

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, March 27, 1951. The Board met in the Board Room at 10:35 a.m.

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

Mr. Carpenter, Secretary  
 Mr. Sherman, Assistant Secretary  
 Mr. Murff, Assistant Secretary  
 Mr. Kenyon, Assistant Secretary  
 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. Hilkert, Acting Director, Division of Personnel Administration  
 Mr. Williams, Assistant Director, Division of Research and Statistics  
 Mr. Leach, Economist, Division of Research and Statistics

Mr. Thomas presented a review of recent developments in the Government securities market which was followed by a general discussion, at the close of which Mr. Leach withdrew.

There was presented a memorandum dated March 15, 1951, from the Division of Personnel Administration recommending that any reclassifications and employments in Group M (salary range \$3,100 - \$3,850) or below, except professional positions (which would include such positions as research assistants and assistant Federal Reserve examiners), be submitted to the Board for approval in accordance with the established

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procedure, except that prior clearance by the Board member whose assignments included the function affected would not be required.

The memorandum noted that as a result of the Board's action of December 22, 1950, which provided that any position vacated after that date by reason of death, resignation, retirement, or otherwise, would be eliminated, each new position must first be cleared with the Board member whose assignments include the activity involved and that since, technically, a new position is created whenever there is a reclassification, these also must be presented to the Board member for clearance. The memorandum stated further that, in the opinion of the Division of Personnel Administration, elimination of the requirement for clearance in the case of nonprofessional positions in Group M or below would be in the interest of efficient personnel administration, particularly since a decision whether the work should be done would already have been determined by decisions with respect to work of a more responsible nature.

The memorandum was in circulation for approval and Mr. Vardaman requested that it be considered at a meeting.

In response to a question by Mr. Vardaman, Mr. Hilkert said that under the proposed procedure it would still be necessary for the division head concerned, the Director of Personnel Administration, the Secretary of the Board, and the Personnel Committee to approve the filling of a position either with a new appointee or by reclassification,

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since no vacancies could exist in authorized positions since the action of December 22, 1950. He also expressed the opinion that with these approvals adequate safeguard would be afforded, and if the recommended changes were approved the Director of the Division of Personnel Administration would be able to cope more effectively with the problems of a tight labor market.

After a discussion, upon motion by Mr. Evans, the recommendation was approved unanimously.

Mr. Vardaman referred to action taken by the Board on December 22, 1950, increasing the membership of the Personnel Committee to three, in addition to the Chairman of the Board, who serves as chairman of the committee ex officio, and asked whether an appointment should not be made to fill the vacancy on the committee created by the termination of Mr. Szymczak's appointment on February 28, 1951. In the ensuing discussion it was suggested that no action be taken to fill the vacancy until such time as Mr. Martin, Chairman-designate of the Board, had assumed his duties and had an opportunity to consider the matter.

This suggestion was approved unanimously.

There were presented two memoranda from Mr. Young, Director of the Division of Research and Statistics, both dated March 14, 1951, recommending that the salaries of Stanley J. Sigel and Irving Schweiger, economists in the Division of Research and Statistics, be increased from \$5,600 to \$6,400 per annum, effective at the beginning of the next pay roll period following approval by the Board. The memoranda,



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which stated that the positions of Messrs. Sigel and Schweiger had been reclassified from Group U to Group V as a result of expansion of duties and responsibilities of their positions due to competence of the employees, had been in circulation and Mr. Vardaman had asked that the matter be discussed at a meeting.

Mr. Vardaman stated that while he did not object to the recommendations with respect to Messrs. Sigel and Schweiger, he was under the impression that the number of employments and promotions since the first of this year was greater than would be expected in the light of the Board's actions of December 22 and 29, 1950, and that he felt the matter should be discussed by the Board.

It was pointed out that as the result of the Board's action on December 29, 1950, all employments and promotions were being made on a nonpermanent basis, that the work of the staff had increased substantially over the past several months because of the Board's enlarged responsibilities, and that the number of employments and promotions had not been large in relation to the increase in the work load.

Chairman McCabe suggested that in order to afford the members of the Board a clearer picture of the number of additions to the various divisions of the staff and the number of promotions approved since the first of this year in each division, the Division of Personnel Administration prepare a memorandum containing this information.

Thereupon, it was voted  
unanimously to approve (1) Chairman  
McCabe's foregoing suggestion and  
(2) the recommendations with respect

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to Messrs. Sigel and Schweiger contained in Mr. Young's memorandum of March 14, 1951.

At this point, Mr. Solomon, Assistant General Counsel, Mr. Koch, Chief, Banking Section, Division of Research and Statistics, and Mr. Leach joined the meeting, and Messrs. Hilkert and Williams withdrew.

Before this meeting, there had been sent to each member of the Board a memorandum from Mr. Powell to the Secretary dated March 20, 1951 and reading as follows:

"Will you kindly place on the docket for the next meeting of the Board of Governors the question of an appropriate way of handling the market depreciation in our open market account? For the week ending March 14 I understand the depreciation in market value as against book value was over \$100,000,000 of which \$57,000,000 was in the bond classification.

"The depreciation on the shorter maturity is probably not significant for we can hold these securities until they run off and take the depreciation from time to time on the securities purchased above par. In the case of the bonds and longer notes, there is a real question whether we should write off any premiums as compared with par and set up reserves out of current earnings for the depreciation below par. We have made a very significant and probably permanent change in our policy and I would favor eliminating the wreckage left over from our old policy as soon as possible.

"If we exchange our longest ineligible securities for the new Treasury issue, it would seem appropriate to write these holdings down to par at the time of the exchange. The depreciation in our other holdings of bonds and the longer notes might be offset by quarterly additions to our reserve for contingencies.

"Mr. Gidney of Cleveland and Mr. Young of Chicago are both thinking along this line although not in these exact details."

In a discussion, during which Mr. Powell amplified the comments contained in his memorandum, he stated that in view of the recent declines in prices of Government securities, the market value of System



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holdings had declined approximately \$109 million, whereas the Reserve Banks were carrying only about \$98 million in reserves against this depreciation.

Chairman McCabe suggested that a careful study be made of the questions presented by Mr. Powell.

This suggestion was approved unanimously, with the understanding that Mr. Powell and Mr. Norton whose assignments include Reserve Bank expenses, reserves, and charge-offs, would study the matter and that it would be considered again by the Board when that study had been completed.

Mr. Evans outlined the reasons why he felt it was important that prompt action be taken to recommend to the Congress legislation increasing the authority of the Board with respect to reserve requirements of member banks.

Before this meeting there had been sent to the members of the Board copies of a proposed draft of a second report on supplementary reserve requirements by the task force, of which Mr. Young was chairman, which had been requested by Mr. Wilson, Director of the Office of Defense Mobilization, to study possible plans for increasing Federal Reserve authority over bank reserve requirements and present a recommendation, together with a draft of proposed legislation.

Mr. Young stated that, following the discussion at the meeting of the Board on March 20, he decided to prepare this draft of report, which he would present to the members of the task force at a meeting

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this afternoon with the suggestion that they discuss it in their respective agencies and determine whether it would be acceptable.

The draft stated that the task force had considered in greater detail the loan expansion reserve plan, the primary (securities feature) reserve plan, giving the option of holding additional requirements in Federal Reserve balances or Government securities, and possible combinations of these two plans, that draft legislation in the form attached had been prepared on the basis that any supplementary reserve authority would apply to all insured banks, that the task force suggested that the report be referred to the appropriate agencies for policy opinion, and that the task force further suggested that the Federal Reserve Board be requested to report on the views of the banking industry with respect to these alternative reserve plans. Mr. Young also stated that he expected to arrange a meeting of representative Reserve Bank economists later this week for the purpose of discussing the alternative reserve plans with them and obtaining their opinions.

In response to an inquiry by Mr. Evans as to the status of other legislation in which the Board was interested, particularly with respect to bank holding companies and member bank capital requirements, and the desirability of legislation in these fields, it was stated that the Senate Banking and Currency Committee did not appear to be in a position to hold hearings on a bank holding company bill at the present time and that there was a question whether it would be possible to get

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adequate consideration of bank holding company legislation at this session of Congress. With respect to member bank capital requirements, Mr. Powell said that he had presented draft legislation along lines he felt might be suitable to representatives of the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency with the suggestion that attorneys for these agencies study the proposed legislation, but that he had not yet received their views on those drafts.

Mr. Vest reported that he had been advised by Mr. Bergson, General Counsel of the Office of Defense Mobilization, that legislation would be presented next month to amend the Defense Production Act of 1950 so as to extend the Act until June 30, 1953, including the provisions relating to the control of consumer credit and real estate credit. He stated further that the authority to regulate real estate credit would be expanded in the amended Act so as to include Board authority to regulate credit extended for the purchase of existing structures.

At this point all of the members of the staff with the exception of Messrs. Carpenter, Sherman, and Kenyon withdrew, and the actions 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 26, 1951, were approved unanimously.



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

"Referring your March 23 telegram, Board will interpose no objection to installation of air conditioning on first and second floors of Silvey Building at cost of approximately \$17,000."

Approved unanimously.

Letter to Mr. Emanuel Nadlin, Suite 823 U. B. Building, N. E. Cor. Fourth and Main Streets, Dayton 2, Ohio, reading as follows:

"This refers to your letter of March 12 addressed to Chairman McCabe in which you proposed, briefly, that the present restrictions on consumer credit be supplemented with an executive order directing the various Governmental agencies and the Armed Forces to cooperate with credit granting institutions in the liquidation of delinquent accounts of Government employees and military personnel. You indicate that such an order would assist in limiting commodity credit buying and consumer demand for hard-to-get items.

"In our view, your concern relates essentially to the matter of credit risk. The present regulation of consumer credit--Regulation W--is, on the other hand, an instrument for restricting the use of consumer credit quite apart from the question of credit risk. It is one part of a broad fiscal, monetary and credit program designed to restrain inflationary pressures and to facilitate diversion of critical material and manpower to military production.

"Whether a particular person or class of persons is a sufficiently good risk to obtain the maximum terms prescribed by the regulation is a matter of creditor-consumer relations that have been left to the judgment of credit grantors. Quite aside from the regulation, the fact that as a legal matter certain recourse may or may not be available to the creditor in the event of borrower delinquency is only one of the many factors which the creditor presumably should want to consider in deciding whether or on what terms to grant the particular credit.

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"As you suggest, the question whether the income of all government employees should be subject to garnishment would appear to be one for decision by the Congress. The relationship of government agencies to creditors of delinquent government employees has not been the subject of study by the Board. Consequently, the Board does not feel that it is in a position at this time to express an opinion one way or another on the matter."

Approved unanimously.

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

"The Board has reviewed the request transmitted with your letter of February 7, 1951, for exemption of metered taxicabs from the maximum maturity requirements of Regulation W.

"This question has, as you know, received considerable study in the past and although the League of Mutual Taxicab Owners introduced a somewhat new approach the Board believes that it would not be justified in granting the requested exemption.

"It is recognized that the imposition of credit restrictions will necessarily make it more difficult in some instances to purchase taxicabs as well as other durable goods subject to Regulation W. The Board is also aware of the important part played by taxicabs in the City of New York and elsewhere, as well as the important function planned for such vehicles under a bombing or other war emergency. It does not appear, however, that the present restrictions of Regulation W will contribute materially to a reduction in the number of taxicabs available nor does it appear that it is impossible for the taxi drivers in question to comply with the requirements of the regulation. In many instances the owner-driver could accumulate by means of saving the amount of the monthly or weekly payment he is able to make and this amount when added to the trade-in of the old cab could so reduce the amount of the unpaid balance as to enable the driver to purchase a new car.



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"Credit extended for the purchase of taxicabs does add to the expanded demand that is now generally in excess of the prospective supply of automobiles (including taxicabs) and therefore adds to the present serious threat of inflation. As you know, the Board feels that strong curbs on instalment credit are now required in the interest of national defense.

"We shall appreciate your apprising the League of Mutual Taxi Owners, Inc. of the Board's views on the matter."

Approved unanimously.

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

"Reference is made to your letter of March 2, 1951, enclosing a copy of a letter from Mr. Hubbard G. Buckner, Vice President of the First National Bank, Louisville, Kentucky, and a copy of Mr. Clark's reply, in which you ask that we furnish you with a copy of our reply to Mr. Buckner.

"It occurs to us that you might prefer to handle this matter by having a representative of your Louisville Branch discuss it with Mr. Buckner personally, since he appears to be completely unfamiliar with the investigative procedure supporting Regulation W. If you agree with this procedure, it would seem to us to be desirable to outline to Mr. Buckner the provisions of the Defense Production Act of 1950 that authorized the Board of Governors to exercise consumer credit controls in accordance with and to carry out the provisions of the Executive Order under which the original regulation was issued in 1941. The same statute gives the Board authority to make investigations to determine whether any person has violated the regulation, and, for the purpose of any such investigation, to subpoena witnesses and examine them under oath. The statute also authorizes the Board to file suit for an injunction to restrain further violations of Regulation W and provides criminal penalties. The powers referred to in the two preceding sentences are the same as those which the Securities & Exchange Commission has had for a number of years, and similar powers are given by statute to a number of other agencies of the Federal Government.



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"In the case of A. Harris, the staff of the Federal Reserve Bank of Cleveland, in the course of their regular examinations of persons subject to Regulation W, were met with a refusal on the part of A. Harris to permit them to examine his books. A visit from counsel for the Reserve Bank and the Assistant Solicitor of the Board of Governors convinced him that he was in error in thus refusing, and an examination of his books was thereupon made. On the basis of the information developed by this investigation, the Federal Reserve Bank referred the case to the Board of Governors for action and the Board decided to institute an investigation. A number of witnesses were subpoenaed and examined under oath and as a result it was decided to file suit in the United States District Court against A. Harris. The complaint alleged that the defendant had violated the Regulation and asked that he be restrained from further violations. Instead of letting the case go to trial, the defendant and his attorney consented to the entry of judgment, and on the basis of this consent the Court issued the injunction. No criminal proceedings were instituted.

"All of the foregoing information except that relating to Mr. Harris' earlier refusal to permit an examination of the books of his company is in public records or could be derived from them, so that you may feel free to use as much of it as seems desirable in answering Mr. Buckner's request. If, after discussing the matter with him, he still has questions, we shall, of course, be glad to furnish you with additional information if you wish to have us do so."

Approved unanimously.

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

"This refers to your letter of March 12, 1951, regarding the application of Regulation W to credit extended to an automobile leasing firm.

"It is the view of the Board that extensions of credit to the lessor to finance the purchase of articles which are to be subsequently leased and used by another party would be exempt under the first clause of section 7(c) of the regulation.

"With regard to your second question, it would not be a violation of the regulation for the lender to accept a

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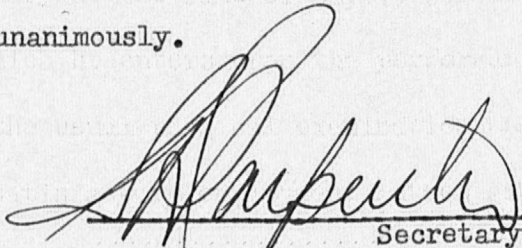
"nonconforming lease agreement as security for a loan to the lessor; but it would be a violation of the regulation for the lender to accept any payments directly out of the underlying obligation held as collateral. That this is true would seem to follow from the last sentence of section 8(e), section 8(j)(6) and the related summary-interpretation 826 in the Regulation W Service."

Approved unanimously.

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

"Re Indianapolis Produce Terminal, Inc. After further exploration of policy questions involved, we have concluded that it is inadvisable at this time to amend Regulation X to exempt such a single project. Based on facts contained in your telegram of March 12, property appears to be subject to Regulation X unless a re-examination of the facts in relation to Section 5(g) discloses elements providing exemption under this Section. If you wish further consideration by us please advise."

Approved unanimously.

  
Secretary.