

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, August 1, 1945, at 10:30 a.m.

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

Mr. Carpenter, Secretary
Mr. Connell, General Assistant,
Office of the Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Chairman

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

Memorandum dated July 30, 1945, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that Miss Margaret E. Appleton be appointed as a Research Assistant in that Division on a temporary basis for an indefinite period, with basic salary at the rate of \$2,320 per annum, plus supplemental compensation of \$348 on the basis of a 44-hour workweek, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination. The memorandum stated that Miss Appleton would become a member of the Federal Reserve retirement system unless investigation shows that she now has funds in the Civil Service Retirement System, in which case she would continue under the latter system.

Approved unanimously.

Memorandum dated July 31, 1945, from Mr. Bethea, Director of the Division of Administrative Services, submitting the resignation of Mrs. Dolly C. Wakefield, a cafeteria helper in that Division,

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effective as of the close of business July 31, 1945, and recommending that the resignation be accepted as of that date.

The resignation was accepted as recommended.

Letter to Mr. Laning, Vice President and Cashier of the Federal Reserve Bank of Cleveland, reading as follows:

"The Board of Governors approves the changes in the personnel classification plan of the Federal Reserve Bank of Cleveland, involving the establishment and elimination of positions in the R. F. C. Custodian Department and the establishment of the position of Assistant Night Cleaning Foreman in the Provision of Space Department, as submitted with your letter of July 28, 1945."

Approved unanimously.

Letter to Mr. Sherman, Assistant Cashier of the Federal Reserve Bank of Kansas City, reading as follows:

"In accordance with the request contained in your letter of July 25, 1945, the Board of Governors approves the payment of salary to Mr. L. S. Violet, Chief Electrician, effective July 15, 1945, at the rate of \$2,700 per annum, which is \$300 in excess of the maximum annual salary established for this position under the personnel classification plan."

Approved unanimously.

Telegram, reading as follows, to Mr. Dillard in reply to his inquiry whether the Board had any objection to the publication of its letter of July 12 to Mr. Willett, First Vice President of the Federal Reserve Bank of Boston, which dealt with a suggestion that Regulation W be amended so as to provide a general exemption for returned veterans:

"Your wire July 30. Board has no objection to publication as proposed of paragraphs quoted in letter July 12 to Willett. Suggest, however, that you advise publisher to leave name of Congressman out of any article that they publish."

Approved unanimously.

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Letter to Mr. Lewis, Manager, Consumer Credit Department, Federal Reserve Bank of St. Louis, reading as follows:

"This is with reference to your letter of July 17, 1945, enclosing correspondence relative to a loan which Mrs. J. H. Frawley of Little Rock, Arkansas, wished to obtain from the Peoples Building and Loan Association of that city. It appears that this loan was to have been made in order to make repairs to certain property, presumably residential property, and was to be for \$800 with a maturity of 18 months. This would have involved monthly payments of approximately \$47 per month which is said to be too great an amount for the borrower to meet.

"Inasmuch as it is not likely that the terms of the regulation with respect to repairs and improvements will be changed at an early date, we would suggest that you write to the Peoples Building and Loan Association giving the reasons for the regulation so that they may be passed on by the Association to Mrs. Frawley. You may wish to use the following paragraphs in your letter:

'In consequence of the war, as you know, there is a general shortage of materials and labor for making repairs to residential property as well as for producing other forms of consumers' goods. The demand, in short, is far in excess of the supply with the consequence that there is strong upward pressure on the price level of such goods. Price control can work only if the pressure for higher prices is kept within bounds. An important purpose of the regulation is to reduce that pressure and thereby help to protect the country against the dangers of inflation. You will agree, we think, that runaway prices for building materials, as of other things, would in the long run be a very bad thing for everybody.

'It would appear from the letter in question that someone representing the Association may have discussed with Mrs. Frawley, but with disapproval, the possibility of borrowing as much as \$1,500 in order to bring the loan outside the scope of Regulation W and consequently permit it to be written for a longer term, with smaller monthly payments running over a longer period. Quite aside from the reasons which might make the larger loan inadvisable in the particular case, it is to be noted that if many people were to take that course the anti-inflationary purpose

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"of the rule would be defeated. The regulation has made a distinction between loans below and above \$1,500 simply in the interest of making it easier for loans to be handled. Few loans above \$1,500 are contrary to the objectives of the regulation since almost all loans above that amount are obtained to facilitate the supplying of goods and services, and the more goods and services are available the smaller the danger of inflation. If, however, much resort was made to large loans for consumer purposes, the regulation would have to be changed to take that development into account.

'A purpose of the regulation is to influence people to limit their use of credit, not to increase it, and to do this by postponing purchases which can be deferred or, in case they cannot be postponed, making them as small as possible. In these circumstances, we believe that many people who contemplate a loan so large that it cannot be repaid within the time permitted will try to figure out some way by which, if they find that they must borrow, they will borrow less than they had contemplated. This is a course which Mrs. Frawley may wish to consider.

'The time is sure to come when supplies of goods, including building materials, will be much larger than they are at present, when prices may be lower, and when it will no longer be necessary in the public interest to limit home-improvement loans to a maturity as short as 18 months. People who shape their own policies on the basis of these expectations will often be serving their own best interests and will in any event be making a contribution to the Government's anti-inflation campaign.'

Approved unanimously.

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

"Referring our wire July 12 and Acting Secretary Bell's letter of July 25 regarding method of reporting deposits in Treasury transcript and on books of Reserve Bank and reserves to be carried thereon, Board expects to send you a wire on subject within next day or so."

Approved unanimously.

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Letter to Senator George D. Aiken reading as follows:

"This relates to your note of July 20, referring to us for comment a copy of a letter of July 14 from Mr. M. M. Counsele, 44 Spring Street, St. Johnsbury, Vermont. The letter was prompted by the Board's recent action in increasing the margin requirements for purchasing listed stocks, also for making short sales, from the 50 per cent to the 75 per cent level.

"This action was taken pursuant to the provisions of the Securities Exchange Act of 1934 which, as you know, had for one of its important purposes the prevention of excessive speculation in stocks on credit. At a time like the present, when the danger of general price inflation is still serious and the amount of cash seeking investment is unprecedented, it would seem that high margin requirements are very much in order. They operate to restrain speculation on credit and should tend in course of time to have a stabilizing influence on stock prices and consequently to have a favorable influence on the interest of investors and the condition of the national economy.

"The idea expressed by your correspondent that Congress itself should determine the margin requirements, instead of assigning that function to an administrative agency acting under general legislative direction, would seem to us to be essentially impracticable. It would preclude the necessary flexibility in administration, particularly when prompt action is required."

Approved unanimously.

Telegram to Luigi Einaudi, Banca d'Italia, Rome, Italy, reading as follows:

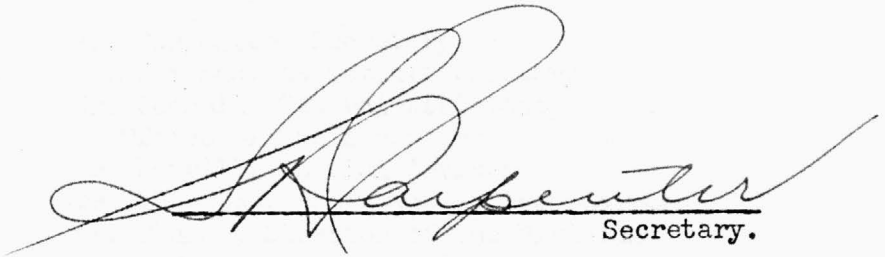
"Goldenweiser Economic Adviser this Board, Knoke Vice President Federal Reserve Bank New York and Rozell also of Bank are now in Zurich and arranging visit to your Bank probably this week for discussion of problems of mutual interest. Regret brief notice which representatives will explain. Will appreciate your courtesies."

Approved unanimously, together with a telegram to Mr. Goldenweiser, Economic Adviser in the Division of Research and Statistics, reading as follows:

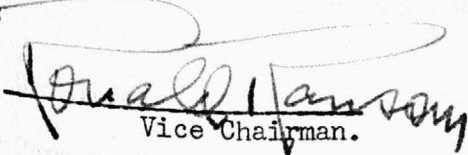
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"State Department is cabling Zurich Consul today reference Italy. We are cabling Einaudi. On arrival call American Embassy Rome for instructions regarding Moscow."

Thereupon the meeting adjourned.


Secretary.

Approved:


Vice Chairman.