

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, October 24, 1947.

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

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

Minutes of actions taken by the Board of Governors of the Federal Reserve System on October 22, 1947, were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on October 23, 1947, were approved and the actions recorded therein were ratified unanimously.

Telegrams to the Federal Reserve Banks of Boston, Philadelphia, Cleveland, Richmond, Atlanta, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco, stating that the Board approves the establishment by the Federal Reserve Bank of San Francisco on October 21, by the Federal Reserve Bank of St. Louis on October 22, by the Federal Reserve Banks of Philadelphia, Cleveland, Richmond, Atlanta, Minneapolis, Kansas City, and Dallas on October 23, 1947, and by the Federal Reserve Bank of Boston today of the rates of discount and purchase in their existing schedules.

Approved unanimously.

10/24/47

-2-

Memorandum dated October 22, 1947, from Mr. Bethea, Director of the Division of Administrative Services, recommending that the resignation of Mrs. Anna Mae Boucher, a page in that Division, be accepted to be effective in accordance with her request, at the close of business October 31, 1947, with the understanding that a lump sum payment would be made for annual leave remaining to her credit as of that date.

Approved unanimously.

Letter to Mr. Brainard, Chairman of the Federal Reserve Bank of Cleveland, reading as follows:

"This will acknowledge receipt of your letter of October 11, 1947, advising of the election of Mr. Thomas E. Millsop as Mayor of the City of Weirton, West Virginia. It is noted that Mr. Millsop has submitted his resignation as a Class B Director inasmuch as his continuance in office as a director of the Federal Reserve Bank while holding public office appears to be inconsistent with the resolution of the Board adopted on December 23, 1915, but that the other members of the board of directors have expressed the hope that it would be possible for Mr. Millsop to continue as a director until the expiration of his term on December 31, 1948, or at least until February 1, 1948, so that the special election for his successor would come at a convenient and appropriate time.

"The Board has given careful consideration to the circumstances under which Mr. Millsop was elected to public office, but nevertheless feels that it would not be consistent with the spirit and purpose of the resolution of December 23, 1915 for him to continue as a director of the Federal Reserve Bank while holding public office. While the Board will be sorry to lose the services of Mr. Millsop, in the circumstances it feels that his relationship with the Bank as a director should not be continued beyond the end of this calendar year."

Approved unanimously.

10/24/47

-3-

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

"In accordance with the request contained in your letter of October 20, 1947, the Board approves the appointment of Griffin Lewis King as an assistant examiner for the Federal Reserve Bank of Atlanta. Please advise us of the date upon which the appointment becomes effective.

"It has been noted that Mr. King is indebted to Bank of Camden, Camden, Tennessee, a non-member bank in the Eighth Federal Reserve District, in the amount of \$2700., which note is secured by marketable securities with a value of approximately \$1000. in excess of the debt. It has been noted, also, that the collateral includes shares of stock of a national bank in your District. It is understood that disposition of the bank stock and a sufficient amount of the collateral to liquidate the debt in full will not present a problem to him, and, accordingly, the Board's approval is given with the understanding that this will be done prior to the effective date of the appointment."

Approved unanimously.

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

"In accordance with the request contained in your letter of October 18, 1947, the Board approves the designation of Carl F. Spaeth, Jr. as a special assistant examiner for the Federal Reserve Bank of Chicago."

Approved unanimously.

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

"Reference is made to your letter of October 15, 1947, submitting the request of the Industrial Trust

10/24/47

-4-

"Company, Providence, Rhode Island, for approval of an additional investment of \$125,000 in banking premises to be expended in completing the building for its Elmwood Branch.

"In accordance with your recommendation, the Board of Governors approves the additional investment of \$125,000 in banking premises by the Industrial Trust Company for the purpose above indicated."

Approved unanimously.

Letter to Mr. Gidney, President of the Federal Reserve Bank of Cleveland, reading as follows:

"This refers to Mr. Fletcher's letter of October 16, 1947, and enclosures with regard to the service of Mr. H. Lyman Greer as vice-president of The Fifth Third Union Trust Company, Cincinnati, Ohio, and as director of Haydock Fund, Incorporated, also of Cincinnati, Ohio.

"We note that you and your Counsel are of the opinion that such service of Mr. Greer is in violation of section 32 of the Banking Act of 1933. On the basis of the information which you have furnished us and in the light of previous rulings of the Board, we know of no reason to differ with your conclusion in this matter."

Approved unanimously.

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

"Enclosed is a copy of a letter of October 15, 1947, from Mr. W. R. McQuaid, President, The Barnett National Bank, Jacksonville, Florida, inquiring whether it is necessary for his bank to change the name of its 'Trust Committee' to 'Trust Investment Committee' in order to comply with Regulation F.

"It will be appreciated if you will advise Mr. McQuaid concerning this matter. The name of the committee is immaterial, provided the committee is charged with the duties and responsibilities which Regulation F prescribes for a trust investment committee.

10/24/47

-5-

"Mr. McQuaid is not being advised of this reference."

Approved unanimously.

Letter to Mr. F. C. Willis, General Auditor, Pilot Life Insurance Company, Greensboro, North Carolina, reading as follows:

"This is in reply to your letter of October 10 to the President which has been referred to us for consideration. The letter maintains that the margins now required for the purchase of stocks should be reduced to the  $33\frac{1}{3}$  required for purchase of grain contracts. The line of argument is that this 'would transfer the speculative money from the grain markets, with a resultant decline in grain prices, to the stock market, which would raise stock prices to a more favorable level to investors.'

"This argument, we believe, depends upon the assumption that everyone who is disposed to engage in stock speculation is equally at home in the other markets. Having a certain amount of funds of his own to employ, he looks around for the field in which he can take on the largest commitment on the basis of his own and borrowed funds, having regard of course to his profit possibilities in each field. A reduction of margin requirements would permit him to take on a larger stock commitment and so improve the relative attractiveness of the stock market.

"We are sure that examples of this type of behavior can be found, but it is certainly not typical of the behavior of the great majority of those who buy stocks on margin. Consequently, the transfer of speculative activity away from other fields could not reach sizable proportions and 'new' speculation in the stock market would be made possible.

"We agree with you that developments in other markets are most disturbing, but we do not believe it would be in the public interest for the Board to take an action which would facilitate similar developments in the stock market. If, in addition to all of the present difficulties, there were serious inflation in the stock market, the readjustment when it came would be all the more severe and the securities business would, rightly or wrongly,

10/24/47

-6-

"be held partly to blame by the public."

Approved unanimously.

Telegram to the Presidents of all Federal Reserve Banks, prepared in accordance with the understanding reached at the meeting of the Board on October 21, 1947, and reading as follows:

"In accordance with the understanding at the recent meeting with the Presidents, the Board transmits to you herewith the text of its public statement on instalment credit. This statement is being given to the press late today for release in morning newspapers of Monday, October 27.

"It is understood that the statement will be sent to all registrants in your district, with a covering communication over your signature, which either incorporates the statement or transmits it with whatever additional statement you consider appropriate indicating that the Board has requested its distribution to registrants and that you endorse the position taken by the Board. It is felt also that a second day story could probably be obtained in your local press if you would advise them that you were sending the statement to all registrants and furnish them with a copy of your covering communication.

"The text of the statement follows:

"The instalment credit controls exercised by the Board of Governors of the Federal Reserve System under Regulation W, pursuant to Executive Order No. 8843, will cease to be operative after November 1, 1947, in accordance with the resolution of Congress approved on August 8, 1947.

"Generally speaking, the instalment terms prescribed by this regulation called for maturities of not more than fifteen months and down payments of at least one-third. The continuance of strong inflationary pressures has confirmed the belief of the Board that this is no time for the relaxation of terms by banks, finance companies and instalment sellers. Demand for automobiles and many other durable goods specifically covered by the Regulation is



10/24/47

-7-

"still far in excess of supply. Easier credit will not add to the supply. It can only intensify demand and accentuate the upward pressure on prices. Easier terms should await a time when growth of credit is needed to maintain full production. That time has not arrived and it is not in immediate prospect. Employment and national income are at all time peaks. Inflationary forces continue to exert powerful upward pressures on the general price level. There could not be a worse time to encourage the public to go deeper and deeper into debt.

"Notwithstanding Regulation W and continued shortages particularly of consumers' durable goods, instalment credit, on which the regulation has been focused, has expanded by more than three billion dollars since the end of the war. Even this is too rapid a rate of growth under the prevailing inflationary conditions. Experience has shown that rapid and excessive expansion of this type of credit is followed by a sharp reversal, thus contributing greatly to economic instability.

"As has been stated by the President, 'it will be in the public interest for every merchant and financial agency extending instalment credit to avoid undue relaxation of terms. It will be far better to reduce prices rather than to relax terms in seeking new customers. Self-restraint on the part of those who use credit as well as on the part of those who extend it will reduce the danger of an over-expansion of instalment credit which would inevitably be followed by severe contraction, thereby contributing to unemployment and reduced production.'

"The primary responsibility for avoiding excesses now rests upon the lenders and vendors who have been subject to the Regulation. Their interest and that of the nation will be served best if they refrain from taking undue advantage of the end of the Regulation. The Board of Governors urges all who participate in the extension of instalment credit to recognize and do all within their power to avert through self-imposed restraints the dangers inherent in easy terms that result in overexpansion of consumers' instalment credit."

Approved unanimously.

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

10/24/47

-8-

"In compliance with the request in your letter of October 23 the Board approves the opening and maintenance of an account on your books for and in the name of the Banco Central de la Republica Dominicana subject to the usual terms and conditions upon which you maintain accounts for foreign central banks. It is understood that you will in due course offer participation in this account to the other Federal Reserve Banks."

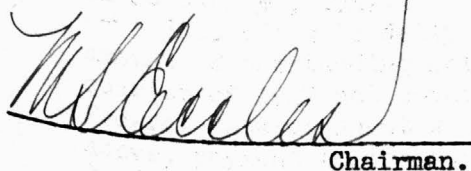
Approved unanimously.

Memorandum dated October 15, 1947, from Mr. Leonard, Director of the Division of Examinations, recommending, for the reasons stated in the memorandum, that \$200 be added to the item of Printing and Binding in the 1947 non-personal budget of the Division of Examinations.

Approved unanimously.

  
Secretary.

Approved:

  
Chairman.