

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, December 14, 1949.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Board

Minutes of actions taken by the Board of Governors of the Federal Reserve System on December 13, 1949, were approved unanimously.

Letter to Mr. Sproul, President of the Federal Reserve Bank of New York, reading as follows:

"Governor Szymczak has referred to the Board your letter of December 8 regarding arrangements for Dr. John H. Williams to accept the invitation of Mr. Robert Marjolin, Secretary General of the Organization for European Economic Cooperation in Paris, to sit in on discussions, lasting about six weeks in December and January, of the Organization's second Interim Report while it is being drafted. Dr. Williams' presence will undoubtedly be useful, and the Board concurs in your feeling that it is desirable to have continued access to the thinking and planning which is going on in Europe."

Approved unanimously.

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

"Reference is made to your telegram of December 12, 1949, regarding the request of the Union Bank of Michigan, Grand Rapids, Michigan, for a four months' extension of time within which the establishment of its proposed branch at Home Acres, Michigan, may be accomplished, under the approval granted by the Board of Governors on June 15,

12/14/49

-2-

"1949.

"In view of your recommendation, the Board extends to April 15, 1950, the time within which establishment of the branch may be accomplished."

Approved unanimously.

Letter prepared for Chairman McCabe's signature to the Honorable Burnet R. Maybank, Chairman, Senate Banking and Currency Committee, reading as follows:

"In your letter of January 14, 1949, you requested the Board's views concerning S. 80, a bill to increase the maximum insurance protection of depositors in insured banks from \$5,000 to \$15,000. In its reply, dated March 29, 1949, the Board expressed the opinion that it would not be advisable to consider action with respect to a change in the insurance coverage without due regard for related questions concerning the reduction or elimination of assessments on insured banks and revision of the basis for such assessments. The Board also stated that it had instituted a careful study with a view to placing itself in position to respond to any further inquiry that your Committee might wish to make with respect to the Federal deposit insurance program.

"In its letter of June 23, 1949, replying to a request by Mr. Joseph P. McMurray, Staff Director of your Committee, for the Board's views concerning S. 2094, a bill to increase the maximum deposit insurance protection from \$5,000 to \$10,000, the Board stated that the study of the deposit insurance program had not been completed and that it felt that it would be preferable to complete the study before commenting on S. 2094. Also, pending the completion of this study, we have deferred replying to a letter dated July 23, 1949, from Mr. McMurray, requesting the Board's views with respect to S. 2300, a bill relating to deposit insurance coverage and assessments, and S. 2307, a bill to eliminate the limitation upon the amount insured for any one depositor.

"The Board's staff has completed a study of the deposit insurance program and proposed changes in that program. This study has been circulated for comment to persons throughout the Federal Reserve System and now incorpo-

12/14/49

-3-

"rates many of their suggestions. A copy was also sent several weeks ago to the Federal Deposit Insurance Corporation.

"My reply to a questionnaire addressed to me by Senator Douglas, Chairman of the subcommittee of the Joint Committee on the Economic Report studying monetary, credit, and fiscal policies, contained some comments based upon the study prepared by the Board's staff. These comments were in part as follows:

'When the insurance program was established there was little experience and information on which to develop a genuine basis for insuring bank depositors against loss. At that time, consequently, insurance coverage, rates of assessment, and the assessment base all had to be set more or less arbitrarily. We now have more than 15 years of successful experience in operating a national deposit insurance program. During this period our economy and our banking structure have undergone great changes. In view of our experience with deposit insurance and the important changes that have occurred over the past decade and a half, it seems appropriate to review and perhaps to revise certain of the judgments that were originally made with respect to deposit insurance.

'There are several points at issue which might be considered in connection with such a reappraisal. The \$5,000 limit of deposit insurance coverage which was established when the program was set up has not been revised, but in the interim the price level has doubled, the average deposit account has more than doubled, and total bank deposits and average per capita income have nearly quadrupled. The rate of assessment burden on banks for deposit insurance has not been changed since 1935, although subsequent changes in the banking system have tremendously reduced the possibility of another major banking crisis and in every year of operation assessment receipts of the FDIC have dwarfed its nominal losses. If the deposit insurance reserve is not to be increased indefinitely, the insurance assessment rate should be geared to actual loss experience.

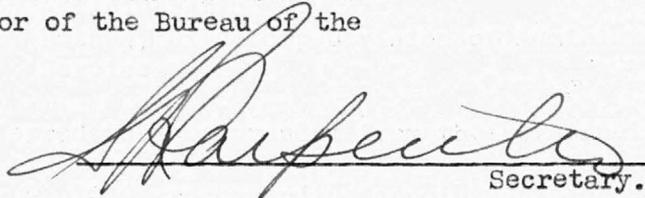
12/14/49

-4-

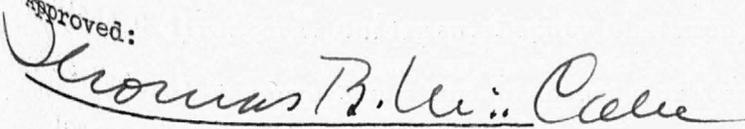
"Some months ago the Board was asked by Congress for an expression of views concerning proposed legislation regarding the deposit insurance program, and accordingly the Board asked its staff to undertake a study of certain aspects of the program. This study has been circulated for comment to persons throughout the Federal Reserve System and now incorporates many of their suggestions. A copy was also sent several weeks ago to the Federal Deposit Insurance Corporation. In view of that agency's primary responsibility, I am naturally hesitant about offering a more specific answer to the Committee's question regarding deposit insurance until I have had the benefit of their review."

"The Board hopes that the foregoing general comments may be of some help to your Committee in studying the deposit insurance program."

Approved unanimously, with the understanding that copies of the above letter would be sent to the Director of the Bureau of the Budget.


Secretary.

Approved:


Chairman.