Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, February 8, 1952. The Board met in the Board Room at 11:05 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Evans
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. Vest, General Counsel

Telegram to Mr. McCreedy, Vice President and Secretary of the Federal Reserve Bank of Philadelphia, reading as follows:

> "Retel February 7, Board approves effective February 11, 1952, minimum buying rate of 1-3/4 per cent on bankers' acceptances. Otherwise Board approves establishment by your Bank, without change, of rates of discount and purchase in existing schedule."

Approved unanimously.

Telegrams to the Federal Reserve Banks of Boston, New York, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Banks of Boston and St. Louis on February 4, by the Federal Reserve Bank of San Francisco on February 5, by the Federal Reserve Banks of New York, Cleveland, Richmond, Atlanta, Chicago, Minneapolis, and Dallas on February 7, and by the Federal Reserve Bank of Kansas City on February 8, 1952, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

There was presented a draft of letter to the President with respect to a suggestion made to the President by the Council of Economic Advisers that he recommend to the Congress at this time legislation to give the Federal Reserve System additional authority over reserve requirements of commercial banks through enactment of the so-called combination primary-security reserve plan.

Following a discussion of the draft, during which several suggestions were made for changes therein, unanimous approval was given to a letter for the signature of the Chairman in the following form, with the understanding that before it was transmitted Mr. Vardaman would be informed by Mr. Thurston of the action of the Board:

"As Leon Keyserling, on behalf of the Council of Economic Advisers, has informed you, the Secretary of the Treasury and the Federal Reserve Board feel that it would be a serious mistake for you to make any specific recommendation to the Congress at this time with respect to legislation to give the Federal Reserve System additional authority over reserve requirements of commercial banks. Inasmuch as you have on a number of occasions made recommendations to the Congress in general terms for additional authority over reserves you may consider it necessary, however, to include a paragraph in your forthcoming message on the Defense Production Act to the effect that you are renewing a previous recommendation that the Banking and Currency Committees give consideration to the subject of arming the Federal Reserve with supplementary powers to absorb bank reserves.

"The Board feels, as I do, that the specific recommendation by the Council for legislation to enact the so-called combination primary-security reserve plan at this time would be a gravely disturbing factor in the Government bond market. It would be regarded by the financial community generally as a device to compel banks to buy Government securities. It "would almost certainly be construed both in this country and abroad as a signal that the Government of the United States proposed to finance the prospective deficit by the inflationary method of creating more bank credit rather than by the far sounder method of borrowing the savings of the people to cover the deficit.

"We think that the reaction to such a signal would discourage savings and revive fears for the future of the dollar that fortunately have abated during the past year.

"Not merely for strategic reasons, but for economic reasons, we would be compelled to take issue with the Council's recommendation. Conditions today are far different from what they were when the Reserve System some five years ago requested Congress to consider a securities reserve plan. It was submitted only as a temporary expedient at a time when the budget was well in balance, the public debt was being retired, and the plan offered no possibility of being used to compel the banks to help finance a deficit with all of its inflationary implications. Five years ago large components of the huge war-created debt were still undigested and the Board felt that a temporary device of this kind would help to hold back shifts in the large bank-held portions of the debt, that it would help to restrain monetization of the debt, and would afford an opportunity to refinance the debt through a better balanced distribution of maturities.

"Moreover, the experience of the last year with discount and open market operations has served to illustrate the flexibility and effectiveness of the anti-inflationary use of these instruments. Most of the excess reserves which the System temporarily put into the market for short periods to assist Treasury refunding operations were subsequently removed through open market operations with a minimum of strain in the Government securities market. Our experience indicates that the same salutary results could not have been effected by using the blunt and indiscriminate instrument of changes in reserve requirements which have seriously disruptive effects in the market for Government securities.

"Unlike so many other countries of the free world, we are fortunate in having a large current volume of savings. This evidence of faith in our currency will be reinforced, in our judgment, if the Government exhibits a determination to finance itself out of genuine savings without resort to more bank-created money.

"I am sending a copy of this letter to Chairman Keyserling with whom, and Mr. Blough, I have had a very full and frank discussion. They have provided us with copies of their communications to you on this subject. Our Board discussed the matter at some length and felt it might be helpful to you to have this brief summary of our viewpoint."

During the course of the discussion of the foregoing matter Mr. Young, Director, Division of Research and Statistics, joined the meeting.

Mr. Thomas stated that Mr. Williams, President of the Federal Reserve Bank of Philadelphia, had called him on the telephone to say that he had suggested to Mr. Peyton, Chairman of the Conference of Reserve Bank Presidents, that one afternoon of the forthcoming Presidents' Conference be devoted to a discussion of the differing points of view presented in the answers to the questionnaire of the Patman Subcommittee of the Joint Committee on the Economic Report. Mr. Thomas said it was proposed that this discussion would be held on the afternoon of February 28, and that several Reserve Bank and Board economists would take separate topics and present brief analyses of the points of view given by those who answered the particular questions. He said it was felt that such a presentation would be useful in informing the Presidents of the contents of the answers and in preparing those who might have to testify before the Subcommittee.

While some of the members of the Board present expressed doubt that a great deal could be accomplished along these lines in the course of an afternoon session, it was understood that there would be no objection to economists from the Board's staff participating in such a program should the Presidents so desire.

Mr. Evans stated that it was planned that Messrs. Mills and Robertson, members-designate of the Board, would take their oaths of office on February 18, 1952 at 4:00 p.m., and that following the ceremony there would be a reception to which it was proposed to invite all members of the Board's staff.

It was agreed unanimously that the expenses of the reception should be paid by the Board and such payment was authorized by unanimous vote.

At this point all of the members of the staff with the exception of Messrs. Carpenter and Kenyon withdrew, and the action stated with respect to each of the matters hereinafter referred to was taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on February 7, 1952, were approved unanimously.

Memorandum dated February 5, 1952, from Mr. Carpenter, Secretary of the Board, recommending an increase in the basic salary of Marion H. Derr, Records Clerk in the Office of the Secretary, from $3,415 to $3,495 per annum, effective February 17, 1952.

Approved unanimously.

Letter to the Honorable Harry A. McDonald, Chairman, Securities and Exchange Commission, Washington, D. C., reading as follows:

"Only two of the banks, concerning which your staff desires information, which were listed in your letter of January 31, 1952, addressed to Chairman Martin, are State bank members of the Federal Reserve System. These are:

New England Trust Company (Boston)
Schenectady Trust Company (Schenectady, N.Y.)

"In the circumstances and subject to the conditions expressed in your letter, the Board will be glad to make available to your representatives, Messrs. Burhenne and Kilmer, such information as we may be able to furnish regarding the State member banks. It is suggested that they get in touch with the Director of the Board's Division of Examinations.

"It is assumed that the information desired would be obtained from reports of examination, call reports of condition and earnings and dividends reports. Such reports would be in the hands of the Comptroller of the Currency with respect to the three national banks listed in your letter, and, with respect to the following three insured non-member State banks the reports would be in the hands of the Federal Deposit Insurance Corporation:

Bank of Virginia (Richmond)
King's County Trust Company (Brooklyn, N.Y.)
Hudson Trust Company (Union City, N.J.)

"The Mercantile Trust Company, Baltimore, Maryland, and the Boston Safe Deposit & Trust Co., Boston, Massachusetts, are uninsured nonmember banks and are not subject to supervision by any Federal bank supervisory agency."

Approved unanimously.

Letter to Mr. J. A. Cobbey, 135 South La Salle Street, Chicago, Illinois, reading as follows:

"This refers to your letter of January 24, 1952, addressed to individual members of the Board, regarding certain provisions of Regulation W--Consumer Credit. You refer to the fact that appliances purchased as part of an entire residential structure may be financed over periods of several years as a part of the cost of the structure, while the financing of appliances purchased in other circumstances must comply with the terms specified in Regulation W.

"As you may know, section 7(a) of Regulation W provides an exemption for instalment credits exceeding $2,500 (other "than those to purchase automobiles), whether or not such credits are for the purpose of purchasing listed articles. This exemption is, of course, available for all non-automobile credits that can meet the one condition: an instalment credit obligation in a principal amount exceeding $2,500. This appears to be a workable exemption that simplifies the operation of the regulation and the task of those who are subject to it.

"It appears from your letter that the particular problem that concerns your clients is competition from contractors and others in position to finance appliances on the residential mortgage. We appreciate the situation you describe but it seems clear that this is a problem that would exist whether or not appliance credits were restricted under Regulation W. As you point out, the financing of appliances as part of the house mortgage permits 'home buyers to acquire appliances under terms which are infinitely more liberal than the appliance industry or credit institutions would ever extend even in the absence of credit controls.' It would hardly appear, therefore, that such competition from contractors could properly be attributed to any 'discrimination' by the regulation against retail appliance dealers.

"Under the statutory authority for the restriction of consumer credit, the primary purpose of Regulation W is to help control inflation in this emergency period by curbing the expansion of consumer instalment credit, rather than to assure sound individual credits for the protection of either the lender or the borrower. The Board is naturally concerned that the regulation not disturb established or developing trade practices or competition any more than is necessary in order to achieve its anti-inflationary objectives. In general, the need for further restriction of instalment credit in any area, from the Board's point of view, would depend largely on the inflationary pressures arising in that area in relation to the general monetary and credit situation.

"Even if it were advisable to use Regulation W to protect one trade group from this competition by another group, or to attempt, under the regulation, to curb this practice for credit control purposes, there are other considerations that may be noted and which have some bearing on the matter in question. The Board's authority under the statute concerning consumer credit contains an exception for credit for a residential building in its entirety. Consequently, legal as well as administrative problems would arise if credits for all appliances sold with residential structures were to be subject "to the same restrictions as credits for those sold separately.

"We appreciate your interest in writing and are glad to have this opportunity to outline our views on the points you raise. We believe it might also be helpful if you could have a full discussion of the matter with the officers of the Federal Reserve Bank of Chicago who administer the regulation in your area and we are, therefore, sending copies of your letter and of this reply to Mr. A. L. Olson, Vice President of that Bank, so that he will be familiar with the correspondence. Should you still feel that a constructive purpose would be accomplished by discussing this subject with us in person, we shall be pleased to arrange a meeting with you at a mutually convenient date."

Approved unanimously.

S R Carpenter

Secretary.