Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, December 7, 1950. The Board met in the Board Room at 4:35 p.m.

PRESENT: Mr. McCabe, Chairman
Mr. Eccles
Mr. Szymczak
Mr. Vardaman

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Thurston, Assistant to the Board
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. Garfield, Adviser on Economic Research, Division of Research and Statistics
Mr. Jones, Chief, Consumer Credit and Finances Section, Division of Research and Statistics
Mr. Pawley, Economist, Division of Research and Statistics
Mr. T. Smith, Economist, Division of Research and Statistics

Mr. Arthur Phelan, Vice President of the Federal Reserve Bank of New York, Mr. Dale M. Lewis, Assistant Vice President of the Federal Reserve Bank of St. Louis, and Mr. E. A. Heath, Assistant Cashier and Assistant Secretary of the Federal Reserve Bank of Chicago, who are assisting the Board temporarily in connection with work relating to selective credit controls, also were present.

There was presented a draft of statement to be made tomorrow by Chairman McCabe before the Joint Committee on Defense Production (the so-called "Watchdog Committee") provided for under the Defense

Production Act of 1950. The draft had been prepared subsequent to the discussion at the meeting on November 14, 1950.

The statement was read, changed, and approved unanimously in the following form:

"The Board of Governors of the Federal Reserve System welcomes this opportunity to report to your Committee on its regulation of consumer credit and particularly automobile instalment credit, as authorized by Title VI of the Defense Production Act of 1950.

"At the outset, I should like to emphasize that the Board has viewed its stewardship under the Defense Production Act in the light of its responsibilities for monetary and credit policies that will help maintain a stable value for the dollar and preserve a strong economy. In carrying out its responsibilities under the Act, the Board, of course, has also been guided by the observations of the House and Senate Banking and Currency Committees concerning the inflationary role of consumer and mortgage credit under current conditions, made in their respective reports on the Defense Production Act.

"The Federal Reserve has acted to carry out its assignment in the light of its understanding of the objectives that Congress had in mind. As long as you leave the responsibility with the Federal Reserve we believe you will expect us to do our duty in accordance with the objectives of the Congress.

"During the period the Congress was deliberating and acting on the Defense Production Act of 1950 -- from July 19 to September 1 -- business and consumer markets were being swept by hysterical buying, prices in practically all sectors of the economy were advancing sharply, and inflationary pressures were generally rampant. The Congress, the Administration, and the public were very apprehensive about these developments both because they threatened the very foundations of our free enterprise society and because of their adverse effects upon our preparedness efforts. I can assure you that we at the Federal Reserve System were very deeply concerned. In the light of this background, the intent of Congress with respect to

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"Title VI of the Defense Production Act seems to me clear. Let me here state briefly my beliefs in this respect:

1. I believe the Congress at that time was deeply conscious of the concern felt by the American public over the value of their dollars, and wished to take every practical step to preserve the integrity of our money.

2. I believe also the Congress intended that adequate taxes and general and specific credit controls should be the first reliance in maintaining the value of the dollar.

3. I believe the Congress intended that the powers to regulate consumer and real estate credit should be used to the fullest extent practicable, as a means of limiting demand to the available supply in the affected fields, thus restraining further price increases.

4. I believe also that the Congress had in mind that the use of these powers, in limiting demand, would help in the transfer of resources from the production of civilian goods to the production of military goods without unnecessary price inflation.

"During the period when the Defense Production Act of 1950 was under study by the Congress, the Board and its staff, in collaboration with officials of the twelve Federal Reserve Banks and their twenty-four branches, carried on intensive studies of the consumer credit business, including numerous consultations with the major segments of the trade. In all, some 750 trade consultations were involved in this pre-regulation exploration. Officers of the twelve Reserve Banks conducted a total of 725 of these regional conferences with trade groups and businessmen prospectively subject to consumer credit regulation. The Board and its staff consulted on 25 different occasions with such groups, including the major national trade associations affected.

"As evidence of the way in which the Board has consulted with the interested public while making decisions regarding Regulation W, I should like to quote from the October issue of the official magazine of the National Automobile Dealers Association. The auto dealers said:

"'N.A.D.A. officials did a great deal of work and cooperated closely with the Federal Reserve Board during the period that the new Regulation W was being drafted. They compiled and presented data showing that the terms should not be so strict that they would work a needless hardship on persons who have the greatest need for reliable transportation.

'N.A.D.A. is continuing its frequent contacts with the Board, which has been working on interpretations necessitated by special problems that have arisen.'

"Against this broad background of study and consultation, a draft of the regulation was prepared and considered by the Board after submission to all of the Federal Reserve Banks. Thus, the Board was ready for formal action once authority to regulate consumer credit was enacted into law.

"The Board issued Regulation W on September 8 within the hour after the President signed the Defense Production Act of 1950. The regulation was made effective ten days later on September 18. This interval was considered the minimum period for placing the regulation in the hands of registrants and enabling them to adjust their operations to it. The Board's decision as to the terms of the consumer credit regulation was based on the practical consideration that the regulation should restrain consumer demand and credit growth in the most volatile segment of the field, namely, the instalment financing segment.

"Taking the field of instalment credit as a whole, however, the initial minimum downpayment and maximum maturity requirements under Regulation W were only moderately restrictive in relation to practices generally prevailing in the instalment financing trade. In the used car field, particularly for older models, and also in some appliance lines, the regulatory terms were more liberal than those practiced by the conservative trade. Data supplied by the trade indicated that the bulk of the transactions being written on new and late model automobiles and on other items of relatively high unit price in the months just prior to the regulation were somewhat more liberal as to downpayment, maturity, or both, than the introductory terms of the regulation. Information subsequently obtained by the System's own field investigators has confirmed this basic finding.

"In announcing the new Regulation W to the press, the Board expressly stated that, if the terms established

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"did not provide an adequate restraint on consumer demand, as well as on further rapid inflationary expansion of instalment credit, the Board was prepared to reexamine its regulation and establish more stringent terms. On October 13, five weeks after the issuance of the original regulation, the Board announced Amendment No. 1 to Regulation W establishing, effective October 16, minimum downpayments and maximum maturities substantially stricter than those which became effective on September 18. This action was taken three days after the Board had issued Regulation X, to be effective October 12, establishing downpayment and maturity terms on mortgage credit to finance newly constructed houses. The attached table compares the new terms of Regulation W with those provided in the initial regulation.

"MINIMUM DOWN PAYMENTS AND MAXIMUM MATURITIES UNDER REGULATION W

Listed articles and loans	Minimum down payment 1/ (per cent)		Maximum maturity (months)	
	Sept.18-Oct.15	Oct.16-	Sept.18-Oct.15	Oct. 16-
Listed articles:				
Passenger automobiles	33 1/3	33 1/3	21	15
Major appliances 2/	15	25	18	15
Furniture and floor coverings	10	15	18	15
Home improvement materials, articles, and services 3/	10	10	30	30
Loans:				
To purchase listed articles	(4)	(4)	(4)	(4)
Unclassified	--	--	18	15

1/ Exemptions: Sept. 18-Oct. 15, listed articles costing less than $100; beginning Oct. 16, those costing less than $50.

2/ Includes radios, television, refrigerators, food freezers, phonographs, cooking stoves, ranges, dishwashers, ironers, washing machines, clothes driers, sewing machines, suction cleaners, room-unit air conditioners, and dehumidifiers.

3/ Includes heating, plumbing, and other household fixtures.

4/ Requirements same as on instalment sales of the respective articles.

"I should like to make entirely clear three aspects of the Board's Amendment No. 1 to Regulation W. First, the Board's amendment action was taken in the light of the total economic and credit situation. It was taken not primarily because of developments in the specific fields during this period but because the magnitude of the general inflationary problem became more clear. It reflected the Board's apprehension over the continuing strong inflationary trends in the economy generally as well as over the continuing strong consumer demands for durable goods and accompanying expansionary trends in instalment credit. Figures now available show that loans of commercial banks expanded 5.7 billion dollars from the end of June to October 25 of this year -- the largest loan expansion in such a short period of time in the country's history. More than 25 per cent of the loan expansion was the direct or indirect result of growth in consumer credit and another fifth was due to a rise in bank holdings of real estate mortgages. This loan expansion was accompanied by a further increase in bank holdings of corporate and municipal securities. The total expansion of bank holdings of loans and non-Government securities was the immediate cause of a 3 billion dollar increase in the economy's already large supply of money.

"Second, the Board was seriously concerned, as were other agencies of Government, over the undesirable and hindering effects of inflationary pressures generally on the rearmament, stockpiling, and industrial expansion programs. Appropriations for national defense were able to buy far less this fall than contemplated when Congress passed them.

"Third, the Board took its action only after consultation with other interested agencies of Government.

"I should now like to report on what I think the effects of Regulation W have been. To report first in general terms, the regulation has limited the rise in prices in the durable goods field; it has limited somewhat the further expansion of the money supply; because of these two effects, it has limited the advance of prices generally; and, lastly, it has removed some of the pressure which would have hampered diversion of materials and manpower to the military effort. These results have been of great benefit to the American people.

"Let us now examine the effects of the regulation in the automobile field, with which your hearings are particularly concerned. At the time the Congress was deliberating the Defense Production Act, new cars were not generally available at list prices, i.e., unloaded of extra equipment or special premiums, to the great bulk of the people who wanted to buy them. With respect to used cars, average retail prices of a representative popular priced 1949 model car rose from approximately $1430 in June to $1635 in August. On the average, monthly payments to buy the 1949 model used car had risen from $56 to $63. It is clear that inflation in the retail automobile markets was impinging adversely on both those who bought higher priced cars and those who bought lower priced cars.

"Let us look at the retail automobile market today compared with August. New cars are available to the buying public at list prices, without required extras or premiums. On the basis of advertised prices, a popular priced 1949 model used car could be purchased in leading cities in November for $1280, compared with $1635 in August. The buyer of such a model had to pay one-third down or $427 in November compared with one-third down or $545 in August. The unpaid balance in August was on the average paid off in 21 months at the rate of $63 per month. In November the balance was required to be paid off in 15 months or at the rate of $67 per month.

"A great proportion of the cars bought by consumers in the United States are used cars. In 1949 it is estimated that 6.9 million used cars were bought by consumers as compared with 4.5 million new cars. Old cars predominate in the holdings of the population. It is estimated that 69 per cent of the passenger cars in operation are more than three years old. The man of average income typically buys a used car. In helping to keep used cars at a reasonable price and to make new cars readily available at effective prices at or below the list, Regulation W has been of great service to the American consumer. It has done a great deal to combat the price inflation which seemed last summer to be getting completely out of hand.

"At the present time about 20 million out of our 38 million privately owned cars are prewar cars and when sold as used cars have a price of around $500 or "less. Before imposition of Regulation W, if a purchaser bought a $450 car on a basis of one-third down, he paid $150 cash and paid off the balance at a rate of $24 to $28 per month, depending on whether the maturity was 15 or 12 months. Regulation W has not affected the typical terms of payment for these cheaper cars. One-third down and 12 or 15 months to pay, if dealers will finance on these terms, are still permitted. Good usable cars for performing a great portion of the daily travel of the public continue to be available under Regulation W on purchase terms of about $25 a month or less. These are the cars which are customarily bought and used by large numbers of our working population who are looking for transportation and not for the latest style and gadget.

"Supply developments in the retail automobile market following the introduction of Regulation W and its subsequent tightening are of course not all attributable to the regulation. Some buying that would otherwise have been done this fall was accelerated and done in the summer months. The fall is typically a season of declining automobile travel and softened demand for cars. The industry has been preparing new models and this fact has no doubt induced some deferment of new car buying by purchasers who would otherwise be in the market. But the important fact for these hearings is that the market with Regulation W is less inflationary and more competitive than it was. It is more of a buyers' market and less of a sellers' market. It is in every respect a more normal market situation. Despite the role of other influences, I believe that Regulation W has contributed significantly to this more healthy market condition.

"Inventory of new cars was at an abnormally low level when consumer credit regulation was inaugurated. This enabled manufacturers to go ahead full tilt at high levels of output despite the regulation. In recent weeks production has been down from earlier peak rates, the lower level reflecting primarily model changes, but the current rate of output of about 120,000 cars a week is still, historically speaking, a very high rate. Some inventory accumulation by dealers has recently taken place, but new car inventory for the new car dealer trade as a whole is still

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"not above traditional relationships with sales. The latest retail sales reports with respect to new cars indicate that November sales were probably one-tenth above a year ago. Sales a year ago were in large volume. The rise in retail inventory of new cars probably tapered off considerably in November.

"The foregoing observations relate to the automobile market as a whole. The situation will vary for different makes of cars, and among individual dealers. Such differences are matters for competition and not regulation to iron out. Regulation W affects the general terms of sale on credit.

"With respect to the size of the current automobile inventory: trade sources estimate inventory of new cars at about 500,000 on November 1. With output at an annual rate of over 6 million cars now, with dealers generally in the best financial condition of the automobile industry's history, and with the use of materials already ordered curtailed, it would seem that inventories are not excessive.

"It has been argued that Regulation W will throw men out of work. But to date unemployment has been at a low level and employment has reached a new high level. If some unemployment does develop, the principal cause will be the dislocations that are inevitable in the transition to military production, and not Regulation W.

"It is sometimes claimed that Regulation W has prevented the American working man from buying the automobile that he needs to provide his transportation. It is said that Regulation W favors the rich as against the poor, that it bars from the market the low income man with his credit and leaves the high income man free to buy with his cash. The truth is that Regulation W has helped rather than penalized the person of moderate or low income. It helps him where he is most in need of help --- in his pocket book. Cars, new or used, are available at various prices to meet the budgets of practically all workers who want or need cars. And these cars cost less than they would have cost in the absence of Regulation W. Furthermore, prices are lower for other articles listed in the Regulation, and also for articles not listed, than they would have been without the Regulation. The American consumer is

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"better off as a result of Regulation W.

"We must of course bear in mind that the borrower is getting credit, not a gift. This credit must be paid back--and with finance charges added, too. In other words, when the consumer increases his expendable income of today by borrowing, he is, at the same time, reducing his expendable income of tomorrow. The thing that limits the man of low income is his income. He doesn't get something for nothing by borrowing to go into the market to bid against others for a limited supply of goods. He merely helps to push up the price of that limited supply of goods and increases the burden that he must meet out of his same income.

"To encourage the man of low income to do that under present conditions is to encourage him to engage in a contest where he is at the greatest possible disadvantage. The wealthy can always meet high prices more easily than can those of lower incomes. Price is exactly the field where the man of low income is at greatest disadvantage. Under current conditions, the low-income man will find that the bait of easier credit is carried on a hook of higher prices.

"It is of the very essence of regulation of consumer credit that the business of those financing consumers will be affected. If their business were as great under Regulation W as it would be in the absence of the Regulation, then there would be no point to having the regulation. Any contraction of the business of these financing agencies is not an end to be desired as such. But it is a necessary consequence of limiting demand by these means. The sacrifices of those called into the Armed Services are not in themselves desirable but they are necessary.

"By and large the consumer finance agencies have proved themselves extremely adaptable. In time of peace they have facilitated demand which has contributed to our great production and to our high standard of living. In war they have proved their capacity to adapt themselves to new conditions and stand by till a day when they can again serve their basic function.

"We must continually remind ourselves, and others, that we can not get something for nothing. We can't buy more goods than can be produced. To weaken or abolish Regulation W will not produce more goods. If "we are to succeed in maintaining stable prices and preserving confidence in the value of the dollar, we must make a determined effort to mop up all sources of excess buying power which tend to make the demand for goods greater than available supplies. Otherwise, we know from past experience what to expect.

"In conclusion, I would like to make this point clear: that selective credit controls including Regulation W will not of themselves check all of the inflationary forces. More fundamental than selective credit controls is an adequate program of fiscal and general controls that restrains all types of bank credit and thereby curtails the total dollar volume of private expenditures."

In connection with the discussion of the foregoing statement, there was also presented a statement on current defense production, inflationary pressures, and selective credit regulations prepared by a technical group of interested agencies in cooperation with the research staff of the Board of Governors of the Federal Reserve System and concurred in by Mr. Symington, Chairman of the National Security Resources Board.

It was agreed that Chairman McCabe would read or present for the record the statement, making clear that it was prepared by the staff of the interested agencies and that Mr. Symington concurred in it.

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

Memorandum dated December 6, 1950, from Mr. Young, Director of the Division of Research and Statistics, recommending an increase in the basic salary of Miss Ruby S. Andrews, a clerk in that Division, from $3,275 to $3,355 per annum, effective December 10, 1950.

Approved unanimously.

Letter to Mr. Sproul, President of the Federal Reserve Bank of New York, reading as follows:

"The Board of Governors approves the payment of salary to Mr. Howard D. Crosse as an Assistant Vice President of the Federal Reserve Bank of New York at the rate of $12,000 per annum for the period December 1, 1950, through March 31, 1951, as requested in your letter of November 21, 1950."

Approved unanimously.

Letter to Mr. Sproul, President of the Federal Reserve Bank of New York, reading as follows:

"In a letter dated today the Board of Governors approved the payment of salary to Mr. Howard D. Crosse as an Assistant Vice President of the Federal Reserve Bank of New York.

"The Board of Governors also approves the appointment of Mr. Crosse as an Examiner for the Federal Reserve Bank of New York."

Approved unanimously.

Letter to Mr. McLarin, President of the Federal Reserve Bank of Atlanta, reading as follows:

"As requested in your letter of December 1, 1950, the Board of Governors approves a payment by the Federal Reserve Bank of Atlanta to the Federal Reserve Retirement System of approximately $1135 on behalf of Mr. J. S. Hamilton provided such payment is approved by your Board of Directors."

Approved unanimously.

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

"In accordance with the request contained in your letter of November 28, 1950, the Board approves the appointment of Herman Henry Longfield as an assistant examiner for the Federal Reserve Bank of Chicago.

"Please advise us as to the effective date of the appointment."

Approved unanimously.

Letter to Mr. Koppang, First Vice President of the Federal Reserve Bank of Kansas City, reading as follows:

"The Board of Governors approves, as requested in your letter of November 29, 1950, the payment of salary to the following employees at the rates indicated for the period beginning January 1, 1951, through June 30, 1952:

Name	Salary
Maude Lindenberg	$1992
Roy Shaw	2772
Hallie Crutcher	3000
Ida Kennedy	2616
J. V. Refregier (Omaha Branch)	4500"

Approved unanimously.

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

"Reference is made to your letter of December 1, 1950, advising that effective January 1, 1951, the Blue Cross organization at Louisville will make available to its members two optional plans which provide increased allowances for room and board during hospitalization. You state that the maximum additional cost to the Bank will be approximately $600 per annum.

"The Board will interpose no objection to the proposed expenditure."

Approved unanimously.

Letter to Mr. Leach, Chairman of the Committee on Collections and Accounting, Conference of Presidents, Federal Reserve Bank of Richmond, reading as follows:

"This refers to your letter of December 4, 1950, in which you advise that the Presidents' Conference Committee on Collections and Accounting recently appointed a Subcommittee of Counsel on Collections and would like for the Board to designate a member of its staff to serve as an Associate Member of the Subcommittee. The Board agrees with your suggestion in this regard and, accordingly, designates its General Counsel, George B. Vest, as Associate Member of the Subcommittee."

Approved unanimously.

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

"As heretofore stated, except in the case of emergencies the Board of Governors does not believe that extensive alterations or improvements to Federal Reserve Bank buildings should be undertaken, or new Federal Reserve Bank buildings constructed, in times of pronounced inflationary conditions or when there are substantial shortages of labor and construction materials. The Board has reviewed its policy in this respect in the light of the needs of the Defense Production Program, and "under present conditions does not favor such construction unless the need therefor is of an emergency, as distinguished from an urgent, character. Accordingly, letter S-1109 of May 6, 1949 (F.R.L.S. #3053) is cancelled. The last two paragraphs of the letter, which are still of continuing applicability, are included in this letter as the following paragraphs.

"There is no objection, of course, to the employment of architects to prepare preliminary plans for contemplated head office and branch building construction or alterations. The Board should be informed, however, concerning the details of any agreements made with the architects for such plans, which agreements should include a provision that the Federal Reserve Bank is not obligated to retain the architect for any work beyond the preparation of preliminary plans, but that if he is retained the payment for such work will be taken into account in the final fee. No commitment should be entered into for the preparation of detailed plans and specifications until the preliminary plans have been reviewed by the Board. In submitting preliminary plans and estimates of cost for the construction of a Federal Reserve Branch bank building or a major alteration or addition thereto, it will be appreciated if the information includes the data called for in letter S-1003 dated December 5, 1947 (F.R.L.S. #3053).

"The above does not relate to normal maintenance, that is, to such repairs and alterations as are chargeable to 'Repairs and alterations' on Form F. R. 96, or to minor replacements chargeable to the appropriate allowance for depreciation. However, alterations and improvements, including replacements, of a major character, and new construction, should not be undertaken without prior consideration by the Board."

Approved unanimously.

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

"This refers to your letters of August 29, September 8, and October 24, 1950, and the final plans and specifications for the proposed addition to the Los Angeles Branch building.

"While recognizing the need for additional vault space and working quarters in the Los Angeles Branch building, as outlined in your letters, the Board feels that it would not be appropriate to go ahead with the project at this time, even on a partial basis similar to that planned in 1946. In this connection, there is enclosed a copy of the Board's letter with respect to building construction by the Reserve Banks, which is being sent today to the Presidents of all Reserve Banks. In addition, as indicated in the Board's letter of November 10, 1949, it may be necessary to obtain additional legislation before such construction could be authorized, since, on the basis of present cost estimates for building programs completed or under way, there would not be enough leeway under the existing $10,000,000 exemption for the aggregate building proper cost of branch bank buildings to permit completion of the Los Angeles Branch addition as well as certain other projects regarded by the Board as of greater urgency.

"How long the existing situation will obtain is, of course, not possible to determine, but the Board will be glad to reconsider the need for an addition to the Los Angeles Branch building when the situation is more favorable."

Approved unanimously.

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

"The enclosed circular letter outlining the Board's policy on building construction by the Federal Reserve Banks is being sent to all Presidents. Your Bank's building program was considered in the light of this policy, and there is no change in the authorization, contained in the Board's letter of November 7, to proceed with the building extension and remodeling."

Approved unanimously.

Memorandum dated November 30, 1950, from the Division of Personnel Administration, recommending that effective January 1, 1951, all persons employed by the Board on a temporary basis be included in the Board Plan of the Federal Reserve Retirement System.

Approved unanimously.

Secretary.