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

June 13, 1945

At 11:10 A. M., the Executive Committee of the Federal Advisory Council convened in the Conference Room of the Federal Reserve Building, Washington, D. C., on Wednesday, June 13, 1945, the President, Mr. Brown, in the Chair.

Present: Mr. Edward E. Brown, President; Mr. Charles E. Spencer, Jr., Vice President; Messrs. John C. Traphagen, William Fulton Kurtz, Robert V. Fleming, and Walter Lichtenstein, Secretary.

The Secretary of the Federal Advisory Council stated that he had a letter from Mr. Gifford stating that he would be unable to be present at this meeting of the Executive Committee.

A discussion took place in respect to Regulation Q and the President of the Council read a statement which had been adopted at a meeting held in Memphis. An agreement had been reached on a regulation to go into effect on August 1, 1945 to enforce the law but to regard absorption of exchange charges of less than two dollars in any one month for any one depositor as trivial. There was some objection that the provisions were somewhat too rigid. There was a discussion as regards margin requirements and capital gains tax.

It was generally felt that there wasn't any need of taking action at this time.

In respect to the extension of Regulation W to cover real estate, the President of the Council stated that Regulation W already applied to improvements on real estate. There was agreement on the part of all present that Regulation W should not be extended to cover sales of real estate.

The meeting adjourned at 12:00 noon.

WALTER LICHTENSTEIN,
Secretary.

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

June 13, 1945.

At 12:10 P. 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 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, Ernest G. Draper, and R. M. Evans; also, Chester Morrill, Secretary of the Board of Governors; S. R. Carpenter and Bray Hammond, Assistant Secretaries of the Board of Governors; George B. Vest, Assistant General Attorney; E. A. Goldenweiser, Economic Adviser; Leo H. Paulger, Director, Division of Examinations; Edward L. Smead, Director, Division of Bank Operations; Carl E. Parry, Director, Division of Security Loans, and Robert F. Leonard, Director, Division of Personnel Administration.

Present: Members of the Executive Committee of the Federal Advisory Council:

Mr. Edward E. Brown, President; Mr. Charles E. Spencer, Jr., Vice President; Messrs. John C. Traphagen, William Fulton Kurtz, Robert V. Fleming, and Walter Lichtenstein, Secretary.

A discussion took place regarding Regulation Q and the Memphis agreement.

There was general agreement in respect to the provisions of the Memphis statement but it was hoped that this be not interpreted too rigidly.

In respect to margin requirements, the President of the Council stated that the members of the Council believe it would be a mistake to impose a 100 per cent margin requirement at this time and that it would be better if it were necessary to do anything to raise the margin gradually.

The Chairman of the Board stated that he thought if anything were done it would be a part of a comprehensive program.

The Chairman of the Board stated that in respect to Regulation W any changes therein would also have to be a part of a more comprehensive program.

The President of the Council stated that it was the feeling of the Council that it would be inadvisable for it to issue a statement at this time covering the program of reduction of supplies to the Armed Services and increase of production to meet civilian requirements.

The meeting adjourned at 1:20 P. M.

WALTER LICHTENSTEIN,
Secretary.

NOTE: This transcript of the Secretary's notes is not to be regarded as complete or necessarily 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 the meeting of the Executive Committee of the Federal Advisory Council on June 13, 1945, at 11:10 A. M., in the Conference Room of the Federal Reserve Building.

The Secretary stated that he had a letter from Mr. Gifford that he would not be able to be present at this meeting of the Executive Committee.

The following were present: Messrs. Brown, Spencer, Traphagen, Kurtz, Fleming, and the Secretary.

REGULATION Q

BROWN reads a statement of the meeting held in Memphis to discuss Regulation Q. The statement stated that the Board and Comptroller's Office agreed on a regulation to go into effect on August 1, 1945, to enforce the law, but that amounts of $2.00 of absorption in one month for any one depositor were to be regarded as trivial.

FLEMING objects to the draft as being too rigid.

TRAPHAGEN points out that the proposed regulation does not apply to the printing of checks and similar items.

BROWN. It should be made clear that $2.00 a month for any one depositor is to be regarded as the normal amount but that if it were just a single nonrecurring transaction the amount of absorption might be larger and still be regarded as trivial.

MARGIN REQUIREMENTS AND CAPITAL GAINS TAX

FLEMING says Congress is not interested in the subject. It may raise the exemption on excess profits tax and make it retroactive from January 1, 1945. In order to help small business, the present exemption of $10,000 might be raised to $25,000 or $35,000.

BROWN says the Farm Foundation had discussed Eccles' suggestions.

TRAPHAGEN says it would be much better to increase the margin requirements gradually, and the Board should not exhaust all its powers at one time. He has found that many people believe the raising of the excess profits tax would have an effect on the market opposite to the one desired.

KURTZ thinks excess profits tax should be raised.

TRAPHAGEN believes market will not get out of hand. There are many orders placed to sell securities on a rising market. Stocks are still 15 per cent on the average below what they were in 1936-7 and only 10-12 per cent higher than the average of the period from 1935-9. It is not a disorderly market but he believes if the market is to be controlled, margin requirements will do it to a certain extent. A change in the capital gains tax he does not believe is an anti-inflation measure but purely a tax measure.

BROWN says he will ask the Board whether it plans to do anything.

SPENCER believes a raising of the margin requirements would have some effect on the market but he believes nothing should be done at present.

TRAPHAGEN says Emil Schram feels it would be a mistake if the Board exhausted all its powers now. Schram is just as anxious as the Board not to have the market get out of hand. If the period in which stocks must be held to come under excess profits tax is lengthened, then people will simply not sell stocks for awhile but hold on to them for fear if they sold and then bought again their investments would be frozen.

BROWN says the Council feels that there is no need of taking any action at this time.

EXTENSION OF REGULATION W TO COVER REAL ESTATE

BROWN. Regulation W already applies to improvements on real estate. He does not wish to see Regulation W extended and would regard it as unfortunate if the regulation were made to cover sales of real estate.

The members of the Executive Committee agree with this statement.

TRAPHAGEN. The only way to prevent a very sharp increase in rents is to have much new building.

SPENCER points out that building is now costing twice what it would have before the war, so it is natural that the prices of real estate are going up.

The meeting adjourned at 12:00 Noon.

On June 13, 1945, at 12:10 P.M., a joint meeting of the Executive Committee 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.

The following members of the Executive Committee were present: Messrs. Brown, Spencer, Traphagen, Kurtz, Fleming, and the Secretary.

The following were present from the Board of Governors: Chairman Eccles; Vice Chairman Ransom; Governors Szymczak, McKee, Draper, and Evans; also, Messrs. Morrill, Carpenter, Hammond, Vest, Goldenweiser, Paulger, Smead, Parry, and Leonard.

REGULATION Q

BROWN thinks Memphis agreements sound, though Fleming feels the statement is too rigid and if on a nonrecurring transaction the amount of absorption is somewhat higher than $2.00 this should be left to the judgment of the examiner. He, himself, understands that this would still be regarded as a trivial amount.

FLEMING thinks the statement of the text too rigid.

MORRILL says in Memphis the feeling was that the statement ought to be rigid so that competitors could not find loopholes.

RANSOM says if the language is to be flexible there is danger that the regulation will be evaded.

MCKEE says an examiner might report an amount higher than $2.00 having been absorbed, but it is up to the supervisory authority to decide whether anything should be done about a non-recurring item.

FLEMING says some discretion ought to be left to the examiners.

RANSOM says the examiner reports whatever he finds and discretionary authority must be left to the supervisory authorities.

MARGIN REQUIREMENTS

BROWN The Council thinks it would be a mistake to impose a 100 per cent margin requirement at this time and even if this should become necessary it would be much better to raise the margin gradually.

ECCLES says nothing new has developed and the whole subject is tied up with a much more comprehensive program. If anything is done, it will be done as the result of a larger plan put forth by the White House.

REGULATION W

BROWN asks whether the extension of Regulation W would also be part of a larger plan of which Eccles had spoken.

ECCLES says the larger program would also cover the extension of Regulation W. He, himself, is opposed to credit control unless it is coupled with a revision of the capital gains tax.

BROWN. The Council feels it would be unfortunate if the Board had power to regulate mortgage credits. There is a distinct difference between the buying of consumer capital goods and the purchase of real estate.

ECCLES says many of the authorities want controls. He believes, however, that it would be a mistake to have Government credit agencies be the ones to regulate private credit. There is a feeling among the Government agencies that mortgage lending is getting out of hand, both as to the appraisal of the value of real estate and the terms of the loans. He does not agree that it would be desirable to have the land banks driven out of the field by insurance companies and private enterprise, some of which are doing business on an unsound basis.

ECCLES. Public credit extant is now 2-1/2 times the amount of private credit outstanding, or will be so at the end of this year, but credit outstanding on the whole has had a tendency to decline. It is desirable to prevent the amount of credit outstanding from going up again. It is likely that by the end of this year, $40 billion of private credit will be added, while last year, $60 billion was added. He would like to see cash speculation checked and the only way to reach this is by the route of the capital gains tax. Agencies fear Congress will not do anything by tax methods, so they wish something to be done by regulating credit as this would have a psychological effect at any rate. He points out that any such regulation of credit would be in force only until 6 months after the war.

CURRENCY TRANSACTIONS

ECCLES says it is not the function of the Board to ask the Treasury to discontinue the regulation of currency transactions and, as a matter of fact, he is in favor of it.

KURTZ agrees with Eccles that the regulation of currency transactions is good.

ECCLES says that the majority of comment he has heard is entirely favorable.

STATEMENT BY COUNCIL ON INFLATION

BROWN says the Council feels that it cannot issue a statement at this time and especially as much is being done. Cutbacks are increasing faster than is generally known and the Armed Services are meeting resistance to their demands. It may be that the Armed Services are engaging in psychological warfare against Japan and really do not expect to obtain or use all that is being demanded. But, be that as it may, there is no question that the wings of the Armed Services have been clipped.

ECCLES said he had talked to the President and Vinson about this matter and there isn't any question in his mind that they are putting pressure on the Army and Navy. Cutbacks commencing in July, for the third quarter as compared with March, amount to 20 per cent and by the end of the year will be 30 per cent. It is expected in the first quarter of next year, cutbacks will be 38 per cent. This may create temporarily 3-4 million unemployed which just at this time may have an anti-inflationary effect by keeping people from spending too much and also from speculating in real estate. Furthermore, this unemployment will tend to move people from regions oversupplied with manpower to such regions where there is still demand for manpower. Eccles went on to say the President had agreed with him and Eccles has little doubt that while the President will have to keep political considerations in mind, he will do everything that is possible to curtail unnecessary expenditures by the Armed Services.

McKEE agrees that it would not be desirable for the Council to issue a statement just at this time.

ECCLES thinks on the whole the OPA has done an excellent job and that controls will have to be maintained for some time.

The meeting adjourned at 1:20 P. M.

Note: Next meeting of the Council should be September 16-17.