

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, October 25, 1950. The Board met in the Board Room at 11:10 a.m.

PRESENT: Mr. McCabe, Chairman
Mr. Szymczak
Mr. Norton
Mr. Powell

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary

Before this meeting there were distributed to the members of the Board copies of a memorandum of recommendations from the Personnel Committee as to the action to be taken by the Board in connection with the survey made by Price, Waterhouse & Co. in accordance with the actions taken by the Board on January 20, 1950 and February 10, 1950. The Company's report, which was submitted under date of June 9, 1950, covered a survey of the Board's budgetary and accounting procedures and recommendations with respect to the adequacy of such procedures and the extent to which the preparation and consideration of the Board's budget could be improved. In accordance with an informal understanding with the representatives of the Company who made the survey, it also included suggestions with respect to the organization of the Board and its staff. When the report was received it was considered by the Personnel Committee which requested that it be studied by the senior staff and that the staff prepare a memorandum of comments. The staff memorandum was submitted under date of July 10, 1950, and thereafter the Price, Waterhouse & Co.

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report was discussed by the available members of the Board and a memorandum of suggested conclusions was prepared as a memorandum of recommendations from the Personnel Committee. This memorandum was discussed informally by the Board and was revised in the form circulated before this meeting.

The revised memorandum read as follows:

"1. Introduction.

"In July the members of the Board who were available in Washington considered the report submitted under date of June 9, 1950, by Price, Waterhouse and Company in response to the Board's request. Consideration was also given to the memorandum submitted to the Personnel Committee at its request by the senior staff under date of July 10, 1950. The members of the Board who studied the report and memorandum recommend that the Board approve the following statement relating to the suggestions contained in the report:

"2. Vice Chairman or some other Board member to have responsibility over all administrative activities of the Board and for the supervision of the Federal Reserve Banks and member banks.

"This proposal could not be considered apart from assignments of Board members, as well as the duties of the Personnel Committee, in which the proposal would make very substantial changes. The Board's action upon assignments of Board members has disposed of this proposal.

"In addition, there are certain improvements in procedure in connection with Board meetings that should be made. Accordingly, the Board will adhere to the present understanding that, in the absence of an emergency or other compelling reason, no matter requiring action will be presented at a Board meeting without having been placed upon the docket in advance. It is further understood that, in the absence of an emergency or other compelling reason, no matter will be placed on the docket without (1) a carefully considered recommendation of the Board member whose assignments include the subject matter, after consultation with the appropriate members of the staff, as to the action to be taken; and (2) in the case of any matter falling within the assignment of another Board member,

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"affording such other member, before the Board meeting, an adequate opportunity to proceed in accordance with (1) above.

"In order that the Board member having an assignment may be fully informed so as to meet his responsibility intelligently and effectively, it is essential not only that the correspondence and the results of staff consideration of matters involving Board action be brought to his attention promptly, but also that visitors to other Board members' offices who desire to discuss matters falling within the field of his assignment be referred to him, or that he be informed promptly as to the substance of the discussion of such matters between the visitor and the Board member not having the assignment.

"3. Duties and authority of the Secretary to be redefined to make him in fact the chief administrative officer.

"The Secretary will serve as the chief administrative officer of the Board in its relations with the staff divisions and with the Federal Reserve Banks. He will be responsible for bringing about such coordination in staff action on official business as will result in maximum efficiency and will minimize the demands upon the time of Board members and the Personnel Committee for consideration of administrative details.

"As one means of effectuating the administrative responsibilities of the Secretary, he will be authorized to appoint, with the approval of the Personnel Committee, such staff committees as in his judgment may be necessary. Through such committees or other appropriate consultation with the heads of the divisions and offices concerned, he will constantly review the budget and expenditures of the Board's organization, proposals which involve increases in expenditures or material changes in the staff organization, and methods of improving or facilitating the conduct of the Board's business, including the efficient use and assignment of office space and the appointment, salaries, and utilization of personnel. The Secretary will report to the Personnel Committee periodically the matters of importance considered and the results. He will also attend the meetings of the Personnel Committee. He will direct the arrangements with Federal Reserve Banks for the regular and special audits of the Board's financial accounts and will bring to the attention of the Board's Personnel Committee the results of such audits.

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"All incoming and outgoing official communications (other than routine communications of staff divisions with the Federal Reserve Banks and others at staff level) shall be cleared as soon as possible through the Secretary's Office, so that it will be informed and take responsibility for the prompt and proper handling of such communications. When matters are to be submitted to the Board for consideration or action, they shall be cleared first through the Secretary's Office. When actions are taken by the Board the Secretary will see that the necessary advices are given and other steps taken so that the actions of the Board will be properly implemented.

"It will be the duty of the staff to see that Board members are kept currently and promptly informed of any matters that may require their consideration in connection with their respective assignments.

"4. Controller.

"While the purpose of the report in proposing the creation of the position of Controller, to accomplish a more effective method of challenging and scrutinizing expenses at the staff level, is sound and desirable, the establishment of a separate and distinct division under the type of person and with the responsibilities contemplated would involve a very substantial additional expense at top staff level which would be quite high for an organization as small as this one. It would raise serious questions in practice as to how to reconcile the proposed functions of the Controller, as the head of a new and separate division, with the responsibilities involved in the maintenance of the chief administrative officer function of the Secretary, as well as the continuance of the specific responsibilities of the Directors of Personnel Administration and Administrative Services.

"In the circumstances, the Board will endeavor to reach the desirable objectives of the recommendation, without increasing the expense and size of the senior staff organization, by utilizing and coordinating the existing organization. The Secretary as chief administrative officer will be the Controller in effect.

"The effectiveness of this plan will be under constant scrutiny by the Board's Personnel Committee and the whole arrangement will be reviewed by the Board after it has been in effect for six months. If the need for a Controller should become more evident in that period or at a later date, an appropriate recommendation will be submitted by the Personnel Committee to the Board. In the

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"meantime the merits of clarification and emphasis of the Board's position as to the responsibilities of the existing staff organization will be tested.

"5. Director of Personnel Administration.

"The policies of the Federal Reserve System with respect to personnel should be such as to enable the System to provide recognized leadership in this field. Therefore, the Director of Personnel Administration shall organize his division in such manner as will enable him to assume leadership in Federal Reserve personnel policies, including modern personnel studies, classification procedures, aptitude tests, working arrangements, grouping of employees doing similar work, etc., with a view to attracting and maintaining outstanding personnel for service at all levels. Through attendance at meetings and other outside contacts with leaders in the profession, he shall keep his division abreast of the most up-to-date developments in personnel administration. He shall also develop such proposals as may be desirable to improve the classification of employees and the utilization of existing personnel.

"Whenever it is proposed to reclassify a position because of the increased competence and qualifications of the employee in the position, to increase the duties and responsibilities of a position, or to create a new position, and no provision has been made in the approved budget for such change, the Directors of Personnel Administration and the division concerned will consider the reasons and necessity therefor. If they are satisfied that the change should be made, they will discuss the reasons with the member of the Board whose assignments include the activity involved and, if no objection develops, the increase, if any, in the budget will be submitted for approval in accordance with the established procedure. The Director of Personnel Administration will be free to question the need for or desirability of any such change. If he objects and the matter can not be disposed of, it shall be considered by the Secretary and if it can not thus be disposed of it shall be presented to the Board's Personnel Committee for decision.

"In connection with the review of personnel procedures, all unnecessary duplication in leave and other records as between the Division of Personnel Administration and other divisions shall be eliminated.

"The Director of Personnel Administration will make a study of the recommendations in the Price, Waterhouse report with respect to leave policies and he and the Secretary will consider and recommend to the Board's Personnel

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"Committee any changes that it believes would be justified.

"The Board will continue to adhere to the general policies and practices of the Government with respect to personnel relations, but with sufficient flexibility to enable it to select and maintain an outstanding staff organization without subjecting itself to unjustifiable criticism for substantial departures.

"For the present it appears that nothing would be gained from the standpoint of the Board by the transfer of the Federal Reserve Bank personnel work from the Division of Personnel Administration to the Division of Bank Operations, but that something would be lost, especially in view of the appreciation and recognition that have developed during recent years of the highly-specialized nature and value of personnel administration. Moreover, the same functions would have to be performed somewhere in the Board's staff, regardless of where they might be located, and there would be no saving in expense. As demonstrated during the last war, it is more than likely that the personnel problems of the Government growing out of the Korean situation and its possible evolution into more serious developments will increase heavily the burdens of personnel administration of the System and call for a renewed concentration of experience and technical knowledge in this field. In order to be in a position to exercise leadership in the System, therefore, it is desirable that the supervision of the Board's personnel and Federal Reserve Bank personnel problems be retained in the present form of organization with the clarification and emphasis of responsibilities indicated elsewhere in this statement.

"6. Director of Administrative Services.

"The Director of the Division of Administrative Services shall have responsibility for the efficient and economical expenditure of the Board's funds for all nonpersonal services. He shall see that only necessary and desirable expenditures are allowed in accordance with the rules and policies adopted from time to time by the Board and within the terms of the Board's budget. He shall review procedures involved in the utilization of equipment, supplies, materials, printing, etc., for the purpose of assuring the adoption of up-to-date methods, the elimination of duplication, the efficient use, maintenance and replacement of equipment, economical provision and use of supplies, the control and standard-

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"ization of printed forms, and the revision or elimination of outmoded procedures and equipment. When an expenditure is proposed which, in his judgment, is not justified, and the proposal is not withdrawn, the matter will be considered by the Secretary. If it can not be thus disposed of, the matter shall be presented to the Board's Personnel Committee.

"He shall adopt such changes in the preparation of the annual budget of the Board as will result in its clarification and simplification to such an extent as may be necessary and appropriate to enable the Personnel Committee and the Board to be acquainted with the essential features and to pass intelligently upon any questions involved without the consideration of unnecessary detail. In this connection, it is understood that he will put into effect, as far as practicable, the substance of the suggestions in the Price, Waterhouse report with respect to the form and detail of the budget as recommended by the senior staff, and will give further consideration to the adoption of any other suggestions that may be helpful.

"The budget will represent the best judgment of the staff as to the items and amounts necessarily required for the operation of the Board's organization for the period specified, on an economical and efficient basis, and that it shall not be merely a 'target' budget, or regarded as a budget that can be exceeded in any respect except as a result of circumstances that could not be reasonably foreseen. Expenditures are to be kept within the limits of the budget unless prior approval is obtained from the Board's Personnel Committee on the basis of an adequate showing of necessity therefor and a recommendation of the division head, the Secretary, and the Director of the Division of Personnel Administration in the case of personnel expenses, and the Director of the Division of Administrative Services in the case of all other expenses.

"7. Travel and other expenses of Board members.

"The policies of the Board with respect to expenses incurred by members of the Board for travel, lunches and dinners, assignment of employees to Board members' offices, use of messengers, distribution of speeches and articles, and for other purposes will be reviewed by members of the Board in an executive session when all members of the Board are present, so that effective rules and procedures with respect to the control of such expenses may be provided for the guidance of the staff.

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"Before such review takes place, the Board's Personnel Committee will study the existing policies, rules and procedures and will present a recommendation for the Board's consideration.

"8. Central stenographic section and Board messengers.

"The Secretary will arrange for a study by appropriate members of the senior staff of the suggestion in the Price, Waterhouse report with respect to a central stenographic section and will submit to the Board's Personnel Committee as promptly as possible a recommendation as to the extent to which the objectives of the suggestion can be efficiently carried out, including the question of the extent to which the use of mechanical dictating equipment throughout the organization would be practicable. He will also arrange for a study and a report to the Personnel Committee on the feasibility of pooling the supervision of staff messenger service.

"9. Central Statistical Section.

"The recommendation as to a Central Statistical Section is based upon a point of view that deserves consideration. It perhaps would be more feasible in an organization where statistical activities are routinized. However, that is not the case in the work of the Board's staff except to a limited extent, because the routine statistical compilations are largely done elsewhere and the responsibility of the Board's staff is primarily that of analysis and judgment. Consequently, such statistical work as is conducted by the Board's staff is largely centered around senior personnel who are concerned with the conclusions to be drawn from the material. The recommendation has not been adopted for these reasons, but it is worthy of further study and the Personnel Committee will submit a recommendation with respect to the matter within the course of the next three months.

"10. Miscellaneous.

"The senior staff report includes references to a number of points in the Price, Waterhouse report upon which the staff has already instituted action or made specific suggestions, which include the following:

No departure is contemplated in general principle from existing governmental accounting procedures, but a number of changes in details suggested in the Price, Waterhouse report are being adopted and others will be adopted as and when the simplified budgetary procedure is put into effect.

The staff believes that the annual list of Federal

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"Reserve Bank employees should be retained, for administrative reasons, and its discontinuance is not contemplated.

The elimination of the Dewey Decimal System in the Board's central files has been under consideration for some time but it would be a fairly major operation. The staff contemplates that the change will be made as promptly as possible.

The staff sees no reason for the separation of the stock room from the Procurement Section and feels that the maintenance of stock is a proper function of procurement with the understanding, of course, that necessary controls are provided. Other changes in procurement will be reviewed in the light of changes to be made in accounting procedures.

The Division of Administrative Services has instituted a study of the forms in use by the Board with a view to eliminating unnecessary duplication.

Each division will review the retrospective records maintained by it and submit a report.

"These matters will be reviewed by the Secretary as chief administrative officer."

Mr. Szymczak discussed briefly the reasons for the statement recommended by the Personnel Committee as contained in the revised memorandum and he read the statement paragraph by paragraph.

During the discussion of the statement Mr. Vardaman joined the meeting.

In connection with the paragraph in the statement on improvements in procedure in connection with Board meetings, all of the members present were in agreement that the procedure proposed in that paragraph should be closely adhered to.

Chairman McCabe referred to the increasing pressure on his office and the need for conserving the time of the members of the Board. In that connection the other members present concurred in the

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suggestion that, as a means of relieving the pressure on the Chairman, his office should insist on as many things as possible being handled by other members of the Board in accordance with the assignments of subjects that had been made to the individual members for their primary consideration.

At the conclusion of the discussion, upon motion by Mr. Szymczak, the statement recommended by the Personnel Committee as contained in the memorandum set forth above was approved unanimously, to become effective immediately, with the understanding that the Personnel Committee would meet with the senior staff for the purpose of discussing the statement and the principal reasons for its adoption.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on October 24, 1950, were approved unanimously.

Memorandum dated October 24, 1950, from Mr. Young, Director of the Division of Research and Statistics, recommending a leave of absence without pay for Alfred H. Conrad, an economist in that Division, for the period October 28, 1950, to the end of April, 1951.

Approved unanimously.

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Memorandum dated October 23, 1950, from Mr. Leonard, Director of the Division of Bank Operations, recommending the appointment of Theodore Arthur Veenstra, Jr. as an analyst in that Division, subject to a satisfactory clearance of his application, on a temporary indefinite basis, with basic salary at the rate of \$3,100 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination.

Approved unanimously.

Memorandum dated October 23, 1950, from the Division of Personnel Administration, recommending an increase in the basic salary of Miss Sylvia I. Clements, a clerk-stenographer in that Division, from \$3,355 to \$3,600 per annum, effective October 29, 1950.

Approved unanimously.

Telegram to Mr. Erickson, President of the Federal Reserve Bank of Boston, reading as follows:

"Board has received following wire dated October 20 from Ivan E. Edwards, Executive Secretary, Vermont Automobile Dealers Association, Montpelier, Vermont: 'The unwarranted drastic terms of Regulation W are discriminatory and industry wrecking Stop We request immediate rescission and an opportunity to present factual data.'

"It will be appreciated if your bank will get in touch with Mr. Edwards and offer to receive from him on behalf of the Board such factual data as he may care to submit. If it should develop that Mr. Edwards wishes to meet with someone in Washington regarding the matter, a mutually agreeable time for such a meeting here could be arranged by telephone with Mr. Leonard, Director of the Division of Bank Operations."

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Approved unanimously.

Telegram to Mr. Gidney, President of the Federal Reserve Bank of Cleveland, reading as follows:

"Board has received following wire dated October 20 from Geo. H. Scott, President, Vacuum Cleaner Mfgs. Assn., E. 152 Street, Cleveland:

'The imposition and timing of new credit controls under Regulation W has caused considerable apprehension in our industry our representatives desire an opportunity to discuss this matter with you or a designated member of your Board an early appointment will be appreciated'.

"It will be appreciated if your Bank will get in touch with Mr. Scott and offer to meet with him on behalf of the Board, or if he prefers to meet with someone in Washington, it will be appreciated if you will have arrangements made with Mr. Leonard, Director of the Division of Bank Operations, for a mutually agreeable time for Mr. Scott to meet here."

Approved unanimously.

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

"Reurtel October 18 an instalment loan for the purpose of purchasing a truck would be an unclassified instalment loan subject to the provisions of Section 4(b) unless exempt under the provisions of Section 7. The applicability of any of the sub-sections of Section 7 to a particular credit would have to be determined in the light of circumstances in the individual case. It is possible that a truck being purchased by an employer for the purpose of transporting employees to and from their place of employment could be considered as coming within the provisions of Section 7(b). However, if in any case the truck is not to be used for business purposes the exemption would not apply."

Approved unanimously.

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

"In reply to an inquiry the Board has ruled that an automobile becomes a 'used' car for the purposes of Regulation W when it is (1) first sold to any person not engaged in the business of selling automobiles, or (2) used and driven as a 'demonstrator' by an automobile dealer or salesman even though the automobile has not been previously sold."

Approved unanimously.

Letter to Mr. Samuel Gordon, Esquire, 8237 Georgia Avenue,
Silver Spring, Maryland, reading as follows:

"This refers to your letter of October 16, 1950, concerning the application of Regulation W to the business of your client, the Sylvan Sales Company, Inc., which is engaged in the installation of television sets in the Washington area.

"You point out that your client has been selling television sets on instalments, using a 'meter plan' in the collection of the monthly instalment payments. While you do not request advice in this particular regard, we believe you will agree that the transactions, as described by you, would not comply with the requirements of the Board's Regulation W, which became effective September 18, 1950, and as amended effective October 16, 1950. If the applicable requirements of the regulation are complied with, the use of a meter as a collection facility would not, of itself, constitute a violation of the regulation. A copy of the regulation and the amendment are enclosed herewith.

"Your client now proposes to install television sets under a lease which would run for a specific period not less than 6 months and which would obligate the lessee to pay a minimum monthly rental. In the collection of such rental, the 'meter plan' would be used. However, if at any time between the installation of the set and the expiration of the first monthly rental period the lessee desires to purchase the set so installed, he may do so; and apparently the first

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"monthly rental would be applied as part of the purchase price. At that time, you state that the requirements of Regulation W would be met. On the other hand, if the lessee should not decide to purchase the set within such period, the lease would continue in effect.

"A basic provision of the regulation is the definition of 'Credit' in section 8(j)(3). This definition includes as 'Credit', among other things, 'any rental-purchase contract, or any contract for the bailment or leasing of property under which the bailee or lessee ... has the option of becoming the owner thereof ... and any transaction or series of transactions having a similar purpose or effect.'

"In the Board's view, the proposal in question falls within the above definition. Consequently, the requirements of the regulation, including those concerning minimum down payment or maximum loan value, maximum maturity and the scheduling of payments, would apply. Furthermore, such proposal also falls within the provisions of section 6(f) specifically necessitating at the time of delivery of a television set in the manner described, a deposit equal to the required down payment unless an agreement is executed in accordance with the second paragraph of section 6(f). In the latter event, the down payment requirement could be delayed for a period not exceeding ten days.

"Considering the matter in the light of the foregoing provisions of the regulation, the Board is of the view that the proposed arrangement for the installation of television sets would not comply with the regulation."

Approved unanimously.

Telegram to Mr. Smith, General Manager of the Buffalo Branch,
Federal Reserve Bank of New York, reading as follows:

"Following wire has been received from Linquist and Lindstrom Trailer Sales, Jamestown, New York, addressed to Department of Finance and Price Control: 'Advise if one third down and 36 months payment plan of house trailers has been affected by the finance ruling. Wire answer.'

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"As you know house trailers are exempted from Regulation W under section 7(h)(2).

"There have been no rulings by the Board concerning the application of Regulation X relating to residential real estate credit to house trailers but assuming that the circumstances were such that Regulation X might possibly be applicable it would seem that the terms stated in the inquiry would in most cases comply with the requirements of that regulation.

"It will be appreciated if you will make appropriate reply to inquiry."

Approved unanimously, with the understanding that a copy would be sent to Mr. Sproul, President of the Federal Reserve Bank of New York.

Telegram to Mr. Slade, Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"Relet October 21, 1950, concerning application of Modern Housing Corporation, Hollywood, California, for exemption under section 5(g) of Regulation X. If there were firm commitments within the meaning of section 6(b) of Regulation X, as construed in the Board's telegram of October 17, 1950 (S-1167; X-4), it is our opinion that an exemption under section 5(g) should not be granted because the applicant cannot show that 'his inability to obtain credit to finance such new construction on the basis contemplated by him and by the Registrant prior to August 3, 1950, would cause him substantial hardship'."

Approved unanimously.

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

"Receipt is acknowledged of your letter of October 18, 1950, concerning the meaning of the term 'cost' as used in section 2(i) of Regulation X.

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"We believe that our telegram S-1176 (X-8), dated October 23, 1950, answers your inquiry. However, it perhaps should be mentioned that, while the telegram relates specifically to section 2(i)(2)(B), the same principles would apply in construing the term 'cost' as it is used elsewhere in section 2(i) of the regulation."

Approved unanimously.

Letter to Honorable Albert Thomas, House of Representatives,
Washington, D. C., reading as follows:

"Thank you for referring to us Mr. Burke Holman's letter of October 16, 1950, concerning the new restrictions on housing credit. We welcome all constructive comments, whether favorable or adverse.

"As you know, the new regulations were authorized by Congress in the Defense Production Act of 1950. In preparing Title VI of this Act, Congress recognized the substantial inflation already existing in the housing field and took vigorous steps to prevent further inflationary pressures. We hope that other citizens share Mr. Holman's awareness of the acute need for combating inflation in this vital sector of the economy.

"The actual terms of the regulations were determined after intensive study by experts in the field of home financing. Not only did the Federal Reserve Board and the Housing and Home Finance Agency concur in the terms, but other Government agencies and prominent businessmen with a wide knowledge of home finance were consulted and their judgments considered. The terms established were designed to do the job as effectively and equitably as possible. In the interest of fairness, it was believed desirable to require a larger down payment from those who are relatively more prosperous than those who are in the lower income groups. Restrictions such as these must be formed in the general interest; unfortunately, some individuals feel them more severely than others.

"We sincerely hope this information is of help to you, and if we can be of further assistance we shall be glad to hear from you."

Approved unanimously.

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Letter to Mr. Mangels, First Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

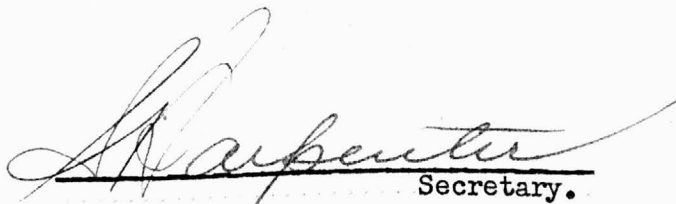
"This refers to your letter of September 22, 1950, in which you inquire as to the status of Escrow & Loan Service Co., Incorporated, Pasadena, California, with respect to examinations and annual reports to the Board.

"As long as the corporation's application for a voting permit is pending, it will be subject to examination by examiners for your Bank, and it has been our practice in such cases to request the usual annual reports."

Approved unanimously.

Memorandum dated October 25, 1950, from the Division of Personnel Administration outlining the changes made in leave regulations of the Government by the Appropriations Act of 1951 and recommending that no change be made in the Board's leave regulations at this time, but that the present policy which urges the use of both accumulated and current annual leave be stressed.

Approved unanimously.


Secretary.