

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, May 26, 1950. The Board met in the Board Room at 10:35 a.m.

PRESENT: Mr. McCabe, Chairman
Mr. Szymczak
Mr. Draper
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. Sloan, Assistant Director,
Division of Examinations
Mr. Youngdahl, Chief, Government Finance
Section, Division of Research and
Statistics

There were presented telegrams to the Federal Reserve Banks of Cleveland, Richmond, 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 May 23, by the Federal Reserve Bank of St. Louis on May 24, and by the Federal Reserve Banks of Cleveland, Richmond, Kansas City, Chicago, Minneapolis, and Dallas on May 25, 1950, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

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Mr. Thomas then reported on recent activity in the money markets, commenting particularly on demand for the various maturities of Treasury securities.

During Mr. Thomas' report, Mr. Young, Director of the Division of Research and Statistics joined the meeting and at the end of the report Mr. Youngdahl withdrew.

There was an informal discussion of proposed officers' salaries at the Federal Reserve Bank of Kansas City for the year beginning June 1, 1950.

Mr. Vardaman stated that he had received a letter from Mr. Cook, Director of the Federal Deposit Insurance Corporation, dated April 4, 1950, with respect to fidelity insurance coverage at banks, that he had referred the letter to the Division of Examinations, and that if there was no objection he would like to reply to Mr. Cook to the effect that the Board was in full accord with the idea that there should be adequate fidelity coverage at banks, that in November 1933 it had requested all Federal Reserve Banks to give particular attention to the matter of such coverage at member banks and banks applying for membership, that in recent years more active consideration had been given to the matter in connection with bank supervision, and that where coverage was not adequate efforts were made to obtain correction of the situation, having the banks secure coverage at least in the amount set as a minimum standard by the

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American Bankers Association. The members of the Board present indicated they would approve Mr. Vardaman's sending a letter along the lines suggested.

Mr. Sloan withdrew from the meeting at this point.

Chairman McCabe stated that his office had received an informal inquiry from the Council of Economic Advisers whether the Board would like to make any suggestions, for inclusion in the President's mid-year economic report, relating to the restoration of the Board's authority over consumer instalment credit or a change in its authority with respect to bank reserves. He referred to the comments included in the economic report of the President issued in January 1950 which recommended that additional authority over bank reserves be given to the Board, that such authority be extended to all banks insured by the Federal Deposit Insurance Corporation, and that the Board's authority to regulate consumer credit be restored. Chairman McCabe also said that, for reasons which he stated, he did not feel that any recommendation to extend the Board's authority along these lines should be made at this time, but that the Council of Economic Advisers might feel it essential to include some comment on the matter.

Mr. Szymczak expressed the view that, since the recommendations referred to were included in the January 1950 report, failure of the mid-year report to comment upon the matter might be taken

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as an indication that the situation had changed so that there was no longer a need for such authority.

Mr. Vardaman stated that he would prefer that the mid-year report make no reference to the recommendations which were contained in the January 1950 report with respect to these matters.

During a further discussion, Chairman McCabe suggested that in the light of the discussion at this meeting, Messrs. Riefler and Young prepare a draft of statement which might be used if it should be decided by the President that his mid-year report should include some recommendations along this line.

Chairman McCabe's suggestion was approved unanimously, with the understanding that he was authorized to submit the statement to the Council of Economic Advisers if in his judgment that seemed advisable.

Messrs. Marget, Adviser on International Finance, and Dembitz, Chief, Financial Operations and Policy Section, Division of Research and Statistics, joined the meeting at this point.

Before this meeting there had been sent to each member of the Board a copy of a memorandum from Messrs. Thomas and Marget dated May 5, 1950, recommending that the Board consider the question of formal representation of the Federal Reserve System on the Board of the Bank for International Settlements. The memorandum stated that it was believed such representation would strengthen the ties

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between the System and European central banking authorities by providing regular occasions for informal but informative discussions on matters of mutual concern, that under the charter of the Bank for International Settlements representatives of the Federal Reserve System were the only United States authorities that could serve as members of its Board, and that it was not believed that such membership would result in deviations from existing institutional arrangements for the official presentation of United States policy or the transference to the Bank for International Settlements of functions now exercised by other international agencies in which the United States is officially represented. The memorandum also suggested procedural steps that might be taken if the Board felt it would be desirable to explore further the possibility of Federal Reserve representation on the Bank for International Settlements.

Mr. Szymczak stated that he had discussed the matter informally with Assistant Secretary of State Willard Thorp and with Assistant Secretary of the Treasury Martin, that neither had indicated any opposition to representation of the Federal Reserve System on the Board of the Bank, but that both of them felt the present was not an opportune time to raise the question. It was recognized, he said, that before the Marshall Plan is completed it may be highly desirable to be represented on the Board of the Bank. He added that a further problem would be the form the representation should take.

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There followed a discussion of the function of the Bank for International Settlements and of the reasons for and against having the Federal Reserve System become associated with it, during which Mr. Szymczak suggested that further exploratory conversations with representatives of the State and Treasury Departments might be desirable before any action was taken, having in mind that any decision by the Board on the matter would have to be cleared with the National Advisory Council before it was made effective.

It was understood that Mr. Szymczak and members of the staff would give further consideration to the matter and that, if it seemed desirable, it would be presented to the Board again at a later date.

Mr. Vardaman withdrew from the meeting at this point.

Mr. Marget reported briefly on steps taken in connection with the possible formation of a European Clearing Union, at the close of which, Messrs. Marget and Dembitz withdrew from the meeting.

Mr. Carpenter stated that a letter had been received from Mr. McMurray, Staff Director of the Senate Banking and Currency Committee, dated May 24, 1950, asking for a report on bill S. 3625, "The Small Business Act of 1950". He suggested that, inasmuch as Chairman McCabe expected to testify before the Banking and Currency Committee shortly in connection with the bill, no formal reply be made to Mr. McMurray's letter at this time.

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This suggestion was approved unanimously.

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:

Memoranda from Mr. Young, Director of the Division of Research and Statistics, recommending increases in the basic annual salaries of the following employees in that Division, effective May 28, 1950:

Date of Memo	Name	Title	Salary Increase	
			From	To
May 24, 1950	Wilellyn Morelle	Economist	\$4,200	\$4,325
	Doris Bruderer	Clerk-	3,035	3,115
		Stenographer		
May 25, 1950	Katherine Radicevic	Clerk-Typist	2,450	2,530
May 25, 1950	Miss Loretta Freedman	Clerk	3,035	3,115
	Mrs. Lucile R. MacLean	Librarian	3,225	3,350

Approved unanimously.

Memorandum dated May 25, 1950, from Mr. Draper, recommending an increase in the basic salary of Mrs. Gertrude E. Booth, stenographer in his office, from \$2,955 to \$3,035 per annum, effective May 28, 1950.

Approved unanimously.

Memoranda dated May 24, 1950, from Mr. Young, Director of the Division of Research and Statistics, recommending increases in the basic annual salaries of the following employees in that Division, effective May 28, 1950:

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<u>Name</u>	<u>Title</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Francis R. Pawley	Economist	\$6,800	\$7,000
Mrs. Evelyn L. Hempstead	Secretary to Mr. Garfield	3,355	3,475

Approved unanimously.

Letter to the Organization Committee of the "Bank of Illinois Valley, Cave Junction, Oregon", Cave Junction, Oregon, stating that, subject to conditions of membership numbered 1 and 2 contained in the Board's Regulation H, and the following special conditions, the Board approves the Bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of San Francisco, effective if and when the bank is authorized to commence business by the appropriate State authorities.

"3. At the time of admission to membership, such bank shall be entitled to the benefits of deposit insurance under the provisions of Section 12B of the Federal Reserve Act."

The letter also contained the following special comment:

"In connection with the granting of deposit insurance, it is noted that the Federal Deposit Insurance Corporation prescribed conditions requiring a paid-in capital structure of \$60,000, consisting of \$40,000 capital stock, \$5,000 surplus and a guaranty fund of \$15,000; that your bank obtain fidelity insurance in the amount of \$40,000; and that subsequent to organization the board of directors pass a resolution that the bank will not exercise trust powers without permission of the Federal Deposit Insurance Corporation. Under the terms of condition of membership numbered 3, the conditions imposed by the Federal Deposit Insurance Corporation must be met prior to admission to membership.

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"If at any time a change in or amendment to the bank's charter is made, the bank should advise the Federal Reserve Bank, furnishing copies of any documents involved, in order that it may be determined whether such change affects in any way the bank's status as a member of the Federal Reserve System."

Approved unanimously, together with a letter to Mr. Earhart, President of the Federal Reserve Bank of San Francisco, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application made on behalf of the 'Bank of Illinois Valley, Cave Junction, Oregon', Cave Junction, Oregon, for membership in the Federal Reserve System, effective if and when the bank is authorized to commence business by the appropriate State authorities, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the Organization Committee of the institution. Two copies of such letter are also enclosed, one of which is for your files and the other of which you are requested to forward to the Superintendent of Banks for the State of Oregon, for his information.

"Before issuing stock of the Federal Reserve Bank to the new State institution, you are requested to satisfy yourself that the conditions imposed by the Federal Deposit Insurance Corporation have been met and, therefore, the bank is entitled to insurance under the provisions of Section 12B of the Federal Reserve Act.

"It will not be necessary to obtain amended pages of the application for membership as proposed in Mr. Slade's letter of March 15, 1950. However, the board of directors, after the bank has been authorized to commence business, should adopt a resolution ratifying the action taken in the bank's behalf in making application for membership. We should, of course, receive certified copies of all organization papers, together with counsel's certification on Form 83E, all of which should be executed before the Federal Reserve Bank stock is issued."

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Letter to Mr. Walden, Jr., First Vice President of the Federal Reserve Bank of Richmond, reading as follows:

"Reference is made to your letter of May 16, 1950, submitting the request of The Washington Loan and Trust Company, Washington, D. C., for approval, under the provisions of Section 24A of the Federal Reserve Act, of an additional investment of \$33,000 in bank premises, for the purpose of installing new electric wiring in a section of its main office building.

"In view of your recommendation, the Board of Governors approves the investment of \$33,000, as proposed, provided that if any portion of the expenditure is capitalized, provision will be made for the elimination of the entire amount of the additional investment by the end of the current year. This charge-off should be in addition to the regular program of depreciation."

Approved unanimously.

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

"Reference is made to your letter of May 17, 1950, enclosing a copy of a letter from Congressman Stephen Pace relative to the assignment, effective May 17, of Mr. John Liles, an economist employed by the Federal Reserve Bank of Atlanta, to assist the Committee on Agriculture for a period of approximately 60 days. This matter has been brought to the attention of the members of the Board.

"In this connection, the Board's letter of June 15, 1949 (S-1113), regarding requests for services of personnel in the international field as well as assignments to other Government departments or agencies, indicated that the Board would like to be advised in advance of such assignments. It is believed desirable to follow that procedure, so that should any questions arise regarding an assignment of personnel, they could be discussed prior to making a commitment."

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Approved unanimously.

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

"Reference is made to your letter of May 19, 1950, with enclosures, submitting the request of The United Savings Bank of Detroit, Detroit, Michigan, for permission, under the provisions of condition of membership numbered 1 to which the bank is subject, to change the general character of its business and make available to its customers and the public small personal checking accounts.

"In view of your recommendation, the Board of Governors will interpose no objection to the acceptance of such checking accounts by The United Savings Bank of Detroit."

Approved unanimously.

Letter to Honorable Burnet R. Maybank, Chairman, Committee on Banking and Currency, United States Senate, Washington 25, D. C., reading as follows:

"This is in response to Mr. McMurray's letter to Chairman McCabe dated April 17, 1950, requesting an opinion as to the merits of the bill S. 2829 'To repeal certain legislation relating to the purchase of silver, and for other purposes'.

"This bill would repeal the Silver Purchase Act of 1934, Section 4 of the Act of July 6, 1939, the Act of July 31, 1946, and certain sections of the Internal Revenue Code. It would provide for the maintenance by the Treasury Department of certain reserves in silver bullion or silver dollars against outstanding silver certificates and for the exchange of silver certificates on demand for silver dollars; and it would authorize the Secretary of the Treasury to coin silver dollars and to provide for subsidiary silver coinage.

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"The principal effect of the bill would be to eliminate from the law provisions fixing the price at which silver is purchased by the Secretary of the Treasury. Under present law, the price is fixed at 90.5 cents per fine ounce. Since the free market price of silver is approximately 73 cents an ounce, all domestic production of silver is sold to the Treasury; and the Treasury, by virtue of the Act of July 31, 1946, may not sell silver at less than 90.5 cents an ounce.

"To the extent that silver purchased by the Treasury may be monetized through coinage or through the issue of silver certificates, such purchases have the effect of increasing the country's money supply with a resulting increase in bank reserves and in the base for credit expansion. Although additions to bank reserves through monetization of silver have been relatively small in amount, and can be offset, such arbitrary additions have no relation to the need for such reserves and, from a credit point of view, are unnecessary as long as the supply of gold and Federal Reserve credit continues to be ample.

"For the reasons indicated, the Board believes that enactment of S. 2829 would be in the public interest.

"We are advised by the Bureau of the Budget that there would be no objection to the submission of this report to your Committee."

Approved unanimously.

Letter to Honorable Preston Delano, Comptroller of the Currency, Washington, D. C., reading as follows:

"Enclosed is a copy of a letter dated May 18, 1950, together with a copy of its enclosure, from Bank of America, a corporation organized under section 25(a) of the Federal Reserve Act, requesting the tentative approval of the Board of Governors of an increase in its capital stock from \$2,000,000 to \$6,000,000, and the addition of \$1,500,000 to the capital funds of the corporation through a contribution to surplus. As you know, Bank of

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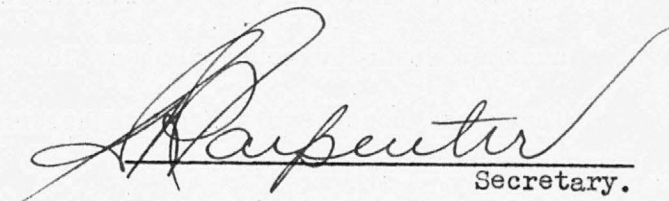
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"America is a wholly owned subsidiary of Bank of America N. T. & S. A.

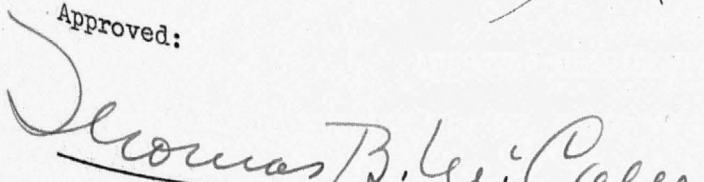
"Your attention is particularly invited to the fact that the increase in capital stock is to be made through the sale of 40,000 shares of stock to the present shareholders (Bank of America N. T. & S. A.) at par value, and also that Bank of America N. T. & S. A. would contribute \$1,500,000 to the surplus of the corporation.

"Before taking any action with respect to this matter, the Board will appreciate receiving any comments which you may wish to make concerning the proposal."

Approved unanimously.


Secretary.

Approved:


Chairman.