

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, March 1, 1946, at 9:30 a.m.

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

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on February 28, 1946, were approved unanimously.

The minutes of the meeting of the Board of Governors of the Federal Reserve System with the Presidents of the Federal Reserve Banks held on February 28, 1946, were approved unanimously.

Today Mr. Ransom received a telephone call from the Clerk of the House Judiciary Committee inviting him to appear Monday morning, March 4, 1946, before a subcommittee to consider a further extension of the Second War Powers Act. Governor Ransom was unable to go because of a previous appointment and suggested that the Board request Mr. Vest to appear before the Committee and to offer for the record the same memorandum (with appropriate changes to bring it up to date) of the reasons supporting the request that Title IV of the Second War Powers Act be extended, as was submitted on behalf of the Board to the Judiciary Committee of the Senate when it was considering the same

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subject in December of last year. The statement referred to by Mr. Ransom was approved by the Board at a meeting on November 1, 1945, and was sent to Mr. Snyder, Director of the Office of War Mobilization and Reconversion, with a letter of the same date.

The procedure suggested by Mr. Ransom was approved unanimously.

Telegrams to Messrs. Flanders and McLarin, Presidents of the Federal Reserve Banks of Boston and Atlanta, respectively, Mr. Strathy, Mr. Stewart, and Mr. Mangels, Secretaries of the Federal Reserve Banks of Richmond, St. Louis, and San Francisco, respectively, Mr. Powell, First Vice President of the Federal Reserve Bank of Minneapolis, Mr. Caldwell, Federal Reserve Agent at the Federal Reserve Bank of Kansas City, and Mr. Coleman, Vice President of the Federal Reserve Bank of Dallas, stating that the Board approves the establishment without change by the Federal Reserve Bank of Boston on February 25, by the Federal Reserve Bank of San Francisco on February 26, by the Federal Reserve Banks of Atlanta and St. Louis on February 27, and by the Federal Reserve Banks of Richmond, Minneapolis, Kansas City, and Dallas on February 28, 1946, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated February 26, 1946, from Mr. Paulger, Director of the Division of Examinations, submitting the resignation of Edwin J. Johnson, Assistant Federal Reserve Examiner, and recommending that the

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resignation be accepted as of the close of business February 17, 1946, and that a lump sum payment be made for the annual leave remaining to his credit at that time.

The resignation was accepted as recommended.

Memorandum dated February 25, 1946, from Mr. Bethea, Director of the Division of Administrative Services, recommending that the temporary appointment of Mrs. Rose Lee Williams, cafeteria helper in that Division, be extended for a period of two months without change in her present salary of \$1,440 per annum, effective March 1, 1946. The memorandum stated that it is not contemplated that Mrs. Williams will become a member of the Retirement System during her temporary appointment.

Approved unanimously.

Letter to Congressman Herman P. Eberharter reading as follows:

"This is in reply to your letter of February 6, 1946, relating to the Board's Regulation W.

"The main contention of this letter, as it seems to us, is that in present circumstances the regulation of consumer credit serves no anti-inflationary purpose. We are unable to agree with that contention, feeling as we do that President Truman put the matter correctly in his message on the State of the Union, submitted to the Congress under date of January 14, 1946, which reads in part as follows:

'Even with maximum encouragement of production, we cannot hope to remove scarcities within a short time. The most serious deficiencies will persist in the fields of residential housing, building materials, and consumers' durable goods. The critical situation makes continued rent control, price

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"control, and priorities, allocations, and inventory controls absolutely essential. Continued control of consumer credit will help to reduce the pressure on prices of durable goods and will also prolong the period during which the backlog demand will be effective." (Italics supplied.)

"The logic of this position seems to us to be unsailable. It stands to reason that upward pressure on the prices of consumers' durable goods that is now being exerted by excessive demand, in relation to inadequate supplies, will be lessened by dampening that demand. We do not see how anyone can deny that Regulation W is one of the measures which help to dampen the demand for consumers' durable goods and thereby contributes to the Government's general stabilization program.

"We are also unable to agree with your statement that Regulation W has no effect on prices since prices are controlled by the Office of Price Administration, nor with your contention that the administration of price ceilings has not been influenced by the existence of Regulation W. Price ceilings are dikes keeping the flood of purchasing power from creating havoc in the economic system by bidding up prices, but like all dikes they are strong enough to stand only in case the pressure of the flood is not too great. The part which Regulation W plays in the anti-inflation program is to keep consumer credit from adding unduly to the flood of purchasing power. The OPA, as you know, is represented on the Consultative Committee with which the Board is required to consult in administering Regulation W, and OPA's own view on the subject is well expressed in a press release issued by that agency on May 7, 1942, which reads in part as follows:

'In the present emergency, buying power, already far in excess of goods available for purchase, should not be increased by the unnecessary use of credit. Cash and credit alike are means of purchasing goods. An important difference is that use of credit greatly increases the amount of goods a person can buy at any one time, multiplying purchasing power by concentrating future earnings on present purchases. It is practically the same whether the merchant extends the credit to his customer or the customer borrows cash with which to pay. It is clear, therefore, that credit plays a formidable part in creating the pressures sought

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"to be held in check by price ceilings, rationing, and other factors in the President's program."

"We have not overlooked the references in your letter to the special problems of individual returning veterans. The Board is mindful of these special problems, but has seen as yet no reason to depart from the view that for the great mass of returning veterans the vital thing is that the Government, with the cooperation of the public, should succeed in its fight against inflation and the spiraling cost of living. The proposal that all veterans should be exempted from the regulation would seem to the Board to be a long step in the direction of nullifying the regulation before any such action is justified. A secondary but still significant consideration is that it would not be to the interest of the individual veteran to make it possible for sellers to load him down with goods at wartime prices under the lure of easier credit terms.

"As your letter indicates, you are well aware, as we are, that no single measure is adequate to coping with the serious danger of inflation which confronts the country at the present time. A coordinated set of policies is needed, including appropriate wage-price policies as well as fiscal and monetary measures. It is the earnest desire of the Board, as well as its legal obligation, to see that consumer credit regulation is administered in the light of this controlling consideration. While this means that in present circumstances consumer credit regulation should be on the stern side, it means also that as time goes on and production increases such regulation will sooner or later need to be liberalized. It is our belief that the Board and its Consultative Committee will be on the alert to recognize when that time has come and to take such action as will then be in order."

Approved unanimously.

Letter to Mr. Williams, President of the Federal Reserve Bank of Philadelphia, reading as follows:

"The Board of Governors approves the payment of salaries to the following officers at the rates indicated, which are the rates fixed by your Board of Directors, as reported in your letter of February 23, 1946.

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"For the period March 1, 1946, to April 30, 1947, inclusive:

W. J. Davis, First Vice President \$17,000

Wm. G. McCreedy, Vice President
and Secretary 12,000

"For the period May 1, 1946, to April 30, 1947, inclusive:

C. A. Sienkiewicz, Vice President \$16,000"

Approved unanimously.

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

"Reference is made to your letter of February 19, 1946, submitting the request of the Bank of Jamestown, Jamestown, New York, for permission to establish a branch in Sherman, New York.

"In view of your recommendation, the Board of Governors approves the establishment and operation of a branch in Sherman, New York, by the Bank of Jamestown, Jamestown, New York. It is understood that Counsel for the Reserve Bank will review and satisfy himself as to the legality of all steps taken to establish the branch."

Approved unanimously.

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

"In your letter of January 29, 1946, you refer to the application for membership submitted by the Trust Company of New Jersey, Jersey City, New Jersey, and suggest that a discussion be had with representatives of the Reconstruction Finance Corporation regarding the capital position of the Trust Company and the possibility of the Corporation accepting a settlement for its holdings of preferred stock on the basis of the present value of such holdings.

"A discussion in line with your suggestion has been held, in which Governor McKee participated. It was developed that the management of the Corporation is aware of the situation with respect to the Trust Company of New Jersey as well as with several other institutions in similar circumstances. However, the experience of the

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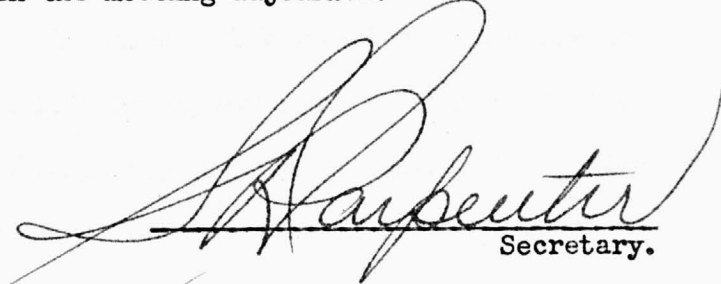
"Corporation has been very good with respect to a number of situations which, at times, were comparable to that of the Trust Company. Because of this fact and because of the numerous cases in which the same or similar circumstances exist, the Corporation is not at this time disposed to enter into any negotiations with a view to sale of its holdings of preferred stock of the Trust Company at less than the amount of its investment."

Approved unanimously.

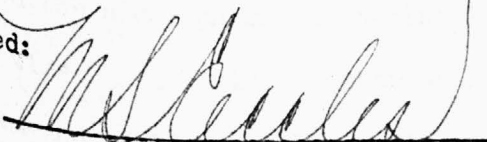
Letter to the Board of Directors of the "Citizens State Bank," Broken Bow, Oklahoma, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Dallas.

Approved unanimously for transmission through the Federal Reserve Bank of Dallas.

Thereupon the meeting adjourned.


Secretary.

Approved:


Chairman.