reserve.

"Credit Situation.- While I have touched on this subject above, you may wish to bear in mind that the Joint Committee on the Economic Report is conducting through a subcommittee a general inquiry into the effectiveness and coordination of monetary, credit and fiscal policies and their bearing on our ability to achieve the purposes of the Employment Act. The subcommittee, of which Senator Douglas is Chairman, expects to report to the Congress early in the new year. In response to the Committee's questionnaire I have given my own views as to the general recommendations I would make to put the Reserve System in a better position to fulfill its functions.

"Credit expansion to private borrowers, which contributed to postwar inflationary pressures through "the third quarter of 1948, slackened substantially toward the end of that year, partly as a result of restraints exerted by Governmental authorities together with voluntary action on the part of banks. Early in 1949, total bank loans were sharply reduced, reflecting a large contraction in loans to businesses and leveling off in the volume of other kinds of loans. While business loans usually undergo some seasonal contraction over the first half of the year, the decline in 1949 was much greater than normal and appeared to reflect in part the receding volume of general business activity. In view of this situation, the Federal Reserve took a series of steps to relax measures of monetary and credit restraint adopted earlier to combat inflation. In February and again in March the Board announced a liberalization of maximum terms for consumer instalment credit. Margin requirements for purchasing or carrying listed stocks were lowered in March. In April the Board announced the first of a series of reductions in member bank reserve requirements; other reductions were made in June, August and September.

"Easing of the demand for credit in late 1948 reduced greatly the amount of long-term Government securities being offered for sale in the market, particularly by institutional investors. Prices of Government bonds were again firm without Federal Reserve support. By mid-1949, general credit developments and conditions in the Government securities market enabled the Federal Open Market Committee to adopt a more flexible open market policy for dealing with changing credit conditions.

"Reductions in reserve requirements released a substantial volume of member banks reserves for lending and investing, and led to declines in interest rates and bond yields. During the late summer and autumn, credit expansion gave support to resurgence in economic activity. Credit is currently available on very easy terms to qualified borrowers.

"Recent Economic Developments. - In 1949, production, employment, income, and living standards in the United States continued at levels not far below the peaks of 1948, notwithstanding adjustments in "commodity prices and in inventory positions following abatement of strong inflationary pressures. Declines during the first half of the year in prices, especially of agricultural and industrial materials, and in activity, chiefly at factories and mines and on the railroads, did not lead to a prolonged downward movement. In the last quarter economic conditions in many ways were better than in mid-year. Thus, the great strength of the postwar economy of the United States was again demonstrated. New hope was generated that the economy could go forward to higher levels of activity and improved living standards without major interruptions.

"We cannot be unmindful of the fact that the financial aid given to other nations in our efforts to promote economic and political conditions conducive to world peace has a decisive influence upon the domestic economy, calling for leadership and understanding on the part of industry, labor, agriculture and other groups commensurate with the great responsibility the nation bears in the world of today.

"In our highly dynamic society, especially after a long period of high activity, economic conditions cannot be static. Constant adjustments are necessary. We shall need to call upon all the ingenuity at our command to adjust to ever-changing conditions by restraining forces that, left to themselves, would generate either intolerable inactivity and unemployment or inflationary excesses which, in turn, bring ultimate disaster.

"While at the moment the situation does not call for broad, new policy action either to restrict or to strengthen demand, we should anticipate and be prepared for the changes which a dynamic and growing economy like ours is constantly undergoing. Among the questions to which attention should be given are these:

(1) What further steps should be taken to promote a lasting and expanding international trade that will make for better living standards and peaceful conditions in the world? To this end, the United States can make the greatest contribution through steadily increasing productivity and distribution of the national income

"stream in such a way that the American people are able not only to buy the fruits of their own labors but also goods and services of other countries. The objective of well balanced international trade can best be fostered in this way. In the long run, continuation of a large volume of exports of American goods depends upon absorbing a corresponding volume of imports, or upon indefinite assistance to foreign countries through grants and loans since this is the only other way in which they can obtain the dollars needed to buy American goods and services.

(2) What policies should be followed both in and out of Government to maintain balance between production and demand, and between prices and costs? In order to sustain a high level of production and employment, consideration will need to be given to the effects of the diminishing backlogs of demand, to growing excesses in crop supplies, to the effects of increases in wage rates or in profits, and to factors affecting the volume of spending and investment.

(3) What can be done to improve the fiscal position of the Federal Government so that the expenses of the essential activities of the Government can be fully met in prosperous times out of current tax receipts? Moreover, in periods of high economic activity it would be desirable to reduce the large public debt.

"This Administration has constantly reiterated the principle that revenues should cover expenditures in a time of full employment and production. In practice, it applied the postwar surplus as effectively as possible against inflationary forces and indeed this was by far the most important single weapon in combating these dangers.

"In discussing the impact of taxes, particularly with reference to equity capital, I ventured to suggest recently in a personal statement prepared at the request of a Senate subcommittee on Banking and Currency that Congress might well initiate a thorough review of the tax situation and stated that 'unfortunately, there never seems to be a convenient time for such a basic review of the tax structure.' Recognizing all of the "surrounding circumstances that militate against tax revision, it may, nevertheless, be timely to consider recommending a prompt review by Congress. With a view to increasing revenues specific consideration might be given to corporate tax structure changes that would induce increased disbursement of profits to stockholders in whose hands the funds would, of course, be taxable, as well as to some other loopholes which have not already been closed.

"Finally, it seems to me that uncertainty over and agitation for a change in gold policy could be most effectively dealt with by an emphatic statement of the President to the effect that the Administration does not propose to depart from the present established price of $35 an ounce for gold and that there is no reason whatsoever for any change in the gold policy of the United States in any respect."

Reference was made to a topic submitted by the Federal Advisory Council for discussion at the meeting of the Council and the Board on Tuesday, November 15, 1949, with respect to the proposal that currency be made redeemable in gold coin and specifically with respect to H.R. 3262, a bill introduced in the Eighty-first Congress by Congressman Reed as the "Gold Standard Act of 1949".

During a discussion of the topic it was suggested that the statement be made at the joint meeting of the Board and the Council that Chairman McCabe's reply to the questionnaire received from the Douglas subcommittee of the Joint Committee on the Economic Report on this subject represented the views of the Board.

This suggestion was approved unanimously.

At this point all of the members of the staff with the exception of Mr. Carpenter withdrew from the meeting.

Mr. Szymczak stated that the Personnel Committee had been giving consideration to what further changes should be made in the salaries of heads and assistant heads of the divisions of the Board's staff and would recommend that the Board give consideration to certain changes.

The increases which the Personnel Committee had in mind were presented by Mr. Szymczak and after a full discussion it was voted unanimously to approve, effective immediately, (1) a change in the designation of Mr. Murff, who has been in charge of the road force, from Federal Reserve Examiner to Chief Field Examiner, and (2) increases in the salaries of the following:

	From	To
Mr. Leonard, Director of the Division of Bank Operations	$13,500	$15,000
Mr. Millard, Director of the Division of Examinations	12,000	13,500
Mr. Nelson, Director of the Division of Personnel Administration	11,500	12,000
Mr. Bethea, Director of the Division of Administrative Services	10,500	11,500
Mr. Hostrup, Assistant Director of the Division of Examinations	9,500	10,500
Mr. Murff, Chief Field Examiner	10,250	10,500

Unanimous approval was also given to a recommendation contained in a memorandum dated November 7, 1949, from Mr. Nelson, Director of the Division of Personnel Administration, that the salary of Mr. Dwight Allen, Personnel Assistant, be increased from the rate of $5,600 to

$6,000 per annum, effective as of the beginning of the next payroll period.

There ensued a discussion of some of the individuals who had been considered by the Personnel Committee for appointment as a Class C Director of the Federal Reserve Bank of St. Louis for the unexpired portion of the term ending December 31, 1951, and of other suggested changes in personnel at Federal Reserve Banks.

At the conclusion of the discussion, Mr. Vardaman moved that the Board authorize Chairman McCabe to recommend an individual for appointment as a Class C director at St. Louis, with the understanding that the individual recommended by Chairman McCabe would be appointed by the Board.

The motion was put by the Chair and carried unanimously.

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 November 7, 1949, were approved unanimously.

Memorandum dated November 7, 1949, from Mr. Nelson, Director of the Division of Personnel Administration, recommending the appointment of Mrs. Daisy Mason Butler as substitute maid in that Division with basic salary at the rate of $8.40 for each calendar day worked, effective November 13, 1949, after having passed the usual physical examination.

Approved unanimously.

Letter to the "First National Bank of Temple", Temple, Texas, reading as follows:

"The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers, and grants you authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of Texas, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

"This letter will be your authority to exercise the fiduciary powers granted by the Board pending the preparation of a formal certificate covering such authorization, which will be forwarded to you in due course."

Approved unanimously, for transmission through the Federal Reserve Bank of Dallas.

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

"This relates to the procedure for the cancellation of Federal Reserve Bank stock held by a member bank which is placed in voluntary liquidation in connection with a transaction in which the Federal Deposit Insurance Corporation extends financial aid in accordance with section 12B(n)(4) of the Federal Reserve Act and the Corporation acquires certain assets of the Member bank, including the right to the proceeds of the Bank's Federal Reserve Bank stock.

"The Federal Deposit Insurance Corporation desires that the proceeds of the Federal Reserve Bank stock be paid directly to it in these cases. With this in view, the Corporation, in a few instances, has had itself or its representative designated as the member bank's agent to make application for the cancellation of the Federal Reserve Bank stock and to receive the proceeds of the stock. In the light of questions raised by one of the Federal Reserve Banks, we have discussed this matter with representatives of the Federal Deposit Insurance Corporation, and we have been advised that, if it is acceptable to the Board, the Corporation will utilize the following procedure in all future cases of this character: The application for the cancellation of the Federal Reserve Bank stock will be made by the liquidating agent or committee of the member bank in the usual manner on Form 86. The application, however, will be accompanied by an executed copy of the assignment of the proceeds of the stock to the Federal Deposit Insurance Corporation and by a letter signed by the liquidating agent or committee of the member bank directing the Federal Reserve Bank to pay the proceeds of the stock to the Corporation.

"We are today advising the Federal Deposit Insurance Corporation that the Board has no objection to the proposed procedure and to the payment of the proceeds of Federal Reserve Bank stock directly to the Corporation where this procedure is used."

Approved unanimously.

Letter to the Honorable J. W. Fulbright, United States Senate, reading as follows:

"This is in response to your letter of October 31, 1949, addressed to Chairman McCabe, with respect to the proposal contained in a letter received by you from Mr. H. S. Yocum of El Dorado, Arkansas, that the provision of the banking laws prohibiting national banks from holding real estate for a longer "period than five years be eliminated. Mr. Yocum suggests that a national bank should be permitted to hold real estate after the termination of five years where it is carried at only a nominal value.

"The limitation to which Mr. Yocum refers is contained in section 5137 of the Revised Statutes of the United States. That section prohibits a national bank from acquiring any real estate except (1) such real estate as shall be necessary for the bank's accommodation in the transaction of its business, i.e., bank premises, and (2) such real estate as may be acquired in connection with pre-existing debts owed to the bank. The five-year limitation applies to the latter class of real estate and is designed to allow a national bank a reasonable time for the liquidation of assets acquired in connection with pre-existing debts but to prevent the indefinite holding of such assets. The limitation recognizes the undesirability of banks' acquiring and retaining indefinitely the ownership of real property other than bank premises.

"The unwillingness of a bank in a particular instance to dispose of a building or other real property which has become a profitable income-producing asset is easily understandable. It is believed, however, that such instances are rare and that it would not be desirable to remove the statutory limitation in order to allow a relatively few banks to derive profit from a source of this kind which does not represent a normal banking operation. It should be borne in mind that such assets are acquired in connection with pre-existing debts held by the banks, and experience has proven that as a result of deterioration in market value, the realizable value of the property at the time of acquisition by the bank is seldom, if ever, as great as the amount which the bank originally loaned against it. Frequently, such assets continue to deteriorate in value or to require additional outlay for maintenance or improvement in order to make them salable. This is true whether or not the asset has been charged off on the books of the bank or is carried only at a nominal value.

"Moreover, it is possible that the removal of the five-year limitation would lead to an expansion of the "activities of national banks into fields unrelated to normal banking business. Some national banks might be inclined to retain and operate real properties which might, in certain circumstances, influence the banks' policies. Banks might thus be encouraged to speculate in real estate.

"It is our view, therefore, that the amendment proposed by Mr. Yocum would not be desirable in the interests of sound banking or in the interests of the public. Since the statutory provisions in question relate only to national banks, and hence are administered by the Office of the Comptroller of the Currency, it is suggested that you may wish also to obtain the views of that Office concerning the suggested amendment.

"In accordance with your request, Mr. Yocum's letter is returned herewith."

Approved unanimously.

Letter to Mr. Edward C. Gray, Executive Vice President, New York Stock Exchange, 11 Wall Street, New York, New York, reading as follows:

"In Mr. Carpenter's absence I wish to acknowledge and thank you for your letter of October 7 enclosing a summary of the data submitted by seventeen specialists on Form SPC as of September 30, 1949, with respect to arrangements with other brokers and banks for the extension of credit under section 4(g) of Regulation T and section 3(o) of Regulation U.

"As Mr. Solomon indicated over the telephone, we regret that the press of other matters has prevented our making an earlier reply regarding the proposed revision of Form SPC which you enclosed with your letter. Consideration has now been given to the proposed revised form, and we are pleased to advise you that the Board has no objection to the proposed revision."

Approved unanimously.

Letter to Mr. Ansgar R. Berge, Secretary and Assistant

Counsel of the Federal Reserve Bank of Boston, reading as follows:

"This refers to your letter of October 27, 1949 and enclosures, requesting a ruling from the Board with respect to an offering of stock which the State Street Investment Corporation, Boston, Massachusetts, contemplates making in December of this year, along the same lines as that offered to its shareholders in 1945 and 1946.

"It is understood that the Corporation contemplates that subscription rights, valid for a period of not more than forty days, will be issued to stockholders in December of this year permitting them to reinvest capital gains dividends of the last three years in the stock of the Corporation; and that the stock to be issued will approximate the value of the capital gains distributions of the last three years. It is noted that the Corporation has not issued any of its shares since January 1947 and there have been no redemptions of shares since that date.

"In the circumstances, the Board will not consider that the contemplated action of State Street Investment Corporation will bring the Corporation within the purview of section 32 of the Banking Act of 1933. However, any future offering of its stock will make necessary further consideration of the questions as to whether the Corporation is primarily engaged in the securities business within the meaning of section 32."

Approved unanimously.

S R Carpenter

Secretary.

Approved:

Thomas B. McCabe

Chairman.