

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, March 2, 1951. The Board met in the Board Room at 3:45 p.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Vest, General Counsel
Mr. Young, Director, Division of Research and Statistics
Mr. Youngdahl, Chief, Government Finance Section, Division of Research and Statistics
Mr. Leach, Economist, Division of Research and Statistics

At a meeting of the Federal Open Market Committee just prior to this meeting there were discussions of an understanding proposed to be reached with the Treasury concerning debt management and monetary policies to be pursued in furthering their common purposes to assure the successful financing of the Government's requirements and at the same time to minimize monetization of the public debt. The agreement contemplated among other things (1) a statement by the Board that it would approve no change during the rest of this calendar year in the discount rates of the Federal Reserve Banks without prior consultation with the Treasury and unless very impelling circumstances existed, (2) a request by the Board for the cooperation of the Treasury

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in seeking from the Congress early supplemental legislation to restrict the expansion of bank credit, and (3) approval by the Board of a joint statement for the press reading as follows:

"Joint Announcement by the Secretary of the Treasury and the Chairman of the Board of Governors, and of the Federal Open Market Committee, of the Federal Reserve System

The Treasury and the Federal Reserve System have reached full accord with respect to debt-management and monetary policies to be pursued in furthering their common purpose to assure the successful financing of the Government's requirements and, at the same time, to minimize monetization of the public debt."

The agreement was approved at the meeting of the Federal Open Market Committee subject to approval by the Secretary of the Treasury, and the members of the Board who were present indicated that a meeting of the Board would be held following the meeting of the Federal Open Market Committee to approve and ratify the above statements and request. This meeting of the Board was called for that purpose.

By unanimous vote the statement to the Treasury with respect to the discount rate, the request that the Treasury cooperate in seeking legislation, and the statement to the press, all as set forth above, were approved and ratified.

Secretary's Note: Word of the approval of the Secretary of the Treasury was received on March 3, and the statement for the press set forth above was released for publication in the morning papers of Sunday, March 4, 1951.

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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 March 1, 1951, were approved unanimously.

Telegrams to the Federal Reserve Banks of New York, Philadelphia, Chicago, St. Louis, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on February 27, by the Federal Reserve Bank of St. Louis on February 28, and by the Federal Reserve Banks of New York, Philadelphia, and Chicago on March 1, 1951, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated February 19, 1951, from Mr. Young, Director of the Division of Research and Statistics, recommending that the temporary indefinite appointment of James H. Lorie, economist in that Division, be extended, with no change in his present basic salary at the rate of \$7,400 per annum. The memorandum also stated that it was expected that Mr. Lorie's appointment would extend for an additional

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period of approximately 12 months from October 1951, at which time it was anticipated his original temporary indefinite appointment would terminate.

Approved unanimously.

Memoranda from the heads of the divisions indicated below recommending increases in the basic annual salaries of the following employees in those divisions, effective March 4, 1951:

<u>Date of Memo</u> <u>Division and Name</u>	<u>Title</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
2/27/51			
RESEARCH AND STATISTICS			
Mrs. Caroline H. Cagle	Economist	\$5,400	\$5,800
Miss Elinor R. Harris	Economist	4,725	4,975
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LEGAL DIVISION			
Mrs. Lucy I. McColloch	Secretary to Mr. Vest	4,200	4,450

Approved unanimously.

Memorandum dated February 28, 1951, from Mr. Williams, Assistant Director of the Division of Research and Statistics, recommending an increase in the basic salary of Miss Patricia A. Mickelsen, a statistical assistant in that Division, from \$3,035 to \$3,225 per annum, effective March 4, 1951.

Approved unanimously.

Memoranda dated February 20 and February 27, 1951, from Mr. Young, Director of the Division of Research and Statistics, recommending increases in the basic annual salaries of the following employees in that Division, effective March 4, 1951:

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<u>Name</u>	<u>Title</u>	Salary Increase	
		<u>From</u>	<u>To</u>
Lorman Trueblood	Economist	\$7,000	\$7,600
Murray S. Wernick	Economist	6,400	7,600

Approved, Mr. Vardaman
voting "no".

Memorandum dated March 1, 1951, from Mr. Marget, Director of the Division of International Finance, recommending an increase in the basic salary of Gordon Grimwood, an Economist in that Division, from \$3,725 to \$3,950 per annum, effective March 4, 1951.

Approved unanimously.

Telegram to Mr. Clark, First Vice President of the Federal Reserve Bank of Atlanta, reading as follows:

"Referring to your wire February 28 to Myrick regarding contract covering certain fiscal agency functions to be performed by New Orleans Branch for Housing and Home Finance Agency Board of Governors takes no exception to the form of contract submitted to McLarin by Acting Secretary of Treasury with his letter of February 27."

Approved unanimously.

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

"In connection with Amendment No. 2 to Regulation W and the general problem of leasing arrangements under the regulation, four memoranda are enclosed for your confidential background information. These memoranda are entitled:

- The Problem and Treatment of Leasing Arrangements Under Regulation W
- Consequences If Leases Generally Were Exempted From Regulation W
- Credit Aspects of A Lease

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"Validity of Application of Regulation W to
Leasing Arrangements

"These memoranda reflect the economic and practical as well as legal aspects of the problem and it is believed that they may be of interest, particularly to those members of your staff interested in Regulation W matters."

Approved unanimously.

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

"This refers to your letter of February 5, 1951, regarding questions presented to you under Regulation W by Interstate Securities Company, Kansas City, Missouri. The questions are whether the use of an assignment and assumption agreement form or the execution of a new mortgage for the transfer of equity in the case of an automobile would be permitted in view of item 6 of S-1190 (W-97) relating to the transfer of equity.

"Since it appears in each instance that the original obligor would not be released and that the terms of payment of the original obligation would not be altered, the use of the assignment and assumption agreement form or the execution of a new mortgage would be unobjectionable. Of course, any action to transfer equity should not be initiated by the sales finance company."

Approved unanimously.

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

"The Board has received several inquiries as to whether warehouses and office buildings used in connection with a manufacturing business are subject to Regulation X. As indicated in footnote 11 on page 6 of the regulation, office buildings and warehouses, as well as other buildings, are ordinarily subject to the regulation. They are not subject to the regulation, however, if they fall within one of the exclusions from the definition of 'nonresidential structure', namely, structures

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"exclusively used or designed for use by a public utility or by any Government or political subdivision, or structures more than 80 per cent of the floor space of which is used or designed for use (i) in processing materials, goods, or articles into finished or partly finished manufactured products, (ii) in mining or otherwise extracting raw materials, or (iii) on farm property in the production, shelter, or storage incidental thereto, of crops, livestock or other agricultural commodities. It is the opinion of the Board that space in such structures as office buildings and warehouses is used or designed for use in processing materials, goods, or articles into finished or partly finished manufactured products where such office building or warehouse is essential to and an integral part of the operations involved in the processing of such materials, goods, or articles. Unless the office building or warehouse, however, is essential to the processing operation and an integral part thereof, it is subject to the regulation."

Approved unanimously.

Telegram to Mr. Heflin, Counsel at the Federal Reserve Bank of Richmond, reading as follows:

"Reference your telephone inquiry February 21, 1951, re extensions of credit by City of Baltimore pursuant to authority granted by Maryland State Legislature. Under section 2(a) of the regulation it is the Board's opinion that the City is subject to Regulation X and may not extend credit for the purpose of financing nonresidential construction in an amount exceeding 50 per cent of the 'value' of the proposed construction. You may advise the City to this effect."

Approved unanimously.

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

"This refers to our letter of February 7 regarding the Program for Voluntary Credit Restraint. Since that date the Program has been changed at the request of the

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"Attorney General's representatives in two respects:
(1) By the addition of the following footnote to paragraph numbered 2 regarding types of loans which in general financing institutions should not make: 'Loans additional to those needed for a borrower's normal business may, of course, be regarded as proper when they are for the purpose of defense production or otherwise conform to the types of loans listed as proper in this Statement of Principles.' (2) By changing the second sentence of paragraph 2 in 'Procedure for Implementing the Program' into two sentences to read as follows:

'For the investment bankers, the life insurance companies, and the banks there may in each case be one or more subcommittees organized. All such subcommittees will meet only for the purposes specified in the Program; will maintain records of their actions; and will make reports directly to the Committee regarding the actions taken by them, including statements of the types of cases considered and the nature of the advice given.'

"After further discussion of the matter with the Attorney General's office, his representatives now require as a condition to his approval that there be Federal Reserve representation on the subcommittees located in cities in which there are Federal Reserve Banks or branches. Accordingly, we are now canvassing the members of the committee representing financing institutions which has been working on this matter in an endeavor to obtain their approval by wire of the following amendment to the Program: 'In the "Program for Voluntary Credit Restraint", after the first sentence of paragraph numbered 2 of the "Procedure for Implementing the Program", insert the following sentence: "One of the members of each subcommittee located in any city in which there is a Federal Reserve Bank or branch thereof will be a Federal Reserve representative designated by the Board of Governors of the Federal Reserve System or by such Federal Reserve Bank or branch; and such member shall attend each meeting of the subcommittee."'

"Please advise by wire as soon as possible whether the procedure contemplated by this proposed amendment to the Program will be agreeable to your bank."

Approved unanimously.

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Memorandum dated February 16, 1951, from Mr. Phelan, Acting Director of the Division of Selective Credit Regulation, prepared pursuant to the action of the Board on December 18, 1950 with respect to the organization of the Division of Selective Credit Regulation, and requesting approval of increases or decreases in the 1951 budget for that Division as follows:

<u>"Classification</u>	<u>Authorized 1951 Budget</u>	<u>Budget Now Determined to be Necessary</u>	<u>Increase or Decrease (-) Over Author- ized Budget</u>
Salaries	\$ 95,425	\$ 96,387	\$ 962
<u>Non-Personal Services:</u>			
Traveling Expenses	44,000	49,200	5,200
Postage and Expressage	200	200	-
Telephone and Telegraph	4,000	3,600	400(-)
Printing and Binding	3,500	5,700	2,200
Stationery and Supplies	1,400	3,000	1,600
Furniture and Equipment	1,500	3,250	1,750
Books and Subscriptions	500	500	-
Repairs and Maintenance (Furniture and Equipment)	150	325	175
Miscellaneous	26,100	50,000	23,900
Total Non-Personal Services	81,350	115,775	34,425
GRAND TOTAL	\$176,775	\$212,162	\$35,387"

Approved unanimously.

Memorandum dated February 26, 1951, from Mr. Carpenter, Secretary of the Board, recommending that routine periodic items

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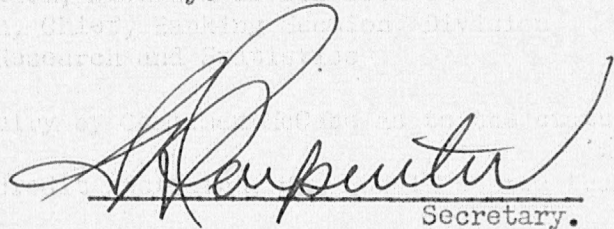
be omitted from the "Confidential Daily List of Material Received in Secretary's Office".

Approved unanimously.

Telegram to Mr. DeMoss, Vice President of the Federal Reserve Bank of Dallas, reading as follows:

"Reurtel 28th wall to wall carpet permanently nailed down to plywood floor in new residence may be included in appraisal under Regulation X; if subject to that regulation, credit is automatically exempt from Regulation W under provisions of section 7(h)(3). If new residence does not constitute new construction subject to Regulation X, installment credit extended in connection with its sale even though equipped with carpet would not be subject to Regulation W (See Regulation W Service No. 740 first paragraph)."

Approved unanimously.


Secretary.