

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, December 4, 1951. The Board met in the Board Room at 2:30 p.m.

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

Mr. Carpenter, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Thurston, Assistant to the Board
 Mr. Riefler, Assistant to the Chairman
 Mr. Thomas, Economic Adviser to the Board
 Mr. Leonard, Director, Division of Bank Operations
 Mr. Vest, General Counsel
 Mr. Townsend, Solicitor
 Mr. Young, Director, Division of Research and Statistics
 Mr. Noyes, Director, Division of Selective Credit Regulation
 Mr. Allen, Director, Division of Personnel Administration
 Mr. Sloan, Director, Division of Examinations
 Mr. Solomon, Assistant General Counsel

Mr. Charles T. Fisher, Jr., President of the National Bank of Detroit, Detroit, Michigan, who was serving as Special Consultant to the Board, also was present.

Before this meeting there had been in circulation to the members of the Board a memorandum dated October 31, 1951, from the Division of Personnel Administration with regard to a letter dated October 29, 1951, from Mr. Clark, First Vice President of the Federal Reserve Bank of Atlanta, requesting approval of the payment by that Bank to the beneficiary

12/4/51

-2-

of Mr. Joel B. Fort, Jr., former Vice President and Manager of the Nashville Branch, who died on October 17, of an amount equivalent to 27 days accrued vacation leave standing to Mr. Fort's credit at the time of his death. The memorandum from the Division of Personnel Administration stated that in response to an inquiry received in 1949 from the Federal Reserve Bank of Chicago as to whether it could pay vacation leave accrued by an officer at the date of his death, the Board replied on September 2, 1949 that in view of the payment equal to one year's salary under the provisions of the Retirement System of the Federal Reserve Banks, it felt that to make additional payments for vacation due would represent a duplication. The memorandum expressed the view, however, that because of the substantial additional amount which Mr. Fort's beneficiary would have received had he lived until November 1, 1951, the effective date of the System group life insurance contract, the circumstances were such as to justify in this particular case approval by the Board of the payment proposed by the Atlanta Bank. Mr. Powell had requested that the matter be considered at a meeting of the Board.

In response to a question by Chairman Martin, Mr. Allen stated that the Division of Personnel Administration favored approval of the payment not only for the reason set forth in the memorandum but because of the fact that, as stated in Mr. Clark's letter, the earned vacation represented an accrual that would have been paid to Mr. Fort had he resigned from the Bank.

12/4/51

-3-

Mr. Powell said that he would not favor the payment because to do so would violate the position previously taken by the Board in similar cases and because the amount of money involved in this instance did not seem large enough to warrant a change in that policy. He pointed out that Mr. Fort's beneficiary would receive an amount equivalent to one year's salary under the active service death benefit provisions of the Retirement System, and if Mr. Fort had participated in the contributory group life insurance policy carried by the Federal Reserve Bank of Atlanta at the time of his death, his beneficiary also would receive the amount for which he was insured. Mr. Powell went on to say that he would not favor making an exception to the Board's general policy in the case of any one individual, and that if the Board desired to establish a precedent of approving the payment of salary after death, all of the Federal Reserve Banks should be so advised.

There ensued a general discussion, during which the opinion was expressed that it would not be logical to approve a request of this nature merely because, had Mr. Fort lived, additional benefits would have accrued to his beneficiary at a subsequent date.

Thereupon, unanimous approval was given to a letter to Mr. Clark in the following form:

"The Board of Governors has considered the request contained in your letter of October 29, 1951, that the salary equivalent of the earned vacation due Mr. Joel

12/4/51

-4-

"Fort at the time of his death be paid to his beneficiary.

"The Board feels its present policy of not approving payments in lieu of vacation when an employee or officer dies in active service should not be changed at this time."

During the preceding discussion Mr. Sherman, Assistant Secretary, joined the meeting, and at its conclusion Mr. Allen withdrew.

Prior to this meeting there was sent to each member of the Board a copy of a memorandum dated December 3, 1951, from Messrs. Young and Noyes reviewing the experience of the Federal Reserve System in administering Regulation W, Consumer Credit, and Regulation X, Real Estate Credit. The memorandum had been prepared pursuant to the understanding at the meeting of the Board on November 13, 1951 that a discussion of the policy to be followed with respect to the regulations would be held at a time when all of the members of the Board could be present. After an appraisal of the apparent effects upon the respective fields of credit governed by the two regulations, the memorandum listed factors favorable and unfavorable to Federal Reserve administration of consumer and real estate credit regulations and concluded (1) that it was in the broad interest of the Federal Reserve System to continue such regulations in effect under present authority and (2) that the Board should encourage a request for extension of regulatory authority beyond the present expiration date (June 30, 1952) and for restoration of authority to use these instruments flexibly as changing financial and economic conditions might indicate.

At the request of Chairman Martin, Mr. Young commented briefly

12/4/51

-5-

on the memorandum and stated that the views expressed therein reflected a feeling on the part of the staff, after having appraised the effects of the regulations and studied current and prospective economic conditions, that continuance of the regulations over the foreseeable future would be justified. He then spoke of a meeting which he had attended yesterday afternoon with representatives of the Council of Economic Advisers, the Bureau of the Budget, and the Department of the Treasury, at which the Assistant Director of the Bureau of the Budget reviewed prospects for Government expenditures including the military budgets. He said it was the general feeling that the defense program was in a fluid state, with much pressure likely, if international conditions warranted, for a heavy armament program which might pose serious problems from the standpoint of inflationary consequences.

During the course of Mr. Young's remarks, Mr. Vardaman joined the meeting.

Chairman Martin stated that the discussion of consumer credit and real estate credit was being held pursuant to a suggestion made by Mr. Vardaman at the meeting of the Board on November 13, and called upon Mr. Vardaman for comments.

Mr. Vardaman said that he had received the memorandum from Messrs. Young and Noyes only yesterday morning and had not yet had an opportunity to analyze it thoroughly, but that it was his initial impression that it constituted a defense of Regulations W and X and their administration by

12/4/51

-6-

the Board, rather than an objective study. He said that it continued to be his position that the importance of Regulation W was being over-emphasized and exaggerated and that the damage accruing to the prestige of the Board through its administration of both the consumer and real estate credit regulations more than offset any good which had been accomplished. Mr. Vardaman went on to say that if the Board should request renewal of the authority to regulate consumer and real estate credit and such authority should be granted he would support the regulations as long as they continued in effect, but that he did not favor selective credit controls and felt that the Board should give consideration to recommending that the regulations be discontinued. Mr. Vardaman stated further that if the desirability of exercising controls over consumer and real estate credit in times of national emergency were conceded, it would nevertheless be his recommendation that the regulation of real estate credit be delegated to the Housing and Home Finance Agency and that the regulation of consumer credit, at least as far as enforcement was concerned, be assigned to some agency such as the Federal Trade Commission, although the Board might be given authority to make recommendations with respect to administration of the regulations. He felt that the presence of the selective credit regulations hampered the Board in its exercise of general credit controls, that the Board should not be assigned the task of administering any temporary regulations, and that the administration of selective credit controls tended toward confusion as

-7-

12/4/51

to the responsibilities of the Board in the eyes of the public. Mr. Vardaman also expressed the opinion that the Board's activities in connection with Regulations W and X might have accounted for the reluctance of Congress to approve other legislation desired by the Board. He added that he continued to doubt the accuracy of the consumer credit statistics compiled by the Board's staff and, reverting to his previous comment on the memorandum submitted by Messrs. Young and Noyes, suggested that without implying any criticism of the staff the Board employ outside economists to make an independent study of the consumer and real estate credit regulations in order to afford the Board a well-rounded picture. In the circumstances, Mr. Vardaman said, the Board could not avoid an extension of the authority over consumer and real estate credit.

In commenting with respect to some of the points raised by Mr. Vardaman, Chairman Martin said that, in his opinion, a division of responsibility for regulation of consumer or real estate credit between the Board and another agency would not work out in practice, and that the refusal of Congress to grant the Board various authorities which it had requested could be attributed to reasons other than its handling of Regulations W and X. He also stated that every effort should be made to insure the accuracy of the Board's consumer credit statistics, and suggested that Mr. Vardaman's proposal regarding the employment of outside economists to make an independent appraisal of the regulations be taken under advisement.

12/4/51

-8-

Mr. Szymczak expressed the opinion that a determination of Board policy with respect to consumer and real estate credit at this time would necessarily have to be based on considerations different from those which would have prevailed if the regulations were not now in effect, pointing out that once having been assigned the administration of them it would not seem appropriate for the Board to request that it be relieved of this task merely because it was onerous or difficult and subjected the Board to criticism from certain quarters. Mr. Szymczak also said that use of selective credit controls was closely related to the Board's over-all responsibilities in the field of credit, that if Congress were to delegate the administration of selective credit controls to other Government agencies it would increase the problem of coordination of credit policy, that in his opinion authority to regulate both consumer credit and real estate credit was needed at the present time, and that it would be inconsistent for the Board to recommend that such authority be delegated to any other agency. In the circumstances he felt that the Board should continue to administer the regulations and exert every effort to make them as effective as possible.

Mr. Norton stated that he doubted whether present terms prescribed by Regulation X would be effective in restraining new construction, that he believed the principal restraining influence would be shortages of materials, and that if materials were available in the necessary quantities there would be increases in the volume of construction. He thought it would be desirable

12/4/51

-9-

in the circumstances to draw attention to the limitations placed on the Board's authority by the Defense Housing and Community Facilities and Services Act of 1951 with respect to setting terms for down payments and maturities, since those limitations would prevent the Board from making Regulation X an effective restraining factor.

Mr. Evans noted recent figures showing consumer instalment credit outstanding in the total amount of approximately \$13 billion as compared with total bank loans of approximately \$20.7 billion, stating that if the Board was seriously concerned with the expansion of bank credit, these figures indicated that it should also be concerned with the consumer credit problem. He said that in his opinion the fundamental question which would have to be decided by the Board in the future was whether selective credit controls were appropriate under peace-time conditions as well as in times of war and national emergency. So far as the present was concerned Mr. Evans felt authority to regulate consumer credit should be continued and that the limitations placed on that authority by the Defense Production Act Amendments of 1951 should be removed.

Mr. Powell said that he thought the Board in its statements and discussions regarding consumer credit had not developed sufficiently the economic problems involved, pointing out that such credit, which did not exist to any great extent at the time of the passage of the Federal Reserve Act, tended to expand rapidly in times of prosperity and to create a volume of indebtedness which must be paid off over a protracted period,

12/4/51

-10-

so that it constituted a factor tending to accentuate the business cycle. He thought that these considerations involved a more fundamental problem than questions such as the designation of the particular Government agency to administer the controls.

At the request of Chairman Martin, Mr. Fisher made a statement in which he said that he thought the Board was unduly concerned about the effect on public relations of its policies with respect to terms and enforcement of the selective credit regulations, that the great majority of people subject to the regulations seemed well disposed toward the Board's administration of them, and that if the Board should follow a vigorous, fair, and impartial enforcement program, exerting every effort to cooperate with those willing to cooperate while dealing strictly with those not displaying such an attitude, he thought in the long run this would provoke less criticism than if the Board followed a policy under which it might be accused of lax supervision. In answer to an inquiry by Chairman Martin, Mr. Fisher said that if he were a member of the Board he would be inclined to accept the full burden of responsibility for administering the regulations as effectively as possible because he did not see any logical alternative, that the facilities of the Federal Reserve Banks should be used to the maximum extent possible, and that if it was necessary to employ a "small army" to enforce the regulations he would follow that course. He felt that a delegation of authority to administer the regulations to another agency such as the Federal Trade Commission would be undesirable since it might result in investigations

12/4/51

-11-

of banks by an additional agency, a development which would be especially objectionable.

In a further comment, Mr. Fisher noted the social implications of consumer credit, stating that practically every individual was affected and that where goods were sold at high prices with small down payments, indebtedness continued over an indefinite period, thus tending, as Mr. Powell had suggested, to accentuate the business cycle.

Chairman Martin recalled that Mr. Vardaman's suggestion at the meeting of November 13 for a discussion of Board policy with respect to consumer and real estate credit arose out of the consideration at that meeting of a draft of reply to a letter dated October 25, 1951 from Mr. Rodolfo A. Correa, General Counsel of the Office of Defense Mobilization, in which Mr. Correa requested drafts of any amendments to the Defense Production Act considered necessary to facilitate the defense mobilization program. At Chairman Martin's request the Secretary read the draft of reply which had been prepared, following which Mr. Vardaman stated that if his understanding was correct that the reply and its enclosures contained no recommendation that the Board be given permanent authority to regulate consumer and real estate credit, he would approve the reply since he agreed that if the authority was to be continued, the limitations imposed on the regulation of consumer credit by the Defense Production Act Amendments of 1951 and upon real estate construction credit by the Defense Housing and Community Facilities and Services Act of 1951 should be eliminated.

12/4/51

-12-

Thereupon, upon motion by Mr. Norton, a letter to Mr. Correa for the signature of Mr. Vest was approved unanimously in the following form:

"This refers to your letter of October 25, 1951, requesting that we send to you drafts of any amendments to the Defense Production Act considered necessary to facilitate the defense mobilization program together with a brief explanation and justification for each proposal.

"We agree with you as to the desirability of extending the Defense Production Act and we feel that it would be preferable that any such extension be for as much as two years or more beyond June 30, 1952, the present expiration date.

"In addition, the Board feels that it is important that the specific restrictions upon the regulation of consumer credit prescribed in the Defense Production Act Amendments of 1951 and upon the regulation of real estate construction credit prescribed in the 'Defense Housing and Community Facilities and Services Act of 1951' should be eliminated and that the law should be restored to the form in which the provisions on this subject were enacted in the Defense Production Act of 1950. The reasons why these changes in the law are believed to be necessary are set forth in the enclosed explanatory statements, which accompany the draft of the necessary amendments for these purposes.

"The Board requests that these amendments be incorporated in the legislation which we understand you are preparing for submission to Congress at the next session. If there is any further assistance or information which we can give in this connection we will, of course, be glad to provide it."

In response to an inquiry by Mr. Townsend whether the discussion at this meeting should be taken to indicate that the Board would not favor the assignment of enforcement activities in connection with Regulations W and X to some other Government agency, Chairman Martin stated that this was correct, but that the Board should give further consideration to its enforcement policies.

12/4/51

-13-

Mr. Fisher then withdrew from the meeting.

There was presented a memorandum dated November 8, 1951, from Mr. Young, reading as follows:

"This is to request approval for the resumption of the annual Retail Credit Survey to cover the year 1951. This Survey has been conducted annually since 1942 with the exception of last year when the omission of the Survey was approved largely because it duplicated in many respects the information received from Regulation W registrants in September 1950.

"The Survey provides important data for reviewing and revising the Board's monthly estimates of consumer credit in the retail field. The data obtained are also published and made available for the use of other Federal agencies and business organizations concerned with retail credit.

"The members of the System Research Advisory Committee have approved the recommendation of the Executive Committee of the Current Reporting Series Committee that a retail credit survey should be made for 1951.

"The proposed plans for the Survey are essentially unchanged from those used in the 1949 Survey. The same nine trade lines would be covered and, except for the addition of an item to obtain down payments on instalment sales, the proposed form would request the same information as in 1949. A copy of the proposed form is attached. This form together with the tentative plans for conducting the Survey were discussed with the System Committee on Current Reporting Series.

"As in the past, it is anticipated that a summary of the results would be published in the Bulletin and reprinted, together with additional detail, for circulation to the respondents. The cost of reprinting the 1949 Survey was \$2,450.22. It is estimated that the cost of printing the 1951 Survey would be slightly higher."

Mr. Vardaman stated that his opposition to the resumption of the retail credit survey at the meeting of November 15, 1951 was occasioned by the fact that a general Board discussion of its policy with respect to consumer credit was pending, and that in view of the discussion of

12/4/51

-14-

that matter at this meeting and the action taken by the Board, he would have no further objection to the survey.

Thereupon, unanimous approval was given to the recommendation in Mr. Young's memorandum of November 8.

Before this meeting there were sent to the members of the Board copies of a draft of letter to the President, prepared in accordance with the request in his memorandum of October 5, 1951 for comments and recommendations for consideration in connection with the preparation of his State of the Union Message and Economic Report. There were also sent to the members of the Board copies of a draft of letter to the Director of the Bureau of the Budget, prepared in response to that portion of the President's memorandum of October 5 requesting that the Board submit through that Office a report on the legislative program of the Federal Reserve System.

After discussion, unanimous approval was given to letters in the following form:

Letter for the signature of the Chairman
to the President, The White House, Washington, D. C.:

"In accordance with your request of October 5, the Board of Governors is pleased to offer some comments and recommendations for consideration in connection with the State of the Union Message and the Economic Report.

"The paramount objective of Government policy must be the achievement of international peace as quickly as possible without sacrificing our basic economic and political institutions with their guarantee of freedom of individual opportunity and personal choice. It is essential to continue to strengthen the nation's defenses and, at the same time, maintain the economic health of the nation. The inflationary fever abated during the past year but the germs of the disease have by no means been eradicated. Complacency at this juncture would be a grave mistake.

12/4/51

-15-

"At the time the Economic Report was issued last year, highly inflationary developments were in prospect. Consumer and business demands for goods and services were strong, commodity markets active and prices rising rapidly. Demands for credit were also exceptionally aggressive. Financial institutions and individuals were shifting from holdings of Government securities to other types of assets, thus adding to bank reserves and making possible multiple expansion of bank loans. In the light of this immediate background, the projected expansion of the defense program and the fear of general war, there was widespread apprehension over the future purchasing power of the dollar.

"While earlier anti-inflation measures were commencing to exert a restrictive influence, it was apparent that still further measures would be needed to stop the inflationary spiral. Accordingly, member bank reserve requirements were increased early in January. Margin requirements on stock market credit were raised at mid-month. Direct price and wage controls were established at the end of the month. In early March, more vigorous action was taken to limit the further expansion of Federal Reserve credit, and to supplement this policy a national program of voluntary restraint on the part of major lending institutions was launched.

"Reflecting the tax increases of the early fall and winter, 1950, Government's tax receipts during this period were substantially in excess of cash expenditures. Nevertheless, with defense outlays expanding rapidly, it was evident that additional taxes would be needed to continue the Government's operations on a pay-as-you-go basis. Additional taxes, requested early in the year, were authorized by Congress in October.

"As a result of the strengthened anti-inflation effort, as well as other factors, the economic climate changed markedly after early spring. Although consumer income continued to rise under the stimulus of higher production for defense purposes, consumer buying slackened. Business anticipations of sustained large increases in consumer buying were not realized and it became apparent that such expectations needed downward revision. With production of civilian output temporarily maintained and with defense output expanding further, inventories rose sharply. Commodity prices quickly reflected this salutary change in the market situation. Wholesale prices leveled off and then during the summer months declined somewhat. Consumer prices, which had been rising steadily until May, showed little further rise until September and October, when they again increased.

12/4/51

-16-

"In financial markets, a general tightening in the availability of credit also became evident. Banks, insurance companies, and other lenders began to scrutinize credit applications more carefully, to curtail forward loan commitments, and to gear lending and investment activities more closely to funds currently available. Selling of Government securities by lending institutions in order to finance private credit expansion greatly diminished.

"In addition to these favorable economic developments, savings of individuals have increased greatly and have tended to be held to a greater extent in liquid forms instead of being invested directly in purchases of new homes or in other inflationary ways.

"To sum up -- the increasing effectiveness of fiscal and credit actions over the past year appears to have exerted an important influence in preventing the full realization of the inflationary potential. Throughout the period defense activities have obtained necessary financing readily and defense production has expanded rapidly. Such fiscal and credit measures as were taken struck at primary causes of inflation -- at the excess of money demands in relation to available supplies of civilian goods and services and at excessive expansion of bank credit to finance civilian output and consumption.

"However, in the year ahead, prospects for keeping inflation under control will depend upon whether the underlying upward pressures on prices, generated by a strained world situation, can be contained without much sterner fiscal and monetary measures. Expansion of the defense program planned for the next year or two will require an increased proportion of national output and will add to civilian incomes which may be spent to bid up prices of available supplies of civilian goods and services. Since spring, consumers have been saving an unusually high proportion of their current incomes. There is no assurance, however, that this will continue to be the case.

"Unless the international situation improves sufficiently to warrant some curtailment or stretching-out of the defense program, additional taxes will be required next year if fiscal operations are to be on a pay-as-you-go basis. Unless Government expenditures are cut to fit revenues or revenues are expanded to cover expenditures, deficit financing which is the genesis of monetary inflation is inevitable. Furthermore, credit restraints and inducements to savings and to investment of savings in Government securities will continue to be necessary safeguards.

-17-

12/4/51

"In accordance with the second request contained in your letter of October 5, a reply is being sent today to the Director of the Bureau of the Budget setting forth our views with respect to legislation in the banking field."

Letter to Mr. Frederick J. Lawton, Director,
Bureau of the Budget, Washington, D. C.:

"This is in response to that portion of the President's memorandum of October 5, 1951 requesting that the Board of Governors submit through your office a report on the legislative program of the Federal Reserve System. There are listed below certain legislative proposals which the Board has under consideration.

"Purchase of Government Securities Directly from Treasury. - By the Act of June 30, 1950 the temporary authority of the Federal Reserve Banks to purchase Government securities directly from the United States, subject to an aggregate limitation of \$5 billion on the amount which may be held at any one time, was extended until June 30, 1952. This authority has proven a useful means of effecting temporary adjustments in the money market and of facilitating Treasury operations. The Act of June 30, 1950 was recommended to the Congress by the Treasury Department and the Board stated its agreement with the desirability of enactment of the legislation. The Board feels that the present termination date of June 30, 1952 should be extended, and it will wish to discuss with the Treasury Department the matter of the presentation of the subject to Congress.

"Capital Requirements of State Member Banks of the Federal Reserve System. - From time to time in the past, the Board has called to the attention of Congress the fact that certain statutory capital requirements for the admission of State banks to membership in the Federal Reserve System and for the establishment of out-of-town branches by State member banks have operated as substantial and unnecessary obstacles to membership in the System. This subject is also of interest to the Comptroller of the Currency and the Federal Deposit Insurance Corporation. We submitted a draft of a bill on this subject to the Bureau of the Budget and we have been advised by a letter of August 6, 1951 from Mr. Jones that this bill would be in accord with the program of the President 'since it would remove unnecessary and undesirable deterrents to membership in the Federal Reserve System'.

12/4/51

-18-

"Bank Holding Company Legislation. - Legislation to provide more effective regulation of bank holding companies and to curb abuses in that field has heretofore been recommended by the Board. A bill (S.829) for this purpose was favorably reported during the 80th Congress by the Senate Banking and Currency Committee. Bills having similar objectives (S.2318) and (H.R. 5744) were introduced in the 81st Congress; and hearings on these bills, as well as a proposed substitute bill (S.3547), were held before the Senate Banking and Currency Committee in the Spring of 1950.

"Paying Out Federal Reserve Notes by Federal Reserve Banks. - Section 16 of the Federal Reserve Act prohibits a Federal Reserve Bank from paying out Federal Reserve notes issued by another Federal Reserve Bank. Experience over the years has conclusively shown that this requirement serves no useful purpose and entails considerable expense. The cost of sorting fit Federal Reserve notes and of shipping such notes to the banks of issue is presently about \$650,000 a year. For the purpose of eliminating this expense and saving manpower, the Board may wish to recommend repeal of this requirement of the law.

"Limitation on Cost of Federal Reserve Branch Buildings. - There is serious need at many of the branches of the Federal Reserve Banks for larger or improved quarters in order to enable them to carry on effectively their functions under the law and this need is likely to be accentuated by reason of increased volume and activities due to the Defense Program. However, present law limits the aggregate amount of expenditures for Federal Reserve branch bank buildings to \$10 million (with certain exclusions); this amount has been substantially exhausted; and the needs of the branches cannot be adequately met within the statutory limitation. Early in the 81st Congress, the Board recommended a bill (S.3105 and H.R. 7895) to increase the maximum authorized by the statute and that bill, with an amendment, passed the Senate in April 1950 and was reported favorably by the House Banking and Currency Committee in July. The Board may wish to consider renewing its proposal for such legislation when it appears to be justified by economic conditions.

"Bank Reserve Requirements. - The Board is continuing its close observation and study of the subject of bank reserve requirements and, if economic conditions should make such action necessary, the Board would wish to consider submitting to Congress recommendations for legislation with respect to such requirements.

12/4/51

-19-

"It is assumed that the President will wish to recommend extension of the Defense Production Act beyond its present expiration date of June 30, 1952. The provisions to be included in this legislation with respect to consumer and real estate credit regulation involve a number of problems to which the Board would like to give further study, and recommendations with respect to such provisions will be made at a later date.

"There may be other matters with respect to which the Board may later find it desirable to recommend legislative action during the 82nd Congress. For the present, however, the subjects mentioned in this letter embrace the principal matters in the field of possible legislative action to which the Board is giving consideration."

Before this meeting there were sent to the members of the Board copies of a draft of letter to Representative Boyd Tackett, of Arkansas, prepared in response to a request in Mr. Tackett's letter of October 18, 1951, addressed to Chairman Martin, that the Chairman investigate the accuracy of consumer credit statistics prepared by the Board's Division of Research and Statistics.

During a discussion of the draft Mr. Vardaman stated that he did not know Representative Tackett nor had he talked with him but that, in view of statements made by Representative Tackett, if the Congressman accepted the Chairman's invitation for a luncheon meeting to discuss the consumer credit statistics and the investigation activities of the System in connection with Regulation W, he hoped that all of the members of the Board would be in attendance.

Thereupon, upon motion by Mr. Vardaman, a letter to Mr. Tackett for the signature of the Chairman was approved unanimously in the following form:

12/4/51

-20-

"This letter is in reply to yours of October 18 and I note from today's date that too many days have passed since your letter arrived. This has been due to our pre-occupation with the 'Patman Questionnaire' and other pressing matters.

"You ask that I personally look into the matter of the consumer credit statistics prepared by our Division of Research and Statistics and that I pass on to you my personal findings. I have looked into the matter personally and suggest that you do me the honor of lunching with me some day soon. I would like to have the top men in our Research Department explain to you briefly the methods of compiling the basic figures and developing national estimates from the field reports. I should also like you to know how carefully this work is checked with the Bureau of the Budget, which, as you know, has as one of its duties the task of seeing that unnecessary reporting burdens are not placed on American business. At that time, you may also wish to discuss information which has led you to believe that consumer credit statistics are exaggerated. We certainly welcome criticism as to the accuracy of these important figures.

"Knowing your experience as a lawyer and as a prosecuting attorney, I would like also to discuss with you our investigation activities in the consumer credit field and to explain to you our procedures for obtaining compliance with Regulation W. We share with you a dislike for administrative proceedings in this field and I believe you will be pleased to note the small number of violations in connection with which the Board has found it necessary to institute proceedings.

"I want to assure you that the statistical work, conducted by the Board's Division of Research and Statistics, and enforcement of Regulation W, under the Board's Solicitor, are both under the constant supervision of the Board.

"If it will be possible for you to have luncheon with us and discuss these matters, we shall appreciate it very much."

Before this meeting there had been in circulation to members of the Board a draft of letter to Vice President Peterson of the Federal Reserve Bank of St. Louis, prepared in response to Mr. Peterson's letter of October 24, 1951 transmitting a request from Mr. Sidney Maestre, Chairman

12/4/51

-21-

of the Board of the Mercantile Trust Company, St. Louis, Missouri, that the Board reconsider the opinion expressed in its letter dated October 10, 1951 to President Johns, of the St. Louis Reserve Bank, that section 8 of the Clayton Act would not permit a person to serve as a director of the Manufacturers Bank and Trust Company of St. Louis, while serving as a member of the advisory board of the Mercantile Trust Company. This request was occasioned by certain changes in the by-laws of Mercantile Trust Company adopted August 31, 1951.

Mr. Vardaman had requested that the matter be considered at a meeting of the Board.

Mr. Vest stated that a review by the Legal Division disclosed that the only change in the by-laws related to the method of selection or appointment of members of the advisory board, the by-laws first submitted having provided for the selection of the members of that board for three-year terms by the stockholders of the trust company, whereas under the by-laws finally adopted members of the advisory board are designated annually by the board of directors of the bank. Under both by-laws, the members of the advisory board were required to meet at the time and place of, and in connection with, the meetings of the board of directors; to participate in the discussions of the board; to have a chairman designated by the board of directors who would be invited to participate ex officio in all of the meetings of all committees of the board; to be compensated to the same

12/4/51

-22-

extent as the directors for attendance at meetings; could be appointed to serve in an advisory capacity to any committee of the board of directors, and were to be compensated to the same extent as a member of the committee. Mr. Vest said that it seemed that service on the advisory board was equivalent in all practical respects to service as an officer or employee of the bank. He also said that in the past the Board had approved reluctantly certain situations of a similar general nature, but that the facts of this situation seemed to offer no alternative except to reaffirm the position set forth by the Board in its letter of October 10.

Mr. Vardaman stated that he had discussed the matter briefly with Chairman Dearmont, of the Federal Reserve Bank of St. Louis, yesterday, that Mr. Dearmont was under the impression that this might be somewhat similar to cases in Missouri where consulting committees on trust matters had been established by trust companies, but that in the light of Mr. Vest's statement he thought there was no course open to the Board except to reaffirm its earlier opinion.

Thereupon, upon motion by Mr. Vardaman, the following letter to Mr. Peterson was approved unanimously:

"This refers to your letter of October 24, 1951, with which was enclosed a copy of the by-laws of the Mercantile Trust Company, St. Louis, Missouri, in the form in which they were finally adopted August 31, 1951. Your letter stated that in view of the amended provisions of the by-laws with respect to the means of constituting the advisory board, Mr. Maestre has requested the Board to reconsider its opinion that section 8 of the Clayton Act does not

12/4/51

-23-

"permit a person to serve as a director of the Manufacturers Bank and Trust Company while he is serving as a member of the advisory board of the Mercantile Trust Company.

"The Board has given careful consideration to the status and functions of members of the advisory board of the Mercantile Trust Company as presently constituted by the by-laws as finally adopted, and has again reached the conclusion that their service at the same time as directors of the Manufacturers Bank and Trust Company would not be permitted by section 8 of the Clayton Act."

At the request of Mr. Evans, Mr. Townsend referred to the matter of T and E Company, Inc., 15 S. Franklin Street, Wilkes-Barre, Pennsylvania, a firm engaged in the automobile rental business which had declined to file a registration statement on the grounds that its business was not subject to Regulation W and which had also declined to make its records available for inspection by representatives of the Federal Reserve Bank of Philadelphia until the question whether it was subject to the Regulation had been settled by appropriate authority. Mr. Townsend stated that the usual procedure in such a case would be for the Board to issue a routine order for investigation requiring the Registrant to produce its books and records for inspection, but that he was bringing the matter to the attention of the Board at this meeting since such action in this case might result in litigation concerning the Board's authority to regulate leases under Regulation W, a question discussed at the meeting of the Board on February 21, 1951, at which time the Board reaffirmed a position previously taken that it had authority to regulate such leases. Mr. Townsend went on to say that it would be his recommendation that the usual proceedings be instituted for bringing about compliance.

12/4/51

-24-

There followed a discussion, during which it was agreed unanimously that the Board should stand by the decision it had reached on the subject of leasing arrangements at the meeting on February 21, 1951 and that if necessary, in order to obtain compliance with the Regulation, the issue would be litigated in this case. During the course of the discussion, Mr. Solomon stated that similar questions had been raised several times before and that in several instances review of the problem with members of the Board's staff had resulted in a solution of the registrant's difficulty without impairing the effectiveness of the Regulation. For example, in some instances such review had shown that it was feasible and desirable to amend the Regulation in certain respects, two such amendments having been adopted earlier this year. In others, the registrants had complied with the Regulation without any amendment. Mr. Solomon suggested, therefore, that before further steps were taken representatives of T and E Company, Inc. be invited to come to Washington for the purpose of discussing the matter with a view to exploring the possibility of some such method of carrying out the purposes of the Regulation.

This suggestion was approved unanimously.

Mr. Szymczak referred to an explanatory pamphlet being prepared by the Retirement System of the Federal Reserve Banks for distribution to Federal Reserve employees in connection with the group life insurance contract which became effective November 1, 1951, stating that the question

12/4/51

-25-

had been raised whether the name of the firm of Towers, Perrin, Forster and Crosby, of Philadelphia, Pennsylvania, retained by the Board as consultants in connection with the matter, should be mentioned in the pamphlet. Mr. Szymczak added that President Sproul, of the Federal Reserve Bank of New York, felt that mention of the firm's name might be considered in the nature of advertising while others thought that it would indicate that the Board and the Federal Reserve Banks had obtained competent advice in considering the plan. Mr. Szymczak said that in all the circumstances he would suggest that the name of the firm be omitted.

After discussion, this suggestion was approved unanimously with the understanding that the office of the Retirement System would be so advised informally.

At this point all of the members of the staff with the exception of Messrs. Carpenter and Thurston withdrew from the meeting.

Mr. Vardaman stated that, without implying any criticism of the staff, he would renew the suggestion that qualified outside economists be engaged to make an appraisal of the problem confronting the Board with respect to consumer and real estate credit.

After a discussion, Mr. Vardaman's suggestion was referred to Chairman Martin and Mr. Powell for consideration.

Mr. Thurston then withdrew from the meeting, and the action stated with respect to each of the matters hereinafter referred to was taken by the Board.

12/4/51

-26-

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

Memoranda from Mr. Bethea, Director, Division of Administrative Services, recommending that the resignations of the following employees in that Division be accepted, effective the dates indicated:

<u>Date of Memorandum</u>	<u>Name and Title</u>	<u>Effective Date</u>
11/27/51	James Love, Laborer	12/31/51
11/30/51	Theresa Gaby, Cafeteria Helper	11/30/51

Approved unanimously.

Memoranda recommending that the basic annual salaries of the following employees be increased, effective December 9, 1951:

<u>Date of Memorandum</u>	<u>Name and Title</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
	Memorandum from Mr. Marget, Director, Division of International Finance		
11/29/51	Ernest C. Olson, Economist	\$6,340	\$7,040
	Memorandum from Mr. Bethea, Director, Division of Administrative Services		
11/30/51	Joseph H. Hoyle, Pay Roll Clerk	3,535	3,660
	John E. Osborne, Operating Engineer	4,365	4,490
	Walter L. Peregory, Offset Press Operator	4,455	4,580
	William R. McDonald, Clerk	3,175	3,255
	Lydia M. Adwell, Cafeteria Helper	2,630	2,700
	Eva M. Brown, Baker	3,150	3,230
	Anna E. Imhoff, Cook	2,910	2,990

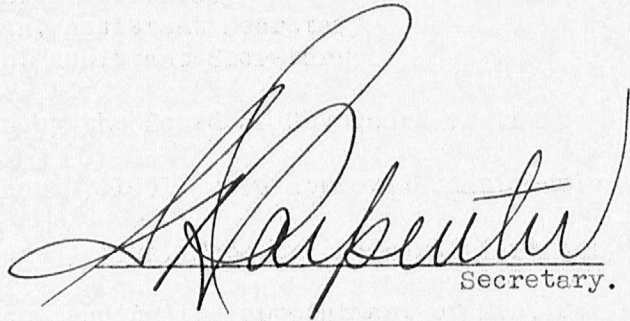
12/4/51

-27-

Date of Memorandum
11/30/51

<u>Name and Title</u>	<u>Salary Increase</u>	
	<u>From</u>	<u>To</u>
Pearl Jones, Cook	\$3,150	\$3,230
Winnie L. Tull, Junior Supervisor	3,150	3,230

Approved unanimously.


Secretary.