Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, July 5, 1951. The Board met in the Board Room at 10:35 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Thomas, Economic Adviser to the Board
Mr. Vest, General Counsel
Mr. Townsend, Solicitor
Mr. Young, Director, Division of Research and Statistics
Mr. Noyes, Director, Division of Selective Credit Regulation
Mr. Sloan, Director, Division of Examinations

In accordance with the understanding at the meeting on July 3, 1951 there was presented a draft of a letter prepared by Mr. Thurston for the Chairman's signature to Senator Maybank, Chairman of the Senate Banking and Currency Committee, presenting the views of the Board with respect to the regulation of consumer instalment credit. The draft was read and discussed and several changes in the text were suggested. It was also suggested that the letter be addressed jointly to Senator Maybank and to Representative Spence, Chairman of the House Banking and Currency Committee.

Following the discussion, it was agreed unanimously that the letter, revised as suggested at this meeting and with such further changes in language

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as were approved by Chairman Martin, should be transmitted to Senator Maybank and Representative Spence, as representing the views of the Board.

Secretary's note: The letter was sent to Chairmen Maybank and Spence over Chairman Martin's signature under date of July 9, 1951 in the following form:

"In accordance with Senator Maybank's telephone call to me on June 29, 1951, and in view of the respective reports of the Banking and Currency Committees of both Senate and House on S. 1717 and H.R. 3871 (bills to amend and extend the Defense Production Act of 1950), the Board of Governors has carefully reviewed and reconsidered Regulation W, dealing with consumer credit, in its relationship to the declaration of national policy as set forth in the Act.

"This declaration of policy reflects the imperative need to maintain our economic strength on which the entire defense effort depends. Our economic strength is founded on preserving the integrity of the dollar, symbolizing as it does the good faith and credit of our country.

"If the Federal Reserve System is to fulfill the purpose for which it was established it must, to the best of its ability, use the means given it by Congress to help protect the value of the dollar. The means at our disposal bear only on the monetary and credit factors in the economy. Important as these factors are they are nevertheless secondary to fiscal considerations. Moreover, such credit restraints as the System can exert under today's conditions have inherent limitations. In combination we believe that they have been effective and salutary in helping to counteract inflationary forces.

"Regulation of consumer credit has been instituted as an anti-inflationary emergency measure on three separate occasions; first by Executive Order in 1941 and twice subsequently by action of Congress. It has inherent limitations and defects as a means of credit restraint. It affects only one segment, though an increasingly important segment, of the credit structure. The present regulation is focused on consumer instalment credit because of its volatility and hence its possible unstabilizing effects on the economy. This limits its application to

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"roughly about half of the current outstanding total of $19 billions of consumer credit. Unlike broad, general credit measures (open market operations, discount rates, and reserve requirements) Regulation W directly imposes specified terms upon individual transactions in the regulated area. Therefore, it has aroused widespread opposition, as the hearings before your Committees eloquently testify, especially from dealers in automobiles and other major durable goods and from some finance companies and other lenders. When civilian demand for the regulated articles greatly exceeds supply, the opposition is tempered because sales are readily made at the prescribed terms. When this demand abates, for whatever reason, the regulation appears to many to be the immediate cause.

"We are in such a period, and it is natural that the regulation and we who now have the unpleasant task of administering it should seem to those who testified in your Committees to be needlessly thwarting business. The report of the Banking and Currency Committee of the House refers to us as 'intractable' and as 'unduly harsh and unyielding in administering consumer credit controls....' The report of the Senate Committee admonishes us to be more 'flexible', recalling that we have often made much of the virtue of flexibility in adjusting this regulation to changed economic conditions. Some of the witnesses before you concluded that what seemed to them to be our intransigence could only be accounted for because we live in an 'ivory tower' remote from the real world. Many witnesses before both Committees have pointed to the accumulations of inventories of various articles and have contended that if we mean what we have said in our protestations of flexibility we should promptly relax the terms of the regulation with a view to facilitating disposal of these stocks of goods.

"That this viewpoint appealed to the Senate Committee as reasonable is evident from the statement in its report that 'the Board of Governors of the Federal Reserve System should be sufficiently flexible to permit relaxation or tightening of the regulations in accordance with the conditions prevailing in the respective segments of the economy to which the regulations apply. Specifically, it is your Committee's view that relaxation of the control regulations should be promptly effected when it becomes evident that accumulations of inventories seriously threatens to impede production with resulting unemployment in the industry affected.'

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"Accordingly, the Senate Committee introduced into the pending legislation 'a statutory requirement that no more than one-third down payment and not less than 18 months for completion of deferred payments shall be prescribed by the Board of Governors of the Federal Reserve System for installment purchases of automobiles....'

"The House Committee went still further by introducing into the bill pending before them statutory restrictions as follows: 'New automobiles, one-third down, 18 months' maturity; used automobiles, one-fourth down, 18 months' maturity; household appliances (including phonographs, radios and television sets), 15 per cent down, 18 months' maturity; household furniture and floor coverings, 10 per cent down, 21 months' maturity; residential repairs, alterations and improvements, 10 per cent down, 36 months' maturity.'

"A further provision in the House bill, which would present insuperable administrative difficulties, would require 'that the Board shall recognize freight costs on automobiles and make due allowance by extending amortization periods to equalize as nearly as practical monthly payments throughout the United States and its Territories.'

"It is apparent that a profound difference exists in the criteria by which this regulation is judged and administered. The Board has reviewed at length the many aspects of this matter. It seems to us that those who are so vigorously opposing the regulation in its entirety or in its present form are judging the regulation or its terms by one standard -- while we, who have the problem of fixing terms and administering and enforcing them, are judging the regulation by an entirely different standard.

"The introduction into the proposed bills by both Committees of statutory restrictions on terms, and more particularly the statement in the report of the Senate Committee that inventory accumulation should be the test for determining when to relax the terms of the regulation, reflect this basic difference in the yardsticks, so to speak, by which the regulation is being measured.

"The Board freely admits that it has failed to impress sufficiently upon many who are directly affected by the terms of the regulation, that the principal yardstick by which we have continued to appraise the regulation measures its effect on the overall supply of credit and the soundness of the credit structure. We have no other reason for being concerned with the regulation. The Reserve System's fundamental task, under

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"the law, is that of influencing, so far as the means at its disposal permit, the availability of credit. In a period of general inflation the task calls for doing what we can to limit the availability of credit. Conversely, in a period of general deflation the task calls for making credit readily available. That is the objective of System policy with respect to the exercise of its broader, traditional means of affecting the supply of credit, such as open market operations, discount rates, and reserve requirements. Since the great bulk of our money supply is bank credit, and since the banking system creates new supplies of money when it extends credit, our concern with consumer instalment credit is its bearing upon the overall supply of money.

"The appropriateness of a given set of terms at any particular juncture is, of course, a matter of judgment on which opinions may honestly differ. In arriving at terms the Board tries to give consideration to all relevant factors, including the inventory situation. The ultimate test of the regulation, however, is its impact on the credit structure. By that test we think that the regulation has exerted a restraining influence that we believe it was intended to exert. This is evidenced by the fact that consumer instalment credit outstanding at the end of May is estimated at $12.9 billion as contrasted with $13 billion on August 31, 1950, just prior to the reimposition of the regulation. In the comparable 1949-1950 period, the outstanding volume of this type of credit increased by $2.1 billion.

"In striving to weigh all of the facts and factors involved in this controversial but comparatively subordinate means of affecting the credit supply, we have been unable to come to any other conclusion than that, judged by the yardstick of the supply of credit requisite for the defense effort and the civilian economy, we could not justify liberalizing the terms of this regulation at a time when upward pressures on prices, even though abated at present, threaten to re-emerge irrespective of Korean developments. Judging by the present size of the money supply and its potential expansion in volume or velocity, or both, we do not feel that we could justify an action, even on the subordinate front of consumer instalment credit, that would announce, in effect, that we believe the inflationary danger is no longer present. We do not believe that we should, by such

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"an action, encourage the general public to incur more consumer instalment debt which would be financed ultimately by further expansion of bank credit. This is not a type of credit which is directly essential for national defense.

"If we are wrong in our appraisal of the longer-term outlook we are erring on the side of safety. Whenever that appraisal changes, the same reasoning which leads us to believe that we should hold the line at this time would require immediate relaxation of existing terms or perhaps dropping of the regulation altogether. It is, as we have indicated, an emergency anti-inflationary measure. It is inappropriate to a period of general deflation. If our considered conclusion at this time were different we would feel that the policy of credit restraint should be replaced by one of ease with respect not only to Regulation W but also to open market policy, discount rates, and bank reserves, as well as stock market and real estate credit. Similarly, we would feel that the nationwide program for voluntary credit restraint was no longer in order. Our conclusion to the contrary seems to be borne out by both Senate and House Committee reports which make it clear that a program of general credit relaxation at this time would not be in the public interest.

"These considerations, which govern our policy, seem far removed from the very real problems immediately confronting various trades subject to the regulation. However, what may appear to be conflicting interests are not, in fact, separable. If we failed in our obligation to do what we can to avert the ravages of inflation, and thus give those who would destroy our nation a cheap and easy victory, the businesses which sincerely feel discriminated against by this regulation would rightly condemn us.

"We do not wish to exaggerate the importance of this regulation. We are not prepared to say at this time that even if the Congress decided to abolish it altogether the consequences would be grave. We have said, and we believe, that it is a desirable, supplementary measure of credit restraint in a time of inflationary danger. As an anti-inflationary measure it would be meaningless, and better discarded, if it failed to restrain credit. We wish to emphasize that, so long as the regulation is authorized by the Congress as a means of credit restraint we think we should administer it on the basis we have indicated.

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"A very different situation would be presented if the Congress were now to continue the regulation under different terms of reference. The criterion of inventory accumulation and the attempt to differentiate between segments of the economy affected by the regulation would, in our judgment, transform an instrument of credit restraint into one that would place the principal emphasis upon quite different considerations. We think they would be incompatible with the objectives of effective credit restraint if such a regulation is to contribute to that end in a period of intense inflationary pressures. The proposed statutory restrictions limit the extent to which terms of the regulation might be tightened but would not, of course, limit the easing of terms. If the restrictions did both we would view the regulation in the light of one to set national standards for this type of credit or to deal with what might be termed trade practices. In either case, it would be difficult to think of the regulation as a flexible instrument to supplement traditional central banking measures designed to adjust the credit supply to the changing requirements of the economy.

"We feel very strongly that if this type of regulation is to be continued with terms conditioned, for example, upon inventory accumulation or employment in affected industries, it should be clearly understood that it is no longer related primarily to the end of credit restraint.

"From the standpoint of restricting -- it does not, of course, prohibit -- consumer instalment credit, we question whether the present terms of the regulation are as serious a factor in the immediate problems confronting certain trades or financing institutions as their representatives and spokesmen no doubt sincerely believe. A relaxation of present terms, as would be specified in the bills before the Congress would, of course, serve to test the validity of that assumption. Viewed from this narrower standpoint and disregarding the broader considerations of general credit policy, it might well be concluded that we should initiate the indicated relaxations. We cannot consistently take that course. It is our view that if the present terms are in fact as serious a sales deterrent as has been contended, then the statutory easing of the maturities by only three months, as proposed in S. 1717, would hardly be sufficient to bring the hoped for relief. Following this line of reasoning, we think it would be more logical to drop the regulation altogether, but we would not wish to be understood as favoring that action at this time.

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"Finally, we wish to emphasize that we would welcome an opportunity to discuss further with your Committees the question of the role that such a regulation should play in the present emergency. If it is to serve as a supplementary means of restraining over-expansion of credit, we would strongly urge the elimination of the proposed statutory limitations, regardless of where the administrative responsibility is lodged. If it is to be governed by other considerations, then we would like to have an opportunity to discuss with the Committees whether such a regulation should not be administered by some agency of Government whose functions are more nearly related to such considerations than are those of the Federal Reserve System.

"The subject of the future of this regulation would not warrant such an extensive letter but for the fact that the Committees dealing with the legislation have been most seriously concerned about it, as we have, and the Board wished to set out fully and frankly its views and the considerations which govern them. Moreover, it is important to all those affected by this regulation, whether as sellers or buyers of goods or as financing institutions, to have these questions resolved as rapidly as possible consistent with the national interest. That is your aim, as it is ours.

"In the course of debate in Congress on this subject it was stated that the action of the respective committees constituted what was termed a 'mandate' to relax the terms of the regulation. For this as well as other reasons we felt that we should communicate to the Committees the foregoing views of the Board as early as possible during the 31-day period for which the Congress extended the Act under which the present regulation is authorized. We earnestly wish at all times to help, not hinder, production for defense and for essential civilian requirements. It is hardly necessary for us to add that the Federal Reserve System, which Congress created and can abolish, will carry out to the best of its ability any mandate of the Congress."

Mr. Powell stated that the Comptroller of the Currency had proposed that the three Federal Bank supervisory agencies agree on a joint statement of policy for the emergency period with respect to the possible inflationary effects of bank mergers in cases in which the stockholders of the

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merged bank are paid for their stock in cash. He said that the Comptroller had also proposed that the three supervisory agencies agree on a restrictive policy with respect to the chartering of new banks and approval of establishment of new branches on the basis that as the number of banking offices is increased the likelihood of inflationary loans also increases. Mr. Powell went on to say that although he did not wish to present the matters formally to the Board at this time he would appreciate learning the views of the Board since he had been invited to meet this afternoon with Comptroller Delano and with Mr. Harl, Chairman of the Federal Deposit Insurance Corporation, at which time these matters would be discussed.

Regarding the matter of bank mergers, Mr. Powell referred to the provisions of section 18(c) of the Federal Deposit Insurance Act, as amended, which provide that no State member bank shall merge or consolidate if the capital stock or surplus of the resulting or assuming bank will be less than the aggregate capital stock or aggregate surplus, respectively, of all the merging or consolidating banks, unless the Board of Governors shall have given its prior written consent. He stated that he and members of the staff had considered the desirability of a statement of policy for the emergency period which would point out that the paying out of cash in such mergers was inflationary in addition to the fact that the procedure resulted in a dilution of capital. He went on to say that while the Comptroller of the Currency was understood to

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favor such a statement, he would restrict its distribution to his chief examiners, and that the Federal Deposit Insurance Corporation had agreed with this position. Mr. Powell added that it was his feeling and that of the Board's staff, however, that any statement which might be agreed upon should be given to the Reserve Banks for transmission to member banks at their discretion, in order that banks contemplating mergers under conditions which would require the approval of the Board might be aware of the policy before taking steps to effect the merger.

Reviewing the background of the matter, Mr. Sloan stated that at Mr. Powell's request he had discussed the paying out of bank capital with Mr. Robertson, Deputy Comptroller of the Currency, and Mr. Sailor, Chief of the Division of Examination of the Federal Deposit Insurance Corporation, separately, at which time he submitted to them copies of a draft of proposed joint statement of policy. Mr. Sloan read the draft of statement after which he stated that following his conversation with Mr. Sailor the draft was approved by the Federal Deposit Insurance Corporation with the understanding that it would be made public, but later Mr. Robertson prepared a longer statement and suggested that it be adopted by the three supervisory agencies with distribution limited to the chief field examiners of the Office of the Comptroller and the Federal Deposit Insurance Corporation and to the Federal Reserve Banks. Mr. Sloan said he informed Mr. Robertson that the draft had been approved by the Federal Deposit Insurance Corporation directors but that Mr. Robertson, after conferring with Messrs. Delano and Harl, later informed him that

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they favored the longer statement, with restricted distribution, in view of the fact that the policy might be rescinded at a later date.

Mr. Vardaman stated the reasons why he would object to the adoption by the Board of a statement of the kind read by Mr. Sloan, adding that in his opinion the Board should not indicate to member banks that capital should not be paid out in cash in mergers so long as they complied with statutory provisions and that he perceived nothing in section 18(c) of the Federal Deposit Insurance Act which would warrant the adoption by the Board of a policy such as that proposed by the Comptroller of the Currency. In the circumstances, Mr. Vardaman said, he would suggest that no commitment be made by the Board pending discussion at a meeting of the full Board, adding that he would have no objection, however, to discussion with Messrs. Delano and Harl of a restrictive policy with respect to chartering of new banks and approval of branches.

Mr. Powell stated that he had brought the matter to the attention of the Board at this time so that he might have a preliminary discussion of the proposals before he met with Messrs. Delano and Harl, and that he would expect to report on further developments at a subsequent meeting.

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:

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Minutes of actions taken by the Board of Governors of the Federal Reserve System on July 3, 1951, were approved unanimously.

Memoranda from Mr. Young, Director, Division of Research and Statistics, recommending increases in the basic annual salaries of the following employees in that Division, effective July 8, 1951:

Date of Memorandum and Name	Title	Salary Increase From	To
6/29/51 Doris McTeer	Clerk-Stenographer	$2,730	$2,875
7/2/51 Philip M. Webster	Economist	3,825	3,950

Approved unanimously.

Memorandum dated June 29, 1951, from Mr. Bethea, Director, Division of Administrative Services, recommending increases in the basic annual salaries of the following employees in that Division, effective July 8, 1951:

Name	Title	Salary Increase From	To
William Hyde	Sergeant, Guard Force	$3,060	$3,140
Hiram J. Roush	Guard	2,450	2,530
Margaret Henn	Page	2,360	2,440
Philip D. Faber	Supply Clerk	2,850	2,930
Dorothy R. Mosher	Charwoman	2,260	2,330

Approved unanimously.

Memorandum dated June 29, 1951, from Mr. Boothe, Assistant Director, Division of Selective Credit Regulation, recommending the appointment of Oliver Hastings Jones, Jr., as an Analyst in that Division, on a temporary indefinite basis, with basic salary at the rate of $4,600 per annum, effective as of the date upon which he enters upon

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the performance of his duties after having passed the usual physical examination and subject to the completion of a satisfactory employment investigation.

Approved unanimously.

Memorandum dated July 2, 1951, from Mr. Bethea, Director, Division of Administrative Services, recommending that Mrs. Mary F. Murphy, Elevator Operator in that Division, be transferred to the position of Clerk, with an increase in her basic salary from $2,260 to $2,450 per annum, effective July 16, 1951.

Approved unanimously.

Memorandum dated June 26, 1951, from Mr. Thomas, Economic Adviser to the Board, and Mr. Young, Director, Division of Research and Statistics, recommending that the Board authorize the publication in pamphlet form of "The Development of Bank Debits and Clearings and Their Use in Economic Analysis", by George Garvy, a member of the staff of the Federal Reserve Bank of New York. The memorandum recommended (1) that the report be printed by letter-press and bound, with separate paper cover, in format similar to that used in the series of "Postwar Economic Studies"; (2) that the initial printing be held to 2,000 copies and the Board authorize reprinting from time to time in multiples of 1,000 in response to continuing demand; (3) that the same policy of complimentary distribution followed for the first two of the System

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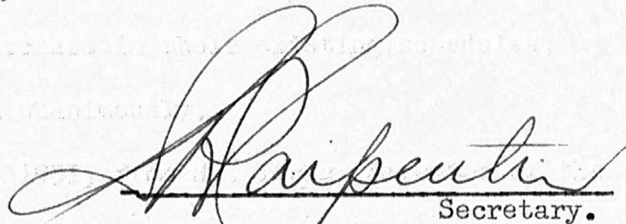
technical studies be adopted; and (4) that the pamphlet be sold for 25 cents for single copies and 15 cents each for 10 or more copies to be sent in one shipment. The memorandum also recommended that the printing and binding account of the 1951 budget of the Division of Research and Statistics be increased by the cost of printing the initial 2,000 copies of the pamphlet, estimated at $2,900, and later by the cost of any reprints which may become necessary in 1951.

Approved, Mr. Vardaman voting "no".



Secretary.

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