

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, March 10, 1950. 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. 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. Leonard, Director, Division of Bank
Operations
Mr. Vest, General Counsel
Mr. Nelson, Director, Division of Personnel
Administration
Mr. Millard, Director, Division of Examinations
Mr. Young, Director, Division of Research and
Statistics

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

Approved unanimously.

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There was an informal consideration of the salaries proposed by the Federal Reserve Banks of New York and Chicago for officers of those Banks for the year beginning April 1, 1950. During this discussion Mr. Evans stated that he felt officers' salaries at the Federal Reserve Banks generally were at sufficiently high levels, that no further increases should be made in salaries of any of the senior officers of the Banks, but that he would be willing to consider proposals for increases in salaries of junior officers when they were assuming additional responsibilities or when such increases were justified because of other special circumstances.

A memorandum from Mr. Eccles dated March 9, 1950, was read as follows:

"I am opposed to any increase being made in the salaries of Messrs. Williams, Rounds and Young.

"In view of the very liberal improvement in the retirement program we made last year, which is based upon the salary received in the last five years of employment with all limit taken off, and due to the fact that during the past year there has been some decrease in the cost of living and a decrease in the Federal taxes, I would question the advisability of some of the other increases, except where there is a change in position involving increased responsibility, or except where there is a meritorious increase due to exceptional work. I do not favor regular increases based solely upon period of service."

Mr. Vardaman expressed the view that there should be no increases at this time, except in those cases where additional responsibilities and duties had been assigned to the officer for whom a salary increase had been proposed.

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Following the discussion, it was understood that the proposals of the New York and Chicago Banks would be discussed by the Personnel Committee with Chairmen Stevens and Lunding, and that the matter would be considered again by the Board on the basis of those discussions. In taking this action it was understood that in the discussions with Chairmen Stevens and Lunding it would be stated that the Board would not approve increases in the salaries recommended for Messrs. Rounds and Williams of the New York Bank or Mr. Young of the Chicago Bank, and that, since there had been no recent increases in the cost of living or in the general level of salaries, all other increases should be based on changes in duties, recognition of outstanding competence, or other special circumstances which would justify an increase. It was also understood that the Committee would request Messrs. Stevens and Lunding to review again the lists of proposed salaries with a view to making changes only where justified on the basis set forth above.

Mr. Szymczak then referred to the vacancy among Class C directors at the Federal Reserve Bank of St. Louis, stating that, inasmuch as Mr. Clark R. Gamble of the Brown Shoe Company had indicated he would not accept appointment if tendered, the Personnel Committee recommended the appointment of Mr. Joseph H. Moore, a farmer of Charleston, Missouri. During a discussion of Mr. Moore's qualifications attention was called to the fact that he is treasurer of two levee districts in Missouri, but it was the consensus that service in that capacity was not inconsistent

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with service as a Class C director of a Federal Reserve Bank.

Mr. Vardaman stated that he had hoped that the appointee to the vacancy which had existed for more than a year would be an outstanding industrialist in St. Louis, but that since no such individual who was qualified and available had been suggested, he would favor the appointment of Mr. Moore who, he felt, was an excellent man.

Thereupon, upon motion by Mr. Vardaman, it was agreed unanimously that if it was ascertained informally through the Chairman of the Federal Reserve Bank of St. Louis that Mr. Moore would accept, he should be appointed a director of that Bank for the unexpired portion of the term ending December 31, 1951.

Reference was made to a draft of letter to Mr. Bartelt, Fiscal Assistant Secretary of the Treasury, informing him that in addition to Messrs. Leonard and Myrick of the Board's staff Mr. Thomas would attend the Fiscal Agency Conference to be held in Berkeley, California on April 10-14, 1950. The draft had been in circulation and Mr. Vardaman had indicated that he would not approve the letter until there was a discussion by the Board of the question whether the Fiscal Agency Conference should consider matters of policy.

It was stated that a discussion of problems connected with redemption of maturing savings bonds was contemplated at the forthcoming conference and that, because of the fact that determination of policy questions in this field might depend to a considerable extent on what

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was practicably possible administratively, it was expected that consideration would be given at the conference to savings bond policy in the light of administrative problems. It was also suggested that Mr. Thomas as economic adviser to the Board and economist for the Federal Open Market Committee would benefit from attending the conference at which administrative matters were to be discussed, as well as from participation in possible discussions of policy matters.

Following the discussion
the letter to Mr. Bartelt was
approved unanimously in the
following form:

"Thank you for your letter of February 28 relating to the Fiscal Agency Conference to be held in Berkeley, California, on April 10-14, 1950.

"We have noted the excerpts which you quote from Mr. Earhart's letter, and will follow your suggestions with respect thereto.

"Referring to our letter of January 6, 1950, in reply to your letter of December 13, 1949, Mr. Woodlief Thomas is planning to attend the Conference in addition to Messrs. Leonard and Myrick."

Reference was made to a draft of letter to Senator Joseph C. O'Mahoney, Chairman of the Senate Committee on Interior and Insular Affairs, with respect to bills H. R. 331 and 49 providing for the admission to statehood of Alaska and Hawaii and recommending that there be included in the bills a section which would require national banks in these Territories to become members of the Federal Reserve System upon the formal admission of such Territories as States. Mr. Evans stated that he felt strongly that when the areas acquired statehood the national

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banks should assume responsibilities required of such banks in other States.

Following a brief discussion, unanimous approval was given to the following letter to Senator O'Mahoney. In taking this action it was understood that Chairman McCabe would call Senator O'Mahoney on the telephone and discuss the matter with him and that copies of the letter would be sent to the Comptroller of the Currency, Federal Deposit Insurance Corporation, Senate Banking and Currency Committee, and the Bureau of the Budget:

"It is understood that there are now pending before your Committee bills providing for the admission to Statehood of the Territory of Alaska (H.R. 331) and the Territory of Hawaii (H.R. 49) which passed the House of Representatives on March 3 and March 7, 1950, respectively.

"When bills on this subject were previously under consideration by Congress, the Board of Governors recommended to your Committee in January 1948 and again in May 1949, an amendment relating to membership in the Federal Reserve System of national banks located in any Territory which is admitted to Statehood. This is a matter which affects the banking structure of the United States and is of direct interest to the Board and the Federal Reserve System. Accordingly, the Board wishes to renew its recommendation in connection with the Alaskan and Hawaiian Statehood bills now pending.

"The Federal Reserve Act contains in section 19 a provision which makes membership in the Federal Reserve System optional in the case of national banks which are located in Alaska, in dependencies and insular possessions, and in 'any part of the United States outside the continental United States'. This provision was enacted in 1913 when it was apparently the feeling of Congress that national banks in the Territories and dependencies were so distant and remote as to make it unnecessary to require them to be members of the Federal Reserve System. Because of this provision, membership in the System of national banks located in Alaska

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"and Hawaii would continue to be optional if those Territories should become States in accordance with the provisions of the pending bills H.R. 331 and H.R. 49, as those bills now read.

"Since the enactment of the Federal Reserve Act in 1913, the tremendous progress of air transportation has brought both Alaska and Hawaii so close that today it cannot be said that the economic and banking structures of Alaska and Hawaii are unrelated to those of the United States proper. Travel and transportation to these Territories are now a matter of hours instead of weeks as was the case in 1913; and, consequently, the advantages and privileges of membership in the Federal Reserve System would now be much more readily available to banks in Alaska and Hawaii. Moreover, banking conditions in these Territories have changed considerably since the enactment of the Federal Reserve Act. The total deposits of Hawaiian banks are many times as great as they were in 1913; and their total resources today are more than those of all banks in some of the States of the Union. While there is only one national bank in Hawaii at the present time, that bank is larger than any bank in 23 of the existing States. At the present time, there are four national banks in Alaska with total deposits of over \$30 million. None of the national banks in either Alaska or Hawaii is now a member of the Federal Reserve System.

"It is the feeling of the Board, therefore, that if Congress should decide that the Territories of Alaska and Hawaii may now properly be admitted to Statehood, national banks in the proposed States of Alaska and Hawaii should be subject to the same responsibilities and obligations as national banks located in any other State of the Union. The pending bills provide that, upon becoming States, Alaska and Hawaii shall be on an equal footing with the other States. It would seem logical that this equality should exist in the field of banking as well as in other respects and that, consequently, the proposed new States should be included in the Federal Reserve districts and that national banks in Alaska and Hawaii should be subject to the same requirements as other national banks.

"Under present law, all national banks in the existing States of the Union are required to be members of the Federal Reserve System and, as such members, to be insured banks and to be governed by the many important statutory limitations and restrictions which by their terms are applicable to member and insured banks. These restrictions and limitations are not at present applicable to national banks in Alaska and

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"Hawaii; and they would continue to be inapplicable if these Territories should become States in accordance with the provisions of the pending Statehood bills unless the bills are appropriately amended.

"In the Board's opinion, there is no sound reason why any national banks located in a new State of the Union, enjoying the prestige and privileges conferred by organization under the National Bank Act, including the right to act as depositories of Government funds, should be exempt in this manner from the obligations and responsibilities which must be assumed by national banks in other States.

"The Board recommends, therefore, that there be included in these bills a section which would have the effect of requiring national banks in any Territory to become members of the Federal Reserve System upon the formal admission of such Territory as a State of the Union. A draft of a brief amendment which would have this effect is enclosed herewith.

"When a bill providing Statehood for the Territory of Hawaii was under consideration in 1948, the Board consulted with the Federal Deposit Insurance Corporation and the Comptroller of the Currency regarding the amendment proposed by the Board. Both of those agencies advised that they concurred in the Board's opinion that national banks located in any Territory should be required to become members of the Federal Reserve System upon the admission of the Territory to Statehood.

"The Board hopes that this matter will receive favorable consideration by your Committee. We have heretofore been advised by the Bureau of the Budget that the Bureau has no objection to the submission of this recommendation by the Board."

At this point Mr. Hackley, assistant counsel, and Mr. Schmidt, an economist in the Division of Research and Statistics, joined the meeting.

Before this meeting each member of the Board had been furnished with a memorandum from Mr. Vest dated March 9, 1950, with respect to a confidential draft of legislation under preparation at the White House with respect to aid to small business enterprises. The memorandum stated that conferences had been held in the last day or two to discuss the legislation, attended by representatives of the White House, the Bureau of the Budget,

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the Treasury Department, Reconstruction Finance Corporation, Department of Commerce, and others, and that the Board had been represented at the conferences. There had also been distributed a memorandum from Mr. Young dated March 9, 1950, raising questions concerning the proposal under consideration at the White House.

In commenting upon the proposal, Mr. Riefler outlined various provisions which appeared to be objectionable with respect to the proposals for financing capital banks under the legislation and with respect to the operation of such banks if they were established.

In the discussion that ensued, Chairman McCabe suggested that, if the legislation were proposed to Congress in substantially its present form, the Board should express opposition to it for reasons which he outlined. During this discussion it was also suggested that Chairman McCabe call Mr. Pace, Director of the Bureau of the Budget, on the telephone and indicate to him the Board's views in the matter.

The foregoing suggestion was approved unanimously, with the understanding that the staff would continue to participate in discussions of the proposals and submit further reports to the Board.

Chairman McCabe then referred to a memorandum from the Legal Division dated March 9, 1950, calling attention to bill S. 3105, to increase the authorization for construction of Federal Reserve branch buildings, as approved by the Senate Committee on Banking and Currency for

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report to the Senate. The bill approved by the Committee contained a new 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".

It was the consensus that the proposed language might limit unduly the provision of adequate building facilities at some of the branches and it was suggested that steps be taken to bring to the attention of Senator Douglas, at whose request the wording had been inserted in the bill, a suggested revision of language to be worked out by the Legal Division in the light of the discussion at this meeting.

The foregoing suggestion
was approved unanimously.

At this time Mr. Wood, an economist in the Division of Research and Statistics, joined the meeting.

Mr. Carpenter then read a draft of letter to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, with respect to a draft bill entitled "Secondary Housing Credit and Veterans' Mortgage Insurance Act". The letter was accompanied by a memorandum from Mr. Solomon, Assistant General Counsel, dated March 9, 1950, commenting on the draft.

The letter was changed
and approved unanimously in the
following form, in which it was
mailed under date of March 13,
1950:

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"This is in response to your letter of March 6, 1950, in which you request comments by March 10 on a draft bill entitled 'Secondary Housing Credit and Veterans' Mortgage Insurance Act'. The draft would carry out with some modifications the legislative proposals, then in memorandum form, on which you requested our views in your letter of January 26, 1950.

"The bill appears to have four general purposes:

1. It would provide authority, somewhat similar to that deleted from the law in 1948, for the chartering of private national mortgage corporations to deal in insured and guaranteed mortgages.
2. It would transfer the activities of the Federal National Mortgage Association to the Housing and Home Finance Agency, and would modify those operations in certain respects.
3. It would provide certain special facilities for the insurance of housing mortgages for veterans within the framework of the FHA. The existing facilities in the Veterans' Administration apparently would be continued.
4. It would authorize the Federal Home Loan Banks to invest in housing mortgages insured by the FHA or insured or guaranteed by the Veterans' Administration, or in obligations of a national mortgage corporation established pursuant to the bill. It also would authorize Federal Savings and Loan associations to invest in obligations issued by such a mortgage corporation.

"In the limited time available for considering the draft, we are not in a position to add a great deal to our letter of February 2, 1950, replying to your request for comments on the proposals when they were in memorandum form. As we indicated then, we feel that it is important to reduce the Government's purchases of mortgages and to this end a chartering of privately financed mortgage associations should be helpful. Basically, the problem is to make veterans' mortgages more acceptable to private investors and special insurance of veterans' mortgages by FHA might also be of some help in that direction. Such a program, however, should not contain an arbitrary 4 per cent limitation on interest rates.

"We note that the draft bill would transfer the functions of the Federal National Mortgage Association to the Housing and Home Finance Administrator with relatively few limitations on operations. We question the advisability of placing the function of insuring mortgages and the function now exercised by FNMA

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"under the same agency. It is desirable that the mortgages commend themselves not merely on the basis of their having a Government guarantee or Government insurance but also on the basis of intrinsic quality -- a principle that was considered fundamental in the establishment of FHA. We believe that to place both these functions within the same agency would weaken this safeguard of sound operation, would lessen the likelihood of the mortgages eventually being acquired by private investors, and in the long run would tend to prove embarrassing to the agency having the dual responsibility. We feel that whatever limitations on the function of purchasing mortgages are contained in the proposed draft should be added to the present FNMA operation, and we would hope that still further safeguards could be devised rather than taking any steps which would further weaken the already limited protections.

"The fourth group of proposals mentioned above are in a different category. As we stated in our previous letter:

'The Board is not prepared at this time to concur in the proposal to give the Federal Home Loan Banks the functions of National Mortgage Associations in addition to their functions as sources of credit for their members. The primary responsibility of the Home Loan Banks, as the System stands now, is to provide liquidity for their members. It would appear to be unwise to put the Banks in the position of holding a substantial volume of mortgages at a time when their members might require credit. In such a case, the Federal Government would probably have to purchase the mortgages, regardless of the monetary and fiscal policies it was pursuing at the time.'

"Similar questions are raised by the proposal to authorize Home Loan Banks and Federal savings and loan associations to invest in obligations of the proposed national mortgage corporations. In the case of both types of institutions, and especially in the case of Federal savings and loan associations, it would represent a departure from their normal functions and probably would raise future problems for the Government."

Mr. Carpenter referred to the practice followed in the past of paying the costs of luncheons served to officers of State bankers' associations and others when they visited the Board's offices as a part of their visits to Washington and suggested that the Board approve a continuing authorization for payment of these costs.

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Upon motion by Mr. Evans, the Board authorized the payment of the cost of future luncheons served to officers of bankers' associations and others who attend luncheons given by the Board for delegations of such associations visiting Washington. In taking this action, it was understood that the authorization extended to the costs of such luncheons given thus far during the current year.

At this point all of the members of the staff with the exception of Messrs. Carpenter, Sherman, and Kenyon 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 8, 1950, were approved unanimously.

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

<u>Name</u>	<u>Title</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Walter S. Hall	Assistant Federal Reserve Examiner	\$3,450	\$3,575
Mrs. Nancy R. Porter	Supervisor, Recording and Stenographic Section	3,825	3,950

Approved unanimously.

Memorandum dated March 8, 1950, from Mr. Carpenter, Secretary to the Board, recommending that the temporary appointments of Miss Elizabeth E. Van Wagner, Miss Anne K. Leach, Miss Mary Louise McIntosh,

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and Miss Mary P. McShane, file clerks in the Office of the Secretary, be made permanent effective immediately, with no change in their present salaries.

Approved unanimously.

Memorandum dated March 8, 1950, from Mr. Carpenter, Secretary to the Board, recommending an increase in the basic salary of Mrs. Aline L. Yates, an index clerk in the Office of the Secretary, from \$3,475 to \$3,600 per annum, effective March 19, 1950.

Approved unanimously.

Memorandum dated March 8, 1950, from Mr. Bethea, Director of the Division of Administrative Services, recommending that the temporary appointment of Mrs. Vera V. Dulin, cafeteria helper in that Division, be extended on a permanent basis, effective March 16, 1950, with no change in her present basic salary.

Approved unanimously.

Memorandum dated March 9, 1950, from Mr. Young, Director of the Division of Research and Statistics, recommending that the temporary appointment of Mrs. Anne C. Sencindiver as a draftsman in that Division, be extended for an additional period of not to exceed two months from March 13, 1950, with no change in her present basic salary at the rate of \$3,825 per annum.

Approved unanimously.

Letter to Mr. Weigel, Assistant Vice President of the Federal

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Reserve Bank of St. Louis, reading as follows:

"In view of the circumstances described in your letter of March 7, 1950, the Board of Governors approves for the period ending June 1, 1950, the payment of salary to Mr. Clifton Luttrell, Economist A, at the rate of \$5100 per annum, which is \$200 below the minimum established for the grade in which his position is classified."

Approved unanimously.

Letter to The Honorable G. Mentzavinos, Governor, The Bank of Greece, Athens, Greece, reading as follows:

"The Board is pleased to acknowledge receipt of your letter of February 25, 1950, and to advise you that the Federal Reserve Bank of Kansas City, with the approval of the Board, is prepared to make available to your Bank for a period of approximately three months the services of Mr. Delos C. Johns. It is understood that Mr. Johns will assist and advise the Bank and the members of the Greek Currency Committee in a survey of existing Greek banking law and practice, looking toward the provision of a banking and monetary structure which will facilitate your country's program of reconstruction and development.

"We propose to make Mr. Johns' services available on the basis described hereinafter, and would appreciate your advice as to whether the terms are agreeable to your institution. Mr. Johns would continue on the pay roll of the Federal Reserve Bank of Kansas City, receiving his salary on a nonreimbursable basis. The following items would be paid by the Reserve Bank, subject to reimbursement from the Bank of Greece: cost of transportation of Mr. and Mrs. Johns from Kansas City, Missouri, to Athens, and return; a per diem at the rate of \$25 from the date of Mr. Johns' departure from Kansas City until his return, except for any period which he may spend on personal business; a representational allowance of \$500; and a special allowance of \$200 to cover miscellaneous extraordinary expenses incident to the mission. Your confirmation by cable would be appreciated.

"We are gratified at the opportunity to be of service to your Bank upon this occasion, feeling that the mission symbolizes the good will which exists between our two institutions."

Approved unanimously.

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Letter to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, Washington 25, D. C., reading as follows:

"This refers to your letter of March 8, 1950, requesting the Board's comments concerning enrolled bill S. 83, which would amend the Bankruptcy Act.

"The proposed legislation is designed to clarify provisions of the Bankruptcy Act relating to preferences, to eliminate confusion arising from various court decisions interpreting these provisions, and to remove doubts which exist among creditors concerning the validity of security taken by them in good faith and for present consideration.

"The need for legislation of this nature is generally recognized, and we understand that S. 83 is the result of exhaustive consideration of this problem by the appropriate Congressional Committees, in collaboration with representatives of various interested organizations. While we have not had occasion to make such a study of this bill as would enable us to comment upon it in detail, the Board is in sympathy with the objectives of the bill and knows of no reason why it should not be approved."

Approved unanimously.

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

"Your letter March 6. Board approves proposed arrangement whereby, upon receipt of a request from the Bank for International Settlements either to sell gold or to make a loan thereon, the officers of your Bank would make a loan or loans on gold to the B.I.S. but only if they feel that such a loan seems appropriate in light of circumstances existing at that time, and without any commitment to B.I.S. to make such loan or loans.

"It is understood that your Bank would be authorized to make a loan or loans at any time and from time to time to the B.I.S., provided that the total of such loans shall not exceed \$5,000,000 at any one time outstanding, any such loan to be made on or before December 31, 1950, and to mature not later than thirty days after date thereof, to bear interest at the

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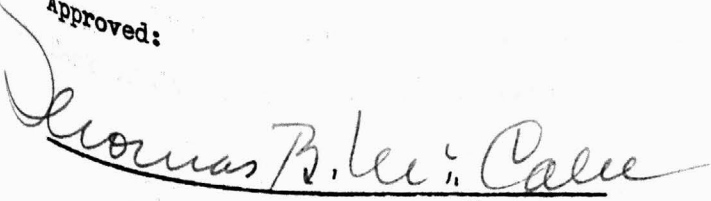
"discount rate of your Bank in effect on date such loan is made, to be secured by gold earmarked in vaults of your Bank in such amount that the total amount of such loan or loans outstanding at any one time does not exceed 98 per cent of value of such gold held as collateral.

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

Approved unanimously.


Secretary.

Approved:


Chairman.