

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, August 7, 1945, at 11:00 a.m.

PRESENT: Mr. Ransom, Vice Chairman
Mr. Draper

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 31, 1945, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that Mrs. Eleanor Sherman Nagel be appointed as an Economist in that Division on a temporary basis for an indefinite period, with basic salary at the rate of \$4,300 per annum, plus supplemental compensation of \$396.33 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 Mrs. Nagel 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 August 6, 1945, from Mr. Bethea, Director of the Division of Administrative Services, recommending that Sydnor

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C. Orndoff be appointed as a painter in that Division, with basic salary at the rate of \$2,430 per annum, plus supplemental compensation for overtime of \$364.50, effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination. The memorandum stated that it was contemplated that Mr. Orndoff will become a member of the Board's retirement system.

Approved unanimously.

Memorandum dated August 6, 1945, from Mr. Thurston, Assistant to the Chairman, recommending that Bishop Hart, a messenger in the Chairman's office, who has been on military leave since January 30, 1942, and was honorably discharged from the Army July 15, 1945, be reemployed at a salary of \$1,902 per annum (the equivalent of \$1,620 prior to the recent general increase), plus supplemental compensation of \$285.30 for overtime, effective as of the date upon which he enters upon the performance of his duties subject to his passing a physical examination customary in the circumstances. The memorandum stated that Bishop Hart is a member of the retirement system and will have the right of election under the Board Plan.

The memorandum also stated that Gordon Johnson, who has been temporarily assigned to the Chairman's Office, will return to his regular assignment in the Duplicating Section, Division of Administrative Services.

Approved unanimously.

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Letter to Mr. Flanders, President of the Federal Reserve Bank of Boston, reading as follows:

"The Board of Governors approves the payment of salary for the period ending April 30, 1946, to Mr. Louis A. Zehner as Assistant Vice President of the Federal Reserve Bank of Boston, at the rate of \$7,500 per annum, which is the rate fixed by the directors of your Bank, as reported in your letter of July 30.

"Please advise the Board as to the date when Mr. Zehner's appointment becomes effective."

Approved unanimously.

Letter to Mr. Young, President of the Federal Reserve Bank of Chicago, reading as follows:

"The Board of Governors of the Federal Reserve System has considered the recommendation of the Board of Directors of your Bank, contained in Mr. Diercks' letter of July 26, 1945, and pursuant to the provisions of Section 19 of the Federal Reserve Act, grants permission to Wisconsin State Bank of Milwaukee, Wisconsin, Milwaukee, Wisconsin, to maintain the same reserves against deposits as are required to be maintained by banks located outside of central reserve and reserve cities, effective as of the date of its admission to membership.

"Please advise the member bank of the Board's action in this matter, calling its attention to the fact that such permission is subject to revocation at any time by the Board of Governors of the Federal Reserve System."

Approved unanimously.

Secretary's Note: Messrs. Szymczak and Evans had previously indicated their approval of the above action, and in a telephone conversation today with Mr. McKee he also expressed his approval of the action.

Letter to Mr. Joshua Evans, Jr., Vice President of the Hamilton National Bank of Washington, Washington, D. C., reading as follows:

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"Referring to your letter of July 30, 1945, you are advised that Regulation U does not apply to a loan by a bank unless the loan is for the purpose of purchasing or carrying stock registered on a national securities exchange. In this connection, there is enclosed a copy of the regulation and your attention is invited particularly to the first sentence of section 1."

Approved unanimously.

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

"It has come to the attention of one of the Federal Reserve Banks that some Time Inspectors of railroads are not fully complying with Regulation W in the sale of certain articles under payroll deduction orders. In order to help correct this situation, the suggestion has been made that circulars be sent by the various railroad time service organizations to the inspector-jewelers in their respective groups outlining a procedure that will insure compliance in the respects in which deficiencies have been discovered. Two of the organizations have been consulted by the Federal Reserve Bank and they have agreed to distribute the enclosed circular.

"We believe that such a distribution would be very helpful. Since it is important that all of the principal railroad time service organizations be included in order to avoid any appearance that certain groups are being singled out for attention, we would appreciate it if you would explain the situation to the organizations in your district, if any, and ask them to send copies of the enclosed circular to the inspector-jewelers in their respective groups. A list of the known organizations is enclosed. It is believed that this list includes all of the principal organizations and you need not go beyond the list unless you feel it desirable to do so."

Approved unanimously.

Letter prepared for the signature of Vice Chairman Ransom to Senator Alben W. Barkley reading as follows:

"In the absence of Chairman Eccles, I am replying to your letter of July 31, 1945, which enclosed a letter from Mr. D. B. Lam, Secretary, Central City Federal Savings & Loan Association, Central City, Kentucky, relative to the

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"Board's Regulation W.

"This regulation applies to consumer credit in general and not merely to the home-repair and home-improvement loans to which your correspondent refers. It went into effect in 1941 as part of the Government's anti-inflation program. That program, as you know, was made necessary by the shortage of consumers' goods created by the war, at a time when the purchasing power of the public -- even without using credit -- had come to be far in excess of the available supplies of such goods. The regulation, in short, tends to reduce inflationary pressure, thereby supporting such other anti-inflationary measures as price ceilings and the like.

"So far as home-repairs and home-improvements are concerned, supplies of materials and labor are so short at present that, regardless of credit regulations, a great many people will be unable to obtain what they want. For that basic situation, of course, the war is responsible. It would not be cured by relaxing the credit regulations. In fact, the regulations help the situation by reducing the upward pressure on prices that consumer demand, if accentuated by easy credits, would otherwise exert. People having low incomes, such as those to whom your correspondent refers, are the ones who would be most hurt if the Government's hold-the-line program against inflation were to fail or to be prematurely abandoned. By postponing contemplated home maintenance, or reducing its amount and consequently using less credit, people are supporting the hold-the-line program.

"Mr. Lam has mentioned the fact that the War Production Board has recently increased to \$1,000 the amount of home repair work that can be done without application to it for specific permission. That did not mean that there were materials and labor available for everyone to do what he might like to do in the way of repair and improvement work up to the limit specified but merely that, within that limit, people might go ahead with the work if they could find the materials and labor. The War Production Board's relaxation had no relation to the general inflationary situation nor to the use of credit.

"Mr. Lam also makes reference to the fact that loans above \$1,500 are not subject to the regulation. This distinction was made simply in the interest of making it easier

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"for lenders to comply with the regulation. If the loan is above \$1,500, the lender does not have to make the careful investigation which would be required if it were to be subject to the regulation. We knew we could do this without appreciable loss in effectiveness, because few loans above \$1,500 are contrary to the objectives of the regulation. Almost all of them 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.

"I am returning Mr. Lam's letter."

Approved unanimously.

Letter to Senator Arthur Capper reading as follows:

"This is in reply to your letter of July 30, 1945, with which you enclosed a letter from Mr. R. A. Collins, President, Shawnee Federal Savings and Loan Association, Topeka, Kansas, relative to a case arising under the Board's Regulation W.

"The case presented is one in which an applicant for an instalment loan is said to have been refused because the loan was considered to be subject to the regulation, would consequently have to have a maturity of not more than 18 months, and on that basis would require larger monthly payments than the borrower would be able to meet. This seems to your correspondent to show that in this case the regulation has operated to cause undue hardship to the applicants, who happen to have had one of the houses that they own badly damaged by fire.

"It seems to us, in view of our experience in reviewing similar cases which have come to our attention, that if all the facts were known this case would appear in a quite different light. It might appear, as we have found in several other cases, (1) that the applicants could in reality meet the monthly payments on a \$600 loan (perhaps out of the rent they get on the house); (2) that a smaller loan, on which they could easily meet the payments, would serve their purpose; or (3) that the circumstances are such that the association, or some other lender to which the applicants have access, could arrange the loan on

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"terms which are permissible under the regulation, if fully understood, and yet would not overburden the borrower.

"It is our opinion, therefore, that it would be worth while for your correspondent to make the fullest possible presentation of the facts to the Federal Reserve Bank of Kansas City, which has charge of the administration of Regulation W in his territory. We feel sure that he will find the Bank more than willing to go into the matter with him quite thoroughly.

"The basic fact bearing on all such cases is that for some time to come, regardless of credit regulations, much home maintenance and home improvement will necessarily have to be postponed because of the prevailing shortage of building materials and labor. The regulation fits into this situation by influencing the owner, if he contemplates the use of credit, to think twice about going forward with home improvement work, to do as much postponing as possible, and to get along in some cases with less credit than he may have originally contemplated. By doing so, he will be helping the economic stabilization program and that, of course, is to his own interest in the long run.

"You will recall that Regulation W, which deals with consumer credit of all kinds, has been a part of the Government's anti-inflation program since 1941. Its purpose is to reduce the use of credit during the emergency period in order to prevent it from adding unduly to the purchasing power of the public, which, even without credit, far exceeds the amount of consumer goods and services available.

"Mr. Collins' letter is returned herewith."

Approved unanimously.

Letter prepared for the signature of Vice Chairman Ransom to Senator Allen J. Ellender reading as follows:

"I am glad of the opportunity afforded by your note of July 30 to comment on the problem presented by the letter, enclosed with your note, from Mr. G. L. Wilcombe, Secretary-Treasurer, Ponchatoula Homestead Association, Ponchatoula, Louisiana.

"This letter relates in general to the Board's Regulation W and in particular to an amendment to that regulation which went into effect on June 11, 1945. This

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"regulation applies to consumer credit in general and not merely to the home-repair and home-improvement loans to which your correspondent refers. It went into effect in 1941 as part of the Government's anti-inflation program. That program, as you know, was made necessary by the shortage of consumers' goods created by the war, at a time when the purchasing power of the public — even without using credit — had come to be far in excess of the available supplies of such goods. The regulation, in short, tends to reduce inflationary pressure, thereby supporting such other anti-inflationary measures as price ceilings and the like.

"So far as home-repairs and home-improvements are concerned, supplies of materials and labor are so short at present that, regardless of credit regulations, a great many people will be unable to obtain what they want. For that basic situation, of course, the war is responsible. It would not be cured by relaxing the credit regulations. In fact, the regulations help the situation by reducing the upward pressure on prices that consumer demand, if accentuated by easy credits, would otherwise exert. People having low incomes, such as those to whom your correspondent refers, are the ones who would be most hurt if the Government's hold-the-line program against inflation were to fail or to be prematurely abandoned. By postponing contemplated home-maintenance, or reducing its amount and consequently using less credit, people are supporting the hold-the-line program.

"This letter has emphasized the general aspects of the problem with which we are faced. It is to be noted, however, that Mr. Wilcombe may not as yet be fully acquainted with the provisions of the regulation. For example, in the case which he mentions in his letter, the total payments on the two loans — one earlier loan to purchase the home and the current loan to repair it — could in the usual case be arranged so as not to exceed \$17.00 per month, by a postponement of payments on the purchase loan until after the repair loan has been repaid. We suggest that Mr. Wilcombe communicate with the New Orleans Branch of the Federal Reserve Bank of Atlanta, which has responsibility for the administration of Regulation W in his district, in order to obtain information

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"on the effect of the regulation on his operations.
"Mr. Wilcombe's letter is returned herewith."

Approved unanimously, together with
a similar letter to Congressman James H.
Morrison.

Memorandum dated July 30, 1945, from Mr. Thomas, Director of the Division of Research and Statistics, recommending the installation of teletype service of the Foreign Broadcast Intelligence Service of the Federal Communications Commission at a cost of \$25, and a subscription to such service for a trial period of three months at a monthly charge of \$24. The memorandum also requested that the budget of the Division of Research and Statistics be correspondingly increased to cover the expenses involved.

Approved unanimously.

Memorandum dated August 4, 1945, from Mr. Bethea, Director of the Division of Administrative Services, recommending for the reasons stated therein (1) that the Division of Administrative Services be authorized to dispose of the surplus air raid and first aid equipment costing \$654.81 at the best prices obtainable, and (2) that in the event the equipment cannot be disposed of in bulk it be sold to individuals, including employees of the Board, at prices equal to the costs thereof.

Approved unanimously.

Memorandum dated August 6, 1945, from Mr. Paulger, Director

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of the Division of Examinations, recommending that, due to the inability to obtain regular Pullman accommodations, the Board approve the payment of expenditures over and above those allowed under the Board's travel regulations, incurred by the Examiners named below, in the amounts indicated, on account of official travel in connection with the current examination of the Federal Reserve Bank of San Francisco and its branches:


	<u>Accommodation</u>	<u>Amount of Excess</u>
A. H. Lang	Shared drawing room with C. E. Fischer, Chicago to Los Angeles	\$28.20
E. W. Lyster	Shared drawing room with D. C. Robinson, Chicago to Los Angeles	28.20
J. W. Taylor	Shared compartment with C. A. Smith, Chicago to Portland	14.95

Approved unanimously.

Thereupon the meeting adjourned.


Secretary.

Approved:


Vice Chairman.