

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, June 22, 1951.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Norton

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

Telegrams to the Federal Reserve Banks of New York, Philadelphia, Chicago, St. Louis, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on June 19, by the Federal Reserve Bank of St. Louis on June 20, and by the Federal Reserve Banks of New York, Philadelphia, and Chicago on June 21, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated June 20, 1951, from Mr. Bethea, Director of the Division of Administrative Services, recommending an increase in the basic salary of George J. Russell, Jr., Operator (Mimeograph) in that Division, from \$2,120 to \$2,252 per annum, effective June 24, 1951.

Approved unanimously.

Memorandum dated June 21, 1951, from Mr. Boothe, Assistant Director of the Division of Selective Credit Regulation, recommending that the resignation of Miss Georgiana Benjamin, Clerk-Typist in that Division, be accepted to be effective as of the close of business June 14, 1951.

Approved unanimously.

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Memorandum dated June 19, 1951, from Mr. Dembitz, Assistant Director of the Division of International Finance, stating that Louis G. Ficks, a Secretary in that Division, had submitted his application for retirement to become effective July 1, 1951.

Noted.

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

"In accordance with the request contained in your letter of June 20, 1951, the Board approves the appointment of Joseph M. Case, at present an assistant examiner, as an examiner for the Federal Reserve Bank of Philadelphia.

"If the appointment is not made effective July 1, as planned, please advise us."

Approved unanimously.

Letter to Mr. Leedy, President of the Federal Reserve Bank of Kansas City, reading as follows:

"In view of the circumstances described in your letter of June 19, 1951, the Board of Governors approves the payment of salary to Miss Marjorie Hansen at the rate of \$3,924, per annum, which is \$444 in excess of the maximum established for the position Transcript Clerk, Accounting Department, the position she now occupies."

Approved unanimously.

Letter to Mr. Caldwell, Federal Reserve Agent of the Federal Reserve Bank of Kansas City, reading as follows:

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"In accordance with the request contained in Mr. Koppang's letter of June 19, 1951, the Board of Governors approves, effective July 1, 1951, the payment of salaries to the following named members of the Federal Reserve Agent's staff at the rates indicated:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
William R. Young	Federal Reserve Agent's Representative, Denver Branch	\$5,328
David E. Chase	Federal Reserve Agent's Representative Oklahoma City Branch	5,328
William F. Fairley	Federal Reserve Agent's Representative Omaha Branch	5,328
Earl O. Streeter	Federal Reserve Agent's Representative Omaha Branch	5,100"

Approved unanimously.

Letter to Mr. Lunding, Federal Reserve Agent of the Federal Reserve Bank of Chicago, reading as follows:

"In accordance with the request contained in Mr. Meyer's letter of June 19, 1951, the Board of Governors approves, effective June 18, 1951, the payment of salaries to the following named members of the Federal Reserve Agent's staff at the rates indicated:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
Carl Schelling	Assistant Federal Reserve Agent	\$6,540
George H. Schussler	Acting Assistant Federal Reserve Agent	4,360
Clarence W. Kolz	Alternate Assistant Federal Reserve Agent	5,640
Charles J. Scanlon	Alternate Assistant Federal Reserve Agent	7,740

"In the absence of supporting information, these salaries are approved on the assumption that they are within the salary ranges established for the grades in which the respective positions are classified.

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"With respect to the increase in salary proposed for Mildred Smith, our records indicate that she is a stenographer in the Federal Reserve Note Issue Department and, inasmuch as her appointment did not require the Board's approval, her rate of salary is not subject to the Board's specific approval."

Approved unanimously.

Letter to Mr. Neely, Federal Reserve Agent of the Federal Reserve Bank of Atlanta, reading as follows:

"In accordance with the request contained in your letter of June 13, 1951, the Board of Governors approves, effective July 1, 1951, the payment of salaries to the following named members of the Federal Reserve Agent's staff at the rates indicated:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
Genevieve M. Barnett	Alternate Assistant Federal Reserve Agent, Head Office	\$4,524
Stuart H. Magee	Federal Reserve Agent's Representative, Nashville Branch	4,564"

Approved unanimously.

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

"This refers to your letter of June 15, 1951, enclosing the original and two copies of an undated letter received by your Bank from the International Bank for Reconstruction and Development, setting forth a proposed agreement between that institution and your Bank regarding the storage of microfilm records of the International Bank at the Federal Reserve Bank of Richmond. The International Bank has advised us that its letter to your Bank should have been dated June 12, 1951, and has authorized us in writing so to date the original and copies of its letter.

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"You state that it is satisfactory with your Bank to accept the proposal made by the International Bank if it meets with the approval of the Board of Governors.

"The Board approves acceptance by your Bank of the proposal made by the International Bank in its letter of June 12, 1951, under which your Bank will act as agent of the International Bank, for the purposes stated, pursuant to section 6 of the Bretton Woods Agreements Act of July 31, 1945. The original and one carbon copy of the International Bank's letter are returned to you herewith. We shall appreciate it if you will advise us of your Bank's acceptance of the International Bank's proposal."

Approved unanimously.

Letter to Mr. Glen McDaniel, President, Radio-Television Manufacturers Association, 1317 F Street, N. W., Washington, D. C., reading as follows:

"Chairman Martin has asked me to acknowledge your telegram of June 13 on behalf of the Radio-Television Manufacturers Association and to advise you that the Board is fully aware of and sympathetic with the situation as you have outlined it.

"At this time the Board does not feel that the situation, considered in the light of the most reasonable assumptions with respect to overall developments during the coming months, justifies relaxation of the consumer credit regulation (Regulation W)."

Approved unanimously.

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

"This refers to your letter of May 29, 1951, which contained an excerpt from a letter from one of your constituents. The excerpt relates to Regulation W, which regulates the terms of consumer instalment credit.

"Your constituent expresses the view widely distributed by The Philip Lesly Company for the American

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"Finance Conference, that control of consumer credit does not curb inflation and calls attention to the low ratio of consumer instalment credit to total disposable income. The inflationary effect of consumer credit is not determined by its ratio to total disposable income, but by its rate of expansion, that is, the rate at which new 'credit' dollars become locked into the economy. While consumer disposable income expanded \$1.4 billion from the second quarter to the third quarter of 1950, consumer instalment credit outstanding expanded \$1.2 billion. Thus the expansion of consumer instalment credit added to the buying power of consumers an amount almost as great as the total increase in disposable income. Regulation W was adopted to curb this substantial addition to inflationary pressures by limiting the expansion of consumer purchasing power in the form of credit dollars.

"The statement that Regulation W is discriminatory, and prevents the wage earners and people of limited income from obtaining adequate transportation, is open to serious question. There are millions of good serviceable used cars now providing adequate transportation which at present prices are within the means of almost everyone. The regulation has helped rather than penalized the consumer of moderate income by bringing demand down to a more sustainable level and by helping to prevent further inflation in the economy as a whole.

"Consideration has been given on various occasions to the inclusion of other articles under the regulation. However, items not now listed, such as jewelry, are generally sold on terms well within the present provisions of the regulation. To add them at this time would, in the Board's opinion, place an unnecessarily heavy administrative burden on both the trades involved and on the various Federal Reserve Banks. This question is receiving continuing study, however, and the Board is prepared to place additional articles on the regulated list when such action is in the interests of the defense program.

"The enclosed memorandum was prepared by the Board's staff for the information of the Chairman and members of the Senate Banking and Currency Committee. You may find it useful in answering any further questions you may have.

"We are appreciative of this opportunity to comment on your constituent's letter, and you may be certain that the points raised by your constituent will be carefully considered in the Board's continuing study of the regulation."

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Approved unanimously.

Letter to the Honorable Edward J. Thye, United States Senate,
Washington, D. C., reading as follows:

"This refers to your letter of June 6, 1951, with which you enclosed a letter from Mr. Paul E. Trueman, of Quinn Brothers, Willmar, Minnesota, relative to Regulation W concerning consumer credit.

"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 purpose, and at the same time keep it from being an excessive burden on the people who are subject to it. The provisions of the regulation are constantly under study by the Board with a view toward keeping them adapted to current economic and credit conditions.

"While it is frequently stated that the present fifteen month maximum maturity provision of the regulation makes it impossible for the man of moderate income to purchase an automobile, an analysis of the facts does not support such a contention. Cars, new or used, are available at various prices to meet the budgets of practically all workers who want or need cars, and these cars cost less than they would have in the absence of Regulation W. The regulation has helped rather than penalized the person of moderate or low income. It helps him where he is most in need of help -- in his pocketbook.

"The Board is acutely conscious that current activity in the automobile markets is substantially below the abnormal peak of last summer which was duplicated to a considerable degree in a second buying wave which hit consumer markets in mid-winter. The large volume of sales last December and January occurred despite the fact that the present terms of Regulation W were in effect at that time.

"The Board is also aware that inventories of both new and used cars are above average levels prevailing during the postwar period. The long waiting period imposed on new car purchasers in recent years indicate that inventories were substantially below the normal prewar levels. Current inventories do not appear to be excessive by comparison with those prewar levels, particularly after taking into account the high level of sales during the postwar period.

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"The Board is continually studying the effect of Regulation W in markets for particular regulated articles, and we appreciate the opportunity of commenting on Mr. Trueman's letter, which is returned as requested."

Approved unanimously.

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

"This refers to your letter of June 8, 1951, concerning the status under Regulation W of instalment sale contracts written on a 12-month basis to comply with State law, but involving a balloon payment in the 12th month to be refinanced for an additional period of three months.

"The principles stated in 321 Regulation W Service - W-97 (19) - are not limited to unclassified instalment loans, but are applicable to other regulated instalment obligations as well. They would apply to an instalment obligation for the purchase of an automobile or other listed article.

"While it would be preferable for the 'express agreement' referred to in W-97 (19) to be in writing, a bona fide oral agreement would not cause the transaction to be in violation of the regulation. In any event, however, a Registrant holding such instalment paper should have in his records information indicating in good faith that the transaction in fact complied with the regulation and W-97 (19). As indicated at 806 Regulation W Service - W-70 - the Board does not feel that it is practicable to lay down specific rules as to evidence in cases such as this. The responsibility is that of the Registrant to have in his files evidence to show that the paper he holds subject to Regulation W is in conformity with the regulation."

Approved unanimously.

Letter to the Honorable John J. Riley, House of Representatives, Washington, D. C., reading as follows:

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"This refers to your letter of June 6, 1951, with which you enclosed a telegram from Lester W. Allen, Manager, Boyle Motor Company, of Sumter, South Carolina, relative to Regulation W concerning consumer credit.

"We feel certain you will agree that it is difficult to consider Regulation W and its intended purposes apart from the other monetary and fiscal measures which are directed at reducing serious inflationary pressures. The regulation, of course, is designed specifically to curtail the flow of credit dollars into the spending stream during the present emergency period when the production of consumer goods is gradually being restricted.

"While the Board does not wish to be excessively restrictive in the case of individual articles or industries, in carrying out its responsibilities under the Defense Production Act it must at the same time consider the necessity of curbing the inflationary effect of instalment credit in the interests of the economy as a whole during this period of national emergency.

"As you know, the Board's primary responsibility is concerned with preserving the integrity and soundness of the dollar. Every action it takes must be measured against the broad background of developments in the field of money and credit and meet a test indicating whether such action would add to the inflationary pressures already existent in the economy.

"Today the national income is at an all-time record level. Unemployment is at its lowest point in our peacetime history. Defense expenditures, which now account for less than 10 per cent of total output, are scheduled to rise sharply and may well account for as much as twice that percentage within the next twelve months. Considerable progress has been made in the past few months in stemming the tide of inflation. However, the substantial pressures on our economy resulting from the expanding defense program are still present. At the present time the Board feels that in the light of potential developments during the coming months, the situation does not justify relaxation of the regulation.

"We appreciate this opportunity of commenting on Mr. Allen's telegram."

Approved unanimously.

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Letter to Mr. E. G. Berry, Financial Secretary, Carpenters
Local Union 1971, United Brotherhood of Carpenters and Joiners of
America, Temple, Texas, reading as follows:

"Thank you for your letter of June 8, 1951, regarding the employment situation in the building trades in Temple, Texas. We appreciate learning of such local conditions since one of the primary concerns of the Federal Reserve System is the maintenance of economic stability at a high level of employment.

"In order to understand the present situation, we think you should know that real estate credit restrictions, which were authorized by Congress in the Defense Production Act of 1950, are designed to conserve labor and materials for the national defense program and to aid in combating inflation by restraining the expansion of real estate credit. The requirements of the defense effort must be met by a partial diversion of manpower and resources from normal productive activity. We believe that the volume of defense work will continue to increase and a much stronger effect on employment will be felt later this year.

"Last October when this Board's Regulation X, Real Estate Credit, and similar restrictions of the Federal Housing Administration and Veterans Administration were issued, a volume of about 850,000 housing starts for 1951 was believed to be appropriate. While this would mean a decline of around 40 per cent from 1950's record peak of housing construction, it compares favorably with the other years since the war. As of the end of May about 450,000 dwelling units had been started in the United States thus far in 1951, which except for last year, is at a rate in excess of any recent year.

"In addition to the restrictive effect of Regulation X and its companion FHA and VA restrictions, a factor affecting the current situation is that many financing institutions are fully loaned-up at present. This situation should improve as lenders work off their backlog of commitments and receive new savings and funds from pay-offs.

"We hope this answers the questions you raised in your letter. If we can be of further assistance, please do not hesitate to call upon us."

Approved unanimously.

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

"This refers to your letter of June 8, 1951 to the Board concerning the application of section 6(f) of Regulation X to the Wisconsin State veterans program. We agree that in actual practice the full \$3500 second mortgage probably will be made in most cases. We have no objection, however, to conventional lenders making loans up to the maximum permitted by Regulation X and the State making second mortgages in an amount which brings the total credit to a level no greater than that allowed under the Federal VA program."

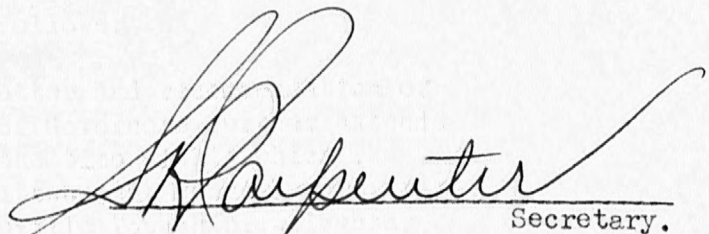
Approved unanimously.

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

"We acknowledge receipt of your letter of June 13, 1951, regarding the application of the Sutton Realty Company of Providence, Rhode Island, for exemption under section 5(g) of Regulation X. This company did not submit its request for exemption until May 18, 1951, long after the expiration date of April 15, 1951.

"We have reviewed the correspondence with the Sutton Realty Company which you enclosed and concur in your conclusions that no basis for exemption exists in this particular case."

Approved unanimously.


Secretary.