

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, July 17, 1950. The Board met in the Board Room at 10:25 a.m.

PRESENT: Mr. McCabe, Chairman
Mr. Szymczak

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser
Mr. Young, Director, Division of
Research and Statistics
Mr. Solomon, Assistant General Counsel
Mr. Fauver, Administrative Assistant
to the Chairman

Mr. Carpenter stated that he had been notified by Mr. Vardaman's office that Mr. Vardaman probably would not return to his office until Friday, July 21.

At the request of Chairman McCabe, Mr. Riefler commented on a meeting he attended last Friday with representatives of the various Government agencies concerned with the problem of real estate credit, and reviewed the suggestions which had been offered by the representatives as to the measures which could be taken by their agencies to curtail this type of credit in view of the current international situation.

Mr. Solomon then stated that on Saturday morning Mr. Spingarn, Administrative Assistant to the President, called to request that legislation be drafted to restore authority to regulate consumer credit. Mr. Solomon said he told Mr. Spingarn that the President had authority

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to do so under existing law if he were willing to declare the existence of a national emergency. Mr. Spingarn felt, Mr. Solomon said, that the President would not want to take such action and that legislation should be drafted. Mr. Solomon added that Mr. Spingarn also asked that legislation be drafted to increase the authority of the Board to raise reserve requirements and, in a later conversation, that the drafts to be prepared include authority over real estate credit. Mr. Solomon went on to say that he and other members of the Board's staff had prepared drafts on consumer and real estate credit which had been submitted on Sunday afternoon with the understanding stated when the requests were made by Mr. Spingarn that Mr. Solomon had prepared the drafts on a personal basis and they did not purport to represent the views of the Board. However, he did not present a draft of legislation on reserve requirements, telling Mr. Spingarn that he was unable to determine any form of legislation that would be appropriate to the existing situation. Mr. Solomon made the further statement that apparently it had been decided at the White House that the "omnibus bill" being drafted to deal with the problems arising out of the Korean invasion would vest all of these powers in the President.

At this point Mr. Evans entered the meeting.

Mr. Solomon outlined briefly the substance of the drafts of legislation which had been prepared, and in the ensuing discussion Chairman McCabe stated that any proposals for revision in reserve

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requirements, particularly if they covered non-member banks or changed the present basis for computing reserves, would meet with strong opposition at this time.

At this point Chairman McCabe was called from the meeting and when he returned stated that he had received a telephone call from Mr. Spingarn requesting that Messrs. Riefler and Solomon attend a meeting at noon today to discuss the legislation which might be requested in the President's message to the Congress.

At this point, Mr. Morrill, Special Adviser, joined the meeting.

There was further discussion of the reasons why it would be undesirable at this time for the President to request a revision of the authority to raise reserve requirements, and, if the request were made, the form the increased authority should take. It was the consensus that when Messrs. Riefler and Solomon went to the meeting above referred to they should urge that, because of the opposition that would be offered to a proposed increase in reserve requirements, the President's message say nothing more on that subject than that, should it become necessary, he would submit a recommendation at a later date. There was also a discussion of the steps that might be taken in the fiscal and monetary fields in the light of international developments and it was agreed that an early meeting should be held with the Treasury to work out a program to be followed in this connection.

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Chairman McCabe said he had called Secretary Snyder for the purpose of arranging a conference but that the Secretary had been unable to fix a time for the meeting.

Mr. Szymczak noted that if the Federal Reserve System should be given authority for regulation of real estate credit, expert advice from outside consultants would be needed for the guidance of the staff, and it was agreed that the staff would explore possible means for obtaining such advice.

In a further discussion, question was raised whether the regulation was administratively feasible and it was the consensus that the Board should not seek the authority to regulate such credit.

The meeting then recessed and reconvened at 2:55 p.m. with the same attendance as at the end of the morning session.

Chairman McCabe stated that Messrs. Riefler and Solomon attended the meeting referred to during the morning session at which there was presented and discussed a draft of the proposed "omnibus bill". The request was made at that time, Chairman McCabe said, that the comments of the Board on that portion of the bill in which it was interested be submitted not later than 5:00 p.m. today and that any comments on the balance of the bill be submitted not later than noon tomorrow.

The five titles of the bill included (1) authority to institute priorities and allocations, (2) authority to requisition materials needed for national defense, (3) expansion of productive capacity

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and supply, including authority to reinstitute the V loan program used in the last war under which, through the agency of the Federal Reserve Banks the armed services guaranteed loans for war production purposes (the provisions of the draft bill on this subject were substantially in the form of legislation previously approved by the Board except that the authority to institute the program was in the President, and any Federal agency in addition to any Federal Reserve Bank could be designated to act as fiscal agent of the armed services in making contracts of guarantee), (4) control of credit, including consumer and real estate credit and speculation in commodities, and (5) general provisions, including delegation of authority, enforcement, etc.

The Secretary read that portion of the draft bill covering the regulation of consumer and real estate credit, which, except for the provisions relating to real estate, was substantially in the form of proposed legislation previously approved by the Board.

No objection was made to the draft as read and it was agreed unanimously that the Legal Division should study the several titles of the bill for the purpose of determining whether there were any technical changes that should be suggested in the legislation or further points that should have the consideration of the Board.

At this point Mr. Leonard, Director of the Division of Bank Operations, joined the meeting.

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Mr. Riefler said that at the meeting which he and Mr. Solomon attended there was a discussion of the reasons for the suggestion that the bill contain further authority to increase reserve requirements, but that on the basis of that discussion and subsequent conversations which he had with representatives of the Treasury Department and the Budget Bureau, it was his judgment that provisions on this subject would be eliminated from the proposed bill, although there might be some reference to the matter in the President's message to Congress.

The members of the Board present indicated that they would favor such elimination.

Chairman McCabe said that he had just received a letter from the Secretary of the Treasury in response to the letter sent to him following the meeting of the executive committee of the Federal Open Market Committee on July 10, 1950, and that he had read this reply by telephone to Mr. Rouse, Manager of the System Open Market Account.

At the Chairman's request, the letter was read, and Chairman McCabe stated that he was not disposed to do anything in connection with a reply until the Board had had an opportunity to study the contents of the President's message, after which he would undertake to arrange a conversation with Mr. Snyder.

The procedure suggested by Chairman McCabe was approved unanimously, with the understanding that copies of Secretary

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Snyder's letter would be sent to the Presidents of all of the Federal Reserve Banks under confidential cover.

At this point all of the members of the staff with the exception of Messrs. Carpenter and Kenyon withdrew, and the action stated with respect to the matter hereinafter referred to was taken by the Board:

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

"In order that the Federal Reserve System may make a more prompt evaluation of developments in the field of consumer durable goods and consumer credit, the Board, on the recommendation of the Executive Committee of the Current Business Developments Committee, is asking that the weekly series on department store sales in selected departments be reinstituted for a time. We should appreciate it, therefore, if you would contact the respondents who cooperated in this project last year and ask them to begin reporting again on a regular basis dollar sales figures for each of the four departmental categories included in last year's report.

"At the same time we should like to have you explore the possibility of obtaining from the stores, also on a regular weekly basis, a dollar figure for total-store instalment sales. We should also like to have grand total entire store sales for the stores in this special sample. We assume the latter figure will be available from your regular weekly sales reports.

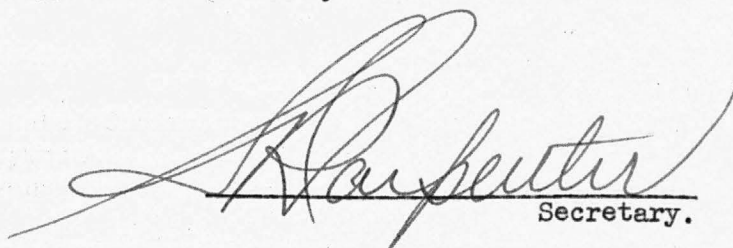
"It is contemplated that back data for the earlier weeks in July and monthly figures for June for this sample will be needed to permit an appraisal of developments since the outbreak of hostilities in Korea.

"Please advise us by Tuesday afternoon, July 18, of the feasibility of obtaining the information outlined above."

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Approved unanimously.


Secretary.