

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, April 3, 1941, at 1:50 p.m.

PRESENT: Mr. Ransom, Vice Chairman  
Mr. Szymczak  
Mr. McKee  
Mr. Draper

Mr. Morrill, Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Clayton, Assistant to the Chairman  
Mr. Thurston, Special Assistant to the  
Chairman  
Mr. Goldenweiser, Director of the Division  
of Research and Statistics  
Mr. Paulger, Chief of the Division of  
Examinations  
Mr. Parry, Chief of the Division of  
Security Loans  
Mr. Dreibelbis, Assistant General Counsel  
Mr. Bach, Special Assistant in the Office  
of the Secretary

ALSO PRESENT: Donaldson Brown, Vice President of General Motors Corporation

Mr. Brown stated that this morning he had presented to Mr. Knudsen, Director General of the Office of Production Management, a memorandum which he (Mr. Brown) had prepared during the week for Mr. Knudsen, with respect to methods of restricting the production of automobiles in order that men, material, and facilities might be released from that industry and made available for the defense program. Mr. Brown reviewed the memorandum in which he took the position that there were two principal ways in which the production of automobiles might be restricted, (1) by the imposition of arbitrary controls on their production, and (2) by the taking of measures which would serve to

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curtail the demand for automobiles and which would lead in consequence to the curtailment of production in line with the curtailed demand. After discussing the advisability and effectiveness of an arbitrary restriction of production, Mr. Brown reached the conclusion that that method would not be desirable and that the purposes sought to be achieved could be better served by resort to curtailment of demand. He suggested that the curtailment of consumer purchasing power could be accomplished by (1) restriction of consumer demand in general by wage and income taxes or general sales taxes and by the sale of bonds to individuals on either a voluntary or a compulsory basis, provided they were not resold to banks or used as collateral for borrowing, and (2) restriction of consumer demand for automobiles (or other durable goods) by selective excise taxes and passage of legislation enabling the exercise of control over the terms of consumer credit. After discussing the desirability and effectiveness of this method, he expressed the opinion that restriction of automobile production could be accomplished by resort to the measures proposed and that, to the extent the influence of such measures was sufficient to meet the required objective, the destructive economic consequences of resort to arbitrary curtailment of production would be averted. In connection with the effectiveness of controls of consumer credit, Mr. Brown stated that if incomes of installment buyers were kept, by means of taxes and loans, to approximately the 1940 levels, and if car prices

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were raised \$100 on the average by excise taxes or increased costs, it was estimated that the restriction of credit terms to a maximum of eighteen months (with present down-payment) would of itself remove 33% of installment buyers from the new car market, and that restriction of credit terms to a maximum of twelve months would remove 50% of installment buyers from the new car market. Mr. Brown left with the Board a copy of the information discussed by him, which has been placed in the Board's files.

In the discussion which followed, consideration was given to the question of policing installment credit controls, and Mr. Parry reviewed the methods which the staff had considered.

In connection with a question as to the authority for the controls, Mr. Brown was informed in confidence that it was the opinion of the Board's counsel that the controls could be established on the authority of an Executive Order and that specific legislation would not be necessary. Mr. Brown expressed pleasure in learning that that was the case. He also made a statement to the effect that the information which he had presented to Mr. Knudsen and to the Board was prepared at the request of Mr. Knudsen, that the problem was not his or his company's, and that he was turning it over to the Board and Mr. Knudsen for such action as they saw fit.

In response to an inquiry from Mr. Parry as to whether, if the Board should need information quickly, it could get representatives of the automobile manufacturers together for a discussion, and

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whether it was Mr. Brown's opinion that the Board could expect to get information from the finance companies, Mr. Brown replied in the affirmative and stated that his company would be willing to be of any help that it could or to participate in a discussion of the matter. He concluded with the statement that, if the information which he had presented appealed to the Board and it desired to pursue the matter further, he hoped that the Board would get in touch with Mr. Knudsen as soon as possible.

At this point Messrs. Thurston, Goldenweiser, Paulger, Parry, Dreibelbis, Bach, and Brown left the meeting and the action stated with respect to each of the matters hereinafter referred to was then taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on April 2, 1941, were approved unanimously.

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

"Reference is made to your letter of March 28, 1941, submitting the application of the United States Trust Company of Newark, Newark, New Jersey, for permission to purchase assets and assume the deposit liabilities of The Mount Prospect National Bank of Newark, Newark, New Jersey, for the purpose of operating a branch in the premises to be acquired.

"In view of your recommendation and the information available, the Board grants the desired permission provided the transaction is carried out substantially in accordance with the plans as submitted and final approval of the appropriate State authorities is obtained. It is

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"understood, also, that Counsel for the Federal Reserve Bank of New York is to be satisfied as to the legal aspects of the transaction."

Approved unanimously.

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

"Enclosed is a copy of a letter dated March 28, 1941, from Mr. Crowley, Chairman of the Federal Deposit Insurance Corporation, with respect to The Syracuse Trust Company, Syracuse, New York. The bank, as you well know, has been a problem for quite a long time, and the Board has been disturbed at the lack of progress shown and the failure to strengthen the capital position and to provide the strong and efficient management which should be expected of a bank with assets of more than \$30,000,000.

"You will note that Mr. Crowley's letter asks whether any program calculated to meet the necessities of this situation is now under consideration or contemplated. A reply to Mr. Crowley's letter will be deferred until we hear from you, and your suggestions as to an appropriate reply will be appreciated.

"Immediately upon receipt of Mr. Crowley's letter, Mr. Sheehan was advised informally of its contents and it is understood that you have already discussed the situation with Mr. White, Superintendent of Banks. Enclosed, however, is an extra copy of Mr. Crowley's letter for delivery to Mr. White in order that he may be fully informed and that his records may be complete."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morris  
Secretary.

Approved:

Donald Cameron  
Vice Chairman.