

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, February 10, 1950. The Board met in the Board Room at 10:50 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, 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. Vest, General Counsel
Mr. Young, Director, Division of Research and Statistics
Mr. Horbett, Assistant Director, Division of Bank Operations
Mr. Noyes, Assistant to the Director, Division of Research and Statistics
Mr. Anderson, Economist, Division of Research and Statistics
Mr. Collier, Technical Assistant, Division of Bank Operations

There were presented telegrams to the Federal Reserve Banks of Boston, New York, Cleveland, Richmond, Atlanta, 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 February 7, by the Federal Reserve Banks of New York, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas on February 9, 1950, and by the Federal Reserve Bank of Boston today of the rates of discount and purchase in their existing schedules.

2/10/50

-2-

Approved unanimously.

Chairman McCabe stated that late yesterday afternoon he received a request from the Senate Banking and Currency Committee that he testify before the Committee in connection with pending housing legislation. Chairman McCabe also said that this morning he discussed the matter with Senator Robertson who thought it would be sufficient if the Chairman filed a statement, and with Senator Maybank who would be agreeable to the filing of a statement but felt that the Committee had in mind that the Chairman would appear personally. Chairman McCabe added that he had sent a wire to the Federal Reserve Banks asking for their views on the matter, that he planned to call a number of insurance executives and others for the purpose of getting their views, and that he would discuss the problem with Mr. Foley, Administrator, Housing and Home Finance Agency, at luncheon on February 13.

There followed a discussion of the request, during which it was the consensus that it would be preferable to submit a statement without oral testimony if that was acceptable to the Committee. There was also a discussion of the form the statement might take and it was understood that the staff would prepare a draft of testimony for consideration by the Board at a meeting on Tuesday, February 14, 1950.

Chairman McCabe then stated that he had been invited to attend a dinner in New York City tonight to be given by LeRoy Lincoln, President of the Metropolitan Life Insurance Company, for the purpose of

2/10/50

-3-

discussing informally the bill, S. 2975, introduced by Senator O'Mahoney to provide equity capital banks to be operated in each Federal Reserve Bank or branch territory. He stated that Senator O'Mahoney had called him on the telephone and urged that he attend the dinner at which Senator O'Mahoney would also be present. Chairman McCabe outlined the views which he might express informally in connection with the bill.

It was the consensus of the members of the Board that Chairman McCabe should use his judgment as to whether to attend the dinner and, if he did, to what extent he would discuss the bill.

In connection with above matter, Mr. Carpenter stated that yesterday the Board received formal requests from the Senate Banking and Currency Committee for reports on the O'Mahoney bill S. 2975, a bill to establish corporations to assist financial institutions in making credit available to commercial and industrial enterprises and to provide capital for such enterprises; the Maybank bill S. 2943, a bill to liberalize the lending policies of the Reconstruction Finance Corporation and of the Federal Reserve Banking System in favor of independent small business enterprises; and the Lucas bill S. 2947, a bill to amend the Reconstruction Finance Corporation Act in order to provide more effective financial assistance for small business.

Chairman McCabe then referred to the letter sent to Maurice C. Sparling, President of the National Association of Supervisors of State Banks and Superintendent of Banks in California, under date of February

2/10/50

-4-

2, 1950, and stated that Mr. Sparling was expected in Washington on Monday and Tuesday of next week and that he would plan to have lunch at the Board's building on one of those days.

Before this meeting, there had been sent to each member of the Board a memorandum dated February 10, 1950, presenting "A Staff Study of the Problem of Legal Reserve Requirements of Member Banks", prepared pursuant to the discussion at the meeting on February 7, 1950.

Mr. Carpenter read the memorandum and there followed a discussion of its form and content. During the discussion, the view was expressed that the memorandum would serve as a basis for discussion of the problem with the Federal Advisory Council at its meeting with the Board on February 21, 1950, and it was suggested that copies of the memorandum, with such revisions in language as might be desirable in the light of the discussion during this meeting, should be sent to each member of the Federal Advisory Council, to the Secretary of the Council, and to the President of each Federal Reserve Bank.

Thereupon, unanimous approval was given to a letter to members of the Federal Advisory Council as follows:

"You will recall that at the meeting of the Federal Advisory Council and the Board on November 15, 1949, one of the members suggested that the Council be afforded an opportunity for a full discussion with the Board of the proposal that the law relating to reserve requirements be changed to provide that reserve requirements of a member bank be based on the character of its deposits rather than the location of the member bank.

"Subsequently the Board suggested to President Brown that, if agreeable to the members of the Council, this subject be made

2/10/50

-5-

"the first item on the agenda for the joint meeting of the Council and the Board on February 21, 1950, and that the whole morning be devoted to a discussion of the topic. It is our understanding that no other topics have been suggested for the meeting, that arrangements have been made for the Council to discuss the matter at its separate meeting on February 19, with members of the Board's staff on Monday, February 20, and with the Board on the morning of February 21, and that any formal action that the Council might take will be deferred until a later meeting.

"In connection with the above program, the Board requested its staff to prepare a memorandum setting forth the proposal that might be made with respect to changes in reserve requirements and how the proposal would affect individual banks. A copy of the memorandum prepared by the staff in response to this request is attached. It does not represent the conclusive views of the staff and the Board has not considered or taken a position with respect to the proposal contained therein. It will be appreciated if you will regard the memorandum as being for your confidential information and as a basis for the discussion at the joint meeting of the Board and the Council. The Board has not yet had the benefit of the views of the Federal Reserve Banks on the proposal. A copy of the staff memorandum is being sent today to the Presidents of the Federal Reserve Banks for their information.

"As stated in the memorandum, the suggested plan has many advantages but at the same time there appear to be practical difficulties incident to its introduction. Therefore, the purpose of the discussion with the Council is not to urge the adoption of this or any other proposal but to have a full and frank discussion of the matter with the members of the Council as active bankers with the hope that a solution of the difficulties may be found and an agreement reached on a program of legislation which will adapt reserve requirements to present-day conditions.

"The Board has asked me to assure you of its appreciation of the willingness of the members of the Council to participate in a discussion of this important problem."

At this point Messrs. Horbett, Noyes, Anderson, and Collier withdrew from the meeting.

Chairman McCabe then read a letter from Mr. E. E. Brown, President of the Federal Advisory Council, dated February 6, 1950, as follows:

2/10/50

-6-

"On my return from Washington I find your letter of February first, about the bank holding company bill.

"The statements in your letter are correct as to the attitude of the Council, which considered pending Bill S. 2318. The provisions regarding tax exemption were stated to be satisfactory by members of the Council, who had gone over the provisions with their lawyers, and their statement was accepted by all the other members of the Council.

"The Federal Advisory Council stated that it desired an amendment providing that a bank would not become a bank holding company merely by reason of ownership of the stock of a trust company which did no commercial banking business. The Board stated it had tried to work this out with the banks primarily affected, but no formal amendment embodying this provision has been presented to the Council for its approval.

"I do not need to remind you that a new Council has been elected which has not yet met and organized and there will be five new members of the Council for 1950. I cannot of course speak as to their attitude. It is of course theoretically possible that the majority of the Council as presently constituted might take a different view of the bill. But I think this is unlikely."

He also reported that Colonel Wozencroft and representatives of the independent bankers associations, Messrs. Harry J. Harding, Ben DuBois, and E. E. Manuel, were coming to lunch with him today.

At this point Messrs. Riefler, Thomas, Vest, and Young withdrew, and the action stated with respect to each of the matters hereinafter set forth was taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on February 7, 1950, were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on February 8, 1950, were approved and the actions recorded therein were ratified unanimously.

Memorandum dated February 7, 1950, from Mr. Bethea, Director of

2/10/50

-7-

the Division of Administrative Services, recommending an increase in the basic salary of Thomas V. Kopfman, a clerk in that Division, from \$2,650 to \$2,810 per annum, effective February 19, 1950.

Approved unanimously.

Memoranda from the heads of the divisions indicated below recommending appointments to the staff in those divisions, effective as of the dates upon which the appointees enter upon the performance of their duties after having passed the usual physical examination:

<u>Memo</u>	<u>Name</u>	<u>Title</u>	<u>Salary</u>	<u>Duration of Appointment</u>
<u>ADMINISTRATIVE SERVICES</u>				
2/8/50	Howard W. Kushner	Telegraph Operator	\$3,035	Temporary (two months)
<u>EXAMINATIONS</u>				
2/8/50	Miss Betty Jean Plaughter	Stenographer	\$2,450	Permanent

Approved unanimously.

Letter to Mr. Earhart, President of the Federal Reserve Bank of San Francisco, reading as follows:

"On January 4, 1950 the Board of Governors approved the designation of Mr. H. F. Slade as the officer in charge of the Bank Examination Department. In order that our records may be complete the Board approves the appointment of Vice President Slade as an Examiner for the Federal Reserve Bank of San Francisco."

Approved unanimously.

Letter dated February 9, 1950, prepared in accordance with the action at the meeting of the Board on January 20, 1950, to Mr. Paul Grady, Price, Waterhouse & Co., 56 Pine Street, New York 5, New York, reading as follows:

"Reference is made to the informal discussions in the Board's offices on February 3 with Members of the Board and

2/10/50

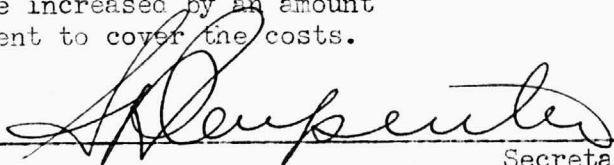
-3-

"staff in which you and Messrs. DeVos and Herz participated regarding the scope of the survey which the Board desires your firm to undertake at an early date.

"On the basis of these conversations the Board understands that your firm will survey the Board's budgetary and accounting system and make recommendations with respect to the adequacy of existing procedures, practices, and methods, including (1) whether the accounts should be kept on a functional instead of on a departmental basis; and (2) in what respects, if any, the preparation, presentation, and consideration of the Board's annual budget might be improved. It is also understood that the survey will be undertaken under your personal supervision, that you will use the assistance of other personnel of the firm as required and that the charges for this service will be computed at the same hourly rates as were charged by your firm in connection with its work for the Board in reviewing the functional expenses and other accounting reports submitted by the Federal Reserve Banks, plus reimbursement for any necessary traveling expenses that may be incurred.

"It is understood further that you will undertake this survey within approximately six weeks and that your report will be completed and submitted to the Board as promptly as possible. In this connection, it would be helpful if you would give us your best estimate as to the outside cost of such a survey and some indication when your report may be expected."

Approved unanimously, with the understanding that the appropriate item in the budget of the Division of Administrative Services, would be increased by an amount sufficient to cover the costs.


Secretary.

Approved:


Chairman.