

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, September 8, 1941, at 3:10 p.m.

PRESENT: Mr. Ransom, Vice Chairman  
Mr. Szymczak  
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. Ransom stated that he and Mr. Goldenweiser had just returned from a conference at the Treasury which was attended also by Under Secretary Bell, Messrs. White, Haas, Bernstein, and Lyndow of the Treasury staff, and at which there was a further discussion of the agenda which had been prepared for, and discussed in part at, a similar conference at the Treasury on Friday, September 5, 1941. He said that it became evident at the conference today that some of the Treasury representatives were under the mistaken impression that the representatives of the Board favored a program deliberately designed for the purpose of raising interest rates, that this impression apparently arose from a memorandum prepared by Mr. Hersey of the Division of Research and Statistics several months ago in which reference was made to a rate of 4.3%, and that it was made clear to the Treasury representatives that the memorandum did not express the views of the Division of Research and Statistics or the Board, that it was not the

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purpose of the representatives of the Board to propose a program that necessarily would result in an increase in interest rates but rather one designed to assist the defense effort in the most effective way and serve as a means of counteracting inflationary developments.

Mr. Ransom made the further statement that he felt that representatives of the Treasury with whom he and Mr. Goldenweiser had been conferring might finally feel that the Board was justified in promptly increasing reserve requirements to the limit of its statutory authority but that so far as they were concerned the question whether new authority to absorb additional amounts of excess reserves should be sought as a program with Treasury approval would depend upon finding a method of exercising such authority that the Treasury would regard appropriate to the present situation. He further said that the Treasury representatives were not favorably impressed with the idea of additional authority along the line of the present authority, namely, in the form of percentages increases, but he thought that they were interested in exploring the question as to what other forms such authority should take and had discussed the "ceiling plan", which would not reduce existing excess reserves but would require that after a specified date dollar for dollar reserves be maintained against further increases in deposits, and that they had discussed other possible plans, combinations of plans, and modifications of the present plan.

The suggestion was made at the conference today, Mr. Ransom said, that the Board and the Treasury agree upon a rate pattern and

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a method of maintaining that pattern, but that Mr. Bell suggested that a natural market should be maintained and that if the public had the impression that the market was being "rigged" we would be handicapped. Mr. Ransom added that the Treasury representatives appeared to feel that the use of the remaining authority of the Board to increase reserve requirements would not have much effect upon the market, but that if it were made known that additional authority was to be asked for and that the System was going to move forward step by step to absorb all excess reserves, the reaction on the market would be bad, and that, whatever program was agreed upon, there should be an arrangement under which the System would take appropriate action to meet any unforeseen repercussions on the market.

Mr. Ransom made the further comment that some of the Treasury staff believed that the instrument of selective credit control could be used much more widely than was being done at the present time and that bank supervisory authorities might produce constructive results by checking loans on inventories and perhaps ultimately, if the present emergency necessitated such action, arrive at a point where the banking system would be discouraged from making non-defense loans.

After referring briefly to the consideration that had been given at the conferences on September 5 and today to the first four items of the conference agenda, Mr. Ransom stated that reference was also made to the question whether the Treasury should absorb a portion



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of existing excess reserves by the sale of securities held in trust accounts and by transferring funds from special depositaries to the Federal Reserve Banks but that these steps were not the subject of much discussion. He stated that on the general problem of excess reserves an attempt was being made to formulate two statements, one of which would express the views of the Board's representatives and the other the views of the members of the Treasury staff, and that Mr. Goldenweiser had prepared a draft of statement for discussion which was in the following form:

"For the consideration of the Board the following procedure with respect to the United States Government security market and member bank reserves is proposed:

1. That the Board and the Treasury agree on a pattern of rates and on ranges of permissible fluctuations.
2. That the Board and the Treasury agree to work together for the purpose of sustaining the determined pattern and ranges of rates.
3. That the Board raise reserve requirements to the limit permitted by law.
4. That the Administration ask that the Board be given additional powers over reserves - the form that these powers should take to be determined by the Board in consultation with the Treasury.
5. That the Board agree to recommend or adopt such additional selective credit controls as may be decided by the supervisory authorities to be desirable and feasible."

During a discussion of the above statement, Mr. Ransom stated that he had no reason to believe that the representatives of the Treasury would be willing to accept such a program, as they would not be

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willing to ask for additional powers over reserves without first agreeing upon the form those powers should take, that they felt that the banks might construe a request for additional powers as an indication of a substantial rise in interest rates which might have a very adverse effect on the market, and that they would not be willing to approve a request for additional authority which by uniform application would make a large number of banks deficient in required reserves, when that result would not follow the application of the "ceiling plan". The Treasury representatives might agree, he said, to a program which contemplated the exercising of the remaining authority of the Board and a statement that additional authority would be requested to deal with the problem by some method which would not result in a deficiency in required reserves. Mr. Ransom added that in the discussion the observation was offered that one of the difficulties with the "ceiling plan" was that there was a considerable amount of bank support of the present method of determining reserve requirements and that if we should change the basis of computing such requirements that support might be lost and it might become difficult to obtain the additional authority because of the proposed new basis not being understood.

There ensued a discussion of the "ceiling plan" during which Mr. Goldenweiser stated that, while he favored the "ceiling plan" and had discussed it on numerous occasions with the Chairman, who

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it was understood was not convinced in its favor, he (Mr. Goldenweiser) had not advocated it during discussions at the Treasury.

In response to an inquiry by Mr. Draper as to whether the additional authority would be sought by an executive order or by legislation, Mr. Ransom and Mr. Goldenweiser stated that it was agreed at the Treasury that, inasmuch as the matter had been considered by Congress as late as 1935 and specific limitations applied by it, the additional authority should take the form of a Congressional act rather than an executive order. The members of the Board present expressed agreement with this view.

In a further discussion of the statement prepared by Mr. Goldenweiser, Messrs. Szymczak and Draper indicated that they would have no objection to amending item (4) to state that the form that additional powers should take would be determined by the Board in agreement with the Treasury.

Mr. Ransom stated that there were two possibilities as to what might be done at further meetings at which he and Mr. Goldenweiser might attend with Treasury representatives, that either there would be separate recommendations from the representatives of the Board and the Treasury or an agreement on a program to be recommended to the Secretary of the Treasury and the Board which, of course, would not be binding on the Secretary or the Board, and he raised the question whether the members of the Board would be willing to have him and Mr.



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Goldenweiser proceed on the basis of agreeing upon a program for recommendation to the Secretary of the Treasury and to the Board. Messrs. Szymczak and Draper indicated that they would favor having Messrs. Ransom and Goldenweiser continue with the discussions on that basis.

(Secretary's Note: Mr. Ransom subsequently discussed this procedure with Mr. Eccles by long distance telephone and reported that Mr. Eccles raised no objection to this idea of having the group in question make a joint report to the Secretary and the Board.)

There was then presented a memorandum dated August 29, 1941, from Mr. Thomas, Assistant Director of the Division of Research and Statistics, referring to the temporary assignment of Chandler Morse, senior economist in the Division of Research and Statistics, to the Office of the Administrator of Export Control, and stating that inasmuch as the Administrator would like to be able to call on Mr. Morse for assistance following the termination of his temporary appointment on October 8, 1941, it was believed to be desirable to have him return to the Division of Research and Statistics under an arrangement that would enable him to devote part of his time to the work of the Administrator without reimbursement. The memorandum had been circulated among the members of the Board before this meeting and Mr. Goldenweiser stated that he favored the proposed arrangement as outlined in the following draft of letter to the Administrator of Export Control:

"Mr. Chandler Morse has told us that you may wish to have him continue to give some assistance with the

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"economic research work in your office after he returns to our Division of Research and Statistics on October 8. In view of the Board's broad interest in the work of your agency, we shall have no objection to having Mr. Morse render such assistance to your organization as will not interfere with his duties as a member of the Board's staff.

"Under such a flexible and indefinite arrangement, we should not expect to ask for reimbursement for his services. We shall assume responsibility for the full amount of his salary and our regular contribution to the Retirement System on his behalf when he returns to our office on October 8."

Approved unanimously.

Mr. Thurston stated that a cablegram had been received in the Chairman's office from Mr. Winant, United States Ambassador to England, requesting that Mr. Alvin H. Hansen, who is in the employment of the Board on a part time basis, go to London for the purpose of making a speech in that city and a quick survey on the British economy, it being anticipated that the trip would take about ten days. Mr. Thurston said that Mr. Hansen's traveling expenses would be paid by the State Department, but there remained the question whether he would go as an employee of the Board. During a brief discussion of the matter, Mr. Ransom stated that the cable from Mr. Winant had been telegraphed to Chairman Eccles and a reply was being awaited from him.

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

Memorandum dated September 4, 1941, from Mr. Nelson, Assistant



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Secretary, recommending (1) that M. Peter Sarfaty, a guard, be promoted to the position of clerk to Building Manager in the Secretary's Office on a temporary basis for an indefinite period, and that his salary be increased from \$1,380 to \$1,500 per annum, effective September 16, 1941; (2) that Charles S. Overmiller, an elevator operator, be promoted to the position of guard in the Building Operations and Maintenance Section of the Secretary's Office on a temporary basis for an indefinite period, and that his salary be increased from \$1,200 to \$1,380 per annum, effective September 16, 1941, with the understanding that if his work is satisfactory during the next six months, a further recommendation will be submitted asking that his salary be increased to \$1,500 per annum; (3) that John R. Houck, Jr., be appointed as an elevator operator in the Building Operations and Maintenance Section of the Secretary's Office on a temporary basis for an indefinite period with salary at the rate of \$1,200 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed satisfactorily the usual physical examination; (4) that the resignation submitted by Hugh V. Keiser, Jr., a guard, to be effective at the close of business on September 30, 1941, be accepted; and (5) that Richard H. Westlake be appointed as a guard in the Building Operations and Maintenance Section of the Secretary's Office on a temporary basis for an indefinite period with salary at the rate of \$1,380 per annum, effective as of the date upon which he enters upon

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the performance of his duties after having passed satisfactorily the usual physical examination, with the understanding that if his work is satisfactory during the next six months, a further recommendation will be submitted asking that his salary be increased to \$1,500 per annum.

Approved unanimously.

Memorandum dated September 3, 1941, from Mr. Parry, Chief of the Division of Security Loans, recommending that Miss Alice Lutz be appointed as a stenographer in the Division of Security Loans, with salary at the rate of \$1,680 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed satisfactorily the usual physical examination.

Approved unanimously.

Telegram to the Presidents of all of the Federal Reserve Banks reading as follows:

"Reg. W-40. The Board has been asked to distinguish between 'Heating stoves and space heaters designed for household use' and 'Household furnaces'. For purposes of Regulation W, the heat generating unit is a heating stove or space heater when it is designed to heat directly the space in which it is located; the heat generating unit is a furnace when it is designed for the transmission of heat by means of piping or ducts to the space which is to be heated. If a unit is designed to heat directly the room in which it is located and other rooms by piping it is to be classified as a furnace."

Approved unanimously.

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Telegram to the Presidents of all of the Federal Reserve Banks reading as follows:

"Reg. W-41. The classification 'Heating stoves and space heaters designed for household use' includes gas-fired floor furnaces even though they are permanently built into the floor. This classification also includes small portable electric heaters."

Approved unanimously.

Telegram to the Presidents of all of the Federal Reserve Banks reading as follows:

"Reg. W-42. The classification 'mechanical refrigerators' does not include mechanically refrigerated cabinets specifically designed for the storage of ice-cream or other food products offered for sale."

Approved unanimously.

Telegram to Mr. Dillard, Vice President of the Federal Reserve Bank of Chicago, regarding a loan to a farmer, reading as follows:

"Note repayable in one payment is not subject to Regulation irrespective of security. Section 2(c).  
"Second question evidently refers to W-15 and section 5(c)(3). Consideration is being given to possible amendment to avoid hardship. Would be glad to receive any suggestions you may have in this connection."

Approved unanimously.

Letter to Mr. Bell, Under Secretary of the Treasury, reading as follows:

"There is transmitted herewith for your consideration a letter dated September 5, 1941, from Mr. Rouse, Vice President of the Federal Reserve Bank of New York, requesting, on behalf of the New York State Committee



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"of the Treasury's Defense Savings staff, certain data with respect to sales of Defense Savings Bonds and Stamps.

"The Board feels that it is desirable to have complete information regarding sales of Defense Savings Bonds and Stamps made available and hopes that the Treasury is planning to compile the data referred to by Mr. Rouse by States for the country as a whole for the period May 1 to August 31, 1941, and thereafter currently by months. In this connection, the Board will be glad to publish in the Federal Reserve Bulletin from time to time statistics made public by the Treasury regarding sales of Defense Savings Bonds and Stamps and will undertake to furnish State Administrators and such members of the State committees as the Defense Savings Staff may designate, copies of each issue of the Bulletin.

"If the Treasury feels that certain of the data requested should not be made public immediately following its compilation, it is hoped that arrangements can be made to furnish the information promptly to the State organizations of the Defense Savings Staff, the liaison officers at the Federal Reserve Banks who are cooperating with them, and the Board of Governors, for their confidential use in furthering the sale of Defense Savings obligations.

"The Board will appreciate advice as to the Treasury's reaction to these proposals."

Approved unanimously.

Memorandum dated September 4, 1941, from Mr. Parry, Chief of the Division of Security Loans, recommending that \$150 be added to the item of Stationery and Supplies in the 1941 non-personal budget of the Division of Security Loans.

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morris  
Secretary.

Approved:

Donald T. Faxon  
Vice Chairman.