

# MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

May 13, 1945

The second statutory meeting of the Federal Advisory Council for 1945 was convened in Room 336 of the Mayflower Hotel, Washington, D. C., on Sunday, May 13, 1945, at 2:00 P. M., the President, Mr. Brown, in the chair.

## Present:

Mr. Thomas P. Beal (Alternate for Mr. Charles E. Spencer, Jr.)	District No. 1
Mr. John C. Traphagen	District No. 2
Mr. William Fulton Kurtz	District No. 3
Mr. John H. McCoy	District No. 4
Mr. Charles E. Rieman (Alternate for Mr. Robert V. Fleming)	District No. 5
Mr. Keehn W. Berry	District No. 6
Mr. Edward E. Brown	District No. 7
Mr. Ralph C. Gifford	District No. 8
Mr. Julian B. Baird	District No. 9
Mr. A. E. Bradshaw	District No. 10
Mr. Ed H. Winton	District No. 11
Mr. George M. Wallace	District No. 12
Mr. Walter Lichtenstein	Secretary

The Secretary of the Council stated Mr. Spencer had written him he would be unable to be present and Mr. Fleming was not well enough to attend meetings.

The minutes of the meeting of February 18-19, 1945, copies of which had been sent previously to the members, were approved.

A short discussion took place regarding the situation in reference to Regulation Q.

The Secretary of the Council read the telegram which the President of the Council had sent to the Chairman of the Board of Governors under date of March 13, 1945. It should be noted that at the time the telegram was sent it had been impossible to get in touch with Messrs. McCoy and Fleming but both of these gentlemen subsequently expressed their complete approval of the telegram so that the members of the Federal Advisory Council are unanimously in favor of the position stated by the President of the Council on March 13, 1945:

“All members of the Federal Advisory Council except Fleming who is still ill in bed and McCoy who is vacationing in Florida and therefore could not be reached have approved of the following resolution and have authorized me to forward it to you as Chairman of the Board of Governors of the Federal Reserve System: “The Federal Advisory Council considers it would be unfortunate and unwise at this time to require a 100 per cent margin on loans made for purchasing and carrying listed securities. The amount of credit now in use both by banks and brokers for such purpose is relatively small. Current purchases in the stock market are being made primarily for cash. A 100 per cent margin requirement at this time might affect the market for a short period, but once such a requirement was put into effect any restraining influence the Federal Reserve Board would have over the market through its control of margin requirements would be exhausted.

Furthermore, such a requirement would tend to restrict the use of venture capital in the development of business enterprises. It would also tend to upset confidence and it very probably would cause many people to sell government obligations and to buy less of forthcoming government issues so that they could be in a position to buy stocks for cash. The Council desires that this statement be published in the event the Board should decide on a 100 per cent margin requirement at the time such requirement is announced. There is no objection to its publication in advance of any decision by the Board.' ”

Mr. Wallace read a telegram which he had received indicating that the Board of Governors of the Federal Reserve System was seeking the extension of Regulation W so as to include mortgage loans and loans made for the purpose of repairing houses.

There was general agreement that the Council was opposed to any increase at this time in margin requirements, any extension of Regulation W, and any raising of the capital gains tax. There was a feeling, however, that it should be required that securities be held for twelve months or longer before, in the event of sale, the securities would be regarded as having been held for a long term and so subject to the capital gains tax.

The Holding Company Bill was discussed and the point of view was expressed that it would be well if the Council pointed out the danger in the bill due to lack of definition of terms.

Mr. Winton submitted a suggestion that Federal Reserve banks be asked to give technological service to small business.

The President of the Council summed up the feeling of the members that it would be undesirable to make any suggestions to the Board in that connection and that on the whole it was questionable whether such service ought to be performed by the Federal Reserve banks.

There was discussion about the practice of banks giving certain detailed information about banks to large depositors. No conclusion was reached.

The Secretary of the Council presented a letter from the Assistant Secretary of the Board of Governors, dated March 7, 1945, dealing with Bill S-795, which would amend the Servicemen's Readjustment Act of 1944 so as to enable large banks to make loans to veterans without regard to limitations and restrictions of any other statute with respect to the ratio of such loans to the appraised value of the property or with respect to the maturity of the loan. The Council approved of the action of the Board of Governors in supporting this amendment.

The meeting adjourned at 6:20 P. M.

WALTER LICHTENSTEIN,  
Secretary.

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

May 14, 1945

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

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

Chairman Marriner S. Eccles; Vice Chairman Ronald Ransom; Governors M. S. Szymczak, John K. McKee, and R. M. Evans; Elliott Thurston, Special Assistant to the Chairman; Chester Morrill, Secretary of the Board of Governors; S. R. Carpenter and Bray Hammond, Assistant Secretaries to the Board of Governors; Walter Wyatt, General Counsel; George B. Vest, Assistant General Attorney; E. A. Goldenweiser, Economic Adviser; Woodlief Thomas, Director, Division of Research and Statistics; Leo H. Paulger, Director, Division of Examinations; Edward L. Smead, Director, Division of Bank Operations; Carl E. Parry, Director, Division of Security Loans; Robert F. Leonard, Director, Division of Personnel Administration, and Liston P. Bethea, Director, Division of Administrative Services.

Present: Members of the Federal Advisory Council:

Mr. Edward E. Brown, President; Messrs. Thomas P. Beal, John C. Traphagen, William Fulton Kurtz, John H. McCoy, Charles E. Rieman, Keehn W. Berry, Ralph C. Gifford, Julian B. Baird, A. E. Bradshaw, Ed H. Winton, George M. Wallace, and Walter Lichtenstein, Secretary.

The President of the Council made the following statement: The Council believes military expenditures should be reduced as far as possible, consonant with the effective prosecution of the war against Japan, and the production of civilian goods and housing should be increased. The Council does not believe there has been any marked speculation in stocks and even in the case of farm and urban real estate, the stage has not been reached where any action is required. The Council thinks it inadvisable to put into effect a 100 per cent margin requirement on loans made for the purpose of carrying stocks and in the opinion of the Council it would be a mistake for the Board of Governors to extend Regulation W so as to cover improvements in buildings. The Council, furthermore, is opposed to a heavy and punitive capital gains tax though it believes it might be well if gains from sales of securities held for less than twelve months were treated as gains from short term holdings rather than as gains from long term holdings; in other words, gains from the sale of securities held for less than twelve months should not be subject to the capital gains tax and should be treated as gains from short term holdings. Finally, the Council feels the tax exemption enjoyed by foreigners in this country should be investigated since apparently a considerable amount of refugee funds is escaping taxation. A long discussion followed, lead principally by the Chairman of the Board of Governors dealing with the topics suggested by the President of the Council.

The Chairman of the Board of Governors suggested that the Council issue a statement dealing especially with a reduction in the amount of goods made available to the Armed Services.

The President of the Council stated that it is conceivable the Council would be willing to issue a statement if the Board of Governors would agree to concur publicly

in the views expressed in such a statement. The Chairman of the Board declined to commit himself in that respect.

The President of the Council stated that the members of the Council felt the definition of holding companies in the bill now pending in the Congress ought to be clearer. As holding companies are defined in the bill at the present time, it would confer much too wide an authority on administrative bodies.

The President of the Council stated that a majority of the members of the Council was opposed to the imposition of a prohibition upon banks preventing the giving of special information to some depositors as to the status of the bank.

The meeting adjourned at 1:15 P. M.

WALTER LICHTENSTEIN,  
Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

May 14, 1945

At 2:45 P. M., the Federal Advisory Council reconvened in the Board Room of the Federal Reserve Building, Washington, D. C., the President, Mr. Brown, in the Chair.

Present: Mr. Edward E. Brown, President; Messrs. Thomas P. Beal, John C. Trap-hagen, William Fulton Kurtz, John H. McCoy, Charles E. Rieman, Keehn W. Berry, Ralph C. Gifford, Julian B. Baird, A. E. Bradshaw, Ed H. Winton, George M. Wallace, and Walter Lichtenstein, Secretary.

There was a lengthy discussion as to whether the Council should issue a statement on the question of reduction of not immediately needed supplies for the Armed Forces in order to promote the production of goods for civilian consumption.

Dr. Goldenweiser discussed, from 3:15 P. M. to 4:25 P. M., the question of inflation and deflation.

After Dr. Goldenweiser left, the Council resumed the discussion as to whether it should issue a statement in reference to the matter previously mentioned.

It was agreed that the Secretary of the Council should inform the Chairman of the Board of Governors that the Council had decided not to issue a statement at present of any kind. Furthermore, that the Council had authorized its Executive Committee to prepare a careful statement, if this seemed desirable at a later period, and to circulate such a statement among the members of the Council, not sitting on the Executive Com-mittee, for suggestions and approval.

The Secretary of the Council also was authorized to consult with the Board of Gov-ernors as to the best time in June to hold a meeting of the Executive Council.

The meeting adjourned at 5:00 P. M.

WALTER LICHTENSTEIN,  
Secretary.

NOTE: This transcript of the Secretary's notes is not to be regarded as complete or necessarily entirely accurate. The transcript should be considered as being strictly for the sole use of the members of the Federal Advisory Council.

W. L.

Secretary's notes on meeting of the Federal Advisory Council on May 13, 1945, at 2:00 P. M., in Room 336 of the Mayflower Hotel, Washington, D. C.

All members of the Federal Advisory Council were present, except that Mr. Thomas P. Beal served as alternate for Mr. Charles E. Spencer, Jr., and Mr. Charles E. Rieman served as alternate for Mr. Robert V. Fleming.

The minutes of the meeting of February 18-19, 1945, copies of which had been sent previously to the members, were approved.

#### REGULATION Q

Gifford said that the question had been submitted to the counsel of each bank involved and if he regarded the practice as illegal, it should be discontinued. A letter to this effect had been sent out by the Federal Reserve Banks but actually only 29 banks had received such a letter and all were in the Eighth District. He understood the Board of Governors had decided to enforce the law but would try to be in touch only with those banks which were notoriously violating the regulation. Apparently, it is contemplated to base action on the examinations of July 1944. Mr. Chester Davis came to Louisville and addressed the Clearing House but at that time had little comprehension of the complete confusion prevailing. As far as Gifford knew, only the banks in the Eighth District had received a letter so that all of this might merely have been a kind of trial balloon or possibly Mr. Davis was acting on his own responsibility. (Rieman said that banks in Baltimore did get letters.) Gifford read the letter of the counsel of his bank, James W. Stites, dated March 7, 1945, and addressed to J. McFerson Barr, President of the First National Bank of Louisville.

Brown said that Ransom either had sent out letters or had the Comptroller of the Currency do it but so far the Board had really not done anything.

It was decided to ask the Board at the end of the session tomorrow what is being done in connection with Regulation Q.

MARGIN REQUIREMENTS AND TAXATION TO PREVENT INFLATION

Brown said Vinson and the SEC wanted a 100 per cent margin requirement imposed in order, among other things, to take care of the situation of floor traders on the Stock Exchange. In March it seemed as if action might be taken within a few days. Taft, in speaking of a 90 per cent tax on capital gains, said that there would be no sense in imposing such a tax as long as the Board had not exhausted the powers it possessed, such as imposing a 100 per cent margin requirement on loans made for the purpose of carrying stocks; only after the Board had exhausted its powers and it was found it could not control the situation should a 90 per cent tax on capital gains be tried.

The Secretary of the Council read the telegram which Mr. Brown had sent to the Chairman of the Board of Governors under date of March 13, 1945. It should be noted that at the time the telegram was sent it had been impossible to get in touch with Messrs. McCoy and Fleming but both of these subsequently expressed their approval of the telegram. The telegram in question read as follows:

"All members of the Federal Advisory Council except Fleming who is still ill in bed and McCoy who is vacationing in Florida and therefore could not be reached have approved of the following resolution and have authorized me to forward it to you as Chairman of the Board of Governors of the Federal Reserve System:

"The Federal Advisory Council considers it would be unfortunate and unwise at this time to require a 100 per cent margin on loans made for purchasing and carrying listed securities. The amount of credit now in use both by banks and brokers for such purpose is relatively small. Current purchases in the stock market are being made primarily for cash. A 100 per cent margin requirement at this time might affect the market for a short period, but once such a requirement was put into effect any restraining influence the Federal Reserve Board would have over the market through its control of margin requirements would be exhausted. Furthermore, such a requirement would tend to restrict the use of venture capital in the development of business enterprises. It would also tend to upset confidence and it very probably would cause many people to sell government obligations and to buy less of forthcoming government issues so that they could be in a position to buy stocks for cash. The Council desires that this statement be published in the event the Board should decide on a 100 per cent margin requirement at the time such requirement is announced. There is no objection to its publication in advance of any decision by the Board".

Brown went on to explain that as the price of stocks fell about that time nothing was done but lately there has again been talk of imposing

a 100 per cent margin requirement. It is generally admitted that this action wouldn't really accomplish anything but it might force Congress to place a stiff tax on capital gains. The pressure comes from SEC and from the Office of Economic Stabilization. He believes the Council should restate the position expressed in its wire of March 13. There should be considered in this connection also the desire to prevent inflationary developments in connection with farm and urban real estate.

Wallace read a telegram which he had received stating that there was some talk of extending Regulation W so as to include mortgage loans and loans for the purpose of repairing houses.

Traphagen expresses the opinion that with the change in administration and the end of the war in Europe pressure to do these various things may be lessened.

Brown stated he had been told by someone who had the necessary information and was qualified to express a judgment that war expenditures could probably be cut 50 per cent without decreasing the efficiency of prosecuting the war against Japan. Of itself it is certain the Army will never do this. If, however, there should be a greater production of goods for civilian consumption it would do more to check an inflationary movement than could ever be accomplished by punitive taxes. The communication of March 13 should be reaffirmed and the Council should demand publication of the communication in case it is contemplated to carry out the plan of the 100 per cent margin requirement.

Traphagen believes the Council should oppose any increase in the capital gains tax and also any extension of the requirement of time to hold securities in order for the holder to avail himself of the capital gains tax.

Kurtz does not agree as he believes there is too much speculation.

Traphagen says stocks are still selling below the average of 1936-1937.

Brown said the prices of farm lands are not yet up to what they were in 1913 though they are higher than they were in 1933-35. In Chicago there is much speculation in certain types of commercial buildings and apartment house properties.

Traphagen says unless we are to have another depression and business is to furnish jobs, capital must be as free as possible and banks must be at liberty to lend freely to enterprises of every type.

Brown said he understands the Council to be opposed to increase of margin requirements, any extension of Regulation W, and against stiffening

of the capital gains tax. Possibly the holding time ought to be extended to one year instead of having the required holding to be only six months.

Kurtz said that to start new productive enterprises requires more than six months and for that matter more than a year and a stiff capital gains tax might divert funds from speculation to real productive enterprises.

McCoy wants a strong protest made against any extension of Regulation W.

Wallace asks whether Vinson has been informed of the resolution of the Council.

Brown thinks he does know about it but, as a matter of fact, Vinson no longer is in charge of stabilization since he has been made head of the Office of War Mobilization and Reconversion and W. H. Davis has become the head of the Office of Stabilization.

Winton said the Council should oppose extension of Regulation W and any change in the capital gains tax.

It was unanimously voted on motion made by Mr. Gifford, and seconded by Mr. Winton, that the Council reaffirm the position expressed in its communication of March 13, 1945, to the Board.

#### HOLDING COMPANY BILL

Brown understands Crowley is opposed to the bill. It may not be considered this year at all. Some, however, believe that hearings may take place this summer. The Federal Reserve Board has been trying to make a trade with the Treasury by which the Board will support Bretton Woods and in return the Treasury should support the Board's holding company bill. So far there has not been any definite agreement. The definition of holding companies is altogether too broad and there is another clause in the bill which would prevent industrial corporations from saving banks when they get into trouble. Corporations saved many banks in the period of 1931 and following.

Baird said he thought the clause stating that any concern holding 10 per cent of the stock of a bank is to be regarded as a holding company was put in merely for trading purposes. On the whole, the holding companies themselves do not have any great objection to most of the bill though there are some clauses which ought to be clarified.

Berry said he thought the Council had better wait until the problem has developed further before doing anything.

Brown feels the Council might well express its feeling about the danger of the definition in the bill.

Berry says it is hard to make a definition which would give the Board any freedom of action.

SERVICE ON INDUSTRIAL AND TECHNOLOGICAL PROBLEMS BY FEDERAL RESERVE BANKS

Winton argues that the Federal Reserve System should give service to local industry which could be done by channeling it through local member banks. Small industries need technological and other services comparable to those which big corporations have but small business can not afford to establish the kind of research departments large corporations have. The Research Advisory Service has done this sort of work for some time but it ought to be done by a public body and if so the Federal Reserve Bank could do this much better than an institution like the Smaller War Plants Corporation.

Baird says the Smaller War Plants Corporation has started regional research organizations. It has been trying it out in Buffalo and it is considering dividing the country into ten regions. It will ask a capital subscription from industries and banks to carry on this work.

Kurtz said the Federal Reserve Bank of Philadelphia had at times employed industrial engineers and the like in connection with loans under 13(b).

Baird said the Research Advisory Service does not undertake to solve the problems of individual business but through bank distributes information about methods employed by other businesses and tells where information can be obtained.

Brown said it is his understanding that the Smaller War Plants Corporation is anxious to have some organization which would do for small business what the great corporations are able to do by having large research staffs. It is a question whether it is desirable to have such service placed under the control of the Federal Reserve System. It is certainly difficult to imagine that the Federal Reserve System would actually establish technological research institutions.

Winton thinks that what is meant is a kind of clearing house or reference bureau in order to send applicants to the right source for the particular information needed.

Brown sums up the general feeling of the Council that it does not desire to make any suggestion to the Board in this connection but on the other hand feels that this is not the business of the Federal Reserve System.

### CASHING OF WAR SAVINGS BONDS

Winton said cashing of E bonds in his own bank in March was high in relation to sales though the situation was somewhat better in April. It ought to be pointed out, however, that there was an aviation plant designated as a sales agency for E bonds but which did not cash bonds so that his bank, perhaps, sold less than it normally would but at the same time did the cashing. Winton gives some figures showing that for the country as a whole cashings are increasing in relation to sales and in his own area this percentage is somewhat higher than it is for the country as a whole.

Wallace suggests that an extension of Regulation W might well cause people to cash in more bonds. As a matter of fact, the over-all picture is not very bad.

Brown says the effect of all this has been to increase savings deposits and in so far as the money received for bonds is spent it will also increase commercial accounts. This causes the ratio of capital to deposits to decline still further but he does not see that there is anything for the Council to do or, for that matter, for the Board of Governors.

### INFORMATION GIVEN BY BANKS TO CERTAIN LARGE DEPOSITORS

Brown calls attention to the fact that this topic was suggested by the Board of Governors. There are a few corporations such as duPont, Ford, and some of the insurance companies which demand a breakdown of the bond account and the prices the bonds are carried at. This is in opposition to Eccles' belief that banks should not carry bonds of B3 or higher rating at anything less than the purchase price while bonds poorer than B3 should be carried on a four year average. If banks are allowed to carry bonds on an amortized basis or at a price lower than they are then they are not under any pressure to sell and this defeats the purpose for which the rules for bank examinations were changed.

Traphagen thinks giving out information to some depositors favors these as against others.

Brown said to deprive banks of the right to give out information is really an interference with the management of the bank and will lead to bad banking practices. He feels that the Board of Governors should not prevent the practice by regulation nor should there be a law to prevent it even though probably most bankers do not like the practice.

Winton thinks confidential information is not to be divulged for in times of depression this will create difficulty.

Traphagen thinks banks should be prohibited from giving out information other than that appearing in the published official statement. A vote was taken and it was found that two of the members of the Council were in favor of prohibition being imposed upon banks to give out special information while eight were opposed to any regulation or law.

#### CREDIT POOLS

The general sentiment of the members of the Council was that the credit pools established on recommendation of the American Bankers Association have had a good effect but have had very little to do.

The Secretary of the Council presented the letter from the Assistant Secretary of the Board of Governors, dated March 7, 1945, dealing with Bill S. 795, which would amend the Servicemen's Readjustment Act of 1944 so as to enable large banks to make loans to veterans without regard to limitations and restrictions of any other statute with respect to the ratio of such loans to the appraised value of the property or with respect to the maturity of the loan. The Council approved of the action of the Board of Governors in supporting this amendment.

The meeting adjourned at 6:20 P. M.

On May 14, 1945, at 10:30 A. M., the Council held a joint meeting with the Board of Governors of the Federal Reserve System in the Board Room of the Federal Reserve Building.

All members of the Council were present except that Mr. Thomas P. Beal represented Mr. Charles E. Spencer, Jr., and Mr. Charles E. Rieman represented Mr. Robert V. Fleming. The following members of the Board of Governors were present: Chairman Eccles; Vice Chairman Ransom; Governors Szymczak, McKee, and Evans; also, Messrs. Thurston, Morrill, Carpenter, Bray Hammond, Wyatt, Vest, Goldenweiser, Thomas, Paulger, Smead, Parry, Leonard, and Bethea.

#### MARGIN REQUIREMENTS AND TAXATION TO PREVENT INFLATION

Brown says Council feels military expenditures should be reduced as far as possible and the production of civilian goods and housing should be increased. Armed services will not of themselves make reductions unless forced to do so. A certain gentleman in position to know all of the facts has stated that we now have more tanks and ships than will be needed for the rest of the war and there could be a cutback of \$30 billion without hurting in the least the war effort against Japan. The Council does not believe there is any marked speculation in stocks and even in the case of farm and urban real estate a stage has not been reached where any action is required. To be sure, there is some speculation in larger apartment buildings and hotels and certain types of commercial buildings but even in those cases prices paid have not as yet reached the replacement value. The Council thinks it inadvisable to put into effect a 100 per cent margin requirement on loans made for the purpose of carrying stocks. There are reports that the Board of Governors is considering putting under Regulation W such matters as necessary improvements in buildings. In the opinion of the Council this would also be a mistake. It is anxious to know what the situation is in regard to the 100 per cent margin requirement and the extension of Regulation W. The Council furthermore is opposed to a heavy and punitive capital gains tax although it believes it might be desirable to extend the holding period from six months to a year. It feels tax exemption enjoyed by foreigners ought to be investigated since apparently considerable refugee funds are escaping taxation.

McKee asked whether the present margin requirements are regarded as adequate.

Brown states that raising or lowering the margin requirements by five or ten per cent would not have any effect one way or another.

Eccles says all government agencies concerned feel something ought to be done in order to hold the line against inflation. The O.P.A. finds black markets extending everywhere and the Treasury finds an increase in evasion of taxation. There has been a great expansion of currency in circulation as there has been in bank deposits, bond holdings, and the like. People are using up whatever reserves of goods they may have had and pressure upon prices is becoming very great. The military must be brought face to face with the necessity of having real cutbacks. It is planned to have 11 million men fighting Japan. Japan is no longer a menace to this country in the sense that it can attack us and more is being asked than is being needed for the war effort. There is also great pressure to help relieve the European situation and it is unquestionably necessary for us to do something, otherwise there will be chaos in Germany and unless we do help Russia will just take over the whole of Europe. Consequently, we must be prepared to send over a lot of help if we wish to stop Russia. It is proposed to appropriate \$70 billion for the war against Japan in the coming fiscal year. It may be better to fight a war of attrition and thus be able to help win peace in Europe in the next twelve months. The Food Situation will be more critical than ever before. The textile situation is unbelievably tight. The textile industry has suffered a loss of 7-8 million men and at the same time the whole army must be equipped with cotton clothing for the war against Japan, so the civilian situation will be the worst ever. Transportation of all kinds is bad and there is a shortage of parts for agricultural machinery. People ought to realize that a landing in Japan and on the Asiatic continent means huge casualties. Russia will dominate Korea, the continent of Asia, and those regions generally. If the American public decides that we must have unconditional Japanese surrender then probably we will need 11 million men and the expenditure of \$70 billion in 1945-46. This would mean a huge loss of life and a great danger of inflation. In reality Japan is a danger to Russia and not to us. There is pressure that something be done about checking speculation on the stock market and in farm and urban real estate. The only possible curb is by means of regulating credit as was done with instalment sales by means of Regulation W. As far as keeping down rentals the regulations have been evaded by a kind of sale method. The Board of Governors can be directed to do something by Executive Order and if the Board will not act the S. E. C. might take over the matter of margin requirements, the Farm Credit Administration the control of rural real estate, and the Federal Housing Administration the control of urban real estate. It is far better to have the Federal Reserve System handle these matters than these other agencies. A capital gains tax is a better instrument than credit control, as credit control does not touch people paying cash and credit control curbs the legitimate buyers and the legitimate farmer. A capital gains tax will get after everybody and would be by far the best way to curb speculative activities.

McKee asks why the Council might not submit a resolution to be published.

Eccles agrees.

Brown asks whether the Board would concur if the Council published a statement with which the Board was in agreement but there was no answer to this inquiry. He went on to state that in his opinion everyone should use his influence to bring about cutbacks.

Eccles says General Marshall is the man to convince. Admiral King and General Arnold would probably not mind having the numbers in the army cut down while MacArthur wants a huge land army.

Brown questions judging by the information he has received that MacArthur does want a huge land army.

Eccles says the Navy has been increasing its demand for ships enormously and has only comparatively recently issued contracts for 80 more ships. Byrnes refused to give the Navy priority for materials or manpower and in that way the Navy was stopped.

Ransom suggests that General Marshall be asked to discuss these matters frankly with the Council and the Board as he is the only man who can really answer the questions.

Eccles and McKee both threw cold water on this idea.

McKee again suggests that the Council publish a statement.

Brown said the Council presumably would if the Board would agree to concur publicly.

Eccles says that the Board is a public agency which by Executive Order has been forbidden to publish statements while the Council is not subject to this order.

Ransom said that in his opinion it might be well first to discuss all the problems with people who have to make the decisions and if everyone is in agreement there would be no reason to have any public statement.

Eccles says the policy of the various people is already well known. For example, there is the demand for an army of 11 million men. There is obviously no intention of changing the present draft regulations in spite of the desperate man shortage in many regions. The Army and Navy do not have any intention of cutting. The opinion of Patterson and other officials of the Armed Services is that the American public wants an all out war while Eccles feels that the public has never heard as to what the alternatives to this are.

McKee says he believes the Council is the obvious body to bring out the other side.

Kurtz doubts whether a Council resolution would have much effect.

Gifford thinks the Council might well have a resolution even though he also doubts whether it would have much effect.

Berry asks what would be the effect if the Board tried to influence the situation and made a statement.

Eccles wants to know to whom such a statement should be made.

Winton believes the Council should give the Board the support it needs and is in entire agreement with the Board on all matters except the capital gains tax. He would like to have an opportunity of meeting General Marshall and Admiral King to discuss the situation.

McKee asks whether the position of the Council would be weaker or stronger after such a conference which might tie the Council's hands.

Baird thinks the public would like to have the boys home and there ought to be some way to arouse public opinion. He believes there is a danger that if General Marshall came to discuss the situation he might well give information which would tie the hands of the Council. He believes that the best way to go about it is for the Council to approach their respective delegations in Congress.

Eccles thinks it a good idea to have members of the Council see the Senators whom they know well. It is not equally important to see members of the House. He feels convinced Russia will not spend men and money if we are willing to fight the war against Japan for her.

Wallace wonders whether President Truman might not be in favor of a cutback in the case of the Navy and asked whether it would not be possible to approach the President. He doubts whether a body like the Council should issue a resolution since bankers have too little influence on public opinion. If the Board thinks the way to approach the situation is by means of cutbacks, why, then, is it so anxious to try other methods.

Eccles says the suggestion to curb speculation by means of controlling credit is an alternative. The actual amount of credit involved is small but 100 per cent margin requirement would check floor traders. Furthermore, the present feeling in Congress is that the Board has not as yet really used the powers it has and it ought to use these before suggesting other methods.

Traphagen would be sorry to see the Board exercise all of its powers now and then not have any left. The prices of stocks at present

are still 15 per cent below the high of 1935-37. The present values really do nothing else than represent the improvement in various corporations. He is opposed to a statement by the Council at this time. It may be that the Armed Forces are simply playing poker with the Japanese by making them believe that there are going to be huge forces available and thus bring about a quicker end to the war. The whole situation might right itself.

Szymczak suggests having a statement prepared which could be used to show to Vinson and W. H. Davis.

McKee suggests preparing a statement which would be available whenever the right time came to make use of it.

Traphagen thinks it better to approach Senators rather than have any statement.

Eccles agrees that there would be a danger in making a public statement.

Bradshaw is opposed to a statement.

McCoy believes there should be a statement to be given to the Board to be used when the right time comes.

Eccles asks why doesn't the Council give the Board a statement as to its views. He would very much like to have the Council recommend a prolongation of the holding period under the capital gains tax.

Winton agrees with Eccles but believes it would be a mistake to include in a statement the question of capital gains tax.

Eccles says cutbacks alone will not help for there are a great many primary products of which there is such a shortage that cutbacks will not change the situation. For example, there is such a shortage of lumber that there isn't any possibility of solving the housing situation at the present time. He says that money created so far has meant an increase of 400-500 per cent in spending power.

Beal does not believe there has been a real speculative rise in the market. Investment money isn't able to obtain a sufficient amount of corporate bonds so the trust funds are being invested partly in government bonds and partly in common stocks. He believes the Council should do something to make its views known.

Rieman believes the public wants the war to be over but on the whole is ill-informed. He does not think there is any need worrying about stock market rise.

Brown states that the Council will meet later to consider the matter of issuing a statement.

HOLDING COMPANY BILL

Brown. Council hasn't taken any position as to whether such a bill should be introduced at this time and whether it should include a freezing or a death sentence clause. The Council does object to the definition of holding companies in the bill especially to part b of the definition. It is opposed to any such dragnet authority being given to any administrative body. For example, in Boston, mutual savings banks hold large blocks of stock of Boston banks, and as they act through an association they might be held to be holding companies. Then, for example, in California there is the Hellman family which holds blocks of stock in the Wells-Fargo in San Francisco, the United States National in Portland, Oregon, and in the Merchants and Farmers National of Los Angeles, and, in consequence, the Hellman family, or the estate, might be declared a holding company. Then, it should be noted that in the past, industrial companies have set up new banks and helped banks that were in distress, as, for example, the United States Steel Corporation did in Gary, Lever Brothers in Hammond, etc. The present bill might make such help impossible because though the Board presumably would give permission to these companies to hold stock from year to year, still no corporation like the United States Steel would be willing to run the slightest risk of being declared a holding company and being forbidden to manufacture steel. The Council would like to know whether there are to be hearings, and when, and whether the bill is being supported by the F.D.I.C. and the Comptroller's Office.

Eccles. Immediate hearings are not likely for there is such legislation having precedence over the holding company bill. The bill has been cleared through the Comptroller, S.E.C., F. D. I. C., and Budget. The Treasury wants a death sentence clause and will suggest such an amendment when the bill comes up. As a matter of fact, a group like the Melbank group in Florida, would not be affected by a death sentence since it is not incorporated and does not own stocks in the individual banks but is just a management group. Nevertheless, it acts exactly like a holding company. As for himself, he isn't going to try to push the bill at all.

McKee says the definition was put in with full knowledge of its consequences. He doubts whether any board would abuse the power given but discretion is needed to meet certain situations.

Brown says he would like to have an opportunity to discuss the question of the definition.

INFORMATION GIVEN BY BANKS TO CERTAIN LARGE DEPOSITORS

Brown states that eight of the members of the Council were opposed to the imposition of a prohibition on banks to give special information to some depositors; two had voted in favor of such a prohibition.

McKee read the regulation covering the use of reports of examiners furnished to banks.

CREDIT POOLS

Brown states that, in the opinion of the Council, the credit pools have had a good effect but not much use had been made of them.

The meeting adjourned at 1:15 P. M.

The Council reconvened in the Board Room of the Federal Reserve Building at 2:45 P. M. on May 14, 1945.

All members of the Council were present except that Mr. Thomas P. Beal represented Mr. Charles E. Spencer, Jr., and Mr. Charles E. Rieman represented Mr. Robert V. Fleming.

Brown said the question before the meeting is whether the Council wished to make any statement on the question of reduced military operations in order to promote production of goods for civilian consumption. Evidently no one is asking the Council to make a public statement but he wonders whether a private statement will do much good. He asks:

1. Does anyone want a public statement? All opposed.
2. Should a private statement be made to the Board?

Berry. If a statement would prevent such things as the extension of Regulation W, or trying to prevent inflation by taxation then the statement might be desirable.

Wallace says that if the Executive Committee will hold a meeting in June or July better information might be available at that time.

Brown states there should be a meeting of the Executive Committee in July, and perhaps on July 5. There is danger of making a private statement for sooner or later it might leak out.

Gifford believes the tax problem is immediately imminent.

Wallace says that it may be possible to take a poll of the Council by means of telephone. He would like to see what actual cut-backs take place in the next few weeks before taking any action.

Berry says everything depends on nature of statement.

Winton says a statement would have more effect if it came from the whole Council rather than just from the Executive Committee. He would not want to go as far as Mr. Eccles suggested and doubted whether the Council could afford to appear to attack the war effort even by indirection. That would be too dangerous. On the other hand the Council should show that it is willing to make some statement.

Baird says the Council would be on stronger ground if it simply assured the Chairman of support in his attempts to bring about

cutbacks. A statement might be prepared and it could be left to the decision of the Executive Committee when the time would be opportune to give it to the Board. He personally believes the Holding period under the capital gains tax might well be extended to a year, but he doesn't think it has much connection with the problem being discussed.

Traphagen. The market is not out of hand and bringing in the matter of capital gains tax merely confuses the issue.

At 3:15 P. M. Dr. Goldenweiser appeared before the Council and discussed the present situation. Total production reached its peak in 1943, went down in 1944, and evidently is still declining. In 1942 there was a sharp drop in the production of goods for civilian consumption, but there has been little change since. The chart does not include agriculture and services. If these were included, it probably would show that civilian consumption has really not gone down at all, and that the decline is entirely confined to industrial production. The chart indicates that the program proposed does not envisage in the next three months any substantial increase in production of civilian goods. Nevertheless, he believes that as a matter of actual fact the output of civilian goods by August will be larger and production for war purposes reduced. Probably some of the talk of further huge increases in production of war materials is simply intended as a part of psychological warfare. In the next six months employment and income will remain at very high levels. In many lines there is a very tight situation. If the Japanese War were to end before any easing takes place, we should have a rather abrupt transition. In order to have an orderly easing of this situation, it is necessary to keep present controls in operation until the flow of consumption goods becomes normal. It is not desirable to lower any of these controls now, and it is also desirable to keep up restraints imposed by Regulation W. It is possible that in a year from now our fighting forces will be 90% of their present size, but that does not seem likely. He believes that a period of transition will start long before 1946. It is important to bear this in mind. For the last years we have been spending about \$100 billion on the war effort. The cutback is likely to amount to \$20 billion. He feels the discussion this morning was not very realistic. War is always inflationary and the effect is bound to continue for some time. His view, expressed in strict confidence to this group, is that it is not the business of financial authorities to suggest how a war should be fought. The business of financial authorities is to accept the facts as decided upon by military authorities and then adjust fiscal and financial programs as far as possible to meet the situation. We do not know what the real facts are and are therefore not in a position to pass upon them. There is a serious danger of inflation and every attempt should be made to hold the line as far as this is possible. The root of the matter is the flow of money and shortage of goods. In the field of credit, the great expansion that has taken place

is, of course, in connection with government finance. The restriction of consumer credit and higher margin requirements are all incidental. Taxes are not imposed by financial authorities, but by Congress, financial authorities might make recommendations as to taxes. He does not favor a 100 per cent margin requirement and, in fact, at this present time, does not recommend any increases of the margin requirements. The only reason he might suggest an increase of 10-20 per cent would be to show that the Federal Reserve System, within its own field, is willing to act. Credit controls should be kept, as at present, and until such time as goods begin to flow normally. He does not have any definite opinion at the moment regarding the desirability of establishing controls over farm and urban real estate. But if there is to be such control, then it had better be lodged in the Federal Reserve System, as it has more knowledge of these situations than any other governmental body. As it is, a number of controls which ought to be managed by the Federal Reserve System, have been given to other agencies. If the Office of War Mobilization and Reconversion and the Office of Economic Stabilization decided that controls over real estate should be instituted, then these should be handed over for operation to the Federal Reserve System. Such action might slow up inflation slightly. We are likely to have many spotty situations with unemployment in some places and a shortage of labor in others so that inflationary and deflationary movements might be going on at the same time. In the next few months we are likely to have a shortage of labor and too much money. We shall be very lucky if, after the war, we do not have much inflation. From an economic standpoint, there is no reason for a change in margin requirement. The capital gains tax might well have been changed some time ago. It is not so much an anti-inflationary measure as one for tax purposes.

Dr. Goldenweiser left the meeting at 4:25.

Brown read a statement on inflation and means of checking it that he prepared.

Traphagen objects to any statement.

Baird moves and Traphagen seconds that there be no statement of any kind issued.

Six members voted that there be no statement. Four voted in favor of a statement.

On motion made by Mr. Winton and seconded by Mr. Baird, it was voted to leave to the Executive Committee the preparation of a statement to be submitted to other members of the Council for suggestions and approval.

The Secretary of the Council was instructed to inform the Chairman of the Board of Governors that the Council had decided not to issue a statement at present of any kind as there was too much danger it would in some way or other reach the public. Further, that the Council had authorized the Executive Committee to prepare a careful statement if it seemed desirable at a later period and to circulate such a statement among the other members of the Council for suggestions and approval.

The Secretary of the Council also was authorized to consult with the Secretary of the Board of Governors as to the best time to hold a meeting of the Executive Committee in June.

The meeting adjourned at 5:00 P. M.

NOTE: It might be stated here that it was agreed that the meeting of the Executive Committee be called to order in the Federal Reserve Building at 11:00 o'clock on Wednesday morning, June 13, 1945.