

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, March 15, 1943, at 3:30 p.m.

PRESENT: Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. McKee
Mr. Evans

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the
Chairman
Mr. Dreibelbis, General Attorney
Mr. Goldenweiser, Director of the Division
of Research and Statistics
Mr. Parry, Chief of the Division of Security
Loans
Mr. Wingfield, Assistant General Attorney
Mr. Wyatt, General Counsel
Mr. Thomas, Assistant Director of the Division
of Research and Statistics
Mr. Brown, Administrative Assistant to the
Chief of the Division of Security Loans

Mr. Evans stated that in the absence of Mr. Draper, to whom the subject of extension and maintenance of credit by brokers, dealers, banks, and others for purchasing or carrying securities was assigned for primary consideration, Mr. Parry had raised with him (Mr. Evans), as alternate for Mr. Draper, the question whether action should be taken by the Board to change margin requirements established by Regulation T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, and Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange, and that a memorandum had been prepared on the subject by Mr. Parry under date of March 4, 1943, which had been circulated among the

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members of the Board. Mr. Evans also said that he had asked that the matter be considered at this meeting for the reason that, although he was not prepared to recommend that action be taken, he would like to have the problem discussed so that the members of the Board would be fully familiar with the situation and be prepared to take action whenever the market situation called for action.

At Mr. Evans' request, Mr. Parry outlined the conditions in the securities markets which had impelled him to present the question, and in that connection said that since April 1942 the average for 90 stocks had increased approximately 50 per cent, the price of some individual stocks having increased as much as 100 per cent and others as much as 200 per cent; that the volume of trading during the last two or three months had expanded considerably to approximately one million shares a day with an occasional daily volume of two million shares; and that the amount of round-lot margin trading by the public had increased since early in December from about 30 per cent of the total to about 40 per cent, the trading on balance being on the buying side by more than one and one-half million shares. He pointed out, however, that the amount of additional credit involved in this movement was extremely small, the total of customers' debit balances and of loans by banks for the purpose of purchasing or carrying securities being approximately \$900,000,000 at the present time, which included amounts loaned for the purpose of purchasing or carrying Government securities. Mr. Parry made the further statement that, from the standpoint of the amount of additional credit involved, action by the Board did not seem to be called for at this time,

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but that in his own opinion the stage was being set for an inflationary situation in the stock market, that when the market moved steadily upward it was a generator of inflationary sentiment, that this was indicated by recent reports that current buying in the market was indiscriminate and without much relation to intrinsic values, and that for that reason he felt the Board should reach a determination of what action it should take for the purpose of preventing the development of an inflationary situation in the security markets.

Mr. Parry added that there appeared to be three alternative courses of action that might be taken by the Board: (1) the adoption of a policy of deliberate inaction, (2) the increasing of margin requirements gradually without reaching a decision as to how far the Board would go in that direction, and (3) the adoption of a "crack-down" policy which would contemplate a very substantial increase in margin requirements at one time, including possibly the establishment of maintenance margins by the Board which would require the deposit of additional funds in accounts which did not have the required higher margin or the sale of securities held in such accounts.

Mr. Parry's statement was followed by a general review of the level of security prices since the adoption of Regulation T and of the circumstances in which action had been taken by the Board in the past to change margin requirements. Mr. Parry stated that any action by the Board at the present time would be preventive in character, and that if action were taken it would not have to be as drastic as action at some

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subsequent date when the prices of securities had advanced further and a considerable volume of trading had been built up on the basis of present margin requirements. There was also a discussion of the limitations placed on market trading by the Securities Act of 1933 and the Securities Exchange Act of 1934 and the extent to which these limitations might remove the need for action by the Board.

During the course of the discussion, in response to an inquiry, Mr. Dreibelbis stated that the authority of the Board to change margin requirements was not related solely to the amount of credit being used for the purpose of purchasing or carrying securities but to all of the factors involved which might lead to the excessive use of credit for the purpose of purchasing or carrying securities.

It was the consensus of the members present that they should continue to watch the situation closely.

There was then presented a memorandum dated March 8, 1943, from the Office of the Secretary to which was attached (1) a copy of a release issued by the Office of Price Administration with respect to the President's request that each agency appoint a mileage administrator to control the use of official automobiles owned by the agency in order to reduce the mileage traveled, and (2) a statement of the mileage traveled by the Board's cars each month during the years 1941 and 1942. Mr. Evans had suggested that the Board consider at a meeting whether any further steps should be taken to curtail the use of the cars. The statement indicated that the mileage traveled during 1942 had been reduced by

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approximately 10 per cent from 1941, and it was stated that arrangements were being made to eliminate the use of the Board's cars for the purpose of carrying documents relating to Regulation V matters to and from the Pentagon Building, and that this would reduce the mileage traveled by an additional 10 per cent.

At the conclusion of the discussion, it was voted unanimously to appoint Mr. Nelson, Assistant Secretary, as mileage administrator, with the understanding that he would continue to study the use to which the Board's cars were being put and reduce the mileage traveled wherever it was possible to do so without seriously inconveniencing the work of the Board.

At this point, Messrs. Thurston, Dreibelbis, Goldenweiser, Parry, Wingfield, Wyatt, Thomas, and Brown withdrew from the meeting, and the action stated with respect to each of the matters hereinafter referred to was then taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on March 12, 1943, were approved unanimously.

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

"In accordance with the request contained in your letter of March 10, 1943, the Board approves the designation of the following as special assistant examiners for the Federal Reserve Bank of Philadelphia:

Wm. J. Kelly
Joseph A. Mulholland
Edwin L. Haubenstein
Frederick Eddocoos
Percival Hallowell
Melvin Heyworth"

Approved unanimously.

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Letter to the board of directors of "The People's Bank", Greensburg, Kentucky, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H, 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 St. Louis.

Approved unanimously, for transmission through the Federal Reserve Bank of St. Louis.

Letter dated March 13, 1943, to the Presidents of all the Federal Reserve Banks, reading as follows:

"The Board's letter of January 21, 1943 asked for information on the extent to which the Reserve Banks have had occasion to make findings pursuant to section 8(h)(2) of Regulation W for the purpose of exempting from the provisions of the regulation the financing of repairs or replacements of property damaged or lost as a result of a flood or other similar disaster.

"A summary of the reports has been prepared and is included in the enclosed staff memorandum on the subject.

"One of the Reserve Banks has made the suggestion that whenever a Reserve Bank is called upon to act under this section it notify the rest of the Reserve Banks so that they would be in a position to answer inquiries. This would seem to be a desirable practice and the Board would like to be notified at the same time. A list of the cases in which action has been taken prior to the present time is contained in the above-mentioned memorandum."

Approved unanimously.

Letter to Mr. Woolley, Vice President of the Federal Reserve Bank of Kansas City, reading as follows:

"This is with reference to your letter of February 27, 1943, enclosing a copy of a letter which you received from your Denver Branch together with a copy of your reply regarding the effect of Regulation W upon the used car transaction described therein.

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"Since the practice of rebuilding automobiles at the factory was new to us, we made some inquiries in order to ascertain whether there was any widespread development of this kind. The Automobile Price Section of the OPA knew nothing of it, and when we consulted Moody's Manual of Investments we found no record of a Cord Motor Car Company. The Cord was formerly manufactured by the Auburn Automobile Company which had plants at Auburn, Indiana, Connersville, Indiana, and Los Angeles, California. In 1938 the plants at Auburn and at Los Angeles were sold. Later the company was reorganized and the name is now American Central Manufacturing Corporation which appears to be engaged chiefly in the production of aircraft parts.

"Since the little we have been able to learn would not seem to confirm the reports made to your Denver Branch and since the transaction involved a clear over-valuation of the trade-in, we would hesitate to consider the possibility of approving any down payment for the car less than that which would be required if two-thirds of the value shown in the appraisal guide for the 1937 model was subtracted from the cash price.

"If the rebuilding process described actually is much more than a high-grade reconditioning job, so that the rebuilt car is an entirely different automobile than the one quoted in the appraisal guide, we should be willing to examine this question again. In the meantime, we think that the matter must be handled with care inasmuch as a good deal of evasion might be possible if so-called rebuilt cars were not subject to the appraisal guide comparison."

Approved unanimously.

Letter to Mr. Frank E. Breen, National Automobile Dealers Association, Washington, D. C., reading as follows:

"This will acknowledge your letter of March 9, 1943, notifying the Board that you are changing the publication of the NADA Official Used Car Guide from a monthly to a bi-monthly basis, and that you are changing the effective dates for the several districts.

"The change in publication will have no effect upon the designation of the Guide for use in connection with Regulation W."

Approved unanimously.

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Letter to Mr. Logan, Vice President and General Counsel of the Federal Reserve Bank of New York, reading as follows:

"In connection with the suit by the United States against the Guaranty Trust Company which is now at trial in the United States District Court for the Southern District of New York, the Department of Justice has forwarded to the Board for certification, photostatic copies of seventeen Declarations of Foreign Correspondents obtained from the records of the Division of Foreign Exchange of the Federal Reserve Board.

"As you know, these records are being preserved in New York, and the Board has prepared the certifications and transmits them herewith with the request that they be delivered to Mr. Howard Meyer, Special Assistant to the Attorney General, Federal Court House, New York City, after they have been carefully compared with the originals and determined to be true and complete photostatic copies thereof. This procedure has been requested by the Department of Justice in order to expedite the matter."

Approved unanimously.

Letter to Mr. Sanford, Assistant Vice President of the Federal Reserve Bank of New York, reading as follows:

"Receipt is acknowledged of your letter of March 4, 1943, with which you enclosed certain files from the official records of the Board's Division of Foreign Exchange in the custody of the New York Bank, which the representatives of the Department of Justice wish to borrow in connection with a suit by the Government against the Guaranty Trust Company. The files enclosed with your letter are being returned herewith.

"The Board approves the loan of the enclosed folder and copy of report of investigation of Zimmermann and Forshay to the Department of Justice, with the same understanding as that set forth in the Board's telegram of February 19, 1943, i.e., that the files will be kept intact and that they will be returned as soon as possible in the same order and arrangement in which they are released. A receipt should be taken for the files from an authorized representative of the Department, and when they are returned it is requested that you advise this office accordingly."

Approved unanimously.

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Memorandum dated March 12, 1943, from Mr. Smead, Chief of the Division of Bank Operations, recommending, for the reasons stated in the memorandum, that the sum of \$25.00 be added to the item of postage and expressage in the 1943 non-personal budget of that Division.

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

Donald Hanson
Vice Chairman.