

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, February 16, 1949.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Thurston, Assistant to the Board

Minutes of actions taken by the Board of Governors of the Federal Reserve System on February 15, 1949, were approved unanimously.

Minutes of the meeting of the Board of Governors of the Federal Reserve System with the Federal Advisory Council held on February 15, 1949, were approved unanimously.

Memorandum dated January 6, 1949, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that Bernard N. Freedman be appointed as an Economist in that Division, on a temporary indefinite basis with a basic salary at the rate of \$4,605 per annum, effective as of the date upon which he enters upon the performance of his duties, after having passed the usual physical examination.

Approved unanimously.

Memorandum dated February 11, 1949, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that the

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resignation of Mr. Frank A. Southard, Jr., Associate Director of that Division, be accepted, to be effective, in accordance with his request, at the close of business on February 28, 1949, and that appropriate payment be made for annual leave remaining to his credit as of that date.

Approved unanimously.

Letter to His Excellency Feridun C. Erkin, Ambassador of Turkey, Washington, D. C., reading as follows:

"On January 13 we wrote you to say that the Board would like to contribute to the success of Mr. Salahaddin Tukyü's studies in the United States by paying him, in accordance with a practice it has followed with respect to foreign students of other countries, a modest living allowance. This offer was based on the consideration that in the course of the year he has been with us Mr. Tukyü has shown himself to be a man whose exceptional abilities and grounding in economics and public administration promise well for his country and the circumstances of whose training to that end we should be happy to improve, having in mind the expense of living in the United States. Our letter was acknowledged by yours of January 26 informing us that you were communicating the offer to your Government at Ankara.

"We are now in receipt of a letter from Mr. Tukyü, a copy of which is enclosed, saying that he has been instructed by the Turkish Ministry of Finance that it is contrary to the practice of the Ministry to allow its personnel to accept money from the institutions in which they are being trained and asking that he be excluded from the proposed program.

"We understand, accordingly, unless we hear otherwise, that Mr. Tukyü's letter has conveyed to us your Government's answer to our offer."

Approved unanimously.

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

"The Board of Governors approves the reappointments of Messrs. Sam W. Emerson, C. F. Hood, H. P. Ladds, Herman R. Neff and W. Withington as members of the Industrial Advisory Committee for the Fourth Federal Reserve District to serve for terms of one year each, beginning March 1, 1949, in accordance with the action taken by the Board of Directors as reported in your letter of February 11, 1949."

Approved unanimously.

Letter to Mr. Strathy, Secretary of the Federal Reserve Bank of Richmond, reading as follows:

"The Board of Governors approves the reappointments of Messrs. J. G. Holtzclaw, Walker D. Stuart, Overton D. Dennis, William L. Manning and John L. Whitehurst as members of the Industrial Advisory Committee for the Fifth Federal Reserve District to serve for terms of one year each, beginning March 1, 1949, in accordance with the action taken by the Board of Directors of the Federal Reserve Bank of Richmond, as reported in your letter of February 11, 1949."

Approved unanimously.

Letter to Mr. Hodge, General Counsel of the Federal Reserve Bank of Chicago, reading as follows:

"Reference is made to our discussion of the case of Rodda vs. the Detroit Branch of the Federal Reserve Bank of Chicago, and the request of the attorney for the plaintiff for a copy of the authorization for the Reserve Bank to pay dismissal wages or separation allowances.

"There is attached hereto a certified copy of the Board's letter of March 15, 1946, containing the authorization referred to above. You are advised that

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"the Board has approved the furnishing of this material to the plaintiff in the above case."

Approved unanimously.

Letter to Mr. Leedy, President of the Federal Reserve Bank of Kansas City, reading as follows:

"This refers to your letters of February 2, 1949, one concerning the decision of your Bank to discontinue use of the electrical generating equipment and to contract with the Kansas City Power and Light Company for all energy requirements, the other requesting the Board's approval of expenditures up to \$375,000 in improving and extending the air conditioning system in your head office building.

"It is noted that the net result of changes in the air conditioning program from the original program outlined in your letter of January 17, 1948, indicates that the revised program can be carried out with no greater expense, and perhaps less, than the original one. It is also noted that you are informed that if the system is to be operated in the cooling season of 1950 you should proceed at once with the plans and be in position to commence the work of installation early next autumn.

"The Board has considered the matter and will interpose no objection to your making expenditures of not to exceed \$375,000 in improving and extending the air conditioning system in your head office building."

Approved unanimously.

Letter prepared for Chairman McCabe's signature to Honorable Henry D. Larcade, Jr., House of Representatives, reading as follows:

"This refers to your letter of February 1, 1949 in which you request comments with respect to H. R. 494, a bill recently introduced by you, which would amend the Federal Reserve Act to provide that the absorption of exchange and collection charges shall not be deemed a payment of interest on deposits by member banks.

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"As you know, in 1933 Congress amended the Federal Reserve Act by adding a provision which prohibits any member banks from paying interest on a demand deposit 'directly or indirectly, by any device whatsoever'. The Board of Governors of the Federal Reserve System is charged with the responsibility of enforcing this provision and is expressly authorized by the law to determine what shall be deemed to be a payment of interest. Following the ordinary meaning given the term by the courts in decided cases, the Board defined 'interest' in its Regulation Q as 'any payment to or for the account of any depositor as compensation for the use of funds constituting a deposit'. Consequently, the Board has taken the position that where the circumstances of a specific case indicate that exchange charges are being paid and absorbed by a member bank as a means of compensating its depositor for the use of funds constituting a deposit, the absorption of such charges constitutes a 'payment of interest' in violation of the law.

"The effect of the bill H. R. 494 obviously would be to reverse the position which has been taken by the Board in this matter. As indicated in your letter, a similar bill, popularly known as the Brown-Maybank bill, was under consideration by the 79th Congress in 1944 but failed of passage in the Senate. That bill was opposed by the Board, as well as by numerous bankers and businessmen. The reasons for the Board's opposition were set forth in detail in a letter dated January 24, 1944 addressed by the Board to Senator Robert F. Wagner, then Chairman of the Senate Committee on Banking and Currency; and a copy of that letter is enclosed for your information.

"The prohibition of the Banking Act of 1933 against the payment of interest on demand deposits was intended to correct certain evils which had arisen from the practice of banks in competing for demand balances of other banks by the payment of interest on such balances, a practice which in many cases was followed by an abnormal concentration of deposit balances in a comparatively few large banks in the financial centers of the country. The Board felt that the absorption of exchange charges by member banks would tend toward the same undesirable practices as resulted from the direct payment of interest and that, therefore, the enactment of the proposed legislation would constitute a backward step. In this connection, it is significant that immediately after

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"the enactment of the Banking Act of 1933, banks which had been forced to discontinue the direct payment of interest began soliciting accounts by agreements to absorb exchange charges and that the practice of absorbing such charges by certain correspondent banks resulted in the abnormal growth of bank balances in those banks.

"It is hoped that the above discussion, together with the enclosed copy of the Board's letter of January 24, 1944, will fully explain the Board's position in this matter."

Approved unanimously.

Letter prepared for Chairman McCabe's signature to Honorable Henry D. Larcade, Jr., House of Representatives, reading as follows:

"This refers to your letter of February 1, 1949, regarding the absorption by member banks of the costs of currency shipments, as well as the absorption of such costs by the Federal Reserve Banks in connection with shipments of currency to and from their member banks.

"The Federal Reserve Banks, as you know, are agencies created by Congress for public purposes, and the providing of free currency shipments for their member banks is one of the services performed by the Reserve Banks as public institutions. The Federal Reserve Banks are not operated for profit and the absorption of the costs of shipping currency is not employed by them as a means of soliciting deposits. One of the principal effects of this free service is to provide member banks not located in Federal Reserve Bank cities as far as practicable with the same facilities and benefits of the Federal Reserve System in this respect as are enjoyed by member banks which happen to be located in such cities. Other free services performed by the Reserve Banks for their member banks include the collection of checks, custody of securities, and wire transfer of funds.

"Your reference to the absorption of the costs of shipments of currency by member banks presumably relates to the question whether the absorption of such costs by a member bank would constitute a payment of

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"interest upon demand deposits within the meaning of the prohibition of the law and of the Board's Regulation Q. This question would depend upon whether, under all the circumstances of a particular case, a member bank is absorbing such costs as a means of compensating its depositor for the use of funds constituting a deposit. However, no case has come before the Board in which a decision has been made as to whether the absorption by a member bank of the expense of shipping currency was a violation of the law and the Board's Regulation Q.

"We appreciate your writing us regarding this matter and we are glad to have the opportunity to advise you. If you should have any further questions in this connection, we hope that you will feel free to call upon us."

Approved unanimously.

Letter to Mr. Milton S. Koblitz, Attorney and Counsellor-at-Law, 611 Estrellita Way, Bel-Air, Los Angeles 24, California, reading as follows:

"This refers to your letter of February 5, 1949, in which you express the opinion that margin requirements should be reduced.

"The Board is constantly studying the many factors that must be taken into account in setting such requirements. Although the level of stock prices and the activity in the market are factors to be considered, they are by no means the only ones. The general economic situation of the country is important and must constantly be borne in mind.

"It is a source of strength in the economy that, in spite of the serious inflation elsewhere, there has not been a dangerous expansion of credit in the stock market. That fact has helped to prevent the general inflation from being even worse, and it will inevitably lessen the shock of any readjustment, not only so far as the stock market is concerned, but also in other parts of the economy.

"You may be sure that your point of view will be given careful consideration in the Board's continuing study of the matter with a view to making such changes in the requirements as may be appropriate from time to time."

Approved unanimously.

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Letter to Mr. Warner, Acting Manager, Credit Department of the Federal Reserve Bank of New York, reading as follows:

"This is in reference to your letter of February 8 on the subject of Regulation W, with which you enclosed copies of an exchange of correspondence with the Passaic National Bank and Trust Company, Passaic, New Jersey.

"That bank proposes an amendment that would exempt from the provisions of the regulation any loan for the purpose of purchasing articles not listed in Part 1 of the Supplement to Regulation W. The suggestion is prompted by the fact that a bank can purchase instalment contracts arising from such purchases from dealers, without regard to Regulation W, while loans for the same purpose would be subject to section 4(b) as unclassified instalment loans.

"The application of the regulation, in its present scope, to instalment obligations arising from sales of unlisted articles is necessarily dependent on the way the financing is arranged. This cannot be avoided without a drastic change in the scope of the regulation, either to eliminate regulation of unclassified instalment loans or to bring instalment sales of unlisted articles under the regulation.

"Unclassified instalment loans represent, in our opinion, an important segment of consumer instalment credit which must be regulated if Regulation W is to accomplish its purposes. Of course, it would be possible to enlarge the scope of the regulation to include many articles not presently listed, but such an enlargement of the regulation would place a heavy burden on many registrants. Since the volume of instalment sales credit extended for unlisted articles is relatively small and stable, compared with the volume and variability of the regulated segments of credit, it appears to us that such an additional burden on registrants would not be justified at this time."

Approved unanimously.

Letter to Honorable Hamilton C. Jones, House of Representatives, reading as follows:

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"As requested in your letter of January 28, addressed to Mr. Lewis, we have written to Mr. W. E. Kimbrell of Kimbrell's, Incorporated, Charlotte, North Carolina. Mr. Kimbrell's letter is enclosed, together with a copy of our letter.

"We can appreciate your constituent's concern over the particular situation he described. It seems to us, however, that when a young family has incurred substantial indebtedness in purchasing a home and has an \$8.00 per week excess income over other living expenses, they would hardly be desirous of incurring additional debt to the extent that the entire \$8.00 would be needed each week for repayment. The benefits resulting from such credit may be of doubtful value in the long run.

"As mentioned in our letter to Mr. Kimbrell, Regulation W does not apply in any way to the instalment sale of articles of furniture with a cash price of less than \$50.00.

"Thank you for making this letter available to us."

Approved unanimously.

Letter to Mr. Tom Glasgow, President, Glasgow Supply Company, Charlotte 1, North Carolina, reading as follows:

"This will acknowledge with thanks your letter of January 31 in regard to Regulation W and its relation to business conditions in your area.

"You recommend the repeal of the regulation, feeling that such a step would act to check the current decline in durable goods sales in your locality since, because of curtailed payrolls in the textile mills, people apparently cannot meet the down payment and maturity requirements of the regulation.

"Although the Board has received a number of requests for relaxation of the regulation from people engaged in the production and marketing of consumers' durable goods, 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.

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"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.

"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 clear that factors other than Regulation W are also influencing sales of consumers' durable goods such as appliances, radios, furniture, etc. 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 such purchases.

"Relaxation of Regulation W is being suggested by some people in the businesses affected, in order to stimulate sales. The amounts involved in down payments and instalments reflect, in addition to the provisions of the regulation, the prices of the articles involved. Such relaxation, if it resulted in increased demand, would tend to support the current prices for appliances, radios, phonographs, furniture, etc. In this connection the following statement which appears in the report 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 . . .

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" . . . 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."

"There is some scattered evidence of increasing supplies, price cuts, and other sales concessions in connection with certain articles, such as appliances and radios. These developments are being watched closely, and the Board is prepared to take prompt action to relax Regulation W when conditions call for such action."

"We are sending a copy of this letter to the Honorable Hamilton C. Jones from whom we received your letter of January 31 addressed to him on the same subject."

"Thank you for sending in your views."

Approved unanimously.

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

"Your wire of February 10 re gold loans to Bank Polski. Board approves three months renewals of
 (1) \$8,750,000 of the \$10,000,000 loan due March 9;
 (2) \$750,000 of the \$1,500,000 loan due March 23;
 and (3) \$875,000 of the \$1,750,000 loan due April 4,
 on the same terms and conditions as apply to the maturing loans and on the understanding that any further renewal of these loans which might be requested would, if granted, be contingent upon

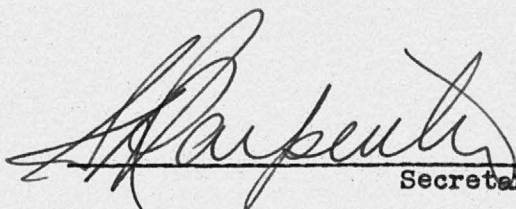
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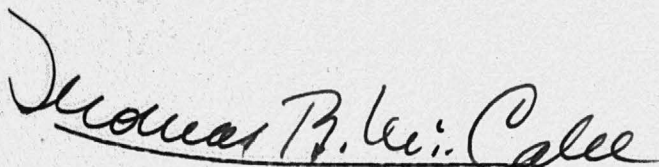
"compliance with the modified program of repayment outlined in your wire looking toward full repayment by March 1950.

"It is understood that the usual participation will be offered to the other Federal Reserve Banks."

Approved unanimously.


Secretary.

Approved:


Chairman.