

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, October 5, 1944, at 10:00 a.m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Wyatt, General Counsel
Mr. Thomas, Assistant Director of the
Division of Research and Statistics
Mr. Johnson, Administrative Assistant,
Division of Personnel Administration

Mr. Evans reported that Mr. Creighton, Chairman of the Federal Reserve Bank of Boston, called him on the telephone a few days ago to say that the Bank had under consideration the appointment of Mr. Richard Mervin Bissell, Jr., as a Vice President of the Bank to head up the research work. He said that Mr. Creighton had requested that he be advised informally whether the Board would be willing to approve the appointment of Mr. Bissell to this position with compensation at the rate of \$10,000 per annum in order that the Board of Directors of the Bank might take appropriate action with regard to the matter at its meeting on Monday, October 9, and thereafter submit a formal recommendation to the Board for approval. He said that Mr. Flanders, President of the Bank, was also enthusiastic about obtaining the services of Mr. Bissell and that, in view of the joint recommendation of both

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Mr. Creighton and Mr. Flanders, he (Mr. Evans) was disposed to favor it. He said that he understood that the matter of selecting a qualified person for appointment to the position of Vice President in Charge of Research had been under consideration for some time and that Mr. Goldenweiser and other members of the Board's Research staff were acquainted with Mr. Bissell and were familiar with his qualifications.

In response to a query by Mr. McKee as to whether Mr. Bissell's training and experience justified a salary of \$10,000 per annum, Mr. Thomas stated that Mr. Bissell stood high in the profession, had a good mind and the ability to write well; that he had graduated from Yale University with a B.A. degree in 1932, had received his Ph.D. in 1939; and had been employed in 1941 or 1942 as Chief of the Division of Economic Analysis, Bureau of Foreign and Domestic Commerce, Department of Commerce.

Mr. Johnson stated that the records of the Division of Personnel Administration showed that Mr. Bissell had been offered a position in the Board's Division of Research and Statistics in the summer of 1940 but that he had declined the offer. He went on to say that aside from this rather meager information he had no other data regarding him, the correspondence, he said, having been conducted by the Division of Research and Statistics and the salary of the position not having been mentioned in the record.

Mr. McKee said that the Boston Bank should be requested to

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submit complete information as a basis for action by the Board and for the completion of its records.

Mr. Ransom said that he would be disposed to vote in favor of approving the appointment of Mr. Bissell on the basis of the recommendations of Messrs. Creighton and Flanders but that he thought there was considerable merit in Mr. McKee's suggestion that the record be complete, and therefore, he suggested that Mr. Morrill contact Mr. Creighton by telephone and ask that he submit the necessary data. In this connection, however, Mr. Ransom said that he thought that, while the burden of recommending Mr. Bissell properly should rest with the Federal Reserve Bank of Boston, the record should also include the recommendation of the Board's Division of Research and Statistics.

At this point Mr. Goldenweiser entered the meeting and Mr. Evans asked him to express his views regarding Mr. Bissell. Mr. Goldenweiser stated that he had a favorable but not a very definite impression with regard to him, that he had recently looked over a chapter in Seymour Harris' book which Mr. Bissell had prepared on postwar economic problems and that in his judgment it was a very competent piece of work which showed considerable ability on the part of the author. He said that he understood that Mr. Bissell is at present connected with the Maritime Commission and although he was not certain in what capacity he thought that he was an assistant to Admiral Land. He added that he did not feel prepared to make a recommendation, but

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that Mr. Hansen could probably throw further light on the question of Mr. Bissell's fitness for appointment to the position in question, and he suggested that Mr. Hansen be asked to join the meeting in order that the Board might have the benefit of his views.

Mr. Hansen was, therefore, invited to join the meeting and Mr. Ransom asked him to tell the Board what he knew about Mr. Bissell. Mr. Hansen then made substantially the following statement:

Mr. Bissell was a member of the faculty of Yale University from 1935 until about two years ago when he was invited to join the faculty of the Massachusetts Institute of Technology. He never became active in the latter post because he came to Washington to engage in war work with the Department of Commerce and subsequently with the Maritime Commission. I have known Mr. Bissell since the summer of 1937 and have a very favorable impression of his capabilities. He is about 34 years of age, thoroughly competent, more conservative than I, writes well, thinks clearly, and while to my knowledge he has had no experience as a director of research, I have no doubt that he would measure up to the requirements of such a position. While at the Department of Commerce, Mr. Bissell, together with Mr. Upgren, who is now a Vice President of the Federal Reserve Bank of Minneapolis, organized a section in economic analysis, working closely with the business advisory committee of the Department. He gets along well with business men; he is progressive and forward-looking and is the best qualified of the individuals who have been considered for the position of Vice President in Charge of Research at the Boston Bank. I do not know what salary the Reserve Bank proposed to offer Mr. Bissell, but I do know that the Directors were willing to go as high as \$15,000. In my opinion it would be appropriate to offer him a salary of \$10,000 or \$12,000. I recall that Mr. Paddock, prior to his retirement as President of the Bank, had talked to Mr. Bissell on the basis of \$8,000, but I felt, and the Board

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of Directors also felt, that \$8,000 would not be adequate compensation. In my opinion, none of the Federal Reserve Banks has as good an economist as Mr. Bissell heading up its research department. MIT is building up a very good economics department, and it is understandable that in looking around for good men Mr. Bissell was invited to join the faculty. He left Yale in 1940 or 1941, where he probably was receiving a comparatively small salary. To my knowledge the University of Minnesota offered him a position at a higher salary, and while I do not know what his compensation would be at MIT, associate professors at Harvard receive from \$6,000 to \$7,500 per annum. Of course this compensation is for nine months' work and there are opportunities to write and engage in outside activities. It would take some inducement to get Mr. Bissell to leave university work permanently and I would be enthusiastic about his appointment at Boston at \$10,000 per annum. He has a good personality, talks well and effectively, and is a native New Englander.

Mr. Goldenweiser said that he could assure the Board that Mr. Hansen's appraisal of Mr. Bissell was wholly unbiased because the articles written by Mr. Bissell which he had recently read indicated that he disagreed with some of Mr. Hansen's views. He also said that, in the light of the additional information supplied by Mr. Hansen, he was prepared to recommend the appointment.

At the conclusion of some further discussion, during which Mr. Draper also stated that he favored the appointment, it was agreed that Mr. Morrill would contact Mr. Creighton and obtain such additional information regarding Mr. Bissell as would be necessary to complete the records of the Board and serve as a basis for formal action with respect to the appointment.

Mr. Thomas stated that while the Board was discussing research

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personnel, he would like to report some developments in connection with the research staff at the Federal Reserve Bank of Cleveland. He said that President Gidney had discussed the situation with him and it was proposed that Mr. MacKenzie, now Vice President in Charge of Research, be transferred to the operating side of the Bank and that consideration be given to obtaining the services of Mr. Donald S. Thompson, Chief, Division of Research and Statistics, Federal Deposit Insurance Corporation. He said that Mr. Thompson knows the work thoroughly, and Mr. Gidney thinks highly of him and feels that he would be an excellent addition to the staff of the Cleveland Bank.

Mr. Goldenweiser pointed out that Mr. Thompson had worked in the Board's Division of Research and Statistics for a long time prior to going with the Federal Deposit Insurance Corporation and also had been connected with the Federal Reserve Bank of San Francisco. He said that he had thought of Mr. Thompson as a good statistician rather than as an economist, that he has built up a good statistical service at the Federal Deposit Insurance Corporation, and that he is far better than any research man the Cleveland Bank ever had.

Mr. Thomas said that Mr. Thompson had been wanting to leave the Federal Deposit Insurance Corporation, and, therefore, Mr. Gidney had not been pressing him for an answer but had decided to let the

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matter rest until he had heard from Mr. Thompson. On the other hand, Mr. Thomas said that Mr. Gidney would like to know whether Mr. Thompson would be acceptable to the Board, particularly in the light of his participation in the Regulation Q controversy, for appointment to an official position at the Cleveland Bank.

Mr. Ransom indicated that he would be favorable to the employment of Mr. Thompson by the Federal Reserve Bank of Cleveland and the other members of the Board appeared to be favorably disposed although no vote was taken on the matter.

Mr. Hansen withdrew from the meeting at this point.

Consideration was then given to a memorandum dated September 23, 1944, addressed to the Board by Mr. Goldenweiser reporting on the progress of the System project on postwar economic problems and policies, a copy of which had previously been furnished to each member of the Board.

Mr. Morrill referred to the fact that at the recent meeting of the Presidents' Conference with the Board Mr. Williams, President of the Federal Reserve Bank of Philadelphia and Chairman of the Presidents' Conference Committee on Research and Statistics, had suggested that a separate day be set aside after the next meeting of the Federal Open Market Committee, which has been tentatively scheduled for December 11, 1944, for the purpose of discussing the various papers which have been prepared by the Research staff. He said that a question had been

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raised as to when the various papers would be completed and that it appeared to be the consensus that the authors should be required to have them completed sufficiently in advance to enable the Board members and Presidents to read them before the date set for their discussion. However, he said the Board would recall that some of the papers were to have been completed last month but that the time had now passed, and in the meantime Mr. Goldenweiser had submitted in his memorandum of September 28 a progress report indicating the present status of the different papers, from which it appeared that only certain ones would be available for discussion in December. The question now arises, he said, whether the time schedule outlined by Mr. Goldenweiser will be satisfactory to the Board and the Presidents' Conference and what program should be arranged for their discussion.

Mr. Ransom said that he thought the Presidents' Conference desired to have a deadline set for the completion of the papers which were to be discussed in December and he assumed that Mr. Goldenweiser had that in mind. He also said that it might be well to ask the Presidents to be prepared to devote a week to these discussions. Mr. Ransom said that he recognized that such a program would require a great deal of work on the part of the members of the Board by way of advance preparation but he thought that, in the light of previous discussions, it would be desirable to devote more than one day to this purpose.

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Mr. Draper doubted that it would be fruitful to hold long meetings for the purpose of discussing the papers, and he asked Mr. Goldenweiser how he felt about the matter. Mr. Goldenweiser expressed the view that the Board and the Presidents should not devote any time to the discussion of the papers as such; that the discussion should be confined to the views and recommendations of the authors; and that, in any event, a great deal of preparatory work would be called for on the part of the Board and the Presidents.

In response to a question by Mr. Morrill as to what procedure Mr. Goldenweiser would suggest in lieu of that proposed by Mr. Williams, he said that he would send the papers to the Presidents and ask them to submit their views in writing, even though they were tentative. Mr. Goldenweiser thought that by this process considerable progress could be made.

In connection with a further comment by Mr. Morrill that the Board members and the Presidents might change their views in the light of the contemplated discussions, Mr. Goldenweiser indicated agreement but said that each person should reach some conclusion or opinion of his own from reading the papers. Mr. Ransom added that a careful reading of the papers would have value in that each person would of necessity have to give considerable thought to the questions involved and, therefore, should come to the meeting with conclusions of their own which

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would prepare them for a worthwhile discussion.

In response to a question by Mr. Draper as to how it would be possible to reach conclusions in the absence of a discussion, Mr. McKee suggested that it would be possible to obtain some consensus or agreement, with minor changes in some cases, if those participating in the meeting had studied the material thoroughly in advance. He said that a great deal could be accomplished if those in attendance at the meeting were prepared, although he thought that, inasmuch as the Board had the final responsibility, decisions should not be made at meetings attended by the Presidents. He emphasized the necessity, however, for every member of the Board as well as the Presidents to read the papers in advance of the meeting.

Mr. Thomas said that it was unlikely that the papers would contain any recommendations requiring immediate action but that the papers would bring out background information and suggest certain courses of action under different sets of circumstances. He said that definiteness might be called for with regard to legislation but that the December meeting would be of a preliminary character, which would disclose points that had been missed by the authors or that would require review and reconsideration. He said that, after the authors had reviewed their papers in the light of suggestions and comments made by the members of the Board and the Presidents, they could come forward with definite

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recommendations which could be considered at a later date.

Mr. Goldenweiser reviewed the table attached to his memorandum of September 28 indicating the status of the various drafts and pointed out that the papers entitled "Commercial Banking After the War" and "Postwar Role of Central Banking", which were being prepared by the Committee on Banking and Credit Policy, would be finished in time for consideration at the December meeting. He said that Mr. Thomas was participating in the work on these papers and that a December deadline had been set which it was thought could be met. Mr. Goldenweiser also said that the paper on "Selective Credit Controls" being prepared by Messrs. Parry and C. O. Hardy was very nearly completed. He thought that the December meeting would be concerned more with banking problems and that other papers which would not be available until spring would probably not have been considered at that time in any event. He went on to say that at some appropriate time the Board would have to decide whether or not the papers should be printed and to whom they should be distributed. In this connection, Mr. Szymczak suggested that the Board might wish to send copies of the papers to the members of the Federal Advisory Council and also to the Chairmen of the Federal Reserve Banks.

There was some further discussion of the matter but no definite conclusions were reached. The discussion terminated with a comment by

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Mr. Ransom that the next meeting of the Presidents' Conference could be of great value if the Board members would properly prepare themselves in advance, and that he hoped Chairman Eccles would also impress upon the Presidents the necessity for careful advance preparation.

At this point Mr. Johnson withdrew from the meeting, and Mr. Parry, Director of the Division of Security Loans, entered.

Mr. McKee then inquired of Mr. Parry whether there had been any new developments with regard to the proposal considered by the Board last June that the maximum loan values of securities prescribed in the Board's Regulations T and U be reduced from 60 to 50 per cent. Mr. Parry stated that the only development had been the receipt from the Securities and Exchange Commission of a letter under date of August 4, 1944, pursuant to a telephone conversation between Mr. Draper and Mr. Purcell, Chairman of the Commission, stating in effect that the Commission would have no objection to the proposal although it believed that more drastic action should be taken and that, in the event the proposal then under consideration were adopted, the situation should be reviewed before the end of the current year. He said that the letter had been acknowledged with a statement that it was being brought to the attention of the members of the Board and that the Commission could be sure that its views would be taken into account as the Board

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continued its consideration of the matter and before it arrived at a decision.

Mr. Parry went on to say that recently the stock market had been relatively inactive, with the volume of sales averaging less than one million shares a day, that the movement in stock prices had been sidewise, and that there had been no significant further increase in debit balances from that reported to the Board at the end of June.

At this point Messrs. Szymczak and Clayton left the meeting.

Mr. McKee said that he thought action to equalize margin requirements on the long side (now 40 per cent) with those on the short side (now 50 per cent) should be taken when there was no substantial market activity and that there was a question in his mind, if the Board wanted to take action, whether the Board was not missing an opportunity to act when the fewest people would be hurt. However, he pointed out that, in order to avoid misinterpretation, it would probably be undesirable to take action until after the national election, but that the Board could make a record which would justify action when the proper time came. He said that the Board should consider whether it ought to increase margin requirements on the long side from 40 to 50 per cent or to 60 per cent and then let them stand for some time; that action should be taken on the basis of bringing about equalization in margin requirements on both long purchases and short sales or on the basis that a person buying stock on margin ought to have a

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larger equity than the 40 per cent now required; and, finally, that action should be taken in the light of all factors such, for example, as the possibility that there may be an excited market following the election and after the termination of the war in Europe. He concluded by saying that he would suggest that the staff review the problem to determine whether action could be justified and that the Board be prepared to act after the election at a time when there is no activity of consequence in the market.

Mr. Draper pointed out that the staff had already prepared a statement on the question of bringing about equal margin requirements on both the up and down sides. He said that he was not prepared to say at the moment whether he would be willing to couple going to 50 or 60 per cent on long purchases with the understanding the Board would take no further action for some time to come. He thought that the Board should be in a position to take action at any time in the future if developments seemed to warrant it.

Mr. McKee said he was conscious of the fact that a large volume of savings is in the hands of the public and that the stock market could move rapidly on short notice. But he thought that the Board's statutory authority in this field will be continued in the Board only so long as it does a constructive job. In other words, he said, the Board could use the power too frequently and that in his opinion the sooner the Board frankly states to the public that it has not that

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desire but is using the power to equalize margin requirements and to protect holders of stock on margin from losing their equity over night, the better it will be. Mr. McKee also commented that the Board should encourage a healthy capital market and that it ought to establish a pattern so that buyers of equity securities will know the rules. He thought that if a purchaser of stock on margin invested 60 cents of his own money in each dollar of stock he would be more likely to hold on to it. It would then be an investment, he said, and not a speculative purchase. Mr. McKee concluded by saying that if the Board's basis for action were sound he would favor increasing requirements from 40 to 50 per cent although he would prefer to go to 60 per cent.

Mr. Draper thought that neither a 50 per cent nor a 60 per cent margin would insure stock ownership, nor put the purchaser in a position to avoid losing his equity in the event of a drastic downward trend in stock prices. In urging consideration of possible drastic action in time of an inflationary credit situation, Mr. Draper pointed out that there was a difference, for example, between a speculative situation in land and a speculative situation in securities. He said that in the case of land speculation, the buyer is protected, to some extent, by the terms of the mortgage and he knows in advance exactly the amount he must pay and the due date of his obligation which may be a period of years from the date of purchase. On the other hand, an owner of securities bought on margin, has no such definite advance

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notice. If the market turns against him and heavy selling in the stock market develops rapidly, he may be faced almost over night with the alternative of either having to put up an extra margin or being sold out altogether. Mr. Draper stressed this fact as an argument for more careful and perhaps more drastic action in the case of securities bought on margin than for real estate bought on long term and amortized on a schedule fixed in advance at the time of purchase.

Mr. Parry said that in his opinion the most important requirement insisted upon by the Board at the time the Securities Exchange Act was under consideration by Congress was that the Board be given power both to raise and to lower margin requirements. He went on to say that it was the conclusion of Mr. Dreibelbis and himself that the Board has the power to raise requirements even when the volume of stock market credit is going down, that the preamble and legislative history of the Act show that Congress was concerned with preventing wide swings in stock prices and that this is borne out by the fact that the statutory formula was tied to stock prices. He said that he had never recommended an increase in margin requirements except when stock-market credit had been increasing, but that that was not legally necessary. He also said that mention had been made during the Congressional discussion of the disadvantage to the borrower who buys stock market securities on too thin a margin, but pointed out that while action by the Securities and Exchange Commission must, in the statutory language,

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be "for the protection of the investor", the language in the Securities Exchange Act delegating authority to the Board to fix the margin requirements does not contain that expression at all.

Mr. Goldenweiser pointed out that the provisions of Section 7(b) of the Securities Exchange Act governing the Board's power to raise margin requirements differs from that governing the Board's power to lower them and reads "to prevent the excessive use of credit to finance transactions in securities".

Mr. Thomas referred to the capital market aspects of the use of the Board's controls and pointed out that it is necessary to view the power which the Board has from the standpoint of the general economic situation of which the capital market is but a part. He pointed out that the Board under certain circumstances may want either to stimulate or restrain the capital market, and added that stock-market credit is in one sense consumer credit because of the use made of the proceeds of sale arising from credit-financed purchases of stocks. These are reasons, he said, why the policy governing the use of this power has to be flexible.

Mr. McKee indicated that he was in general agreement with Mr. Thomas and said that he would not want to have the Board's power too rigid but he thought that a fear psychology was detrimental to the capital market.

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There was considerable further discussion of the subject, but no action was taken.

At this point Messrs. Wyatt, Parry, Goldenweiser, and Thomas withdrew from the meeting.

The action stated with respect to the matter 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 October 4, 1944, were approved unanimously.

Thereupon the meeting adjourned.

Chester Morris
Secretary.

Approved:

Arnold Rosenberg
Vice Chairman.