

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, August 20, 1945, at 11:00 a.m.

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

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on July 17, 1945, were approved unanimously.

The minutes of the meetings of the Board of Governors of the Federal Reserve System held on July 18, 19, 20, 23, 24, 26, 27, 30, and 31, and August 1, 3, 4, 7, 8, 9, 13, 14, 17, and 18, 1945, were approved and the actions recorded therein were ratified unanimously.

Memorandum dated August 10, 1945, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that the basic annual salaries of the following employees be increased, as indicated, effective as of the beginning of the first pay roll period following approval by the Board:

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<u>Name</u>	<u>Title</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Alvern H. Sutherland	Librarian	\$4,520	\$4,740
Helen R. Dyer	Library Assistant	2,760	3,200
Caroline M. Burgess	Library Assistant	2,650	2,980
Cora Jean Shupe	Library Assistant	2,298	2,430

Approved unanimously, effective August 26, 1945.

Memorandum dated August 20, 1945, from Mr. Paulger, Director of the Division of Examinations, submitting the resignation of John W. Taylor, an Assistant Federal Reserve Examiner, and recommending that the resignation be accepted effective as of the close of business August 31, 1945.

The resignation was accepted as recommended.

Letter to the board of directors of "The Farmers Savings Bank Company," Ashley, Ohio, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Cleveland.

Approved unanimously, for transmission through the Federal Reserve Bank of Cleveland.

Letter to the board of directors of "The Farmers Bank of Lincoln," Lincoln, Missouri, stating that, subject to conditions of

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membership numbered 1 to 3 contained in the Board's Regulation H, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of St. Louis.

Approved unanimously, for transmission through the Federal Reserve Bank of St. Louis.

Letter to Mr. Wayne, Vice President of the Federal Reserve Bank of Richmond, reading as follows:

"In accordance with the recommendation contained in your letter of August 9, 1945, the Board interposes no objection, under the provisions of an applicable condition of membership, to the action of the Calvert Bank, Baltimore, Maryland, in purchasing, for \$26,750, the leasehold property at 1044 Light Street, which adjoins the premises of its South Branch office."

Approved unanimously.

Letter to Mr. Wayne, Vice President of the Federal Reserve Bank of Richmond, reading as follows:

"In accordance with the recommendation contained in your letter of August 9, 1945, the Board will interpose no objection, under the provisions of an applicable condition of membership, to the purchase, for \$150,000, of the Brooklyn-Curtis Bay Branch building, and adjoining property, of The Annapolis Banking and Trust Company, Annapolis, Maryland, by the Union Trust Company of Maryland, Baltimore, Maryland. It is understood that the property is to be purchased in connection with the absorption of the branch by the Union Trust Company of Maryland."

Approved unanimously.

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Letter to Mr. Davis, President of the Federal Reserve Bank of St. Louis, reading as follows:

"This is with reference to your letter of August 9, 1945, relative to the distribution of the recent amendments to Regulations T and U.

"We have particular difficulty in handling amendments of this character where the Board is anxious that no intimation of its action will get out to the market. In this case, there were added problems arising out of the general war situation.

"An attempt was made to go as far as possible in adapting our procedure to the circumstances: The amendments were adopted just before a holiday and a later effective date was employed for parts of each amendment. The important change was the increase in margin requirements to 75 per cent of which the brokers would be advised through the press. We expected that the texts would be made available to the stock exchanges promptly and that brokers would be able to get further details by consulting them. So far as we have been able to discover word got around promptly to the people who were most concerned.

"It is realized that the Federal Reserve Banks had to operate under severe handicaps. Part of these will tend to disappear as the acute disruptions of the war are relieved. Furthermore, we hope that on future occasions we will have an opportunity to arrange things so that the machinery will run more smoothly. In any event, it will not be very often that we have a change in a regulation that is as severely restrictive as those under discussion. Under other circumstances, considerably more leeway should be available."

Approved unanimously.

Letter to Mr. Louis Loss, Counsel, Securities and Exchange Commission, Philadelphia, Pennsylvania, reading as follows:

"This refers to your letter of August 11, 1945, enclosing a copy of a complaint to be filed in the District

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"Court of the United States in connection with certain violations of section 7(c)(1) of the Securities Exchange Act of 1934 and Regulation T. You asked for our comments.

"We have only a few comments and suggestions. They are as follows: In connection with section 4(b) of the complaint, should it not be alleged that the defendants Butler, Wick, Masters, etc., knew that the checks were drawn against insufficient funds, since otherwise the delivery of the securities against these particular checks would not constitute lack of good faith or an attempted evasion of the Regulation.

"At the end of the Third Count, the point contained in the last paragraph of the Second Count could be added.

"On page 5, line 7, and on page 8, line 8, the wording might be better if it read: '*** without either holding funds *** cash account or relying upon ***.'

"On page 8, paragraph 'D', change the last line to read 'cash payment within the period applicable to the transaction under section 4 of the Regulation.' The reason for this suggestion is that the period is not always 7 days.

"We appreciate your keeping us advised regarding this matter and we trust that the above comments will be of assistance to you."

Approved unanimously.

Telegram reading as follows to Mr. W. G. Violette, President of the Standard Oil Company of Kentucky, Louisville, Kentucky, in reply to his telegram dated August 17, 1945, asking whether Regulation W control of Consumer Credit is still in effect and if revision or revocation is contemplated:

"Regulation W is still in effect. Answer to your second question can not be determined at this time."

Approved unanimously.

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Letter prepared for the signature of Vice Chairman Ransom to Mr. Robert Nathan, Chairman, Reconversion Working Committee, Office of War Mobilization and Reconversion, Washington, D. C., reading as follows:

"In accordance with the request which you made at the meeting at the Lafayette Building on Monday, August 13, I am submitting below a number of subjects and comments thereon pertaining to the reconversion or transition period following V-J Day, from the standpoint of the Board of Governors of the Federal Reserve System.

"Speculation in Capital Assets

"While the Board has not formally taken positions with respect to inflation dangers in the unprotected field of capital assets, Chairman Eccles, as a member of the Economic Stabilization Board under the Office of Economic Stabilization, has recommended that speculative activities in these fields be curbed through the medium of a drastic upward revision in the capital gains tax and that, if necessary, this step be supplemented by an Executive Order authorizing the regulation of mortgage credit.

"He took the position that the latter step would be relatively ineffective unless the former step were taken first, and since it now appears unlikely, with the ending of the War, that Congress would impose the kind of capital gains tax necessary to deal with this inflationary danger, the question arises, as part of the reconversion picture, whether the Executive Order which was proposed prior to the Potsdam Conference should be discarded. At best, it deals only with the credit side of the picture, which is of comparatively minor importance, and would not reach the problem presented by the enormous accumulations of cash or its equivalent in the hands of the public as a result of war financing. These unprecedented accumulations constitute by far the major source of inflationary dangers in these as in other fields.

"It is the opinion of Mr. Eccles that the time has passed when such an Executive Order would be appropriate or desirable.

"Regulation of Consumer Credit

"Regulation W of the Board of Governors of the Federal Reserve System was issued under Executive Order No.

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"8843 of August 9, 1941 for the purpose of regulating consumer credit. This Order does not fix any specific date on which the authority shall terminate. It does provide, however, that the exercise of the authority is to be limited to the period of 'the national emergency declared by me on May 27, 1941'. Accordingly, it continues until terminated through affirmative action by the President or by the Congress.

"There is a substantial shortage of consumer goods in relation to consumer demand, particularly consumer durable goods. Many months will elapse before supplies of all sorts of consumer durable goods will become reasonably adequate. The Board, therefore, has not undertaken to express an opinion as to when action should be taken by the President or by Congress, but it seems proper to call attention to the opinion expressed by the House Special Committee on Post-war Economic Policy and Planning (William M. Colmer, Chairman) as follows:

'Some control of consumer credit, particularly installment credit, may be needed after the war. Inasmuch as the authority of the Reserve System is based upon Executive order of limited duration, the Committee feels that the Congress should consider the question of the need for legislation enabling the Reserve System to continue existing controls.'

"Subject to authorization by the Board of Governors, I am prepared to discuss with the stabilization officials a program for such liberalizing changes in Regulation W as may be deemed desirable under the Government's reconversion program.

"V and T Loans to Industry

"Guaranteed loans to industry for war production were inaugurated under the President's Executive Order 9112 of March 26, 1942, supplemented by the passage of the Contract Settlement Act of 1944 and General Regulation No. 1 issued thereunder by the Director of Contract Settlement.

"The War and Navy Departments and the United States Maritime Commission were authorized to guarantee and to make loans for the purpose of financing contractors, subcontractors and others engaged in any business or operation deemed by those agencies to be necessary, appropriate

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"or convenient for the prosecution of the War. The Federal Reserve Banks were authorized to act as agents in carrying out the provisions of the Order, subject to the specific instructions of the guaranteeing agencies and the general supervision of the Board of Governors. Under this plan the Board of Governors issued its Regulation V. While the procedure has been modified and the scope of operations enlarged, the general policy has remained the same.

"Presumably these operations will be brought to a close at an early date.

"These loans to industry have proved themselves to be of great value in time of War. The procedure whereby the Government assumes contingent liabilities which do not materialize if private efforts are successful holds promise for the reconversion period and afterwards. In the light of this experience, as well as that under Section 13b of the Federal Reserve Act, the Board of Governors favors the immediate enactment of the Wagner-Spence bill, discussed under the next succeeding topic.

"Guaranteed Loans for Industry--Wagner-Spence Bill

"The Wagner-Spence Bill (S. 511 and H. R. 591) would repeal the present Section 13b of the Federal Reserve Act and substitute therefor a section bearing the same number, which would authorize the Federal Reserve Banks (until December 31, 1949) under the supervision of the Board of Governors, to guarantee financing institutions against loss on loans made to business enterprises or to make commitments to purchase such loans from financing institutions. The percentage of the loan to be guaranteed would vary with specific cases, but in no case could it exceed 90%. In other words, the commercial bank would be required to assume at least 10% of the risk involved in any loan.

"The Wagner-Spence Bill would serve an all important need in the reconversion period by bridging the gap between termination (VT) loans and those needed especially by smaller business enterprise to acquire plant, machinery, inventory, etc., that otherwise would be taken over and disposed of by the appropriate surplus disposal agencies. The V loan program enabled the Reserve Banks to act for the Army, Navy and Maritime Commission in guaranteeing war production loans made by private banks to war contractors and sub-contractors. Similarly, the so-called VT program was developed to finance contract cancellation pending settlement by the Government. When settlement is made, the money has

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"to be applied to the VT loan, and the Army, Navy and Maritime Commission have no further authority whereby loans that will then be needed to finance purchase of surplus property could be guaranteed. The Wagner-Spence Bill would supply this deficiency, and would greatly facilitate and simplify disposal of surplus property. War contractors and sub-contractors desiring to acquire government-owned plant, machinery, inventory, etc., would be enabled to finance such purchases through the same channels using the same guarantee mechanism with which they are familiar, and the Government's interest would be safe-guarded as it has been in the V and VT loans. Contractors in possession of surplus property would be able to negotiate for purchase at the time of contract settlement, thus avoiding delay, expense and other complications that would arise if the property had to be removed and disposed of elsewhere.

"It is generally taken for granted that some form of Government participation in the extension of credit to business is essential and inevitable in the reconversion and post-war period. The need may be met either by encouraging the private banking and credit system of the Nation to perform the task, thus preserving private enterprise in the field of banking, or by further expansion in direct lending by the Government. The Board emphatically favors the former course.

"This legislative proposal is in line with the Baruch-Hancock Report on war and post-war adjustment policies of February 19, 1944, and is recommended in a report to the Congress on January 1, 1945 by James F. Byrnes, Director of War Mobilization and Reconversion, in which it was stated on page 14:

'Small business has been the backbone of American prosperity. Its future requires the establishment of a readily available source of credit. The Wagner-Spence bill has this purpose in view. In revoking the present authority of the Federal Reserve banks to make loans direct to industry, it substitutes authority for them to guarantee the principal and interest of loans by commercial banks to business enterprise. It, or other forms of legislation to this end, deserves the immediate consideration of the Congress.'

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"The Board of Governors on February 26, 1945, in response to a request from the Chairman of the Senate Committee on Banking and Currency, submitted a favorable report on this bill. It has also had the support of the Secretary of War, the Advisory Board of the Office of War Mobilization and Reconversion, and the War Production Board. Chairman Krug has stated that he thought it would be very desirable to help in financing reconversion and post-war production.

"No new appropriation would be required, as the fund made available by Congress for the purpose of Section 13b of the Federal Reserve Act, amounting to \$139,000,000, would be made available for carrying out the Wagner-Spence bill. This would be adequate to support guarantees of more than \$500,000,000 of loans outstanding at any one time.

"Because of the experience of the Federal Reserve Banks and the Board of Governors in this field, the provisions of this bill could be put into effect without delay and credits could be consummated expeditiously.

"Regulation of Credit for Stock Exchange Transactions

"Under its statutory responsibility (Securities Exchange Act of 1934) for regulating loans for the purpose of purchasing or carrying listed securities, the Board will continue to give close attention to margin requirements and their relationship to the capital markets.

"Treasury Financing Program

"When the United States entered the War in December 1941, the Board of Governors issued a statement pledging that the Federal Reserve System would use its powers to assure that an ample supply of funds would be available at all times for financing the War effort and that the System would exert its influence toward maintaining conditions in the United States Government security market that are satisfactory from the standpoint of Government requirements.

"Prosecution of the War has required an unprecedented volume of Government financing which, with the assistance of the Federal Reserve System through open market operations, supplying reserves, and otherwise, has been provided smoothly and without disturbance.

"The Federal Reserve System will continue its policy of maintaining stability in the Government security market and of providing the banks with sufficient reserves to enable them to supply needed financing to business. The Federal Reserve Banks stand ready to make all necessary advances on

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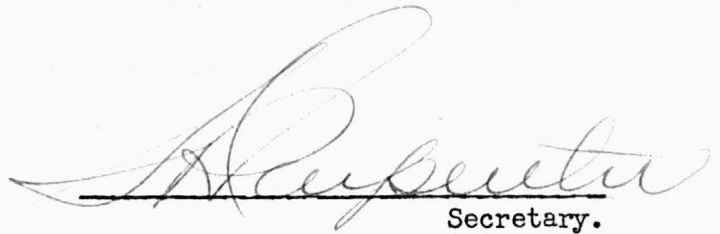
"United States Government securities at par and to purchase securities that banks may need to sell.

"The banks of the country are in position to meet all reasonable demands of industry, commerce, and agriculture. No general decline in deposits is likely to occur; and such shifting of deposits between regions or individual banks as may occur can be met without difficulty through Federal Reserve operations.

"The Reserve System will continue to support to the fullest extent the Government's efforts to finance as much as possible of the public debt outside the banking system. The Reserve System within its powers will do its share in helping to avoid either inflationary or deflationary developments during the period of reconversion."

Approved unanimously.

Thereupon the meeting adjourned.


Secretary.

Approved: 
Chairman.