A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, September 18, 1941, at 3:00 p.m.

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

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, at the invitation of the Secretary of the Treasury, he attended a luncheon meeting at the Treasury today, at which there were present, in addition to Secretary Morgenthau, Donald Nelson, Executive Director of the Supply Priorities and Allocations Board; Mr. Galbraith representing the Office of Price Administration in the absence of Mr. Henderson; Under Secretary of the Treasury Bell; Messrs. Haas and White of the Treasury staff; and Jacob Viner, Special Adviser to the Secretary of the Treasury. He said that Secretary Morgenthau stated at the beginning of the meeting that the Treasury stood in an advisory position in relation to several agencies which seemed to have the same objective of getting the defense job done and at the same time preventing inflation so far as possible, and that he wanted to explore the question of where the Treasury stood in that situation. He also stated, Mr. Ransom said, that Messrs. Nelson and Bell had been discussing the possible effects on the volume of credit and the need for credit of a broad application of priorities, that Mr. Nelson had taken the position that within a short time priorities would be working so effectively and so completely that there would be no possibility of credit expansion for the reason that no one would have occasion to borrow for other than defense production, and that this raised the question of the relationship of priorities and price controls to the question of possible actions that had been under consideration for the purpose of reducing the present volume of excess reserves.

Mr. Ransom made the further statement that Mr. Nelson expressed the opinion during the meeting that there might be a reasonably good demand for bank credit in connection with the production of defense materials, but that there could be no substantial demand for credit outside of that field because of the reduction which would result from the application of priorities. In response to a suggestion of a possible lag in the effective institution of priorities, Mr. Nelson stated that a lag of more than a week and a half would be entirely inexcusable and that there could be little or no housing activity not related to defense as the labor was needed on defense jobs, and he indicated the feeling that in these circumstances there was no need for action to curb the volume of credit, either by the use of over-all controls, selective controls, or otherwise.

During the discussion, Mr. Ransom said, Secretary Morgenthau

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stated to the members of his staff that he wanted a recommendation from them not later than Monday, September 22, with respect to the actions that should be taken in the field of bank reserves and selective credit controls, and that he would like to have the same group that attended the luncheon meeting today and, in addition, Mr. Henderson, meet at the Treasury again on Wednesday, September 24, for a discussion of the recommendations of members of the Treasury's staff and representatives of the Board of Governors so that Messrs. Nelson and Henderson could be fully informed of the manner in which the problem of credit controls was related to prices and priorities. He added that there was also agreement with a suggestion made by Mr. Bell that representatives from the Office of Price Administration and the Supply Priorities and Allocations Board meet with Mr. Goldenweiser and a member of the Treasury staff for the purpose of informing the representatives in greater detail as to what had been considered in the recent discussions between representatives of the Board and the Treasury.

Mr. Ransom concluded his statement with the comment that he gained the definite impression from the meeting that the Treasury was now inclined to favor action in the field of priorities and prices rather than the field of credit control.

At this point Mr. Williams, Vice President of the Federal Reserve Bank of New York joined the meeting and was informed of what had occurred at the meeting at the Treasury.

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In the discussion that ensued, Mr. Clayton stated that he had talked to Chairman Eccles over the telephone last night and that the Chairman had stated that he favored the two amendments to existing law, referred to by Mr. Goldenweiser at the meeting yesterday, with respect to (1) counting vault cash as reserves, and (2) higher reserves on inter-bank balances, but that he was still of the opinion that the ceiling plan should not be suggested by the Board as an alternative for the present percentage basis for determining reserve requirements for the reason that at present there was a great deal of banker and other support for the present basis and if a new basis were suggested there would be serious danger of loss of that support. The Chairman favored, Mr. Clayton stated, a program under which reserve requirements would be increased to the limit of existing authority, and a general statement would be made to the effect that additional authority over reserves would be requested which would give time for further study as to the form the authority should take, it being contemplated that the policy adopted under the new authority should be one of definite restriction of credit expansion with the understanding that, if the reduction in excess reserves that might be determined upon to carry out that policy were found to be too great, the situation would be eased by means of open market operations.

There was a discussion of the possible effects on the volume of activity and employment of a broad application of priorities and price controls and what the situation would be if excess reserves were increased to the limit of the present authority without reference to any further actions that might be taken.

In response to an inquiry from Mr. Goldenweiser as to the effect of the meeting at the Treasury today on the discussions which were being held with Treasury representatives, it was agreed unanimously that, pending clarification of the situation, no purpose would be served in continuing the discussions, that Mr. Goldenweiser should complete the memorandum which he had in preparation for use as a basis for further discussions, but that he should withhold submitting it to the representatives of the Treasury for the time being.

The suggestion was made that some progress might be made in clarifying the situation if someone from the Board would confer with Under Secretary of the Treasury Bell, and it was agreed unanimously that Mr. Ransom should confer with Mr. Bell for the purpose of determining the procedure to be followed from this point.

At this point Messrs. Thurston, Goldenweiser, and Williams 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 September 17, 1941, were approved unanimously.

Memorandum dated September 16, 1941, from Mr. Nelson, Assistant Secretary, submitting the resignation of Julia McRobie as a charwoman in the Building Operations and Maintenance Section of the Secretary's Office, to become effective as of the close of business on September 30, 1941, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

Memorandum dated September 16, 1941, from Mr. Goldenweiser, Director of the Division of Research and Statistics, submitting the resignation of Mrs. Franc S. Valentine as a clerk-stenographer in the Division, to become effective as of the close of business on September 30, 1941, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

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

"Reg. W-65. Regulation W does not require a Registrant to obtain down payment or otherwise to increase amount received through previous payments when a three months credit conforming to section 6(f) is renewed or revised in good faith as described in W-49."

Approved unanimously.

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

"Reg. W-66. Pressure cookers are not included in any of the classifications of listed articles."

Approved unanimously.

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

"Reg. W-67. The classification 'mechanical refrigerators' does not include an electrically operated portable unit for cooling and dispensing drinking water."

Approved unanimously.

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

"Reg. W-68. An inquiry has been received regarding an instalment sale contract of a musical instrument which states a single sum in payment of purchase price of instrument and lessons in playing thereof and carrying charge on deferred balance. In such case must amount allocable to lessons be regarded as being for services rendered in connection with acquisition of article under section 4(f)(2)?

"Any sum actually allocated to music lessons is of course not to be regarded as the cost of services rendered in connection with acquisition of musical instruments."

Approved unanimously.

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

"Reg. W-69. Obligor who has received credit conforming to section 6(j) (Regulation W) and who subsequently receives instalment sale credit on listed article priced at $100 is not required to make down payment on original purchase. The 6(j) credit remains a separate transaction."

Approved unanimously.

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

"Reg. W-70. Question has been asked whether Section 9(b) of Regulation W permits first instalment to fall due 45 days after date of contract or note, assuming such date is date of sale, even though the result is that the obligation may show on its face that credit was extended for 18-1/2 months. Answer is in the affirmative."

Approved unanimously.

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

"Reg. W-71. A question which may be stated as follows has been received under Regulation W:

A Registrant sells a $100 radio, receiving in trade or exchange a used radio which he has previously sold to the customer and on which the customer owes the Registrant an unpaid balance. The Registrant allows the customer $15 for his equity. What is the basis price, the maximum credit value and the down-payment requirement of the new radio? How should the maximum maturity be calculated for such a transaction?

"Under Part 2 of the Supplement, the basis price of the new radio would be $85 ($100 minus the $15 equity traded in by the customer). Hence the maximum credit value would be $68 (80% of $85) and the required down-payment would be $17, which would be in addition to the $15 allowance for the customer's equity. The maximum maturity would be 18 months from the date of the sale of the $100 radio, with the usual option under section 9(b) of making the 15-day adjustment permitted by that section for calculating the maximum maturity."

Approved unanimously.

Telegram to Mr. Hodge, Assistant Counsel of the Federal Reserve Bank of Chicago, stating that the Board agrees with the opinion expressed in his wire of September 16, 1941, that in the absence of a provision in a collateral trust agreement under which a trustee holds instalment sales paper, the trustee has no responsibility under Regulation W to see that the underlying collateral complies with provisions of Regulation.

Approved unanimously.

Telegram to Mr. Crause, Director of the Instalment Credit Division of the Federal Reserve Bank of St. Louis, reading as follows:

"Your wire September 15 re two notes used in lieu of former 24 months practice. On basis of facts stated in your wire Board not only agrees that if there was subsequent renewal relevant circumstances would indicate intent to go beyond 18 months period, but goes further and is of the opinion that a single transaction such as the purchase of a listed article may not be divided into instalment and noninstalment portions in the manner Registrant proposes in your case. Hence Board is of opinion that the proposed transaction would violate regulation (Regulation W) because of 19 month maturity even if not renewed."

Approved unanimously.

Telegram to Mr. Crause, Director of the Instalment Credit Division of the Federal Reserve Bank of St. Louis, reading as follows:

"Your wire September 16 re deferred balance and over-all deferred balance. Latter term as used in section 6(b) does not include finance charges but merely refers to the deferred balance that includes both listed and unlisted articles. Finance charges are excluded in applying Group E or in applying section 6(b) or 6(j)."

Approved unanimously.

Telegram to Mr. Swanson, Vice President of the Federal Reserve Bank of Minneapolis, reading as follows:

"Your wires September 16 and 17. Section 6(d) (Regulation W) applies to bona fide medical, hospital, dental or funeral expenses even though previously incurred."

Approved unanimously.

Thereupon the meeting adjourned.

S. R. Carpenter
Assistant Secretary.

Approved: Ronald Ransom
Vice Chairman.

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