

March 13, 1945

Mr. William H. Davis, Director,
Office of Economic Stabilization,
Washington 25, D. C.

Dear Mr. Davis:

Reference is made to Mr. Vinson's undated letter which was received in the Board's offices on February 24, 1945, and in which the suggestion is made that the Board of Governors use the authority granted to it by provisions of the Securities Exchange Act of 1934, to place trading in securities and stocks on a 100 per cent cash basis.

As I have advised the Economic Stabilization Board, this matter is being considered by the Board of Governors and you will be informed as soon as soon as any conclusions are reached.

Very truly yours,

(Signed) M. S. Eccles.

M. S. Eccles,
Chairman.

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OFFICE OF ECONOMIC STABILIZATION
WASHINGTON, D. C.

Honorable Marriner S. Eccles
Chairman, Board of Governors
Federal Reserve System
Washington 25, D. C.

Dear Marriner:

As you know, the Economic Stabilization Board has been discussing for some weeks your proposal for a special levy on wartime capital gains; and I believe that we have made substantial progress.

However, I am clear in my own mind -- and I believe that most of the members of the Board agree -- that we cannot afford to forego the exercise of those powers which the Executive Branch now possesses in the field of credit control. It may well be that supplementary legislative measures such as you suggest will be necessary, but we must meanwhile use all the powers we possess, even though they be not completely adequate.

Among those powers is the authority of the Federal Reserve Board to control margin trade. If, as appears to be the case, there may be serious danger of an inflation in security values, it would seem logical to place trading in securities and stocks on a 100 percent cash basis. It is my tentative opinion that this should be done. I should be grateful if you would take this matter up with the members of your Board and inform me as to the Board's attitude on this question.

Sincerely yours,

(Signed) Fred M. Vinson

Director.

(Letter undated; received Feb. 24/45)

MAR 23 1945

Honorable William H. Davis,
Director,
Office of Economic Stabilization,
Washington 25, D. C.

Dear Mr. Davis:

As you know, Judge Vinson, while still Director of Economic Stabilization, addressed a letter to the Board expressing the opinion that such powers as the Executive Branch now possesses in the field of credit control should be exercised, even though such powers may not be completely adequate and supplementary legislative measures may be necessary. After citing among such powers the authority of the Federal Reserve Board to control margin trade, he said, "If, as appears to be the case, there may be serious danger of an inflation in security values, it would seem logical to place trading in securities and stocks on a 100 percent cash basis. It is my tentative opinion that this should be done."

In my letter to you of March 13 I advised you that this matter was being given consideration by the Board and that you would be informed as soon as any conclusions were reached. The Board has given a great deal of study to this subject, both before and since the receipt of Judge Vinson's letter, and the matter was discussed again at a meeting of the Board on March 21.

Since Judge Vinson's letter was received on February 24, there has been a substantial recession in the stock market and there is no evidence available that the volume of credit used for the purpose of purchasing or carrying securities is increasing. Accordingly, the Board feels that to take the drastic action suggested against the prevailing background could not be justified. As you are aware, the authority of the Board, under the Securities and Exchange Act of 1934, relates to credit and not to cash transactions.

The Board will continue to watch the situation closely and is prepared to take appropriate action should it be warranted by subsequent developments.

Sincerely yours,

(Signed) Marriner S. Eccles

M. S. Eccles,
Chairman.

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