

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, April 11, 1951.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary

Minutes of actions taken by the Board of Governors of the Federal Reserve System on April 10, 1951, were approved unanimously.

Memorandum dated April 3, 1951, from Mr. Young, Director of the Division of Research and Statistics, recommending an extension of leave of absence without pay for Alfred H. Conrad, an economist in that Division, for a period not to exceed six months after the current six-month period of leave without pay for which the Board has authorized approval expires April 28, 1951.

Approved unanimously.

Memorandum dated April 4, 1951, from Mr. Young, Director of the Division of Research and Statistics, recommending an increase in the basic salary of Mary F. Miller, a clerk in that Division, from \$3,050 to \$3,130 per annum, effective April 15, 1951.

Approved unanimously.

Memorandum dated April 6, 1951, from Mr. Young, Director of the Division of Research and Statistics, recommending the appointment of Donald C. Miller as an economist in that Division, on a temporary

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indefinite basis, with basic salary at the rate of \$7,000 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination and subject to the completion of a satisfactory employment investigation.

Approved, Mr. Vardaman voting
"no".

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

"Reference is made to your letter of April 5, 1951, submitting the request of The Marine Trust Company of Buffalo, Buffalo, New York, for permission to establish 12 out-of-town branches in connection with its proposal to absorb six other banks through merger and change its name to 'The Marine Trust Company of Western New York'.

"It is noted that the proposed mergers are to be effected through three separate transactions but the continuing institution will have, after the completion of each transaction, capital and surplus, respectively, equal to or greater than the aggregate capital and the aggregate surplus, respectively, of the institutions involved in each transaction.

"In view of your recommendation, the Board of Governors approves the establishment and operation of four branches in Niagara Falls, New York, and one branch each in Lockport, Barker, Wilson, Middleport, Tonawanda, North Tonawanda, Albion and Medina, all in New York, by The Marine Trust Company of Buffalo, Buffalo, New York, under its present or future corporate title, provided the prior approval of the appropriate State authorities is obtained and the mergers with Power City Trust Company, Niagara Falls; Niagara County National Bank and Trust Company, Lockport; First Trust Company of Tonawanda; State Trust Company of North Tonawanda; Marine Midland Trust Company of Albion, and Medina Trust Company, Medina, all in New York, are effected substantially in accordance with the plans submitted.

"It is understood that Counsel for the Reserve Bank will review and satisfy himself as to the legality of all steps taken to effect the proposed mergers and establish the branches."

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Approved unanimously.

Letter to the Honorable Emanuel Celler, Chairman, Committee on the Judiciary, House of Representatives, Washington 25, D. C., reading as follows:

"In the Board's letter of March 22, 1951, in response to your letter of March 13, regarding guarantee fees charged on V-loan guarantees, it was stated that the Board planned in the near future to discuss with representatives of the various guaranteeing agencies the suggestion made at the hearing before a Subcommittee of your Committee on February 9, 1951, that the existing schedule of guarantee fees be reviewed in the light of interest charged on guaranteed loans to finance expansion of facilities or plant construction.

"This matter was discussed at a meeting on April 4, 1951, between representatives of all of the guaranteeing agencies, the Defense Production Administration, and the Board of Governors. All aspects of the question were thoroughly considered; and it was concluded that present circumstances do not appear to justify any modification of the present schedule of guarantee fees and maximum interest rate.

"As stated in the Board's letter of March 22, the experience of the Federal Reserve Banks as fiscal agents under the current V-loan program demonstrates that only in one or two cases has there been any indication that the net rate of return afforded financing institutions under the present schedule has tended to retard or prevent the financing of defense contractors under the program. In the discussion of the matter at the meeting on April 4 this was confirmed by the experience of the guaranteeing agencies.

"As you know, the existing schedule of fees and rates was adopted at the outset of the present V-loan program in September 1950, after consultations between the Board and the several guaranteeing agencies. Under that schedule, each guaranteed financing institution is required to pay to the Government a certain percentage of the interest received by the financing institution on the guaranteed portion of the loan; and the amount of the fee as fixed by the schedule is progressively higher for progressively higher percentages of guarantee.

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"One of the major purposes of the schedule, of course, is to encourage financing institutions to assume as much of the risk as possible in each case and so reduce the Government's contingent liability on such guarantees.

"Under the President's Executive Order 10161, any variations in the schedule may be made only after further consultations between the Board and the guaranteeing agencies. While, on the basis of the discussion at the recent meeting, the Board feels that no change in the schedule is justified at this time, the Board will of course stand ready promptly to review the schedule in consultation with the guaranteeing agencies if at any time it should appear that such a review is necessary in the interest of accomplishing the objectives of the defense production program."

Approved unanimously.

Letter to the Honorable William F. Knowland, United States Senate, Washington, D. C., reading as follows:

"This is to acknowledge your letter of March 28, 1951, which forwarded five telegrams for the consideration of the Board's staff. Four of the telegrams; those from O. F. Jani of Vermont Plumbers and V. W. Reynolds of A. Reynolds Television Company, both of Los Angeles; Meyer Glicksberg of Bagley Electric Company, Eagle Rock, California, and Sims Furniture Company, Bell Gardens, California; related to the effect of Regulation W on television and appliance sales. The telegram from Ken Noble, who operates as Noble Mortgage Company, of Los Angeles, protested the investigation of his records by Regulation W and X investigators of the Federal Reserve Bank of San Francisco.

"The Board has been in close contact with representatives of television manufacturer and dealer groups and has been giving serious consideration to the current problems in the television market. While we are studying the effect of the regulation on the market situation, there are many factors other than credit restrictions which are affecting the market at this time. The possibility of color television and the imminence of ultra-high frequency transmission are significant market factors.

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"While the Board is very much interested that the provisions of Regulation W may not be unduly restrictive in the case of individual products, it must also consider that the regulation must strongly curb instalment credit as a whole if it is to accomplish its purpose of helping to restrain the serious inflationary forces in the present emergency period. We are certain you understand the necessity for avoiding the widespread hardship which would prevail if current inflationary tendencies in the economy as a whole were allowed to continue unabated.

"With reference to Mr. Noble's wire pertaining to an investigation of his records, you are no doubt aware that such authority is contained in the Defense Production Act of 1950. The administration of the enforcement program has been delegated by the Board to the twelve Federal Reserve Banks, and these Banks make routine investigations of Registrants engaged in the business of extending credit subject to either or both regulations. While investigations pertaining to Regulation X have just recently begun, a similar procedure in connection with consumer credit controls under Regulation W was initiated during the war years. The policy of the Federal Reserve Banks in visiting Registrants has been to assure that credit extended has been in compliance with the regulation, to furnish information which might assist the Registrant, and to promote an acceptance of the credit controls as an important factor in the anti-inflationary program.

"We are pleased to have had this opportunity to discuss these matters with you and stand ready to give such assistance as we are able in answering any further questions you may have."

Approved unanimously.

Letter to Mr. W. H. Nichols, Columbus, Texas, reading as follows:

"This is in response to your letter dated March 20, 1951, addressed to Eric Johnston, Director of Economic Stabilization. Your letter has been referred to us for reply, as the consumer credit controls under Regulation W are administered by this Board.

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"The circumstances presented in your letter are appreciated, but there is no specific provision in the regulation permitting more lenient terms in cases such as yours. We should like to point out, however, that credit extended to a church is exempt from the regulation, and it is possible that your church would purchase a car for you, inasmuch as it is needed in your work.

"While the Board is very much interested that the provisions of Regulation W may not be unduly restrictive in individual cases, it must also consider that the regulation must strongly curb instalment credit as a whole if it is to accomplish its purpose of helping to restrain the serious inflationary forces in the present emergency period. We are certain that you will understand the necessity for avoiding the widespread hardship which would prevail if current inflationary tendencies were allowed to continue unabated.

"If you have further questions regarding Regulation W, we suggest that you inquire at the Federal Reserve Bank of Dallas, either at Dallas or at its branch in Houston, as the administration of the regulation has been decentralized among the Federal Reserve Banks and branches."

Approved unanimously.

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

"Enclosed is a copy of a letter dated March 15, 1951, which Assistant Attorney General H. G. Morison addressed to Chairman McCabe with regard to certain complaints the Department of Justice has received concerning the manner in which Government departments and agencies have utilized and conducted business advisory committees since the enactment of the Defense Production Act of 1950. There is also enclosed a copy of the Board's reply to such letter.

"It is understood that some of the Federal Reserve Banks in carrying out their functions under Regulation X have utilized committees consisting of representatives of financing institutions and of the real estate industry. In our letter to Mr. Morison we stated that these

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"committees do not appear to be industry committees within the purview of Deputy Attorney General Ford's letter of October 19, 1950, but nevertheless, in order to eliminate any possible criticism as to the manner in which Federal Reserve Banks utilize committees in connection with Regulation X, it is requested that in the future all such committees be conducted in accordance with Deputy Attorney General Ford's letter of October 19, 1950, a copy of which is enclosed for your convenience. In this connection, a full-time representative of your Bank should serve as chairman of any meetings of such committees."

Approved unanimously, together
with the following letter to the
Honorable H. G. Morison, Assistant
Attorney General, Department of Justice,
Washington 25, D. C.,:

"This will acknowledge receipt of your letter of March 15, 1951, addressed to Chairman McCabe, with reference to the utilization and conduct of business advisory committees since the enactment of the Defense Production Act of 1950.

"Except for the committees appointed and proposed to be appointed pursuant to the provisions of the Program for Voluntary Credit Restraint under section 708 of the Defense Production Act of 1950, with which your office is, of course, fully familiar, the Board of Governors has utilized only one business advisory committee of the kind referred to in your letter of March 15. This is a statistical advisory committee with respect to which the Board is acting as co-sponsor with the Housing and Home Finance Agency. This Committee represents home builders, mortgage and finance companies, and others, and was created to assist in preparation of statistical information that would be helpful in evaluating the effect of the Board's Regulation X relating to real estate credit and the counterpart regulations of the Veterans Administration and the Federal Housing Administration. The Director of Housing Research of the Housing and Home Finance Agency is the Chairman of this group. It is our understanding that this committee is complying with the letter and spirit of Deputy Attorney General Ford's letter of October 19, 1950.

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"However, we assume that you have addressed to the Housing and Home Finance Agency a letter similar to that addressed to us under date of March 15, and that any further details you require can be supplied by that Agency.

"We may also mention in this connection that at several of the Federal Reserve Banks committees consisting of representatives of financing institutions and of the real estate industry have been set up to advise the respective Reserve Banks regarding matters arising in connection with the regulation of real estate construction credit. Following the enactment of the Defense Production Act of 1950, the President delegated to the Board of Governors certain functions in connection with the regulation of real estate construction credit as provided in such Act. Some of the Reserve Banks, in carrying out their functions under the Board's regulation, felt that it would be advisable to have the benefit of informal consultation with representatives of financing institutions and the real estate industry with regard to existing financing practices and other matters and, accordingly, these banks invited certain individuals to serve on committees which would be advisory to the officers of the Reserve Banks. These committees were not appointed by the Board of Governors and are not advisory to the Board. Accordingly these committees do not appear to be industry committees within the purview of Deputy Attorney General Ford's letter of October 19, 1950, but nevertheless we are transmitting to each Federal Reserve Bank a copy of your letter of March 15, 1951 with the request that these committees be conducted in accordance with Deputy Attorney General Ford's letter of October 19, 1950, except, of course, that a representative of the Reserve Bank would have to act in the capacities indicated in such letter in lieu of a representative of the Government.

"Your letter of March 15 stated that your attention had been directed to certain improper practices of committees. If the reports coming to your attention involve any of the committees referred to above, the Board will be glad to be advised in more detail concerning them."

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

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"This refers to your letter of March 20, 1951, concerning the application of Regulation X to structures used by bakeries and other industries about which there may be questions as to their classification as manufacturing.

"The Board's letter S-1292 X-41, concerning food processing, referred to the classifications set forth in the Standard Industrial Classification Manual. It is suggested that the Manual may provide the general principles for answering questions concerning other industries as well. Pages 3 and 4 of Volume I, Part 1, for example, give a general description of manufacturing industries, and deal with a number of borderline cases between manufacturing and other classifications. Among other things, the Manual states on page 4 that 'retail stores producing some or all of the products sold on the premises are not included in the manufacturing division'.

"We hope this provides a general basis for answering questions of this sort as they arise. Please let us know if this does not prove an adequate solution to the problem."

Approved unanimously.

Letter, prepared pursuant to the action taken by the Board on March 29, 1951, to the Honorable Raymond M. Foley, Administrator, Housing and Home Finance Agency, Washington, D. C., reading as follows:

"There are returned herewith the original and three copies of your CR-1, Regulation on credit control relaxation amended to include Idaho Falls, on which the approval of the Board has been indicated."

Approved unanimously.

Letter to The Regents of the University of Michigan, University of Michigan, Ann Arbor, Michigan, reading as follows:

"Reference is made to your letter of August 9, 1950, setting forth the terms and conditions of the agreement between the University of Michigan and the

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"Board of Governors of the Federal Reserve System relating to the Sixth National Survey of Consumer Finances.

"Your letter of February 9, 1951, indicates that mandatory salary increases at the University will cause the cost of the Survey to exceed the estimates in the letter of August 9, 1950, by \$9,240. Your letter of February 28, 1951, indicates that additional work to get data on new construction will cause the cost of the Survey to exceed the estimated cost in your letter of August 9, 1950, by an additional \$650. Both of these figures include the 10 per cent overhead charge. Because of these additional costs of \$9,890, the Board is prepared to make reimbursement on vouchers submitted by the University in a total amount not exceeding one hundred fifty thousand, one hundred forty dollars (\$150,140), or nine thousand, eight hundred ninety dollars (\$9,890) in excess of the amount provided in the agreement of August 9, 1950."

Approved unanimously.

Letter to Mr. Vincent A. Holmes, District Director, Office of Price Stabilization, Washington, D. C., reading as follows:

"The Board of Governors of the Federal Reserve System operates for the convenience of its staff and guests a restaurant located in its building at 21st Street and Constitution Avenue, N. W., and in compliance with Sec. 4 of Ceiling Price Regulation No. 11 of March 13, 1951, the following information is supplied:

Base period elected - July 1, 1949 to June 30, 1950.
Food cost per dollar of sales - to be determined for each four month period beginning April 1, 1951.

Gross sales during base period - \$62,496.
Total food cost during base period - \$31,213.

Only food items are included in food cost.

A 15¢ service charge, in effect for a number of years, is made for service in the private dining rooms."

Approved unanimously.

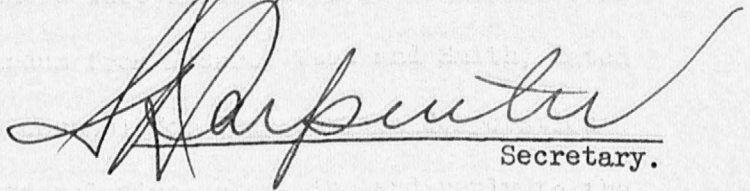
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Memorandum dated April 11, 1951, from Mr. Dembitz, Assistant Director of the Division of International Finance, recommending that, in connection with the request received from the Minister of Finance of Paraguay that a mission be sent to that country to advise in connection with a proposed reorganization of its central banking structure, and the action taken by the Board on March 20, 1951, Mr. David L. Grove, Chief of the Latin American Section in the Division of International Finance, leave about April 19 to join Mr. Ernest C. Olson, economist in the same Division who is now in Paraguay, for a period of two or three weeks. The memorandum stated that the same terms and conditions applicable to financial arrangements incident to Mr. Olson's assignment would apply in the case of Mr. Grove.

Approved unanimously, together with the following telegram to Sr. R. Mendez Paiva, Minister of Finance, Asuncion, Paraguay:

"Regarding your cable April 7 Grove planning to arrive Asuncion April 22."


Secretary.