

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, March 20, 1951. The Board met in the Board Room at 10:35 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
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. Noyes, Director, Division of
Selective Credit Regulation
Mr. Horbett, Assistant Director,
Division of Bank Operations
Mr. Solomon, Assistant General Counsel
Mr. Youngdahl, Chief, Government Finance
Section, Division of Research and
Statistics
Mr. Koch, Chief, Banking Section,
Division of Research and Statistics

Mr. Thomas presented a report on developments in the Government securities market, which was followed by a general discussion.

Before the meeting there were distributed copies of the report of the task force committee headed by Mr. Young, which was requested by Mr. Wilson, Director of the Office of Defense Mobilization to report to the committee appointed by the President on February 26, 1951 on the need for supplemental authority over bank reserve requirements.

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Mr. Young commented on the discussions within the task force committee which resulted in the submission of a compromise report recommending further intensive study by the Treasury and the Federal Reserve of the two plans which appeared to offer the greatest promise, namely the loan expansion reserve plan and the primary reserve plan, with the option included of holding additional requirements in the form of cash or Government securities. He said that the Board representatives who participated in the task force discussions urged recommendation of the loan expansion reserve plan, while representatives of the Treasury Department favored a straight increase in primary reserve requirements with the option mentioned in the report, and that the Treasury representatives felt that increased requirements should be applicable only to member banks, whereas the Board representatives felt that as a minimum all insured banks must be covered. Mr. Young went on to say that one of the suggestions in the task force report was that the matter be explored in detail with representatives of major types of banks before legislation was drafted and submitted, and that he understood that the Wilson committee at its meeting yesterday referred the matter back to the task force with the request that some proposal be agreed upon and a draft of legislation be presented within two weeks.

Chairman McCabe said he felt strongly that any supplemental reserve plan must be applicable to nonmember as well as member banks, with a possible option that nonmember banks be allowed to keep their

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reserves with other commercial banks rather than with the Federal Reserve Banks, and that any move to permit banks to carry any part of their reserves in the form of Government securities should be opposed. He added that while he felt the loan expansion reserve plan was theoretically the most sound of the plans advanced, he realized that as a practical matter there might be a need for some compromise in order to get legislation enacted.

Mr. Young said that there was a discussion among members of the Board's staff before this meeting to consider what steps might be taken in view of the conflicting points of view expressed in the task force discussions, at which it was the feeling of the staff that the issues involved should be resolved at policy level by officials of the Board and the Treasury Department and that the banking community should be informed of the proposed plans through the Federal Advisory Council or through a special committee of bankers. He noted that prompt action would be necessary if a final report were to be rendered to the Wilson committee within the time specified and that before submission of the report further consultation would be necessary with the Council of Economic Advisers.

In response to a question by Mr. Szymczak, Mr. Young said that he had discussed the matter of additional authority over bank reserves on two occasions with President Sproul of the Federal Reserve Bank of New York and that while Mr. Sproul had some doubt whether increased reserve requirements were necessary and made no specific suggestions regarding the loan expansion reserve plan, he indicated that he considered this

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plan the most satisfactory of those presented.

There followed a discussion of steps which might be taken toward reaching an agreement on a plan before the final report to the Wilson committee, during which it was suggested that the staff devote further study to the loan expansion reserve plan in order to be prepared to answer any questions concerning its operation, that the plan be discussed with Mr. Martin, Assistant Secretary of the Treasury and Chairman-designate of the Board, and that consideration be given to presenting the plan to a selected group of bankers.

These suggestions were discussed and it was understood that, if the necessary arrangements with Mr. Martin and the bankers' groups could be made, a procedure along the lines proposed should be followed.

At this point Messrs. Horbett, Youngdahl, and Koch withdrew.

Mr. Powell commented briefly on the meeting of the Voluntary Credit Restraint Committee on March 14-15, 1951. He said it was proposed to afford the committee at each of its meetings an opportunity to offer recommendations to the Board on matters which might affect the voluntary credit restraint program and that at the meeting last week, following a discussion of the terms and coverage of Regulation W, Consumer Credit, and Regulation X, Real Estate Credit, in which members of the Board's staff participated, the Committee voted unanimously to recommend to the Board that in the light of prevailing credit conditions the Board consider at this time tightening the terms of both regulations.

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Chairman McCabe stated in this connection that Mr. Norton had reported to him a conversation with Mr. Foley, Housing and Home Finance Administrator, in which he (Mr. Norton) expressed the view that the terms of Regulation X should be tightened, and that Mr. Norton was to discuss the matter further with Mr. Foley in the near future. He suggested that, in the meantime, a copy of the recommendation of the Voluntary Credit Restraint Committee be sent to Mr. Foley for his information. Chairman McCabe also suggested that, to assist in considering a downward revision in the target of 800-850 thousand housing starts for 1951, which was set at the time Regulation X was instituted, Mr. Riefler and Mr. Young discuss with Mr. Fleischmann, Administrator of the National Production Authority, the prospective availability of materials for the production of non-durable consumer goods.

These suggestions were approved unanimously.

Mr. Marget, Director, Division of International Finance, joined the meeting at this point.

Chairman McCabe reported that Mr. Neely, Chairman of the Federal Reserve Bank of Atlanta, had advised yesterday by telephone that it was expected that the directors of the Atlanta Bank at their meeting on Thursday, March 22, 1951, would elect as President of the Bank for the unexpired portion of the term ending February 29, 1956, Malcolm H. Bryan, formerly First Vice President of the Bank and presently Vice Chairman of the Board of the Trust Company of Georgia, at a salary of

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\$25,000 per annum, subject to the approval of the Board of Governors.

Upon motion by Mr. Powell, the Secretary was authorized, after obtaining the approval of the absent members of the Board and upon receipt of advice that the contemplated action had been taken by the directors, to advise Mr. Neely that the appointment of Mr. Bryan and the salary fixed for him as President of the Atlanta Bank were approved by the Board.

There were presented two memoranda from Mr. Marget, dated March 5 and March 16, 1951, respectively, recommending that, in response to a request received from the Minister of Finance of Paraguay, a mission be sent to that country to advise in connection with a proposed re-organization of its central banking structure, that Ernest C. Olson, economist in the Division of International Finance, be authorized to proceed to Paraguay on this mission for a period of approximately two months beginning about April 1, and that, if deemed necessary on the basis of Mr. Olson's preliminary study, Mr. Grove, Chief of the Latin American Section, Division of International Finance, be authorized to proceed to Paraguay to join Mr. Olson for a period of two or three weeks to consult with him concerning certain phases of the work. There was also presented a memorandum from Mr. Vardaman dated March 15 stating that in view of the work done by two missions sent to Paraguay by the Board in 1943 and 1944 and the detailed knowledge now possessed by certain of the Board personnel with reference to the situation in Paraguay, it did not appear to him to be necessary or advisable to send another

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mission to that country, although he would concur reluctantly in sending one member of the staff for a few weeks to transmit to the Paraguayan government the ideas of the Board and the staff.

Mr. Vardaman stated that for reasons set forth in his memorandum of March 15 he could not vote to approve a mission to Paraguay of the type mentioned in Mr. Marget's memorandum.

Thereupon, upon motion by Mr. Szymczak, the recommendations contained in Mr. Marget's memorandum of March 5 were approved, Mr. Vardaman voting "no" for the reasons stated.

Mr. Vardaman then withdrew.

In connection with the above matter unanimous approval was given to a telegram to Sr. R. Mendez Paiva, Minister of Finance, Asuncion, Paraguay, reading as follows:

"Board would be prepared to send Mr. Ernest Olson of the Board's staff to advise regarding functions to be performed by separate central bank, appropriate monetary and credit policies and reorganization of Bank of Paraguay. International Monetary Fund prepared to send Mr. James Thackera to work with Olson. Both men would arrive April 1. If further technical assistance needed Board would endeavor to send other experts after specific needs have been appraised by Olson. Proposed terms and conditions of our technical assistance will be communicated by airmail. Please let us know whether this proposed procedure for meeting your request appears satisfactory or what alternatives you would wish to suggest."

Chairman McCabe reiterated the opinion he had expressed on previous occasions that in sending missions to foreign countries

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to assist in connection with central bank problems the System should also provide for the review by a competent operating man of the missions' recommendations to assure that they were sound from a practical standpoint. A discussion ensued of the procedures followed in staffing missions to foreign countries and in staff review of the recommendations of the missions, but no conclusions were reached. There was agreement, however, with a suggestion by Mr. Powell that all of the members of the Board should be provided an opportunity to review documents embodying recommendations of members of the staff engaged in a foreign mission so that they might be informed of the work and recommendations of the mission.

There was presented a memorandum dated March 19, 1951, from Mr. Townsend, Solicitor, stating that the Federal Reserve Bank of Chicago had reported that Ogden Auto Mart, Inc., Chicago, Illinois, had violated Regulation W, Consumer Credit, by failing to register, by failing to obtain the required down payment, and by attempting to cover up this omission by various devices, and by not maintaining records which correctly reflected the transactions; and recommending that in accordance with the suggestion of the Reserve Bank the Board authorize the issuance of an order for investigation as follows:

"UNITED STATES OF AMERICA
BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
At a meeting of the Board of Governors of the Federal Reserve System held at its offices in the City of Washington, D. C., on the 20th day of March, A.D., 1951

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"In the Matter of
Ogden Auto Mart, Inc.

ORDER DIRECTING INVESTIGATION AND
DESIGNATING OFFICERS TO TAKE
TESTIMONY

I

Members of the staff of the Federal Reserve Bank of Chicago have reported information to that Bank, which that Bank has transmitted to the Board, which tends to show that:

Ogden Auto Mart, Inc., has made instalment sales of used automobiles subject to Regulation W:

1. Without filing the registration statement required by Regulation W;
2. Without obtaining the down payment required by Regulation W;
3. Without maintaining and preserving such books of account, records and other papers as are relevant to establishing whether or not credit extended by it is in conformity with the requirements of said Regulation.

II

The Board, having considered the aforesaid report by members of the staff of the Federal Reserve Bank of Chicago, and for the purpose of (1) determining whether Ogden Auto Mart, Inc., has violated the provisions of Regulation W and (2) aiding in the enforcement of said Regulation, deems it necessary and appropriate that an investigation be made to determine whether Ogden Auto Mart, Inc., has engaged in the acts and practices set forth in paragraph I hereof, or any acts and practices of similar purport or object.

III

IT IS ORDERED, pursuant to Section 604 of the Defense Production Act of 1950 that an investigation be made to determine the matters set forth in paragraph I hereof.

IT IS FURTHER ORDERED, pursuant to the provisions of Section 604 of the Defense Production Act of 1950, that for the purpose of such investigation, G. Howland Chase and Paul C. Hodge, and each of them is hereby designated an officer of the Board and empowered to administer oaths and affirmations, subpoena witnesses, compel their attendance, take evidence and require the production of any books, papers, correspondence, memoranda, or other records deemed relevant or material to the inquiry, and to perform all other duties in connection therewith as authorized by law.

By the Board.

(signed) S. R. Carpenter
Secretary."

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Approved unanimously, with the understanding that Mr. Chase, Assistant Solicitor, would be authorized to undertake travel necessary to carry out the order.

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:

Memorandum dated March 19, 1951, from Mr. Bethea, Director of the Division of Administrative Services, recommending increases in the basic annual salaries of the following employees in that Division, effective April 1, 1951:

<u>Name</u>	<u>Title</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
John Blash	Maintenance Mech.	\$4,025	\$4,150
Anna M. Utz	Charwoman	2,400	2,470

Approved unanimously.

Memorandum dated March 14, 1951, from Mr. Young, Director of the Division of Research and Statistics, recommending an increase in the basic salary of Charles E. Fox, Jr., an economist in that Division, from \$3,950 to \$4,600 per annum, effective April 1, 1951.

Approved, Mr. Vardaman
voting "no".

Memorandum dated March 14, 1951, from Mr. Young, Director of the Division of Research and Statistics, recommending that Howard G. Smith, an analyst in the Division of Bank Operations, be transferred

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to the Division of Research and Statistics as an economist on a non-permanent basis in accordance with the policy adopted by the Board on December 29, 1950, with an increase in his salary from \$3,575 to \$3,825 per annum, effective as of the date on which he enters upon the performance of his new duties. The memorandum also stated that the Division of Bank Operations had been consulted and was agreeable to this transfer.

Approved, Mr. Vardaman voting
"no".

Memorandum dated March 13, 1951, from Mr. Bethea, Director of the Division of Administrative Services, recommending the appointment of Lettie E. Green as a charwoman in that Division on a temporary basis for a period of two months, with basic salary at the rate of \$2,120 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination and subject to the completion of a satisfactory employment investigation.

Approved unanimously.

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

"You will recall that at the recent Conference of Presidents the matter of interlocking relationships between member banks and open-end investment companies was discussed, and the question arose as to whether the Board should amend Regulation R so as specifically to exclude open-end investment companies or make more readily available to supervisory authorities the substance of the Board's letter S-556, dated September 22, 1942 (F.R.L.S. #7610)

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"which refers specifically to open-end investment companies. It was pointed out that in 1942 the Board had considered a suggested amendment to Regulation R which would have permitted officers, directors and employees of open-end investment companies to serve as officers, directors and employees of member banks and that, although it had been of the opinion that it would not be desirable to make the suggested amendment at that time, it would be glad to reconsider the matter in the light of any recommendation that the Presidents' Conference might wish to make. The Presidents felt that they would like an opportunity to consider the subject before making a recommendation as to a possible change in Regulation R and it was suggested that the Board obtain the views of each Federal Reserve Bank with regard to the alternatives after the Reserve Banks have had time to give further consideration to the matter.

"In considering all of the aspects of this problem the Board would appreciate it if you would give it the benefit of your views as to whether you feel that the Board would be justified in amending the regulation in the manner suggested, having in mind the Board's responsibilities under the law and the purposes for which the legislation was enacted. Also, in this connection, the Board would like to have your views on the question whether the situation involving interlocking directorates between member banks and open-end investment companies is any different now than it was in 1942 when the Board decided that it was not desirable to amend the regulation so as to permit such relationships. In the event you conclude that there appears to be no justification for amending the regulation, would you please state your views as to the suggested alternative of making the Board's rulings in this regard more readily available to supervisory authorities and others with the objective of more adequate enforcement. We would like to have your comments and recommendations in this matter at your earliest convenience."

Approved unanimously.

Letter to Mr. Robert W. Neilson, R. D. No. 2, Boyertown, Pennsylvania, reading as follows:

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"This refers to your letter of February 19, 1951, in which you request that this Board permit you and the finance company holding your automobile contract to revise the terms over a longer period than authorized by Regulation W.

"We are certain that you will appreciate that if the terms of Regulation W were such as to permit instalment financing on much the same basis as would prevail in the absence of regulation, Regulation W would fail in its attempt to accomplish the purpose intended when Congress authorized its issuance. We are certain you will appreciate also that, in the formulation and administration of a regulation covering such a broad field as Regulation W, it is not feasible to provide exemption in the regulation for all of the various individual cases wherein the particular circumstances may make it difficult to comply with the terms prescribed by the regulation. The regulation, of course, along with other monetary and fiscal policies adopted by the Government, is directed at preventing the wide spread hardship which would be certain to result from further inflation. A basic objective of the regulation is to assist in combating the current inflationary pressures by discouraging the creation of consumer instalment indebtedness and encouraging liquidation of outstanding consumer instalment credit.

"The Board has given a great deal of study to additional possible methods of providing for individual cases such as yours and related cases, which would not at the same time seriously weaken the effectiveness of the regulation in the accomplishment of its purpose. We have as yet found no practicable way of providing an exemption for cases such as the one you present, and we regret our being unable to comply with your request."

Approved unanimously.

Letter for the signature of the Chairman, to Honorable Oscar L. Chapman, Secretary of the Interior, Department of Interior, Washington 25, D. C., reading as follows:

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"Receipt is acknowledged of your letter of March 12 advising that it has come to your attention that there has been no clear statement of policy by the guaranteeing agencies with respect to 100 per cent guarantees of loans under Section 301 of the Defense Production Act of 1950 and Executive Order 10161. This question has been discussed at several meetings attended by representatives of the guaranteeing agencies and the Board of Governors of the Federal Reserve System. On each occasion, the guaranteeing agencies have concluded that they would authorize 100 per cent guarantees only in exceptional circumstances where it is determined that the contract or other operation of the prospective borrower is one which is deemed by the guaranteeing agency to be vital and necessary for the national defense and no other suitable means of financing is available.

"As you know, the Federal Reserve Banks acting in the capacity of Fiscal Agents for the guaranteeing agencies make credit investigations and suggest the terms and conditions under which loans should be authorized. The Reserve Banks however do not have the authority to determine when a loan should or should not be guaranteed 100 per cent. The percentage of guarantee is a matter solely to be determined by a guaranteeing agency after weighing all of the factors in any given case.

"Since the start of the program last September, only seven loans have been guaranteed 100 per cent; five of these by the Department of the Army, and two by the Department of the Navy.

"I agree with you that the policy of the guaranteeing agencies with respect to 100 per cent guarantees should be clearly formulated; and if further clarification of that question is needed, it might be helpful for this matter to be made the subject of further discussion at the next meeting of representatives of the guaranteeing agencies."

Approved unanimously.

Letter to Mr. C. E. Earhart, Chairman, Presidents' Committee on Miscellaneous Operations, c/o Federal Reserve Bank of San Francisco, San Francisco 20, California, reading as follows:

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"With your letter of August 15, 1950, you enclosed a digest of replies received by you from the Federal Reserve Banks with regard to reserve stocks of currency and stated that the letters indicated a 'prevailing opinion that each Bank should have a reserve stock of currency amounting to normal needs of six months or more and a belief that production capacity of the Bureau should be increased.'

"In Mr. Leonard's letter to you of September 19, 1950, it was noted that the Bureau of Engraving and Printing had started working a nine-hour day, five-day week on the printing of currency and that in July a supplemental order for the printing of 5 million sheets of Federal Reserve notes, bringing the fiscal year's order to approximately 39,700,000 sheets, had been placed with the Bureau of Engraving and Printing.

"In November, following a substantial increase in issues of Federal Reserve notes during the preceding month, we arranged for the Bureau of Engraving and Printing to operate five numbering presses on Federal Reserve notes on each of four Saturdays beginning November 18. This enabled us to obtain deliveries of about 800,000 additional sheets of notes during the holiday season, and the Bureau made no extra charge for the small amount of overtime involved.

"In December, an additional supplemental printing order was placed with the Bureau of Engraving and Printing, which, together with the one referred to above, increases the original order for printing Federal Reserve notes in the fiscal year ending June 30, 1951, by about 50 per cent and brings it to 53,235,000 sheets. The amended order provides for a reserve stock of Federal Reserve notes, based on recent net issues, equal to approximately eight months' requirements in the \$5 denomination and six months' or more in the larger denominations. The Bureau has assured us that the amended printing order for Federal Reserve notes will be completed during the fiscal year, and with that end in view it has begun working Saturdays to accelerate deliveries.

"With the larger production and the increased rate of output resulting from completion of the equipment modernization program, it has been possible for the

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"Bureau to reduce the price per thousand sheets for Federal Reserve notes from \$137 to \$125 effective January 1. In this connection, you will recall that when the Federal Reserve Banks were requested in October 1948 to advance \$250,000 for the purchase of 20 modern plate printing presses, it was estimated that upon installation of the new presses and conversion of the existing presses production could be increased substantially and that the resulting savings in cost of printing notes might exceed \$10 per thousand sheets. The reduced price will result in savings of over \$365,000 in the cost of printing Federal Reserve notes during the six months ending next June.

"Another development of considerable interest is the Bureau of Engraving and Printing's plan to employ die stampers to supplement its force of plate printers. As you know, the principal bottle-neck in the production of currency at the Bureau has been the shortage of plate printers. The Bureau will now have a large supply of skilled labor to draw from and thus will be in a position to expand substantially production of Federal Reserve notes.

"We have been advised informally by representatives of the Treasury Department that they regard as fit for further circulation a substantial portion of Federal Reserve notes being sent in for redemption. In our letter of May 18, 1950, which had particular reference to the production and stocks of \$1 bills, reference is made to the outstanding request of the Treasury Department, contained in Mr. Bartelt's letter to the Federal Reserve Banks of October 17, 1947, for cooperation in conserving every piece of currency that is fit for further use. It would appear that the rebuilding of reserve stocks of Federal Reserve notes could perhaps be hastened by close adherence on the part of the Federal Reserve Banks to a low standard of fitness in sorting out Federal Reserve notes to be shipped to Washington for redemption, or to accumulate an emergency supply of unfit notes."

Approved unanimously.

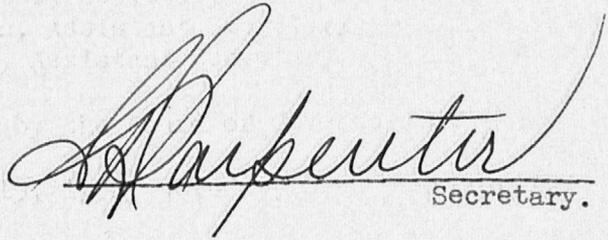
Memorandum dated March 14, 1951, from Mr. Thurston, Assistant to the Board, recommending that the Board subscribe to the Associated

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Press Washington News Report service, and that the miscellaneous account in the Board Members' 1951 budget be increased to cover the cost of this service, i.e. \$75 monthly.

Approved unanimously.


Secretary.