

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, March 14, 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. 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. Townsend, Solicitor
 Mr. Young, Director, Division of Research and
 Statistics
 Mr. Youngdahl, Chief, Government Finance Section,
 Division of Research and Statistics

Mr. Szymczak referred to the discussion at the meeting on February 17, 1950, at which it was understood that Messrs. Young, Thomas, and Riefler would study the suggestion that the directors of the International Monetary Fund and the International Bank for Reconstruction and Development be invited to visit the Board's offices for luncheon and for a presentation of economic data particularly with reference to conditions in the United States. At Mr. Szymczak's request, Mr. Young outlined the material and method of presentation which he felt might be used at such a

3/14/50

-2-

meeting, stating that it would include the use of chart slides and statements by members of the research staff, and that it would be approximately six weeks before the Division of Research and Statistics would be prepared for the presentation.

Following the discussion, it was agreed unanimously that Mr. Young should proceed with the preparation of material as outlined and that an invitation would be extended to the directors of the Fund and the Bank to visit the Board's offices for the purpose stated with the understanding that a luncheon would also be served and that the Board would pay the costs of the luncheon.

Reference was made to a memorandum from the Personnel Committee dated March 9, 1950, recommending that in response to a request from Acting Administrator Foster of the Economic Cooperation Administration dated January 19, 1950, Mr. Frank M. Tamagna, an economist in the Division of Research and Statistics be made available for a period not to exceed three months beginning about April 1, 1950, for the purpose of carrying out an analytical review of the financial policies in the European Recovery Program countries, with the understanding that the Board would continue to pay Mr. Tamagna's salary but that Economic Cooperation Administration would bear all other expenses connected with his loan. The memorandum had been in circulation for approval and Mr. Vardaman attached a memorandum dated March 10, 1950, reading as follows:

"I will oppose the sending of Mr. Tamagna to E.C.A. and also the sending of other staff men from this Board or from

3/14/50

-3-

"the Federal Reserve Banks on these foreign missions until such time as the Board agrees on some policy with reference to such assignments.

"At present there seems to be no terminal point and I have yet to be advised of any request from any foreign country or from any Bureau for the use of Board or bank personnel which has been declined.

"I am advised that if Mr. Tamagna is given this assignment he will be the 7th man absent from the System on foreign or non-Federal Reserve work; and I understand that the salaries of all of these men are being borne by the Board or the banks.

"I am not opposed to using our personnel for foreign missions but I thought it was understood some months ago that we were to designate two or three members of the staff who would be available for this work and that such assignments would be held down to that number; and all I am asking for now is that the Board decide definitely on the number of men available for these assignments and fix the condition upon which they may be sent out, i.e., whether the Board will pay their salaries while they are on detached duty and other details."

At Mr. Vardaman's request Mr. Carpenter read the memorandum from the Personnel Committee as well as the memorandum from Mr. Vardaman.

Mr. Evans stated that he was not opposed to sending representatives on foreign missions but that he felt strongly that the Board should pay all expenses of its representatives, including an allowance for the cost of sending members of his family if the mission were of extended duration.

Mr. Szymczak stated that each request for a foreign mission had been considered carefully on its merits by the Personnel Committee, that requests for missions had been declined from time to time without having been submitted to the Board, and that others had been postponed for various reasons. Mr. Szymczak went on to say that the Personnel Committee had considered the request from the Economic Cooperation Administration for Mr. Tamagna on February 13, 1950, at which time it agreed that

3/14/50

-4-

it should not be granted until such time as the International Section of the Division of Research and Statistics was properly staffed and some decisions reached on policy with respect to staffing of foreign missions. Since that time, he said, steps had been taken to fill existing vacancies in the International Section, a plan of reorganization of the Research Division had been approved by the Board, and a draft of memorandum with respect to staffing of missions had been sent to the Federal Reserve Banks for comment and would be presented to the Board for its consideration shortly. He also stated that the work which Mr. Tamagna would be called upon to do in Paris would be similar to that in which he is engaged at the Board with the result that his services with the Economic Cooperation Administration would contribute to his future efficiency in the Board's organization, and that the Section in which he is employed is fully staffed so that it would be able to carry on satisfactorily in his absence.

In the ensuing discussion, Mr. Young stated that there was no more important problem in the international financial field than convertibility of currencies, that the services of Mr. Tamagna had been requested because staff representatives at the Economic Cooperation Administration felt he was particularly well qualified to assist in work in this field, and that the assignment was more in the nature of an inter-departmental loan of services to another Government agency than a foreign mission.

Thereupon, upon motion by
Mr. Szymczak, the recommendation
of the Personnel Committee was

3/14/50

-5-

approved unanimously with the understanding that a letter in the following form would be sent to Mr. Foster, Deputy Administrator of the Economic Cooperation Administration:

"In reference to your letter of January 19, 1950, addressed to Chairman McCabe, and to subsequent conversations with your staff regarding the loan of the services of Mr. Frank Tamagna to the Fiscal and Trade Division of the Office of the Special Representative, Economic Cooperation Administration, Paris, I am happy to inform you that the Board has approved the loan of Mr. Tamagna's services.

"Mr. Tamagna can be made available for a period not to exceed three months, beginning about April 1, 1950. It is our understanding that the Board will continue to pay Mr. Tamagna's salary but that the Economic Cooperation Administration will bear all other expenses connected with his loan."

Messrs. Riefler and Young withdrew from the meeting at this point.

Mr. Thomas then reported on developments in the money market during the past week, particularly with respect to changes in holdings of various types of securities by the System Open Market Account.

Mr. Youngdahl withdrew from the meeting at this point.

Chairman McCabe referred to the bank holding company bill S. 2318 and to suggestions for amendments made by representatives of the State Bank Supervisors and the American Bankers Association during the hearings on March 1-3, 1950. He stated that these suggestions had been considered and that Mr. Townsend had prepared drafts of three amendments which he felt could be accepted in order to meet suggestions made by these other groups without materially weakening the effectiveness of the proposed

3/14/50

-6-

legislation.

Mr. Townsend then reviewed the three amendments referred to by Chairman McCabe stating the reasons given for each and their possible effects on the effectiveness of the bill if it became a law. Mr. Townsend also referred to another amendment which had been suggested by Mr. Brumbaugh of the National Association of Supervisors of State Banks which would eliminate from the bill the authority for the Board to pass upon establishment of branches of banks subject to the holding company act within the town or city limits in which the head office of that bank was located, and recommended, for reasons stated, that such an amendment be not adopted. This suggestion was concurred in by the members of the Board.

In this connection, Mr. Townsend stated that, in response to the suggestion made by Senator Douglas at the time Chairman McCabe testified on the bank holding company bill on March 1, 1950, he sent to him under date of March 13, 1950, a memorandum prepared by an attorney on the staff of the Securities and Exchange Commission dealing with the question of the adequacy of the definition of a bank holding company under the bill and an extract from the opinion of the court in the case of Detroit Edison Company v. Securities and Exchange Commission, 119 F. 2d 730, which set forth some of the standards which are involved in this problem.

Following the discussion,
Chairman McCabe was authorized
unanimously to submit to the Senate
Banking and Currency Committee

3/14/50

-7-

drafts of amendments to the
bank holding company bill as
follows:

"PROPOSED AMENDMENTS TO S. 2318

"Amend Section 3 by adding the following new
paragraph:

'(d) Notwithstanding any of the provisions of
this section no examination shall be made by the Board
of a State nonmember insured bank pursuant to this
section without the prior consent of the Federal De-
posit Insurance Corporation; and no examination of a
State nonmember noninsured bank shall be made pursuant
to this section without the prior consent of the State
bank supervisory authority in the State in which such
bank is located.'

"Amend Section 4(d) by adding the following clause
after the word 'Act;' appearing on line 17 of page 9 of the bill:

'nor shall the prohibitions of this section apply
to a nonmember State bank which is a bank holding com-
pany if the effect of applying such prohibitions is to
prevent such bank from owning any shares or investments
which such bank is permitted to own under the laws of
the State in which such bank is operating;'

"Amend Section 13 by changing the period at the end of
the section to a semicolon and adding the following:

'and notwithstanding any of the provisions of this
Act no application for the expansion of a bank holding
company or any bank in a bank holding company group
shall be approved by the Federal Reserve Board, the
Comptroller of the Currency or the Federal Deposit In-
surance Corporation if the effect of such approval will
be to expand a bank holding company group in any State
beyond limits permitted under any law of such State now
existing or hereafter enacted which regulates the size
of bank holding company groups or the number of banks
in such groups located in any such State.'"

Mr. Thomas withdrew from the meeting during the foregoing discussion.

There was then presented a letter from Mr. Powell, First Vice
President of the Federal Reserve Bank of Minneapolis dated March 9, 1950,
in response to the Board's letter of March 8, 1950, reading as follows:

3/14/50

-8-

"This will acknowledge receipt of your personal and confidential letter to me dated March 8, 1950, transmitting the views of the Board of Governors of the Federal Reserve System with respect to the Towle matter.

"Your letter will be presented to our Board of Directors at its next meeting. Meanwhile it is having the careful consideration warranted by its importance by those directors of this bank located in the Twin Cities and not on vacation."

Chairman McCabe stated that since the previous discussion of this matter he had had a visit from Mr. Atwood, a director of the Minneapolis Bank, and from Mr. Jenkins, President, First Bank Stock Corporation, and that they had indicated the possibility of a discussion at the meeting of the Montana Banker's Association convention in June of this year of the failure of Mr. Towle, as Vice President of Federal Reserve Bank of Minneapolis in charge of the Helena Branch to disclose to the management of Conrad National Bank of Kalispell, Montana, information which he had with respect to irregularities of Mr. C. J. Larson while he was an officer of the Minneapolis bank prior to his becoming executive vice president of the Conrad National Bank. Chairman McCabe commented on the need for prompt action by the directors of that bank to deal with the situation, and on the moral if not the legal obligation of Mr. Towle and perhaps of the Federal Reserve Bank of Minneapolis to make good the losses suffered by two national banks as the result of Mr. Larson's irregularities subsequent to the time that Mr. Towle learned of Mr. Larson's defalcation from an outside business activity while employed by the Minneapolis Bank.

During the ensuing discussion, each of the members of the Board

3/14/50

-9-

present expressed the view that the Minneapolis Bank should take steps promptly to deal with the matter, and it was suggested that a letter be sent to Mr. Powell emphasizing the view that the directors of the bank should meet with Mr. Towle to discuss the matter at an early date.

It was agreed unanimously,
(1) that Mr. Szymczak should call Mr. Powell on the telephone and express to him the view as discussed at this meeting and (2) that a letter should be sent to Mr. Powell in the following form:

"Your letter of March 9, 1950, has been presented at a meeting of the Board and it has been noted that you plan to present the Board's letter of March 8 with respect to the Towle matter at the next meeting of your board of directors (which we understand will be on April 13) and that, in the meantime, the letter is having the careful consideration warranted by its importance by the directors of the Bank who are available in Minneapolis.

"In view of the situation outlined in its letter and the importance of prompt action, the Board questions the desirability of deferring consideration of the matter until the next regular meeting of your directors, and suggests that arrangements be made to have Mr. Towle appear before your directors or a committee thereof as promptly as practicable so that appropriate action may be taken at the earliest possible date."

Chairman McCabe stated that yesterday afternoon he discussed with Mr. Stevens, Chairman of the Federal Reserve Bank of New York, the proposed salaries for officers of that Bank for the year beginning April 1, 1950, as discussed at the meeting of the Board on March 10, 1950. He said that after informing Mr. Stevens that the Board would not approve increases in the salaries of Messrs. Rounds and Williams, he suggested that Mr. Stevens review the other proposed increases again with Mr. Sproul with

3/14/50

-10-

a view to eliminating any which did not represent recognition of (1) outstanding ability which merited an increase or (2) the assumption of increased responsibilities.

In the ensuing discussion, all of the members of the Board indicated that if Mr. Stevens reported that the salary changes already submitted were in accordance with the statement of Chairman McCabe to Mr. Stevens, they would approve the proposed changes with the exception of the increases proposed for Messrs. Rounds and Williams.

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 13, 1950, were approved unanimously.

Letter to Dr. M. B. Chiati, Minister Plenipotentiary, Charge d'Affaires ad interim, Royal Egyptian Embassy, Washington, D. C., reading as follows:

"Governor Szymczak has directed to the attention of the Board your letter to him of March 7 in which you advise of the desire of the Egyptian Ministry of Finance to send two members of its senior staff, Mr. Mustafa El Kouny and Mr. Mohamed Abou Shady, to the United States in the near future for several months' study of American central banking and monetary procedures under the Board's supervision. We have noted that this matter previously was discussed in 1948 by Mr. Kaissouni with certain members of the Board's staff.

"I am pleased to advise you at this time that the Board has approved such an arrangement, with the understanding that the training program will follow the general scheme outlined in

3/14/50

-11-

"your letter, which seems well adapted to the purpose.

"We will await your further advice as to the date when the two staff members mentioned may be expected to arrive in Washington."

Approved unanimously.

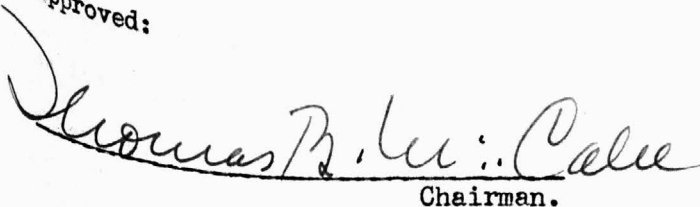
Telegram to Joseph H. Moore, Charleston, Missouri, reading as follows:

"Board of Governors of the Federal Reserve System has appointed you Class C Director of the Federal Reserve Bank of St. Louis for the unexpired portion of term ending December 31, 1951, and will be pleased to have your acceptance by collect telegram."

Approved unanimously.


Secretary.

Approved:


Chairman.