

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, February 14, 1949.

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

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

Minutes of actions taken by the Board of Governors of the Federal Reserve System on February 11, 1949, were approved unanimously.

Letter prepared for Chairman McCabe's signature to Mr. Paul G. Hoffman, Administrator of the Economic Cooperation Administration, reading as follows:

"This is in response to your letter of February 7 requesting that Mr. Albert O. Hirschman of the Board's research staff be made available for work with the Economic Cooperation Administration over an indefinite period. The Board is anxious to help in the work of your Administration and has been glad to lend the services of Mr. Hirschman on a limited basis. We find, however, that because of depletions in our staff and the difficulty of obtaining replacements, we cannot spare the services of Mr. Hirschman at this time. We should be glad to have him assist your staff as a member of the interdepartmental team, giving such time as can be spared from his necessary duties at the Board. We are sorry that we cannot do more than this."

Approved unanimously.

Memorandum dated February 11, 1949, from Mr. Bethea, Director of the Division of Administrative Services, recommending that

2/14/49

-2-

the resignation of Mrs. Cecile C. Wiesner, a page in that Division, be accepted to be effective, in accordance with her request, at the close of business February 25, 1949.

Approved unanimously.

Letter to Mr. Moore, Manager, Research Department of the Federal Reserve Bank of New York, reading as follows:

"This is to acknowledge your letter of February 9 addressed to Mr. Southard advising us that Mr. Sproul has approved the acceptance by Mr. Henry Wallich of an invitation extended to him personally by Dr. Alberto Loyo to give four or five lectures in Mexico City.

"We assume, although your letter does not make it quite clear, that these lectures are to be given in the National School of Economy of the University of Mexico.

"We appreciate receiving this information and perceive no objection to Mr. Wallich's acceptance of this invitation."

Approved unanimously.

Letter to Mr. Fred J. Oppat, Secretary, Detroit Stock Exchange, 2314 Penobscot Building, Detroit 26, Michigan, reading as follows:

"This is with further reference to your letter of January 17, 1949, which we have previously acknowledged.

"You suggest that section 4(c) of Regulation T, relating to the special cash account, be amended to exempt all transactions in which the purchase involves less than \$1,000 in a single transaction. You state that a substantial portion of your requests for extensions of time involve amounts below \$1,000.

"The Board is sympathetic toward your desire to avoid the need for brokers to make, or for you to consider, unnecessary requests for extensions of time under the regulation. As you know, the provision in section 4(c)(7) permitting a broker to disregard under the section any sum due from a customer not exceeding \$50 was intended partly to serve such a purpose.

2/14/49

-3-

"An exemption of all transactions below \$1,000 would, however, amount to a very considerable broadening of the present \$50 exemption. Although it would have the desirable effect of reducing the number of requests for extensions of time, it seems reasonable to believe that this would be more than outweighed by the weakening that the change would cause in the operation of the regulation. One problem connected with such a change, though by no means the only one, would seem to be the possibility that larger transactions might be divided into two or more smaller ones which would appear to fall within the exemption.

"In the circumstances, the Board does not feel that it would be justified in adopting the suggested amendment. However, the Board appreciates your suggestion and hopes that you will at all times feel free to get in touch with us regarding the regulation."

Approved unanimously.

Memorandum from Mr. Solomon, Assistant General Counsel,
dated February 11, 1949, reading as follows:

"The attached letter of February 4, 1949, from Mr. John Oden Bennett, Bartow, Florida, is, in effect, a refusal to permit his records to be inspected under Regulation W, as requested of him in the Board's letter of February 2, 1949.

"It will be recalled that on January 20, Mr. Bennett refused to permit Mr. Olin G. Barfield, Jr., of the Federal Reserve Bank of Atlanta to inspect his records, and that his language in refusing was quite abusive. When the Federal Reserve Bank of Atlanta wrote him asking whether he would permit inspection of his records, he replied with an equivocal letter. The Board's letter was intended, among other things, to avoid any possible claim of misunderstanding on his part.

"The matter has been discussed on the telephone with Mr. Patterson, Counsel to the Federal Reserve Bank. Both he and the officers of his Bank strongly favor further steps to enforce compliance.

"I have discussed this matter with Mr. Leonard, Mr. Vest and Mr. Townsend, and we all concur in the

2/14/49

-4-

"view of the Federal Reserve Bank that appropriate measures should be taken to enforce the regulation in this case. This seems essential, among other reasons, in order to support the efforts of the Reserve Bank and to uphold the prestige of the regulation. It seems clear that this will result in some form of litigation and, accordingly, the matter is being referred to Mr. Townsend's office for further consideration.

"The matter is brought to the Board's attention merely for its information at this time and, in the absence of objection, will be given the direction indicated."

Approved unanimously.

Letter to Mr. C. G. Frantz, President of the Apex Electrical Manufacturing Company, Cleveland 10, Ohio, reading as follows:

"Your letter of January 12, relating to Regulation W, and the Ohio State Employment Service bulletin which you forwarded with your letter of January 14 have been read with a great deal of interest.

"We appreciate your concern over the drop in sales volume which you described and which you attribute largely to Regulation W although you mentioned that seasonal influences, saturation of demand and other factors may have had considerable effect. We might add to those reasons the current general high prices which force on the buyer a measure of selectivity as to what he can buy and what he must do without.

"You expressed the opinion that Regulation W should be reviewed with the view of relaxation of permissible terms. Regulation W is a flexible measure and the Board is particularly concerned that it be properly adapted to current economic and credit conditions. With this in mind, the Board is constantly studying conditions in the economy generally as well as conditions in those businesses which are affected directly by the provisions of the regulation, including trends in the production and marketing of appliances and other consumers' durable goods.

2/14/49

-5-

"On several occasions since the end of the war it has appeared that inflationary pressures were waning and that there was a prospect of general price weakness and rising unemployment. Each of these occasions was ended, however, by a renewal of the inflationary spiral. While currently there are some renewed signs of weakness in the business situation, other factors continue to exert inflationary pressures.

"It is difficult to measure the specific effect of Regulation W on the current trend in appliance sales since, as you mentioned, there are many other factors also influencing these sales. A sales decline is normal at this time of the year for some of these products on a purely seasonal basis. In view of the current high cost of living, many people have less buying power available for appliances.

"There are reports of increasing supplies, price cuts, and other sales concessions in connection with certain articles, such as appliances and radios, instalment sales of which are subject to the regulation. These developments are being watched closely, and the Board will be prepared to take prompt action to relax Regulation W when conditions call for such action.

"May we thank you again for the additional information and suggestions you have furnished. Please be assured they receive careful consideration."

Approved unanimously.

Letter to the Honorable George A. Dondero, House of Representatives, reading as follows:

"This will acknowledge receipt of your letter of January 28 on the subject of Regulation W. You mentioned that many working men in the Detroit area must have cars of their own to reach their places of employment and requested the Board to consider an amendment to the regulation which would permit easier instalment terms in connection with automobile sales.

"We have received but two or three requests for such relaxation of terms from the purchasing public. We have received, from individuals, several requests to hold present terms.

2/14/49

-6-

"Although the Board has received a number of requests for relaxation of the regulation from those in the industry or those financing its retail sales, there is also evidence of a different point of view in those quarters. The attached sheets contain excerpts from unsolicited letters we have received expressing views that the regulation should not be relaxed at this time.

"Regulation W is a flexible measure and the Board is particularly concerned that it be properly adapted to current economic and credit conditions. With this in mind, the Board is constantly studying conditions in the economy generally as well as conditions in businesses which are affected directly by the provisions of the regulation, including trends in the production and marketing of automobiles and other consumers' durable goods.

"On several occasions since the end of the war it has appeared that inflationary pressures were waning and that there was a prospect of general price weakness and rising unemployment. Each of these occasions was ended, however, by a renewal of the inflationary spiral. While currently there are some renewed signs of weakness in the business situation, other factors continue to exert inflationary pressures.

"It is difficult to measure the specific effect of Regulation W on the current trend in automobile sales since there are other factors also influencing these sales. A sales decline is normal at this time of the year on a purely seasonal basis, particularly in the used car field. Seasonal influences normally will bring increases in sales and in used car prices in the Spring. It is clear from the evidence available to the Board that declines in sales volume of some of the articles covered by Regulation W began before the regulation was restored on September 20, 1948.

"The recent softening of the automobile market has been primarily in the medium and higher priced lines, but there continues to be a considerable excess of demand over the supply of automobiles in the aggregate. This is indicated by the fact that some used cars are still priced above the corresponding models of new cars, and only in rare cases have the normal depreciation rates been re-established. Prices of new cars are still being increased in the case of recently introduced models. Many people are being priced out of

2/14/49

-7-

"the market while manufacturers' and dealers' margins remain high. Relaxation of Regulation W under these circumstances, with an attendant increase in demand, would tend to support current high prices for both new and used cars. In this connection we believe the following statement of the Senate Committee on Banking and Currency recommending enactment of this legislation is of interest:

'Only harm could result from inducing millions of American families to go heavily into debt on too easy terms for goods at the present high level of prices. The excessive credit built up in that way would not only increase present inflationary pressures; it would have to be liquidated later out of current income should a down swing occur, thus necessarily diverting that income from the channels of consumer expenditures in the ensuing period . . .

' . . . excesses in the field . . . (of consumer credit) can be harmful not only to the people directly involved, but also to millions of others who are penalized by the inflationary effects of such excesses. The person of small income is the one hit hardest when inflation pushes prices beyond his reach and the one who suffers most when the resulting deflation throws him out of a job. The legislation should tend to result in directing competition along the line of decreasing prices rather than extending excessive credit terms. By making some contribution toward preventing further inflation at this time, and thus toward moderating any ensuing deflation, consumer instalment credit controls can especially serve the interests of the person of low income in addition to serving the interests of all other consumers affected by our national economy.'

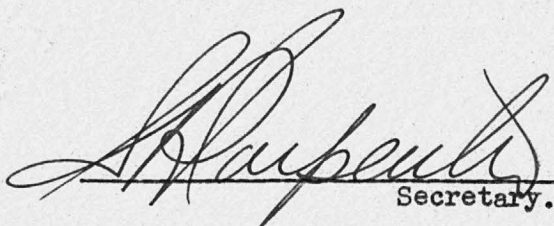
"On the basis of current study, therefore, the Board has not considered that the time has yet come to relax the provisions of Regulation W with respect to automobiles. The situation is somewhat different in other fields covered by the regulation. There are reports of increasing supplies, price cuts, and other sales concessions in connection with some articles, such as appliances and radios, instalment sales of which are subject to the regulation.

2/14/49

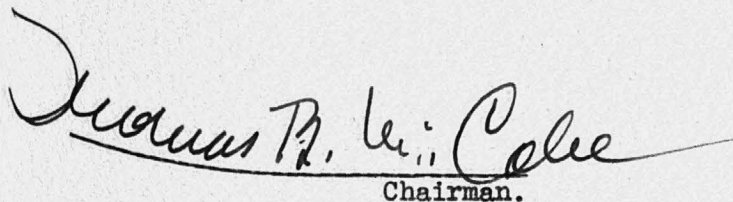
-8-

"These developments are being observed closely, and the Board is prepared to act promptly in relaxing Regulation W in either the automobile or appliance field when conditions call for such action."

Approved unanimously.


Secretary.

Approved:


Chairman.