

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, April 11, 1941, at 10:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. Davis
Mr. Draper

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Goldenweiser, Director of the Division of Research and Statistics
Mr. Paulger, Chief of the Division of Examinations
Mr. Smead, Chief of the Division of Bank Operations
Mr. Parry, Chief of the Division of Security Loans
Mr. Dreibelbis, Assistant General Counsel
Mr. Vest, Assistant General Counsel
Mr. Wingfield, Assistant General Counsel
Mr. Cagle, Assistant Chief of the Division of Examinations
Mr. Kennedy, Technical Assistant in the Division of Bank Operations

Mr. Szymczak stated that in accordance with a recent suggestion he had looked into the question of the adoption by the Board and the Federal Reserve Banks of a plan to facilitate the purchase by employees of the Banks and the Board of United States savings bonds and that he would like to read a memorandum which he had prepared under date of April 10, 1941, and which contained his recommendations to the Board on the matter. The memorandum read by Mr. Szymczak was as follows:

"During a meeting held in my office this morning for the purpose of discussing means by which the Federal

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"Reserve System might facilitate the participation by its employees in the Treasury's plan for enlarged sales of United States Savings Bonds, which was attended by Mr. Sinclair, as Chairman of the Presidents' Conference, and by Messrs. Smead and Bethea of the Board's staff, it was agreed that employees might be encouraged to purchase defense savings bonds or stamps by either of the three following methods or a combination thereof:

1. Payroll deductions
2. Over-the-counter sales
3. Installment subscriptions

Mr. Sinclair stated that he had communicated with all of the Federal Reserve Banks by telephone and each one had expressed a desire to cooperate in the matter and a willingness to work out a procedure through officers' and employees' committees or otherwise which would be satisfactory from the standpoint of the individual institution. It was agreed, however, that he would keep in touch with the Reserve banks and with the Board as plans progressed, with a view to making some public announcement as soon as feasible with the understanding, of course, that the substance and timing of such announcement would meet with the approval of the Board and the Presidents' Conference. Following the meeting Mr. Sinclair sent a telegram to the Presidents of the other Federal Reserve Banks reading as follows:

'As Conference Chairman, in cooperation with the Board of Governors, believe it desirable that each Reserve Bank and branch make immediate arrangements through officers' and employees' committees, or otherwise as they may plan, (a) to inform employees of advantages in adopting a savings plan through purchase of defense bonds or stamps, and (b) to set up the necessary mechanism to assist employees through the sale of stamps, and receipt of installment payments or authorized payroll deductions, in the purchase of savings bonds. Suggest you wire me on or before April 16 the general measure of plan you propose to adopt so that a System announcement may be made before the end of next week to the Treasury and public in hopes that publicity will encourage others to adopt plan for same purpose.'

"The immediate problem requiring consideration by the Board is the question of deciding upon a procedure to be

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"followed by its own organization. On the basis of such study as has been given to the matter in the limited time available since the subject was brought up by Mr. McKee, it appears that a payroll deduction plan for the purchase of United States Savings Bonds, supplemented by an arrangement for over-the-counter sales of defense savings stamps, will meet the needs of the Board's staff.

"The American Telephone and Telegraph Company has had such a payroll deduction plan in operation for a number of years and a copy of its plan has been revised to meet our requirements. A copy of the plan as revised by our staff is attached. While it has not been possible to work out all of the details, sufficient preliminary work has been done to insure the practicability of the plan.

"It is recommended, therefore, that the Board approve the attached 'Payroll Deduction Plan', subject to such minor changes as the staff may find it desirable to make when placing it in final form, and the establishment of a revolving fund in the amount of \$100.00 to be placed in the custody of the Fiscal Agent for use in purchasing defense savings stamps and selling them over-the-counter to employees of the Board.

"It is also recommended that the Board approve the attached letter submitting the plan to the employees. In this connection, it is proposed to print the 'Plan', together with the letter of transmittal, in a pamphlet for distribution to all employees. Such distribution will be made direct by the Secretary's Office but it is my intention to bring the matter to the attention of the employees through the Reserve Board Club with the view to having the club sponsor the plan and inform employees more in detail regarding the Treasury's program. This approach will doubtless result in the holding of a meeting of employees under the auspices of the club and the formation of committees to encourage the purchase of savings bonds and stamps on a strictly voluntary basis."

In response to an inquiry as to whether the plan adopted by the Board and Banks could be made uniform Mr. Szymczak replied that it could not be for the reason that the Federal Reserve Bank of Boston was not willing to make pay roll deductions and that, in any event, the

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plans at the respective Banks could be made more effective if they were adapted to the varying situations existing at the Banks.

Upon motion by Mr. Draper the recommendations contained in Mr. Szymczak's memorandum were approved unanimously.

Reference was made to a letter addressed to Mr. Young, President of the Federal Reserve Bank of Chicago, on March 19, 1941, by Mr. Crowley, Chairman of the Federal Deposit Insurance Corporation, with respect to the activities of the Federal Reserve Banks in encouraging nonmember banks to join the Federal Reserve System. A copy of the letter was sent to the Board by Mr. Young under date of March 22, 1941.

At the suggestion of Mr. Szymczak, it was agreed that Mr. McKee should be asked to make a recommendation to the Board at the meeting on Tuesday, April 15, 1941, as to what action should be taken. It was also understood that during the interim Mr. Paulger would prepare a draft of a statement which might be used by the Board if it should decide to take the matter up with Mr. Crowley.

There were presented telegrams to Mr. Sanford, Secretary of the Federal Reserve Bank of New York, Mr. Foster, Assistant Cashier of the Federal Reserve Bank of Cleveland, Mr. Leach, President of the Federal Reserve Bank of Richmond, Messrs. Dillard and Stewart, Secretaries of the Federal Reserve Banks of Chicago and St. Louis, respectively, Mr. Ziemer, Vice President of the Federal Reserve Bank of Minneapolis, Mr. Gilbert, President of the Federal Reserve Bank of Dallas, and Mr. Hale, Secretary of the Federal Reserve Bank of San

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Francisco, stating that the Board approves the establishment without change by the Federal Reserve Bank of St. Louis on April 7, by the Federal Reserve Bank of San Francisco on April 8, and by the Federal Reserve Banks of New York, Cleveland, Richmond, Chicago, Minneapolis, and Dallas on April 10, 1941, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Reference was then made to the discussion at the meeting on March 19, 1941, with respect to the draft of letter to the Secretary of the Treasury on the subject of bank holding companies and to the agreement reached at that time that if the pending holding company bill (S-310) were called up for hearings a draft of letter to the Secretary would be prepared and Chairman Eccles would call on the Secretary for the purpose of presenting the letter. Chairman Eccles reviewed the circumstances leading up to the preparation of the draft of letter and suggested that the Board agree upon a form of letter to be sent to the Secretary, as there was some likelihood that hearings would be held on the bill.

At this point a draft of letter prepared by Mr. Clayton under date of April 9, 1941, was presented and during the discussion of the letter Mr. Ransom stated that, while he felt he would have to vote against the letter for the reasons which he would state later, he would appreciate it if the following sentence were inserted after the second sentence of the fourth paragraph of the letter:

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"Mr. Ransom asks that you be advised that the letter of March 17, 1938, to you from Mr. Jones satisfactorily expressed Mr. Ransom's views then and now."

Mr. Kennedy left the meeting at this point.

Mr. Ransom also stated that since, under the assignments given to the various members of the Board, he had primary responsibility for handling legislative matters affecting banking, he would like to be relieved of that responsibility with respect to Bill S-310 during the present session of Congress with the understanding that it would be assigned either to Chairman Eccles or Mr. McKee.

Upon motion by Mr. Szymczak the letter to the Secretary of the Treasury was approved for transmission by Chairman Eccles at such time before the bill is called up for hearing as he may determine. On this action Mr. Ransom voted "no" and accompanied his vote with the following statement:

"In March, 1938, I served as a member of a subcommittee of the Interdepartmental Committee to consider recommendations to the President regarding bank legislation, and particularly to suggest a brief statement dealing with bank holding companies to be included in the President's message to Congress. This subcommittee, through Mr. Jesse H. Jones, addressed a letter under date of March 17, 1938, to the Secretary of the Treasury, submitting a suggested statement for the President to include in his message to Congress, which the President in substance used. The same letter refers to other conclusions reached by the subcommittee and refers to the fact that should the President determine to use the statement submitted and the Congress act upon his recommendation, the question of branch banking would naturally enter into the discussions. The members of the subcommittee held conflicting views regarding the problem of supervisory authority, and these are stated in Mr. Jones' letter. While I feel that S. 310 contains matters not discussed in Mr. Jones' letter

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"and does involve the question of supervisory authority about which the subcommittee held differences of opinion. I also feel that in essence there are certain proposals in S. 310 that substantially conform to the recommendations of the subcommittee made to the President and that the letter considered and approved at this meeting by a majority of the Board is in conflict in some respects with the recommendation which I joined in making to the President and, for all of these reasons, I am voting 'no'."

It was also understood that Chairman Eccles would relieve Mr. Ransom of responsibility with respect to following developments during the present session of Congress in connection with Bill S-310.

The letter to the Secretary of the Treasury as thus approved was in the following form:

"At the conclusion of the conference at the Treasury on January 21 regarding bank holding company legislation, it was agreed that the Board should transmit to you its objections to S. 310 together with an alternative program for dealing with the bank holding company situation. I advised that these two reports would be the same as would be furnished by the Board to the Senate committee if it became necessary to make a report. You stated at the time that there was no hurry and in view of more urgent matters engaging your attention as well as that of the Board, this reply has been delayed. Since, however, the bank holding company question may receive active consideration at this session of Congress, and in view of the President's request that the four banking agencies endeavor to get together on a program, I am transmitting herewith a memorandum of the Board's criticisms of S. 310 and a separate memorandum outlining an alternative program for dealing with the bank holding company problem.

"While on this matter, the Board feels that it should correct what it believes to be erroneous statements made at the meeting on January 21 respecting the record on the entire bank holding company situation and the Board's position in relation thereto. The transcript of that meeting contains statements by you to the effect that S. 310 represented what was agreed to by the Interdepartmental Committee

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"in March 1938, that you were taking up where the matter was left off, that you were taking the initiative in the matter because no one else would, that the Board, after seven years, had done nothing about it, and that the bank holding company situation was unhealthy and unwholesome.

"Since the meeting referred to, the Board has made a detailed review of the record from 1933 to date, with particular reference to the discussions in 1938 and the extent of any agreement at that time. From this review, the Board has confirmed the views it has previously held in a number of particulars.

"First of all, the agreement in 1938 was limited to general policy only and the report of the Committee's discussions showed disagreement on important phases of the problem. The agreement on a recommended text to be used in the President's monopoly message was coupled with the statement that a death sentence would require consideration of branch banking statutes as a part of the problem. There was no agreement whatever upon any specific bill; and as to those matters agreed to in 1938, as you and the others on the Committee were advised, Mr. Ransom expressed his own views and not those of the Board, and he asks that you be advised that the letter of March 17, 1938, to you from Jesse Jones satisfactorily expressed his views then and now. Moreover, the Board feels that whatever views it held in March of 1938 could hardly constitute a commitment as to the bill S. 310 prepared by your staff in 1941, differing drastically from any bill heretofore proposed by anyone and containing features to which the Board must inevitably object.

"Bearing upon the matter of the agreement as well as the matter of the Board's position respecting the need of legislation, it is to be noted that on March 10, 1938, at a meeting in the Treasury, I handed you a memorandum containing proposals for legislation prepared by the Board's staff. Subsequently Mr. Ransom handed you additional material, relating to a possible program for new legislation. These proposals were not pressed later that year as it was made known by Senator Glass that his committee would not give active consideration to the holding company bills then pending. Nevertheless the Board in its Annual Report for 1938, called attention to the need of amendments to the holding company statutes.

"The Board feels that it has fully discharged its administrative responsibility under the statutes. For nearly

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"eight years, it has devoted time and attention to the situation and, in cooperation with other agencies of Government also having responsibility in this field has worked out solutions of many important administrative and supervisory problems. Since 1933 the number of bank holding company affiliates and the number of their subsidiary banks have decreased materially. Several bank groups have been terminated completely and some of the presently existing groups have considerably reduced the number of their banks and the cities served by them, while others have reduced to lesser degrees. Except in three relatively unimportant cases there has been no expansion outside of that occurring on the west coast. Many other improvements in the situation could be mentioned and the Board is willing to let the record speak for itself. It sees no basis for your assertion that the situation is unhealthy and unwholesome and believes that your reference to all the difficulties you have had with the bank holding company situation can relate to only one organization. In this case the Board believes that the banking aspect of the problem is not due to ownership through the holding company mechanism but rather to a domination amounting to complete control by a single personality who had been able to maintain stockholder and director support. It is doubtful that amendments to the bank holding company statutes, even though drastic, offer the best solution to this particular kind of problem. Although the Board is fully aware of the desirability of strengthening the controls over bank holding companies, it has not felt that the situation has been of such importance in relation to other more fundamental problems in the banking field as to justify separate and prior consideration by Congress, particularly in the light of pressing reasons that have existed over this period making it inadvisable to sponsor piecemeal legislation.

"The Board is most willing to confer with the other Federal banking agencies in an endeavor to work out a program. It is desirous of having its proposals subjected to practical and constructive criticism and is willing to modify them in the light of any valid criticism and hopes that the other agencies will approach the problem in the same spirit."

At this point Messrs. Wingfield and Cagle left the meeting.

Mr. Ransom referred to the recent visit to the Board's offices

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of Mr. Keller, President, and Messrs. Hutchinson and Kelley, Vice Presidents, of the Chrysler Motor Corporation, during which the question of the institution of controls of installment credit in connection with the purchase of automobiles was discussed. It was stated that, while the representatives of the Corporation realized that there was danger that a restriction of the production of automobiles would cause price increases, they questioned the desirability of resorting to price fixing. They were of the opinion that if it became necessary to take action it should be in the form of a graduated direct restriction on production. They were not in favor of action in the field of credit control for the reasons, among others, that it would subject the Chrysler Corporation to certain competitive disadvantages and also would be most difficult to police. They were in agreement, however, that if the institution of installment credit controls were necessary the administration of the controls should be placed in the hands of the Federal Reserve System. They made the further statement that a restriction in the production of automobiles would not make any substantial amount of manufacturing facilities available for the defense program. They added that if action were taken to restrict the output of cars it should be announced before July 1 of this year in order that it might be taken into account by manufacturers in fixing their sale prices.

During a discussion of the position taken by the representatives of the Chrysler Corporation and of the possible effectiveness

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of the different actions that might be taken to restrict automobile production, Mr. Parry stated that, if controls of installment credit were to be instituted, public announcement thereof should be made at least one month before the effective date and the Board's staff should be given at least a month before the announcement in which to prepare the necessary executive order and regulations.

At the conclusion of the discussion, Mr. Ransom moved that Chairman Eccles be authorized to discuss the matter of installment credit controls with Mr. Henderson, Commissioner of Price Stabilization of the Office for Emergency Management, Mr. Knudsen, Director General of the Office of Production Management, and such others as he might find desirable, for the purpose of ascertaining to what extent it might be thought necessary to restrict the production of automobiles and to inform them of the Board's views on the subject of installment credit control.

Mr. Ransom's motion was put by the chair and carried unanimously.

At this point Messrs. Goldenweiser, Paulger, Smead, Parry, Dreibelbis, and Vest 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 10, 1941, were approved unanimously.

Letter to "The Staunton National Bank", Staunton, Virginia, reading as follows:

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"This refers to the resolution adopted on October 15, 1940, by the board of directors of your bank, signifying the bank's desire to surrender its right to exercise fiduciary powers heretofore granted to it.

"The Board, understanding that your bank has been discharged or otherwise properly relieved in accordance with the law of all of its duties as fiduciary, has issued a formal certificate to your bank certifying that it is no longer authorized to exercise any of the fiduciary powers covered by the provisions of section 11(k) of the Federal Reserve Act, as amended. This certificate is enclosed herewith.

"In this connection, your attention is called to the fact that, under the provisions of section 11(k) of the Federal Reserve Act, as amended, when such a certificate has been issued by the Board of Governors of the Federal Reserve System to a national bank, such bank (1) shall no longer be subject to the provisions of section 11(k) of the Federal Reserve Act or the regulations of the Board of Governors of the Federal Reserve System made pursuant thereto, (2) shall be entitled to have returned to it any securities which it may have deposited with the State or similar authorities for the protection of private or court trusts, and (3) shall not exercise any of the powers conferred by section 11(k) of the Federal Reserve Act except with the permission of the Board of Governors of the Federal Reserve System."

Approved unanimously.

Letter to "The First National Bank of Seguin", Seguin, Texas,
reading as follows:

"This refers to the resolution adopted on September 19, 1939, by the board of directors of your bank, signifying the bank's desire to surrender its right to exercise fiduciary powers heretofore granted to it.

"The Board has just received the examiner's report required prior to the final disposition of this matter and, understanding that your bank has never actually accepted or undertaken the exercise of any trust, has issued a formal certificate to your bank certifying that it is no longer authorized to exercise any of the fiduciary powers covered by the provisions of section 11(k)

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"of the Federal Reserve Act, as amended. This certificate is enclosed herewith.

"In this connection, your attention is called to the fact that, under the provisions of section 11(k) of the Federal Reserve Act, as amended, when such a certificate has been issued by the Board of Governors of the Federal Reserve System to a national bank, such bank (1) shall no longer be subject to the provisions of section 11(k) of the Federal Reserve Act or the regulations of the Board of Governors of the Federal Reserve System made pursuant thereto, (2) shall be entitled to have returned to it any securities which it may have deposited with the State or similar authorities for the protection of private or court trusts, and (3) shall not exercise any of the powers conferred by section 11(k) of the Federal Reserve Act, except with the permission of the Board of Governors of the Federal Reserve System."

Approved unanimously.

Mr. Morrill suggested that the Board authorize the payment of the cost of luncheon served to Mr. H. W. Davies, President of The Syracuse Trust Company, Syracuse, New York, in the Board's dining room today.

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

W. Steadman
Chairman.