

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, July 17, 1946, at 10:30 a. m.

PRESENT: Mr. Eccles, Chairman
Mr. Szymczak
Mr. Evans

Mr. Carpenter, Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Chairman

Mr. Vardaman was absent because of illness.

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

Telegram to Mr. Whittemore, President of the Federal Reserve Bank of Boston reading as follows:

"Reurtel July 15. Effective July 19, 1946, Board approves increase in minimum buying rate on bankers' acceptances from 1/2 per cent to 3/4 per cent per annum. Reestablishment of all other rates now in effect at your Bank also approved by Board. It is understood that any acceptances purchased by your Bank will be at the rate of 3/4 per cent for maturities up to 90 days, 7/8 per cent up to 120 days, and one per cent up to 180 days."

Approved unanimously.

Telegram to Mr. Powell, First Vice President of the Federal Reserve Bank of Minneapolis, reading as follows:

"Reurtel July 16. Effective July 17, 1946, Board approves increase in minimum buying rate on bankers' acceptances from 1/2 per cent to 3/4 per cent per annum. Reestablishment of all other rates now in effect at your Bank also approved by Board. It is understood that any acceptances purchased by your Bank will be at the rate of 3/4 per cent for maturities up to 90 days, 7/8 per cent up to 120 days, and one per cent up to 180 days."

Approved unanimously.

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Letters to "Citizens State Bank", Tupelo, Mississippi, "State Bank of Barnum", Barnum, Minnesota, "College Station State Bank", College Station, Texas, and "The Ripley County Bank", Osgood, Indiana, respectively, reading as follows:

"The Board is glad to learn that you have completed all arrangements for the admission of your bank to membership in the Federal Reserve System and takes pleasure in transmitting herewith a formal certificate of your membership.

"It will be appreciated if you will acknowledge receipt of this certificate."

Approved unanimously.

Letter to the Presidents and Federal Reserve Agents at all of the Federal Reserve Banks, reading as follows:

"We enclose herewith several copies of drafts of proposed rules for the Board, which have been prepared by the staff, pursuant to the provisions of section 3 of the Administrative Procedure Act, approved by the President on June 11, 1946. For convenient reference in this connection we enclose copies of the Administrative Procedure Act to supplement copies previously sent to your Counsel.

"You will note that these proposed rules lie largely in fields which have not previously been covered by regulations or other formal statements of the Board. It may be said that in general the proposed rules are intended as a statement of existing conditions and procedures rather than as reflecting any substantial change in these matters.

"The Board will appreciate your review and comments and suggestions with reference to these documents, after consultation with Counsel and such officers at the Reserve Bank as may be concerned with the subject matter of the proposed rules. We would like to have your suggestions as soon as practicable and hope that in any event you can let us have them not later than August 5, 1946.

"The question of the steps that need to be taken by the Federal Open Market Committee in order to conform to the Administrative Procedure Act is now having consideration by Counsel.

"This letter is being sent to the Presidents and Federal Reserve Agents at all of the Federal Reserve Banks."

Approved unanimously.

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Letter to Mr. Clerk, President of the Federal Reserve Bank of San Francisco, reading as follows:

"Reference is made to your letter of June 28, 1946, concerning the proposed addition to the Los Angeles Branch Building. In October 1945, when the Board recommended legislation repealing the ninth paragraph of section 10 of the Federal Reserve Act which limits the amount that may be spent for Federal Reserve branch buildings without the approval of Congress, it was hoped that the legislation would be passed during the present session of Congress. However, as Mr. Szymczak advised you when you were here in June, it is the opinion of the members of the Board that, because of the pressure of other important matters requiring consideration before Congress adjourns, action will not be possible at the present session either on the repeal of the existing limitation or with respect to authorization for specific branch buildings. When Congress reconvenes, the Board will endeavor to obtain prompt action on the legislation which it has recommended and, in support of its position that the present limitation should be removed, will use the material that you have submitted showing the urgent need for additional space at the Los Angeles Branch.

"Since the addition to the Los Angeles building cannot be made until authorizing legislation is enacted, the extent of the improvements may depend on the kind of legislation passed by the Congress. Accordingly, the Board will take no action at this time on the plans submitted with your letter but will discuss the matter with you when you are in Washington in October with a view to working out a program which will permit of prompt action, as soon as Congress acts, to meet at least your immediate needs."

Approved unanimously.

Letter to Mr. Henry T. Allen, Garden City, Long Island, New York, reading as follows:

"This is in reply to your letter suggesting that this Board amend its security loan regulations to provide for a 50 per cent margin on stocks instead of the present 100 per cent requirement. Your letter was referred to us in June by the Securities and Exchange Commission.

"Your thought that 'the speculative fever seems to have subsided' does not agree with conditions as we now observe them, if you mean that there is no longer any danger of serious inflation. The threat of speculative inflation

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"and later collapse is perhaps greater now than it was in the 1920's because of the great accumulation of money and its equivalent in people's hands as a result of financing the war. The use of borrowed money to trade in securities would increase this danger of inflation and collapse, we believe.

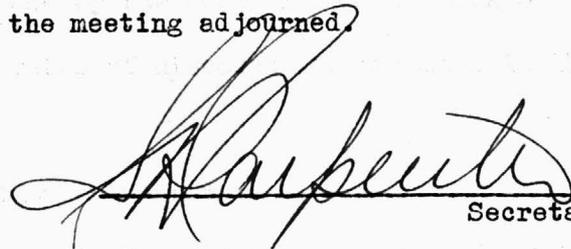
"So long as the investing public has far more cash or its equivalent than ever before in history there is no economic reason why the stock market should be using any credit, whether the market be advancing or declining. The prospect of an abrupt decline in stock prices, such as your letter seems to contemplate, is progressively reduced as stocks pass from margin traders into the hands of outright owners.

"It is most likely that in present circumstances any sharp and prolonged decline in the market would reflect such fundamental factors as declining production, employment, and earnings. The margin buying that might be induced by a lowering of margin requirements could not be expected to have any sustained influence. To stabilize the national economy, at a high level of production and employment is the way to stabilize the stock market.

"We appreciate the spirit in which your letter was written as well as the opportunity it has afforded us to outline the reasons why the Board does not agree with your suggestion."

Approved unanimously.

Thereupon the meeting adjourned.


Secretary.

Approved:

Chairman.