

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, March 21, 1950.

PRESENT: Mr. Szymczak, Chairman pro tem.
Mr. Draper
Mr. Evans
Mr. Verdaman

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary

Minutes of actions taken by the Board of Governors of the Federal Reserve System on March 20, 1950, were approved unanimously.

Memorandum dated March 16, 1950, from Mr. Young, Director of the Division of Research and Statistics, recommending the appointment of John A. Frechtling as an economist in that Division, with basic salary at the rate of \$4,600 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination.

Approved unanimously.

Letter prepared pursuant to the action on March 17, 1950, to Honorable Camille Gutt, Managing Director, International Monetary Fund, Washington, D. C., reading as follows:

"This will acknowledge your letter of March 14, addressed to Governor Szymczak, relative to an invitation received by the International Monetary Fund from the Government of Chile to send a mission to study the inflation problem in that country and the credit policies that will be necessary to deal with this problem. Your letter indicated that it would be helpful if you could borrow a member of the staff of the Federal Reserve Board acquainted with Latin American banking problems to be a member of the mission, which will involve a period of from four to six weeks, beginning on or about March 23.

3/21/50

-2-

"I am pleased to inform you at this time that the Board has acceded to your request and is prepared to make available the services of Mr. David L. Grove for the purpose mentioned. Pursuant to arrangements discussed informally with your administrative staff, it is understood that the Board will continue to pay Mr. Grove's salary for the period involved but that the International Monetary Fund will assume responsibility for all travel expenses and other costs incident to the mission.

"The Board is gratified that it is able to be of assistance to your organization upon this occasion."

Approved unanimously.

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

"In accordance with the request contained in your letter of March 16, 1950, the Board approves the designation of Hugh Barrie as a special assistant examiner for the Federal Reserve Bank of Philadelphia."

Approved unanimously.

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

"In accordance with the request contained in your letter of March 17, 1950, the Board approves the designation of James L. Jones, Jr. as a special assistant examiner for the Federal Reserve Bank of Atlanta."

Approved unanimously.

Telegram to Mr. John M. Gallalee, University of Alabama, Tuscaloosa, Alabama, reading as follows:

"Board of Governors of the Federal Reserve System has appointed you director of Birmingham Branch of the Federal Reserve Bank of Atlanta for unexpired portion

3/21/50

-3-

"of term ending December 31, 1950, and will be pleased to have your acceptance by collect telegram. It is understood that you are not a director of a bank and do not hold any public or political office. Should your situation in these respects change during the tenure of your appointment, it would be appreciated if you would advise the Chairman of the Board of Directors of the Federal Reserve Bank of Atlanta."

Approved unanimously.

Letter to Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, reading as follows:

"At the completion of the examination of the Federal Reserve Bank of Kansas City, made as of January 4, 1950, by the Board's examiners, a copy of the report of examination was left for your information and that of the directors. A copy was also left for President Leedy.

"The Board will appreciate advice that the report has been considered by the Board of Directors.

"It is understood from Chief Field Examiner Murff that meetings of the Auditor with the Executive Committee at stated intervals have been initiated. The Board is pleased to learn that this regular periodic contact with a committee of directors has been provided for the Auditor.

"It is understood also that Mr. Murff discussed with you plans for strengthening the staff of the Auditing Department. The Board would appreciate having any comments you may care to offer regarding this or other discussions with respect to the examination, or as to action taken or to be taken as a result of the examination."

Approved unanimously.

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

"Reference is made to your Bank's letter of March 16, 1950, in which you advise that it appears

3/21/50

-4-

"expenses for the Bank and public relations function at your head office will exceed the 1950 budget estimates in the amount of \$40,457.24.

"The Board accepts the revised figures as submitted, and appropriate notations are being made in the Board's records."

Approved unanimously.

Letter to Mr. Brainard, Chairman of the Board of the Federal Reserve Bank of Cleveland, reading as follows:

"This refers to your letter of January 12, 1950, in which you state that your Directors urge that the Board of Governors authorize the retention of a substantial part of 1950 earnings on a basis somewhat similar to that which was used in 1948 and 1949.

"It is noted that it seems to the Directors that the amount retained in 1948 and 1949 to build up the capital position of the Bank was very moderate in relation to the amount turned over to the Treasury and that there would be no valid grounds for criticism of the System if in 1950 a similar addition to capital funds is made. You state that no one knows what future obligations and duties will come upon the Federal Reserve Banks through supporting operations in the Government securities market, lending to member banks in times of trouble, and engaging in international banking operations, or in other ways, but it seems certain that they will be substantial.

"As you know, the matter of increasing the capital accounts of the Reserve Banks was reviewed at the joint meeting of the Board and the Presidents of the Reserve Banks on December 14, 1949, at which time it was understood that in the absence of some change in the situation which would make a resumption of deductions from earnings desirable, no further deductions should be made. At the recent conference of the Presidents of the Federal Reserve Banks this matter was again discussed, and it was the sense of the conference that for the present there was insufficient basis for definite recommendations as to method or amount of such deductions. The Board is likewise of the opinion that the situation has not changed sufficiently to make a resumption of these deductions desirable."

3/21/50

-5-

Approved unanimously.

Letter to Honorable Brent Spence, Chairman of the Banking and Currency Committee, House of Representatives, reading as follows:

"As you know, the bill S. 2822, 'To amend the Federal Deposit Insurance Act (U.S.C., Title 12, section 264)' has been passed by the Senate and referred to your Committee in the House of Representatives.

"The Board would like to say that it favors the objectives of this legislation relating to the insurance coverage, the payment of dividends, the assessment base, the simplification of the assessment computation, and the liberalization of the loan and asset purchase powers of the Federal Deposit Insurance Corporation. These matters have an important bearing not only on the operations of the banks of the country, including the member banks of the Federal Reserve System which hold 87 per cent of the deposits of the commercial banking system and support to a corresponding degree the deposit insurance program, but also on the primary responsibility for monetary and credit policy which has been placed upon the Federal Reserve System in the national interest. Responsibility for monetary and credit policy in our American tradition cannot be discharged effectively without a strong and profitable private banking system, and the efficient functioning of deposit insurance is closely related to the strength and stability of our banking mechanism. A copy of the statement on behalf of the Board of Governors sent by Chairman McCabe to the Senate Banking and Currency Committee on the bill is attached.

"We would also like to mention for your consideration a relatively minor change which we believe it would be desirable to make in the bill if it could be made conveniently and without raising problems in connection with the bill. The change we wish to suggest relates to a feature of section 13(f) of the bill which provides that the Federal Deposit Insurance Corporation shall pay to the Secretary of the Treasury and the Federal Reserve Banks, respectively, an amount equal to 2 per centum simple interest per annum on amounts advanced to the Corporation on stock subscriptions by the Secretary of the Treasury and the Reserve Banks.

3/21/50

-6-

"It may be recalled that the stock in question was retired by the Federal Deposit Insurance Corporation pursuant to the Act of August 5, 1947 (Public No. 363, 80th Congress), and that under this Act the Corporation retired the stock 'by paying the amount received therefor (whether received from the Secretary of the Treasury or the Federal Reserve Banks) to the Secretary of the Treasury.' The direction for the amounts representing the stock owned by the Federal Reserve Banks to be paid to the Secretary of the Treasury rather than to the Reserve Banks was incorporated in the bill after the Board had suggested this procedure in a letter to the Senate Banking and Currency Committee on April 18, 1947. That letter read in part as follows:

'The stock of the Federal Deposit Insurance Corporation held by the several Federal Reserve Banks was subscribed by such banks in the amount of one-half of their surplus as of January 1, 1933. In recent years, however, the earnings of the Federal Reserve Banks have been such that the amount of funds taken from their surplus for this purpose in 1933 has been restored. Accordingly, the Board feels that, if the stock held by the Reserve Banks is cancelled, the amounts received by the Corporation on account of such stock should be paid to the Secretary of the Treasury rather than to the Federal Reserve Banks'

"Similar considerations apply to the further payments provided for in S. 2822 with respect to the stock subscribed by the Federal Reserve Banks. Accordingly, the Board feels that any such payments to be made should be paid to the Secretary of the Treasury rather than to the Reserve Banks. The change might be accomplished by an amendment along the lines indicated in the attached memorandum. The Board believes that it would be desirable to make the change if an appropriate opportunity should present itself although, as indicated above, the question is not of sufficient moment to justify any steps that might interfere with prompt enactment of the bill."

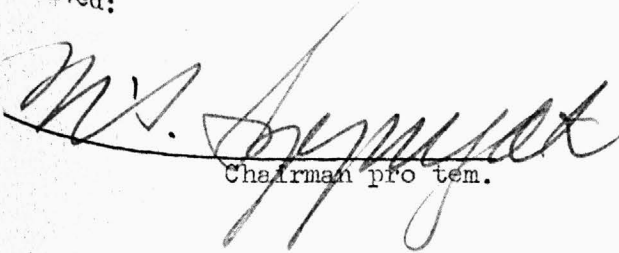
3/21/50

-7-

Approved unanimously.


Secretary.

Approved:


Chairman pro tem.