

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, October 20, 1950. The Board met in the Board Room at 10:30 a.m.

PRESENT: Mr. McCabe, Chairman
 Mr. Eccles
 Mr. Evans
 Mr. Powell

Mr. Carpenter, Secretary
 Mr. Sherman, Assistant Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Morrill, Special Adviser to the Board
 Mr. Thurston, Assistant to the Board
 Mr. Riefler, Assistant to the Chairman
 Mr. Horbett, Assistant Director, Division of Bank Operations
 Mr. Solomon, Assistant General Counsel
 Mr. Garfield, Adviser on Economic Research, Division of Research and Statistics
 Mr. Youngdahl, Chief, Government Finance Section, Division of Research and Statistics
 Mr. Koch, Chief, Banking Section, Division of Research and Statistics

There were presented telegrams to the Federal Reserve Banks of Boston, New York, Philadelphia, Atlanta, Chicago, St. Louis, Kansas City, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on October 17, by the Federal Reserve Banks of Atlanta and St. Louis on October 18, by the Federal Reserve Banks of New York, Philadelphia, and Chicago on October 19, by the Federal Reserve Bank of Kansas City on October 20, 1950, and by the Federal Reserve Bank of Boston today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

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Mr. Evans said that he had learned that preparation of page proofs of an amendment to Regulation W, Consumer Credit, which would expand the Regulation to include charge accounts and single payment loans, had necessitated late night duty by several members of the staff, and that he would suggest that the Secretary be asked to send them appropriate letters of commendation on behalf of the Board.

Mr. Carpenter stated that a number of employees worked late for the purpose of expediting the printing of Regulation X, Real Estate Credit, and that a similar letter should be sent to them.

It was understood that the suggested letter would be sent by the Secretary to each of the members of the staff concerned.

Mr. Evans stated that, in preparation for further consideration by the Board of the question whether to extend the scope of Regulation W to include charge accounts and single payment loans, the staff had been studying the possibility of regulating so-called "budget" or "revolving" accounts which are short-term instalment accounts, that he had suggested that the matter be taken up with the Reserve Banks and the trade to ascertain the administrative feasibility of covering charge accounts or budget accounts by the type of freezing mechanism in effect from 1942 to 1947 or by some alternative method, and that it probably would not be possible to present a recommendation to the Board for consideration before the week beginning October 30. No objection to this procedure was indicated.

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Mr. Eccles said that he would not be present at a meeting during that week but that, in his opinion, the results accomplished by broadening the Regulation to include charge accounts and single payment loans would be negligible in the anti-inflationary program, while it would pose difficult and burdensome administrative problems for the Reserve Banks and for the merchandising institutions affected.

Mr. Evans stated that his duties as Hearing Officer in the Clayton Act proceeding against Transamerica Corporation probably would preclude his regular attendance at Board meetings for some time, and that he would like to state his belief that the Board should make a decision to increase member bank reserve requirements without further delay. In explaining the reasons for his attitude, Mr. Evans said that reports which he had received indicated that commercial banks anticipated such action and were questioning why it was not taken, that he felt an increase in reserve requirements would be effective in restraining further bank credit expansion, and that it was his understanding that previous actions, including the increase in Reserve Bank discount rates and the increase in the short-term interest rate, were approved in the expectation that reserve requirements would be raised in the near future as a fundamental part of the same program. He stated further that, whereas restrictions had now been imposed by the Board upon borrowers through the consumer credit and real estate credit regulations, little or no

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pressure was being exerted on lenders, particularly banks, that higher rates on Government securities had actually increased the earnings of the banks, and that he doubted the efficacy of an increase in the discount rate in retarding the extension of credit by banks. Mr. Evans noted that the short-term rate had now moved to almost $1\frac{1}{2}$ per cent and said that he felt that all of the circumstances dictated a prompt decision to increase reserve requirements.

Chairman McCabe said that he had been impressed by statements of State Bank Supervisors who attended a real estate credit meeting at the Board yesterday to the effect that it would be inconsistent if the Board did not follow its recent actions with an adjustment of reserve requirements, that as he understood it the Board had already agreed that such action should be taken, and that the question was one of timing.

In the ensuing discussion of the timing of the action, Chairman McCabe suggested that the Board consider making the increase effective on November 16, 1950, with the announcement of the action at the close of business on November 10.

Mr. Eccles (who said he probably would be in the West when action was taken) stated that he agreed with Mr. Evans' conclusion that the interest rate adjustment had had practically no retarding influence on bank credit expansion, but that there was evidence that the tightening of consumer credit restrictions and the imposition of

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real estate credit controls would prove to be quite effective. He also said that he would have no objection to Chairman McCabe's suggestion of November 16, 1950, as the effective date for the action but, for reasons which he stated, he would prefer that the announcement be made as early as October 27, since this would give member banks more time to make the necessary adjustments without upsetting their investment programs.

At the conclusion of the discussion, Chairman McCabe suggested that the Board discuss the matter again on Friday, October 27, and that this would give the members of the Board not in attendance at today's meeting a chance to present their views. He also suggested that it would be valuable to the Board if an invitation could be extended to Mr. Fisher, Administrator of the Office of Real Estate Credit to attend a meeting on or before that date and give the Board the benefit of his views on the problem.

These suggestions were approved unanimously.

During the preceding discussion, Mr. Townsend, Solicitor, and Mr. Cheadle, Economist, Division of Research and Statistics, joined the meeting.

Mr. Eccles stated that since he intended to be away from Washington for about a month, he desired to place in the record certain observations reflecting his views as to the type of a legislative program which the Board should prepare for submission to the

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Congress after it reconvenes on November 27. While it was unlikely, he said, that any legislation would be enacted before the new Congress met in January 1951, it was probable that there would be hearings during the session to be held later this year and therefore the Board should have a program ready for submission.

In connection with this subject there had been sent to the members of the Board before this meeting a memorandum from Mr. Young dated October 18, 1950 transmitting a staff memorandum with respect to supplementary bank reserve requirement proposals prepared by Messrs. Cheadle and Koch under date of October 18 pursuant to the discussion at the meeting on September 12.

During a discussion of the memorandum, Mr. Eccles said that he felt strongly that the Board should be prepared to submit a program requesting additional authority over reserve requirements when Congress reconvened on November 27, since it was the duty of the Board to report to Congress on the situation and to make recommendations as to what legislation was needed to enable the Board to deal properly with the expansion of credit in which field it had responsibility for maintaining economic stability, so far as that was possible through credit controls. He suggested that the Board outline clearly to the Congress the alternatives available to the Federal Reserve System in dealing with the credit expansion, even though he felt it unlikely that legislation on the subject would be enacted

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before the new Congress meets in January 1951. The alternatives to be presented, he said, were (1) the System could abandon its support of the long-term 2 1/2 percent rate and thereby deny reserves to the market, a course which certainly would stop bank credit expansion, (2) Congress could give the System additional powers over reserves of all commercial banks which would permit the System to limit credit expansion while maintaining the 2 1/2 percent long-term rate; or (3) bank credit expansion and inflation could be permitted to continue unabated. Mr. Eccles emphasized his feeling that these alternatives should be brought to the attention of Congress, and that the Congress should indicate which course it felt should be followed.

There was a discussion of Mr. Eccles' proposal and while no conclusion as to steps to be taken was reached, it was understood that the matter would be discussed at a later meeting of the Board.

The meeting then recessed and reconvened at 3:00 p.m. with Messrs. McCabe, Eccles, Evans, Vardaman, and Powell, members of the Board, and Messrs. Carpenter, Morrill, Thurston, and Townsend, members of the staff, present.

Mr. Townsend referred to the discussion at the meeting of the Board on October 17, 1950, of developments in connection with the draft of brief to be filed by the Solicitor General of the United States taking the position that the Supreme Court should deny the petitions of Bank of America N. T. & S. A. and Transamerica Corporation for a writ of certiorari in connection with the action of the

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Court of Appeals of the Ninth Circuit with respect to the 22 banks which the national bank converted into branches contrary to the restraining order issued by the Court last June. He stated that as a result of further discussions between representatives of the office of the Solicitor General and the Treasury the material submitted by the Treasury for inclusion in the Solicitor General's brief had been revised and was now in about the form in which it was expected it would be incorporated in the brief. Mr. Townsend then read two paragraphs to be incorporated early in the brief, the material submitted by the Treasury to be included in the brief in quotation marks, and a concluding paragraph of comment by the Solicitor General on this material. He said that it was also possible that the brief would contain an express statement that the Solicitor General does not agree with the position of the Treasury.

At the conclusion of his statement, in response to questions from members of the Board, Mr. Townsend said that the brief in its now indicated form had gone a long way to meet his objections and, while inclusion of the material from the Comptroller might weaken and tend somewhat to confuse the position taken in the brief that certiorari should not be granted, he would recommend that, in the circumstances, including the other important questions which will arise in the future in connection with the Clayton Act proceeding, the Board concur in the brief in the form approved by the Solicitor

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General. In that connection he stated that he had suggested that he not sign the brief and that it carry the signature only of the Solicitor General so that it would be entirely clear to the Supreme Court that it represented the Solicitor General's views.

At the conclusion of the discussion Mr. Townsend's recommendation was approved unanimously.

Mr. Townsend then stated that in his testimony given this week in the pending Clayton Act proceeding against Transamerica Corporation, Mr. L. M. Giannini, President of the Bank of America N. T. & S. A., introduced various communications from the Comptroller of the Currency with respect to the permission granted by that Office to Bank of America to operate branches at the locations of the 22 banks and their branches which the national bank attempted to take over last summer in violation of the restraining order of the Court of Appeals of the Ninth Circuit. The purpose of the documents, Mr. Townsend said, was to put into the record the position that had been taken by Transamerica and the national bank for some time that they were being made the victims of a jurisdictional struggle between the Comptroller of the Currency and the Board of Governors, that when the Comptroller of the Currency granted permission to establish the branches in question he determined as a matter of law that the acquisition of the 22 banks was not in violation of the Clayton Act, and that therefore any other decision by the Board in the pending

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Clayton Act proceeding could not establish anything more than a difference of view between two Government agencies.

In view of that development, Mr. Townsend said, it was important to get into the record, (1) whatever information was available to the Board to establish the fact that the Comptroller of the Currency does not have responsibility for the enforcement of the Clayton Act and that his decision in authorizing the establishment of the branches at the sites of the 22 banks and their branches did not affect the Board's jurisdiction or determine the question involved in the Clayton Act proceeding, and (2) any other information that would bear on the question of monopoly and the extent to which that point was considered by the Comptroller of the Currency. In that connection he referred to the confidential memorandum of August 31, 1945, from the Comptroller of the Currency which Mr. Vinson, then Secretary of the Treasury, turned over to Mr. Eccles in 1945, in which the Comptroller of the Currency took the position in very strong terms that the growth of Bank of America and its practices were monopolistic in character and that therefore certain applications pending before him for permission to establish additional branches should not be granted. He pointed out that the memorandum had been made an exhibit and attached to the affidavit filed in court with the approval of the Board by Chairman McCabe on July 5, 1950, in response to an order of the Court of Appeals of the Ninth Circuit

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but that the exhibit had not been made public. He went on to say that certain statements in the memorandum were directly in point on the question of monopoly and on the fact that at that time the Comptroller of the Currency felt very strongly that the activities of the Transamerica group were unsound and should be restricted, and that if that were the situation at that time it would necessarily be the case now in view of the further expansion of the group. He expressed the opinion that the pending Clayton Act proceeding would be placed in very serious jeopardy if the record made by Mr. Giannini this week were left unchallenged and that the introduction of the memorandum would be a most effective way of combatting the contention of Transamerica.

He went on to say that, if the Comptroller of the Currency had adhered to his original position that he would assist the Board in the conduct of the Clayton Act proceeding, there might be no necessity for the introduction of the memorandum. However, since the Comptroller of the Currency had seen fit to reverse that position and was actively aiding the other side, including the execution of an affidavit which took the position that in granting of permission to establish the branches in question he had determined the question of possible violation of the Clayton Act adversely to the position taken by the Board in the pending proceeding, it was believed that the Board would be justified in putting the memorandum into the public record of the proceeding.

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The question presented by Mr. Townsend was discussed at length particularly in the light of questions raised by Messrs. McCabe, Vardaman, and Powell as to whether, notwithstanding the change in the position of the Comptroller of the Currency and the tactics used by Transamerica Corporation and Bank of America in opposing the pending Clayton Act proceeding, the Board would be justified in introducing into the public record a memorandum which came into the hands of the then Chairman of the Board as a strictly confidential document.

Mr. Vardaman inquired how the memorandum came into the Board's files and Mr. Eccles stated that in 1945, when it appeared that the Transamerica group were working in devious ways to get permission to establish additional banking offices, he took the matter up with Mr. Vinson who was then Secretary of the Treasury and outlined for his information the history relating to the matter and the attempt to prevent further expansion of the group. When he saw Secretary Vinson a second time, Mr. Eccles said, the Secretary handed him the memorandum of August 31, 1945, and asked him to look it over, stating that the Comptroller of the Currency felt just as the Board did as to the undesirability of further expansion by the Transamerica group. He added that at that time the Board, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation were in complete agreement that further expansion of the group would not be desirable. He

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concluded with the statement that he had not returned the memorandum and that he did not have any idea then that the time would come when the Comptroller of the Currency would completely reverse his position.

Toward the end of the discussion, Mr. Townsend in response to a question stated that, while it would be helpful to have the memorandum available in connection with his cross examination of Mr. Giannini, it could be put into the record at any time before the close of the hearing and, therefore, the decision of the Board could be deferred for a few days. He also said that he would not put into the record any portion of the memorandum relating to the condition or management of the Bank of America and that the purposes of the Board would be accomplished if only those portions of the memorandum were put in evidence which related to the opinion of the Comptroller of the Currency on the question of monopoly.

It was understood that a decision would be deferred until the matter could be discussed with the absent members of the Board.

Inasmuch as Mr. Evans would probably be occupied with the Clayton Act proceeding and Mr. Eccles would be in Utah when the matter was next considered by the Board, they expressed their opinions as to the action the Board should take. Mr. Eccles stated that he would vote to authorize Mr. Townsend to put in the record the portions of the memorandum referred to by him as relating to the question of monopoly for the reason that the circumstances involved thoroughly

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justified such action by the Board. Mr. Evans stated that he would agree with Mr. Eccles' opinion for the reason that the Board was in the position of having a responsibility under a statute and the Comptroller of the Currency as another agency of the Government was doing everything he could to defeat the efforts of the Board to carry out that responsibility.

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

Minutes of actions taken by the Board of Governors of the Federal Reserve System on October 19, 1950, were approved unanimously.

Memorandum dated October 16, 1950, from the Personnel Committee, reading as follows:

"In accordance with discussions with the Presidents of the Federal Reserve Banks of Philadelphia and Richmond, and the informal discussion at the meeting of the Board of Governors on Friday, October 6, 1950, it is recommended that the Board approve the following arrangements with respect to personnel:

(1) Effective as of the date he assumes his duties on about December 1, 1950, the Federal Reserve Bank of Richmond will make Mr. Edw. A. Wayne, Vice President, available to the Board for a temporary period to enable him to serve under appointment by the Board on a part time basis as Acting Director of the Board's Division of Examinations. It is understood that he will serve as Acting Director for a period of about six months and will spend an average of four days a week in this assignment. During that time he will survey the functions and purposes of the Division of Examinations and make suggestions to the Board with respect thereto, and also with respect

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"to the selection of a future Director of the Division.

(2) Effective as promptly as he can report for duty, the Federal Reserve Bank of Philadelphia will make Mr. Robert N. Hilkert, Vice President, available to the Board for a temporary period to enable him to serve under appointment by the Board as Acting Director of the Board's Division of Personnel Administration. It is understood that he will give his entire time to the temporary assignment for a period of approximately six months and that during that time he will make suggestions to the Board with respect to a future Director of the Division.

(3) Effective as of the date Mr. Hilkert assumes his duties as Acting Director of the Division of Personnel Administration, Mr. Nelson will be appointed an Assistant Director of the Division of Examinations with no change in his present salary at the rate of \$12,000 per annum and as such will perform the duties set forth in the attached memorandum dated October 9, 1950, from Mr. Millard. In addition he will be available for such consultation with Mr. Hilkert as may be necessary.

(4) It will be understood that Messrs. Wayne and Hilkert will remain on the payrolls of their respective Federal Reserve Banks and that the Board will reimburse the banks for their salaries and travel and other official expenses incurred by them, including hotel accommodations in Washington. Since they will retain their present homes and will have occasion to travel frequently between Washington and their respective cities, such travel will be regarded as reimbursable official travel. Reimbursement of salaries and official expenses as outlined in this paragraph will be on such basis as is approved by the Board's Personnel Committee."

Approved unanimously with the understanding that the 1950 budgets of the Division of Personnel Administration and the Division of Examinations would be increased by amounts sufficient to cover the costs of reimbursing the Federal Reserve Banks of Philadelphia and Richmond.

Letter to Mr. Peyton, Chairman, Conference of Presidents,
c/o Federal Reserve Bank of Minneapolis, prepared in accordance with

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the discussion at the meeting on October 18, 1950, reading as follows:

"The letter dated October 4, 1950 from Mr. Clement Van Nice, Secretary of the Conference of Presidents, outlining several actions by the Presidents' Conference extending the free services of the Federal Reserve Banks, has had preliminary consideration by the Board of Governors of the Federal Reserve System. In view of the recommendation of the Subcommittee on Bank and Public Relations and Free Services of the Presidents' Conference that these matters be discussed with leading correspondent banks before placing the changes in effect, the Board would appreciate such consultations by the Federal Reserve Banks as seem appropriate. Since the Reserve Banks may hold one or more conferences with correspondent banks along the line of the meeting in New York, outlined by President Sproul at the last meeting of the Conference of Presidents, it might be appropriate to discuss this question at such a meeting.

"Accordingly, the Board of Governors will defer formal action on these recommendations for a short period to obtain such reactions as the Federal Reserve Banks may report from correspondent banks in their districts. We trust that the delay will not be inconvenient to any Federal Reserve Bank.

"Since several Federal Reserve Banks may be calling meetings with correspondent bankers within the next few days, we are sending a copy of this letter to all Federal Reserve Bank Presidents, suggesting the possibility of placing this topic on the agenda for such meetings."

Approved unanimously.

Letter to Mr. Peyton, Chairman, Conference of Presidents,
c/o Federal Reserve Bank of Minneapolis, prepared in accordance with
the discussion at the meeting on October 18, 1950, reading as follows:

"The question of announcing approval as of a definite date of two days as the maximum deferment

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"for cash items sent from any Federal Reserve Bank or Branch or any direct sending member bank or non-member clearing bank has had the careful consideration of the Board of Governors of the Federal Reserve System. At the informal request of the Chairman of the Federal Advisory Council, the Board's decision in this matter was postponed until the Federal Advisory Council had had an opportunity to express its views, which was done at a joint meeting of the Council and the Board on October 3, 1950. Among other considerations mentioned by the Federal Advisory Council was the fact that the shortening of maximum deferment which would involve the absorption by the Federal Reserve Banks of upwards of \$100,000,000 of daily float would be inappropriate at a time when the Federal Reserve System is attempting by all means at its command to check the inflationary growth of bank credit.

"On October 11 Chairman McCabe and Governor Powell met with representatives of the Reserve City Bankers Association to discuss Federal Reserve relationships with the correspondent banks. These representatives stated that a series of meetings between Federal Reserve Bank officials and representatives of correspondent banks in all districts except New York had been suggested. The representatives requested that announcement of two-day maximum deferment of cash items be delayed until after those meetings had been held. It was thought that the announcement would be better received by correspondent banks if they had had a prior explanation at these meetings of the circumstances leading up to the decision.

"In view of the matters related in the two foregoing paragraphs, the Board has decided to delay announcement of two-day maximum deferment of cash items until the Reserve Banks have had an opportunity to hold such meetings with correspondent bank representatives as they may plan and to explain the reasons for the two-day maximum at those meetings. Since these meetings may be held within the next few days, we are sending a copy of this letter to all Federal Reserve Bank Presidents."

Approved unanimously.

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

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"In response to an inquiry from a Federal Reserve Bank the Board has ruled that draperies or curtains are not listed articles under Group D of the Supplement to Regulation W."

Approved unanimously.

Telegram to Mr. Hitt, First Vice President of the Federal Reserve Bank of St. Louis, reading as follows:

"Reurlet October 12, 1950, re question under Regulation W in which bank would finance automobile for dealer who would supply it, free of charge, to a driver training school. Dealer would sell car after seven or eight months, paying off bank financing. Board is of view transaction would be subject to regulation as loan by bank to dealer to purchase automobile."

Approved unanimously.

Telegram for the signature of the Chairman, to Honorable Pat McCarran, Golden Hotel, Reno, Nevada, reading as follows:

"I am pleased to reply to your wire of October 18 regarding the Board's recent amendment to Regulation W providing a 15-months maturity on sales of automobiles.

"All aspects of the regulation were thoroughly explored with representatives of various industries before the original regulation was issued effective September 18, 1950. The Board fully recognized at that time that the trade representatives favored terms even easier than those prescribed in the original regulation. As a result of those consultations the Board also was well aware that many sellers and lenders would not be in sympathy with the recent amendment.

"The Board was also faced with the fact that in the period prior to the September 18 effective date of the original regulation there had been a large expansion of credit as a result of forward buying and high-pressure selling based on the anticipated terms of the new regulation. Further consultation

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"with industry representatives in addition to that already held not only would have failed to contribute additional information in the Board's consideration of the question but would also have raised serious danger of further expansion of credit similar to that which had preceded the September 18 effective date.

"In the circumstances, the Board was convinced, and stated in publishing the amendment in the Federal Register that: 'Special circumstances have rendered impracticable and contrary to the interest of the national defense consultation with industry representatives, including trade association representatives, in the formulation of the above amendment; and, therefore, as authorized by the aforesaid section 709, the amendment has been issued without such consultation.'

"The Board has been greatly concerned at the seriousness of the inflationary situation. As the Senate Banking and Currency Committee stated on page 42 of its report on the Defense Production Act: '* * * The present international situation has greatly increased the necessary demands of the Government for goods and services. One of the major factors in the high volume of private purchases has been the availability of mortgage and consumer credit on liberal terms. Unless prompt and effective action is taken, this situation will upset the Nation's economic balance and add to the difficulties in procuring the manpower and materials necessary for our national security.'

"The anti-inflationary benefits of Regulation W, like the harmful results of excessive consumer credit, are not limited to the industries that manufacture and sell the particular articles subject to the regulation. They extend throughout the economy. As stated on page 10 of the Committee Report of the House Banking and Currency Committee on the Defense Production Act: 'Expansion of consumer and mortgage credit contributes not only to the current demand for labor and materials that go into housing and durable consumer goods, but also augments the demand for all other goods. The purchasing power created by consumer and mortgage credit enters the income stream where it adds to the competition for goods, including materials vital to the national defense.'

"As you know, the cruel burden of inflation is

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"especially severe on families of moderate or small income. Measures to restrain excessive price advances are of special benefit to those families as well as to others. As stated in the Committee Report of the Senate Banking and Currency Committee on Public Law 905 of August 16, 1948, which authorized the exercise of consumer credit controls: 'The person of small income is the one hit hardest when inflation pushes prices beyond his reach, and the one who suffers most when the resulting deflation throws him out of a job. The legislation should tend to result in directing competition along the line of decreasing prices rather than extending excessive credit terms. By making some contribution toward preventing further inflation at this time, and thus toward moderating any ensuing deflation, consumer installment credit controls can especially serve the interests of the person of low income in addition to serving the interests of all other consumers affected by our national economy.'

"We are replying by letter rather than wire to individuals who have communicated with us on this subject and I am sure that the replies will reach them shortly. I have been unable to discover any instance of representatives of industries who have sought conference or advice on the subject and have been refused interviews. I would appreciate it greatly if you would advise me of any such instances, including the names of the representatives, that have been reported to you.

"I ask your indulgence for the length of this telegram, and since I know that you are gravely concerned, as we are, over the great threat to the national welfare arising from the present inflationary spiral, I am taking the liberty of setting out below a copy of a statement by the Board on the subject:

The action of the Board of Governors in amending Regulation W (Consumer Credit), effective October 16, to make it more restrictive was a part of a general program designed to reduce inflationary pressures generated by excessive credit expansion and to contribute to credit conditions appropriate for a growing economy subject to heavy rearmament demands.

Inflationary trends, if unchecked, would lead to disastrous consequences for this country. Inflationary trends cannot be curbed without some inconvenience and sacrifice. The Board believes that the present terms

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"of Regulation W are no more stringent than the current inflationary dangers and the requirements of the defense effort justify.

Since early September when Regulation W was reinstated under the authority of the Defense Production Act, outstanding credit has continued to expand. This expansion has taken place from peak levels and follows extremely sharp increases during the summer. Since mid-June outstanding bank credit has increased by over \$4 billion, a record rate of increase for this period of the year. Expansion of consumer instalment credit has been responsible for contributing heavily to this exceptional growth in the money supply. The reasons for the Board's action in tightening the Regulation were set forth by Chairman McCabe in the following statement:

'The Board's action was based upon consideration of reports from Federal Reserve Banks and other sources in the field in all parts of the country which reflect continued upward pressures on prices in the five weeks since the reissuance of the Regulation was announced on September 8, 1950. While the intensity of these pressures on the market varies somewhat from time to time the fact remains that the underlying inflationary forces are unabated and have been augmented by the continuing growth of bank credit as well as credit in specific areas, including instalment credit. More vigorous application of regulation of instalment credit, coincident with the imposition of the real estate credit controls, is therefore in order so that these and other credit measures may most effectively serve in the effort to hold the line until further fiscal measures, as nearly as possible on a pay-as-you-go basis, and such additional credit measures as may be necessary can be brought into play. This is in accordance with the President's Mid-Year Economic Report of July 26 in which he stated that first reliance should be placed upon fiscal and credit measures and that this would make less necessary resort to direct controls. Likewise, the action is pursuant to the statement of August 18 in which the Reserve System declared its purpose to use all the means at its command to restrain further expansion of bank credit.

'Prospective pressures on productive capacity, manpower supplies, and the price structure arising out of expanded defense and military aid programs will be

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"increasingly heavy. This action was taken in the light of the System's statutory responsibilities, both under the Federal Reserve Act and under the Defense Production Act, to reduce inflationary forces particularly in various credit areas; to help maintain the purchasing power of the dollar; and to assist other agencies in assuring that the needs of the defense program are adequately met."

Approved unanimously.

Letter to Honorable Clyde Doyle, 405 Post Office Building, Long Beach, California, reading as follows:

"This refers to your telegram of October 18, 1950, regarding the Board's recent amendment to Regulation W providing a 15-months' maturity on sales of automobiles.

"All aspects of the regulation were thoroughly explored with representatives of various industries before the original regulation was issued effective September 18, 1950. The Board fully recognized at that time that the trade representatives favored terms even easier than those prescribed in the original regulation. As a result of those consultations the Board also was well aware that many sellers and lenders would not be in sympathy with the recent amendment. After giving careful consideration to those facts, the Board concluded that the terms issued effective September 18 and as amended effective October 16 should be prescribed in the public interest in order to help in protecting the national economy and the defense effort against the disastrous consequences of further inflationary pressures.

"The Board was also faced with the fact that in the period prior to the September 18 effective date of the original regulation there had been a large expansion of credit as a result of forward buying and high-pressure selling based on the anticipated terms of the new regulation. Further consultation with industry representatives in addition to that already held not only would have failed to contribute additional information in the Board's consideration of the question; it would also have raised serious danger of further expansion of credit similar to that which had preceded the September 18 effective date.

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"In the circumstances, the Board was convinced, and stated in publishing the amendment in the Federal Register that: 'Special circumstances have rendered impracticable and contrary to the interest of the national defense consultation with industry representatives, including trade association representatives, in the formulation of the above amendment; and, therefore, as authorized by the aforesaid section 709, the amendment has been issued without such consultation.'

"The Board has been greatly concerned at the seriousness of the inflationary situation. As the Senate Banking and Currency Committee stated on page 42 of its report on the Defense Production Act: '* * * The present international situation has greatly increased the necessary demands of the Government for goods and services. One of the major factors in the high volume of private purchases has been the availability of mortgage and consumer credit on liberal terms. Unless prompt and effective action is taken, this situation will upset the Nation's economic balance and add to the difficulties in procuring the manpower and materials necessary for our national security.'

"The anti-inflationary benefits of Regulation W, like the harmful results of excessive consumer credit, are not limited to the industries that manufacture and sell the particular articles subject to the regulation. They extend throughout the economy. As stated on page 10 of the Committee Report of the House Banking and Currency Committee on the Defense Production Act: 'Expansion of consumer and mortgage credit contributes not only to the current demand for labor and materials that go into housing and durable consumer goods, but also augments the demand for all other goods. The purchasing power created by consumer and mortgage credit enters the income stream where it adds to the competition for goods, including materials vital to the national defense.'

"As you know, the cruel burden of inflation is especially severe on families of moderate or small income. Measures to restrain excessive price advances are of special benefit to those families as well as to others. As stated in the Committee Report of the Senate Banking and Currency Committee on Public Law 905 of August 16, 1948, which authorized the exercise of consumer credit controls: 'The person of small income is

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"the one hit hardest when inflation pushes prices beyond his reach, and the one who suffers most when the resulting deflation throws him out of a job. The legislation should tend to result in directing competition along the line of decreasing prices rather than extending excessive credit terms. By making some contribution toward preventing further inflation at this time, and thus toward moderating any ensuing deflation, consumer installment credit controls can especially serve the interests of the person of low income in addition to serving the interests of all other consumers affected by our national economy."

"With further reference to the grave threat to the national welfare arising from the present inflationary spiral, there is enclosed a copy of a statement issued by the Board on the subject.

"We appreciate the opportunity to comment on the Board's actions in attempting to aid in protecting the national economy and the defense effort against the disruptive effects of excessive inflationary pressures, and we hope that you will let us know whenever we can be of any assistance in supplying any information in that connection."

Approved unanimously, with the understanding that similar letters would be sent in response to other inquiries regarding Amendment No. 1 to Regulation W, Consumer Credit, where such letters would be appropriate.

Letter for the signature of the Chairman, to Honorable Lyndon B. Johnson, United States Senate, Washington, D. C., reading as follows:

"We have received your several notes dated October 15, 16, 17, and 18 referring to us messages from automobile dealers and dealers associations in Texas and from Mr. Tom Stevenson, an appliance dealer in Brownsville, Texas, all protesting against the terms of this Board's Regulation W, governing consumer credit. Many of the automobile dealers who addressed telegrams to you also addressed them elsewhere. Senator Connally has referred to us a number

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"of such appeals, and we have received others from the White House and from Representative George Mahon.

"Our study of the consumer credit field as a whole and of such important industries as the automobile business in particular is continuing, and we are glad to have expressions from the public to include in that study. We thank you for referring to us the various messages from your constituents, and we are sending you herewith a number of copies of a statement by the Board of Governors explaining the reasons for its action, which we thought might be of interest to the dealers whose messages you sent us. We understand from Miss Westman, Governor Evans' secretary, that your office has kindly offered to distribute this statement directly to your constituents who have addressed protests to you in addition to those you have sent us.

"We recognize that in the administration of any such measure as Regulation W, which must be applied to the country as a whole, there are bound to be hardships on particular individuals and businesses. We regret exceedingly that this is so, and every effort has been made to keep such hardships at a minimum. After careful consideration of all of the factors involved, it seemed to the Board that action was necessary as an effort to avoid the widespread hardships that are a concomitant of inflation."

Approved unanimously, with the understanding that similar letters would be sent in response to other inquiries regarding Amendment No. 1 to Regulation W, Consumer Credit, where such letters would be appropriate.

Letter to The Honorable, The Comptroller of the Currency, Treasury Department, Washington 25, D. C., reading as follows:

"This refers to our letter of July 28, 1950, requesting that a supplemental order for printing 5,000,000 sheets of Federal Reserve notes of the 1934 series during the fiscal year ending June 30, 1951, be placed with the Bureau of Engraving and

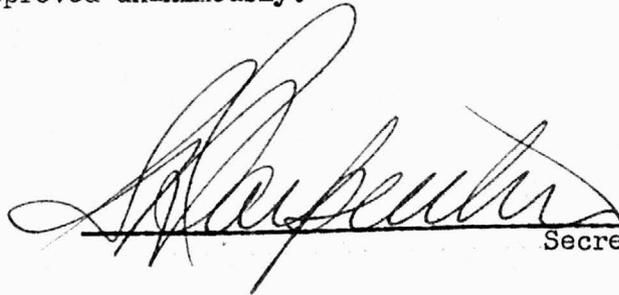
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"Printing. At this time it is desired to allocate 470,000 sheets of this total to Federal Reserve notes of the Federal Reserve Banks specified below:

| <u>Federal Reserve Bank</u> | <u>Denomi- nation</u> | <u>Number of sheets</u> | <u>Amount</u> |
|-----------------------------|---------------------------|-----------------------------|---------------|
| Atlanta | \$ 50 | 10,000 | \$ 6,000,000 |
| | \$100 | 10,000 | 12,000,000 |
| San Francisco | \$ 5 | 450,000 | 27,000,000" |

Approved unanimously.


Secretary.