

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, June 9, 1942, at 10:40 a.m.

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

Mr. Morrill, Secretary
 Mr. Carpenter, Assistant Secretary
 Mr. Clayton, Assistant to the Chairman
 Mr. Wyatt, General Counsel
 Mr. Goldenweiser, Director of the Division
 of Research and Statistics
 Mr. Dreibelbis, Assistant General Counsel
 Mr. Kindleberger, Associate Economist
 in the Division of Research and
 Statistics

Mr. Goldenweiser stated that in accordance with the action taken by the Board on May 26, 1942, he had attended meetings at the Treasury, which were also attended by representatives of the Treasury and State Departments, the Export-Import Bank, and the Board of Economic Warfare and certain others who were there at the invitation of Mr. White, Director of Monetary Research of the Treasury, including Alvin Hansen of the Board's staff, Benjamin Cohen of the Department of the Interior, and Lauchlin Currie, Administrative Assistant to the President, with respect to the study of plans for the establishment after the war of an international stabilization fund and an international bank. He said that the discussions related largely to the details of the report prepared by Mr. White and of the question raised by Mr. White whether the matter was at a point where an international conference on the subject should be called. He (Mr. Goldenweiser) had taken

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the position that before anything could be done with respect to definite plans for a stabilization fund or an international bank it would be necessary to determine as nearly as possible what economic and financial problems would have to be met following the war and what would be the objectives of such a fund or bank. Although he felt that the consideration of details would be premature until that was done, he had stated, and would take the position in future conferences at the Treasury, that he and the members of the Board's staff working on the matter would be glad to do what they could to analyze the problems involved and make their findings available to the other agencies represented. He made the further statement that he had since learned that the Board of Economic Warfare was establishing a division in that organization for a study of the problem and that the Department of State had created a division for the purpose of making confidential studies on the same subject. It appeared that studies were being made in other offices of the Government, and in the circumstances Mr. Goldenweiser felt there was no need for any enlargement of the Board's staff but that Mr. Kindleberger, whose work in connection with the Joint Economic Committee of Canada and the United States was diminishing, would be able to give practically all of his time to the studies under the direction of Mr. Gardner and that other members of the staff of the Division of Research and Statistics, including Alvin Hansen, would be available to do some work on the studies.

Chairman Eccles stated that on Saturday of last week he was

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present at a luncheon which was also attended by Secretary of State Hull, Under Secretary of State Welles, and Assistant Secretary of State Acheson, and that, following the luncheon, in connection with a reference to the desirability of bringing in representatives of other countries to work out an international program it developed that the State Department felt it would be a serious mistake to take such a step at this time. In a discussion of this point, the members of the Board indicated informally for the information of Mr. Goldenweiser that they would be opposed to bringing in representatives of other countries at this stage of the consideration of the program.

In response to an inquiry from Mr. Goldenweiser, the members of the Board stated that they were in agreement with the position which he had indicated he proposed to take in future conferences relating to the proposed stabilization fund and international bank.

During the discussion of this matter Mr. Thurston, Special Assistant to the Chairman, joined the meeting, and at its conclusion Mr. Parry, Chief of the Division of Security Loans, and Mr. Thomas, Assistant Director of the Division of Research and Statistics, entered the room and Mr. Kindleberger withdrew.

Chairman Eccles stated that under date of June 1, 1942, he had received a letter from Frederic A. Delano, Chairman of the National Resources Planning Board, reading as follows:

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"I have just returned from a meeting of our Board held in Indianapolis and we are endeavoring to work out a fairly complete and well integrated system of research which will give us a better concept of our country's problems. We have for several years divided the country into regional centers for convenience of administration and study, and in some cases we have obtained good results; in others, not so good. Those regions which are dominated by very large industrial cities are more difficult to handle than those which are spread out more thinly and involve physical development rather than economic problems.

"During the discussion it was pointed out that the Federal Reserve System, with its twelve districts, has of necessity studied the economic problems of their regions and how those problems were related to the Nation as a whole. When this was suggested, I jumped to the conclusion that we might work out with your Board a system which would coordinate our study of physical needs with your study of financial requirements and the economic welfare of the country as a whole. You remember that in 1938 we made some headway through an industrial committee which in turn resulted in the trial balloon of a fiscal advisory council. You know as well as I why that effort failed, and I am sure you will agree with me that because that experiment failed is no reason why we should not try some other method.

"Is there any way in which we can review or reconsider the problem? Would you be willing, for example, to have your Director of Research and Statistics look into the problem and indicate a basis of cooperation? To start with, for example, you might be willing to let us take it up with the New York Reserve Bank, the Chicago Reserve Bank and the San Francisco Reserve Bank, leaving out the others; or, you might prefer to handle it entirely through your central office in Washington; or, if you dislike any of these suggestions, you might be willing to do me the favor of talking it over at luncheon and perhaps work out a modus operandi which would be better than any I have in mind. I would appreciate it if you would at least give it some consideration."

Following receipt of the letter, Chairman Eccles said, he had discussed it with Mr. Evans, and had suggested that, if agreeable to the Board, Mr. Evans be asked to assume immediate direction of the

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contacts with the National Resources Planning Board for the purpose of determining whether a program could be worked out in which the Federal Reserve Banks and the Board could be helpful.

In response to an inquiry from Mr. Draper whether it would be desirable for the National Resources Planning Board to undertake to develop a program directly with the Federal Reserve Banks, as suggested in the last paragraph of Mr. Delano's letter, Chairman Eccles stated that under date of June 5 he sent the following interim reply to Mr. Delano, the last paragraph of which covered that question:

"I have your letter of June 1 in regard to working out with the Board of Governors some system for coordinating the studies which the National Resources Planning Board is making of physical needs with studies of financial requirements and the economic welfare of the country as a whole. This suggestion certainly strikes a responsive chord with me, as I am confident it will with my associates. I have already discussed the matter with Governor Evans who, as you know, has recently come on the Board and is particularly interested not merely in the agricultural field but in the broad range of post-war economics.

"Some time ago the President raised a number of questions with me bearing more particularly on the fiscal and monetary aspects of post-war problems and subsequent thereto, as you are aware, the Board engaged the services of Dr. Alvin H. Hansen to head up various studies that we have since undertaken. It would seem to me to be a most logical and desirable conjunction to work out a program such as I imagine you have in mind.

"Fortunately, your long familiarity with the Federal Reserve System makes you appreciate its potentialities in making some worthwhile contribution to the thought and preparation that must be given to this all-important subject. The Board has made a special effort to bring into the directorates of the Federal Reserve Banks men of broad economic background and views, and it seems to me that a real contribution could be made by enlisting their interest and

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"that of leaders in the business, banking and educational fields in the various Federal Reserve districts towards the formulation of practical steps that would be necessary when the emergency is over. In this way, I believe a good deal of educational work could be done and the best brains available in the country could be tapped for ideas and help in the formulation of a national program. From the standpoint of the Federal Reserve System, in which I know you have an abiding interest, as well as from the viewpoint of the National Resources Planning Board and the national interest generally, this should all be to the good.

"My own preference would be to give it direction so far as the Reserve System is concerned through the Board here under the immediate direction of Governor Evans. In any case, it would be helpful to have an opportunity to discuss it a little more fully with you, and to that end, I am wondering if you could find time in your crowded calendar to come over to luncheon at your convenience some day next week. If your secretary can get in touch with mine we can find a day, I hope, when we are both available."

In accordance with the suggestion contained in his letter, Chairman Eccles said, arrangements had been made for Mr. Delano and Beardsley Ruml, Adviser to the National Resources Planning Board, to come to the Board's offices this afternoon for a further discussion of the matter.

There was unanimous agreement that the subject matter should be handled under the immediate direction of Mr. Evans, and that at the meeting this afternoon Mr. Delano should be advised that the Board would be glad to work with the National Resources Planning Board in determining what could be done to develop a program.

Thereupon, Mr. Goldenweiser withdrew from the meeting.

Chairman Eccles stated that last week he attended a meeting in the office of the Secretary of the Treasury, at which there were also

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present, in addition to Secretary Morgenthau, Donald Nelson, Chairman of the War Production Board, Leon Henderson, Administrator of the Office of Price Administration, Jesse Jones, Secretary of Commerce, Ganson Purcell, Chairman of the Securities and Exchange Commission, Daniel Bell, Under Secretary of the Treasury, Lauchlin Currie, Administrative Assistant to the President, Beardsley Ruml, Treasurer of R. H. Macy & Company, Inc., and members of the Treasury staff, for the purpose of considering what might be done to restrict the use of credit for the purpose of financing inventories of consumer goods. He said that one aspect of the problem that was discussed was the one to which reference was made at an earlier meeting (which he reported at the meeting of the Board on May 19, 1942) when consideration was given to the question what, if any, action should be taken in connection with securities issued for the purpose of paying off bank loans and thus placing the borrower in a position at some subsequent time to make further use of bank credit. It was reported, Chairman Eccles said, that several cases of this kind had arisen, that there was no reason why the issues should be disapproved by the Securities and Exchange Commission except for the fact that they were for the purpose of placing the borrower in a better position to increase inventories, and that the suggestion had been made that an executive order be issued setting up a committee that would have power to review and disapprove any such issues. While it was the feeling of those present at the meeting, Chairman Eccles said, that this solution would not meet the

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problem and was not necessary, the possible inflationary influence of expanded inventories was discussed, and the suggestion was made by Messrs. Nelson and Henderson that the problem might be met through restriction of the use of credit for the purpose of building up inventories, Mr. Henderson stating that, while credit control had certain recognized limitations, the control of consumer credit by the Federal Reserve System had worked very satisfactorily and more effectively than had been anticipated, and that the next step would be to apply similar restraints to purchases by the wholesaler and retailer, particularly with respect to items of which there was a limited supply.

Chairman Eccles made the further statement that, in response to a request from Secretary Morgenthau for his comments, he expressed the opinion that the only effective way to meet the problem was by rationing the distribution of goods by the manufacturer, that credit control in this field would not be effective for the reason that concerns which had strong cash positions would not need to use credit for inventory purposes and that because of the reduction in the outstanding volume of consumer credit many concerns, instead of having resources tied up in accounts receivable, would have cash available for that purpose. Credit control, therefore, would work in the direction of limiting the smaller concerns without cash resources and would place no restriction on the stronger concerns, whereas a system of rationing could be applied uniformly in all cases. Chairman Eccles

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went on to say that there was general agreement with this position and that, following a statement that it would take some time to work out a rationing program, he suggested that the Board of Governors might send a letter to all banks in the United States outlining what the inventory problem was and asking that the banks scrutinize all loans made by them and attempt in every way to prevent the unjustified use of credit for inventory purposes. The letter would also state, Chairman Eccles said, that the examiners would be requested during the course of their regular examinations to review the banks' portfolios to ascertain that they were responding effectively to the request contained in the letter.

There was unanimous agreement, he said, that such a letter should be sent, and Messrs. Nelson and Henderson agreed to address letters to the Board in which they would discuss the inventory problem and endorse a program of undertaking to restrict the use of credit as far as possible for the purpose of increasing inventories. These letters had not yet been received, but Chairman Eccles stated he had checked with Messrs. Nelson and Henderson on Friday of last week, at which time they said they would write the letters and forward them to the Board.

In connection with the question when the letter to the banks could go out, Chairman Eccles stated that he had suggested to Mr. Ransom that he work with the staff in the preparation of such a letter and he explained at the meeting at the Treasury that, inasmuch

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as the letter would have to be cleared with Messrs. Jones and Nelson, the Treasury, and possibly others, it would be a week or 10 days from that time before the letter could be sent.

It was understood that Mr. Ransom would supervise the preparation of a draft of letter to be sent to all banks.

Mr. Ransom then stated that it had been ascertained that the total outstanding debt on the security of life insurance policies was something in excess of three billion dollars, that in the absence of an amendment to the Executive Order under which Regulation W was issued it would be difficult to apply the regulation in this field, but that it was felt that cooperation on the part of life insurance companies could readily be obtained in undertaking through their agencies to reduce this type of debt, and that he was giving consideration to the best method of approaching the problem from that angle. He expressed the opinion that such action was desirable as it was necessary to bring pressure to bear toward a reduction in the volume of insurance policy loans even if it should be found necessary to obtain additional authority to effect that result. In response to an inquiry from Mr. McKee, Mr. Ransom stated that any efforts to reduce the outstanding volume of insurance policy loans should not, in his opinion, be directed in such a manner as to cause the surrender for the cash surrender value of any such policies nor attempt to be restrictive in the case of new loans made by the insurance companies for the purpose of enabling policyholders to pay premiums on such policies.

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At this point, Messrs. Thurston, Wyatt, Goldenweiser, Parry, Dreibelbis, and Thomas 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 June 8, 1942, were approved unanimously.

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

"Referring our wire S-468 of May 2, in future reports showing number of applications for loans and guarantees on hand, please exclude those referred to Washington."

Approved unanimously.

Telegram to Mr. Stroud, First Vice President of the Federal Reserve Bank of Dallas, reading as follows:

"Your wire June 5. Board does not know of any legal grounds on which officer of Houston Branch may refuse making deposition for use in private litigation as to signature on registration statement under Regulation W if officer is served with proper legal citation."

Approved unanimously.

Letter to Mr. F. B. Hubachek of the Consumer Credit Control Unit of the Office of Price Administration, reading as follows:

"This will acknowledge and thank you for your letter of June 3 with further reference to OPA's field organization and the establishment of liaison in the field between the Federal Reserve Banks and the various units of that organization.

"I enclose for your information a copy of a letter that went to all the Federal Reserve Banks on this general

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"subject on May 22, 1942. You will note that this letter has already transmitted to the Reserve Banks the suggestion that they establish close contact with the regional offices of the Office of Price Administration.

"It is noted that you would like to write each of the regional administrators concerning cooperation with Reserve Bank personnel and that in this connection you would be glad to receive suggestions or recommendations from us. It might be well for us to send the Reserve Banks a list giving the names and addresses of your regional officers and for you to send to them a list of the officers of the Federal Reserve Banks who have immediate responsibility for matters relating to Regulation W. This is the only suggestion that occurs to us. We enclose a list of the appropriate Reserve Bank officers and would like to have a list of the OPA regional administrators and about 40 copies of the organization chart of which a copy was enclosed in your letter.

"We agree with you that when a Reserve Bank man is concerned with a price ceiling matter the facts that he may need are likely to be in the office of the Local War Price and Rationing Board; also that it is from contact between the OPA regional administrator and a representative of the Reserve Bank that plans for cooperation can be expected to develop."

Approved unanimously.

Telegram to Mr. Walter Lichtenstein, Secretary of the Federal Advisory Council, reading as follows:

"Your wire June 8. While all members of Board will not be in Washington on Wednesday, July 1, they have no objection to arranging meeting with executive committee of Council on that date."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

W. C. ...

Chairman.