

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, April 12, 1951. The Board met in the Board Room at 10:35 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Leonard, Director, Division of
Bank Operations
Mr. Vest, General Counsel
Mr. Young, Director, Division of
Research and Statistics
Mr. J. J. Smith, Special Counsel

Mr. Hodge, General Counsel of the Federal Reserve Bank of Chicago and technical adviser to the Hearing Officer in connection with the Clayton Act proceeding against Transamerica Corporation, also was present.

Mr. Vardaman wished the record to show that he was unable to be present because he was attending a meeting at the Capitol.

Before the meeting there were distributed to the members of the Board copies of a memorandum from Messrs. Vest and Smith, dated April 11, 1951, stating that counsel for Transamerica Corporation had filed a request for additional time to examine and reply to the exhibits, proposed findings, and a brief filed by the Board's Solicitor with the Hearing Officer on April 2, 1951, all relating to the Clayton Act proceeding against Transamerica Corporation. The memorandum

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recommended that the matter be referred to the Hearing Officer for disposition and that a Statement and Order to that effect on the form attached to the memorandum be adopted by the Board.

Thereupon, upon motion by Mr. Powell, unanimous approval was given to a Statement and Order as follows:

"UNITED STATES OF AMERICA
BEFORE THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

IN THE MATTER OF
TRANSAMERICA CORPORATION

STATEMENT AND ORDER ON REQUEST FOR ADEQUATE TIME TO
EXAMINE AND REPLY TO THE 'EXHIBITS', PROPOSED FINDINGS,
AND BRIEF FILED BY THE SOLICITOR

"On April 10, 1951, Counsel for the Respondent filed with the Board a request for an extension of time within which to reply to the 'Exhibits', proposed findings, and brief filed by the Solicitor on April 2, 1951.

"On December 15, 1950, the Hearing Officer fixed April 2, 1951, as the date on or before which Counsel for the Respondent and for the Board, respectively, might submit their recommended findings and fixed April 23 as the date on or before which each Counsel might submit a reply. (Record, p. 12954-9) On April 2, 1951, the Solicitor for the Board submitted to the Hearing Officer requested findings of fact, with certain exhibits, and a brief; and on the same date Counsel for Respondent submitted to the Hearing Officer his proposed findings and conclusions. The request of Counsel for Respondent is therefore for time in which to reply to certain documents submitted to the Hearing Officer.

"Accordingly the Board is referring the request of Counsel for Respondent, filed on April 10, 1951, to the Hearing Officer for consideration and for disposition.

ORDER

"For the reasons set forth in the foregoing statement, it is ORDERED that Respondent's 'Request for Adequate Time to Examine and Reply to the "Exhibits",

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"'Proposed Findings, and Brief Filed by the Solicitor' be, and it hereby is, referred to the Hearing Officer for consideration and disposition.

"This 12th day of April, 1951.

"By the Board.

(signed) S. R. Carpenter
Secretary.

"Governor Eccles took no part in the consideration or decision of the request referred to in the foregoing statement and order."

At this point Mr. Thomas, Economic Adviser to the Board, joined the meeting and Mr. Smith withdrew.

There was presented a memorandum from Mr. Vest, dated April 4, 1951, which had been in circulation prior to consideration at a meeting of the Board, stating that the Board had received requests from the Senate Banking and Currency Committee for reports on bill S. 533, to create a Small Defense Plants Corporation and to preserve small business institutions and free competitive enterprise, and bill S. 833, to coordinate the small business activities of the Government and achieve full utilization of independent small business enterprises in the national defense program. The memorandum was accompanied by proposed reports on the bills and recommended that they be sent to the Bureau of the Budget for clearance in accordance with the usual procedure. The memorandum also stated that in accordance with another request from the Committee, a draft report had been prepared on bill S. 515, to reorganize the Reconstruction Finance Corporation, but that it was not planned to submit the report

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to the Bureau of the Budget for clearance until the Senate had voted on the President's reorganization plan covering the Reconstruction Finance Corporation, since that might affect the consideration of the bill.

Mr. Vest said that the draft reports took a generally adverse position on both bills S. 533 and S. 833, in line with previous reports by the Board on similar bills having as their purpose the establishment of additional Government credit lending agencies, and especially in view of the current policy of the System to curb the further expansion of inflationary credit by private institutions and the feeling that credit extended by the Government should be in harmony with this policy.

There ensued a discussion of the adequacy of the private banking system to supply essential credit needs of small business during which Mr. Powell said that there was some apprehension that the voluntary credit restraint program would tend to cut off the marginal borrower from his usual sources of credit. He noted, however, that such firms might secure credit through the Federal Reserve Banks under the provisions of Section 13b or could turn to the Reconstruction Finance Corporation for assistance. It was also pointed out during the discussion that the President had established an inter-agency committee to study the lending operations of Government agencies, and that the committee consisted of the Director of the Bureau of the

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Budget, the Chairman of the Council of Economic Advisers, and the Director of the Office of Defense Mobilization.

Mr. Powell said that he had received numerous letters from bankers, including one from the President of the American Bankers Association, complaining of competition from the production credit associations, which do not fall within the voluntary credit restraint program, and the suggestion was made that he discuss this matter with Mr. Duggan, Governor of the Farm Credit Administration, advising him of the sentiments expressed by the bankers.

At the conclusion of the discussion, unanimous approval was given to the following letter to the Honorable Frederick J. Lawton, Director, Bureau of the Budget, Washington, D. C., together with a similar letter relating to bill S. 833, with the understanding that if the Bureau had no objection, reports would be submitted to the Senate Banking and Currency Committee in the form of the enclosed draft replies:

"The Senate Banking and Currency Committee has requested the Board of Governors to submit a report on S. 533, a bill 'To create the Small Defense Plants Corporation and to preserve small-business institutions and free, competitive enterprises'.

"Enclosed are four copies of a report which the Board proposes to submit to the Committee. Please advise us as to the relationship of this legislation to the program of the President."

At this point Mr. Horbett, Assistant Director, Division of Bank Operations, joined the meeting.

Mr. Evans raised again the question of the legislation to be

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proposed during the present session of the Congress and there was a general discussion of the matter. During the discussion, there were distributed at Mr. Powell's request copies of a memorandum dated April 12, 1951, commenting on the nature and objectives of the changes in present law which would be effected by a draft of a proposed bill regarding capital requirements for membership in the Federal Reserve System, capital requirements for the establishment of branches by State member banks, changes in reserve requirements of member banks in reserve city and central reserve cities, and an amendment of Section 16 of the Federal Reserve Act which would permit Federal Reserve Banks to pay out without penalty notes issued by other Federal Reserve Banks. There was also distributed a second memorandum dated April 12, 1951, discussing the advantages and disadvantages of the provisions in the draft bill which would empower the Board to permit member banks to count vault cash as a part of their reserves.

Mr. Powell said that pursuant to the understanding at the meeting of the Board on January 9, 1951, he had discussed a draft bill of this character informally with representatives of the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation, making it clear that the draft had not been considered by the Board. He said that the Comptroller's Office was agreeable to the legislation, subject to certain changes which had been incorporated in the draft bill circulated at this meeting, but that no reply had

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yet been received from the Federal Deposit Insurance Corporation. He stated that the principal purposes of the draft legislation were to enable small banks to become members of the Federal Reserve System, to discourage withdrawal from the System by banks which wished to establish out-of-town branches but lacked the required capital, and generally to make membership in the System more attractive. The provision regarding the recirculation of Federal Reserve notes, while not related to the other provisions of the bill, had been included, Mr. Powell said, because an amendment along these lines would result in an annual savings in expenses to the Federal Reserve Banks of about \$500 thousand, would conserve manpower urgently needed by the Reserve Banks at this time, and would be in accord with recommendations in a report dated February 21, 1951, by a subcommittee of the President's Conference which had been appointed to study the matter.

There ensued a general discussion of the several provisions in the draft bill, especially the provision which, Mr. Powell said, would be a substitute for a uniform reserve plan, and would permit the Board by majority vote to allow any reserve city or central reserve city member bank to carry lower reserves on the basis of a consideration of the character of the business transacted by the member bank, its size and location, and other pertinent factors. He added that this would afford more flexibility than the present unrealistic and administratively troublesome method under which the Board by vote of

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five of its members is authorized to permit member banks to carry lower reserves only if the banks are located in "outlying districts" of reserve or central reserve cities.

It was understood that the proposed bill would be discussed further by the Board at such time as Mr. Powell had received comments from the Federal Deposit Insurance Corporation.

In answer to a question by Chairman Martin, Mr. Carpenter outlined the legislative program contained in the Board's letter to the Bureau of the Budget dated December 1, 1950, and Mr. Vest stated that the Office of Defense Mobilization hoped to present to Congress this week a bill extending the Defense Production Act of 1950 to June 30, 1953, including extension of the authority of the Board to regulate consumer credit and real estate credit (including credit for the purchase of existing structures) as well as the V-loan and voluntary credit restraint programs.

Mr. Evans stated that the independent bankers associations were anxious to obtain passage of bank holding company legislation and that he felt the Board should support them in their efforts as it had done in the past. In a discussion of this matter it was brought out that efforts to obtain favorable consideration of such legislation at past sessions of Congress had failed largely because of a failure of the Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation to agree on a bill.

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It was suggested, therefore, that in order to avoid recurrence of such circumstances, the views of all three agencies might be submitted to the Department of Justice with a request that the Department formulate legislation, or at least that before the submission of any bill to Congress an agreement among the three Federal bank supervisory agencies be reached as to what type of legislation would be mutually acceptable. No conclusion was reached as to action that might be taken along this line.

Chairman Martin said that in accordance with the understanding at the meeting of April 3, 1951, he talked in a preliminary way with Mr. Wilson, Director of the Office of Defense Mobilization, about legislation to give the Board additional authority over bank reserves and that after determining Mr. Wilson's views he (Mr. Martin) would report back to the Board.

Chairman Martin then suggested that the matter of proposed System legislation be placed on the docket for consideration at the meeting of the Board each Thursday.

This suggestion was approved unanimously.

Mr. Evans reviewed the status of the Clayton Act proceeding against Transamerica Corporation, stating that as Hearing Officer he would shortly present a schedule for completion of the case, which he felt should be brought to as speedy a conclusion as possible.

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In this connection, Mr. Vest stated that when the case came before the Board for decision, each member of the Board would have a responsibility for being sufficiently familiar with the facts and issues in the case and the documents presented by both sides to be able to reach a decision on the basis of the evidence and arguments submitted.

Chairman Martin suggested that it would be desirable for the members of the Board to meet informally each week in his office to discuss matters of current interest.

This suggestion was approved unanimously with the understanding that the time for the informal meeting would be subsequently agreed upon.

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 April 11, 1951, were approved unanimously.

Memorandum dated April 10, 1951, from Mr. Leonard, Director of the Division of Bank Operations, recommending an increase in the basic salary of Edwin J. Johnson, a technical assistant in that Division, from \$6,400 to \$6,800 per annum, effective April 15, 1951.

Approved unanimously.

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Letter to the Honorable Homer Ferguson, United States Senate, Washington 25, D. C., reading as follows:

"This refers to a letter addressed to you by Clare W. Payne of Lansing, Michigan, and forwarded to Chairman McCabe for consideration with your referral slip dated March 28, 1951. Mr. Payne's letter expresses the view that Regulation W, which provides minimum down payments and maximum maturities for certain instalment credits, discriminates against people in lower income groups in the purchase of automobiles.

"Our studies reveal that individuals in the average-income group typically buy used cars, even during periods when credit controls are not in effect. In helping to keep used cars at a reasonable price and to make new cars readily available at or below list price, Regulation W has been of great service to the American consumer.

"Good usable cars for performing a great portion of the daily travel of the public continue to be available under Regulation W on terms at from \$25 to \$50 a month. These are the cars which are customarily bought and used by large numbers of our working population who are looking for adequate transportation and not for the latest in style.

"We are certain you appreciate that, in the formulation and administration of any regulatory control which must have a broad applicability, cases of individual hardship are bound to occur. The regulation, of course, along with other monetary and fiscal policies, is directed at preventing the widespread hardship of a sharp inflation. It is the lower income groups that suffer first and most acutely when demand exceeds supply to the point where the cost of living rises appreciably above any compensating increase in wages.

"You will recall that the Chairman of the Board, in testimony before the Joint Committee on the Defense Production Act last December, discussed these aspects of the effect of the regulation in quite some detail. A copy of that testimony was forwarded to you with our letter of January 29, 1951. Another copy is enclosed, and in connection with Mr. Payne's remarks we refer you particularly to pages 4 and 5.

"The letter from Mr. Payne is returned herewith for your records."

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Approved unanimously.

Letter to the Honorable Tom Connally, United States Senate,
Washington, D. C., reading as follows:

"This is in reply to your note of April 3, 1951, with which you enclosed for our consideration a telegram you had received from Mr. Lynn Dickerson, Lynn Dickerson Appliances, Houston, Texas. Mr. Dickerson is concerned about the effect of Regulation W on sales of television sets and is particularly interested that trade-ins on instalment sales of television sets be allowed to count against the down payment requirement as is permitted by the regulation for instalment sales of automobiles.

"As you know the present requirements of the regulation in this respect have not been changed since the regulation of consumer credit was first promulgated by the Board in 1941. For reasons that have seemed to the Board to be compelling, the approach to the regulation of automobile instalment credit has been and is different from the approach in the appliance and furniture area.

"In the case of automobiles the regulation depends to a greater extent on the maximum maturity requirement for its restrictive effect than it does in the case of other consumer durable goods. This is regarded as a more realistic approach because traditionally the large majority of automobile sales involves the trading-in of the purchaser's old automobile: in many cases the value assigned to this trade-in represents as much as 50 per cent of the price of the new automobile being purchased. In the case of appliances and other listed articles the regulation has depended on its down payment requirement for the greater part of its restrictive effect. This approach also seems to be the realistic one because the majority of appliances and furniture sales is made without trade-ins; in the minority where trade-ins are involved the value assigned to them is very often a token allowance. You will appreciate that in many cases the trade-in allowance in connection with an appliance sale is in fact a discount and adopting the automobile trade-in ruling for all appliances would tend to nullify the down payment requirement of the regulation in the appliance field.

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"The Board's staff is continually studying the effect of Regulation W in markets for particular regulated articles and is always glad to hear the views of people in the trade. In this connection, we have recently consulted with representatives of trade associations interested in the television business who have been helpful in supplying information. It would appear that the current problems of television dealers are the result of a number of factors in addition to any restrictive effect that Regulation W may be having on their sales. You will understand that while the Board is concerned that the regulation not be unduly restrictive in specific cases it must also consider that the effectiveness of the regulation in this time of serious inflationary dangers requires that it provide a definite curb on instalment credit.

"The regulation does not, of course, prohibit the acceptance of a trade-in on television sets. Dealers are free under the regulation to allow trade-ins and to give them any value they wish as a deduction from the cash price of the article sold. The trade-in provision of the regulation merely requires that the down payment in the case of articles other than automobiles be computed as a percentage of the net price after deducting any trade-in value.

"The Board is continuing to study the particular problems of the television dealers, including those that might arise from the present down payment provisions of the regulation, and we are glad to have Mr. Dickerson's views in this connection. We appreciate this opportunity of commenting on Mr. Dickerson's telegram, which is returned herewith."

Approved unanimously, together
with a carbon copy going to the
Honorable Albert Thomas, House of
Representatives, Washington, D. C.

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

"In your letter of March 20 relating to the enforcement program for Regulation W, you raise a question as to the extent to which Federal Reserve Banks should exercise

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"discretion in recommending disciplinary action, particularly with respect to 'one man' businesses in small communities. You point out that the Board's letter S-1207 calls attention to the possible desirability of an educational and enforcement program in the 'smaller, relatively less accessible communities (which) were largely omitted from previous enforcement programs'. You also indicate that while the violations in question are not numerous and the number of transactions and amount of credit involved are small, there is no question about the willfulness of the violation.

"This situation apparently calls for greater emphasis on the educational part of the enforcement program, particularly in those small communities which did not receive the full benefit of previous enforcement programs. In connection with your educational activities it would seem desirable that every effort be made to obtain the registration of such businesses, but the Board feels that the Federal Reserve Banks should continue to exercise discretion in recommending disciplinary action in connection with any violations of the regulation.

"The Board's letter S-1207 was in part intended to assure the Federal Reserve Banks of the Board's readiness to act promptly upon recommendation of a Federal Reserve Bank in cases requiring disciplinary action over and above the measures available to the Banks themselves. As you point out, overall compliance with the regulation might be endangered in cases where competitors learn that a Registrant is paying no attention to the regulation and we note that you would not hesitate to recommend such disciplinary action as may be necessary in any such case. The Board is not disposed to question your handling of the so-called willful violator when you believe that referral to the Board would be unnecessary or undesirable from an overall enforcement basis."

Approved unanimously.

Telegram to the Presidents of all Federal Reserve Banks and the Managing Officers of all Federal Reserve Bank branches, reading as follows:

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"Recourtel April 12 transmitting amendment No. 4 to Regulation X. Because of limited general interest in amendment, it appears unnecessary to issue a press statement; hence, none will be forwarded to you."

Approved unanimously.

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

"On April 9 Senator O'Mahoney, Chairman of the Joint Committee on the Economic Report, appointed a subcommittee on general credit control and debt management. The committee consists of Representative Wright Patman as Chairman, Senators Douglas and Flanders, and Representatives Bolling and Wolcott. A copy of a statement issued by Representative Patman in connection with the appointment of the subcommittee and the scope and procedure of its inquiry is attached from which it will be noted that it is planned to hold hearings and that the Chairman of the Board of Governors, among others, will be called upon to testify. The Board has no information other than that contained in the statement as to when the hearings will be held or whether other representatives of the System may be called upon to testify.

"The Board's Division of Research and Statistics is undertaking the preparation of material which may be used in connection with the six points referred to in the statement and on other matters which may be raised during the hearings and will be in touch with the officers in charge of the research work at the Federal Reserve Banks for assistance in this connection."

Approved unanimously.

Letter to Mr. William F. McKenna, Staff Assistant, Joint Committee on Defense Production, Room 301A, Senate Office Building, Washington 25, D. C., reading as follows:

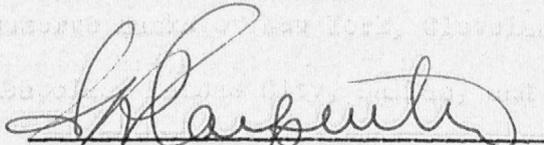
"As requested in Senator Maybank's letter of December 14, 1950, there is enclosed, in duplicate,

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"a statement reflecting developments during the last half of March in the work of the Federal Reserve System with respect to guarantee of defense production loans, real estate credit, voluntary agreements by financing institutions, and consumer credit."

Approved unanimously.


Secretary.