

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, August 18, 1950. The Board met in the Conference Room at 4:15 p.m.

PRESENT: Mr. McCabe, Chairman
Mr. Eccles
Mr. Szymczak
Mr. Draper
Mr. Evans
Mr. Vardaman

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. Vest, General Counsel
Mr. Young, Director, Division of
Research and Statistics

There was presented a telegram dated August 17, 1950, from Mr. Carroll, Assistant Secretary of the Federal Reserve Bank of New York, stating that the directors of the New York Reserve Bank at their meeting that day voted unanimously, subject to review and determination of the Board of Governors of the Federal Reserve System, to eliminate the rate of 1-1/2 per cent on discounts and advances to member banks under Sections 13 and 13a of the Federal Reserve Act, and to establish a rate of 1-3/4 per cent thereon; to eliminate the rate of 2 per cent on advances to member banks under Section 10(b) and to establish a rate of 2-1/4 per cent thereon; and to eliminate the minimum buying rates of 1-1/2 per cent on bankers' acceptances and 1-1/2 per cent on trade acceptances and to establish minimum buying rates of 1-3/4

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per cent thereon; otherwise to establish without change the rates of discount and purchase in the existing schedule.

A similar proposal for rate increases at the Federal Reserve Bank of New York, as advised in telegrams from that Bank dated July 21 and July 27, 1950, had been considered at the meeting on July 28, 1950, at which time action was deferred pending further discussions of System monetary and credit policies and Treasury financing policies, and the Federal Reserve Bank of New York was informed accordingly. Under date of August 3, 1950, Mr. Rounds, First Vice President of the New York Reserve Bank, had notified the Board by telegram that the Bank's Executive Committee at its meeting that day had voted in favor of similar rate increases. No Board action had been taken with respect to this proposal.

Chairman McCabe referred to the discussion of credit policy at a meeting of the Federal Open Market Committee immediately preceding this one, and suggested that in the light of actions taken at that meeting, the increased rates fixed by the directors of the Federal Reserve Bank of New York as reported in the wire from that Bank dated August 17, 1950, be approved.

Thereupon, upon motion by Mr. Szymczak, and by unanimous vote, a telegram to the Federal Reserve Bank of New York was approved in the following form:

"Retel August 17, Board approves effective August 21, 1950, rates of 1-3/4 per cent on discounts and

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"advances to member banks under Sections 13 and 13a; 2-1/4 per cent on advances to member banks under Section 10(b); and minimum buying rates of 1-3/4 per cent on bankers' acceptances and trade acceptances. Otherwise Board of Governors approves establishment by your Bank, without change, of rates of discount and purchase in existing schedule."

There had been prepared, pursuant to the discussion at the meeting today of the Federal Open Market Committee, a statement in the following form for issuance as a joint statement of the Board of Governors and the Federal Open Market Committee:

"The Board of Governors of the Federal Reserve System today approved an increase in the discount rate of the Federal Reserve Bank of New York from 1-1/2 per cent to 1-3/4 per cent effective at the opening of business Monday, August 21.

"Within the past six weeks loans and holdings of corporate and municipal securities have expanded by \$1-1/2 billion at banks in leading cities alone. Such an expansion under present conditions is clearly excessive. In view of this development and to support the Government's decision to rely in major degree for the immediate future upon fiscal and credit measures to curb inflation, the Board of Governors of the Federal Reserve System and the Federal Open Market Committee are prepared to use all the means at their command to restrain further expansion of bank credit consistent with the policy of maintaining orderly conditions in the Government securities market.

"The Board is also prepared to request the Congress for additional authority should that prove necessary.

"Effective restraint of inflation must depend ultimately on the willingness of the American people to tax themselves adequately to meet the Government's needs on a pay-as-you-go basis. Taxation alone, however, will not do the job. Parallel and prompt restraint in the area of monetary and credit policy is essential."

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Upon motion by Mr. Eccles, the above statement was approved unanimously for release to the press today with the understanding that advice thereof would also be sent by telegraph to the Presidents of all Federal Reserve Banks and the managing officers of all Federal Reserve Bank branches.

At this point all of the members of the staff with the exception of Messrs. 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 July 3, 1950, were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on July 5, 6, 7, 10, 11, 12, 13, 14, 17, 18, 19, 20, 21, 24, 25, 26, 27, 28, 31, August 1, 2, 3, 4, 7, 8, 9, 10, 11, 14, 15, 16, and 17, 1950, were approved and the actions recorded therein were ratified unanimously.

Telegrams to the Federal Reserve Banks of Philadelphia, Chicago, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on August 15, and by the Federal Reserve Banks of Philadelphia and Chicago on August 17, 1950, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

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Memoranda dated August 10, 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 August 20, 1950:

<u>Name</u>	<u>Title</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Mrs. Lyndall C. McCloud	Economist	\$5,600	\$6,000
Ramsay Wood	Economist	7,600	8,000

Approved, Mr. Vardaman not voting.

Letter to the Organizers of the "Arkansas Valley Bank", Pueblo, Colorado, 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 Kansas City, 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 have a paid-up and unimpaired capital stock of not less than \$300,000, and other capital funds of not less than \$100,000.
- "4. When its total deposits reach \$6,000,000 and remain at or above that level for as long as six months, such bank shall increase its capital through sale of not less than \$100,000, par value, additional capital stock.
- "5. Such bank shall limit its investment in fixed assets to \$30,000, unless specifically authorized by the Federal Reserve Bank of Kansas City, and such bank shall not invest in a banking house without consent of the Federal Reserve Bank of Kansas City.

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"6. Such bank shall pay no dividends without the consent of the Federal Reserve Bank of Kansas City."

The letter also contained the following special comment:

"Since the application for membership was made on behalf of the Arkansas Valley Bank prior to the issuance of its charter, it is requested that, in connection with the acceptance of the conditions of membership prescribed by the Board, the board of directors of the applicant bank ratify, after the charter is actually issued, the action which has been taken in its behalf in making application for membership in the Federal Reserve System."

Approved unanimously for
transmittal through the Federal
Reserve Bank of Kansas City.

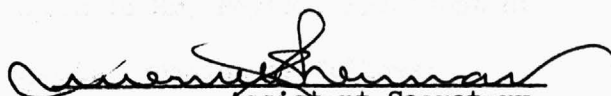
Letter to Mr. Purrington, Assistant Vice President of the
Federal Reserve Bank of Chicago, reading as follows:

"This refers to your telegram of August 15 regarding the penalty incurred by Commercial National Bank, Berwyn, Illinois, on a deficiency in its reserves for the period ended July 31, 1950.

"It is noted that the deficiency resulted from a miscalculation of the amount to be transferred on July 28; that the bank carried ample funds with its correspondent to transfer a sufficient amount; and that this is the first deficiency since the bank became a member.

"In the circumstances, the Board authorizes your Bank to waive assessment of the penalty in this case."

Approved unanimously.


Assistant Secretary.