

MINUTES OF MEETING OF THE EXECUTIVE COMMITTEE OF THE
FEDERAL ADVISORY COUNCIL

March 12, 1942

At 9:45 A. M., Mr. Brown called the meeting to order in the Committee Room of the Federal Reserve Building, Washington, D. C.

Present: Mr. Edward E. Brown, President; Messrs. William Fulton Kurtz, Robert V. Fleming, S. E. Ragland, and Walter Lichtenstein, Secretary.

The Secretary reported that Messrs. Harrison and Huntington were unable to be present on account of illness.

The Secretary of the Council informed the meeting that, owing to the fact that the Treasury had asked for a conference with the Board of Governors, the only member of the Board who would be able to attend this session of the Executive Committee would be the Vice Chairman, Governor Ronald Ransom.

As some of the members of the Council would find it inconvenient to attend meetings of the Executive Committee on the second Thursday of the month, after some discussion, it was decided tentatively to hold the meetings of the Executive Committee on the third Wednesday of each month.

The President of the Council stated that he had been informed that the Board of Governors was considering three major amendments in connection with Regulation W.

1. It is proposed to require a purpose test in connection with small loans, but while the Council wanted a negative test, i. e., a simple statement that the loan is *not* for the purpose of buying a listed article, the proposal envisages a statement by the borrower giving in detail the purposes for which the loan is intended.
2. It is proposed to regulate ordinary charge accounts.
3. Regulation to cover loans made by banks, for 30, 60, or 90 days, for the purpose of purchasing listed articles (term loans).

Mr. Fleming brought up the subject of the methods to be used in financing the war. It was agreed that this was a much more important problem than any of the proposed amendments to Regulation W. The meeting adjourned at 10:25 A. M.

WALTER LICHTENSTEIN,
Secretary.

NOTE: Subsequent to the meeting of the Executive Committee, it was decided to hold the monthly meeting of the Committee on the first Wednesday, instead of on the third Wednesday, of each month.

MINUTES OF JOINT CONFERENCE OF THE EXECUTIVE COMMITTEE OF
THE FEDERAL ADVISORY COUNCIL AND THE BOARD OF GOVERNORS OF
FEDERAL RESERVE SYSTEM

March 12, 1942

At 10:30 A. M., a joint conference of the Executive Committee of the Federal Advisory Council and the Board of Governors of the Federal Reserve System was held in the Committee Room of the Federal Reserve Building, Washington, D. C.

Present: Members of the Board of Governors of the Federal Reserve System:

Vice Chairman Ronald Ransom; Governors John K. McKee and Ernest G. Draper; also, Lawrence Clayton, Assistant to the Chairman of the Board of Governors, and Liston P. Bethea, Assistant Secretary of the Board of Governors.

Governors McKee and Draper stated that they would have to leave shortly to attend a conference at the Treasury.

Governor McKee stated that he thought there was a fair prospect that a tax program, embodying some of the ideas of the Board of Governors, would be adopted. The problem was to help the New York banks assist in war financing.

The members of the Executive Committee of the Council expressed the point of view that the present system of floating securities could not be continued successfully, and the question was raised whether New York at the present time was really the sole money market of the country.

Governor Ransom and members of the Executive Committee of the Council agreed that the Treasury should make some definite pattern as to rates on securities.

A discussion took place in regard to certain features of the proposed tax bill as this would affect banks. It was pointed out that banks ought to be encouraged to build up reserves for possible losses in the future.

At 11:10 A. M., Governors McKee and Draper left the meeting.

Governor Ransom discussed the proposed changes in Regulation W. He stated that the Board of Governors and its staff were working out details of enforcement. He asked, on the assumption that there is to be a regulation covering open book accounts, what would be the best methods?

Members of the Executive Committee of the Council expressed the feeling that such a regulation was not necessary at this time and feared that it would merely create irritation and not accomplish much. Governor Ransom said there were three purposes.

1. Regulation would be anti-inflationary.
2. Pressure was being brought to include open book accounts in Regulation W simply because it was being discovered that great difficulties were likely to be created by the attempt to restrict consumer purchasing by means of direct action.
3. As regards other matters connected with Regulation W, Governor Ransom stated that the day might come when it would be necessary for the government to regulate all consumer purchasing, but, at present, it would be desirable to try to make up a workable list of articles.

The reason for the suggestion to include loans made by banks for the specific purposes of buying listed articles was that the regulation at present discriminated in favor of banks.

Governor Ransom stated at present there are 160,000 registrants. If charge accounts were included under Regulation W, this number would be doubled, and if restrictions were extended to all articles, except necessities, there might be 600,000 registrants. This would raise very serious administrative problems, and it might lead to a control of all credit. Obviously, if all credit were controlled, the Federal Reserve System could not function properly.

The advice of the members of the Executive Committee was that the Board of Governors ought to consider the psychological reaction of a large part of the population before seeking to regulate all charge accounts. The meeting adjourned at 1:15 P. M.

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