

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, June 6, 1950. The Board met in the Board Room at 10:40 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. 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
Mr. Youngdahl, Chief, Government Finance Section, Division of Research and Statistics

Mr. Youngdahl reported on recent developments in the Government securities market, following which he withdrew from the meeting.

Chairman McCabe referred to the letter mailed to Assistant Director of the Budget Staats under date of June 1, 1950 with respect to applicability of the Federal Property and Administrative Services Act of 1949 and Reorganization Plan No. 18 to the Board, stating that yesterday afternoon Mr. Larson, Administrator of the General Services Administration, called him on the telephone and stated that Mr. Staats had sent him the letter and memorandum prepared by the

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Board and that there was no thought on his part that the Board's building would come under the General Services Administration as a result of the reorganization plan. Chairman McCabe also said that, at his suggestion, Mr. Larson readily agreed to furnish a letter or memorandum for the Board's records confirming his oral statement. He added that there was no discussion of the applicability of the Federal Property and Administrative Services Act of 1949 to the Board and suggested that if the letter or memorandum which Mr. Larson stated he would furnish did not cover that question it be taken up with Mr. Staats or Mr. Larson for further discussion.

Mr. Connell, Technical Assistant, Division of Bank Operations, joined the meeting at this point.

Chairman McCabe then called upon Mr. Leonard for a statement with respect to the check collection service of the Federal Reserve System. Mr. Leonard reviewed the legislative background for the check collection system, the history of its development since the inception of the Federal Reserve System, the problems faced in the early years of the System in its efforts to collect non-par as well as par items, the reduction in 1939 in the maximum deferment schedules to three days, progress in recent years in reducing the actual time for collection of checks, and the report recently submitted by a special collection committee of the Presidents' Conference under the Chairmanship of Mr. Powell, First Vice President

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of the Federal Reserve Bank of Minneapolis, which made the following principal recommendations:

"(1) That deferment schedules be further shortened gradually, even if greater amounts of float would have to be absorbed or offset.

"(2) That in any further shortening of such schedules a differential be considered which would take into account the fact that banks outside Federal Reserve cities are at a disadvantage from the standpoint of availability of funds; that is to say, if one-day maximum deferment is granted to banks in Federal Reserve cities and banks in the same metropolitan area, consideration should be given to granting immediate credit to banks outside Federal Reserve cities.

"(3) There appears to be a need for a simpler reserve balance accounting method for the smaller member banks. Since accounting for deferments seems to be a major consideration for not using the Federal Reserve facilities, the Committee recommends a study of this subject."

During a discussion of Mr. Leonard's statement, the meeting recessed and reconvened at 3:15 p.m. with the same attendance as at the close of the morning session except that Mr. Young was not present.

Discussion of the check collection system was continued during the course of which Mr. Leonard referred to the topic on the agenda for the forthcoming Presidents' conference with respect to adoption of a schedule which would reduce to two days the maximum deferment of credit for cash items, concerning which Mr. Leach, Chairman, Committee on Operations, Conference of Presidents, addressed a letter to the Board under date of May 4, 1950. It was the consensus

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of the members of the Board who were present that early adoption of a two day maximum deferment schedule should take place and at Chairman McCabe's suggestion it was understood that he would suggest to the Presidents at the joint meeting with the Board next week that prior to announcement of the change the members of the executive committee of the Federal Advisory Council be invited to meet with the Board for the purpose of discussing the proposed change, and that following that meeting the matter be taken up also with representatives of the American Bankers Association and the Association of Reserve City Bankers.

Chairman McCabe's suggestion was approved unanimously.

Mr. Connell withdrew from the meeting at this point.

Before this meeting there had been circulated among the members of the Board a draft of letter to Mr. Wilbur, Chairman of the Federal Reserve Bank of San Francisco, with respect to a recent speech given by Vice President and General Counsel Agnew of that Bank.

The draft was discussed, changed, and approved unanimously in the following form:

"The Board's attention has been called to the report in the Wall Street Journal of May 24, 1950, of Mr. Agnew's talk before a convention of the American Institute of Banking at Salt Lake City.

"The purpose of this letter is not to question the legal right of an officer of a Federal Reserve Bank to express an opinion which might be in disagreement

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"with policies of the Federal Government. However, the Federal Reserve System as the central banking organization of the United States is closely identified with the Government in the public mind and of necessity must work closely with various departments and agencies of the Government. In these circumstances, the Board questions whether any public statement by an officer of a Federal Reserve Bank should go beyond the presentation, in a dispassionate way, of his opinion and the factual material on which the opinion is based.

"We have not read the entire speech which might throw a different light on the matter. According to the report, however, Mr. Agnew's talk went far beyond the limits indicated in the foregoing paragraph and was in the nature of an attack on the administration in power. By many it will be regarded as a political speech by an officer of an instrumentality of the Federal Government. Such a statement can be the source of serious misunderstandings including the charge that the Federal Reserve Banks and their personnel are actively engaged in party politics.

"The Board does not believe the Federal Reserve Banks or the officers and directors of the Federal Reserve Banks should be placed in that position. For that reason the Board would appreciate it very much if you would bring this matter to the attention of your directors with the request that they consider the action that might be taken to prevent such a situation arising at your Bank in the future."

Mr. Vest stated that in accordance with the decision at the meeting of the Board on June 2, 1950 he had informed representatives of the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation that the Board would like to have a simultaneous examination of all the banks under common ownership with the Continental National Bank and Trust Company of Salt Lake City, Utah. He also said that Mr. Jennings, Assistant Chief National Bank Examiner of the Office of the Comptroller, had

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telephoned to say that the Comptroller was inviting Mr. Cosgriff, President of the National Bank, to come to Washington for a conference, that while the Comptroller's Office favored the simultaneous examination proposed by the Board the Office would like to defer a decision on such an examination until a reply was received from the letter to Mr. Cosgriff, and that if he were not willing to come to Washington or if the conference with him did not produce satisfactory results the Comptroller of the Currency would like to proceed with a simultaneous examination as early in July as possible.

Unanimous approval was given to the following letter to the Presidents of all the Federal Reserve Banks:

"You have recently received from the Board copies of bills pending in Congress to aid small business and an analysis of such bills. It is, of course, impossible to say at this time what legislation on this subject, if any, may be enacted. However, in order that the Board may be prepared to act promptly in the event of enactment of any such legislation, the Board's staff has been giving consideration to the nature of the regulations which might appropriately be issued by the Board if such legislation should be passed; and there is enclosed a preliminary draft of such regulations.

"The enclosed draft is based generally upon the provisions of the Lucas-Spence Bill (S. 3625) which would be known as the 'Small Business Act of 1950'. However, in order to cover the different types of regulations which might have to be issued by the Board under the various proposals before Congress, the enclosed draft follows that part of the amended O'Mahoney Bill (S. 2975) which would place the proposed program for the insurance of business loans (the Bimson Plan) in the investment companies which would be organized under the Federal

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"Reserve System rather than in the Department of Commerce as contemplated by the Lucas-Spence Bill.

"You will note that the proposed regulations would include in section 8 the promulgation by the Board of standards relating to the eligibility of business enterprises for aid under the regulations. In the drafting of these standards, we have not as yet discussed the matter with the Department of Commerce or consulted with the Secretary of Commerce as would be required if the Lucas-Spence Bill were enacted.

"It should be recognized that the enclosed draft of regulations is purely tentative. It has not been considered by the Board and will, of course, have to be changed to conform to such legislation as may be enacted; but it seems desirable at this time to consider the general outline of such regulations. Accordingly, it will be appreciated if you will let us have, not later than Monday, June 26, any comments which you may care to offer with respect to the enclosed draft of regulations, and particularly with respect to the proposed standards of eligibility."

At this point all of the members of the staff with the exception of Mr. Carpenter withdrew from the meeting.

Chairman McCabe reported for the information of the other members of the Board a recent informal conversation which he had had with Senator Robertson regarding the likelihood of further action at this session of the Congress on the bank holding company bill.

Mr. Szymczak stated that in accordance with the informal conversations with members of the Board he, as the senior member of the Personnel Committee, had informed Mr. Morrill that his desire to be released from active service at the end of June had been discussed in executive session on Friday, June 1, 1950, and that the members of the Board, including the absent members, unanimously

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requested, for various reasons, that he continue in active service until the end of this calendar year. Mr. Szymczak also said that after considering the matter, Mr. Morrill had stated that in response to the Board's request he would be willing to continue during the remainder of 1950 with the understanding that at the end of that time his active service would automatically terminate and he would retire as of the first of the month in which his accumulated annual leave would be exhausted.

Upon motion by Mr. Szymczak, it was voted unanimously to continue Mr. Morrill in active service as Special Adviser to the Board until the end of the current year with the understanding set forth above.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on June 5, 1950, were approved unanimously.

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

"The Board appreciates very much the interest shown in your letter of May 19, 1950, in which you refer to the possible withdrawal from membership by the Lodi State Bank, Lodi, Ohio, and the Charleroi Savings & Trust Company, Charleroi, Pennsylvania. You also inquire as to the possibility of the Board pressing for action by the Congress on pending legislation to liberalize the capital requirements for membership in the Federal Reserve System and for the establishment of out-of-town branches.

"As you know, the Board and the Federal Reserve Banks have been keenly aware for a considerable period of time of the unsatisfactory situation created by the existing capital requirements for membership in the Federal Reserve

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"System and the establishment of branches by member banks. The problem has presented itself in other Federal Reserve Districts in much the same form as that outlined in your letter. Shortly after the present session of the Congress convened, I discussed the desirability of legislation with Senator Robertson who, as you know, is Chairman of the subcommittee on Federal Reserve matters. It was his view that there should be hearings on the bill which was then pending and he stated that he would try to schedule hearings as soon as possible. I have raised the matter with him from time to time since our first discussion but he has not been able to find a time when the matter could be taken up actively by the Committee. The bill was referred to at the last meeting of the Presidents Conference when there was a discussion of what the Federal Reserve Banks might do to get support for the legislation in their respective districts and also what might be done by the Board to see whether agreement could be reached on a bill by interested parties in Washington. The matter is on the agenda for further discussion with the Presidents of the Federal Reserve Banks during the week of June 12. As you know, the legislation is opposed by the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and others and as long as that situation exists it is going to be extremely difficult to get action. Furthermore, the pressure of other important legislation and for an early adjournment has been making itself felt on the Hill for some weeks and I regret to have to say that there is little likelihood that a bill of this kind could be pushed through the House and Senate at this late date.

"The Board regrets that it has not been possible to get more effective consideration of this important legislation at this session of Congress but there have been so many very controversial matters that have fully occupied the time of Senator Robertson's Committee that it now appears that this bill was doomed from the start so far as effective consideration at this session of the Congress was concerned."

Approved unanimously, with the understanding that the Presidents of all Federal Reserve Banks would be

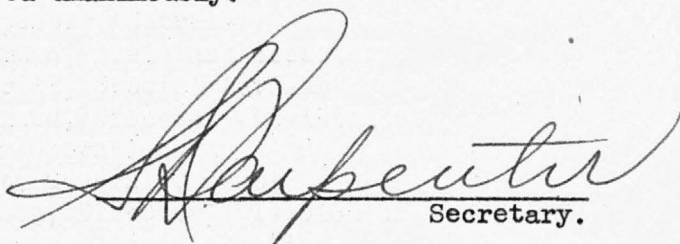
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advised of the Board's views at the forthcoming conference.

Memorandum dated June 5, 1950, from Mr. Chase, Assistant Solicitor, requesting that the 1950 budget for furniture and equipment for the Solicitor's Office be increased by \$1,000.

Approved unanimously.


Secretary.