

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, November 29, 1946.

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

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

As stated in the minutes of October 30, 1946, Mr. Vardaman was absent on official business.

Telegrams to Mr. Blair, Secretary of the Federal Reserve Bank of Cleveland; Mr. Leach, President of the Federal Reserve Bank of Richmond; Mr. Clark, First Vice President of the Federal Reserve Bank of Atlanta; Mr. Dillard, Vice President of the Federal Reserve Bank of Chicago; Mr. Stewart, Secretary of the Federal Reserve Bank of St. Louis; Mr. Powell, First Vice President of the Federal Reserve Bank of Minneapolis; Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City; Mr. Gilbert, President of the Federal Reserve Bank of Dallas, and Mr. Volberg, Vice President of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on November 26, the Federal Reserve Banks of Atlanta, Chicago, St. Louis, Minneapolis, and Kansas City on November 27, the Federal Reserve Bank of Cleveland on November 28, and the Federal Reserve Banks of Richmond, Minneapolis, and Dallas today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

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Memorandum dated November 27, 1946, from Mr. Thomas, Director of the Division of Research and Statistics, recommending the appointment of Miss Genevieve P. Gilardi as a clerk in that Division, on a temporary indefinite basis, with basic salary at the rate of \$2,394.00 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination. The memorandum also stated that Miss Gilardi was a member of the Civil Service Retirement System and would remain in that system.

Approved unanimously.

Letter to Mr. John R. Steelman, Director of the Office of War Mobilization and Reconversion, prepared in accordance with the action taken at the meeting of the Board on November 19, 1946, and reading as follows:

"This refers to your letter of November 14, 1946, requesting reports with reference to temporary wartime statutes and other legislation of concern to us which we anticipate may be considered by the next Congress.

"There are only two temporary statutes which directly affect operations of the Federal Reserve System. They relate to the purchase of Government securities by the Federal Reserve Banks directly from the Government and to the exemption of war-loan deposits from reserve requirements and deposit insurance assessments.

"Direct Purchase of Government Securities. - The existing authority for the purchase of Government securities by the Federal Reserve Banks directly from the Government, subject to a \$5,000,000,000 limitation, is contained in a proviso which was added to section 14(b) of the Federal Reserve Act by Title IV of the Second War Powers Act, and will expire on March 31, 1947, or such earlier date as may be designated by Congress or the President. In lieu of a further extension of this temporary legislation, the Board believes that this authority should be made permanent. It believes that permanent authority is desirable because, among other

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"reasons, direct buying by the Federal Reserve Banks provides the Treasury with a source to which it can turn to obtain funds in a substantial amount on little notice to meet temporary situations and contingencies, makes it possible for the Treasury to operate with a smaller cash balance than might otherwise be necessary, and provides a flexible mechanism to ease the money market in periods of heavy drain, as, for example, around income tax dates. The Treasury Department also is interested in this matter and concurs in the Board's views with respect to it. It is the Board's purpose to recommend to Congress that the present authority of the Federal Reserve Banks in this matter be made permanent.

"War-Loan Deposits. - The Act of April 13, 1943, amended section 19 of the Federal Reserve Act to provide that, until six months after the cessation of hostilities as determined by proclamation of the President or concurrent resolution of Congress, Government deposits in member banks which are commonly known as war-loan deposits shall not be included in the deposits against which member banks are required to maintain reserves with the Federal Reserve Banks. It also amended section 12B of the Federal Reserve Act to provide that, for a like period, war-loan deposits shall not be subject to the usual Federal Deposit Insurance Corporation assessments against deposits in insured banks. This legislation was strictly a wartime measure, designed to facilitate the Government's huge financing program necessitated by the war effort. The exemption of war-loan deposits from reserve requirements constitutes a departure from sound peacetime policies and was justified only on the basis of wartime necessity. Since the Government's war financing has now been completed, the need for the exemption no longer exists; and its continuance is undesirable because of its inflationary effects. By the end of this year, the volume of war-loan deposits will have been so reduced that the adjustments required by the removal of the exemption should present no serious difficulties. Accordingly, the Board believes that the exemption should be promptly terminated, and at the appropriate time it plans to recommend the enactment of legislation to accomplish this end. The Treasury Department and the Federal Deposit Insurance Corporation also are interested in this matter.

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"In addition to the foregoing, certain matters which may be considered by the next Congress and which are of concern to the Board are set forth below:

Regulation of Consumer Credit. - The Board's authority to regulate consumer credit is contained in Executive Order No. 8843, dated August 9, 1941, which was issued pursuant to section 5(b) of the Trading with the Enemy Act. Section 5(b) is permanent legislation but the powers which it vests in the President may be exercised by him only during the time of war or during the time of national emergency declared by him. In its Annual Report to Congress last June, the Board recommended that Congress consider the question whether the regulation of consumer credit should be continued on a peacetime basis, as a subordinate but contributory factor in the maintenance of economic stability. As stated in the Report, -

'Over the past 30 years, consumer installment financing has come to occupy an important and strategic place in the national economy. Such financing is essential to the mass distribution and consequently to the mass production of consumers' durable goods. From time to time, however, the expansion and subsequent contraction of consumer credit has gone so far as to accentuate the upswings and downswings of the business cycle. There is no way of preventing such excessive expansion and contraction except governmental regulation of the terms on which consumer credit shall be made available, such as the down payment required on instalment sales or financing and the length permissible for instalment contracts.'

The Board has recently revised its regulation on consumer credit; and, if it is to be continued on a peacetime basis, the Board believes that the regulation should in general be in the form and scope of this revision in order to be an effective influence toward economic stability. However, the issue as to whether the regulation should or should not be continued in any form is a subject of sharp controversy among various groups affected by it. The Board believes that this issue should be decided by Congress and that an effort should be made to obtain a prompt determination of the matter. Aside from the Board, it is believed that your Office is the Government agency most directly concerned with this matter.

"Regulation of Bank Holding Companies. - As a part of the Banking Act of 1933, Congress attempted to provide for the regulation of bank holding companies and gave the Board the respon-

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"sibility for the administration of the law. Experience has demonstrated that effective regulation is impossible under the existing law and that the law is wholly inadequate to accomplish its objectives. In its Annual Report to Congress for 1943, the Board pointed out some of the defects in the law and recommended the enactment of new legislation; and, subsequently, it submitted specific proposals to the 79th Congress. The proposed legislation (embodied in H. R. 6225) was designed to provide for more effective supervision of bank holding companies, to require them to eliminate activities unrelated to the ownership and control of bank stock, and to control the expansion of bank holding companies. The Board still favors legislation of this nature and expects to seek such legislation at the next Congress. In the past, the Treasury Department and the Federal Deposit Insurance Corporation have been interested in legislation on this subject.

"Loans to Business Enterprises. - Under section 13b of the Federal Reserve Act, the Federal Reserve Banks have limited authority to make loans to industrial or commercial businesses and to purchase and to enter into commitments to purchase similar loans made by other financing institutions. A part of the funds to enable the Federal Reserve Banks to carry out this program are advanced to them by the Government. The authority granted by section 13b is subject to such restrictions, however, as to be of relatively little value, and the Board believes that that section should be repealed. In lieu thereof the Board expects to recommend at the appropriate time that section 13 of the Federal Reserve Act be amended to give the Federal Reserve Banks authority of a standby character to assist in the financing of business, particularly small business, on a more practical basis. Under such authority, a Federal Reserve Bank could guarantee up to 90 per cent of a loan made by a commercial bank to a business enterprise, charging the bank a fee for such guarantee. The new program would be carried out without Government assistance and the Federal Reserve Banks would be directed to return to the Government the funds, amounting to approximately \$27,000,000, which have been advanced to them under section 13b. The Commerce Department has been interested in legislation of this nature and presumably the Treasury Department would be interested in view of the proposed return of the funds previously advanced to the Federal Reserve Banks.

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"Federal Reserve Branch Buildings. - The Federal Reserve Act provides that not more than \$250,000 may be expended for the erection of any Federal Reserve Bank branch building. The Board requested legislation at the 79th Congress to remove this limitation but no action was taken. The Board expects to renew this request at the next Congress. The operations of the Federal Reserve Bank branches increased greatly during the war and may be expected to continue indefinitely on a much larger scale than prior to the war. As a result, additions to existing buildings or new buildings are essential at several of the branches; but their erection is prohibited by the statutory limitation. In view of the supervision which the Board exercises over building operations of the Federal Reserve Banks, the limitation appears to serve no useful purpose, and the Board believes it should be eliminated. The Board, of course, would not authorize any substantial building construction, except in case of emergency, until labor and materials become available in adequate supply and such construction would be helpful in the employment situation. The limitation should be eliminated now, however, because the Federal Reserve Banks, being uncertain as to what may eventually be authorized, are unable to make effective preparations for the necessary construction to be undertaken at the appropriate time. The construction of the buildings will not involve the use of any Government funds or appropriated moneys.

"I trust that the foregoing includes sufficiently detailed information for your purposes at this time. We will, of course, be glad to furnish further information or discuss any of these matters with you if you so desire."

Approved unanimously.

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

"In view of the recommendation contained in your letter of October 30, 1946, the Board of Governors approves, under the provisions of Section 24A of the Federal Reserve Act, the loan of \$74,000 made by the Industrial Trust Company, Wilmington, Delaware, to the wholly owned affiliate holding its banking premises. The Board understands that regular and special periodic reductions are expected to extinguish the loan within three years."

Approved unanimously.

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Secretary.

Approved:


Chairman.