

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, September 10, 1941, at 4:30 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, Mr. Goldenweiser, and Mr. Sproul, President of the Federal Reserve Bank of New York, met this morning with Messrs. Bell, White, Haas, and Murphy, of the Treasury staff, and Messrs. Viner and Stewart, consultants of the Secretary of the Treasury, and that this afternoon the same group met with Secretary Morgenthau. He said that as a result of the discussion at the morning conference a report on monetary controls required for the emergency had been agreed upon for submission to the Secretary of the Treasury and to the Board and at the meeting with the Secretary in the afternoon Secretary Morgenthau, having read the report, stated that any decisions on the matter should be reached before the end of the month and that his mind was entirely open except that he felt that if reserve requirements were to be raised by the Board under its existing authority it should be done in one step and that announcement should be made not less than 30 days prior to the date on which the increase would take

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effect. He also agreed, Mr. Ransom said, that there was no reason why the whole matter should not be explored by members of the staffs of the Board of Governors and the Treasury.

The report referred to by Mr. Ransom, which was in the following form, was then read:

"In making specific recommendations on monetary and credit controls to be undertaken at this time, the group wishes to make it clear that it views these measures as a part of the Government's broad anti-inflation program, which includes increased taxation, encouragement of Treasury financing out of savings, as well as direct price controls, priorities, and other policies.

"1. Control of consumer credit.

"(a) Stricter regulation

"Among the principal purposes of regulation of consumer credit are the diminution of the pressure of consumer demand on durable goods that require defense materials and the dampening of an inflationary rise in prices. The present regulation represents the first step in this untried field of economic control and is admittedly liberal. This group recommends that the list of articles covered by the regulation should be constantly under review with respect to both extension and contraction, and that the terms of credit should be tightened, whenever in the opinion of the Board of Governors and its consultative committee such action would promote the desired objectives and would be administratively feasible.

"(b) Housing

"Housing is expressly exempted from the control of consumer credit set up under the Executive Order. This group believes that housing credit, whether extended or sponsored by governmental or private agencies, should also be subject to regulation. The group recognizes that in establishing controls in this field, it may be necessary to follow highly selective policies in order to permit the erection of low cost housing to meet urgent needs. The group recommends that immediate steps be taken by the credit authorities to explore this matter with the Federal Loan Administration and other agencies concerned with housing.

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"(c) Rural electrification

"The group recommends that the field of rural electrification be explored to determine whether it should be subject to control in whole or in part, and whether existing promotional activities of the Federal Government in this field should be curtailed or eliminated.

"2. Capital expenditures and issues

"This matter has been referred to a subcommittee, representing the Board of Governors and the Treasury, which will submit a report.

"3. Bank loans - other than for defense purposes

"This subject is under consideration by a subcommittee, consisting of a representative from the Treasury (Comptroller of the Currency) the Board of Governors, and the Federal Deposit Insurance Corporation.

"4. Control of Bank Credit

"It is the consensus of the group that the problem of reserve requirements should be considered in conjunction with the question of what additional powers should be requested to control banking operations. It is agreed that steps should be taken to retard inflation through restraint on bank credit expansion, but these steps must not interfere with the Treasury's ability to finance defense at as low rates as can be maintained without danger to the economy. The group believes that the following interdependent steps should be taken and that an agreed-upon announcement of policy should be made prior to the announcement of any major Treasury financing.

"It is clearly agreed by the group that all four of the proposals listed below are to be considered and treated as integral parts of one whole, that agreement rests upon the acceptance of all four proposals prior to the next long-term Treasury financing; and that no action be taken in the interim with respect to any of the four unless there is agreement on all of them. The proposals are:

- (a) That reserve requirements be increased to the full extent permitted by present law;
- (b) That legislation be requested by the Administration for new powers over the volume of bank credit, and that the form of such powers be agreed upon by the Board of Governors and the Treasury;



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- "(c) That such additional selective credit controls as the Treasury and the Board of Governors agree are necessary and practicable as further steps to counteract inflation be recommended or adopted;
- (d) That the Board of Governors and the Treasury both feel that the appropriate procedure with respect to the Government Security Market is that a pattern of interest rates deemed desirable should be determined from time to time and that when determined the monetary authorities shall support such pattern with such measures as may be necessary, including open market operations by the Federal Reserve System.

"Any question of publicity with respect to the policy adopted under (d) shall be a matter for special determination by the two groups."

Mr. Ransom stated that the effect of the report was to present to the Board and the Secretary of the Treasury the question whether representatives of the Board and the Treasury should be requested to make a study of the matters covered by the report for the purpose of agreeing upon the details of a program, that it involved no commitment on the part of the Board, but that, having participated in the writing of the report, he felt that with respect to paragraphs 4(a), 4(b), 4(c), and 4(d), he was committed, until the announcement of the next major Treasury financing operation, to the action proposed in these paragraphs. He made the further statement that Mr. Sproul commented during the conferences at the Treasury that participation by the Federal Open Market Committee appeared to be an essential part of any over-all program that might be adopted and that Mr. Sproul was advised how the

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discussions between representatives of the Board and the Treasury had developed and that the Board and the Treasury would be glad to have a representative of the Federal Open Market Committee participate at any further conferences that might be held on the matter.

Mr. Ransom also said that, in his opinion, time was of the essence and that the Board should reach a decision promptly on the question whether it should instruct Mr. Goldenweiser and other members of the Board's staff to proceed with representatives of the Treasury on the joint study of the problems presented by the report for the purpose of determining whether the details of a program could be agreed upon.

Reference was then made to reports submitted by subcommittees appointed during the conferences at the Treasury on non-defense bank loans and the regulation of capital expenditures and capital issues, and it was stated that copies of these reports would be made and furnished to the members of the Board in due course, together with copies of the report set forth above. Copies of the reports have been placed in the files.

In the discussion which ensued, Mr. Ransom suggested that in the event the Board should request members of its staff to participate in developing the details of a program, it should be understood that the study should not be based on the premise that the "ceiling plan" for increasing required reserves was the only solution for the problem of excess reserves, but that all probable solutions should be considered,

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and that, if a conclusion were reached that a certain plan was preferable, the advantages and disadvantages of that plan as well as other feasible plans should be stated.

Mr. Goldenweiser raised the question whether the best procedure would be for the representatives of the Board and the Treasury to work together, or whether the two groups should first work separately to determine their respective views and then meet together for the purpose of resolving any differences.

Mr. Ransom emphasized that it was agreed during the conferences at the Treasury that any action taken should be taken promptly and not later than September 30 and that if action were going to be taken by the Board to increase reserve requirements it should be during the present period when, because of the large volume of sales of defense savings bonds and tax notes, the Treasury was out of the market for long term funds.

At the conclusion of the discussion, Mr. Szymczak moved that Mr. Goldenweiser, together with Mr. Williams, Associate Economist of the Federal Open Market Committee, and such members of the Board's staff as Mr. Goldenweiser might select, be requested to work with members of the Treasury staff in the development of the details of a program that would be acceptable to the Board and the Secretary of the Treasury, it being understood that the question raised by Mr. Goldenweiser with respect to the method of procedure would be left to him



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for determination in consultation with Under Secretary of the Treasury Bell.

This motion was put by the chair and carried unanimously.

In a subsequent discussion, Mr. Ransom suggested that Mr. Clayton be added to the staff committee contemplated by Mr. Szymczak's motion in order that Mr. Clayton might keep Chairman Eccles advised of developments.

This suggestion was agreed to unanimously.

At this point Mr. Sproul, President of the Federal Reserve Bank of New York joined the meeting and Mr. Ransom advised him of the action that had been taken by the Board, particularly with respect to the inclusion of Mr. Williams as a member of the staff group to work out the details of a program.

Mr. Ransom then stated that the circumstances in which the conferences with the Treasury developed were substantially as follows: Some time ago a member of the Treasury staff asked if Mr. Murphy could come over to the Board's offices for the purpose of ascertaining the views of its staff with respect to the problem of excess reserves. Mr. Murphy, Assistant Director of the Division of Research and Statistics, came over and after the discussion with him, it was felt that the matter should be reviewed with the Secretary of the Treasury, whereupon arrangements were made for a conference which took place at the Treasury and at which there were present, in addition to the Secretary and Under Secretary Bell, several members of the Treasury staff, and

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Messrs. Jacob Viner, Walter W. Stewart, and Lauchlin Currie. At that time Secretary Morgenthau made it clear that he would like to have a full statement of the Board's views and that the Treasury would be glad to consider the whole matter, and, accordingly, arrangements were made for discussions by representatives of the Board and the Treasury. Several such conferences were held which culminated in the two conferences at the Treasury yesterday.

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

Letter to the Presidents of all Federal Reserve Banks transmitting forms for use in connection with the next call for condition reports of State member banks and their affiliates.

Approved unanimously.

Memorandum dated September 4, 1941, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending, in accordance with the policy adopted by the Board on July 7, 1939, with respect to employees attending the Littauer School of Harvard University, that Haskell P. Wald, a junior economist in the Division of Research and Statistics, be granted leave of absence without pay from October 3, 1941, to June 7, 1942, inclusive, for the purpose of attending the Littauer School of Harvard University as a fellow. The memorandum also recommended that payments of the Board and Mr. Wald



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to the Retirement System in his behalf be discontinued during the period of his leave without pay.

Approved unanimously.

Memorandum dated September 5, 1941, from Mr. Wyatt, General Counsel, recommending that the salary of Mrs. Frances C. Cashell, stenographer in the Office of General Counsel, be increased from \$1,560 to \$1,680 per annum, effective as of October 1, 1941.

Approved unanimously.

Memorandum dated September 8, 1941, from Mr. Wyatt, General Counsel, referring to the action taken by the Board on August 22, 1941, in granting military leave to Walter E. Paul, a clerk in the Office of General Counsel. The memorandum stated that since that time, Mr. Paul has been notified that he would not be called for duty until some time in October, or possibly later, that he desired to remain in the Board's service until he actually reports for duty and that it was recommended that the action previously taken by the Board be amended so that Mr. Paul's military leave will commence when he actually reported for duty.

Approved unanimously.

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

"In accordance with the request contained in your letter of September 5, the Board approves the appointments of Joseph Cincotti, Miles R. Ellison, and Frank

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"S. McGee as assistant examiners for the Federal Reserve Bank of New York. Please advise us of the effective dates.

"The Board also approves the designations of Raymond L. Mitch, Leonard M. Shayne, and John H. Vier as special assistant examiners, with the understanding, of course, that they will not be transferred permanently to examination work without the Board's prior approval."

Approved unanimously.

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

"Receipt is acknowledged of your letter of September 6, 1941, referring further to the matter of exchange visits of staff members between your Bank and foreign central banks, and outlining definite proposals authorized by your directors for the exchange of men with the Banco Central de la Republica Argentina.

"It is understood that you contemplate sending to Argentina Mr. O. Ernest Moore, Chief of your Foreign Research Division, for an over-all period of approximately three months, and Mr. Thomas Roche, of your Foreign Exchange Division for an over-all period of perhaps four months. It is understood further that your Bank will continue to pay their salaries at the annual rates of \$4,800 and \$2,300, respectively, also pay the cost of round trip transportation amounting to from \$1,000 to \$1,200 per man depending upon the form of transportation used, and, in addition, pay each man a per diem allowance of \$8.00 for each day actually spent in Buenos Aires.

"These proposals meet with the approval of the Board and you are authorized to proceed with the necessary arrangements. It is assumed that you will advise the Board regarding the final arrangements when they have been concluded and report in due course on the outcome of the visits. It is noted in this connection that you have had indications that other Latin American central banks would welcome such visits but that it is your intention to await the results of the visits to Argentina before committing yourself to similar exchange visits in the future."

Approved unanimously.

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Letter to Mr. Hitt, First Vice President of the Federal Reserve Bank of St. Louis, reading as follows:

"In accordance with the request contained in your letter of September 3, the Board approves the appointment of William R. Mueller as an assistant examiner for the Federal Reserve Bank of St. Louis. Please advise us of the effective date. The Board approves also the designation of Orville H. Bleckman as a special assistant examiner in order that he may lend clerical assistance to your regular examiners, such approval being with the understanding that he will not be transferred permanently to examination work without the Board's prior approval.

"It has been noted that Mr. Mueller is indebted to a State member bank in St. Louis, but it was indicated that arrangements could be made to transfer the indebtedness elsewhere, and it will be expected that that will be done in order to bring the matter into conformity with the Board's policy on this subject as outlined in its letter X-7638 dated October 14, 1933 (Loose-leaf Service #9180)."

Approved unanimously.

Letter to the board of directors of "The Capon Valley Bank", Wardensville, West Virginia, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Richmond.

Approved unanimously, together with a letter to Mr. Leach, President of the Federal Reserve Bank of Richmond, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of 'The Capon Valley Bank',



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"Wardensville, West Virginia, for membership in the Federal Reserve System, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the Board of Directors of the institution. Two copies of such letter are also enclosed, one of which is for your files and the other of which you are requested to forward to the Commissioner of Banking for the State of West Virginia for his information.

"It is assumed that you will follow to a conclusion the matter of the bank's reducing to within statutory limits the excessive balance with a nonmember bank."

Letter to Mr. Curtiss, Chairman of the Federal Reserve Bank of Boston, reading as follows:

"Referring to your letter of September 4, 1941, the Board does not contemplate making any changes in the classification of member banks in your District for electoral purposes, and accordingly the classification which has been in effect since August 1935 will apply for the forthcoming regular election of Class A and Class B directors of member banks in Group 1.

"It is noted that you know of no reason at this time for a reclassification of member banks for electoral purposes."

Approved unanimously.

Letter to Mr. Woolley, Vice President of the Federal Reserve Bank of Kansas City, reading as follows:

"Reference is made to your letter of September 4, 1941, advising that the board of directors of the Stock Growers' Bank of Wheatland, Wheatland, Wyoming, has authorized a remodeling program at a cost of approximately \$7,000, of which \$1,000 is to be added to the bank premises account, \$4,000 to furniture and fixtures account, and the remainder to be charged to expense.

"In view of your recommendation and the information submitted, the Board will interpose no objection to the transaction under the condition of membership numbered 8."

Approved unanimously.

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Letter to Mr. Evans, Vice President of the Federal Reserve Bank of Dallas, reading as follows:

"This refers to your letter of August 22, 1941 with enclosure, regarding the question whether a note given to the First State Bank of Taft, Texas which was signed by the President's wife and also by the President 'for legal purposes only' should be considered a violation of the provisions of section 22(g) of the Federal Reserve Act.

"The attorney for the bank has advised that there is no personal liability upon the President in the circumstances of this case, and your General Counsel has advised that this opinion is well supported by decisions of Texas courts provided the proceeds of the note were used solely for the wife's benefit (which you state seems to be the case) and the signature of the husband was attached in good faith solely for the purpose of making the note enforceable against the wife. It is also noted that you are satisfied, in view of your Counsel's opinion, that the transaction involved no violation of section 22(g) of the Federal Reserve Act.

"It is not entirely clear whether under the Texas law it would be possible for the holder of the note to enforce it against the community property of the husband and wife. However, on the basis of the information presented and the opinion of your Counsel, it appears that the President is not personally bound on the note and we feel that it is not necessary to take any further steps in connection with the matter."

Approved unanimously.

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

"Reg. W-45. The phrase 'principal amount' in section 5(b) of Regulation W means the principal amount lent to the obligor, excluding any interest, finance charges, service charges and insurance costs, whether or not deducted in advance.

"For example, if a borrower receives \$975 but signs a note on a discount basis for \$1,020, the loan is in a

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"principal amount' of less than \$1,000 within the meaning of section 5(b)."

Approved unanimously.

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

"Reg. W-46. The classification 'musical instruments composed principally of metals' does not in general include violins, guitars, mandolins, accordions, clarinets, oboes or bassoons. Certain models of some of these instruments, however, have metal bodies or tubes, in which case they are included in the classification."

Approved unanimously.

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

"Reg. W-47. Questions have been received as to whether an extension of credit which, upon its face, is repayable in only one scheduled payment is an extension of instalment credit if, at its maturity, a partial payment is made and the balance is renewed.

"Answers to such questions depend upon whether or not there are any agreements or understandings between the parties at the time the extension of credit is made. For example, if at the time a particular extension of credit is made the Registrant and obligor have an understanding that the obligor will be required to make only a partial payment at maturity and that, upon making such partial payment, the balance will be renewed, the extension of credit is an extension of instalment credit notwithstanding the fact that the obligation, upon its face, provides for repayment in only one scheduled payment."

Approved unanimously.

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



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"Reg. W-48. An inquiry has been received regarding the applicability of section 6(a) of Regulation W to an extension of credit made by a builder covering the cost of building a home and secured by a first lien on the real estate upon which the home is to be constructed.

"The general principle applicable to these cases is that the mortgage and the contract or contracts for the extension of credit and the construction may be regarded as parts of a single transaction and that the facts existing on the date of completion may be used in determining the application of the regulation. Consequently, the Board is of the opinion that the extension of credit may be regarded as secured by a first lien on improved real estate within the meaning of section 6(a). The general principle is similar to that discussed in the second paragraph of W-43."

Approved unanimously.

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

"Reg. W-49. The Board has received a question under Regulation W which may be stated as follows:

'If an extension of credit which was originally made as a 3 months credit conforming to section 6(f) is renewed or revised, must it be limited to a maturity of 3 months from the date of the renewal or revision, or may it have a maturity of as much as 18 months from the date of the renewal or revision as in the case of a credit which was not originally under section 6(f)? If the renewal or revision of such a credit occurs on or after November 1, does it require a statement of necessity as specified in section 8(a)?'

"1. A renewal or revision of a 6(f) credit is not limited to a maturity of three months from the date of the renewal or revision, and is limited only to a maximum maturity of 18 months from the date of the renewal or revision as in the case of renewals or revisions of other credits under the regulation. If the renewal or revision

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"occurs on or after November 1, and alters the terms of repayment to terms which would not have complied with section 6(f) in the first instance, the renewal or revision may not be made unless a statement of necessity is accepted in good faith as specified in section 8(a).

"2. The preceding paragraph would not apply in the case of the first renewal or revision on or after September 1 of a credit which was originally extended before September 1. As indicated in W-19 and W-28 in discussing other pre-September credits, any pre-September credit may be renewed or revised once without the statement of necessity and on any terms which the Registrant would have granted in good faith in the absence of the regulation.

"3. It is important to note, as pointed out in W-19, that section 8(g) prohibits any extension of instalment credit in connection with which there is any evasive side agreement for the subsequent renewing or revising of the credit. Any renewal or revision beyond the period originally permissible for the credit must be the bona fide result of some development coming after the making of the original extension of credit. Unless it is such a bona fide result of a subsequent development, it is prohibited by section 8(g)."

Approved unanimously.

Telegram to Mr. Day, President of the Federal Reserve Bank of San Francisco, reading as follows:

"The classification 'plumbing and sanitary fixtures for household use' includes water softeners for household installation. We are at present engaged in determining the technical factors which distinguish a water softener for household installation from water softeners for other than household use.

Approved unanimously.

Memorandum dated September 8, 1941, from Mr. Parry, Chief of the Division of Security Loans, recommending, for the reasons stated in the memorandum, that \$150 be added to the item of Furniture and

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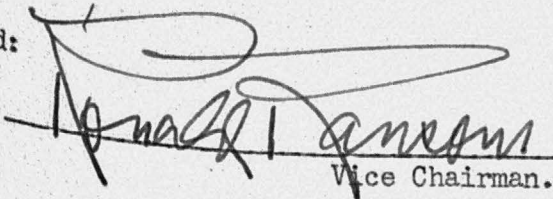
Equipment in the 1941 non-personal budget of the Division of Security  
Loans.

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie  
Secretary.

Approved:

  
Vice Chairman.