

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, May 1, 1951. The Board met in the Board Room at 10:40 a.m.

PRESENT: Mr. Eccles, Chairman pro tem.  
Mr. Szymczak  
Mr. Evans  
Mr. Vardaman  
Mr. Norton  
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. Noyes, Director, Division of  
Selective Credit Regulation  
Mr. Solomon, Assistant General Counsel  
Mr. Allen, Assistant Director, Division  
of Personnel Administration  
Mr. Boothe, Assistant Director, Division  
of Selective Credit Regulation  
Mr. Heath, Acting Assistant Director,  
Division of Selective Credit Regulation  
Mr. Youngdahl, Chief, Government Finance  
Section, Division of Research and  
Statistics  
Mr. Leach, Economist, Division of  
Research and Statistics

Mr. Thomas presented a report on developments in the Government securities market at the conclusion of which Mr. Benner, Assistant Director, Division of Selective Credit Regulation, joined the meeting, and Messrs. Youngdahl and Leach withdrew.

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Mr. Noyes commented on consumer credit matters, referring particularly to data contained in a special report by the staff dated April 19, 1951 analyzing recent developments in consumer durable goods markets, copies of which had been made available to the members of the Board. Mr. Noyes said that during the first quarter of this year the amount of instalment credit outstanding declined at the rate of nearly \$200 million each month, but that at the end of March it was still about \$12.9 billion as against approximately \$11.1 billion a year earlier. He said that coincident with a softening of demand for consumer durable goods in recent months there was evidence of increasing inventories of such goods and that this situation had been reflected in a sharply increased number of requests from the trade during the months of March and April for relaxation of Regulation W, Consumer Credit, either generally or with respect to specific items. Mr. Noyes went on to say that the staff was not prepared to recommend a relaxation in the regulation at this time but would submit detailed data to the Board for its consideration if that was desired.

Mr. Young noted in this connection that during his recent trip to the West coast there was evidence of increased inventories of consumer durable goods generally, including larger stocks of new automobiles in the hands of dealers, with some indication of price cutting throughout the Western part of the country in the higher-

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priced lines of cars. He felt that this situation should be observed closely.

During a discussion which followed members of the Board present indicated that they would not favor any relaxation of the terms of Regulation W at this time, pointing out that prices of consumer durable goods and total instalment credit outstanding remained well above levels a year ago. It was also stated that some reduction in prices would tend to restore public confidence in the value of the dollar and encourage saving, that a cut-back in production of consumer durable goods would serve to release materials and manpower which would be needed within the next few months as heavier defense orders were executed, and that a reduction in demand for civilian goods would influence manufacturers to divert a larger portion of their existing facilities to defense orders.

Mr. Noyes then presented a report on developments in the real estate credit field, during which he stated that in accordance with the suggestion at the meeting on April 24 the staff was continuing its study of the question of tightening the terms of Regulation X, Real Estate Credit.

Mr. Boothe presented a statement on the status of the V-loan program, following which Mr. Vardaman and Mr. Boothe withdrew.

A report on developments in the stock market was then given by Messrs. Szymczak and Young, following which Mr. Powell presented a

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report on the progress of the voluntary credit restraint program and stated that the next meeting of the Voluntary Credit Restraint Committee would be held on Thursday, May 3, 1951.

There was presented a memorandum from Mr. Norton, dated April 30, 1951, stating that Mr. Foley, Administrator of the Housing and Home Finance Agency, had advised by letter dated April 27, 1951, that because of the impending transfer of the Missiles Development Division of the National Bureau of Standards from Washington, D. C., to Corona, California, there was urgent need for the designation of the latter area as a defense area, that a survey to determine the need for such action had been made by the Housing and Home Finance Agency, that the Defense Production Administration had certified Corona, California, as a defense area for purposes of special assistance, and that he (Mr. Foley) recommended that the terms of Regulation X, Real Estate Credit, be relaxed in this case to the same extent as was recently done for the Atomic Energy Commission installations in South Carolina, Kentucky, and Idaho. The memorandum also stated that Mr. Norton and the Board's staff recommended that the Board concur in the recommendation of the Housing and Home Finance Administrator.

Thereupon, upon motion by Mr. Norton, the following letter to Mr. Foley, Administrator, Housing and Home Finance Agency, was approved unanimously:

"This is to advise you that the Board of Governors concurs in your designation of the Corona, California,

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"area as a defense area for the purposes of defense construction to which special credit terms may be applicable under section 6(p) of Regulation X, Residential Real Estate Credit. Your letter of April 27, 1951, recommending this defense area designation, states that there is a need for approximately 150 housing units for sale or rental to be located within reasonable commuting distance of the defense establishments in the area. Under the terms of the exemption, the entire 150 units will be controlled by your agency through the issuance of specific certificates.

"In accordance with your suggestion, the relaxation of terms prescribed by Regulation X will be identical with that previously announced for the Atomic Energy Commission installations in South Carolina, Kentucky, and Idaho."

Mr. Norton said that about 40 additional areas were now being considered for designation as defense areas and many more could be anticipated in the future, with the result that the Board could expect to be asked to concur in the designation by the Housing and Home Finance Administrator of numerous other communities for relaxation of credit terms. The procedure, he said, contemplated that each area would be studied by the Inter-agency Critical Areas Committee, consisting of representatives of the Defense Production Administration, the Department of Defense, the Department of Labor, the Housing and Home Finance Agency, the Federal Security Administration, and the Bureau of the Budget, after which, if the committee cleared the case, the Housing and Home Finance Administrator would make a survey and present a recommendation to the Board for concurrence in the event it was felt the area should be designated as a defense area.

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He said Mr. Foley had indicated he would be glad to have the Board designate a member of its staff to serve on the inter-agency committee as a member or observer, and that in view of the large number of areas involved he felt this might be advisable in order that the Board might be fully informed. Other alternatives, Mr. Norton said, would be to request the Housing and Home Finance Administrator to present each case to the Board informally before he made a survey, to continue to follow the current procedure, which meant that the Board would consider the matter for the first time after Mr. Foley had decided that the designation should be made, or to have an understanding that the Board would concur automatically in defense area designations by the Housing and Home Finance Administrator.

During discussion it was stated that concurrence in the relaxation of the terms of Regulation X for defense areas constituted an important responsibility of the Board, that the designation of numerous defense areas would tend to undermine the effectiveness of the Regulation, that if a representative of the Board were to attend meetings of the inter-agency committee he could report to Mr. Norton before the committee reached its decision on any project which appeared questionable, and that if the Board wished to raise an objection in any case it would seem more feasible to do so before the Housing and Home Finance Administrator presented his formal recommendation.

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Following a discussion, Mr. Norton was authorized to designate a member of the staff to attend meetings of the Inter-agency Critical Areas Committee with the understanding that the procedure now followed with respect to concurrence by the Board in the designation of a defense area would remain unchanged.

During the foregoing discussion Messrs. Marget, Director, and Dembitz, Assistant Director, Division of International Finance, joined the meeting and at its conclusion Mr. Benner withdrew.

There was presented a memorandum dated April 30, 1951, from Mr. Chase, Assistant Solicitor, stating that the Federal Reserve Bank of Minneapolis had reported to the Board the matter of continuing violations of Regulation W, Consumer Credit, by Walter L. Lange (doing business as Lange Television Sales), St. Paul, Minnesota, after repeated warnings, and recommending that in accordance with the recommendation of the Reserve Bank the Board adopt an order for investigation.

Mr. Evans stated that up to the present time, most investigations ordered by the Board in connection with Regulation W violations contemplated, on the basis of facts previously submitted by the Reserve Banks for the Board's consideration, that the cases might be settled by an injunctive decree; in the case of Lange Television Sales, however, there was indication that the facts to be developed in the investigation might result in a recommendation that the case be re-

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ferred to the Department of Justice for possible criminal action.

Thereupon, upon motion by Mr. Evans, the following order was adopted unanimously, with the understanding that after the investigation was completed a further report would be submitted to the Board as to whether the case should be referred to the Department of Justice or other action taken:

"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 1st day of May, A. D., 1951.

In the Matter of	ORDER DIRECTING INVESTIGATION AND DESIGNATING OFFICERS
WALTER L. LANGE,	TO TAKE TESTIMONY.
(d.b.a. Lange Television Sales)	

## I

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

Walter L. Lange, doing business as Lange Television Sales, located at 632 North Snelling Street, St. Paul, Minnesota, has made instalment sales of television sets subject to Regulation W, consumer credit, issued by the Board of Governors of the Federal Reserve System -

1. Without obtaining the down payment required by Regulation W;
2. 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 W.

## II

The Board, having considered the aforesaid report by members of the staff of the Federal Reserve Bank of Minneapolis, and for the purpose of (1) determining whether Walter L. Lange 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 Walter L. Lange has



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"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 II 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 Sigurd Ueland, 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."

Messrs. Noyes and Heath then withdrew.

Reference was made to a memorandum from Mr. Marget dated April 27, 1951, stating that the Board had been asked by the Economic Cooperation Administration to help locate a suitable person to advise the Chinese Ministry of Finance regarding the coordination of banking and central banking operations in Formosa, and recommending that the name of Mr. Chester Morrill, formerly Special Adviser to the Board, be suggested. The memorandum also stated that Mr. Morrill appeared well qualified for the mission and that an investigation showed that no member of the Board's staff or officer of a Federal Reserve Bank whose qualifications would equal those of Mr. Morrill was available for the assignment. The memorandum stated further that since the Chinese indicated that someone from the Federal Reserve System, rather than with private financial connections, was desired, no effort had

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been made to locate a person outside the System, and that Mr. Morrill's remuneration for undertaking the assignment, plus his expenses, would be arranged and paid directly by either the Economic Cooperation Administration or the Chinese Government. The memorandum had been in circulation and has been placed on the docket for consideration at a meeting since Mr. Vardaman indicated that he would disapprove the proposed recommendation to the Economic Cooperation Administration.

After a discussion of the nature of the assignment and the appropriateness of recommending Mr. Morrill therefor, approval was given to a letter to Mr. William C. Foster, Administrator, Economic Cooperation Administration, Washington, D. C., as follows, it being understood that Mr. Vardaman, if he were present, would vote "no":

"This is in reply to Mr. Bissell's letter of February 27, addressed to Governor Szymczak, regarding the request of the Government of China for assistance in securing an advisor to the Ministry of Finance who is familiar with the central banking field and will be able to help them coordinate operations of the Bank of Taiwan with other banking institutions and operations in Taiwan. It is understood that such an advisor is needed for a period of three months or somewhat longer.

"The Board understands that members of your staff have now been placed in contact with Mr. Chester Morrill, who recently retired as Special Adviser to the Board, and that Mr. Morrill would be available to serve as an advisor to the Chinese Ministry of Finance. Mr. Morrill served as Secretary of the Federal Reserve Board from October 7, 1931 to July 1, 1945, and thereafter served as Special Adviser to the Board until his retirement on December 31, 1950. The Board

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"believes that Mr. Morrill is very well qualified to fill the proposed position as advisor in Taiwan, and it is pleased to be able to recommend him to you and to the Government of China for this purpose."

Mr. Powell then withdrew, but before leaving stated that if present he would vote to approve the recommendation contained in a memorandum from the Personnel Committee dated April 30, 1951, with respect to salaries of officers of the Federal Reserve Banks of Richmond, Atlanta, Minneapolis, and St. Louis for the year beginning June 1, 1951.

In response to a question by Mr. Eccles, the Secretary reviewed the status of material being prepared by the staff in response to an informal questionnaire concerning the Federal Reserve System and its policies received from the staff of the subcommittee of the Joint Committee on the Economic report, of which Representative Patman, of Texas, is Chairman, stating that answers to several portions of the questionnaire had been prepared in draft form and after being cleared informally by the members of the Board would be submitted to the staff of the subcommittee. He stated that responses to remaining portions of the questionnaire were receiving the attention of the staff and would be transmitted as soon as they were completed and reviewed.

Before the meeting there were distributed to the members of the Board copies of a memorandum dated April 30, 1951, from the Personnel Committee recommending that salaries of officers of the

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Federal Reserve Banks of Richmond, Atlanta, Minneapolis, and St. Louis for the year beginning June 1, 1951, be approved as submitted by the respective Reserve Banks. The salaries proposed by the Federal Reserve Banks of Richmond and St. Louis had been submitted informally with the understanding that after informal consideration by the Board formal action would be taken by the directors of the respective banks. Attached memoranda from the Division of Personnel Administration stated that the proposed salary adjustments involved had not been reviewed on an individual basis but had been reviewed for conformance for good salary administration principles, and since it appeared that in every case proper relationships had been maintained, no question was raised with respect to the propriety of any of the increases.

Thereupon, upon motion by Mr. Norton, the following letters to the Federal Reserve Banks of Atlanta and Minneapolis were approved unanimously and it was understood that the Federal Reserve Banks of Richmond and St. Louis would be advised informally that, if formally submitted, salaries of officers of those Banks would be approved by the Board at the rates specified:

Letter to Mr. Neely, Chairman,  
Federal Reserve Bank of Atlanta.

"The Board of Governors approves the payment of salary to the following officers at the rates indicated for the period June 1, 1951, through May 31, 1952. According to your letter of February 13, 1951, these are the rates which have been approved by the Board of Directors.

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<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
V. K. Bowman	Vice President	\$13,000
S. P. Schuessler	Vice President	11,000
J. E. Denmark	Vice President	11,000
Harold T. Patterson	General Counsel	12,000
E. L. Rauber	Director of Research	11,000
Lloyd B. Raisty	Assistant Vice President	10,500
C. R. Camp	Assistant Vice President	8,000
P. L. T. Beavers	Vice President & Manager, Birmingham Branch	10,000
H. J. Urquhart	Cashier, Birmingham Branch	7,000
T. A. Lanford	Vice President & Manager, Jacksonville Branch	13,000
Joel B. Fort, Jr.	Vice President & Manager, Nashville Branch	10,000
E. R. Harrison	Cashier, Nashville Branch	7,500
E. P. Paris	Vice President & Manager, New Orleans Branch	15,000"

Letter to Mr. Peyton, President,  
Federal Reserve Bank of Minneapolis.

"The Board of Governors approves the payment of salary to you as President of the Federal Reserve Bank of Minneapolis at the rate of \$25,000 per annum and to Mr. A. W. Mills as First Vice President of the Federal Reserve Bank of Minneapolis at the rate of \$18,000 per annum for the period June 1, 1951, through May 31, 1952.

"The Board of Governors also approves the payment of salary to the following officers at the rates indicated for the period June 1, 1951, through May 31, 1952. According to your letter of January 11, 1951, these are the rates which were fixed by the Board of Directors.

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
O. R. Preston	Vice President	\$ 15,000
H. G. McConnell	Vice President	14,000
Sigurd Ueland	Vice President, Counsel, and Secretary	13,000
H. C. Core	Vice President in Charge of Personnel	11,000
E. B. Larson	Vice President	11,000
C. W. Groth	Vice President assigned to the Helena Branch	10,000
W. H. Turner	Assistant Cashier	6,000
J. Marvin Peterson	Director of Research	11,000"

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At this point Messrs. Hilkert, Solomon, and Allen withdrew.

Mr. Eccles stated that during the course of hearings last week before the Senate Banking and Currency Committee concerning the Reconstruction Finance Corporation, Senator Maybank, Chairman of that Committee, made the statement that the Committee did not intend to consider at this session of Congress any proposed legislation reaching it after May 7, 1951. He suggested that the Secretary call this statement to the attention of Chairman Martin in view of the fact that the Committee of Four, appointed by the President on February 26, 1951, was not to meet to study the draft of its interim report until May 9 and no action to introduce legislation respecting increased authority over bank reserves was contemplated pending the adoption of the interim report.

There followed a general discussion of the loan expansion reserve plan during which Mr. Eccles said that he felt that the Board should determine as promptly as possible the form of reserve requirement legislation that it would recommend to the Congress, that the language of any bill covering such a plan should be worded as specifically as possible, and that the discretionary powers of the Board provided in such a bill should be kept to a minimum. Mr. Eccles also expressed the opinion that there would be more likelihood of favorable consideration by the Congress if such legislation were introduced separately rather than as a part of an over-all legislative program.

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Mr. Szymczak suggested that, in view of Mr. Eccles' comments, there be a further discussion of the loan expansion reserve plan and its relation to the program of the Committee of Four at the meeting on Thursday, May 3, 1951, when Chairman Martin would be present.

This suggestion was approved unanimously.

At this point all of the members of the staff with the exception of Messrs. Carpenter, Sherman, Murff, 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 30, 1951, were approved unanimously.

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

"For the reasons outlined in your letter of April 26, 1951, the Board of Governors approves the payment of salary to Mrs. Rose Cappiello at the rate of \$3,900 per annum and to Mrs. Kathleen Turnbull at the rate of \$2,607 per annum until such time as you may be able to reassign these employees to jobs commensurate with their salaries. These rates, it is understood, are in excess of the maximum salary of the grades in which their positions are currently classified."

Approved unanimously.

Letter to Mr. Armistead, Vice President of the Federal Reserve Bank of Richmond, reading as follows:

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"In accordance with the request contained in your letter of April 26, 1951, the Board approves the designation of John H. MacSherry, an employee of the Baltimore Branch, as a special assistant examiner for the Federal Reserve Bank of Richmond."

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks and to the heads of research at all Federal Reserve Banks, reading as follows:

"The accompanying memorandum and form F. R. 416a outline standardized procedures for collecting the statistics requested in the Board's letter of March 21 (S-1288) on changes, by industry and purpose, in commercial and industrial loans at selected weekly reporting member banks. These procedures should be put into effect as early as practicable.

"The procedures outlined in the memorandum are designed to facilitate the transition from the various procedures already being used by the individual Reserve Banks. Some changes will, nevertheless, be necessary in the programs developed in a number of districts. However, the need for some standardization outweighs these problems. The adoption of a standardized program has been strongly urged by most of the Reserve Banks and by the bank members of the Voluntary Credit Restraint Committee and the District subcommittees."

Approved unanimously.

Letter to the Honorable Charles A. Wolverton, House of Representatives, Washington, D. C., reading as follows:

"This refers to your communication dated April 16, 1951, addressed to former Chairman McCabe, with which you enclosed a letter from Mrs. P. W. Rennie, Rennie's Appliance Store, relative to the consumer credit controls under Regulation W. Mrs. Rennie's letter refers particularly to the down payment requirements for appliances and television sets.



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"One of the major problems involved in administering a regulation such as this is to make it restrictive enough so that it will be effective in accomplishing its purposes, and at the same time keep it from being an excessive burden on the people who are subject to it. The Board has felt that relatively tight terms for instalment credit are required at present in order to help restrain the strong inflationary pressures that tend to raise the prices of all goods and services.

"The major purpose of the regulation is to curb the increased purchasing power that results from the expansion of instalment credit, particularly when the supply of goods is limited. A further purpose is to facilitate the diversion of critical materials and labor to production.

"The Board is continually studying the problems in the various retail fields, and we appreciate your forwarding Mrs. Rennie's letter to us for consideration. The letter is returned herewith in accordance with your request."

Approved unanimously.

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

"It is the opinion of the Board that a newspaper is a 'manufactured product' within the meaning of section 2(r)(5)(i) of Regulation X. Accordingly, the definition of 'nonresidential structure' in section 2(r) does not include a structure more than 80 per cent of the floor space of which is used or designed for use in the printing of newspapers and, therefore, credit for the financing of such construction is not subject to Regulation X."

Approved unanimously.

Telegram to the Presidents of all Federal Reserve Banks and  
officers in charge of all branches, reading as follows:

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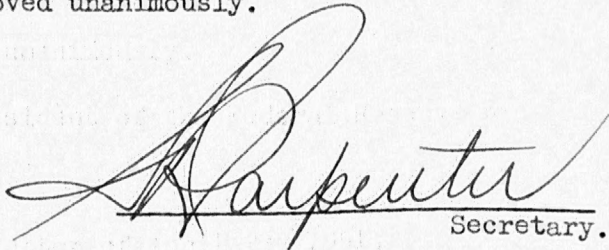
"An inquiry has been received regarding the application of Section 2(r)(3) of Regulation X to animal hospitals. It is the opinion of the Board that the regulation does not apply to bona fide veterinarians' hospitals, but does apply to veterinarians' offices, kennels, and the like, even though used in the treatment of animals."

Approved unanimously.

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

"Reurtel April 18. Borrower referred to in section 5(e) of Regulation X need not be person who owned structure when destroyed or substantially damaged by casualty such as flood or fire. Provision also applies in such cases to vendee to whom casualty victim sold damaged property. However, as for eminent domain or condemnation proceedings, applicability of exemption limited to borrower deprived of property. This necessarily would be owner at such time."

Approved unanimously.

  
Secretary.