

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, March 7, 1950. The Board met in the Board Room at 10:30 a.m.

PRESENT: Mr. McCabe, Chairman
Mr. Eccles
Mr. Szymczak
Mr. Draper
Mr. Evans
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. Leonard, Director, Division of Bank Operations
Mr. Vest, General Counsel
Mr. Nelson, Director, Division of Personnel Administration
Mr. Millard, Director, Division of Examinations
Mr. Townsend, Solicitor to the Board
Mr. Young, Director, Division of Research and Statistics
Mr. Solomon, Assistant General Counsel
Mr. Murff, Chief Field Examiner, Division of Examinations
Mr. Hackley, Assistant Counsel
Mr. Koch, Chief, Business Finance and Capital Markets Section, Division of Research and Statistics
Mr. Schmidt, Economist, Division of Research and Statistics

Before this meeting there had been sent to each member of the Board a memorandum from Mr. Young dated March 3, 1950, giving a background outline of the financing problem of small- and medium-sized business concerns and the principal provisions of the O'Mahoney

3/7/50

-2-

bill (S.2975) to provide for the establishment of corporations to facilitate the financing of such concerns.

Chairman McCabe stated that the purpose of this discussion was to bring the Board up to date on what was being done with respect to proposals for aiding small business in anticipation of a request that the Board testify at hearings in connection with the O'Mahoney bill or other similar measures. In this connection Mr. Vest referred to requests received by the Board for reports on this bill as well as on bills introduced by Senator Lucas (S.2947) and Senator Maybank (S.2943).

There followed a discussion of the possible need for financial assistance to small business concerns during which, at Chairman McCabe's request, Mr. Carpenter read a letter from William L. Day, Executive Vice President, The Pennsylvania Company for Banking and Trusts, Philadelphia, dated February 17, 1950, regarding the experience of that bank in making term loans to small business during the first month of operations under a newly launched program. In addition to giving figures of the number of interviews held and loans made, the letter stated that the bank felt there was a real need for wise and intelligent counsel for the small business concern and that perhaps the real requirement of the group was guidance rather than money.

3/7/50

-3-

In the course of the discussion it was suggested that the report to be prepared on the O'Mahoney bill or other small business legislation include a statement with respect to the basic economic problems involved in financing small business, including reference to the tax problem and to other matters having a bearing on the need for credit and the possible success of such enterprises.

Following the discussion it was agreed unanimously that the staff should prepare a draft of statement along the lines discussed at this meeting.

All of the members of the staff, with the exception of Messrs. Carpenter, Sherman, Nelson, Millard, and Murff, withdrew from the meeting at this point.

Mr. Millard stated that at the time of the examination by the Board's examiners of the Federal Reserve Bank of Minneapolis as of January 27, 1950, Chief Field Examiner Murff learned of activities of C. J. Larson, formerly assistant manager of the Helena Branch of that Bank, involving the misappropriation of funds by Mr. Larson from the Prescott Company which he served as bookkeeper while he was also in the employ of the Helena Branch, as well as of irregularities by Mr. Larson at the Conrad National Bank, Kalispell, Montana, between September 1948 and January 1950 while he was serving as executive vice president and cashier of that bank.

Mr. Millard then read portions of a memorandum which he had

3/7/50

-4-

prepared and sent to Chairman McCabe under date of February 14, 1950, reviewing in detail the activities of Mr. Larson and stating that on or about November 20, 1948, Mr. Towle, Vice President in charge of the Helena Branch, met with Mr. Larson and the senior partner of the accounting firm handling the accounts of the Prescott Company (a Towle family interest), at which time Mr. Larson admitted that he was short \$6,600 as claimed by the accounting firm and agreed to have a check for the full amount in the hands of the Prescott Company by November 30, 1948, the closing date of that company's fiscal year. Mr. Millard stated that, at Mr. Larson's request, the matter was held confidential, those present agreeing to this procedure with the understanding that in case anyone made direct inquiry of any member of the Prescott Company regarding the matter truthful statements would be made concerning it. In discussing his assent to such an agreement, Mr. Towle explained to the examiner in charge of the Helena Branch examination, Mr. Millard said, that his willingness to keep the incident secret was prompted by three considerations: (1) the misappropriation had no connection with Mr. Larson's activity at the Reserve Bank branch; (2) his desire to give Mr. Larson another chance, feeling that the latter had learned a lesson; and (3) since he (Mr. Towle) had never been asked for a letter of recommendation by the Conrad National Bank, although he had written a letter congratulating the bank on its

3/7/50

-5-

employment of Mr. Larson, he felt no compulsion to report to the president of that institution. About a year later, Mr. Millard said, it was brought to Mr. Towle's attention that Mr. Larson was not giving too good an account of himself at Kalispell, Mr. Towle having been informed in October 1949 by Albert A. Hoerr, former cashier of the Helena Branch and now Vice President of the National Bank of Commerce, Seattle, Washington, that the latter bank had loaned Larson \$9,500 to buy a new home in Kalispell, that the note was then past due, and that Larson had failed to answer correspondence from Mr. Hoerr regarding the matter.

Mr. Millard went on to say that by late December 1949 Mr. Towle was in possession of such information regarding Mr. Larson that he requested President Edmiston of the Conrad National Bank to come to Helena for a conference. Mr. Edmiston, being ill, sent his son, an assistant cashier of the Conrad National Bank, and as a result of the discussion Mr. Edmiston requested Mr. Towle's assistance in securing an immediate examination of the Conrad National Bank. Mr. Towle talked with President Peyton of the Minneapolis Bank by telephone on January 5 and 6, 1950, and on January 6 told Mr. Peyton that he had personal knowledge of a situation concerning Larson which he believed would warrant an accelerated examination. Mr. Millard stated that although Mr. Towle acted with some degree of promptness upon being informed of Larson's

3/7/50

-6-

irregularities at the Conrad National Bank, nevertheless, by his willingness to comply with Larson's request in November 1948 that his peculations in connection with the Prescott Company be kept inviolate, Mr. Towle placed himself in a position where a period of more than 13 months elapsed during which he apparently did not think of the matter of possible exposure of the Helena Branch.

Mr. Millard added that the matter had been discussed thoroughly by Mr. Murff with Chairman Shepard, President Peyton, and Auditor Ohnstad of the Minneapolis Bank during the examination, that he (Mr. Millard) discussed it with Chairman Shepard when he was in Washington shortly after the middle of February, and that he also discussed it with President Peyton when he was in Washington last week.

Chairman McCabe stated that, with Messrs. Szymczak and Vardaman present, he discussed the matter by telephone with Chairman Shepard yesterday, that Mr. Shepard informed him that the Board of Directors of that Bank had reviewed it at length, and that in view of the fact that the report of the Chief Field Examiner had been sent to Washington, the directors felt the Board could give them direction and guidance as to the best way to handle it. He also stated that President Peyton was on vacation and that Chairman Shepard was just leaving Minneapolis on a trip, and he suggested to Chairman Shepard that he review the question with First Vice

3/7/50

-7-

President Powell and have him call Mr. Szymczak on the telephone for the purpose of discussing it further.

Mr. Szymczak stated that subsequently Mr. Powell called him and stated that he had talked with the three Minneapolis and St. Paul directors and that he would like to obtain all the facts concerning the matter prior to the next meeting of their directors to be held on April 13, 1950. Mr. Szymczak also said that he told Mr. Powell that if it was felt here that a special meeting of the Minneapolis directors would be desirable to consider the matter prior to April 13, he would be so advised.

In the ensuing discussion, there was general agreement with the view that the Board should not assume primary responsibility for the matter unless the Minneapolis Bank failed to take appropriate action promptly. It was suggested that, in the absence of President Peyton and Chairman Shepard, First Vice President Powell be informed by telephone and by letter that, if the facts given were correct, the Board felt that Mr. Towle, in failing to make known to the Conrad National Bank promptly his knowledge of Mr. Larson's irregularities, had failed to recognize and discharge the important responsibility resting on him as an officer of the Minneapolis Bank, and that the Board requested that the matter be presented to the directors of that Bank at the earliest practicable date so that appropriate action may be taken with the least possible

3/7/50

-8-

delay. It was suggested that Mr. Szymczak call Mr. Powell on the telephone and inform him fully of the Board's views and that the staff prepare a draft of letter to Mr. Powell for the consideration of the Board.

This suggestion was approved unanimously.

Secretary's Note: The following letter was approved by the members of the Board who were present and mailed under date of March 8, 1950, to Mr. Powell, First Vice President, Federal Reserve Bank of Minneapolis, marked air mail, personal, and confidential:

"This letter is being addressed to you in the absence of Messrs. Shepard and Peyton who, it is understood, are away from Minneapolis on vacation.

"All of the members of the Board have given careful consideration to the information made available to the Board's examiners during the examination of the Federal Reserve Bank of Minneapolis as of January 27, 1950, and subsequently by Messrs. Peyton and Shepard with respect to the situation surrounding the misappropriation by Mr. C. J. Larson of funds of the Prescott Company (a family interest of Mrs. Towle) while he was an officer of the Federal Reserve Bank of Minneapolis and of funds of The Conrad National Bank, Kalispell, Montana, while he was serving as Executive Vice President and Cashier of that institution.

"It appears from this information that Vice President R. E. Towle was aware as early as November 1948 that Mr. Larson had misappropriated funds belonging to the Prescott Company; that Mr. Towle did not feel it necessary to bring this fact to the attention of Mr. Peyton or to the attention of the directors of The Conrad National Bank; and that, knowing of the previous defalcation of Mr. Larson, Mr. Towle apparently made no effort to determine whether the \$6,600 received by the Prescott Company from Mr. Larson in November 1948 in restitution of misappropriated funds were moneys rightfully coming into his hands.

3/7/50

-9-

"It is the view of the Board that, if this information is correct, Mr. Towle has failed to recognize and to discharge the important responsibility resting on him as an officer of the Minneapolis Reserve Bank. In these circumstances, the Board requests that this letter be presented to the board of directors of your Bank at the earliest practicable date so that appropriate action may be taken with the least possible delay. The Board will await advice of the consideration given by your directors to the matter and if the Board can be of assistance in any way it will be glad to do so."

The meeting then recessed and reconvened at 2:40 p.m. with the same attendance as at the close of the morning session, except that Messrs. Nelson, Millard, and Murff were not present.

Mr. Eccles referred to the death of Mr. Lawrence Clayton, former member of the Board, on December 4, 1949 and to the benefits provided for Mr. Clayton's widow by the Civil Service Retirement System to which Mr. Clayton belonged. At Mr. Eccles request, Mr. Carpenter read a memorandum prepared by Mr. Vest, General Counsel, under date of February 23, 1950, which was as follows:

"You have requested that I state in a memorandum various considerations which might be taken into account by the Board in considering the possibility of a payment to Mrs. Clayton, the widow of the late Governor Clayton, in an amount equal, say, to three months' salary.

"Governor Clayton came with the Board in December 1934 as Assistant to the Governor, his title being changed in August 1935 to Assistant to the Chairman. He remained in that capacity until April 1945. He became a member of the Board in February 1947 and continued as such until his death in December 1949. Accordingly, except for a period of about two years, he was continuously associated with the Board for a period extending over about 14 years. Governor Clayton was a member of the Civil Service Retirement System and under this

3/7/50

-10-

"system his widow receives a small annuity for life (\$1,368 per annum). She will receive nothing from the Federal Reserve Retirement System and has, of course, received nothing from the Board of Governors except a small amount of accrued salary (\$167.11) which was due to Governor Clayton upon his death. I understand that while a small amount of insurance was left by Governor Clayton payable directly to his widow, she has voluntarily used a substantial portion of this insurance to pay obligations of the estate which otherwise might not have been met.

"Salaries of the members of the Board of Governors are fixed by statute and there is no authority in the law for an additional payment to any member of the Board or to his widow, although there is no express prohibition in the law on any such payment. The possibility, however, of anyone in authority raising the question as to the legality or propriety of such a payment, if made, seems very unlikely and accordingly the possibility of legal liability resulting to members of the Board seems even more unlikely as a practical matter.

"There are a number of equitable considerations which indicate the desirability and appropriateness of a payment of this kind.

"It happened that Governor Clayton died suddenly. If he had suffered a long illness, the Board would, of course, have paid his salary while a member of the Board and would have also had the expense of his secretary and other expenses of his office during such period. Thus in the case of the late Governor Ransom the Board paid these expenses over a very considerable time during his illness.

"Congress itself provides an important precedent in a matter of this kind. Whenever a Congressman or Senator dies, Congress appropriates an amount equal to one year's salary for the widow (\$12,500). This has been done for many years as a matter of routine. Congressmen and Senators are under the Civil Service Retirement System, as are members of the Board.

"There have been a number of cases where Board employees have retired and the Board, because of equitable and humanitarian considerations, has made a lump sum payment into the Retirement System to increase the amount of their retirement allowances. These amounts have been for only \$2,000 or \$3,000 or less, except in

3/7/50

-11-

"one case in 1946, where there was a very substantial payment.

"There have also been a number of cases in which officers of the Federal Reserve Banks have retired and the Board has approved lump sum payments, sometimes in rather large amounts, to supplement their retirement allowances.

"Governor Black of the Federal Reserve Bank of Atlanta, who served as Governor of the Federal Reserve Board during a part of 1933 and 1934, died in December 1934 shortly after returning to his position as head of the Atlanta Reserve Bank. Shortly thereafter the directors voted to pay Mrs. Black a lump sum of \$25,000 and the Board approved this payment.

"If Governor Clayton had been an officer of a Federal Reserve Bank and subject to the Federal Reserve Retirement System, his estate would have received at his death a lump sum equal to one year's salary plus the amount of his accumulated contributions, but, of course, his widow would not have been entitled in that event to any annuity such as is provided for her under the Civil Service Retirement Act.

"Under the law, when an employee of a Government agency dies, such employee's estate is paid salary covering the period of his accumulated annual leave; and this rule is applied also in the case of employees of the Board. In some cases this is as much as 90 days leave, but members do not, of course, accumulate annual leave, but if such a provision were applicable to Board members, it is probable that Governor Clayton would have had some accrued leave to his credit."

During the ensuing discussion, all of the members of the Board expressed themselves as favoring, for reasons which they stated, the payment to Mrs. Clayton by the Board of an amount equal to Mr. Clayton's salary for a period of three months.

Thereupon, upon motion by Mr. Evans and by unanimous vote, it was agreed that a payment in the amount equal to three month's salary or \$4,000 should be made to Mrs. Lawrence Clayton, with the under-

3/7/50

-12-

standing that the check would be made payable to her and delivered to Mr. Eccles and that he would look into the possibility of having the funds deposited in a bank or trust company in Boston, where Mrs. Clayton is now living, under an arrangement whereby they would be paid to her on a monthly basis. In taking this action, it was agreed that the appropriate item in the budget of the Board Members' Section would be increased by an amount sufficient to cover the payment.

Mr. Carpenter stated that word had been received this afternoon that the Senate Banking and Currency Committee had reported out a bill, S. 3105, to increase from \$10 million to \$25 million the amount authorized in section 10 of the Federal Reserve Act that could be spent in construction of Federal Reserve Bank branch buildings, but that it included a provision that such construction shall be of simple design, shall be deferred unless urgently needed for the efficient and economical operation of the branch, and shall be undertaken only when it will assist in relieving local unemployment. There was a brief discussion of the matter but no conclusion was reached with respect to it.

Mr. Nelson joined the meeting at this point.

Mr. Szymczak stated that pursuant to the request at the meeting of the Board on February 3, 1950, the Personnel Committee had reviewed the problems that would be involved in the appointment

3/7/50

-13-

of Presidents and First Vice Presidents of the Federal Reserve Banks for the term beginning March 1, 1951. He then stated the views of the Committee with respect to the situation at each Federal Reserve Bank and whether there were presently officers at the Banks qualified to succeed to these positions in 1951 or in future years.

The views expressed by Mr. Szymczak on behalf of the Personnel Committee were discussed at length and there follows a summary of the conclusions reached:

With respect to the Federal Reserve Bank of Boston, it was the consensus that Mr. Erickson, who became associated with that Bank in December 1948 and who will be 55 years of age on March 1, 1951, had been doing a good job as President since his appointment and it was assumed that the directors of the Bank would reappoint him, in which event the Board would see no reason for not approving the appointment. First Vice President Willett of that Bank would not be eligible for reappointment under the general policy of the Board, and would retire at the age of 65 years, 7 months. Officers to fill the vacancy would be available from within the Bank, the names of Messrs. Pitman, Latham, and Neal having been mentioned in this connection, the consensus being that Mr. Pitman would probably be the most logical person for the appointment as First Vice President for the five-year term beginning next year, at which time he would be 59 years, 4 months of age.

At the Federal Reserve Bank of New York, it was assumed that the New York directors would re-elect President Sproul whose service with the System began in 1920 and who will be 55 years of age next March and that his appointment as President would be readily approved by the Board. First Vice President Rounds (age 64 years, 9 months on March 1, 1951), who contemplates retirement next year, might continue to serve for a year or two if Mr. Sproul requested him to do so. In the event Mr. Rounds should not wish to continue as First Vice President even for a short period, it was felt that either Vice President Phelan

3/7/50

-14-

or Vice President Kimball would be qualified for the position, the consensus being that Mr. Phelan's appointment would be more suitable in 1951. At that time Mr. Phelan would be 58 years of age and Mr. Kimball would be 49 years of age.

Both President Williams (age 58 in March 1951) and First Vice President Davis (age 59 in March 1951) were expected to be reappointed and approved next year for an additional term in their respective offices at the Federal Reserve Bank of Philadelphia, and it was felt that material would be available from within the Bank to fill the positions in later years.

At the Cleveland Bank, President Gidney will have passed his 64th birthday next February, but it is known that the directors plan to re-elect him President for a five-year term and it was the view of the Board that, considering all the circumstances, Mr. Gidney's reappointment should be approved for the five-year term. First Vice President Fletcher, whose service with the System began in February 1918, will be 63 years, 3 months of age on March 1, 1951, and it was the view of the Board that his reappointment as First Vice President should be approved only if it were clearly understood that he would resign when he attained age 65 on December 1, 1952, or in no event later than the end of the calendar year 1952. In discussing a possible successor to Mr. Fletcher, the names of Vice Presidents Thompson and Fulton (ages 52 and 53, respectively, in March 1951) were mentioned without, however, a consensus as to a specific selection.

No change in the Presidency at Richmond was discussed, it being assumed that Mr. Leach (age 56 years on March 1, 1951, with service in the System since 1920) would be reappointed and approved by the Board for another five-year term. With respect to First Vice President Walden (service with the System since 1919 and almost 63 years of age in March 1951), it was the consensus that if he were to be reappointed, the Board should approve the appointment only if it were clearly understood at the time that he would resign upon attaining age 65 in April 1953, or in any event by the end of the calendar year 1953. It was also the consensus that

3/7/50

-15-

if it should be necessary to appoint a new First Vice President, Vice President Wayne, who will be almost 48 years of age in March 1951, would be qualified to step into the position at any time.

Following a discussion of the situation at the Federal Reserve Bank of Atlanta, it was the view of the Board that Chairman Neely should be informed at an early date that President McLarin (age 61 years, 5 months on March 1, 1951) should retire and a successor found not later than March 1, 1951. There was agreement that if former First Vice President Malcolm Bryan (age 48 years on March 1, 1951) would leave his present position as Vice Chairman of The Trust Company of Georgia, his appointment as President of the Atlanta Bank would be the best possible solution to the situation. If Mr. Bryan were not interested, the Board felt that a full investigation of the qualifications of Deputy Chairman Rufus C. Harris, who would be 54 years of age in March 1951, should be made. It was also the view of the Board that selection of a First Vice President at Atlanta depended on the selection of a President and that if the newly elected President wished the present First Vice President, Lewis M. Clark (age 56 years, 8 months in March 1951), to continue for a time so as to avoid simultaneous changes in the two top positions, the Board would consider such a suggestion. As to the future, it was felt that Winslow E. Pike (age 44 years, 8 months in March 1951), former General Auditor of the Atlanta Bank who recently resigned to become Vice President of The First National Bank of Atlanta, possibly would be interested and qualified. In discussing potential prospects from within the Bank, the name of Morgan L. Shaw (age 40 years in March 1951), now Assistant Manager at New Orleans, was mentioned although it was felt he might not be ready for the First Vice Presidency for some years. It was also felt that at a future date, consideration might be given to Harold T. Patterson, General Counsel, who entered the employ of the Bank in 1947 and who would be almost 48 years of age in March 1951.

In discussing the Chicago Bank, it was the consensus that President Young (age 60 years in March 1951),

3/7/50

-16-

who has served with the System since 1921, would be reappointed and that First Vice President Harris (age 56 years, 7 months in March 1951) would also be reappointed, and that these appointments would be approved by the Board. With respect to the future, it was felt that there were no promising prospects from within the Bank to succeed either Mr. Young or Mr. Harris and that this situation called for serious consideration by the directors of that Bank.

The re-election of President Davis (with the System since 1936 and age 63 years, 3 months on March 1, 1951) as President of the Federal Reserve Bank of St. Louis was taken for granted, with the feeling that his reappointment should be readily approved by the Board. The question at that Bank of who was to be appointed First Vice President to succeed Mr. Hitt was discussed and it was understood that this matter would be taken up with Chairman Dearmont at an early date. The Board felt there would be no objection to Mr. Attebery, Vice President, serving as First Vice President until he attained age 65 in August 1952 or until the end of that calendar year. The Board also indicated it would like to have the views of Chairman Dearmont as to Vice President Stead (age 52 years in March 1951) although it felt he would not complement President Davis, nor would he furnish the assistance in the operations of the Bank so greatly needed by President Davis. Mr. Vardaman also stated he would like to know more of the circumstances surrounding Mr. Stead's leaving Washington University. If the St. Louis Bank were to go outside for a man, the Board felt it might be desirable to draw from another Reserve Bank and mentioned as a possibility the name of D. C. Johns (age 52 years in March 1951), Vice President and General Counsel of the Federal Reserve Bank of Kansas City.

At the Minneapolis Bank, President Peyton will retire at the end of his present term, at which time he will be 65 years, 10 months of age. In the expectation that First Vice President Powell (age 54 years, 5 months in March 1951) would succeed Mr. Peyton, it would be necessary to select a new First Vice President, and it was the view of the Board that in terms of ability,

3/7/50

-17-

personality, and potential growth, Vice President McConnell (age 52 years, 1 month in March 1951) would be the most suitable officer within the Minneapolis Bank to succeed to the First Vice Presidency.

Both President Leedy (age 58 years in March 1951) and First Vice President Koppang (age 52 years in March 1951) were expected to be reappointed and approved for an additional term in their respective offices at the Federal Reserve Bank of Kansas City. It was the view of the Board that so long as Vice President and General Counsel Johns (age 52 years in March 1951) remained with the Bank, it would be well equipped with a potential successor for either the Presidency or the First Vice Presidency.

It was the consensus that a change in the Presidency should be made at the Federal Reserve Bank of Dallas by March 1, 1951, and the Board indicated that in no event would it approve reappointment of President Gilbert (age 62 years, 7 months in March 1951) except with a clear understanding that he would resign not later than August 1953 when he attained age 65, or by the end of that calendar year. The Board felt strongly that every effort should be made to obtain an outstanding person who could succeed Mr. Gilbert as President at the end of his present term, and it felt that since no such successor was in the employ of the Dallas Bank, it became a matter of finding the individual outside. It was felt that appointment of a First Vice President should depend upon the selection of a President, and it was the view of the Board that Mr. Gentry (age 57 years in March 1951) should be replaced but that if President Gilbert were replaced with a suitable person, it would be possible that the new President would prefer that Mr. Gentry continue for a time as First Vice President, rather than to have changes in both positions simultaneously. If an outstanding successor to Mr. Gilbert could not be obtained by March 1951 and it should turn out that he would serve a year or so longer, Mr. Gentry's reappointment would not be looked on with favor by the Board.

3/7/50

-18-

It was also indicated that there was no adequate successor for either of these positions available from within the Dallas Bank at the present time.

Both President Earhart (age 60 years, 7 months in March 1951) and First Vice President Mangels (age 54 years in March 1951) were expected to be reappointed and approved for an additional term in their respective positions at the Federal Reserve Bank of San Francisco. The Board felt, however, that while the Bank has a number of good operating officers who may succeed to the First Vice Presidency at a later date, it would be desirable to strengthen the staff from the standpoint of a potential President by bringing in, at senior officer level, an outstanding broad-gauge man from another Federal Reserve Bank, or from outside the System.

It was agreed unanimously that Messrs. McCabe and Szymczak would determine how the necessary preliminary discussions of such of the above matters as require discussion should be initiated with the Federal Reserve Banks.

At this point Mr. Nelson 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 March 3, 1950, were approved unanimously.

Memorandum dated March 6, 1950, from Mr. Bethea, Director of the Division of Administrative Services, recommending increases in the basic annual salaries of the following employees in that Division, effective March 19, 1950:

3/7/50

-19-

Name	Title	Salary Increase	
		From	To
Karl J. Steger	General Mechanic	\$3,125	\$3,225
Bricen Barnes	Operator (Mimeograph)	2,770	2,850
Dolores Ann Winkler	Stenographer	2,650	2,730
Clara Ray Cooke	Charwoman	2,470	2,540
Evelyn M. Lewis	Elevator Operator	2,330	2,400

Approved unanimously.

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

"Enclosed is a letter of the Board of Governors authorizing Bank of America, New York, New York, to establish branches at Bremen, Frankfurt a. Main, and Hamburg, Germany, which you will please deliver to the bank. A copy of this letter is enclosed for your files.

"Please ask Bank of America to note that the authority to establish the branches will automatically terminate on March 1, 1951, with respect to any one of the three branches unless any such branch is actually established and opened for business on or before that date, and request Bank of America to advise the Board in writing through the Federal Reserve Bank of New York when a branch is so established and opened for business.

"Please also inform Bank of America that the Department of State has been advised by the High Commissioner for Germany that there is not at present any need for additional banking services for occupation personnel, and that the activities of the branches proposed to be established in Germany would of course be subject to High Commission regulations and policies."

Approved unanimously, together
with the following letter to Bank of
America, New York, New York:

"The Board of Governors of the Federal Reserve System authorizes Bank of America, New York, New York, pursuant to the provisions of section 25(a) of the Federal Reserve Act and the Board's Regulation K, to

3/7/50

-20-

establish branches at Bremen, Frankfurt a. Main, and Hamburg, Germany, and to operate and maintain such branches subject to the provisions of such section and Regulation; upon condition that all rights granted hereby shall be deemed to have been abandoned and the authority hereby granted shall automatically terminate on March 1, 1951, with respect to any of such branches which is not actually established and open for business on or before that date."

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

"This is in response to Mr. McMurray's request of February 16, 1950, for an expression of the Board's views on the merits of S. 2943 to create the office of small business coordinator on a permanent basis as part of the Executive Office of the President. We have been advised by Mr. McMurray that, while hearings on the bill will not be held, your Committee wishes to consider S. 2943 this week and you would like to have the views of the Board by Tuesday, March 7.

"As you know, the Board has been particularly interested over the years in the problem of providing for the financial needs of small business. Under section 13b of the Federal Reserve Act, the Federal Reserve Banks have a direct but limited authority in this field. Currently proposals are before Congress to provide more adequately for financial assistance to small business, and it is the hope of the Board that studies of these various proposals will result in a practical and constructive solution.

"The vitality of small business is intimately connected with the preservation of our system of free competitive enterprise, and the Board recognizes that the problems faced by small business enterprises are not confined to the question of finance, but include other aspects, such as taxation, the availability of technical assistance, and fair competition for Government contracts. These other aspects, which fall largely outside the area of the Board's direct experience, are the concern of other agencies of the Government, particularly the Department of Commerce which for a number of years has maintained a Division of

3/7/50

-21-

"Small Business and during the past two years has given these problems special consideration.

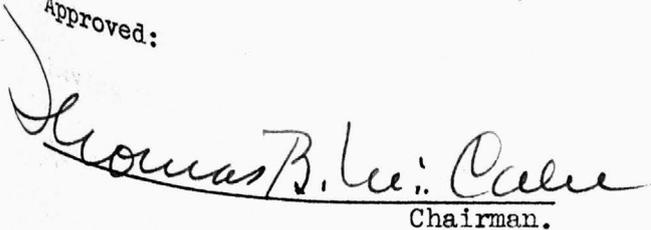
"The Board does not feel qualified to pass on the need to establish additional coordinating facilities in the Executive Office of the President on a permanent basis as is contemplated in this bill. It would be inclined to defer on this question to the judgment of the Secretary of Commerce and the Director of the Budget, both of whom have had direct contact with the problem, and it urges that the Committee give consideration to their views.

"If Congress, however, should decide to establish the office as contemplated in this bill, the Board will cooperate in every way possible to make the experiment successful."

Approved unanimously.


Secretary.

Approved:


Chairman.