A meeting of the Board of Governors of the Federal Reserve System with the executive committee of the Federal Advisory Council was held in the offices of the Board of Governors in Washington, on Wednesday, June 13, 1945, at 12:00 noon.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Szymczak (latter part of meeting)
Mr. McKee
Mr. Draper
Mr. Evans

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Hammond, Assistant Secretary
Mr. Goldenweiser, Economic Adviser, Division of Research and Statistics
Mr. Smead, Director of the Division of Bank Operations
Mr. Paulger, Director of the Division of Examinations
Mr. Parry, Director of the Division of Security Loans
Mr. Vest, General Attorney
Mr. Leonard, Director of the Division of Personnel Administration


Mr. Walter Lichtenstein, Secretary of the Federal Advisory Council

Mr. Brown stated that Mr. McKee had shown the members of the executive committee (1) the motion which had been approved at the meeting in Memphis on June 5, 1945, at which the question of the absorption of exchange charges was discussed, and, (2) a draft of letter which was being prepared to be sent to all member banks. He said that the members
of the executive committee felt that the Memphis meeting represented real progress in the solution of the matter, that it was believed that something had to be done, and that the general theory that any absorption of not to exceed $2 a month would be regarded as trivial was a sound proposition. Mr. Brown made the further comment that Mr. Fleming was of the opinion that the absorption for a single customer in an isolated instance which might occur only once in two or three years of a small amount in excess of $2 should not be regarded as being in violation of the law and that the examiners should have discretion to treat the matter accordingly. Mr. Brown said it was not his impression from reading the letter that the $2 amount would be regarded as a limitation in the situation referred to by Mr. Fleming and that absorption in such a case would not be regarded as a violation.

Mr. McKee made it clear that the bank representatives at the Memphis meeting felt that the arrangement that was worked out should be a definite one which would not be subject to different interpretations and that the question raised by Mr. Fleming would be one for the bank supervisory agencies to decide on the basis of the facts of each case as it arose.

Mr. Fleming stated that the arrangement should not be so rigid as to prevent the absorption of exchange in isolated instances of the kind which he referred to as coming into his bank from time to time and involving small amounts which had no relation whatsoever to the
balance maintained by the depositor, and that the letter sent to the banks should make that clear. In the discussion which ensued Mr. Fleming indicated that he would be satisfied if the letter contained a statement to the effect that the limitation would not apply to isolated cases where, in the judgment of the bank or the supervisory authorities, there was no relationship between the amount of exchange absorbed and the balance maintained by the depositor.

Mr. Brown commented that the letter in its present form would not prevent the absorption by the bank of exchange charges in an amount up to say $5 in any one month where that occurred in a customer's account only once in two or three years, and that the language of the letter would not deprive the examiner of discretion as to whether he would report such absorption. He also said that there was no question of any difference of opinion between the members of the executive committee and the Board of Governors as to the method of approach but that it was felt that there should be assurance that the absorption of exchange in excess of $2 in isolated cases of the kind referred to would not be regarded as a violation.

Mr. McKee said he was satisfied that that point would be taken care of in the enforcement procedure.

Mr. Szymczak came into the meeting at this point.

Mr. Brown then inquired whether there had been any further
developments in connection with the suggestion that the Board of Gov-
ernors increase the margin requirements prescribed in 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 Na-
tional Securities Exchange, and stated that the members of the execu-
tive committee felt it would be a great mistake to increase margins
to 100% at this time as it was not felt that during the last month
or two the market had shown any tendency to get out of hand. He added
that if, at a later time, some action were necessary it would be better
if the required margins were increased to 100% by steps rather than
by a single action.

Chairman Eccles stated that there had been no discussion of
the matter by the Board since the last meeting of the Council, that
the proposal was a part of the larger program which had been discussed
in the newspapers involving also the regulation of real estate mortgage
credit and strengthening of the capital gains tax, and that if the
program were adopted it would very likely be announced from the White
House. Chairman Eccles went on to say that he would be opposed to the
program relating to the regulation of credit in security and real es-
tate mortgage transactions if action in those fields were not to be
supplemented by a strengthening of the capital gains tax, as the lat-
ter was an essential part of any program to curb speculative activity
and to combat inflation and little could be accomplished by action in the credit field alone.

Mr. Brown said that it was the opinion of the members of the executive committee that it would be unfortunate if the regulation of real estate mortgage credit were undertaken for the reason that the problems involved were very different from those relating to the extension of credit on automobiles and other consumer goods and it would be extremely difficult, if not impossible, to apply a regulation to the varied circumstances in which real estate mortgage credit was extended.

Chairman Eccles commented that many of the interested Government agencies felt that it might not be possible to bring about a strengthening of the capital gains tax, that something should be done to counteract speculative tendencies in farm and urban real estate, and that, therefore, the regulation of credit in the real estate mortgage field was desirable. He also said that if the authority were to be given to any Government agency the Board of Governors was the logical organization to undertake the job, and that it was on that basis that he would be willing to have the System assume the responsibility. He did not know whether the program would be adopted and, if it were, when it would be made effective.

In a discussion of the program as outlined by Chairman Eccles,
members of the executive committee of the Federal Advisory Council expressed the hope that authority in the field of mortgage credit would not be vested in a new Government agency and that if the authority was to be vested anywhere it be placed in an organization like the Board of Governors which is not a lending agency.

Mr. Ransom commented that if the program were adopted any regulation that the Board might issue under the authority of the executive order of the President would not be a part of Regulation W, Consumer Credit, but would be an entirely separate regulation.

Mr. Brown inquired whether there was anything that the Board could do to influence the Treasury to recall its request that financing institutions report unusual transactions in currency. He said he thought the request was most unfortunate, that it placed the banks in a very difficult situation, and that he had so informed Secretary of the Treasury Morgenthau.

Chairman Eccles responded that there did not appear to be anything that the Board could or should do at the present time, that the request had been issued by the Treasury without consultation with the Board, and that in any event he favored the arrangement that had been worked out and would dislike to see it terminated.

There appeared to be some difference of opinion among the members of the executive committee as to the desirability of the procedure
set up by the Treasury for obtaining these reports, Mr. Kurtz stat-
ing that he thought the request was having a very good effect in that
it was resulting in a substantial return flow of currency to his bank.

Chairman Eccles referred to the fact that the request had been
well received in many quarters and that the press comment regarding
it had been generally very favorable.

Mr. Brown then referred to the discussion at the meeting of
the Federal Advisory Council with the Board in May when the sugges-
tion was made that the Council prepare a statement relating to the
necessity for substantial cutbacks in military expenditures. He said
that the matter had been given further consideration by the executive
committee at an earlier meeting today and that the conclusion had been
reached that such a statement would not be desirable at this time as
it appeared that considerable pressure already was being brought on
the services to reduce expenditures and that while it was believed that
these expenditures could be reduced further it was clear that the cut-
backs would be greater than were anticipated when the matter was dis-
cussed last month.

Chairman Eccles reviewed briefly for the information of the
members of the executive committee the discussions on this subject
in which he had participated and from which it appeared that full
consideration was being given to the problem. He said he was
satisfied that the representatives of Government who were primarily responsible for fighting inflation would do everything they could to increase the supply of civilian goods as a means of meeting inflationary pressures.

In a discussion of the effectiveness of price control, rationing and other anti-inflationary measures, there was general agreement that the Office of Price Administration had done a good job in an extremely difficult situation and that it would be unfortunate if, at this late date, these controls were relaxed more than necessary or were made ineffective by failure of the public to carry them out.

In connection with the latter point Chairman Eccles thought that the members of the Advisory Council and bankers generally throughout the country could be very helpful in fostering public opinion favorable to the maintenance and continued observance of price and other controls as long as it was necessary for the controls to be in effect in the interest of maintaining a sound economy. He said that if the controls were removed entirely at this time or were made ineffective through non-observance it would be difficult to tell how serious the resulting inflationary situation might be.
Thereupon the meeting adjourned.

Chester Norrie
Secretary.

Approved:

Chairman.