Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, May 3, 1950. The Board met in the Board Room at 3:30 p.m.

PRESENT: Mr. Eccles, Chairman pro tem.
Mr. Szymczak
Mr. Vardaman

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Board
Mr. Thomas, Economic Adviser to the Board
Mr. Millard, Director, Division of Examinations
Mr. Solomon, Assistant General Counsel
Mr. Hostrup, Assistant Director, Division of Examinations
Mr. Baumann, Assistant General Counsel
Mr. Cherry, Assistant Counsel

Reference was made to the draft of letter to Congressman Spence, Chairman of the House Banking and Currency Committee, which had been prepared in response to a request from Mr. Spence for a report on H. R. 7894, a bill which would make permanent the present temporary authority of the Federal Reserve Banks to purchase Government securities directly from the United States, and which was approved at the meeting on May 1, 1950, with the understanding that it would be presented to Mr. Vardaman for an indication of his views before it was sent to Mr. Spence. Mr. Vardaman stated that he had asked that the letter be considered at a meeting because, as he had stated at a number of meetings of the Board, he was opposed to having such authority made permanent and that he had understood in earlier discussions of the matter that the Board would not make a recommendation that the present authority
be extended on a permanent basis. He added that he did not oppose having such authority, that he felt the System should have it, but that he felt it desirable that it be reviewed periodically.

There followed a discussion during which Mr. Eccles stated that he was satisfied with the letter in its present form and Mr. Szymczak stated that he did not wish to make a change in the proposed letter. It was also stated that Chairman McCabe had approved the letter.

Mr. Vardaman stated that he wished to be recorded as voting against approval of the letter as drafted and to recommend that it be changed to approve extension of the authority only on a temporary basis. He added that if the letter was sent to Mr. Spence in its present form, he would wish to have it understood that he would inform the Secretary of the Treasury of his position with respect to the matter.

Thereupon, it was understood that the letter would be sent in the form in which it was approved at the meeting on May 1, 1950, Mr. Vardaman voting "no". In taking this action, it was understood that a similar letter would be sent to the Chairman of the Senate Banking and Currency Committee if a request were received from that Committee for a report on the bill.

Mr. Carpenter then presented a memorandum from Mr. Bethea dated April 21, 1950, recommending that the Board authorize the purchase of a 1950 Pontiac four-door Sedan, eight cylinder model, at an approximate cost of $1,550, with the understanding that the Dodge Sedan would
be sold to the highest bidder upon delivery of the 1950 Pontiac.

The memorandum had been approved by Messrs. McCabe, Eccles, and Szymczak, and Mr. Vardaman had attached a memorandum dated April 25, 1950, reading as follows:

"I oppose this purchase and recommend that if it is absolutely necessary to replace the Dodge Sedan that another station wagon (either Dodge, Plymouth or Chevrolet) be purchased."

Following a discussion, the recommendation in Mr. Bethea's memorandum was approved, Mr. Vardaman voting "no".

Mr. Vardaman withdrew at this point.

At Mr. Szymczak's request, Mr. Baumann reported on developments in connection with the bank holding company legislation since yesterday's meeting, stating that Senator Robertson's subcommittee did not meet this morning because of a lack of a quorum and that the next meeting was scheduled for Wednesday, May 10, 1950, at which time it was expected that a vote would be taken on the question of reporting Senator Robertson's bill in some form. Mr. Baumann went on to say that he understood the Comptroller of the Currency would oppose the provision for investigation, examination, and enforcement as worked out in a form acceptable to the Board, that Senator Robertson had stated he would make no change in the definition of a bank holding company contained in the substitute bill, but that probably other points of difference with the views expressed by the Board could be handled satisfactorily. Mr.
5/3/50

Baumann also stated that in a discussion with Mr. L'Heureux, member of the staff of the Senate Banking and Currency Committee, it was indicated that Senator Douglas felt that the Board's position on the definition could be reserved for later consideration if other changes were made so that the Board's position on that point could be presented to the House Banking and Currency Committee.

Following the discussion, it was agreed unanimously that Mr. Szymczak and Mr. Baumann should undertake to consult with the appropriate parties on the remaining differences so that when the meeting of the subcommittee was held on May 10 any points on which differences remained would be clearly understood.

At this point all of the members of the staff with the exception of Messrs. Carpenter and Sherman withdrew, and the action stated with respect to each of the matters hereinafter referred to was taken by the Board:

Memorandum dated May 2, 1950, from Mr. Noyes, Assistant Director of the Division of Research and Statistics, recommending that the temporary indefinite appointments of the following employees of that Division be extended on a permanent basis, effective May 3, 1950:

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Annual Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eleanor M. Ballinger</td>
<td>Clerk</td>
<td>$2,650</td>
</tr>
<tr>
<td>Pauline Franklin</td>
<td>Clerk</td>
<td>2,650</td>
</tr>
<tr>
<td>Virginia J. Ogilvie</td>
<td>Clerk-Stenographer</td>
<td>2,530</td>
</tr>
<tr>
<td>Katherine Radicevic</td>
<td>Clerk-Typist</td>
<td>2,450</td>
</tr>
</tbody>
</table>

Approved unanimously.
Memorandum dated May 2, 1950, from Mr. Bethea, Director of the Division of Administrative Services, recommending an increase in the basic salary of William R. McDonald, a clerk in that Division, from $2,650 to $2,730 per annum, effective May 14, 1950.

Approved unanimously.

Memorandum dated May 2, 1950, from Mr. Bethea, Director of the Division of Administrative Services, recommending that the temporary appointment of James Thomas Stewart, a laborer in that Division, be extended on a permanent basis, effective May 8, 1950, with no change in his present basic salary at the rate of $2,120 per annum.

Approved unanimously.

Memorandum dated May 2, 1950, from Mr. Bethea, Director of the Division of Administrative Services, recommending the appointment of Mrs. Pauline E. Stanley as a clerk in that Division on a temporary basis for a period of three months, with basic salary at the rate of $2,450 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination.

Approved unanimously.

Letter to The Honorable, The Treasurer of the United States, reading as follows:

"We have received a request from the Federal Reserve Bank of Philadelphia for a shipment of $111,100 of gold certificates, series of 1934, one certificate each in the $100,000, $10,000, $1,000, 

Digitized for FRASER
http://fraser.stlouisfed.org/
"and $100 denominations. It will be appreciated if shipment of these certificates is made at your early convenience.

"Upon receipt of advice from the Federal Reserve Bank of Philadelphia that these gold certificates have been received, the Board will deliver to the Treasurer of the United States gold certificate fund check for $111,100."

Approved unanimously.

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

"Reference is made to your letter of April 27, 1950, submitting the request of The Provident Savings Bank and Trust Company, Cincinnati, Ohio, for permission to expend approximately $170,000 for the purpose of installing three new elevators in the main office building.

"It is understood that the State Superintendent of Banks has given the bank his permission to capitalize the above expenditure. In view of your favorable recommendation, the Board of Governors approves of the proposed increase in investment in bank premises to an amount not to exceed $2,065,000."

Approved unanimously.

Letter to Honorable Burnet R. Maybank, Chairman, Committee on Banking and Currency, United States Senate, Washington 25, D. C., approved on November 25, 1949, subject to clearance with the Bureau of the Budget, and reading as follows:

"This refers to your letter of October 10, 1949 requesting the views of the Board of Governors as to the merits of the bill H. R. 5512 to amend section 13 of the Federal Farm Loan Act, as amended.

"This bill would amend the Federal Farm Loan Act so as to authorize Federal land banks, under regulations and limitations of the Board of Governors of the Federal Reserve System, to obtain advances from Federal Reserve Banks for periods not exceeding one year. Such advances would be secured by the pledge
of consolidated Federal Farm-loan bonds or by obligations of the United States and would bear interest at the rate applicable to discounts for member banks under the provisions of section 13 of the Federal Reserve Act.

A somewhat similar proposal was contained in a bill under consideration by the House Committee on Agriculture in 1940, at which time the Board stated that it had no objection to its enactment. The Board pointed out, however, that the proposal would create discriminations against member banks of the Federal Reserve System by permitting Federal land banks to borrow from the Reserve Banks on more favorable terms than those available to member banks and the Board stated that it hoped that the various discriminatory provisions in the law relating to discounts and advances by Federal Reserve Banks would be reviewed by the Congress.

The discrimination to which the Board referred in its 1940 letter relates both to maturities and to the rate of interest. Under the law a member bank may use Government obligations to obtain advances from a Federal Reserve Bank with maturities only up to 90 days, and a member bank may use collateral other than Government obligations or short-term commercial and agricultural paper to borrow from a Federal Reserve Bank with maturities only up to four months and at a rate of interest at least one-half of one per cent higher than the usual Federal Reserve bank discount rate. Under H. R. 5512, however, a Federal land bank would be authorized to obtain advances either on the security of Government obligations or of consolidated farm-loan bonds with maturities as long as one year and without having to pay the penalty rate of interest of one-half of one per cent per annum.

The Board has recently given further consideration to this matter and feels that the enactment of the bill would not be desirable at this time. Under existing law the Federal Reserve Banks may purchase the obligations of Federal land banks having maturities up to six months and it would seem that this authority would be adequate to tide the land banks over for temporary periods pending the issuance of their long term obligations. Moreover, in addition to enabling Federal land banks to obtain credit from the Reserve Banks on more favorable terms than those available to member banks of the System the bill would be
"likely to encourage requests for similar authority by other agencies of the Government, and in this connection, important questions of credit policy are involved in enabling Governmental credit agencies to have direct access to credit from the Federal Reserve System. It is believed that these questions should be thoroughly explored before the bill is reported by your Committee. In any event it should not be passed without removing the discriminations against member banks referred to above.

"In accordance with the procedure outlined for the clearance of matters of this kind with the Bureau of the Budget, we have just been advised that there is no objection to the submission of this report."

Approved unanimously.

[Signature]
Secretary.

Approved:

[Signature]
Chairman pro tem.