

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, April 27, 1942, at 11:00 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. McKee
Mr. Evans

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. Parry, Chief of the Division of Security Loans
Mr. Hodgson, Administrative Assistant to the Chief of the Division of Security Loans
Mr. Chase, Assistant Counsel
Mr. Roland I. Robinson, Associate Economist in the Division of Research and Statistics

ALSO PRESENT: Mr. Alfred H. Williams, President of the Federal Reserve Bank of Philadelphia
Mr. Paul C. Hodge, Assistant Counsel of the Federal Reserve Bank of Chicago
Mr. F. B. Hubachek, Consultant in the Consumer Credit Control Unit of the Office of Price Administration

Mr. Ransom said that he had asked that this meeting be held in order that he might inform the members of the Board with respect to the status of the proposed Amendment No. 4 to Regulation W. A copy of the regulation as it would be changed by the amendment was sent to each member of the Board under date of April 24, 1942. Mr.

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Ransom then made a statement substantially as follows:

The reason for amending the regulation at this time is that the action would be a part of a general program of the Government to fight inflation, and the Office of Price Administration feels that something along the lines of the proposed amendment is desirable. The amendment continues the general pattern of the present regulation principally for the reason that the Office of Price Administration objected to any plan which at this time would change the framework of the regulation. There is some difference of opinion whether this is the best course to pursue, and that is a matter which will have to be decided by the Board.

On the question of timing, if we are asked by the President, either directly or through a message, to do something in the way of an amendment, the Board should be prepared to act promptly following the request, possibly the day following, making the amendment effective immediately. Such an amendment has been prepared which, with certain minor changes, could be put into effect immediately. This would preclude discussion with the trade and the Federal Reserve Banks in accordance with our established procedure, but we have had numerous discussions with individuals on the outside and with some of the representatives of the Federal Reserve Banks which have given us some indication of their reactions.

It would be the objective of the amendment to reduce, during the period of the next twelve months, the presently outstanding volume of consumer debt by from 3-1/2 to 4 billion dollars. The information we have indicates that the trend of consumer debt is steadily downward and that by the end of the twelve-month period, if not by the end of this year, there should be a decline independently of the amendment of some 1-1/2 to 2 billion dollars, which is contrary to the usual experience in a period of rising incomes when the tendency is to increase this type of debt. This apparently is partly the result of scarcities of materials and partly the result of an attitude on the part of the public of not wanting to borrow any more money than they have to. The problem in connection with the regulation seems to be one of being sure that this downward trend is not reversed at some point in the period of higher incomes but is accelerated downward so that excess purchasing

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power may continue to be absorbed to the extent that the volume of consumer debt is reduced.

The copy of the revised regulation which was sent to the members of the Board on April 24 has made some polishing improvements on the present regulation, but it is still necessarily quite technical. The amendment would add many consumers' durable and semi-durable goods, including so-called soft goods, but would not cover food, fuel, and services. The amendment would also adopt a shorter maturity with a larger down payment and would fix a maturity of twelve months and a down payment of 33-1/3 per cent on all items with the possible exceptions of automobiles and Group E items used for renovation and repair of residential structures. Provision for uniform maturity and down payment has the advantage that, if it should be found subsequently that the regulation is not producing the desired results, it can be tightened by the simple method of increasing the down payment or shortening the maturity or both.

The amendment will also include in the regulation for the first time charge-account credits and single-payment loans for consumer purposes. The total amount of single-payment loan credits in the smaller categories in commercial banks is estimated at approximately 650 million dollars. The first suggestion was that the regulation permit the renewal of that type of credit for sixty or ninety days, after which the unpaid balance would be placed on an instalment basis for payment within twelve months from the effective date of the regulation. Much of this credit has been in the banking system for a long time and is pretty badly frozen, and if the proposal contained in the present regulation is adopted we may encounter some difficulty. For that reason, it has occurred to me that we might undertake to get this credit liquidated as rapidly as possible through a program of cooperation which would be agreed upon by the Federal bank supervisory agencies, with the understanding that the provisions of the regulation would apply only to new debt of this kind.

Mr. Hubachek of the Office of Price Administration has worked with the representatives of the Board and is in general agreement with the draft of amendment. I have talked with Messrs. Jones and Morgenthau, members of the consultative committee, who are in sympathy with the objective, and their representatives met with representatives of the Board on Thursday of last week and

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have been furnished with drafts of the amendment with the request that they let us have any suggestions which they may have with respect thereto not later than today.

Following Mr. Ransom's statement, he and Mr. Parry discussed in some detail the principal changes proposed to be made by the amendment and other changes that had been suggested, Mr. Ransom pointing out that the amendment changed the primary approach of the regulation from one of dampening the demand for consumers' durable goods to one of attempting to reduce the outstanding volume of consumer credit.

In response to a request from Mr. Ransom for his comments, Mr. Williams stated that the immediate future would be characterized by a decline in the supply of goods and an increase in funds available for their purchase, that price controls might result in black markets, and that one of the functions of Regulation W might be to absorb purchasing power and to that extent remove the pressure for black markets. He then inquired as to the consideration that had been given to the possibility of establishing a ceiling on outstanding consumer credit with provisions for specified percentage reductions, and Mr. Ransom discussed briefly the difficulties inherent in that approach and why it had not been adopted. In connection with this point, he read the second paragraph of the letter received by the Board under date of April 16, 1942, from Mr. Henderson, Administrator of the Office of Price Administration, suggesting that further consideration of this plan be abandoned for the present.

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Mr. Hubachek also made a brief statement of the reasons why the Office of Price Administration felt that the application of instalment credit ceilings, or so-called "credit quotas", would not be desirable at this time. He added that, while the proposed regulation resulted in a wordy document, the inequities of the "credit quotas" would be avoided and the tendency would be to reduce credit where it was not needed.

Mr. Ransom asked Mr. Hodge for any comments he might have to make, and the latter stated that the Federal Reserve Banks would be faced with a major administrative problem under the regulation as it was proposed. He stated that in the Chicago District there were 32,000 registrants at the present time, and that it was not inconceivable that under the proposed amendment the number of registrants would be doubled and it would be necessary to increase the employees at the Federal Reserve Bank of Chicago who are working with Regulation W from the present number of 26 to 70 or 100 in order to enable the Bank to do a good administrative job. He said that the Reserve Bank felt that, if the down-payment provision on open-book accounts could be eliminated, it would be highly desirable not only from an administrative standpoint but also from the merchants' standpoint, and that possibly the desired results could be obtained without it. He was not convinced that single-payment loans should be treated differently from instalment loans. He added that the provisions of the regulation would probably drive the single-payment borrower into

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other types of cash lending, that his own preference with respect to the maturity of the single-payment loan would be ninety instead of sixty days, that some formula which would place such a loan on the same maturity basis as an instalment loan would be preferable, and that he would like to see an arrangement under which the customer could renew the loan in any way he desired as long as there was a payment at each maturity and it was finally paid out in twelve months. Because of the administrative problems involved, he did not think it would be desirable to restore the provision of the regulation calling for a minimum down payment of \$5.00.

At 12:40 p.m., Mr. Thurston brought into the meeting a copy of the press statement which had just been released containing the text of President Roosevelt's anti-inflation message to Congress, and the following paragraphs from the message, relating to the control of consumer credit, were read:

"7. To keep the cost of living from spiraling upward, we must discourage credit and installment buying, and encourage the paying off of debts, mortgages, and other obligations; for this promotes savings, retards excessive buying, and adds to the amount available to the creditors for the purchase of War bonds.

* * * * *

"Item seven--paying off debts and curtailing installment buying--should be made effective as soon as possible now that money is becoming more plentiful. Those who comply with it will be grateful that they have done so, when this war is over. Elimination of private debts and an accumulation of savings will provide a form of insurance against post-war depression. The Federal agency responsible for the control of credit for installment buying is taking appropriate action."

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There ensued a discussion of the question whether the regulation should provide for a down payment in connection with the purchase of a listed article in a charge account. Mr. McKee questioned whether, because of the administrative difficulties that would be involved, the down payment was justified, and Mr. Ransom stated that it appeared that the opposition of merchants to the down payment diminished as the price of the article increased and that it should be pointed out that under the regulation as now proposed no down payment would be required on any article or group of articles selling as a unit which cost less than \$15.00, even though the total purchases by a customer of such articles were in excess of that amount. He added that further consideration was being given to the question whether \$15.00 was the proper figure to be included in the regulation.

Mr. Hubachek stated that, from the standpoint of the Office of Price Administration, the figure of \$15.00 was an important one for the reason that it operated as an automatic distinction between some items such as wool and non-wool goods.

In response to questions presented by Mr. Ransom, the members of the Board indicated agreement on the following points:

1. That Regulation W should be amended at this time.
2. That the amendment should follow the pattern of the present regulation.
3. That there should be additions to the list of articles covered by the regulation.

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4. That charge or open accounts and single-payment loans should be covered by the regulation.

While these matters were under discussion, Mr. Williams left the meeting.

In response to Mr. Ransom's inquiry as to when the Board wished to act on the amendment, Chairman Eccles suggested that a special meeting of the Board be held on Thursday, April 30, 1942, to consider the amendment. This suggestion was agreed to unanimously.

At this point, Messrs. Thurston, Wyatt, Parry, Hodgson, Chase, Robinson, Hodge, and Hubachek 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 18, 1942, were approved unanimously.

The minutes of the meetings of the Board of Governors of the Federal Reserve System held on April 20, 21, 22, 23, and 25, 1942, were approved and the actions recorded therein were ratified unanimously.

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

"In accordance with your recommendation the Board extends to May 1, 1943, the time within which the 'State Bank of Clearing', Chicago, Illinois, may increase its capital stock to \$200,000 as required by condition of membership numbered 15 applicable to the institution.

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"The bank has been granted two previous extensions of time covering a period of four years, and it is noted that no further requests for extension are anticipated."

Approved unanimously.

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

"In accordance with a suggestion made by the War Department, it will be appreciated if your Bank will observe the following procedure in the execution of guarantee agreements pursuant to Executive Order No. 9112.

"In the case of a guarantee agreement entered into between the War Department and a Federal Reserve Bank, two signed copies of the agreement should be executed and one additional copy should be made with signatures typed in. After the execution of the agreement by the parties, one signed copy will be available for the Federal Reserve Bank and one signed copy, together with the copy with signatures typed in, will be available for the War Department. It is understood that the War Department would transmit its signed copy to the General Accounting Office and retain the copy with signatures typed in for its own records.

"In the case of a guarantee agreement entered into by a Federal Reserve Bank on behalf of the War Department with a financing institution, the same procedure should be followed except that an additional signed copy of the agreement should be executed in order that a signed copy may be furnished to the financing institution.

"With respect to either type of guarantee, it will not be necessary to provide the Board of Governors of the Federal Reserve System with a copy of the agreement."

Approved unanimously.

Letter prepared for the signature of Mr. Ransom to Senator Tom Connally, reading as follows:

"This is in response to your communication of April 1, 1942 transmitting a copy of a letter addressed to you under date of March 18, 1942 by Mr. Cal C. Chambers of the Texas Foundries, Inc., Lufkin, Texas, protesting against the observance of legal holidays by banks and post offices during the war.

"Mr. Chambers complains of the fact that, although his company has maintained production on all holidays

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"except Christmas and Thanksgiving days and his workers are willing to maintain production on a seven-day week basis, if necessary and practicable, the banks and post offices close on legal holidays and this has caused him some inconvenience. In this connection, he said that, 'Bank officials tell me that they must observe legal holidays stipulated by the Federal Reserve Bank, which total 14 during the year'. He suggests that you bring this matter to the attention of the Federal Reserve Bank and the Post Office Department.

"Federal Reserve Banks have no authority to declare legal holidays or to require member banks to remain closed on legal holidays, and they make no attempt to do so. However, a Federal Reserve Bank sometimes sends a circular to its member banks notifying them that the Federal Reserve Bank will be closed on a certain day which has been designated by the State legislature as a legal holiday. This is done in order that member banks may have advance notice that the currency, check collection, telegraphic transfer and other facilities of the Federal Reserve Banks will not be available to them on such days. It is hardly possible that such notices could have been misconstrued by member banks as implying that they also should remain closed on such legal holidays. No such implication is intended or would seem to be warranted.

"As you probably know, legal holidays are prescribed by the State legislatures; and the extent to which business may lawfully be transacted on such days depends upon the provisions of the State laws, which vary from State to State. However, the negotiable instruments law, which has been enacted in all of the States with some variations, provides, in effect, that, where the day of maturity of a negotiable instrument falls on Sunday or a holiday, the instrument is payable on the next succeeding business day. As a consequence, legally effective demand for payment and protest of dishonor of negotiable paper cannot be made on a day which the State legislature has prescribed as a legal holiday; and it might cause some confusion and possibly some litigation if banks remained open for business on days when lawful demand for the payment of checks, drafts, bills of exchange and promissory notes cannot be made. This is one of the principal reasons why banks usually do not open for business on legal holidays.

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"The Board is informed that there is considerable sentiment in favor of the abolition of legal holidays or the reduction of their number during the war and that the General Assembly of the Commonwealth of Kentucky has already abolished all legal holidays except the Fourth of July, Labor Day and Christmas Day. The problem referred to by Mr. Chambers would be remedied if the Legislature of the State of Texas took similar action.

"We have brought Mr. Chambers' complaint to the attention of the Federal Reserve Bank of Dallas, and we are bringing this general subject to the attention of all Federal Reserve Banks with a request that they give consideration to the question whether there are any changes in their present practices with reference to the observance of legal holidays which should be made in order to assist in the war production program.

"The question whether post offices should remain open on legal holidays is a matter within the jurisdiction of the Post Office Department; and it is assumed that you have taken this matter up with the Postmaster General.

"Mr. Chambers' letter is returned herewith in accordance with your request."

Approved unanimously, together
with a similar letter to Senator W.
Lee O'Daniel and a letter in the following
form to the Presidents of all
the Federal Reserve Banks:

"There are enclosed herewith for your information copies of the following correspondence regarding observance of legal holidays during the war:

- (1) Letter addressed to Senator Connally under date of March 18, 1942 by Mr. Cal C. Chambers, President of Texas Foundries, Inc., Lufkin, Texas, which was transmitted by Senator Connally to the Board with the request for a report thereon.
- (2) Governor Ransom's reply of April 27, 1942.
- (3) Letter addressed to President Gilbert of the Federal Reserve Bank of Dallas under date of April 7, 1942, transmitting a copy of Mr. Chambers' letter and requesting Mr. Gilbert's views thereon.
- (4) A copy of Mr. Gilbert's reply.

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"On the same day that he wrote to Senator Connally, Mr. Chambers wrote an identical letter to Senator O'Daniel, which was also referred to the Board for a report, and Governor Ransom wrote Senator O'Daniel a letter similar to that written to Senator Connally.

"It is noted that the abandonment of bank holidays for the duration of the war was discussed at the Conference of Federal Reserve Bank Presidents held in Washington on February 28 - March 2, 1942, and that it was felt that it would be preferable if the movement could be initiated by the American Bankers Association. However, in view of the sentiment which appears to be developing on this subject and in view of the fact that, under the terms of Executive Order No. 9112, the Federal Reserve Banks are now tied in more closely to the war production program, it might be advisable to give some further consideration to the question whether there are any changes in the existing practices of the Federal Reserve Banks with respect to the observance of legal holidays which could appropriately be made for the purpose of facilitating the war production program, pending the outcome of any general movement such as that discussed at the Presidents' Conference and pending the outcome of State legislation to reduce the number of legal holidays. It will be appreciated if you will kindly review the existing practices of your Bank with reference to the observance of legal holidays, and give the Board the benefit of your views on this aspect of the problem. It might also be advisable for this matter to be made the subject of further discussion at the next meeting of the Conference of Presidents of Federal Reserve Banks."

Letter to the Comptroller of the Currency, reading as follows:

"It is respectfully requested that you place an order with the Bureau of Engraving and Printing, supplementing the order of June 14, 1941, for printing of Federal Reserve notes of the 1934 Series in the amounts and denominations stated for the Federal Reserve Bank of Richmond:

<u>Denomination</u>	<u>Number of sheets</u>	<u>Amount</u>
\$5	40,000	\$ 2,400,000
10	281,000	33,720,000
50	4,000	2,400,000"

Approved unanimously.

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Thereupon the meeting adjourned.

Chester Morie

Secretary.

Approved:

W. C. ...

Chairman.