

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, December 18, 1951. The Board met in the Board Room at 10:35 a.m.

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

Mr. Carpenter, Secretary  
Mr. Sherman, Assistant Secretary  
Mr. Murff, Assistant Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Thurston, Assistant to the Board  
Mr. Riefler, Assistant to the Chairman  
Mr. Vest, General Counsel  
Mr. Allen, Director, Division of Personnel  
Administration

The proposed budget of the Board for the year 1952 in detailed form, with accompanying tables, had been submitted to the members of the Board by Mr. Murff, as Budget Officer, on December 6, 1951. Following consideration of the budget by the Personnel Committee, that Committee submitted a memorandum with respect thereto to the members of the Board under date of December 12, 1951.

Mr. Norton referred to the budget study conducted by the Personnel Committee and said that he would recommend adoption of the budget as submitted.

In the course of a discussion, Chairman Martin stated that Mr. Vardaman had made certain comments to him with respect to the research

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budget which he (Mr. Vardaman) might wish to mention at this time.

Mr. Vardaman said that he wished the record to show that his objections were based on the scope of the research activities at the Board, and that while he recognized that if the research program remained in its present status the funds proposed in the budget no doubt would be required, he was of the opinion that the work of the staff could be cut substantially and the staff reduced accordingly. To this end he urged that in the future the budget for this function be considered in connection with, and at the same time as, the research budgets of the Federal Reserve Banks, stating that he had recommended such a procedure for several years because he felt it was necessary in order to determine the proper place for all parts of the research program. Mr. Vardaman went on to express the view that it was improper to center the research work of the System in the Board, adding that much of the work could be carried on at the Reserve Banks which could send reports of their activities to the Board. Under present arrangements, Mr. Vardaman said, there appeared to be a possibility of overlapping activities between the Board and the Reserve Banks although he was not prepared to say how much, pending a complete study. Mr. Vardaman expressed agreement with a statement by Chairman Martin as to the difficulty of ascertaining what the function of research should be in any organization, but said that a definite effort should be made to assess the need for

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the various types of research.

Mr. Powell stated that he had reviewed the proposed budget of the Division of Research and Statistics in detail with members of the staff of that Division and was convinced that the Division could not operate with less funds unless its activities were curtailed. He then commented upon a memorandum currently on his desk, which was prepared pursuant to discussion at a previous meeting of the Board and which dealt with some of the points raised by Mr. Vardaman as to the integration of the research programs of the Board and the Federal Reserve Banks. Mr. Powell said that copies of this memorandum in its final form would be sent to the members of the Board for review within the near future.

Thereupon, upon motion by Mr. Norton, the budget of the Board for the year 1952, as set forth below, was approved unanimously:

"BUDGET

For the Year Ending December 31, 1952

PERSONAL SERVICES

Salaries	\$3,069,761	<u>1/</u>
Retirement Contributions	243,710	
Supplemental Death Benefits	<u>30,000</u>	
Total Personal Services	\$3,343,471	

1/ Exclusive of salaries of telegraph and cafeteria employees recoverable from others or included in non-personal services.

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## "NON-PERSONAL SERVICES

Traveling Expenses:	
Federal Reserve Examiners, field force	\$151,000
Other	78,400
Postage and Expressage	14,235
Telephone and Telegraph	104,375
Printing and Binding:	
Federal Reserve Bulletin	95,000
Other	88,225
Stationery and Supplies	38,325
Furniture and Equipment, including rental	63,225
Books and Subscriptions	18,430
Heat, Light, and Power	36,500
Repairs, Maintenance and Alterations:	
Building and Grounds	14,040
Furniture and Equipment	9,420
Medical Service and Supplies	1,750
Insurance	6,250
Consumers Finances Surveys	160,000
Cafeteria (Net)	44,000
Legal and Consultant Fees and Expenses	26,800
Special Dinners, Receptions, etc.	7,800
Borrowed Reserve Bank Personnel	6,750
Auditing books of Board	6,300
Hearing Examiners	5,000
Miscellaneous	<u>18,610</u>
Total Non-Personal Services	<u>\$994,435</u>
Total Budget	<u>\$4,337,906"</u>

All of the members of the staff then withdrew from the meeting and the Board went into executive session. Following the executive session the Secretary was advised by the Chairman that the following actions had been taken:

Consideration was given to a memorandum dated December 6, 1951,

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from Mr. Young, Director, Division of Research and Statistics, recommending that certain members of the staff of that Division be authorized to attend at Board expense all or portions of the annual meetings of professional associations, including the American Economic Association, the American Statistical Association, the Econometrica Society, and the American Marketing Association, to be held in Boston, Massachusetts, from December 26 through December 29, 1951, and that certain other members of the Division staff be granted official leave for the purpose of attending the meetings at their own expense.

Consideration also was given to a memorandum dated December 10, 1951, from Mr. Marget, Director, Division of International Finance, recommending that certain members of the staff of that Division be authorized to attend the meetings in Boston at Board expense and that another member of the Division staff be granted official leave to attend the meetings at her own expense.

The memoranda from Messrs. Young and Marget had been in circulation to the members of the Board and Mr. Vardaman had requested that they be considered at a meeting.

The recommendations contained in each of the memoranda were approved unanimously.

Consideration was given to a memorandum dated December 7, 1951, from the Division of Personnel Administration, concerning the review made

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by that Division, pursuant to the Board's request of October 21, 1947, of the 1951 reports of outside business and teaching activities of certain members of the staff. The memorandum, to which was attached a second memorandum from the Division of Personnel Administration, dated December 6, 1951, summarizing the information contained in the reports, had been in circulation to the members of the Board prior to consideration at a meeting.

Following a review of the circumstances surrounding the employment of James H. Lorie, Economist in the Division of Research and Statistics, who as a member of the faculty on leave from the University of Chicago was receiving some remuneration from that institution as well as salary from the Board, as explained in an attached memorandum dated November 28, 1951 from Mr. Williams, Assistant Director, Division of Research and Statistics, it was agreed that steps should be taken to change Mr. Lorie's status from that of employee to that of a consultant.

Consideration was given to a memorandum dated December 4, 1951 from the Personnel Committee recommending that Clarke L. Fauver, Assistant Director, Division of Selective Credit Regulation, be transferred to the Board Members' Offices as assistant to Mr. Thurston, Assistant to the Board, effective January 1, 1952, at a salary of \$10,000 per annum. The memorandum also recommended that the Federal Reserve Bank of San Francisco be requested to make available to the Board the services of Eliot Swan, Assistant Vice President, for the period from

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approximately January 1, 1952 to June 30, 1952, to serve as Acting Assistant Director of the Division of Selective Credit Regulation, with the understanding that Mr. Swan's salary, the Bank's contributions to the Retirement System on his behalf, travel, and other proper expenses would be paid by the Reserve Bank and that the Board would reimburse the Bank for the full amount of such disbursements, subject to their approval by the Personnel Committee.

Approved unanimously, with the understanding that the appointment of Mr. Swan would be effective January 1, 1952 or as soon thereafter as arrangements could be completed with the Federal Reserve Bank of San Francisco and he was able to assume his duties at the Board.

The action stated with respect to each of the matters herein-after referred to was then taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on December 17, 1951, were approved unanimously.

Memorandum dated December 14, 1951, from Mr. Sloan, Director, Division of Examinations, recommending that Fred A. Nelson, Assistant Director of that Division, be designated also as a Federal Reserve Examiner.

By unanimous vote, Mr. Fred A. Nelson was appointed an Examiner to examine Federal Reserve Banks, member banks of the Federal Reserve System, and corporations

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operating under the provisions of Sections 25 and 25(a) of the Federal Reserve Act, for all purposes of the Federal Reserve Act and of all other Acts of Congress pertaining to examinations made by, for, or under the direction of the Board of Governors of the Federal Reserve System, and was designated as a Federal Reserve Examiner, with official headquarters at Washington, D. C.

Telegram to Mr. Wiltse, Vice President, Federal Reserve Bank of New York, reading as follows:

"Relet December 17. Board approves designation of Walter A. Stoecker as special assistant examiner for Federal Reserve Bank of New York."

Approved unanimously.

Letter to Mr. Brainard, Federal Reserve Agent, Federal Reserve Bank of Cleveland, reading as follows:

"In accordance with the request contained in your letter of December 13, 1951, the Board of Governors approves the appointment of Mr. Roy M. Trout as Alternate Assistant Federal Reserve Agent, effective January 1, 1952, at his present salary of \$5,959.20 per annum, to succeed Mr. F. William Daeuble.

"This approval is given with the understanding that Mr. Trout will be placed upon the Federal Reserve Agent's pay roll and will be solely responsible to him or, during a vacancy in the office of the Agent, to the Assistant Federal Reserve Agent, and to the Board of Governors, for the proper performance of his duties. When not engaged in the performance of his duties as Alternate Assistant Federal Reserve Agent he may, with the approval of the Federal Reserve Agent or, during a vacancy in the office of the Federal Reserve Agent, of the Assistant Federal Reserve Agent, and the President, perform such work for the Bank as will not be



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"inconsistent with his duties as Alternate Assistant Federal Reserve Agent.

"Mr. Trout should execute the usual oath of office which should be forwarded to the Board of Governors."

Approved unanimously.

Letter to Mr. Weigel, Secretary, Federal Reserve Bank of St.

Louis, reading as follows:

"Reference is made to your letter of December 7, 1951, advising that as a result of increases in the rates of the Blue Cross organization which serves the employees of your Louisville Branch, expenses at the Branch will increase approximately \$236 per annum.

"The Board of Governors interposes no objection to the assumption of this additional expense by the Federal Reserve Bank of St. Louis."

Approved unanimously.

Letter to Mr. Sloan, Director, Division of Examinations, Board

of Governors of the Federal Reserve System, Washington, D. C., reading as follows:

"Section 5240 of the Revised Statutes of the United States (Section 21 of the Federal Reserve Act), as amended, provides that the Board of Governors of the Federal Reserve System, at least once each year, shall order an examination of each Federal Reserve Bank.

"In accordance with this provision of the law, the Board directs that at least one examination of each of the 12 Federal Reserve Banks be made during the year 1952, and the Board authorizes and directs you to institute and conduct such examinations at such time or times as may seem advisable in your judgment."

Approved unanimously.

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

"Reference is made to your letter of November 26, 1951, submitting the request of the Continental State Bank, Boise, Idaho, for approval of the establishment and operation of a branch in Richfield, Idaho, in connection with the proposed purchase of assets and assumption of liabilities of the First State Bank, Richfield, Idaho. In this connection it is noted that simultaneously with the establishment of the proposed branch the Continental State Bank will increase its capital \$100,000 through a stock dividend and its surplus \$25,000 through a transfer from undivided profits. It is understood, also, that future dividends will not be more than one-third of net earnings, after taxes, until the bank's surplus has been built up to equal capital.

"In view of your recommendation, the Board of Governors approves the establishment and operation of a branch in Richfield, Idaho, by Continental State Bank, Boise, Idaho, provided the establishment of the branch is effected substantially in accordance with the plan submitted and prior approval of the appropriate State authorities is obtained.

"It is understood that Counsel for the Reserve Bank will review and satisfy himself as to all steps taken with respect to the absorption and establishment of the branch."

Approved unanimously.

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

"In the Board's letter of December 3, 1951, you were advised that in the November 18, 1951, issue of The Ogden Standard Examiner it was reported that Mr. Frank M. Browning, together with others, was making application to the State Bank Commissioner to organize a new bank in Ogden and, in this connection, you were

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"requested to develop such information as would enable the Board to determine Mr. Browning's eligibility to continue to serve as a director of the Salt Lake City Branch.

"During your absence Mr. Earhart obligingly proceeded to develop this information and in a telegram dated December 11, he advised that the bank in which Mr. Browning is interested is not expected to commence operations for about six months at which time Mr. Browning intends to tender his resignation as a director of the Branch.

"It will be appreciated if you will keep in touch with developments in connection with the new bank and if and when Mr. Browning becomes actively engaged in commercial banking it will be further appreciated if you will see that his resignation as a Branch director is submitted to the Board of Governors."

Approved unanimously.

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

"There is enclosed a copy of a letter from the Office of the Administrative Assistant Secretary of the Treasury requesting two sets each of faces and backs of the \$5, \$10, and \$20 denomination Federal Reserve notes to be used in further educating the public in distinguishing between counterfeit and legitimate currency.

"It will be appreciated if you will arrange to have these notes prepared and delivered to Mr. John D. Larson, Office of the Administrative Assistant Secretary, Room 3205 Main Treasury Building, billing the Board of Governors for the cost thereof.

"It is our understanding that the Treasury desires that the specimen notes be printed on security paper with different serial numbers and for different Federal Reserve Banks. However, since we understand also that they are to be used for two exhibits, one of which will be placed in the Exhibit Room at the Treasury and the other used for field work, we assume that the sets could be identical in respect to serial numbers and Federal

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"Reserve Banks. There is no objection to having the words 'specimen--not negotiable' printed on the back of the various specimens."

Approved unanimously.

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

"As requested in your letter of November 20 (ICIS-P64/46), I am enclosing, in triplicate, a survey of the existing arrangements concerning the exchange of published materials between the Board of Governors of the Federal Reserve System and organizations located in the Union of Soviet Socialist Republics and its satellites."

Approved unanimously.

Letter for the signature of the Chairman to the Honorable Charles E. Wilson, Director, Office of Defense Mobilization, Washington, D. C., reading as follows:

"The Board of Governors has noted the continuing high level of veterans business loans in several important metropolitan areas referred to in your letter of December 7. We are also aware that a large portion of these loans is for the purpose of purchasing passenger automobiles on more liberal terms than those permitted by Regulation W for similar loans not insured or guaranteed by the Veterans' Administration. Further, and perhaps most important, some dealers have used the VA business loan program as a basis for misleading advertising with respect to the installment terms available to veterans generally.

"While it would be possible to stop this development abruptly by the removal of the present exemption for VA insured or guaranteed loans from Regulation W or by the

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"application of similar terms by the Veterans' Administration to loans for the purpose of purchasing listed articles, we would be hopeful that less drastic action might be sufficient.

"As yet the total volume of credit involved in the VA business loan program is not large. In our opinion the program might continue to serve a useful purpose, even in the present emergency, if misleading advertising and other promotional efforts by individuals seeking to misuse the program for their personal gain could be halted.

"Your letter requests that we give you our recommendations on what specific restrictive action, if any, should be taken in the interest of economic stabilization. We think it would be helpful if the Veterans' Administration in response to your similar letter to them were to institute, presumably by their regulations, some method of screening loans in order to eliminate those which arise as a result of misuse of the program by improper classification of loans, misleading advertising, or otherwise.

"Wherever the number of applications for loans to purchase passenger automobiles originating with a single dealer, a single financial institution, or in a single community appears out of line with the normal volume of such loans, such a situation would seem to warrant the special attention of the Veterans' Administration to prevent abuse of the GI credit guarantee or insurance privilege."

Approved unanimously.

Letter to Mr. Strothman, Vice President, Federal Reserve Bank of Minneapolis, reading as follows:

"This refers to your letter of December 11, 1951, concerning the applicability of Regulation X to a proposed conditional sale plan for new residences submitted to you for interpretation by Mr. Robert W. Barnett, a Minneapolis attorney. As we understand the proposed plan,

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"A will execute a conditional sale contract with B, at a sale price of \$9,000, \$400 of which is payable upon execution of the contract. B will obtain the use and occupancy of the premises for six months, during which he will pay \$100 per month to A. At the end of the six month period, when the accumulated payments equal \$1,000, B will apply for a GI loan of \$8,000. If B is unable to obtain the loan through no fault of his own, the \$400 payment will be returned to him; if B is unable to obtain the GI loan by virtue of his own act, the \$400 payment is forfeited to A.

"Section 602(d)(2) of the Defense Production Act, as incorporated into section 2(c) of Regulation X, defines 'credit' as including 'any conditional sale contract; any contract to sell or sale or contract of sale, \* \* \*'. Accordingly, all contracts to sell would be subject to Regulation X in the absence of section 5(f), which provides in part that the regulation does not apply to a contract to sell 'which does not provide for the payment of any part of the purchase price, or of any amount to be subsequently applied to such price, except a deposit of earnest money, before the transfer of title to such property \* \* \*'. Contracts to sell which are not exempt under section 5(f) remain subject to the regulation.

"The proposed conditional sale plan provides for payments which are to be subsequently applied to the purchase price other than the \$400 payment of earnest money, before the transfer of title to the property, and therefore it is our view that the proposed conditional sale contract would not be exempt from Regulation X under the provisions of section 5(f). Accordingly, we do not believe the proposed conditional sales plan would be in compliance with the requirements of the regulation."

Approved unanimously.

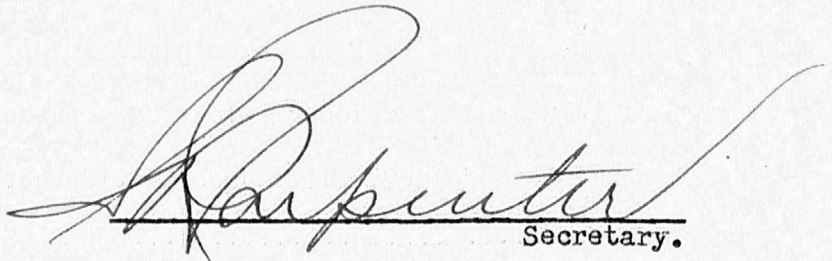
Letter to the Bureau of the Budget, Washington, D. C., reading as follows:

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"In response to your circular request dated November 8, 1951, a copy of which was received by us on November 20, 1951, the Board reviewed the list of statutes transmitted with the memorandum containing provisions which would be affected by the termination of the state of war with Japan. It was our understanding that the 'recommendation sheet' and 'cover sheet' would be returned only in the event the Board had recommendations to make, but we now understand from a telephone call received from Mrs. French of your office that you would like to have the cover sheet returned even though there is no authority under which the Board is acting which would expire by virtue of the treaty of peace with Japan. Accordingly the cover sheet has been completed and is returned herewith."

Approved unanimously.

  
Secretary.