Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, November 24, 1950.

PRESENT: Mr. Szymczak, Chairman pro tem.
Mr. Evans
Mr. Vardaman
Mr. Powell

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary

Minutes of actions taken by the Board of Governors of the Federal Reserve System on November 22, 1950, were approved unanimously.

Telegrams to the Federal Reserve Banks of Philadelphia, Cleveland, Richmond, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of Kansas City on November 20, by the Federal Reserve Bank of San Francisco on November 21, by the Federal Reserve Banks of Philadelphia, Cleveland, Richmond, St. Louis, and Minneapolis on November 22, and by the Federal Reserve Bank of Dallas on November 24, 1950, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Letter to Mr. Weigel, Secretary of the Federal Reserve Bank of St. Louis, reading as follows:

"The Board of Governors approves the payment of salary to Joseph C. Wotawa as an officer of the Bank with the title of Assistant Vice President at the rate of $9,000 per annum and to George W. Hirschman as an officer of the Bank with the title of Acting General Auditor at the rate of $6,100 per annum for the period beginning November 9, 1950, through May 31, 1951."
"The above rates are, according to your letter of November 13, 1950, the rates which were fixed by the Board of Directors."

Approved unanimously.

Letter to Mr. John W. Taylor, President, University of Louisville, Louisville 8, Kentucky, reading as follows:

"Your letter to Mr. Davis of November 16, 1950, submitting your resignation as a director of the Louisville Branch of the Federal Reserve Bank of St. Louis has been brought to the attention of the Board of Governors. The members of the Board deeply regret losing your service as a director and it is with reluctance that the Board of Governors accepts your resignation, as requested, effective December 15, 1950.

"Your contribution to the Federal Reserve System during your service as a director is genuinely appreciated and the Board hopes that your new duties will permit you to retain an active interest in the welfare of the Federal Reserve System. The comments contained in your letter with respect to your association with the Louisville Branch are indeed gratifying and it is the Board's sincerest wish that you will meet with every success in your new endeavor."

Approved unanimously.

Letter to Honorable Lindley Beckworth, House of Representatives, Washington, D. C., reading as follows:

"This is in reply to your note of November 16 transmitting a letter from Mr. Travis B. Bryan, President of the First National Bank, Bryan, Texas, referring further to the terms of this Board's Regulation W, Governing consumer credit. We have also had expressions from Mr. Bryan on this subject through various other channels.

"The responsibilities delegated to us by the Congress are in the broad fields of money and credit. Therefore, we try to look at all of the special credit powers granted to the Board against a background of the
"General credit situation. Regulation W in the field of consumer credit, Regulation X in real estate credit, Regulations T and U with regard to security loans and margin requirements are all types of specialized credit instruments designed to supplement general credit controls such as discount rates and open market operations. When dealing with inflationary pressures, these in turn must be coordinated with fiscal policies to achieve maximum effectiveness.

"Looking at the general credit situation, there are alarming symptoms of the extent to which inflationary forces are already at work. It is truly startling, for instance, to realize that the total loans of all commercial banks are estimated to have increased more than $5 billion since the beginning of hostilities in Korea. This may be compared to an expansion less than $1 billion in the comparable period of 1949, and to $3 billion in the same months in 1947, which, as you will remember, was a highly inflationary period.

"The growth in consumer credit outstanding and real estate mortgage credit during this period has been a major cause of this increase in credit. Nearly $2 billion of new consumer instalment credit was extended during the third quarter of this year -- a record volume -- and the net growth in outstandings during that period was roughly 20 per cent larger than in the comparable 1949 months. The increase during the first nine months of this year was larger than the annual increase during any other postwar year. The story for real estate credit is equally striking and of much greater significance in its volume and effect in expanding bank credit -- or, in other words, in adding to the already excessive money supply.

"These few figures on the credit situation help to point up our concern over the growth in credit. As you know, there are two sources of demand or buying power -- money and credit. The man who borrows $100 is just as potent a customer as the man who gets it in his pay check. So long as the demand is relatively in balance with the supply of goods all is well from an economic standpoint. However, the defense program now under way hits an economy already moving at full steam, which is quite different from the situation in 1940-41. If the defense program is to be met, there will of necessity
"Cutbacks in the output of civilian goods. Therefore, the credit controls are designed to restore more of a balance between total demand and the supply of available goods. If this objective is not accomplished, then the result, with demand in excess of supply, will be higher prices and continuing inflationary trends.

"We are constantly reviewing the factors relating to these regulations. We are getting excellent cooperation from the trade in supplying the latest data on market trends and, of course, are constantly receiving reports from the twelve Federal Reserve Banks and their twenty-four branches on the situation in all parts of the country. I believe you will agree that our record of previous administration of these Regulations demonstrates that we maintain an open mind on such questions and we have been quick to adapt the Regulations to changing economic conditions. This we are prepared to do again whenever the underlying economic facts warrant such action.

"We thank you for referring Mr. Bryan's letter to us. We are glad to receive such expressions from the public for inclusion in our continuing study of the consumer credit field."

Approved unanimously.

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

"This will acknowledge your letter of November 16 respecting the meaning of Amendment No. 1 to Regulation X designated Section 5, subsection K, which is as follows: 'The prohibitions of this regulation shall not apply to any real estate construction credit extended prior to May 1, 1951 with respect to new construction begun prior to October 12, 1950.'

"Your letter included an enclosure from the Cook County Council of Insured Savings Associations which in discussing the above quoted Amendment raised the following question: 'Would any construction credit extended prior to May 1, 1951 be exempt from the prohibitions of Regulation X?'

"In our opinion the construction which you use in your letter is correct; that is, any real estate construction credit extended prior to May 1, 1951, with
"respect to new construction begun prior to October 12, 1950 is exempt from the prohibitions of the Regulation. This will include permanent financing as well as a construction loan, provided all such credit is extended prior to May 1, 1951."

Approved unanimously.

Letter to Mr. Blair, Secretary of the Federal Reserve Bank of Cleveland, reading as follows:

"This refers to your letter of November 16, 1950, concerning the discount rate for Federal Intermediate Credit Banks reported on your Bank's rate schedule, Form E. R. 296. In view of the explanation in your letter, the Board has approved for your Bank a rate of 1-3/4 per cent on discounts and advances for Federal Intermediate Credit Banks, effective August 25, 1950."

Approved unanimously.

Memorandum dated November 21, 1950, from Messrs. Young and Noyes, Director of the Division of Research and Statistics, and Assistant Administrator of the Office of Real Estate Credit, respectively, recommending that the Board and the Housing and Home Finance Agency establish jointly a technical advisory committee on credit and production statistics in the housing field, and that the Board approve the transmission of a letter along the lines of the attached draft to organizations listed with the understanding that Messrs. Young and Noyes would be authorized to suggest that the letter be for the signature of the Administrator of the Housing and Home Finance Agency rather than for joint signature, and that
it include an appropriate sentence indicating that the formation of the committee and the transmission of the invitation had the Board's concurrence. The draft of letter read as follows:

"The agencies responsible for the administration of the real estate credit controls under the Defense Production Act of 1950 have recognized from the first the need for maintaining a close scrutiny of the real estate market and its responses to credit restrictions. It is a stated policy that adjustments in such restrictions will be made when warranted in light of market facts and considerations of national security.

"It has been further recognized that the housing and real estate finance industries are as concerned as the government agencies in evaluating the impact of credit restrictions. Furthermore, the many components of these industries are the primary sources of information on changes in the market.

"Because of the widespread need for adequate market information, it is proposed to establish a Technical Advisory Committee on Credit and Production Statistics, jointly sponsored by the Board of Governors of the Federal Reserve System and the Housing and Home Finance Agency. The functions and scope of activity of the Committee are to be as follows:

1. The identification of all types of information needed to supplement available data relevant to credit controls.

2. The development of ways and means of securing such additional information, particularly where industry channels are involved.

3. An evaluation of statistical information relevant to credit controls with particular attention to its dependability and to its true meaning.

"It is explicitly understood that the Committee will not engage in discussions of policy or program, that it will not have legislative functions, and that it will concern itself only with problems of securing adequate and dependable market information and of developing accurate interpretations of such data.
"We feel that the participation of your organization is important and request that you designate a representative for membership on the Committee. There is appended a list of those to whom similar requests have been sent. The first meeting of the Committee will be held on Thursday, December 7th, at the Federal Reserve Board building in Washington, D. C."

Approved unanimously.

[Signature]

Secretary.