

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, December 30, 1941, at 10 a.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. Wyatt, General Counsel
Mr. Goldenweiser, Director of the Division of Research and Statistics

Mr. Ransom referred to a meeting at the Treasury recently which was attended by representatives of the Board of Governors, and at which the suggestion was made by members of the Treasury staff that in his forthcoming budget message to Congress the President make a full statement regarding the policy of the Government with respect to financing the war including a statement as to the rates at which the financing would be done. Mr. Ransom said that Secretary Morgenthau took the position that a better procedure would be for the President's message on this point to be in general language, whereupon the suggestion was offered that if such statement were made it be supplemented by a joint statement by the Treasury and the Board of Governors, and that Secretary Morgenthau suggested that a draft of statement be prepared for consideration by the Treasury and the Board. Mr. Ransom added that he and Mr. Goldenweiser attended a meeting at the Treasury yesterday afternoon at which Messrs. Bell, Haas, Murphy, and Morris of the Treasury were also present, and that a draft of statement

12/30/41

-2-

prepared in the Treasury in accordance with the suggestion above referred to was discussed and revised to read as follows with the understanding that it would be submitted to the Secretary of the Treasury and to the members of the Board of Governors for consideration:

"JOINT STATEMENT OF THE SECRETARY OF THE TREASURY
AND THE BOARD OF GOVERNORS, FEDERAL RESERVE SYSTEM

"The President's Budget Message, submitted to Congress on January __, 1942, after discussing the necessity for additional taxes, the necessity for allocating and controlling all production for defense purposes, and the necessity for curtailing production and consumption of many consumer's goods, made the following statement with respect to financing the war program:

'With adequate funds available for investment in Government securities and with the effective operation of a program of allocations and rationing we can finance our war effort without danger of disruptive inflation and without departing from our low interest rate policy.'

"The Secretary of the Treasury and Board of Governors of the Federal Reserve System pledge all their power and authority to carry out the policy thus enunciated by the President.

"We should clearly realize that the total amount available to be borrowed is no greater at a high rate than at a low one. It is determined only by our willingness to restrict our expenditures for purposes other than the war effort. There is no need that our borrowing to finance the deficits incurred during this period be conducted at a high rate of interest.

"Our longest bond issue sold in the week prior to the attack on Pearl Harbor pays 2-1/2 per cent. We do not intend to pay a higher rate for the financing of this war except for securities especially designed for small savings, like our present Series E Savings Bonds. Furthermore, we do not intend to let the present long-term securities outstanding in the market fall below par."

Mr. Ransom also said that he had discussed the draft of statement over the telephone with Chairman Eccles, who was in Utah, and

12/30/41

-3-

that the latter said that if it was felt that the statement should be released before his return to Washington on January 5, the final draft could be discussed with him over the telephone, and if it were determined that the budget message should not be submitted until January 5 or subsequent thereto and the release of the joint statement was deferred until that time or later, he would hope that there would be time to consider the statement following his return on the morning of January 5.

In the discussion which followed, question was raised whether the statement should be joined in by the Board or the Federal Open Market Committee and Mr. Ransom stated that it was his feeling, and he had so advised Mr. Bell, that the members of the executive committee of the Federal Open Market Committee should be advised of the statement before it was issued, but that he questioned whether it was necessary for the statement to be a joint one by the Treasury and the Federal Open Market Committee as that would require that the statement be cleared with the representative members of the Committee in addition to the members of the Board.

Mr. McKee suggested that it might be desirable to withhold any statement until it was possible to determine the reaction to the President's budget message when a joint statement could be issued in the light of the situation then existing.

There was unanimous agreement that if a statement were issued

12/30/41

-4-

it should be a statement in which the Treasury and the Board of Governors would join. In this connection Mr. Ransom said that the first two paragraphs of the draft of statement were subject to change so that they would be in accord with the President's statement in its final form.

Mr. McKee said that if an agreement could be reached with the Treasury to support the market on the basis of the present rate on long-term securities he would favor such a statement at the proper time, but that if such an agreement were not reached he would be opposed to the issuance of the statement at this time.

Mr. Draper called attention to the fact that the quoted sentence from the President's message might be interpreted as contemplating the allocation and rationing of credit rather than commodities and that a change should be made to make it clear that the reference was to the allocation and rationing of commodities. Mr. Ransom called Mr. Bell on the telephone and suggested that the sentence referred to by Mr. Draper be changed to refer to allocations and rationing of commodities, and Mr. Bell agreed that it would be well to write in whatever language was necessary to clarify the point.

With respect to the timing of the release of the joint statement, Mr. Ransom said that the Treasury would like to issue it as nearly simultaneously with the President's message as possible for the reason that it might be necessary to reassure the market following the release of the budget message and because it would be necessary

12/30/41

-5-

shortly thereafter to announce the refunding of approximately \$1,100,000,000 of direct and guaranteed securities.

In the further discussion, consideration was given to a proposed substitute for the third paragraph of the draft of statement which had been prepared by Mr. Goldenweiser, but it was the consensus of the members present that the paragraph should be omitted from the statement altogether. Certain additional changes in the language of the last paragraph of the statement were also concurred in.

Following a reference to the discussions during recent months by representatives of the System and of the Treasury relating to the adoption of a program for financing the war and a pattern of rates at which the financing would be done, Mr. Ransom stated that he was inclined to the opinion that it would be possible to work out such a program in connection with the issuance of the proposed statement, that he had discussed this point with Chairman Eccles, and that the latter felt that the question of the program to be decided upon could be deferred until his return.

It was suggested that the draft of statement be rewritten in alternative forms, one omitting the third paragraph altogether, the other including Mr. Goldenweiser's substitute for the third paragraph, and both including the other changes concurred in at this meeting. While the revised drafts were being written, Mr. Szymczak presented

12/30/41

-6-

a letter dated December 27, 1941 from Mrs. Charles S. Hamlin stating that Mr. Hamlin, a former member of the Board, had always intended to place his diaries in the Congressional Library, that she was anxious to fulfill his wishes, and that, since it seemed inadvisable at this time to attempt to have the plan carried out of using the diaries in connection with writing a history of the Federal Reserve System, she had consulted with several friends and officials of the Library of Congress and had arranged with the Chief of the Division of Manuscripts of the Library of Congress to accept the diaries as a gift to the Government. From the enclosure attached to the letter it appeared to be Mrs. Hamlin's intention that for a period of 10 years or until her death access to the diaries would not be granted to anyone, other than representatives of the Board of Governors, except with her written consent.

Mr. Morrill stated that recently when Mrs. Hamlin met with Messrs. Ransom and Szymczak for the purpose of discussing the disposition of the diaries, she recognized the fact that the Library of Congress in at least one instance in the past had not complied with the request of a donor that records be not released to the public for a stated period of time, that similar action might be taken in connection with Mr. Hamlin's diaries, and that since the diaries made numerous references to confidential business of the Board of Governors and to people who were still alive their publication or release would be

12/30/41

-7-

undesirable. In the light of this situation, Mr. Morrill said, Mrs. Hamlin inquired whether it would be possible to get a court order requiring the diaries to be kept inaccessible to the public for a stated period. Although it did not appear likely that a court order could be obtained in such circumstances, especially in view of the fact that Mrs. Hamlin stated that Mr. Hamlin's estate had been wound up, Mr. Morrill was asked by Mr. Ransom and Mr. Szymczak to have the question investigated. He reported that he had discussed it with Mr. Wyatt and that Mr. Wyatt and he had agreed that they knew of no way in which a court order of this kind could be obtained. However, Mr. Wyatt had offered the suggestion that, since Mr. Hamlin was a graduate of Harvard University and a citizen and resident of Massachusetts, Mrs. Hamlin might consider placing the diaries in safekeeping in the Library at Harvard University, especially as Mr. Hamlin had given some thought to this idea at one time before his death. The communication from Mrs. Hamlin referred to above arrived before there was an opportunity of presenting this suggestion to Mrs. Hamlin.

Mr. Ransom expressed the opinion that it might be possible in a further discussion with Mrs. Hamlin to obtain her consent to the retention of the diaries by the Board in safekeeping for the period of ten years referred to in her letter. In that connection, Mr. Morrill pointed out that the diaries are now being kept in the vault where the Board's original minutes are preserved.

12/30/41

-8-

At the conclusion of a discussion, it was agreed unanimously that Mr. Ransom would communicate with Mrs. Hamlin informally and say to her that the Board would be glad to undertake to hold the diaries in safekeeping for a period of 10 years with the understanding that they would be available to Mrs. Hamlin or to anyone whom she might designate for such use as she might determine, and that at the end of 10 years the Board would turn them over to the Library of Congress.

The discussion of the drafts of proposed joint statement by the Treasury and Board of Governors was resumed and certain further changes were suggested.

During this discussion Mr. Goldenweiser left the meeting.

Consideration was given particularly to the statement contained in the last sentence of the revised statement that the Treasury and the Board did not intend to let the present long term securities outstanding in the market fall below par, and Mr. Ransom outlined the reasons which led him to question whether that sentence should be included in the statement.

Mr. McKee said that before reaching a decision on the statement he would like to know more definitely what would be contained in the President's budget message and Mr. Ransom stated that possibly Mr. Bell would be in a position this afternoon to give the members of the Board that information.

Mr. Szymczak suggested that Mr. Ransom call Mr. Bell and ascertain whether he would be available to meet with the members of

12/30/41

-9-

the Board this afternoon. Thereupon, at 12:45 p.m., Mr. Ransom called Mr. Bell's office and upon being advised that he was not at his desk requested Mr. Bell's secretary to say to him that the members of the Board would like to meet with him sometime this afternoon after 2:30 p.m. either in the Board's offices or at the Treasury.

At this point Messrs. Thurston and Wyatt 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 December 24, 1941, from Mr. Nelson, Assistant Secretary, recommending that the hours for the charwomen in the Building Operation and Maintenance Section of the Secretary's Office be increased from 24 to 30 hours per week, effective January 1, 1942, with no change in their present rate of compensation of 50 cents per hour for the charwomen and 55 cents per hour for the assistant supervisor of charwomen.

Approved unanimously.

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

"The Board of Governors approves the changes in the personnel classification plan of your Bank as requested in your letter of December 19, 1941.

"The Board also approves payment of a salary to Mr. L. F. Mills at the rate of \$4,296 per annum, effective as of September 8, 1941, which amount is \$296 in excess of the maximum annual salary provided in the Bank's personnel classification plan for the position of Examiner. It is understood Mr. Mills is to be appointed as Chief Examiner, with salary at the rate of \$4,296 per annum."

Approved unanimously.

Letter to Mr. E. B. Stroud, First Vice President and General

12/30/41

-10-

Counsel of the Federal Reserve Bank of Dallas, reading as follows:

"This refers to your letter of December 20, 1941, relating to the purchase of certain typewriters by your bank from Royal Typewriter Company, Inc. and enclosing a copy of a letter of November 28, 1941, from Mr. D. S. Bliss, Deputy Commissioner of Internal Revenue, to Royal Typewriter Company, Inc. stating that sales to Federal Reserve Banks are not exempt from the Federal manufacturers' excise tax imposed by the Revenue Act of 1941 upon the sale of such machines.

"Mr. Bliss expresses the view that sales to Federal Reserve Banks are not exempted by the provision in section 3442(3) of the Internal Revenue Code that the tax in question shall not be imposed on the sale of any article 'for the exclusive use of the United States, any State, Territory of the United States, or any political subdivision of the foregoing, or the District of Columbia.' You do not question this conclusion but suggest that consideration was not given to the tax exemption granted to Federal Reserve Banks by the provisions of section 7 of the Federal Reserve Act.

"We understand that it is the established position of the Bureau of Internal Revenue that, despite the exemption to which you refer, sales of articles to Federal Reserve Banks are not exempt from excise taxes of the kind here in question because such taxes are imposed upon and payable by the sellers instead of the purchasers. This view was expressed in a letter dated July 28, 1932, from Mr. Ogden L. Mills, then Secretary of the Treasury, to Mr. Eugene Meyer, then Governor of the Federal Reserve Board, in which due recognition was given to the pertinent provisions of section 7 of the Federal Reserve Act (see letter X-7220 published in Federal Reserve Bulletin for August, 1932, at page 538). It has been reiterated from time to time in letters similar to that from Mr. Bliss to which you refer.

"In the circumstances, we do not feel that it would serve any purpose for us to discuss the matter further with the Bureau of Internal Revenue."

Approved unanimously.

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

12/30/41

-11-

"Notwithstanding Board's decision not to amend Regulation W to provide for extending time for registration beyond December 31, 1941, Board suggests that each Reserve Bank continue until further notice to accept Registration Statements and to issue Registration Certificates, dating Certificate as of date on which Registration Statement is received. No public notice to this effect, however, should be made. Would appreciate telegram next Saturday giving Bank's best estimate of number of delinquent Registrants for district with such classification thereof as may be available."

Approved unanimously.

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

"Federal Reserve Bank has asked whether the word 'not' should be inserted before 'sellers' in last clause of first sentence of W-119. Upon reexamination it appears that this clause is not clear. It was intended to mean that although agents and brokers are 'sellers', the credit which they extend is not 'instalment sale credit' as defined in section 2(d) because insurance is not a listed article."

Approved unanimously.

Letter to Mr. J. W. Kossin, Assistant Cashier of the Federal Reserve Bank of Cleveland, reading as follows:

"Receipt is acknowledged of your letter of November 21, 1941 enclosing a question and answer under Regulation W.

"The question is whether a lender making a loan, which he knows is for the purpose of retiring the borrower's indebtedness to another lender, may give the new loan the same maturity as the loan which is being retired, even though the maturity of the latter has been extended for an additional two years by the other lender acting under the provisions of section 8(a)(2) and has 21 months remaining to its maturity.

"You suggest that, in view of the provision of section 8(c) that loans to retire obligations held elsewhere are to be treated 'as if the obligation being retired were held by

12/30/41

-12-

"the Registrant", the new loan may have a maturity of 21 months. However, as indicated in the second paragraph of W-118, when a loan is made to retire an outstanding obligation, the terms of the outstanding obligation do not authorize a longer maturity than the 18 months generally applicable to instalment loan credit, even though such outstanding terms may sometimes require a shorter maturity.

"The Board is of the opinion that section 8(c) does not make section 8(a)(2), under which the two-year maturity was granted in the present case, applicable to the new loan. The significant feature of the latter provision is not only that the obligation must be in default, but that the extraordinary action authorized by the section must be 'for the Registrant's own protection'. The Registrant making a loan to take over the obligation -- assuming that the borrower is not otherwise indebted to him -- clearly would not be acting for his protection. Hence, section 8(a)(2) does not confer rights on the Registrant making the new loan in such a situation.

"This, of course, is different from section 8(d), which is available in the appropriate circumstances to either the original creditor or to a Registrant making a loan to retire the outstanding obligation. It is to be noted, however, that the maturity under 8(d) may not exceed 18 months from the date of the new obligation.

"In the present case, therefore, the Board is of the opinion that the loan to retire the outstanding obligation could not have the 21 months maturity remaining on the old obligation, although in the circumstances it could have a maturity of 18 months from the date of the new loan. Furthermore, as indicated above, even if the original obligation had less than 18 months remaining to maturity, the new loan could have an 18 months maturity if a Statement of Necessity were taken in accordance with section 8(d)."

Approved unanimously.

Letter to Mr. Paul C. Hodge, Assistant Counsel of the Federal Reserve Bank of Chicago, reading as follows:

"This is with reference to your letter of December 6, 1941, which mentions a number of inquiries as to the interpretation of sections 8(a), (b), and (c) of Regulation W.

12/30/41

-13-

"You also made certain suggestions as to the distribution of rulings with respect to these sections and enclosed a letter dated December 5, 1941 from Mr. Myron R. Bone, Executive Secretary of the American Industrial Bankers Association, commenting on the effect of Option 2 of section 8(b).

"There have already been issued or there are in process, rulings with respect to all but one of the questions mentioned in your letter. Some of the rulings will be in the form of numbered interpretations while others will be sent only to the Federal Reserve Banks. It was thought that several of the matters were of such importance that they should be given wide distribution. In general, however, it is agreed that the rulings should usually be in the form of 'S' letters to the Federal Reserve Banks. It is understood that Mr. Hodgson has already indicated the answer to the question which refers to Example No. 3 on page 16 of the Interpretation of Regulation W published by the American Association of Personal Finance Companies. A letter confirming the view of the Association has been prepared and will reach you shortly. It is believed that the answer to this question bears upon the comment made by Mr. Bone. If contracts for less than 18 months can be revised at the time of consolidation under Option 2, then there is no advantage in respect to the consolidation when the loan is made originally for 18 months rather than 12 months. In fact, just the opposite is the case.

"The one problem referred to in your letter which has not been taken care of by another ruling is that which asks whether section 8(b) can be availed of by a Registrant who is making a loan to retire a number of instalment obligations held elsewhere but is advancing no additional cash. This will confirm to you Mr. Dreibelbis' view expressed over the telephone to the effect that the Registrant may do so. While section 8(b) is worded in such a way that it seems to have contemplated that the borrower will be getting additional funds there is, nevertheless, a way in which it can be interpreted to cover the case you have presented. The Registrant could first make a loan to retire one of the outstanding obligations. This would then become the obligation held by the Registrant. He could then advance additional money to retire the other outstanding instalment credits. This would be an additional extension of credit which could then be consolidated with the obligation held by the Registrant. Since the transaction could be performed

12/30/41

-14-

"in two steps in any event, there would be no objection to the completion of the whole transaction at one time."

Approved unanimously.

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

"This is with further reference to your letter of November 29, 1941, asking about the application of Regulation W to credit sales of the 'Kooler-aire'.

"It is the opinion of the Board that this product is not included in any of the classes of listed articles referred to in the Supplement. This opinion is based on the fact that the 'Kooler-aire' does not have a refrigerating unit which is the characteristic feature of room unit air conditioners or home air conditioning systems. It is also based on the fact that this product is of the type which would rarely be used in homes."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morris
Secretary.

Approved:

Ignatius Swanson
Vice Chairman.