

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, February 1, 1951. The Board met in the Board Room at 10:40 a.m.

PRESENT: Mr. McCabe, Chairman  
Mr. Eccles  
Mr. Szymczak  
Mr. Evans  
Mr. Vardaman  
Mr. Norton  
Mr. Powell

Mr. Carpenter, Secretary  
Mr. Sherman, Assistant Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Thurston, Assistant to the Board  
Mr. Thomas, Economic Adviser to the Board  
Mr. Vest, General Counsel  
Mr. Townsend, Solicitor  
Mr. Ralph A. Young, Director, Division of Research and Statistics

Mr. Powell stated that he and Mr. Vest were to go to New York to attend a meeting of the committee of representatives of financing institutions tomorrow morning with respect to the proposed voluntary agreement by such institutions to restrict the extension of credit, and that if the program was approved by the committee tomorrow it would be considered at a meeting, probably to be held next week, by representatives of the American Bankers Association, insurance companies, and other financing institutions, following which it would be submitted to the Board for approval.

There followed a general discussion of possible legislation to restrict inflationary credit expansion and of the question whether such legislation should be proposed by the Board direct to the Congress

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or through the Office of Defense Mobilization and whether it should apply only to banks or should also cover other credit-granting institutions. It was understood that there would be a further discussion of the matter at the meeting on February 6, 1951.

During the foregoing discussion Mr. Riefler, Assistant to the Chairman, joined the meeting and at the conclusion of the discussion Chairman McCabe withdrew from the room to keep another appointment.

Mr. Vardaman referred to previous discussions of the procedure followed in handling investments of the Retirement System of the Federal Reserve Banks and to the understanding reached at the meeting on April 29, 1949, with officers of six of the Federal Reserve Banks who were also officers of the Retirement System, that if at the end of 1950 the 3 per cent rate was not earned on investments of the Retirement System, there would be a determination of the policy which would justify a guarantee of Retirement System benefits. Mr. Vardaman went on to say it was his understanding that the Board agreed to go along with the investment procedure then being followed by the Retirement System until the end of 1950, that he wished to have the minutes of this meeting show that he had raised the question of a further discussion of the matter, and that he did not approve of the policy being followed in investing funds of the Retirement System.

In response to Mr. Vardaman's comment it was stated that the whole matter of organization and policy for the investment of retirement

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system funds was discussed at the last meeting of the Board and the Presidents and that the matter was in the hands of the Personnel Committee for further study.

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 January 31, 1951, were approved unanimously.

Memorandum dated January 29, 1951, from Mr. Young, Director of the Division of Research and Statistics, recommending that the resignation of Mrs. Audrey R. Merritt, a draftsman in that Division, be accepted to be effective, in accordance with her request, at the close of business February 4, 1951.

Approved unanimously.

Telegram to Karl T. Compton, 111 Memorial Drive, Cambridge, Massachusetts, reading as follows:

"Board of Governors of Federal Reserve System has appointed you Class C Director of the Federal Reserve Bank of Boston for the unexpired portion of term ending December 31, 1953, and will be pleased to have your acceptance by collect telegram."

Approved unanimously.

Letter to the Board of Directors of the "Farmers State Bank of Alpha", Alpha, Illinois, stating that, subject to conditions of

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membership numbered 1 and 2 contained in the Board's Regulation H, the Board approves the Bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Chicago.

Approved unanimously for transmittal through the Federal Reserve Bank of Chicago.

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

"Please submit report in duplicate as of January 31 for each guaranteeing agency of guaranteed loans under Regulation V as revised September 27, 1950. Use present Form F. R. 579, omitting columns two and six and giving in column nine amount advanced on loan and in column ten amount repaid on loan for entire period to January 31. Include in reports any guarantees issued and terminated prior to date of report."

Approved unanimously.

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

"The Board has today amended its designation under Regulation W (see S-1136 W-62) of the Red Book National Used Car Market Report and Blue Book-Executives Edition published by National Used Car Market Report, Inc. This amendment, effective February 15, 1951, has been made at the request of the publisher and transfers from its Region 'A' to its Region 'B' the States of Alabama, Florida, Georgia, Mississippi, North Carolina, South Carolina, and Tennessee.

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"The Board is not issuing a press statement in this connection but you should feel free to give this notice whatever distribution you believe desirable."

Approved unanimously.

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

"Mr. Bernard Kaiser, Sales Manager of Home Demonstration, Dynamic Stores, 1300 G Street, N. W., Washington, D. C., STerling 0250, has brought to our attention alleged violations of Regulation W by the Michael Home Equipment Company, Inc., 516 H Street, N. W., Washington, D. C.

"According to Mr. Kaiser, the Michael concern is collecting \$15 down payments on \$400 television sets, leaving them for a 5-day trial period and then collecting payments on a meter plan. Because of this competition Mr. Kaiser said that Dynamic Stores recently had lost sales to various persons, including Tennessee Burch, 1402 15th Street, N. W. and Lenster Brooks, 901 52nd Street, N. E.

"The Michael Home Equipment Company was the subject of our letter to you of November 16, 1950, and your reply of November 30, 1950, concerning the results of your investigations of that Company. Your reply indicated that the Michael concern had been doing business contrary to the regulation and that a re-investigation was to take place around the end of the year.

"In the circumstances, it is considered especially appropriate that these later developments be brought to your attention, and your investigator should feel free to discuss them with Mr. Kaiser who asked, however, that his name be kept confidential."

Approved unanimously.

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

"A question has been received concerning the application of the down payment requirement in Regulation W to the instalment sale of an article listed in Group B having a cash price of more than \$50 where, as the result of a trade-in received in connection with such sale, the net price of the listed article is less than \$50.

"In such a case, the Board is of the view that a down payment would not be required by the regulation. This result follows a reading of section 3(a), section 3(j)(7) and Part 1 of the Supplement in the light of Part 5 of the Supplement. In the case of any article listed in Groups B, C, or D, Part 5 of the Supplement provides for the calculation of the required down payment on the basis of 'the net price of the listed article after deducting from the cash price the amount allowed for the trade-in.' Thus, where there is a trade-in, 'net price' is substituted for 'cash price' for purposes of the down payment requirements applicable to articles listed in Groups B, C, or D."

Approved unanimously.

Letter to Mr. S. H. Scheuer, 39 Broadway, New York 45, N. Y.,  
reading as follows:

"This refers to your letter of January 20, 1951, regarding the regulations issued by this Board on the subject of margin requirements.

"You state that before the amendment a short sale of \$20,000 would require either \$10,000 in cash or the deposit of \$20,000 in registered securities as margin. You add that under the recent amendment, effective January 17, 1951, a short sale of \$20,000 would seem to require either \$15,000 in cash or a deposit of \$60,000 in registered securities,

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"and you ask whether the new requirement, in so far as it relates to the amount required in the case of a deposit of securities, was intended.

"The results of the increased margin requirements and correspondingly reduced loan values, are as you indicated. This, of course, is true not only with respect to short sales, but also with respect to purchases. In other words, a purchase of \$20,000 would require the same margin, whether in the form of cash or securities, as would a short sale."

Approved unanimously.

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

"It is respectfully requested that you place an order with the Bureau of Engraving and Printing, supplementing the orders heretofore requested, for 136,000 additional sheets of 1934 Series Federal Reserve notes to be printed during the fiscal year ending June 30, 1951, for the Banks and in the amounts and denominations shown below:

<u>Bank</u>	<u>Denomi- nations</u>	<u>Number of sheets</u>	<u>Amount</u>
Boston	\$50	4,000	\$2,400,000
	100	8,000	9,600,000
New York	100	41,333-1/3	49,600,000
Cleveland	50	333-1/3	200,000
	100	1,000	1,200,000
Atlanta	100	6,666-2/3	8,000,000
Chicago	50	35,333-1/3	21,200,000
	100	28,333-1/3	34,000,000
Minneapolis	50	1,666-2/3	1,000,000
	100	2,666-2/3	3,200,000
Kansas City	100	6,666-2/3	8,000,000"

Approved unanimously.

Letter to Mr. H. V. Prochnow, Secretary, Federal Advisory Council, 38 South Dearborn Street, Chicago 90, Illinois, reading as follows:

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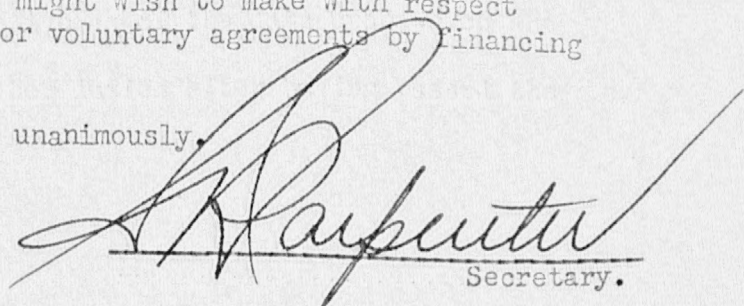
"This letter is in response to yours of January 18, 1951, relating to the next meeting of the Federal Advisory Council which is to be held on February 18-20, 1951. The Board Room will be available for the Council on the afternoon of Monday, February 19, at 2:15 p.m.

"I understand that Chairman McCabe has written to you suggesting that his luncheon with the Council be on Monday, the 19th, or that the Council have dinner with him on Sunday evening, the 18th. If you will let me know, we will make the dining room available for whatever program you work out.

"The Board of Governors will be pleased if the following items could be added to the agenda for discussion with the Board at the joint meeting on the morning of February 20:

1. What are the views of the Council as to the practicable fiscal and monetary actions that should be taken in the period that lies immediately ahead to combat inflation and to meet requirements for defense?
2. What are the prospects with respect to changes in the total volume of bank loans during the first half of 1951?
3. What have been the effects of Regulations W and X and under what conditions would the Council favor tightening the terms of the Regulations?
4. What steps would the Council recommend to make the V-loan program operate more effectively? Complaints have been coming to the Board that the small defense contractor who has the managerial and technical ability to produce defense goods but does not have established banking connections is having difficulty in getting necessary financing. How can this situation be met effectively without the creation of an additional Government agency or lending powers in an existing agency?
5. The Board would be pleased to have any comments that the Council might wish to make with respect to the program for voluntary agreements by financing institutions."

Approved unanimously.

  
Secretary.