Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, June 6, 1951.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Vardaman
Mr. Norton
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 June 5, 1951, were approved unanimously.

Memorandum dated May 31, 1951, from Mr. Marget, Director of the Division of International Finance, recommending that Miss Noreen R. Hanlon, a Page in the Division of Administrative Services, be transferred to the Division of International Finance as a Clerk, with an increase in her basic salary from $2,200 per annum to $2,450 per annum, effective as of the date on which she enters upon the performance of her duties in the Division of International Finance.

Approved unanimously.

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

"Reference is made to your letter of May 29, 1951, requesting the approval of the Board of Governors for the payment of salaries to certain employees at below minimum rates.

"The Board feels that one of the basic principles of the personnel classification plan is the payment of at least the minimum salary established for the job being performed and is, therefore, reluctant to approve for an indefinite period the payment of salaries below grade minimums."
"Accordingly, the Board of Governors approves the continuation of the payment of salaries to the following named employees of the Cincinnati Branch for the period ending September 1, 1951, at the annual rates indicated which are below the minimums established for the grades in which their positions are classified:

<table>
<thead>
<tr>
<th>Name</th>
<th>Annual Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Walter H. Benus</td>
<td>$ 5,300</td>
</tr>
<tr>
<td>Ralph Hein</td>
<td>4,350</td>
</tr>
<tr>
<td>James Kelley</td>
<td>3,500</td>
</tr>
</tbody>
</table>

"In view of the circumstances described in your letter, the Board of Governors also approves the payment of salary to Charles A. Powell, Pittsburgh Branch, for an indefinite period at the rate of $4,050 per annum, which is $50 below the minimum established for the grade in which his position is classified."

Approved unanimously.

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

"In view of the circumstances described in your letter of June 1, 1951, the Board of Governors approves the payment of salary to Mr. William J. Leonard at the rate of $8,503 per annum, which is in excess of the maximum established for the position of Chief, Country Collection Division, Collection Department, the position he now occupies."

Approved unanimously.

Letter to Mr. Wilbur, Chairman and Federal Reserve Agent of the Federal Reserve Bank of San Francisco, reading as follows:

"In accordance with the request contained in Mr. Mangels's letter of June 1, 1951, the Board of Governors approves, effective June 1, 1951, the payment of salaries to the following named members of the Federal Reserve Agent's staff at the rates indicated:
<table>
<thead>
<tr>
<th>Office</th>
<th>Name</th>
<th>Title</th>
<th>Annual Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>San Francisco</td>
<td>F. M. Stone</td>
<td>Assistant Federal Reserve Agent</td>
<td>$7,220</td>
</tr>
<tr>
<td>San Francisco</td>
<td>F. R. Claxton</td>
<td>Alternate Assistant Federal Reserve Agent</td>
<td>$5,520</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>L. R. Steffer</td>
<td>Federal Reserve Agent's Representative</td>
<td>$6,240</td>
</tr>
<tr>
<td>Portland</td>
<td>E. V. Risberg</td>
<td>Federal Reserve Agent's Representative</td>
<td>$5,760</td>
</tr>
<tr>
<td>Salt Lake City</td>
<td>J. B. Anderson</td>
<td>Federal Reserve Agent's Representative</td>
<td>$6,120</td>
</tr>
<tr>
<td>Seattle</td>
<td>F. K. Grimm</td>
<td>Federal Reserve Agent's Representative</td>
<td>$6,060</td>
</tr>
</tbody>
</table>

Approved unanimously.

Letter to the Honorable A. W. Hall, Director, Bureau of Engraving and Printing, Washington, D. C., reading as follows:

"Thank you for your letter of May 25, 1951, enclosing a copy of the report, dated May 16, 1951, of the committee designated to transfer certain vital material from the Bureau of Engraving and Printing to the U. S. Bullion Depository at Fort Knox, Kentucky.

"The Board notes with pleasure that its representative, Mr. Charles H. Bartz, ably assisted the committee in the special project, and your expression of appreciation will be conveyed to him.

"Your letter states that it is considered advisable to have the committee retain its status until further notice so that it will be available to discharge any subsequent duties which may be required in this connection. Accordingly, Mr. Bartz will be available for further service on the committee."

Approved unanimously.

Letter to Mr. Morton M. Mendels, Secretary, International Bank for Reconstruction and Development, 1618 H Street, N. W., Washington, D. C., reading as follows:
Last year, as you will recall, we had the directors and principal officers of the International Bank as our guests for a review by members of the Board's staff of current economic conditions in the United States, and I understand that conversations with representatives of your organization have indicated that Friday, June 15, would be a mutually convenient date for another informal meeting of this same general nature. Accordingly, I am most happy to extend to you on behalf of the Board an invitation to join us at that time, and I would appreciate your courtesy in transmitting this invitation to your directors and officers.

Our plans call for the group to gather in the Board Room of this building at 11:00 o'clock for a visual-auditory presentation by members of the staff of our Division of Research and Statistics. Representatives of the Division of International Finance also will participate in the program. Time will be provided thereafter for a general discussion of the material covered, and the program will conclude with luncheon in the Board's dining rooms.

We are looking forward eagerly to the opportunity of meeting again with you and your associates, and we will be in touch with you before the date of the meeting to arrange the necessary details.

Approved unanimously, together with a letter to Mr. Frank Coe, Secretary of the International Monetary Fund, extending a similar invitation to the directors and principal officers of that organization for Monday, June 18, 1951.

Letter for the signature of the Chairman to the Honorable A. Willis Robertson, United States Senate, Washington, D. C., reading as follows:

This is in response to your letter of May 22, 1951, asking that I send you an amendment to cover the suggestions contained in the third paragraph of my letter to you of May 21, 1951. That paragraph outlined briefly a method of utilizing the services of the Federal Reserve System more effectively in the extension of financial assistance to small business in normal times.
As stated in my letter to you of May 21, a variety of measures are now being taken, especially by the Federal Reserve System, to discourage any extensions of credit that are not essential for defense, and, consequently, we feel that there is a serious question as to the advisability of, and the Board would not be prepared at this time to sponsor, any changes in the law which would provide additional authority for the expansion of the use of credit, even by small businesses, for any purposes that are not closely related to defense needs.

If, however, Congress should consider it desirable to utilize the Federal Reserve Banks to provide financial assistance to small business through guarantees of loans by financing institutions, as suggested in my letter of May 21, I believe that the enclosed draft of bill would be adequate for this purpose. As you will observe, this draft is substantially the same as the bill S. 408, which was favorably reported by the Senate Banking and Currency Committee on April 28, 1947.

"Please do not hesitate to call upon us if we can be of any assistance in this matter."

Approved unanimously.

Letter to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, Washington, D. C., reading as follows:

"This is in response to your communication of May 24, 1951 requesting a report on S. 684 'To amend the Bankhead-Jones Farm Tenant Act so as to provide a more effective distribution of mortgage loans insured under title I, to give holders of such mortgage loans preference in the refinancing of loans on a noninsured basis, to adjust the loan limitations governing title II loans so as to provide more effective assistance to production and subsistence loan borrowers, and for other purposes. '"

"By letter of the same date you requested our comments on S. 994 'To amend section 21 of the Bankhead-Jones Farm Tenant Act, as amended, so as to increase the maximum amounts and terms for which loans may be made under such section.'"

"The provisions of S. 994 are substantially the same as those contained in section 3 of S. 684. Likewise, the provisions of S. 614 on which the Board expressed its views by letter dated March 26, 1951, copies of which are enclosed for your ready reference, proposes a similar amendment to section 21 of the Bankhead-Jones Farm Tenant Act."
These comments are therefore confined to sections 1 and 2 of S. 684 which proposes a change in the mortgage insurance authority of the Secretary of Agriculture by increasing the present authorization of $100 million to $200 million. Of the increase, 1/2 would be allotted without regard to the statutory requirements now in effect for the current authority. It is stated in the report of the Department of Agriculture, which was enclosed with your letter, that eliminating such statutory requirements for a part of the authorization would allow more effective utilization of the insuring provision. Presumably, a larger part of the authorization would actually be used if this were the case.

However, as is stated in the Agriculture report, in the 1950 fiscal year, about 2,300 loans were insured for about $17 million. If the average size of loan -- $7,500 -- prevails in the current fiscal year and the number of loans made reaches the budget estimate of 4,500 about $33 million of the $100 million authorization would be used in the 1951 fiscal year. For 1952, if loans reach the estimated number of 7,500, the total volume of insured loans might approximate $55 million, again substantially less than the present authority would allow. These figures appear to indicate that the increased authorization at this time is unnecessary.

On the other hand, if fully utilized, the proposed increase would represent considerable liberalization of Government credit in the agricultural field. It would permit 27,000 loans to be made or 6 times as many as the estimate for the current fiscal year and 3 1/2 times the estimate for 1952.

Proper restraint of credit is a vital part of the program to control inflation and further the defense effort and vigorous efforts are now under way to curb the extension of credit by private lender groups. It is the view of the Board that the proposed large increase in insuring authority would not conform to the Government's program of inflation control and therefore should not be granted at this time.

Approved unanimously.

Telegram to the Presidents of all Federal Reserve Banks and to the Vice President of the Detroit Branch, reading as follows:

We have received request from N. P. Cassidy, Assistant Comptroller of the Navy, that in future when application for a Navy guarantee is received
"by a Reserve Bank two copies of application rather than one be forwarded immediately to Board to be transmitted to Navy. Third copy of the application should be forwarded to Board with report and recommendation your Bank. Also, it is requested you forward to Board three copies of your report and recommendation instead of two as at present.

"The additional copies of application and report are required incident to change in the procedure for processing V-loan cases in Department of the Navy."

Approved unanimously.

Letter to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, Washington, D. C., reading as follows:

"This is in response to your letter of May 29, 1951 requesting an expression of the Board's views on a proposed Executive Order entitled 'Executive Order Delegating Certain Functions of the President Under the Defense Production Act of 1950.'

"The purpose of the Order is to assure the fullest utilization of independent small business in defense and essential civilian production and authorizes the Secretary of Commerce to establish within his Department an appropriate organization in order to carry out the various functions provided in the Order relating to small business.

"The proposed Order in section 3(d) authorizes the Secretary, among other things, to review guarantees proposed under section 302 of Executive Order 10161 and to make recommendations to the guaranteeing agencies with respect to the action to be taken thereon, presumably in the case of each individual application. Section 302 of that Executive Order implements section 301 of the Defense Production Act of 1950 which is the basis of the present V-loan Program under which the Federal Reserve Banks, subject to the supervision of the Board of Governors, act as fiscal agents of the United States in the making of contracts of guaranty.

"The Board of Governors of the Federal Reserve System, as well as the guaranteeing agencies, in carrying out their responsibilities with respect to the V-loan Program have considered it to be of prime importance that the various agencies act with the utmost speed in passing on applications for guarantees of loans made to defense contractors. The present procedures were developed with this in mind. The Board is fearful that section 3(d) of the proposed
Executive Order would result in delay in the consideration of applications and thus impede the defense program. Indeed, while one of the important purposes of the proposed order appears to be to facilitate defense loans to small business concerns, it is believed that this provision would tend in the opposite direction.

For these reasons the Board feels that it is important to the V-loan Program and to the interests of small business that the provisions of section 3(d) which require a prior review of the guarantees be deleted from the proposed Executive Order. If, however, you do not concur in these views, we would appreciate an opportunity to discuss the problem more fully with you before the final draft of the proposed Order is decided upon.

As regards the broader question of small business participation in defense production, the Board concurs with the objectives of the proposed Executive Order, but questions the desirability of a program as elaborate as that provided for by the Order. It may be noted that small concerns in the manufacturing and mining industries, which are the ones principally involved in defense production, represent only a small proportion of all small business concerns, the great majority of which are engaged in trade and service activities. The additional steps in the review and approval of the letting and financing of defense contracts, and the additional reporting burden on defense departments of the Government and business concerns that would be required by the proposed Executive Order, might well retard, rather than expedite, small business participation in defense production as well as the defense program itself.

Approved unanimously.

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

"The subject of 'free' merchandise and rebates under Regulation W has been re-examined, especially as it relates to paragraph (8) of the summaries published
"at 222.118, 15 Federal Register 7827, November 17, 1950 and 1950 Federal Reserve Bulletin 1615. The Board has concluded that the summary in paragraph (8), while of course remaining subject to the qualifications indicated for such summaries, should be revised to read as follows:

'(8) Free merchandise and rebates. - An instalment vendor of a listed article is not prohibited by the regulation from giving a discount or rebate on the sales price of a listed article or from making a bona fide "free" gift of other merchandise to the buyer of a listed article. However, in the case of a cash discount or rebate, and also in the case of a "free" gift which allows the customer to make a selection among a variety of merchandise or which is otherwise similar or equivalent to cash, the down payment to be obtained on the article must be net of the amount received by the purchaser from the vendor. In the case of other "free" gifts, the down payment must be obtained on the gross price of the listed article without any deduction for the "free" gift."

Approved unanimously.

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

"As indicated in the published summary interpretation (W-149) being issued on the point today, the Board has reviewed the status under Regulation W of so-called 'free gifts', rebates, or discounts offered by Registrants as sales inducements in connection with listed articles. While such sales inducements or promotional arrangements may take a variety of forms, the applicable general principles, together with certain typical examples, are discussed below to amplify the published summary. These principles are applicable whether the 'free gift', rebate, or discount is given as cash, savings bonds, gift certificates, or in other form."
"Example of Cash Discount. - Suppose, for example, that a Registrant is selling a $260 Group B article on which the present required down payment of 25 per cent would be $65. Suppose further, that he decides to offer a $50 discount as a sales inducement. If the Registrant obtains the $65 down payment, but at the same time gives the purchaser a check for $50 as the discount on the $260 price, the Registrant has for all practical purposes obtained a down payment of only $15, which would be substantially less than that required under the regulation.

"Section 8(j)(7) of the regulation states that 'cash price' is 'net of any rebate or sales discount'. Hence, in the above example, the cash price of the Group B article would be $210 rather than $260, and the required down payment need be only $52.50 instead of $65. Consequently, on the facts assumed above, the Registrant would have to get back from the customer $37.50 more in cash in order to bring the down payment up to the required minimum of $52.50, but he would not have to get back $50 (the full amount of the rebate).

"The general principle, therefore, is that in such a case both (1) the down payment and (2) the cash price are to be calculated on a net basis. The result is that the down payment requirement is reduced (as it should be) in the same proportion as the cash price is reduced, but that it is not reduced by the amount that the price is reduced. To do the latter would thwart the down payment requirement. In other words, the regulation does not prevent the reduction in the price of an article, whether such a reduction is in the form of a cash discount or in some other form; but the regulation does prevent other features of the arrangement from being such as would render the requirements of the regulation ineffective.

"Principle applies elsewhere. - The same principle would apply to a 'free gift' which would be similar or equivalent to cash, although not necessarily identical with cash. For example, if the discount were given in the form of a savings bond, this should be treated as cash, although in practice the bond is not redeemable until the passage of a certain period of time.

"Similarly, if the discount is given in the form of a gift certificate or similar right drawn on a department store, for example, entitling the customer to
"make his own choice or selection among a variety of merchandise, this discount also should be treated as equivalent to cash for these purposes. This same treatment would apply where the gift certificate or similar right is drawn on a food store or limited otherwise only to food, or only to frozen food (as in connection with the sale of a food freezer), so long as the customer has a choice or selection. It is evident in such cases that since the customer is permitted to choose among articles that the average person must acquire regularly, he in effect is given a rebate that is equivalent to a cash rebate.

"Gifts" not Equivalent to Cash. - In those cases where, under the above principles, the so-called, 'free gift' is not similar or equivalent to cash, the 'gift' may properly be treated as a part of the sale and not a rebate. This would be true in the case of a single specific article, such as a phonograph, offered 'free' with the purchase of a television set, or in the case of 'free' attachments with a suction cleaner. The same would be true where a Registrant, for example, offers 'free' with a refrigerator, an order of groceries composed of items pre-selected by the Registrant. In other words, a primary consideration is the extent to which the Registrant pre-selects the specific article or articles to be used as a 'gift' to the purchaser.

"Of course, in any case in which the 'gift' is to be treated in accordance with the preceding paragraph, the down payment would be required on the full price of the listed article without allowing any discount for the 'gift'.

"In view of the variety of circumstances that may arise in connection with questions of this kind, it seems especially desirable that replies by Reserve Banks to inquiries on these questions be limited to the facts of the particular case. It is assumed, therefore, that this letter will be used as the basis for handling individual cases rather than as material to be used in full in replying to each inquiry.

"The foregoing views of the Board supersede any prior interpretations in this regard under the present regulation."

Approved unanimously.
Letter to Mr. Charles G. Pyle, Executive Director, National Association of Electrical Distributors, 500 Fifth Avenue, New York, New York, reading as follows:

"This refers to your letter of May 1, 1951, addressed to Chairman Martin, in which you comment on our letter to you of April 18, and also submit for the Board's consideration additional observations concerning the effects of Regulation W on the merchandising of electrical appliances.

"Our letter of April 18 contains the statement that in many instances the trade-in allowance in connection with an appliance sale has the effect of a discount on the purchase price of the article rather than an allowance based on the re-sale value of the article accepted as a trade-in. We note that you are of the opinion that the foregoing statement applies essentially to cash sales and is, therefore, not of primary importance in the matter of time-payment sales. It is our view that if the statement is true concerning cash sales it is equally true in the case of installment sales.

"Regulation W must be restrictive, of course, if it is to accomplish its major purpose of helping to restrain general inflationary forces by curbing consumer installment credit. Although the Board recognizes that there has been a general softening in the markets for consumer durable goods following the heavy buying wave of last December and January, nevertheless, in the light of general economic and credit conditions, a relaxation of the regulation at this time does not appear to be in the interest of the national defense program.

"We appreciate your forwarding your comments to the Board and you may be certain the Board will continue to study the regulation in the light of all the facts which come to its attention.

"We should be glad, of course, to have you submit in person to members of the Board's staff such information as you may wish with respect to any phase of Regulation W."

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

"With reference to your telephone discussion of the treatment of fiduciaries for registration purposes under Regulation X, we would make the following suggestions:

"The paragraph on fiduciaries in the instructions for the registration statement should be interpreted to permit and encourage each fiduciary to file only one registration statement covering all its fiduciary and agency accounts and showing consolidated figures for all accounts in item III. The trust department of a commercial bank, for example, should file one statement showing in item III all the mortgage assets of all its fiduciary and agency accounts.

"Any individual (including an officer of a bank or a trust company) who administers fiduciary accounts in his individual capacity should file a registration statement if he meets the necessary test of a registrant.

"Any individual or individuals who administer fiduciary accounts jointly with a corporate fiduciary should also file if they meet the registration test. However, to prevent duplication in the statistics, an individual should report only those loans which are under his personal administration, excluding those in which he is co-fiduciary with a corporate trustee.

"Any individual who administers fiduciary accounts jointly with other individuals should register, if he meets the test of registration, as in the above case of an individual or individuals acting jointly with a corporate fiduciary. In such cases where possible to prevent duplication of statistics, it is suggested that only one individual co-fiduciary list real estate loans owned on account of the trust, and the other co-fiduciaries merely register but leave the figures blank, referring to the form filed by the co-fiduciary which includes the statistics.

"In those rare cases where two trust companies may be co-trustee for the same trust, it is suggested that the one which manages the assets report the statistics. If, as also occasionally happens, each corporate trustee
"manages a part of the assets, then it would be desirable
to have each report only the part he manages.

"We recognize that there will probably be some
duplication of figures in connection with co-trustee
accounts. This results from the publication of an
extremely simplified form of registration statement.
Had we issued a more complex form giving lengthy and
complicated instructions, it probably would have re-
resulted in some confusion on the part of many registrants,
and might also have resulted in an unfavorable response.
We think, however, that the possible duplication which
may occur will not attain significant proportions or
greatly influence the totals."

Approved unanimously.

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

"This refers to your letter of May 17, 1951, and
enclosures, concerning a request from the Air Conditioning
Appliance Corporation, Alexandria, Louisiana, for a ruling
as to whether the installation in a cafe of two air cond-
tioning units will be a major improvement to a non-
residential structure within the meaning of section 2(g)
of Regulation X.

"The inquiry refers to two units known as a Carrier
Weathermaker 50 K 8 and a Carrier Cooling Tower 22 E6, 8.
From your letter, it is our understanding that the Weather-
maker can be installed separately, or that the two units
can be installed together.

"We understand from your independent investigation
that when the two units are installed together they are
connected with pipe to the water system in the structure,
that a water pump also is installed, and that ordinarily
there must be certain changes in the electrical system
in the structure in order to take care of the higher
voltage. Based upon this understanding, we believe the
installation of the two units will be an 'improvement
which becomes *** physically attached to and a part of
the structure ***' within the meaning of that phrase
as used in section 2(g) of the regulation and will be
a 'major improvement' to a nonresidential structure if
"the cost tests are met. In this particular case, it will be a major improvement if the structure in which it is to be installed does not have an appraised value of more than $26,333.34.

"We do not fully understand from your letter the factual situation if the Weathermaker is installed and used separately from the Cooling Tower. However, if the degree of attachment to the structure and the necessary changes in the electrical and plumbing systems are comparable, its separate installation also will be a 'major improvement' if the cost tests in the regulation are met."

Approved unanimously.

[Signature]
Secretary.