Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, June 5, 1947. The Board met in the Board Room at 4:55 p.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Chairman
Mr. Thomas, Director of the Division of Research and Statistics
Mr. Musgrave, Chief of the Government Finance Section, Division of Research and Statistics
Mr. Thomas L. Smith, Economist, Division of Research and Statistics

Chairman Eccles stated that he felt the action of the President on the tax bill was of such importance from the standpoint of the responsibilities of the Board in the credit field as to justify a letter from the Board recommending that the bill be vetoed. He also said that with this thought in mind he had had a draft of letter prepared which he would like to have the Board consider. The draft of letter was read and discussed, and during the discussion was changed to read as follows:

"In view of its interest in maintaining credit conditions conducive to economic stability, the Board of Governors of the Federal Reserve System wishes to express to you its opinion that enactment of the tax reduction bill, H.R. 1, would be inadvisable from an economic standpoint at this time. It is our view that a premature reduction in tax rates would tend to postpone necessary price readjustments which must take place "sooner or later. The longer inflationary pressures are sustained and readjustment deferred, the more serious the inevitable reaction will be.

"Tax reduction now would be inflationary to the extent that it would increase purchasing power and reduce the Government's surplus which could be used to pay off public debt. Moreover, this measure does not distribute tax relief in a way that will contribute most effectively to the maintenance of high national income and employment. If essential readjustments within the price structure are thus deferred, we are likely to have not a readjustment but a recession, the magnitude of which will depend largely upon how long inflationary forces are sustained.

"With the present huge public debt, it is of first importance that, in periods of high income accompanied by inflationary pressures, every effort be made to reduce the debt as much as possible. Continuing public confidence in Government finances depends upon such a policy. It is not sufficient under existing conditions merely to have a token surplus for debt retirement. All savings in Government expenditures should be applied to debt reduction. If the tax bill becomes law, the amount available for debt retirement will be entirely inadequate for a period of unparalleled high levels of peacetime income and employment.

"The time for tax reduction will be when general inflation pressures have disappeared, the structure of prices has shaken down to a more stable basis than now prevails, the volume of investment is declining, and consumer demand is insufficient to take off the market what the economy can produce at high employment. How long it will take for this point to be reached is impossible to predict. Clearly it has not been reached as yet and is not likely to be reached during the current calendar year. Tax reduction now would add to already excessive consumer buying. It would also add to funds available for investment which are more than adequate. It would add to rather than correct maladjustments in the economic structure. Tax reduction should be used as a stimulus to consumer buying in case of declining employment and income and not to augment buying pressures when prices are still at inflated levels.

"When the time for tax reduction arrives, the primary need will be to sustain consumer purchasing power. Since "the kind of tax reduction proposed in H.R. 1 will not effectively accomplish this purpose, it is not only objectionable as to time but is so designed that it would not serve the purpose when tax reduction is desirable. Under H.R. 1 tax savings to the average family with an income of $2,500 are less than $30, while taxes on an income of $50,000 are reduced by nearly $5,000 and on an income of $500,000 by nearly $60,000.

"Such a distribution of tax relief would add to the supply of investment funds, which will continue to be ample, rather than to the volume of consumer expenditures, which later on will be inadequate in relation to supply. In order to add to consumer buying, the reduction in tax liabilities should be concentrated in the lower-income groups. This can best be accomplished by increasing the amount of tax exemptions."

Upon motion by Mr. Draper, the letter was approved unanimously.

At this point Messrs. Thomas, Musgrave, and Smith withdrew and the action stated with respect to each of the matters hereinafter set forth was taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on June 4, 1947, were approved unanimously.

Memorandum dated June 2, 1947, from Mr. Bethea, Director of the Division of Administrative Services, recommending the appointment of Miss Vivian R. Duckett as a page in that Division, on a temporary indefinite basis, with basic salary at the rate of $1,756 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 Duckett was a member of the Civil Service retirement system and would remain in that system.

Approved unanimously.

Letter prepared for Chairman Eccles' signature to the Honorable Jesse P. Wolcott, Chairman of the House Banking and Currency Committee, reading as follows:

"Under date of May 29, 1947, I addressed a letter to you, stating the urgent need for additional space at some of the branches of the Federal Reserve Banks, and recommending the enactment of legislation at the present session of Congress to remedy this situation.

"The present law provides a limitation of $250,000 on the cost of any branch bank building erected by any Federal Reserve Bank. This limitation applies only to the cost of the building proper and not to the cost of the land or the cost of vaults, permanent equipment, furnishings and fixtures. The limitation likewise applies only to the cost of the branch buildings of the Federal Reserve Banks and not to their head office buildings. Accordingly, I believe that it would be much simpler and more practical for the legislation merely to repeal the limitation contained in the present law and I enclose a draft of a bill which would have this effect.

"If, however, after considering this matter, you and your Committee should be unwilling to recommend legislation repealing entirely the limitation of the present law, the Board urgently recommends that legislation be enacted which would permit the Board to approve expenditures for branch buildings of the Federal Reserve Banks, in those cases in which the needs are most urgent, up to a total aggregate amount not exceeding $10,000,000, for the cost of the building proper. Enclosed is an alternative draft of a bill which would accomplish this purpose if your Committee should prefer legislation of this kind.

"I hope that this matter will have the early and favorable consideration of your Committee, with a view "to the enactment of legislation at the present session of Congress to take care of this matter."

Approved unanimously.

Letter prepared in accordance with the action taken at the meeting on June 4, 1947, for Chairman Eccles' signature to the Honorable Jesse P. Wolcott, Chairman of the Committee on Banking and Currency, House of Representatives, reading as follows:

"In accordance with the recommendation in the Board's Annual Report for 1945 that Congress give consideration to the question of continuing by legislation the regulation of consumer instalment credit now based on executive order, the Board is transmitting herewith a draft of a suggested bill which would effectuate this purpose.

"We are enclosing also a brief non-technical summary of the principal provisions of the suggested bill.

"It is our understanding that I am to appear before your Committee in the near future to explain more fully the purposes of the proposed legislation and to present the reasons which seem to the Board to justify its adoption."

Approved unanimously, together with a letter to the Honorable Charles W. Tobey, Chairman of the Committee on Banking and Currency, United States Senate, reading as follows:

"In accordance with the recommendation in the Board's Annual Report for 1945 that Congress give consideration to the question of continuing by legislation the regulation of consumer instalment credit now based on executive order, the Board is transmitting herewith a draft of a suggested bill which would effectuate this purpose.

"We are enclosing also a brief non-technical summary of the principal provisions of the suggested bill.

"I should be glad to appear before your Committee to explain more fully the purposes of the proposed legislation and to present the reasons which seem to the Board to justify its adoption."

Memorandum dated May 26, 1947, from Mr. Horbett, Assistant Director of the Division of Bank Operations, recommending (1) that the Board join with the Comptroller of the Currency and the Federal Deposit Insurance Corporation in arranging for the compilation and publication of a single "all-bank" statistical series, with the understanding that the compilation be made in such manner as to provide each agency with any special breakdowns that might be of particular value, e.g., statistics by Federal Reserve districts; (2) that, in view of the Federal Reserve System's broad responsibilities in the field of money, banking, and credit, and of the well-established research and statistical facilities here and at the Federal Reserve Banks, the Board indicate that it is willing and much prefers that the proposed single "all-bank" compilations be made by its staff, but that it authorize the Division of Bank Operations to accede to the Federal Deposit Insurance Corporation compilation of the series if both the Budget Bureau and the Federal Deposit Insurance Corporation representatives strongly prefer such a procedure and the Comptroller's office has no preference; and (3) that the Division of Bank Operations, in consultation with representatives of the Comptroller of the Currency, the Federal Deposit

Insurance Corporation, and the Budget Bureau, be authorized to resolve such technical questions as may arise in the compilation of the new "all-bank" series.

Approved unanimously, together with a letter to Mr. Stuart Rice, Assistant Director in Charge, Division of Statistical Standards, Bureau of the Budget, reading as follows:

"This refers to your letter of May 20, 1947, in which you outline a tentative plan for the publication of a single statistical series of 'all-bank' assets and liabilities in place of the three series now prepared independently by the three Federal bank supervisory agencies.

"The Board concurs in the view that it is highly desirable that a single 'all-bank' series be published. Because of the broad interest and responsibilities of the Federal Reserve System in the field of money, banking, and credit, the Board feels that the proposed series should be prepared at its offices. As you know, the Federal Reserve Banks in their capacity as central banking institutions and as fiscal agents of the United States, have close and frequent contacts with all banking institutions and State banking departments. They have well organized research and statistical facilities which are coordinated with similar facilities at the Board's offices, and the detailed banking statistics required for their analyses of regional and local economic developments can be most effectively obtained if responsibility for the collection of these statistics rests with the Reserve System.

"The Board will be glad to cooperate in perfecting arrangements for the publication of a single 'all-bank' series which will contain the information desired by any of the Federal bank supervisory agencies. It has authorized its Division of Bank Operations to continue discussions with representatives of the Budget Bureau, the Comptroller's Office, and the Federal Deposit Insurance Corporation, with a view to making such arrangements effective beginning with the forthcoming mid-year call for condition reports.

"A copy of this letter is being sent to Chairman Harl of the Federal Deposit Insurance Corporation and to Mr. Upham, Deputy Comptroller of the Currency."

Secretary.

Approved:

Chairman.