A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, March 9, 1945, at 2:30 p.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. Draper
Mr. Evans

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Hammond, Assistant Secretary
Mr. Thurston, Assistant to the Chairman
Mr. Goldenweiser, Economic Adviser,
Division of Research and Statistics
Mr. Parry, Director of the Division of
Security Loans
Mr. Leonard, Director of the Division of
Personnel Administration
Mr. Dreibelbis, General Attorney
Mr. Pollard, Assistant Director of the
Division of Examinations
Mr. Vest, Assistant General Attorney
Mr. Brown, Assistant Director of the
Division of Security Loans
Mr. Wyatt, General Counsel

There were presented telegrams to Mr. Leach, President of the Federal Reserve Bank of Richmond, Mr. Dillard, Vice President of the Federal Reserve Bank of Chicago, Mr. Stewart, Secretary of the Federal Reserve Bank of St. Louis, Mr. Powell, First Vice President of the Federal Reserve Bank of Minneapolis, Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, and Mr. Earhart, Vice President of the Federal Reserve Bank of California, stating that the Board approved the establishment without change by the Federal Reserve Bank of Chicago on March 5, by the Federal Reserve Banks of Kansas City and San Francisco on March 6, by the Federal Reserve Bank of Minneapolis on March 7,
and by the Federal Reserve Banks of Richmond, Chicago, St. Louis, and Minneapolis on March 8, 1945, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

There was also presented a telegram to Mr. Brome, Assistant Secretary of the Federal Reserve Bank of New York, Mr. Clouse, Secretary of the Federal Reserve Bank of Cleveland, and Mr. Gilbert, President of the Federal Reserve Bank of Dallas, reading as follows:

"Board of Governors of the Federal Reserve System approves establishment by your bank, without change, of rates of discount and purchase in bank's existing schedule, advice of which was contained in your telegram dated March 8, it being understood that in view of action of Federal Open Market Committee on March 1, 1945, no rate was established for the purchase, subject to resale agreements, of Government securities other than Treasury bills."

Approved unanimously.

There was a discussion of the procedure to be followed at the hearing to be held on Monday, March 12, 1945, at 10:30 a.m. of attorneys for Messrs. Agnew and Fayerweather in connection with the proceeding to determine whether the two individuals named should be removed from office as directors of the Paterson National Bank, Paterson, New Jersey. It was agreed that a prepared opening statement would be read by the presiding officer, that the attorneys would be given an opportunity to make such statement as they might wish, and that, if a question should be asked by the attorneys as to the reasons for the interpretation of
the law upon which the proceeding had been based, Mr. Dreibelbis would make a statement.

Mr. Draper stated that he had been giving further consideration to the question of action by the Board to increase the margin requirements prescribed under Regulations T and U and that he had asked that the matter be placed on the docket for this meeting for preliminary discussion only, because of the request made by Mr. McKee before he left Washington that action on margin requirements be deferred until his return.

In this connection, Chairman Eccles referred to a letter received by the Board on February 24, 1945, from Mr. Vinson, Director of Economic Stabilization, reading as follows:

"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."
At Mr. Draper's request, Mr. Parry referred to a memorandum prepared by Mr. Thomas, Director of the Division of Research and Statistics, under date of March 9, 1945, in which he outlined reasons for the following conclusions:

"While the existing situation calls for some further increase in margin requirements at this time, the imposition of 100 per cent margins, which is a step toward complete prohibition of borrowing to purchase securities, is entirely too drastic under present circumstances.

"If more definite signs of inflation in the stock market should develop, the Board should be prepared to impose 100 per cent margin requirements on brokers or to go as near to that limit as may be deemed permissible under present law. Banks should be permitted to continue to make security loans, with high margins, unless there should be definite evidence of widespread speculative use of such credit."

Mr. Thomas' memorandum was read, after which Mr. Parry discussed the trend of security prices during the period from January 1 to March 8, 1945, inclusive, and over the longer range period from 1937 to date, and in that connection pointed out that average prices of securities listed on the New York Stock Exchange declined approximately four points during the last two days which brought them to a point approximately 10 per cent above the prewar average of 1935-1939. He also discussed in some detail matters which would have to be taken into consideration by the Board in determining when and the extent to which action should be taken and expressed the opinion that under the circumstances the decision that would seem to be indicated would be to defer action until there was more apparent reason for an increase
in margin requirements and then to take moderate action.

The comments of the members of the Board in the discussion which ensued indicated the feeling that perhaps there was no justification for action to increase margin requirements because of current conditions, or the use of credit that was now being made, in the securities' markets, but that there might be justification for such action as a part of a general program of the Government for combating the dangers of inflation. There was also discussion of conditions under which, and the possible effects of, action by the Board not only to increase the margin requirements now prescribed under Regulations T and U, but to prescribe a "bring-up" margin and a maintenance margin.

In response to a request for his views, Mr. Goldenweiser expressed the opinion that there was no adequate reason for action at this time, either from the point of view of security prices or the amount of credit being used to purchase and carry securities, and that any reason for action would have to be found in a policy of action on all fronts to counteract the dangers of inflation.

At Mr. Draper's request, there was also read the following memorandum which he had prepared for presentation at this meeting:

"In discussing further action on Regulations T and U, there appear to be three schools of thought: "First, there are those who believe that no action should be taken at this time. As I understand it, they
believe that time and the deflationary forces, set in motion by a German defeat, will reverse the present trend of rising prices. Also, they point to the fact that, although an increasing amount of credit is being used in the market, the increase is moderate and the total amount of credit—about 1 billion one hundred million—is so relatively small as to cause no immediate alarm.

Second, there are those who believe that the time has come for much more drastic action but not such drastic action as to prevent a certain amount of elasticity of action to remain. They are actuated by the desire to hold back something in the way of using all their powers at once on the theory that a certain amount of unused power, hanging over the market, is more of a deterrent on the market than if all powers are used at once and the market quickly realizes that it has nothing further to fear, at least for the immediate present, from governmental sources.

Exactly what amount of action this group recommends varies with almost every individual consulted but roughly I think their ideas would be met by a rise in the extension margin from the present 50% to 70%.

Third, there are those who believe that the time for temporizing with the situation is over. They say that the market shows definite signs of taking the bit in its teeth and advancing, regardless of any half-way restraint imposed. They go further and say that probably 100% action will have only a temporary effect upon stock market prices but that since Congress gave us the power to go as high as 100% we should, if necessary, use this full power in order to prove to Congress that, in so far as the present law permits, we have used to the limit the instrument of control that they gave us.

Here again, when you attempt to translate this point of view into definite suggestions for action, individual opinions vary. However, I believe that the majority of those consulted would favor an immediate rise in the extension margin from 50% to 100%.

So, briefly, the three schools of thought appear to be:

1.—The No Action Now group.
2.—The 70% Action Now group.
3.—The 100% Action Now group.

In conclusion, may I say there are some corollary problems to face in case we take any action at all. I
"mean first, the problem relating to specialists and second, those relating to our treatment of banks in some-
what different fashion from our treatment of brokers for reasons which Dr. Parry will explain."

Question was raised as to the authority of the Board under the present law to increase margin requirements to 100 per cent, and counsel was requested to consider this point.

It was also agreed that the whole matter should be placed on the docket for further consideration at the meeting of the Board to be held on Friday, March 16, 1945, and that a draft of reply should be prepared to the letter from Mr. Vinson stating that the question raised was receiving the consideration of the Board and that the Office of Economic Stabilization would be advised as soon as a decision was reached.

Chairman Eccles stated that under date of March 5, 1945, Mr. Dreibelbis addressed a letter to the Board reading as follows:

"As I advised the Board informally on December 1, 1944, I have accepted another position and, accordingly, wish now to tender my formal resignation effective March 15th.

"At the same time I wish to express my deep appreci-
ation to the Board for the considerate treatment which I have always received at its hands and the opportunities which service under it has offered. It is with real re-
gret that my official association with the System is ter-
minalized and, for selfish reasons, it is my hope that the personal friendships, which I like to think have grown and developed out of my association with members of the Board and staff, will continue unbroken."

Chairman Eccles also said that he had discussed the matter
with Mr. Dreibelbis, who felt that in fairness to the Bankers Trust Company he should not delay any longer than was absolutely necessary the date upon which he would join the staff of that organization, that the Bank was anxious to announce the appointment which it now proposed to do on March 19, but that it was understood that his services would be available to the Board to the extent that might be necessary until April 1.

Upon motion by Mr. Draper, the following letter to Mr. Dreibelbis, accepting his resignation, was approved unanimously:

"With great reluctance the Board has accepted your formal resignation effective March 15, as tendered in your letter of March 5. All of the members of the Board join me in wishing you every success in the new undertaking which is the occasion for your severing officially an association in which you and members of the Board and staff have cemented and developed lasting personal friendships, and an esteem and high regard on our part for the admirable contributions you have made to the best interests of the Board and System. You can be justly proud of the record you have made. Your interest in the System will, I am sure, be enduring. On behalf of the Board and staff, I express our appreciation and our confident hope that the new fields of opportunity to which you are going will bring you every happiness and success."

Mr. Ransom then moved that, effective March 16, Mr. Vest be appointed to succeed Mr. Dreibelbis as General Attorney for the Board, with the same authority and responsibilities as Mr. Dreibelbis had as General Attorney, and with salary at the rate of $15,000 per annum.

This motion was put by the chair and carried unanimously.
At this point Messrs. Goldenweiser, Parry, Leonard, Dreiblebis, Pollard, Vest, Brown, and Wyatt withdrew from the meeting.

The action stated with respect to each of the matters herein—after 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 8, 1945, were approved unanimously.

Letter to Mr. Meyer, Assistant Cashier of the Federal Reserve Bank of Chicago, reading as follows:

"The Board of Governors approves the changes in the personnel classification plan of your Bank, involving increases in maximum annual salaries and the elimination of positions at the Head Office and the Detroit Branch, as submitted with your letter of February 24, 1945."

Approved unanimously, together with a letter to the Wage Stabilization Division, National War Labor Board, transmitting certificates of the Federal Reserve Bank of Chicago with respect to salary increases at the Bank.

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

"This refers to your letter of December 8, 1944, with regard to the proposed amendments to the 'Plan for Securing Federal Reserve Notes by Pledge of Participations (Undivided Interests) in Direct Obligations of the United States in System Open Market Account'. In your letter you mentioned the fact that the Presidents' Conference in September expressed the view that it would be desirable to consider the adoption of the proposed amendments and you suggested that the Board of Governors..."
"review the matter and take such action as it deems appropriate in the light of your letter of August 9, 1944, and of the action of the Presidents' Conference.

"This matter had been previously considered by the Board, as indicated in its letter of July 3, 1944, and since the receipt of your letter of December 8 the members of the Board have again discussed the question. It has also been the subject of correspondence between your General Counsel and the Board's Assistant General Attorney. We understand, however, that the matter was again taken up by the Presidents' Conference at its meeting at the end of February and was referred by the Conference to its Committee on Operations. In the circumstances, it does not appear that any action by the Board in the matter is called for at this time."

Approved unanimously.

Letter to the Comptroller of the Currency reading as follows:

"It is respectfully requested that you place an order with the Bureau of Engraving and Printing supplementing the order of June 13, 1944, for printing Federal Reserve notes of the 1934 series in the amount and denomination stated for the Federal Reserve Bank of Richmond.

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Approved unanimously.

Thereupon the meeting adjourned.

Chairman.

Secretary.