Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, November 7, 1950. The Board met in the Board Room at 9:35 a.m.

PRESENT: Mr. McCabe, Chairman
Mr. Szymczak
Mr. Evans
Mr. Norton
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. Thomas, Economic Adviser to the Board
Mr. Leonard, Director, Division of Bank Operations
Mr. Vest, General Counsel
Mr. Young, Director, Division of Research and Statistics
Mr. Solomon, Assistant General Counsel
Mr. Pawley, Economist, Division of Research and Statistics
Mr. Jones, Chief, Consumer Credit and Finances Section, Division of Research and Statistics
Mr. Shay, Assistant Counsel

Mr. Lewis, Assistant Vice President of the Federal Reserve Bank of St. Louis and Mr. Grant, an employee of the Federal Reserve Bank of New York who are assisting temporarily in connection with Regulation W activities, were also present.

Mr. Evans stated that, in accordance with discussions at recent meetings of the Board, the staff had reviewed problems connected with the possible inclusion of charge accounts (including so-called "budget" or "revolving" accounts which are paid over a short-term in monthly instalments) and single payment loans within the scope of Regulation W,

Consumer Credit, and that as a result of these studies it was the unanimous recommendation of the staff that the Regulation not be so changed at this time. Mr. Evans went on to say that he joined in this recommendation since he was convinced that there would not be sufficient gain in the effectiveness of the Regulation to warrant assuming the administrative problems that would result from the inclusion of such credits.

Mr. Leonard stated that one of the reasons which had caused consideration of the possible inclusion of charge accounts in the Regulation was the statement that the regulation of instalment accounts only was discriminatory against lower-income groups. He also said that some evidence had been obtained, partly as a result of a study by the Wharton School of Finance in Philadelphia, Pennsylvania, to indicate that charge accounts were much more widely held than had been the case some years ago and that not only higher-income groups, but a substantial proportion of lower- and average-income groups had charge accounts at one or more stores. Mr. Leonard went on to say that studies of the administrative problems involved made it clear that it would be extremely difficult for a large number of stores to comply with a freezing mechanism on charge accounts such as that used during the period 1942-47; in fact, some stores might be unable to comply fully even at considerable expense to themselves, owing to delays that would result in obtaining necessary equipment. Some of this, he said, was due to changes in operations of the stores which

have been streamlined to a considerable extent since the Regulation was previously in effect. Mr. Leonard also referred to the possible application of a down-payment provision to sales of listed articles whether sold in charge accounts or on an instalment basis and stated that while one large department store had indicated it would prefer such a method to a freezing mechanism, most of the department stores were strongly opposed to applying down-payment provisions to sales of listed articles in charge accounts.

During the discussion reference was made to the system of consumer credit regulation used in Canada, under which all charge accounts, including the so-called "budget" accounts, are subject to the regulation excepting certain specified articles or services, and it was suggested that the staff might study that method with a view to being prepared to report on it at some future time.

> After a full review of the reasons that had been advanced for and against broadening the scope of the Regulation, Mr. Evans' recommendation that no action be taken at this time was approved unanimously.

Messrs. Evans, Lewis, Pawley, Jones, Shay, and Grant withdrew from the meeting at this point and Messrs. Youngdahl and Koch entered the room.

Mr. Thomas reported briefly on open market developments during the past two weeks, following which there was a discussion of his comments.

Messrs. Marget, Director of the Division of International Finance, Hirschman, Chief of the Western European and British Commonwealth Section, Division of International Finance, and Hersey, Chief of the Special Studies Section, Division of International Finance, joined the meeting at this point.

Reference was made to the memorandum which was prepared in the Division of International Finance in response to a request from Senator O'Mahoney under date of September 20, 1950, for a statement of Treasury-central bank relations in foreign countries. Mr. Szymczak stated that the memorandum had been revised somewhat in the light of suggestions received since it was distributed to members of the Board on October 27 and that he felt it was in form for submission to Senator O'Mahoney's Committee unless there were further questions on the part of some of the members of the Board.

Chairman McCabe suggested that, in view of the importance of the statement, it would be desirable, before further consideration by the Board, to have it reviewed by some additional representatives of the Federal Reserve Banks and by persons not connected with the Federal Reserve System who might be able to make suggestions.

Following a discussion, this suggestion was approved unanimously with the understanding that the memorandum would be revised in the light of the comments made by the individuals referred to above and resubmitted to the Board for further consideration. In taking this action, it was also under-

stood that reimbursement for travel costs incurred and payment of a consultant's fee at the rate of $50 per day spent on work for the Board were authorized, and that the appropriate items in the budget of the Division of International Finance would be increased by an amount sufficient to cover such costs.

Messrs. Marget and Hirschman withdrew from the meeting at this point.

Chairman McCabe referred to previous discussions of an increase in reserve requirements of member banks and to the possible effects of such action as a part of the credit policy of the System. He also expressed a desire to discuss the matter with the Secretary of the Treasury and possibly others before action was taken by the Board.

Mr. Szymczak stated that on the basis of the economic situation as far as he could judge it, he still felt an increase in reserve requirements was called for but that it would be helpful if more could be known of the Government program for defense expenditures.

During the ensuing discussion Mr. Thomas stated, in response to a question from Chairman McCabe, that he was inclined to think it would be well to postpone an increase in reserve requirements or at least part of the increase until early in January since there would be a return flow of currency from circulation at that time and it would be desirable for the System to increase reserve requirements then in order to absorb some of the funds coming into the market.

Mr. Young referred to the possibility of increasing reserve

requirements on the basis of expansion in loans subsequent to some specified date, such as some date in October, stating that this might be accomplished within the framework of the present law provided total reserves did not reach a point in excess of the amount that could be required under the present method of requiring reserves in relation to deposits. The advantage of such a method for applying any additional reserve requirements against an expansion in loans, he said, would be that it would have a direct restrictive effect on loan expansion.

Mr. Vest stated that the proposal which Mr. Young outlined was one to which the Legal Division could give some technical support under the present language of the law but that that support would be on a completely technical, literal basis. He went on to say that he was sure such a method of assessing reserves would go far beyond anything Congress had in mind at the time the law was passed and would be a surprise to Congress and to bankers affected by it, and that he felt it would be preferable to obtain some specific authority from Congress for use of such a method or, in any event, before it was used, to discuss the matter fully with representatives of member banks and leaders in Congress.

In a further discussion, it was agreed unanimously that the question of an increase in reserve requirements would be taken up again at the meeting on Friday, November 10.

Messrs. Youngdahl and Koch withdrew from the meeting at this point.

Mr. Norton referred to the discussion at the meeting on September 26 of proposed building plans for the Federal Reserve Bank of Boston and stated that, after a thorough review of the situation, he had come to the conclusion that because of the great need of the Boston Bank for improving its facilities, it should be authorized to seek bids for construction with the understanding that before any contract was finally awarded the bids would be submitted to the Board for consideration.

Mr. Norton then called upon Mr. Leonard who referred to a memorandum prepared in the Division of Bank Operations under date of November 7, 1950, recommending that if the policy of the Board permitted, the Board authorize the Boston Bank to proceed as rapidly as possible with its program for a new building and for remodelling the present building along lines previously discussed, unless unforeseen developments made actual construction inadvisable when final plans and specifications had been completed. The memorandum reiterated the view previously expressed that the Boston building was overcrowded and was unsatisfactory in various respects, that it was designed for a load of 75 pounds per square foot and was presently carrying over 200 pounds a square foot in some departments, that the need for additional space had long been recognized, and that in view of the relatively slack construction activities in the area during

the period September to May, it would appear appropriate, if within Board policy, to proceed as rapidly as possible with the work during the coming winter. Mr. Leonard went on to say that he felt now was the time either to inform the Boston Bank that it could go ahead and prepare final plans and specifications with the understanding that unless unforeseen developments made it undesirable to call for bids, they would be authorized to make contracts, or to inform the Bank that no construction would be approved for the indefinite future.

The matter was considered in the light of the comments of Messrs. Norton and Leonard and unanimous approval was given to a letter to Mr. Erickson, President of the Boston Bank, as follows:

"This refers to your letter of September 12 and Mr. Creighton's letters of September 11 and September 20, 1950, and to subsequent conversations, regarding the building program.

"The Board has considered this matter and will interpose no objection to your Bank's proceeding as rapidly as possible with the complete building program, on the basis of the revised plans dated August and September 1950. It is noted that the estimated cost of the work is about $4,000,000.

"It is understood that the bids will be submitted to the Board for consideration before the contract is let. Please advise the Board before the bids are requested, in order to avoid the calling for bids if any unforeseen developments should make it inadvisable to proceed with the construction at that time."

At this point all of the members of the staff with the exception of Messrs. Carpenter, Sherman, and Kenyon 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 November 6, 1950, were approved unanimously.

Memorandum dated November 6, 1950, from Mr. Hilkert, Acting Director of the Division of Personnel Administration, recommending an increase in the basic salary of Mrs. Margaret H. Wolverton, personnel clerk in that Division, from $3,825 to $3,950 per annum, effective November 12, 1950.

Approved unanimously.

Letter to Mr. Stetzelberger, Vice President of the Federal Reserve Bank of Cleveland, reading as follows:

> "Reference is made to your letter of October 26, 1950, submitting the request of 'The Central Trust Company', Cincinnati, Ohio, for permission to establish a branch in North College Hill, Hamilton County, Ohio.
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> "It is noted that approval of the State authorities has been obtained and, in view of your recommendation, the Board of Governors approves the establishment and operation of a branch in North College Hill, Hamilton County, Ohio, by The Central Trust Company, Cincinnati, Ohio, provided the branch is established within six months from the date of this letter and with the understanding that Counsel for the Reserve Bank will review and satisfy himself as to the legality of all steps taken to establish the branch."

Approved unanimously.

Letter for the signature of the Chairman to Mr. George Wilson, Administrative Assistant to Senator William F. Knowland, United States Senate, Washington 25, D. C., reading as follows:

> "This is in reply to your letter of October 21 relative to certain questions raised by Senator Knowland

"in connection with the recent amendment to this Board's Regulation W governing consumer credit.

"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 regions, businesses, and individuals. We regret exceedingly that this is so and every effort has been made to keep such hardships at a minimum. At the same time, it is generally recognized that the cruel burden of inflation brings widespread severe hardships, especially to families of moderate or small income. Regulation W is intended to dampen consumer demand: if it does not do so, it cannot be effective in helping to stop the present inflationary spiral.

"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, may well have raised serious danger of further expansion of credit similar to that which had preceded the September 18 effective date.

"With respect to the high freight factor in the Pacific Coast area, from time to time in the past and again following receipt of your letter we have given detailed consideration to possible ways in which this differential might be recognized in the regulation. Up to now we have not been satisfied that there is a workable

"solution under the regulation which would solve the problem and not tend to undermine the effectiveness of the regulation. Transportation charges, handling costs, and other similar costs must be reflected in the cash selling price of a commodity. As a consequence, the problem which you mention with regard to freight costs is, in reality, a pricing problem rather than a credit-regulation problem. As you know, the regulation is primarily concerned with the rate of expansion of consumer credit. Therefore, it has seemed to us that we must continue to relate the requirement of the regulation directly to the cash selling price of a commodity regardless of the components which make up that price.

"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 thoughtful expressions to include in that study. We thank you for informing us of the situation in Senator Knowland's district with regard to the regulation, and we are sending herewith a number of copies of a statement made by the Board of Governors explaining the reasons for its action, which we thought might be of interest to automobile dealers and others who may address appeals to you."

Approved unanimously.

Letter to Mr. Prochnow, Secretary of the Federal Advisory Council, c/o The First National Bank of Chicago, P. O. Box A, Chicago 90, Illinois, reading as follows:

"With further reference to your letter of October 18, 1950, the Board would be glad if the following matters could be considered by the Council when it meets in Washington on November 19-21, 1950:

(1) Selective credit controls:

(a) What information do the members of the Council have with respect to the effects of Regulations W and X?

(b) What are the views of the Council as to what, if any, action should be taken by the Board to change the existing Regulations W and X or to broaden their scope?

"(2) The Board has been asked by the President to submit its suggestions as to subjects to be included in the State of the Union message and the Economic Report and the legislation which the Board desires to have considered at the session of the Congress which convenes in January. The Board is now formulating its views on these two matters and would like to have any advice or recommendations that the Council might wish to offer with respect to them.

(3) One of the questions that has had a very important bearing on the credit policies of the System is the impact of the prospective defense program on the economy. The Board would be glad to have the comments of the Council on the economic and business situation over the next six months, particularly in the light of the probable impact of prospective expenditures for defense and the current inflationary situation."

Approved unanimously.

Letter for the signature of the Chairman, to Mr. Henry A. Bubb, President, United States Savings and Loan League, Kansas Avenue at Sixth Street, Topeka, Kansas, reading as follows:

"The Board of Governors greatly appreciates your letter of October 26, in which you analyze so accurately the various complex factors affecting residential construction. The regulation of real estate construction credit during the serious national emergency that prevails, will, we hope, be so successful that the major objectives of the Defense Act of 1950, i.e., diminution of inflationary forces and the provision of adequate labor and materials for defense purposes, will be achieved without resort to all those restrictive wartime measures with which we are so familiar, such as allocation and priority systems, wage and price controls, and rationing.

"It is, therefore, extremely heartening to us to have your organization come forward voluntarily, and declare without question your belief in the soundness and

"effectiveness of the real estate credit limitations established by Regulation X. The responsive approval of the regulation by an association so important as yours is an example of the kind of firm resolution that is essential at this critical time in the nation's history, and the Board of Governors is especially grateful to you for its expression.

"We assure you that comprehensive studies will be made of the effect of the regulation on new construction, and the relationship of that effect to the paramount national need for a reduction in inflationary forces and for greater availability of labor and materials. If it should appear that a modification of the regulation is required, it is certain that the Housing and Home Finance Agency and the Board of Governors of the Federal Reserve System would wish to make such modification.

"It was a pleasure to have had Mr. Horace Russell, General Counsel of your association, here at our most important meeting of financial groups interested in real estate finance, and we found his observations to be of great value in the consideration of the regulation.

"I hope that when you are next in Washington that you, too, will have an opportunity to call on us since we would be glad to discuss the regulation with you."

Approved unanimously.

Letter to Mr. Francis G. Ludemann, Secretary, National Association of Supervisors of State Banks, 270 Broadway, New York, New York, reading as follows:

"No doubt Superintendent Lyon has informed you regarding the meeting held with State supervisory authorities on October 19 at the Federal Reserve Building in Washington for the discussion of Regulation X, Residential Real Estate Credit, and the program for enforcement of the Regulation.

"In addition to Mr. Lyon, there were in attendance at the meeting Mr. Milton R. Morgan, President of the National Association of Supervisors of State Banks, and Mr. Ellery Allyn, Commissioner, Insurance Department, Hartford, Connecticut, who is President of the National Association of Insurance Commissioners.

"As the initial step in the program of enforcement

"to be participated in by the State supervisory authorities, Mr. Morgan and Mr. Lyon volunteered to communicate directly with each of the members of your Association, sending them a copy of the Regulation and recommending active cooperation by the State Banking Departments in its enforcement. Mr. Allyn agreed to follow a similar course with the State Insurance Commissioners.

"At Mr. Lyon's request, a brief statement has been prepared, a copy of which is enclosed, covering the legislative and economic background of the Regulation and some of its salient provisions. The statement emphasizes that the two important purposes to be accomplished by the Regulation are (1) to help restrain inflationary forces, and (2) to help provide the materials and labor required for military production. Regulation X, therefore, which is authorized by the Defense Production Act of 1950 and the President's Executive Order (No. 10161), is correlated with the defense program, and its observance and enforcement are essential to the successful completion of an important phase of that program.

"In the near future an outline of the enforcement program for the Regulation will be forwarded to you, and copies will be sent directly by the Board of Governors to the State bank supervisors. This will be the second step in the program of enforcement in which State bank supervisors participate. It was agreed at the meeting by Mr. Morgan and Mr. Lyon that it would be preferable for the Board to forward the second communication.

"It is suggested that reference be made in the letter to be sent by your Association to the State Bank Supervisors to the fact that full information about Regulation X and its enforcement, as well as additional copies of the Regulation, may be obtained from the vice presidents in charge of bank examination of the Federal Reserve Banks.

"There are being forwarded to you under separate cover by the Federal Reserve Bank of New York 100 copies of Regulation X and the news release and borrower's statements. One hundred copies of the economic statement alluded to above, which Mr. Lyon wished also to send with your letter to the State bank supervisors, are going forward from here.

"The Board of Governors is especially appreciative of the willingness of the National Association of State Bank Supervisors to serve in this most important way to obtain the cooperation of the State supervisors in the en-

"forcement of Regulation X. Any new developments will be reported to you as they occur.

"If we can assist you in any way in this task, we will be glad to do so."

Approved unanimously.

Letter to Mr. Patterson, Secretary of the Board of Directors of the Federal Reserve Bank of Atlanta, reading as follows:

"Thank you for your letter of October 23, 1950, transmitting a copy of a resolution adopted by the banker-directors of your Bank and the Jacksonville Branch of your Bank, objecting to the requirement of section 4(c) of Regulation X, that Registrants maintain records which reasonably demonstrate on their face whether credit extended by them is or is not real estate construction credit.

"As you know, any regulation such as Regulation X necessarily involves some record keeping requirements. We had hoped that the views expressed in our telegram of October 17, 1950 (S-1166; X-3) would enable banks to comply with the requirements of the regulation without being subject to any unreasonable burden.

"This subject, however, is one which must receive continuing study in the light of comments and questions which are received and actual experience in the administration of the regulation. We are glad to have the views of the banker-directors of your Bank and the Jacksonville Branch, and they will be taken into consideration in connection with the study of this matter."

Approved unanimously.

S R Carpenter
Secretary.