

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Saturday, July 17, 1943, at 11:00 a.m.

PRESENT: Mr. Eccles, Chairman
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

The action stated with respect to each of the matters herein-after referred to was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on July 16, 1943, were approved unanimously.

Letter to the Presidents of all the Federal Reserve Banks, reading as follows:

"Since the maximum time for which credit for interdistrict cash items is deferred by Federal Reserve Banks is only three days, the Board has withdrawn the requirement contained in its letter X-2065 of November 18, 1920 (Loose-Leaf Service #4450) that changes in the interdistrict time schedule be submitted to the Board for approval before they become effective.

"It will be appreciated, however, if the Board is promptly advised of any changes in your interdistrict or intradistrict schedule for collection of cash items."

Approved unanimously.

Letter prepared for the signature of Chairman Eccles to Honorable Daniel W. Bell, Under Secretary of the Treasury, reading as follows:

"In response to your letter of June 7 the Board has given careful consideration to your suggestion that weekly reporting member banks be asked to report separately the amount of loans to brokers and dealers and to others, respectively, for the purpose of purchasing or carrying Government securities.

7/17/43

-2-

"Investigation of the figures already obtained from the weekly reporting member banks during and after the war loan drives seems to provide a general but reasonably adequate indication of the extent to which banks made loans for the purpose of purchasing or carrying Government securities and of the liquidation in such loans. These figures include loans for purchasing or carrying other securities as well as Government securities, except that New York banks also report, as a memorandum item, their loans to brokers and dealers for the purpose of purchasing or carrying Government securities. The data reported by New York banks, together with information obtained from brokerage houses, the general state of the stock market, and the timing of changes in relation to war loan drives permit reasonable deductions as to the extent to which borrowings at weekly reporting member banks are for the purpose of purchasing Government securities. As you suggest, a more precise indication would be obtained by having all weekly reporting member banks report separate figures of loans for the purpose of purchasing or carrying Government securities. Even such figures, however, would not provide a distinction between purely speculative loans on Government securities and those representing borrowings in anticipation of income to amortize the loans in a short time.

"Reported figures summarized on the attached table show substantial increases in loans to brokers and dealers and to others for the purpose of purchasing or carrying securities between March 10 and May 5, 1943, followed by substantial declines in both types of loans. It will be observed that the supplementary data obtained from New York City banks indicate that a large part of the increase in loans to brokers and dealers represents loans for the purpose of purchasing or carrying United States Government securities. It is reasonable to assume that the increase in security loans by other weekly reporting member banks during the same period, both to brokers and dealers and to 'others', also reflects in large part purchases of United States Government securities with borrowed funds, although not necessarily for speculative purposes.

"As I pointed out in our telephone discussion of this matter yesterday, the Government agencies in general have been criticized severely for collecting an increasing amount of statistical data. Banks in particular have been burdened with extra reports during the war period in the face of an ever-growing shortage of competent personnel. I believe the additional information which would be provided through the report suggested by you would be outweighed by the additional burden on the banks in providing information regarding loans which make up a relatively small part of the total loans of banks.

7/17/43

-3-

"While some of the loans made on Government securities have inflationary aspects, more importantly, such loans may be availed of by speculative subscribers to Treasury offerings of new Government securities. I believe, however, that this problem can best be met by requiring full payment wherever the subscriber receives a full allotment and by requiring a higher percentage of down payment than heretofore when the subscriber is to receive only a part of his subscription. Additional restraints on such speculation can also be provided by the Treasury through other regulations governing subscriptions and through the selection and pricing of the securities to be offered.

"In the above circumstances, the Board would appreciate it if you would reconsider your request. If you still feel that some such information is definitely needed, the Board would much prefer that the information be collected only from banks in New York City and Chicago and only as respects loans made to brokers and dealers."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morris
Secretary.

Approved:

W. S. Coates
Chairman.