MINUTES OF MEETINGS
of the
FEDERAL ADVISORY COUNCIL
September 16-17, 1945
November 18-19, 1945
and of the
MONTHLY MEETING
of the
EXECUTIVE COMMITTEE
October 3, 1945

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

September 16, 1945

The third statutory meeting of the Federal Advisory Council for 1945 was convened in Room 937 of the Mayflower Hotel, Washington, D. C., on Sunday, September 16, 1945, at 2:00 P. M., the President, Mr. Brown, in the chair.

Present:

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. 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
Mr. Herbert V. Prochnow	Acting Secretary

The printed minutes of the meetings of the Federal Advisory Council of February 18-19, 1945, and May 13-14, 1945, and of the monthly meeting of the Executive Committee of June 13, 1945, copies of which had been previously sent to the members of the Council, were approved.

The President of the Council stated that the Secretary of the Council had been asked by the United States Government to go to Europe, and, therefore, was applying for a leave of absence from his duties as Secretary of the Council. It was unanimously voted to grant the Secretary an indefinite leave of absence in order, temporarily, to enter the service of the United States Government. It was unanimously voted to elect Mr. Herbert V. Prochnow, Assistant Vice President of The First National Bank of Chicago, as Acting Secretary, during the absence of Mr. Lichtenstein, with all the powers of the Secretary of the Council.

In discussing the Full Employment Act of 1945 (S. 380), the members of the Council expressed sympathy with the general objectives of the bill but believed it would be unwise for the government to prophesy about the future of business and to be compelled to guarantee full employment.

There was considerable discussion regarding the proposed rates on loans to be extended by the Export-Import Bank.

On the question of the disposal of surplus goods, the Council felt it was not in a position to express an opinion because it did not have adequate facts.

In considering Regulation W the Council, with a minority of one, concluded that Regulation W should not be accepted as a permanent part of our economy and that it should be gradually relaxed and finally abolished on each type of goods as the goods come into adequate supply in the markets.

The Council decided to ask the Board for its opinion regarding present margin requirements.

All members of the Council were in favor of taking the steps necessary to eliminate the special Treasury licensing of banks.

The meeting adjourned at 5:20 P. M.

HERBERT V. PROCHNOW,
Acting Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

September 17, 1945

At 10:15 A. M., the Federal Advisory Council met 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; Mr. Charles E. Spencer, Jr., Vice President; Messrs. John C. Traphagen, William Fulton Kurtz, John H. McCoy, Keehn W. Berry, Ralph C. Gifford, Julian B. Baird, A. E. Bradshaw, George M. Wallace, Walter Lichtenstein, Secretary, and Herbert V. Prochnow, Acting Secretary.

Absent: Mr. Robert V. Fleming
Mr. Ed H. Winton

Mr. Brown summarized briefly each of the subjects which had been discussed by the Council on the preceding day. There was agreement with his summary.

The meeting adjourned at 10:25 A. M.

HERBERT V. PROCHNOW,
Acting Secretary.

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

September 17, 1945

At 10:45 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, Ernest G. Draper and R. M. Evans; also Messrs. Elliott Thurston, Assistant to the Chairman; Chester Morrill, Special Adviser to the Board of Governors; Bray Hammond, Assistant Secretary of the Board of Governors; J. J. Connell, General Assistant, Office of the Secretary; Walter Wyatt, General Counsel; George B. Vest, General Attorney; 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; Bonnar Brown, Assistant 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; Mr. Charles E. Spencer, Jr., Vice President; Messrs. John C. Traphagen, William Fulton Kurtz, John H. McCoy, Robert V. Fleming, Keehn W. Berry, Ralph C. Gifford, Julian B. Baird, A. E. Bradshaw, Ed H. Winton, George M. Wallace, Walter Lichtenstein, Secretary, and Herbert V. Prochnow, Acting Secretary.

A general discussion took place regarding the Full Employment Act of 1945 (S. 380).

In a discussion of the foreign credits to be extended by the Export-Import Bank, the Council expressed the hope that the rates would not be fixed at so low a level that they would prevent refunding and resale of the obligations and would freeze the assets of the Export-Import Bank for too long a period. The Chairman of the Board of Governors made a lengthy statement regarding loan negotiations with the British.

The question of surplus goods was only briefly discussed as the Council did not feel it had adequate facts to express an informed opinion.

A lengthy discussion took place on Regulation W and the possibility of relaxing the controls as soon as adequate supplies of goods come into the markets.

The Council asked whether the Board was considering any changes in margin requirements and was informed that no changes were contemplated at present.

Both the Council and the Board were in accord regarding the desirability of eliminating the special Treasury licensing of banks. Mr. Fleming agreed to prepare a resolution to be given to the Board of Governors requesting the elimination of this special licensing, and the Board agreed to send the resolution to the proper government authorities.

The meeting adjourned at 1:20 P. M.

HERBERT V. PROCHNOW,
Acting Secretary.

NOTE: This transcript of the Acting 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.

H. V. P.

Acting Secretary's notes on meeting of the Federal Advisory Council on September 16, 1945, at 2:00 P. M., in Room 937 of The Mayflower Hotel, Washington, D. C.

All members of the Federal Advisory Council were present.

The printed minutes of the meetings of the Federal Advisory Council of February 18-19, 1945, and May 13-14, 1945, and of the monthly meeting of the Executive Committee of June 13, 1945, copies of which had been previously sent to the members of the Council were approved.

The President of the Council stated that the Secretary of the Council had been asked by the United States Government to go to Europe, and, therefore, was applying for a leave of absence from his duties as Secretary of the Council.

On motion made by Mr. Fleming and seconded by Mr. Kurtz, it was unanimously voted to grant the Secretary of the Council an indefinite leave of absence in order, temporarily, to enter the service of the United States Government.

On motion made by Mr. Fleming and seconded by Mr. Kurtz, it was unanimously voted to elect Mr. Herbert V. Prochnow, Assistant Vice President of The First National Bank of Chicago, as Acting Secretary during the absence of Mr. Lichtenstein. It was understood that by this vote he was given all the powers of the Secretary of the Council, including the right to draw checks on the funds of the Federal Advisory Council and to transact such other business as has been customary for the Secretary of the Council to handle.

FULL EMPLOYMENT ACT OF 1945. (S.380)

Kurtz says it is very dangerous to have authoritative statements made by the President and other officials as to business conditions in the future. It tends to accentuate depressions and booms. Previous experiences with such statements, such as those made at various times by Messrs. Mellon and Hoover, showed the danger of such statements.

Brown. The question seems to him not a fair one to ask of the Council. Of course, everyone wants full employment, but to ask the Government to guarantee full employment is a very different matter. What is needed is that everyone should have an opportunity to work. The so-called Bill of Rights in the proposed law is to be regarded as very questionable. Forecasts are impossible. The Council should go on record that it is in favor of full employment but that it does not believe that the provisions of the bill can be carried out.

Gifford calls attention to the bearing of the movement of masses of people on this whole problem.

Kurtz calls attention to the statement on pages two and three of the bill which he regards as excellent and if the matter stopped there, the bill would be entirely satisfactory.

Berry believes the Council should state that it is in agreement with the objectives of the bill, but that it should not go into details.

Baird says the Council should not pass a resolution endorsing the bill. There is great danger that the bill will create machinery by which it will undertake to make forecasts which would be very dangerous.

Brown. All we can do is to say that the Council is in sympathy with the objectives of the bill, but that it is dangerous to prophesy about the future of business, and Government should not be compelled to guarantee jobs. He agrees there should be an opportunity for everyone to work, but that it is not the same as giving a guarantee.

Bradshaw thinks it would be a mistake to pass any resolution.

McCoy says in a discussion at the Federal Reserve Bank at Cleveland, it was evident that the directors of it were opposed to the present bill.

Winton doubts the wisdom of this bill.

Spencer. Flanders thinks the present bill unworkable. Spencer believes the Council should not pass any resolution but if it did, it should make it clear that it regards the whole scheme as unworkable.

Baird points out that no money has been appropriated in the bill.

Brown says expectations are being held out which cannot be realized.

Gifford agrees with the rest in that the Council should not take any action.

Wallace agrees with the other members.

Traphagen agrees with the other members.

Berry stated that in his view, the Council should not pass a resolution but that the President of the Council verbally should express to the members of the Board of Governors the views of the members of the Council.

There was general agreement that this should be done.

Fleming at the end states that the President of the Council should especially point out the danger of shattering reactions if the President of the United States undertook to predict the future.

FOREIGN CREDITS AND INTERNATIONAL FINANCE

Brown states that he is President of an Advisory Committee to advise the Export-Import Bank on its general policy on foreign credits. It will be about a year before the Bretton Woods program will be in operation, and the Export-Import Bank must fill in the gap. It is the only agency now in a position to extend credit without Congressional action. The Export-Import Bank has about $1 billion 750 million available to be allocated to various European countries. He would favor a 4% rate which is the rate on Latin-American loans. He believes a 4% rate would lead later to refunding and to resale of the credits, assuming an improvement in the situation in the countries to which the credits were extended. The Export-Import Bank has extended credits or has them under consideration to Holland, Denmark, and the Dutch East Indies at a rate of 3½% and with three years to use the credits. The loans would then be funded with payments from the fifth to the twentieth year, with an average maturity of twelve and a half years. Wayne Taylor said the United States Government rate on its securities was around 2½% and 1% additional to cover the commission and risk would give a 3½% rate. The State Department believes a uniform pattern is desirable for these loans, and in working out diplomatic arrangements it would undoubtedly like to use these credits and rates for trading purposes. A loan was made to France at a 2-3/8% rate, but this was an exceptional case due to certain lend-lease arrangements which had not been fulfilled by us. The State Department believes the rate should not be over 3% and lower, if possible. The rate for the International Bank would be possibly 1% higher than the 3% rate which the State, Treasury, and Commerce Departments apparently favor. A rate of 3% would reduce the possibility of private sources taking over any of these credits later.

Fleming feels the rate should be such that ultimately the loans could be sold to private sources, and that a low rate means more government intervention in the credit structure.

Traphagen. If a loan to Britain goes through, it will have to be at a low rate.

Brown says the Export-Import Bank cannot make a loan of the size Britain will require, and Congressional action will be needed.

Berry suggests that for actual loans a satisfactory rate should be made so that they can be resold later, but that on loans which are essentially gifts, the rates should be made so low that it is clear they are gifts.

Brown does not believe any foreign obligation with the possible exception of obligations of Cuba and Canada could be publicly sold now. The British feel they cannot repay loans unless we encourage imports, so any loan made to Britain would have to be for a period so long and at a rate so low that it would be essentially a gift.

Fleming. If the United States makes a grant or a gift to the British, then Britain should reconsider such matters as Imperial Preference and abolish its cartels in rubber and tin so that we would receive fair treatment in these matters. All problems of this character should be discussed with the British if a grant is considered.

Kurtz. Why should we help pay off Britain's debt to India by giving Britain a grant or gift? Such problems should be worked out first.

Berry does not believe the British have told exactly what they will do with their problems like blocked balances before asking us for a loan or grant.

Fleming thinks the Council's comments should be limited to the Export-Import Bank's operations as we do not wish that Bank to compete where private banks might extend credit.

Brown does not wish the Export-Import Bank to become frozen by making loans at so low a rate as to prevent these loans later from being refunded and resold to private banks.

Winton. In the interest of permanent peace and our own welfare we will probably, as the world's strongest nation, have to make contributions to world stability. We shall find it necessary to trade, but should be broadminded in our attitude.

Fleming points out that the average United States debt rate is 1.96% which includes the bills and short-term obligations. Those who favor a low rate for the Export-Import Bank credits add 1% for overhead to the 1.96% and arrive at a 3% rate for the Export-Import Bank. However, if you take the longer term United States obligations, they would average higher than 1.96%, so 3½% would be nearer right for the Export-Import Bank rate.

Brown. It is much easier to reduce a rate later than to raise it. The various members of the Council seem to be in agreement on the subject, and he will express the Council's opinion to the Board of Governors.

SURPLUS GOODS

Fleming does not believe this is a subject on which the Council may properly express its judgment.

Brown agrees with Fleming, but says the situation is not working well. The problem involves so many agencies of the Government, and has so many complicated aspects of which the Council is not sufficiently advised that it could not give an informed opinion.

Fleming raises the question of whether the Council might say that in the interests of employment the law should be followed.

Brown does not believe the Council should express any opinion, because there are so many matters regarding the problem of which the Council does not have sufficient facts in hand. This view was concurred in by all the members of the Council.

REGULATION W

Fleming says some groups would like to continue this Regulation in order to level out economic peaks and valleys. The Board can tighten or loosen the controls but cannot actually terminate the Regulation. By loosening the controls it can in effect reduce the power of the Regulation.

Brown agrees with Fleming that some groups would like to use the Regulation to level out our economic peaks and valleys and would like to make it a permanent part of our economy.

Traphagen says he does not know whether it can be done properly, but there is something to be said for preventing many individuals from mortgaging their purchasing power for a year or more ahead by installment purchases, and this is a bad factor in our economy, accounting in part for the great swings in the business cycle.

Kurtz is fearful of the condition that will follow if several thousand banks now go into consumer credit with terms gradually being liberalized.

Gifford thinks the matter should not be brought up at present.

Brown says many finance companies and retail stores are for Regulation W for the protection it affords them. He would like to see Regulation W and similar controls eliminated, but doubts whether this is the time to suggest complete elimination of Regulation W.

Baird thinks the problem should be broken down and considered from the standpoint of different lines that are financed in this manner. The bulk of this credit is in automobile financing. There is a comparatively small amount in modernization and housing improvements. If the modernization feature could be liberalized, it would help employment.

Brown would favor in three or four months removing controls from furniture, washing machines, and many commodities, as supplies in the market of each commodity become adequate. However, automobiles constitute one line on which the controls at present should be retained.

Traphagen would like some way of preventing the excesses that lead to regulation, and thinks a control such as Regulation W is desirable.

McCoy does not like anyone telling the banks how they may lend their funds.

Baird thinks if any regulation is too severe the people will dispose of a part of their savings or bond holdings to purchase cars and other commodities. If you regulate small creditors, it is essential to regulate big creditors as well.

Fleming disagrees with Traphagen. He does not wish all banking functions regulated from Washington, and Regulation W is a type of control which he would like to see eliminated.

McCoy asks whether the Council would favor rescinding Regulation W on January 1, 1946.

Fleming says we cannot make that decision until we know what production is to be.

Brown summarizes the general view of the Council as follows:

> "The Council, with a strong minority of one, believes that Regulation W should not be accepted as a permanent part of our economy. As a substantial supply of goods comes into the markets, Regulation W should be relaxed. It should be abolished on each type of goods as it comes into adequate supply. The Regulation should not be liberalized on automobiles now, but the terms on housing improvements might advisedly be relaxed. The general principal should be to liberalize the Regulation as rapidly as possible, until it is abolizhed."

Fleming says if you allow one type of control you open the door to others.

MARGIN REQUIREMENTS

Brown raises the question whether present margin requirements should now be reconsidered as being too stringent. The conditions that prevailed when the margin requirements were raised to 75% do not now prevail. Many types of goods are now coming into the markets in larger and larger supply. He does not believe that funds in so large a volume will flow into the stock market, and he wonders whether the Board and many of its staff might not welcome the reduction of the margin requirement to 50%.

Traphagen says if the margins are reduced he believes that, with a business boom, the situation might become dangerous with every Tom, Dick, and Harry getting into the market.

Kurtz is not in favor of the change at this time, as at present the public might be encouraged to speculate.

Fleming said why not ask the Board what it has in mind on this subject.

At the request of the Council, the Secretary read the telegram of March 13 relating to margin requirements.

Brown believes the 75% requirement unwisely restricts the freedom that should be allowed in perfectly proper business transactions. If the Council offers no objection, Brown will inquire from the Board what it has in mind on this matter.

Winton believes it would be unwise to take up Regulation W at this time, though the majority believes it should be gradually relaxed. On the matter of margin requirements he doubts whether the Council can afford at this time to make any suggestions on the subject.

Brown thinks it advisable to make the statement on Regulation W as outlined by him, as the question has already gone to the Board. In connection with margin requirements, he believes some government groups would welcome a reduction in the requirements. The Board might not wish to change so soon after having just put the increased margin into effect, but the lowering of the margin would make the market less narrow.

Winton believes, with the country experiencing an increasing number of strikes, that it might give the wrong impression to reduce the margins required.

Traphagen thinks changing the mechanics back to what they were before the margins were raised would be desirable.

Brown thinks the Board should not only simplify the mechanics, but also believes the 75% margin is too severe a restriction on the freedom of enterprise.

Kurtz says it might place the Board in an awkward situation to reverse its position so soon, with the market higher than it was when the requirements were raised.

Winton thinks the Council should not make a definite recommendation on the margin requirements, but favors Brown's idea of asking the Board for its viewpoint.

LICENSING OF BANKS

Fleming says there is some red tape that would have to be cleared up to eliminate these licenses.

Brown says the machinery is perfectly useless now and should be eliminated.

All members of the Council were in favor of taking the steps necessary to eliminate the special licensing of banks, and Brown is to express the Council's viewpoint to the Board.

The meeting adjourned at 5:20 P. M.

On September 17, 1945, at 10:15 A. M., the Council met in the Board Room of the Federal Reserve Building.

All members of the Council were present except Mr. Robert V. Fleming and Mr. Ed H. Winton

FULL EMPLOYMENT ACT OF 1945 (BILL S. 380)

Brown stated that he would summarize briefly before the meeting with the Board of Governors at 10:30 A. M., each of the subjects which had been discussed by the Council on the preceding day. In connection with the Full Employment Act, Brown said all the members of the Council believe in the essential idea of full employment, and they recognize it might be necessary for the Government to intervene if employment fell to extremely low levels. However, this matter is too large and complicated for the Council to discuss properly. It is difficult to define, for example, what is meant by the right to full employment. Does it mean that each worker is entitled to a certain job? Even the problem of the proper definition of the terms in the bill would require long consideration by the Council. The Council is not in a position to rewrite the bill to incorporate any suggestions it might have. The Council also believes that it would be dangerous for the President of the United States to make predictions, and Brown recalled the prophesy of Mr. Hoover regarding prosperity being just around the corner, and Mr. Mellon's comment on the depression. It is the judgment of the Council that no useful or constructive purpose would be served by this body in rendering an opinion on this measure.

INTERNATIONAL FINANCE

Brown. The Council feels that the United States should aid in the re-establishment of war-damaged countries. The Export-Import Bank is the only agency now available to extend credit without additional Congressional action. It will be at least a year before the International Bank under the Bretton Woods program can be established. Brown indicated that he would also present the Council's position on the rates to be fixed on foreign credits and would suggest that such rates be on at least a 3-1/2% basis. By establishing rates on a high enough level, it might be possible later with any improvement in the economic conditions in the countries obtaining the loans, for these countries to refinance the obligations and obtain funds from private sources. This procedure would prevent the Export-Import Bank from becoming frozen and would enable sound foreign credits to be financed through private sources.

SURPLUS PROPERTY

Brown pointed out that there are conflicting views of various Government agencies on this matter, and that the Council is not in a position to determine the merits of these respective viewpoints. The Council also does not know the full diplomatic background regarding this problem. Consequently, the Council does not believe it is competent to give an informed opinion on this subject.

REGULATION W

Brown stated that all members of the Council, except one, believe it is not desirable to retain Regulation W as a permanent part of our Government machinery. The Regulation should be relaxed as rapidly as goods come into the markets in adequate supply. The terms on modernization loans might well be liberalized. The Regulation as it applies to furniture and some other commodities should be relaxed as rapidly as these commodities come into the market in sufficient quantities. On the other hand, the Regulation as it applies to automobiles should not be liberalized at present.

MARGIN REQUIREMENTS

Brown said that the Council will inquire of the Board whether it is considering any changes in connection with margin requirements.

LICENSING OF BANKS

Brown stated that the Council would suggest to the Board the desirability of eliminating this special licensing of banks as it is wholly unnecessary.

The meeting adjourned at 10:25 A. M.

On September 17, 1945, at 10:45 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 Mr. Robert V. Fleming who joined the meeting at 11:15 A. M. The following members of the Board of Governors were present: Chairman Eccles; Vice Chairman Ransom; Governors Szymczak, McKee, Draper and Evans; also, Messrs. Thurston, Morrill, Hammond, Connell, Wyatt, Vest, Thomas, Paulger, Smead, Parry, Brown, Leonard and Bethea.

FULL EMPLOYMENT ACT OF 1945 (BILL S. 380)

Brown. All members of the Council are in accord with the idea of full employment and realize that the Government might find it necessary to intervene if employment fell to extremely low levels. However, the statements at the beginning of the bill are too vague. For example, the meaning of the right to employment needs clarification, and possibly it should read, the opportunity for employment. It is impossible to predict economic peaks and valleys, and the measure might arouse hopes which could not be fulfilled. The requirement that the President should predict the future is exceedingly dangerous, Brown recalled Mr. Hoover's remarks that "Recovery is just around the corner", and Mr. Mellon's statement regarding the depression which began in 1929. Both these statements had bad reactions. The Council is not in a position to rewrite the bill and other groups such as the C. E. D. committees have wrestled for weeks with the problem. It would be unwise for the Council and the Board to go into a detailed discussion of the measure.

Eccles. Both the Board and the Council are interested in economic stability and should assist in providing such stability in so far as it can be done through monetary policies. Monetary policies have had little to do with economic stability compared with fiscal policies. It is the Board's thought, and particularly his viewpoint, that we will have failed to bring any stability to our economy unless we have full employment. Everyone agrees with the objective of full employment, but there is a wide field for argument as to what full employment should be. He suggests it might be better to use the term, economic stability, instead of the term, full employment. The emphasis should not be on Government spending to attain economic stability or full employment. He doubts whether the bill will pass, and even if it passes, it will only be effective to the extent that the Government implements it.

Szymczak agrees that the terms of the bill are not clear.

Ransom states that while the Federal Government has assumed responsibility previously for employment, this is the first time that the law has specifically stated that the Government is responsible for employment. This is a distinct departure from tradition. (Eccles agrees with this viewpoint).

McKee asks whether individual members of the Council have heard of any efforts to promote the bill in their areas. No one apparently had heard of such efforts.

Eccles doubts whether there is any organized pressure and believes that even labor is not satisfied with the bill.

Brown does not believe there is any crystallization of opinion in labor or other groups. He states that unless the Board wished to pursue the matter further the Council would not expect to do so.

INTERNATIONAL FINANCE

Brown. The Export-Import Bank is the only agency now available for foreign financing, unless Congress takes further action. The Bank and the Fund provided for under the Bretton Woods program can take no part in foreign financing for probably a year. The Export-Import Bank has available about $1,750,000,000 for foreign loans. With few exceptions, the war-devastated regions cannot get the credit needed, so the Export-Import Bank is necessary. No long term credits can be obtained privately by the war torn countries. Norway, Holland, and Belgium, might in a few years get public loans at reasonable rates, assuming some improvement in the economy of each nation. If the rates fixed by the Export-Import Bank on such foreign obligations are not too low, the Bank may be able to sell these obligations in a few years. The Council understands that loans in the pattern now being considered have average maturities of 12 to 13 years and rates of 3 or 3-1/2%. The Council feels that the rate should not be below 3-1/2% for three principal reasons:

(1) A 3-1/2% rate to some of the stronger countries might permit financing from private sources later. A 3% rate is too low and no public resale could take place probably for years. The Council prefers private credit whenever possible.

(2) A low rate that would prevent refunding and resale would freeze the assets of the Export-Import Bank for too long a period and the Bank's credit would soon be exhausted.

(3) The International Bank for Reconstruction and Development would have rates higher than the Export-Import Bank. In the International Bank the loss would be shared by all countries, but in the Export-Import Bank the loss would be taken by the United States alone. The Council realizes that diplomatically these loans may be used to achieve certain objectives and there may be trading on terms and rates. (Fleming joined the meeting at 11:15 A. M.)

The Council realizes the need for financial assistance to foreign countries, but wants as much of this credit as possible to be on a basis that will later permit refunding and resale, and that will not result in freezing the Export-Import Bank. The rates to Latin American nations have been 4%.

McKee is surprised that the Council confined its attention only to interest rates and did not emphasize more the terms of the credit.

Brown understands that the terms of these foreign loans are essentially the same and that the primary point for consideration is the interest rate.

Berry. The loans are primarily on good faith.

Szymczak. Denmark already has a rate of 3-1/2%. One of the problems is whether the Export-Import Bank should take over commitments that have already been made by other agencies. If these commitments are taken over, there is the problem of arranging a more or less uniform setup. France received credit at 2-3/8%, but this was a special situation involving previous lend-lease arrangements. The Export-Import Bank is not supposed to operate at a loss and is not to compete, if possible, with private credit. Formerly the Export-Import Bank gave loans only to governments, but now it may make loans to American business concerns which sell abroad.

Eccles says the whole question of foreign credit is in a state where it has not been fully developed and is one of our most difficult financial problems. With the war over, we are inclined to want to get back to sound credit too soon and not recognize the great difficulties with which the world is confronted. Eccles traced the development of our war expenditures and the creation of the Government debt, and suggested that many persons failed to realize that there were similar problems in nations over the world. The problem is not so much a matter of credit as it is a matter of the supply and demand of goods. In a sense there is no such thing as a good credit in the world today. He thinks all nations, including Britain and France, made bad mistakes after the last war. However, he commended Britain for what she had done in making it possible for the United States and Russia to win the war. Many countries, such as Sweden, Portugal, Egypt, and India, came out of the war economically better off than they were before. We should make a balance sheet of the nations and use it as a background in considering requests by foreign nations for credit. Britain began the war with seventeen million tons of shipping and twenty billion dollars of foreign investments. Before the war, her imports were paid as follows: 55% by exports; 23% by services other than shipping; 13% by shipping; and the balance out of foreign investments. Her twenty billion dollars in foreign investments are gone, and she is about even with the board in this respect. She is approximately even on her shipping. Her exports are less than 40% of what she had before the war. Britain is now in bad condition and is worse off than Denmark, for example, because Britain may not be able to eat without help. However, there is little justification in putting Britain on her feet in order to help her pay off Portugal, Egypt, and India to whom she became substantially indebted during the war largely because of the payment for goods and services at inflated prices. Canada, on the other hand, gave Britain gifts. The amount Britain owes Egypt, Portugal, Argentina, and certain other nations should not be paid off through loans from us, and, in addition, have us give loans to some of these nations. What we give Britain will probably have to be on the basis of a loan but actually will be a grant. In order for Britain to pay us, we shall need an adverse balance of trade when actually we shall probably have exceptionally large exports. We may have a large favorable balance of trade at the same time we have a domestic boom. To the extent that we take imports, we shall be certain to have exports as the dollars received by foreign nations will be spent here. There is some justification for Empire Preference as it enables Britain to live. Our interest in Empire Preference is selfish, as it is merely the hope of taking some of the markets in which Britain sells. There are two factors to consider in the British situation:

(1) What standard of living will Britain try to provide?

(2) How much will she spend on her army and navy?

Eccles is interested in preventing the spread of communism over the Continent and in holding down the inflationary trend.

Brown says the Council is in substantial agreement, but purposely confined itself to the question narrowly, stressing the matter of rates. He believes it was a mistake to put the 2-3/8% French loan in the Export-Import Bank.

Eccles. The French loan does not establish a pattern. The $315,000,000 loan to France and the $240,000,000 French loan are really the outcome of lend-lease arrangements and other exceptional factors. There will probably be a British lend-lease credit for a billion dollars. The 2-3/8% rate is a lend-lease rate and not an Export-Import Bank rate. Eccles believes the possibility of private financing is quite remote. The higher rate means greater difficulty for the debtor in paying. Credit is a secondary factor.

Brown says New York bankers believe stronger countries like Denmark, Holland, and Belgium might be able to finance privately in two or three years at 3-1/2%.

Eccles believes the first ten years of maturities, averaging five years, could be sold with a 3% rate.

Brown. The judgment of New York bankers is that all maturities could be sold at 3-1/2%.

McKee. Perhaps we can all agree that the Export-Import Bank obligations should be set up to provide eventually for a resale and refunding so that there is a public outlet for these securities.

Eccles does not believe private financing can possibly be done at present. If the situation changes, that is another matter, but the Government should not encourage anything but high grade paper for sale to the public or banks.

Brown. The International Bank would probably start at 3% plus a commission of 1%, or a total of 4%. This rate might then improve.

Eccles stresses that he believes that 3% is a good rate.

Kurtz. Is it politically possible to make the British loan?

Eccles does not know, but knows that there are important public political considerations. No one favors lending Britain to pay off other creditors.

Spencer believes the 3-1/2% rate is desirable.

McKee suggests that the rate might be fixed so that the Export-Import Bank could charge 3% as long as it held the paper, but have the right to raise to 3-1/2%, if necessary, to place the loan in the hands of the public through resale.

Brown. The rate should be high enough to enable the Export-Import Bank to get out.

SURPLUS GOODS

Brown. So many agencies may have an interest in the disposal of these goods and so many diplomatic problems may be involved that the Council does not have adequate facts to express an opinion. The Council believes the present Surplus Property Board should be replaced by an individual.

Eccles. Mr. McCabe had asked the advice of the Board on this matter. There is a feeling that the disposition of surplus goods and the extension of foreign credits should be considered as one problem. The disposition of surplus goods may really mean the extension of credit, and those in charge of surplus sales should not make loans. Loans should be made to provide for the sale of such goods.

REGULATION W

Brown. The members of the Council, with one exception, believe that Regulation W was introduced as a war measure and should not be considered a permanent part of our national economy. As goods such as furniture, washing machines, and other commodities come into supply, the Regulation should be relaxed. It should be retained at present on automobiles, but it should be liberalized on housing modernization. The terms on housing modernization were changed from 12 to 18 months in June 1945. Further relaxation on modernization is desirable.

Ransom. The Board has never considered the question of whether Regulation W should be a permanent part of our economy. His personal opinion is that it is not a permanent part of our economy. It took four years to build up Regulation W, and it should be relaxed as rapidly as possible. Too many groups have considered the Regulation as a collection agency. Eventually the question will have to go to Congress to decide whether this type of selective credit control should become a permanent part of our economy.

Brown. Those registrants who favor the Regulation welcome it as a protection to their operations and for the help it gives in keeping out newcomers.

Ransom. The wrong people like the Regulation.

Eccles. Eccles expects a large volume of installment credit. For the time being, people have money, but when we have a long supply of goods, we may find automobile terms going from 12 to 36 months. A large expansion of consumer credit to fifteen or twenty billion dollars would be the basis of a real economic collapse.

Brown. All the members of the Council, with one exception, do not favor having any regulation such as Regulation W a permanent part of our economy.

Ransom doubts whether one type of selective control would lead to the adoption of others. He believes that the answer to Eccles is that to make this permanent is to adopt class legislation.

Baird points out that in housing modernization, labor is a big factor and that liberalization of the Regulation would be helpful to labor. Modernization figures are not nearly as large as automobile financing, and modernization would also help housing.

Ransom would like to see the following three steps adopted:

Streamlining Program for Regulation W
(Illustrative and tentative)

1st Step -
(a) Give up home improvement credits; and
(b) Lengthen maturity for "non purpose" loans from 12 months to 18.

2nd Step -
(a) Delist soft goods and minor items of hard goods, thus reducing list of articles to 12-15 major durables; and
(b) Give up control of charge accounts as such and substitute control of charge sales of major durables retained on short list

3rd Step -
(a) Give up "non-purpose" loans altogether; and
(b) Simultaneously relax down payment and maturity requirements for major durables retained on short list.

In the end, a "nonpurpose" loan would be any loan which is not for the purpose of financing or refinancing the purchase of any automobile or any other article on the short list of 12-15 major durables.

Wallace thinks we should relax modernization regulations now.

Ransom believes it desirable to relax modernization requirements as speedily as possible, but says some are against it now because it conflicts with the price control of O. P. A.

Eccles. O. P. A. believes the whole question of price control is impossible if the various controls, such as those on housing materials, are relaxed now.

Wallace. Relaxing of controls on modernization should be helpful in retarding inflation.

Eccles. Considering that certain controls on housing are being taken off, he says there is no need for rataining Regulation W control on modernization. The other housing controls should probably not have been taken off; the result will be that anyone can build a house anywhere and black markets in materials may flourish.

MARGIN REQUIREMENTS

Brown. The Council would like to ask whether the Board has considered the possibility of going back to the former 50% basis, eliminating particularly the burdensome mechanics that were introduced in the amendments. Many goods are available in larger supply, and even if Europe takes some of our goods, there are some of the more expensive commodities which will probably not go to Europe.

Eccles. Do you think the inflationary danger is over?

Brown. The prospect of a sudden serious inflation is not as great at present, but there may be a gradual inflationary trend due in large part to rising labor costs. The danger of a serious upward movement of the stock market is not as great as it was.

Eccles. Even a 100% margin requirement would not stop inflation. Floor traders with a small volume of credit have great influence on the market. It was hoped to reach these traders with the 75% restriction. People not in the market can go into the market on the 75% basis or buy for cash. He believes it would be entirely premature to reduce the margins or relax the restrictions.

McKee says a bank could make a small unsecured purpose loan to take care of a borrower who had already pledged his collateral and then wished to borrow, for example, for taxes.

Draper. Any action on this now would look bad.

<u>Brown</u>. Nevertheless, the Council would like to point out that for every floor trader the Regulation restricts, many other persons are greatly inconvenienced.

(Szymczak left the meeting at 1:10 P. M.)

LICENSING OF BANKS

Brown says that the special Treasury licensing is useless now.

McKee suggests that the Council might draw up a resolution on the subject to give to the Board. All the members of the Board seemed to be in accord with this suggestion.

Brown asks Fleming to draw up a resolution to give to the Board suggesting that the requirement for licensing by the Treasury be rescinded by the proper authorities. Fleming is to give the resolution to the Board who will send it to the proper authorities for action.

Fleming agrees to prepare the resolution and follow through on it.

The meeting adjourned at 1:20 P. M.

The Council reconvened in the Board Room of the Federal Reserve Building at 2:15 P.M. on September 17, 1945, to hear Mr. Woodlief Thomas, Director, Division of Research and Statistics of the Board of Governors of the Federal Reserve System.

All members of the Council were present except Messrs. Kurtz and Gifford.

Thomas. The change from war to peace involves many complex economic problems. These problems necessitate wise handling if we are to assure fair treatment for as many people as possible and avoid future economic difficulties of large proportions. Millions of people are being released from war jobs or military service. The future of these people is as uncertain as that of the business concerns to whom they will look for employment. The output of civilian goods has been small relative to demands and must be increased as rapidly as possible. Individuals and businesses have large amounts of accumulated buying power in the form of liquid assets; they have also reduced their debts and the available credit is substantial. Foreign nations will wish large amounts of American products, and many of these nations have dollars or gold with which to finance their purchases. Other nations without dollars or gold, will desire loans for the purpose of making purchases of goods in our markets. From an annual rate of approximately $100 billion, Federal Government expenditures will probably decline to $60 billion by December and perhaps to 45 billion by the summer of 1946. The output for private use is expected to increase in the near future from an annual rate of about $105 billion to $115 billion or more by the end of the year. The gross national product will decline from an annual rate of $200 billion to about $165 billion by the year end. Releases from war production and the armed forces will make available a large supply of labor. So far, releases in industry have been close to 3 million, but have slackened to about 300,000 a week in September. Releases from the armed forces will probably reach a peak of over a million a month by early 1946. Many of these released persons have been absorbed or withdrawn from the labor market. Unemployment is not large yet, perhaps 2 million, and those making unemployment compensation claims numbered about 1 million at the end of August. Unemployment will probably increase with the release of members of the armed services. It is possible that 7 or 8 million will be unemployed early in 1946, and, in addition, some 3 or 4 million persons will have withdrawn from the labor market. The number of gainfully employed, other than in the armed services, may decrease from 52 million to about 48 million at the end of 1945. Individual incomes may decline from an annual rate of about $160 billion to about $135 billion by the end of 1945. Personal taxes may decrease from around

$20 billion a year to approximately $15 billion at the end of this year. The income available for spending and savings may, therefore, decline from $140 to $120 billion. Individual savings have been around $35-40 billion a year, but are expected to decline to about $20 billion annual rate, compared with a prewar average of $10 billion or less. Individuals have large accumulations of liquid assets. Personal holdings of currency, deposits, and Government securities have increased from $50-60 billion prewar to more than $140 billion now. There are indications that accumulated liquid assets may not be freely spent. In a survey covering a rather small area, it was found that two-thirds of the savings are held by people who receive less than $6,000 a year. The savings seem to be in groups. The better educated, older groups who have some plans for the future seem to have done a better job of saving. These people generally say they are not going to draw down their savings for automobiles and other articles, but will use installment credit. They may use their accumulated savings for the purchase of houses, farms or other types of investment. In some communities, however, the pattern does not run this way. In general, the savings do not seem to present a threat to the prices of consumer goods, but they might lead to serious speculation in houses, farms and stocks. Businesses are also in a highly liquid position, the liquid assets of this group having increased from about $20-$25 billion to over $70 billion. (Traphagen left at 2:40 P. M.) The fundamental dilemma of this period is one of a large demand for goods and services at the same time that the supply is restricted, although the manpower necessary to increase output is rapidly becoming available. It is possible to have a serious inflationary threat at the same time we have unemployment. There are some goods in short supply which are produced in low wage industries to which workers return with reluctance. It is essential to help the unemployed to jobs producing goods as soon as possible. On the other hand, it is necessary to add as little as possible to the already substantial accumulated buying power. The rapid removal of W. P. B. restrictions, such as those relating to housing, is leading to a scramble for certain goods. We could have a serious inflation due to veterans going back to farms and due to the demands for urban real estate and stocks. The removal of controls to increase employment is not desirable where goods are scarce. The supply and demand for many goods are not in proper adjustment. Price rises should only be permitted where they will bring forth more goods. Foreign credits should be managed to prevent bidding for goods where our supply is short. We should be careful on the matter of reducing taxes, for we do not know what our expenditures will be. There should be a reduction of some excess profits tax and there should be a reduction in the normal corporate tax to help the less profitable enterprises. There should also be some reduction in individual income taxes. The general policy in the transition from war to peace should be to stimulate the production of needed goods, discourage consumer buying, and reduce speculation, as in the case of

Inventories. The budget deficit during the war has exceeded $50 billion a year. For the last half of 1945, it will be $22 billion, which is still close to the war level. For the first half of the calendar year of 1946, there may be about a $10 billion deficit, which means at the rate of $20 billion annually, allowing for a moderate tax reduction. In the last half of 1946, the deficit may only be $3 billion. The Treasury could draw on its large working balance to cover a part of the deficit this year and nearly all of it in 1946. The working balance of the Treasury was about $24 billion in June and is now about $15 billion. In peace time, it has rarely exceeded 1 billion dollars. However, it was anticipated there might be large redemptions of demand and maturing obligations. If there are large redemptions and payments for unemployment, the Treasury may have to get $8 to $10 billion annually from the banks which would compare with the war-time rate of $25 billion a year from the banks. This would mean an increase in bank deposits. If there are large redemptions, there is a question of how the money will be used. If the money is not spent, there could be unemployment; if the money is spent, there would be increased production; but if it is spent too rapidly, there might be inflation and speculation.

Brown believes that much currency is in the hands of workmen who have not in the past ordinarily used banks.

Thomas. In our surveys, the people would not indicate their currency holdings.

Baird. Baird believes thrifty people who have bonds fear a campaign urging them to hold their bonds, so they have built up their currency holdings.

Thomas. Our survey showed many people would use their bonds and savings before they would use their currency.

Brown asks whether the resistance to taking lower pay and more disagreeable jobs is serious and widespread. In Chicago there are many jobs which the workers are declining. How can wages be raised, or how can the same wages be paid for shorter hours without raising prices?

Thomas. People have savings and the real pressure of unemployment has not yet been felt by them. He does not believe $25 a week will have much effect in keeping people out of work. The average unemployment compensation is nearer $15.00. In New York, it is around $18.

Brown. When some unskilled hotel workers found they would only get $8.00 unemployment compensation instead of $25 the unemployment problem in a particular hotel situation was solved.

The meeting adjourned at 3:20 P. M.