

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, September 4, 1951. The Board met in the Board Room at 10:30 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Vest, General Counsel
Mr. Townsend, Solicitor
Mr. Noyes, Director, Division of
Selective Credit Regulation
Mr. Allen, Director, Division of
Personnel Administration
Mr. Garfield, Adviser on Economic Research,
Division of Research and Statistics
Mr. Solomon, Assistant General Counsel
Mr. Youngdahl, Chief, Government Finance
Section, Division of Research and
Statistics
Mr. Leach, Economist, Division of
Research and Statistics

Mr. Youngdahl reported on recent developments in the Government securities market.

Mr. Powell entered the meeting during discussion of Mr. Youngdahl's report, and at the conclusion of the discussion Messrs. Youngdahl and Leach withdrew from the meeting.

Mr. Evans stated that in accordance with the discussion at the meeting of the Board on August 28, he and Messrs. Townsend and Noyes of the Board's staff met in executive session with the Joint Committee on

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Defense Production provided for in the Defense Production Act on August 29, that the Committee was very interested in knowing how appliance dealers were evading the down-payment requirements of Regulation W, Consumer Credit, by advertising that an old appliance was all the down payment required in connection with the purchase of certain listed articles. Mr. Evans said that the Committee members were emphatic in stating that the intent of the recent amendment to the Defense Production Act was not to eliminate the down-payment requirement but to provide that credit given for articles traded in would represent the reasonable value of such articles. During the discussion, he said, he indicated to the members of the Committee that the matter would be taken up with members of the trade with a view to eliminating objectionable practices. In this connection, Mr. Evans referred to press reports concerning possible legislation relating to advertising terms and stated that the information obtained by the press was released by the Joint Committee on Defense Production following his meeting with it on August 29.

Mr. Evans went on to say that following the meeting with the Committee he wrote to Mr. R. D. Siragusa, President, Admiral Corporation, Chicago, Illinois, Mr. Gwilyn A. Price, President, Westinghouse Electric Corporation, Pittsburgh, Pennsylvania, and Mr. William Balderston, President, Philco Corporation, Philadelphia, Pennsylvania, stating that the Board's attention had been directed to certain advertising dealing with

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terms and conditions of instalment financing which had apparently been sponsored by their companies on an extensive basis since the adoption of the Defense Production Act amendments of 1951, that he would like to discuss the matter with them or the officer responsible for the company's advertising policy, and that he would appreciate it if either the president of the firm or the officer concerned could meet at the Board's offices at 2:30 p.m. on Thursday, September 6, 1951. Mr. Evans said that his letter also stated that so far as he was concerned this would be a closed meeting and there would be no publicity concerning it. He added that a draft of an interpretation which might be issued in connection with trade-in allowances had been prepared by the Legal Division, that at Senator Maybank's suggestion this draft had been cleared informally with members of the staff of the Joint Committee on Defense Production, that they had no changes to suggest in it, that he expected to discuss the draft with the above-mentioned representatives of the trade when they met with him on Thursday of this week, and that he would recommend that the interpretation be issued subsequent to that meeting in a form similar to the draft that had been prepared.

Mr. Evans' recommendation was approved unanimously.

Mr. Norton joined the meeting at this point.

Before this meeting there had been circulated among the members of the Board a draft of letter to Mr. George C. Brainard, Chairman, Board of

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Directors, Federal Reserve Bank of Cleveland, Cleveland, Ohio, and a memorandum from the Division of Personnel Administration dated August 28, 1951, with respect to payment of salaries to officers at the Cleveland Bank.

Upon motion by Mr. Norton, unanimous approval was given to the letter to Mr. Brainard in the following form:

"The Board of Governors approves the payment of salaries to the officers named below at the rates indicated for the period September 1, 1951, through April 30, 1952.

"These rates, according to your letter of August 10, were approved by the Board of Directors on August 9, 1951.

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
<u>Main Office</u>		
W. T. Blair	Vice President, Counsel, and Secretary	\$11,500
R. R. Clouse	Vice President	12,000
A. H. Laning	Vice President and Cashier	13,500
M. Morrison	Vice President	13,000
F. C. Stetzelberger	Vice President	12,000
D. S. Thompson	Vice President	15,000
H. E. J. Smith	Assistant Vice President	10,500
C. J. Bolthouse	Assistant Cashier	9,000
E. V. Denton	Assistant Cashier	7,000
P. B. Didham	Assistant Cashier	8,500
G. H. Emde	Assistant Cashier	9,500
J. R. Lowe	Assistant Cashier	9,000
J. M. Miller	Assistant Cashier	9,000
G. R. Ross	Assistant Cashier	8,300
H. M. Boyd	Chief Examiner	9,500
H. B. Flinkers	Assistant Secretary	7,200
C. F. Ehniger	Auditor	11,500
L. M. Hostetler	Manager, Research Department	10,000
<u>Cincinnati Branch</u>		
W. D. Fulton	Vice President	15,500

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<u>"Name</u>	<u>Title</u>	<u>Annual-Salary</u>
H. N. Ott	Cashier	\$11,500
P. J. Geers	Assistant Cashier	9,500
Clyde Harrell	Assistant Cashier	9,500
R. G. Johnson	Assistant Cashier	9,500
<u>Pittsburgh Branch</u>		
J. W. Kossin	Vice President	16,500
A. G. Foster	Cashier	12,500
W. H. Nolte	Assistant Cashier	8,500
J. R. Price	Assistant Cashier	8,000
J. A. Schmidt	Assistant Cashier	9,500
R. J. Steinbrink	Assistant Cashier	9,000

"It appears that these increases come under Section 8 of General Regulation No. 1 of the Salary Stabilization Board and, therefore, should be reported, along with the essential facts and the method of calculation, to the Office of Salary Stabilization within ten days of their effective date."

Messrs. Marget, Director, Division of International Finance, Grove, Chief, Latin American Section, Division of International Finance, and Olson, Economist, Latin American Section, Division of International Finance, joined the meeting at this point. Messrs. Grove and Olson reported on their mission to Paraguay earlier this year for the purpose of assisting in the preparation of central banking legislation for that country.

Mr. Vardaman joined the meeting during the report by Messrs. Grove and Olson and at its conclusion all members of the staff withdrew and the Board went into executive session.

Following the executive session Chairman Martin reported to the Secretary that the following memorandum, prepared by Mr. Norton under date of July 27, 1951, was presented during the executive session and that there was unanimous agreement with the conclusions reached in the memorandum

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that the present arrangement for auditing the Board's books and accounts was satisfactory and that an audit by a firm of certified public accountants was not necessary:

"At the meeting of the Board on July 19, 1951, it was suggested that we be requested to give some thought to, and report back to the Board on, the advisability of employing a firm of certified public accountants to audit the books of the Board as of December 31, 1951.

"Since the passage of the Banking Act of 1933 the Board's books and accounts have been audited by the auditor of a Federal Reserve Bank. This assignment has been rotated among different Federal Reserve Banks and during the period the arrangement has been in effect audits have been made by auditors from the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, and Chicago. Under the present arrangement, the accounts are audited as of December 31 of each year and a 'surprise' audit is made during the course of the year as of whatever date the auditor determines. The audits for the current period are being made by the auditor for the Federal Reserve Bank of Boston and this assignment will terminate after the audit is made as of December 31 of this year.

"After consideration, we have reached the following conclusions:

1. Present plan seems satisfactory.
2. Estimated cost of proposed audit would be approximately \$3,000.00.
3. If any member of the Board thinks that the expense would be justified, then we would recommend that Price, Waterhouse & Co. be employed to make the audit."

Minutes of actions taken by the Board of Governors of the Federal Reserve System on August 28, 1951, were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on August 29, 30, and 31, 1951, were approved and the actions recorded therein were ratified unanimously.

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Letter to Mr. Pondrom, Vice President and Cashier of the Federal Reserve Bank of Dallas, reading as follows:

"In accordance with the request contained in your letter of August 27, 1951, the Board approves the designation of the following as special assistant examiners for the Federal Reserve Bank of Dallas:

C. F. McGee
Hoyt McCormick"

Approved unanimously.

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

"In accordance with the request contained in your letter of August 27, 1951, the Board approves the appointment of Don Lee Burton as an assistant examiner for the Federal Reserve Bank of Cleveland. Please advise us of the date upon which the appointment becomes effective and also as to salary rate."

Approved unanimously.

Letter to Mr. Slade, Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"In accordance with the request contained in your letter of August 28, 1951, the Board approves the designation of Robert C. Johnsen as a special assistant examiner for the Federal Reserve Bank of San Francisco."

Approved unanimously.

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

"In accordance with the request contained in your letter of August 28, 1951, the Board approves the appointment of Lee J. Aubrey, Daniel Aquilino, and William F. Flanders

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"as assistant examiners for the Federal Reserve Bank of Boston. Please advise us of the dates upon which the appointments are made effective."

Approved unanimously.

Letter to Mr. R. J. Saulnier, National Bureau of Economic Research, Inc., W. 254 Street and Independence Ave., New York, New York, reading as follows:

"In accordance with the request contained in your letter of August 15, the Board releases for inclusion in your final study the data on industrial advances and commitments under Section 13b of the Federal Reserve Act forwarded to you on June 11, 1951.

"We are not interested in 'full credit to the Board of Governors in the appropriate form', but would appreciate the opportunity of reviewing prior to publication the proposed form in which the data is to be published."

Approved unanimously.

Letter to Mr. Raymond P. Whearty, Chairman, Interdepartmental Committee on Internal Security, Department of Justice, Washington, D. C., reading as follows:

"Your letter of August 7, 1951, file ICIS-P67/1, directed to Mr. William McChesney Martin, Chairman, Federal Reserve System, has been referred to this office for reply. The questions in your letter have been answered in order.

1. We have not had occasion to discharge an employee as a poor security risk.

2. Employment of poor security risks has consistently been refused by the Board. However, in this respect no formalized procedure has ever been necessary. The Division of Personnel Administration has been designated by the Board as the unit to conduct the necessary investigation of new employees. In cases where investigation has revealed an applicant to be a poor security risk, informal

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"negotiation with the division planning to recommend the individual for employment has resulted in the recommendation not being made.

"3. Determination as to the discharge of an employee for security reasons, or the refusal of employment of a person for security reasons, would ultimately rest with the Board of Governors as a body.

"Inasmuch as the Board of Governors has designated the Division of Personnel Administration as its investigation unit, recommendation with respect to refusal of employment or discharge would rest with the Director of the Division of Personnel Administration, Mr. Dwight Allen, Code 132, extension 433, to whom reference should be made regarding such matters. Under the employees' loyalty program the Division of Personnel Administration is required to make a pre-employment investigation of all applicants being considered for specific positions on the Board's staff. This includes a check by letter or personal contact with personal references, schools, colleges, and previous employers.

"Upon appointment, further investigation is conducted which includes a check of the F.B.I. files, a fingerprint check, Master Index of C.S.C., reference files of C.S.C., other governmental security files where indicated and files of the Un American Activities Committee. Also check is made of local law enforcement agencies where the individual lived or worked previously.

"In any instance where a question of loyalty is raised, the case is adjudicated under provision of E. O. 9835.

"4. There has been only one position formally designated as sensitive, requiring a pre-employment loyalty check, that of an Economist in the Russian area of our Division of International Finance.

"5. A sensitive pre-appointment loyalty check was made in the one case mentioned above. A full field investigation by the F.B.I. was obtained prior to employment.

"6. (a) In the one case shown, designation was made by the Director of the Division of International Finance in conjunction with the Director of the Division of Personnel Administration. At this time we are in the process of survey within each division to determine just which positions should be designated sensitive. It will be incumbent upon each division director in collaboration with the Director of the Division of Personnel Administration to recommend

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"such designations to the Board. This survey is not so much concerned with the pre-appointment loyalty check, as in only extremely rare instances would a person be employed directly into a sensitive position and thus necessitate a pre-employment check; but primarily to ascertain just which employees will be called upon to handle material in the higher designate classification, so that a full field investigation may be ordered through the Civil Service Commission in line with the Departmental Circular, No. 663.

"(b) Reference is again made to the Director of Personnel Administration as he would share in the recommending of the designation of any such position."

Approved unanimously.

Memorandum dated September 4, 1951, from Mr. Townsend, Solicitor, recommending for the reasons stated in the respective memoranda that the following matters involving registrants under Regulation W, Consumer Credit, be referred to the Department of Justice for the institution of such criminal proceedings as that Department might deem appropriate: Robert Mattlin, doing business as The Music Shop, 13560 Euclid Avenue, East Cleveland, Ohio; Teal Bros., Inc., Detroit, Michigan; Rosen's, Inc., Baltimore, Maryland; W. H. Brandbo, doing business as Brandbo Motors, and Clyde Fitz and Blanche E. Fitz, doing business as Northwest Finance Company, Hamilton, Montana.

Approved unanimously.


Secretary.