Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, April 4, 1952.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Evans
Mr. Vardaman
Mr. Powell
Mr. Mills
Mr. Robertson

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary

Minutes of actions taken by the Board of Governors of the Federal Reserve System on April 3, 1952, were approved unanimously.

Telegrams to the Federal Reserve Banks of Boston, New York, Philadelphia, Chicago, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of Boston on March 31, by the Federal Reserve Bank of San Francisco on April 1, by the Federal Reserve Bank of Philadelphia on April 2, and by the Federal Reserve Banks of New York and Chicago on April 3, 1952, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated March 31, 1952, from Mr. Bethea, Director, Division of Administrative Services, recommending that John Kakalec, Analyst in the Division of Bank Operations, be transferred to the Division of Administrative Services as Accountant on a nonpermanent basis with no change in his present basic salary of $4,330 per annum, effective as of the date he assumes his new duties. The memorandum also stated that the Division of Bank Operations was agreeable to this transfer.

Approved unanimously.

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

"In accordance with the request contained in your letter of April 1, 1952, the Board approves the appointments of Alfred E. Hamel, Frank X. Kayser, and Henry Schumacher as assistant examiners for the Federal Reserve Bank of New York.

"Please advise us of the dates upon which the appointments are made effective."

Approved unanimously.

Letter to Mr. Clarke, Secretary, Federal Reserve Bank of New York, reading as follows:

"Thank you for your letter of March 27, 1952, advising that at the request of the United Nations, the leave of absence without pay granted to Mr. Arthur I. Bloomfield, Senior Economist, was extended until the end of March 1952, in order to permit him to complete the assignment for which he went to Korea.

"The Board of Governors interposes no objection to this extension of leave granted Mr. Bloomfield."

Approved unanimously.

Letter to Mr. Purrington, Assistant Vice President, Federal Reserve Bank of Chicago, reading as follows:

"This refers to your letter of April 1, regarding the penalty of $26.20 incurred by the State Bank of Coloma,

"Coloma, Michigan, on a deficiency in its reserves for the period ended March 15, 1952.

"It is noted that the deficiency resulted from the subject bank's overlooking the fact that it did not have securities maturing on March 1, the proceeds of which would have offset a purchase of $200,000 of Government securities, and that the bank has had only two penalties assessed for deficient reserves over a period of nine years.

"In the circumstances, the Board authorizes your Bank to waive the assessment of the penalty in this case."

Approved unanimously.

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

"Reurlet April 2. In view of your recommendation, Board approves establishment and operation of a branch in San Marino, California by Southern Commercial and Savings Bank, East Pasadena, California, provided the branch is established within six months of the date of this telegram, and approval of the appropriate State authorities is obtained. It is understood that the Bank's capital has been increased to $500,000 and that counsel for the Reserve Bank will satisfy himself as to all legal aspects involved. This approval supersedes entirely authorization contained in the Board's telegram of December 17, 1951."

Approved unanimously.

Letter to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, Washington, D. C. (attention: Mr. Garziglia, Room 253, Executive Office Building), reading as follows:

"This is in response to your communication of April 1, 1952 requesting the Board's comments on an enrolled bill, S. 2085, 'To further amend section 5136 of the Revised Statutes, as amended, with respect to underwriting and dealing in securities issued by the Central Bank for Cooperatives.'

"The Board reported to the Bureau of the Budget by letter dated July 19, 1951 on a draft bill identical with the enrolled bill S. 2085. Four copies of the Board's letter are enclosed for your ready reference. You will note that the Board interposed no objection to the legislation."

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks, reading as follows:

"The Board has reviewed the 'Report on Trial Program of Free Distribution of Selected Important System Publications to Teachers of Money and Banking in the St. Louis and New York Federal Reserve Districts' dated February 5, 1952 and accepted by the Conference of Presidents at a meeting on February 27, 1952. The report contained the following recommendations concerning distribution of material relating to the Federal Reserve System:

(1) The establishment or continuation, as the case may be, by each Federal Reserve Bank of a program designed to better acquaint teachers of money and banking and related subjects with available material relating to the Federal Reserve System; such programs to include the furnishing of sample copies of (a) the Monthly Review and other special publications of the Federal Reserve Banks, (b) current issues of the Federal Reserve Bulletin and the monthly Chart Book, (c) the current edition of the Historical Supplement to the Chart Book, and (d) the list of Board publications; as well as information on the availability of material for teachers and university libraries upon application. (The cost of the initial and later distribution of the monthly Chart Book to be carried by the Federal Reserve Banks.)

(2) After the initial distribution of sample copies of the publications listed in (1) above, the furnishing directly by the Board of a complimentary copy of semi-annual revisions (in lieu of the present annual revision) of the Historical Supplement to the Chart Book to individual teachers requesting this

"publication, and the continuation of Board policy of furnishing a complimentary copy of the following publications upon request to teachers:

Federal Reserve Bulletin
The Federal Reserve System--Its Purposes and Functions (cloth-bound)
Technical Studies

(3) The continuation of Board policy of charging individual teachers for other Board publications for which there are announced charges.

(4) The conducting of a program at each Federal Reserve Bank in its discretion, along the lines of that carried out by the New York or St. Louis Bank. This would include such arrangements as might be thought to be necessary from year to year to follow up the initial contacts and to reach new teachers.

(5) The sending of an annual check-up notice by the Board to all addressees receiving complimentary copies of the Federal Reserve Bulletin and Historical Supplement to the Chart Book, in order to verify the form of address and to determine whether future issues are desired. (This procedure is followed with respect to all the Board's mailing lists.)

"This letter is for the purpose of informing you that the Board approves the program outlined and, in so far as the above recommendations relate to distribution of Board publications, it is prepared to make the program effective immediately."

Approved unanimously.

Memorandum dated April 3, 1952, from Mr. Chase, Assistant Solicitor, recommending for reasons stated therein that, in accordance with the recommendation of the Federal Reserve Bank of Boston, the matter of Television and Appliance Corporation, 223 Main Street, Fitchburg, Massachusetts, a registrant 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.

Approved unanimously.

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Letter to the Honorable Warren G. Magnuson, United States Senate, Washington, D. C., reading as follows:

"This refers to your communication of March 15, 1952, with which you enclosed a copy of a letter, addressed to Mr. J. Saxton Lloyd, that you had received from Mr. M. O. Anderson, Anderson Buick Center, Seattle, Washington, regarding Regulation W--Consumer Credit.

"Mr. Anderson asks that the maximum maturity provided for automobile instalment credits under the regulation be extended to 21 months or 24 months in the three Pacific Coast States, from the present 18 months maximum which applies equally to all parts of the United States. He expresses the view that these three states depend more on private automotive transportation than do other parts of the country, and that instalment maturities historically have been longer in these states in view of the higher prices of automobiles delivered there.

"West Coast automobile dealers on several occasions in the past year or two have asked the Board, directly or through their representatives in Congress, to provide longer maximum maturities for automobile instalment contracts on the basis of freight rate differentials. One proposal was that freight rate differential zones be established for the entire country in which one additional month of maximum maturity would be provided for each $75 of freight costs. After careful study the Board concluded that such a provision would be administratively impracticable and, no matter how carefully worked out, would contain inequities as between dealers in one zone and another.

"Transportation charges, handling costs, and other similar costs must be reflected, in one way or another, in the selling price of a commodity. As a consequence, the problem which your constituent mentions with regard to West Coast prices is, in reality, a pricing problem rather than a credit regulation problem. As you know, the primary objective of the regulation is to curb the expansion of consumer credit, from the standpoint of helping to control inflation. Therefore, it has seemed to us that we should continue to relate the requirements of the regulation directly to the selling price of a commodity regardless of the components which make up that price. A regulatory principle "which entailed looser credit restrictions on the West Coast merely because delivered prices were higher there would be inconsistent with the anti-inflationary purposes of the regulation: it could be argued on the same grounds that credit terms should be easier for Cadillacs than for Chevrolets or that, the more inflated automobile prices became, the longer should be the maximum maturity.

"Mr. Anderson's proposal that an arbitrary differential be applied to automobile credits only on a state line basis for California, Oregon, and Washington would be simpler to administer than adding a month for each $75 of freight cost, but it would offer no satisfaction to dealers in Florida, Maine, Texas, and other states not on the West Coast that also have relatively high freight costs. It certainly would tend to discriminate against dealers in Reno, Nevada, Boise, Idaho, or other areas near the borders of the three West Coast States.

"It is a major concern of the Board to design the consumer credit regulation on the basis of principles that are administratively practicable and equitable for various businesses subject to the regulation. To provide preferential treatment on the basis of a regulatory principle applicable only to a relatively small group of a large class of Registrants would be most inequitable. As a matter of principle, it would be difficult indeed to arrive at a practicable and equitable means for varying required instalment terms on the basis of community or area need for automobile transportation.

"There are other difficulties with the proposal to allow longer maturities for automobiles in the three West Coast States. On the basis of equitable treatment for all, similar differentials in maximum maturities should presumably be provided for appliances when these are higher priced in one area than in another, but such a provision would be impracticable, in our opinion, in part because of the great diversity of prices for these articles. A major difficulty would arise in the operations of banks and other lending and financing institutions under such a rule because of complicated payment schedules for different areas and uncertainty as to whether purchased paper was in compliance with the regulation.

"It is natural that Mr. Anderson, as well as the other automobile dealers who recently have asked for a relaxation of Regulation W, would like to be able to use easier credit terms "to overcome the increased sales resistance that has developed in recent months partly as a result of continued increases in automobile manufacturers' selling prices. Those arguing for easier credit restrictions have not demonstrated, however, that the present restrictions have materially limited instalment sales.

"Our figures indicate that Regulation W has curbed the inflationary expansion of instalment credit in the past year by accelerating repayments of outstanding credit rather than by unduly restricting new extensions of credit. The total number of automobile instalment sales, including both new and used cars, was larger in 1951 than in 1950. While new automobile sales decreased about 20 per cent in 1951, compared with 1950, the proportion of sales made on a credit basis increased from 46 per cent in 1950 to nearly 60 per cent in the last five months of 1951, which is higher than the rates in most years prior to World War II. It is clear that factors other than the credit restrictions, particularly the natural reaction from the waves of scare buying in 1950 and early 1951, and the further automobile price increases, have been important influences reducing the demand for automobiles in the past year.

"Since it has been primarily cash buyers rather than credit buyers who have reduced their demand for automobiles in recent months, any reasonable lengthening of automobile maturities probably would have only a limited effect in stimulating sales. It would, on the other hand, tend to increase outstanding instalment balances by slowing down the rate of repayment.

"Although there recently has been a comparative balance between inflationary and deflationary forces in the economy as a whole, there is the prospect for a heavy Federal deficit later this year, and renewed waves of inflationary buying are possible. The Board is watching economic and credit developments closely and will be prepared to relax the terms of Regulation W promptly when this appears to be in the national interest.

"We appreciate having this opportunity to outline our views on this question and shall be glad to provide any additional information that you may require on consumer credit regulation or other matters for which we have responsibility."

Approved unanimously, with the understanding that similar letters would be sent to other members of Congress who referred to the Board for attention letters from Mr. Anderson on the same subject.

4/4/52

Letter to the Presidents of all Federal Reserve Banks, reading as follows:

"In accordance with the Board's letter of June 13, 1951, (S-1350), we are enclosing statistical summaries of Regulation X enforcement reports for the month of February 1952.

"A statistical summary of exemptions granted under the provisions of Sections 5(m) and 5(n) of Regulation X is enclosed. If the information is available, it would be desirable for each Bank to include a cumulative report of the amount of credit exempted under the provisions of Section 5(m) in their next enforcement report. Subsequent monthly reports of activity under Section 5(m) should indicate the amount of credit exempted as well as the estimated cost of the proposed structures for the month covered by the report.

"In addition to the Biweekly Statistical Report on the 'Status of Defense Housing under Public Law 139' as of March 12, 1952, we are enclosing a summary of this report in the press statement HHFA-OA-No. 306, dated March 19, 1952."

Approved unanimously.

Secretary.