Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, June 30, 1952. The Board met in the Board Room at 11:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Vest, General Counsel
Mr. Townsend, Solicitor
Mr. Noyes, Director, Division of Selective Credit Regulation
Mr. Fauver, Assistant to Mr. Thurston

Mr. Townsend stated that in accordance with the understanding at the meeting on May 28, 1952, a transcript of record of the proceedings under the Clayton Act entitled "In the Matter of Transamerica Corporation" had been prepared and was now ready for transmission to the United States Court of Appeals for the Third Circuit in Philadelphia. He also said that the transcript of record comprised 30 volumes, each approximately 4 inches in thickness, that shortly after it was filed with the court, counsel for Transamerica and the Board would indicate those portions of the transcript which they wished to have printed, and that unless there was some arrangement whereby counsel for respondent and for the Board could agree upon the portions to be printed the costs would be unnecessarily large, possibly as much as $25,000 for each party. Under these circumstances, he contemplated working with the attorneys for Transamerica Corporation in an effort to keep

the expense of printing as low as possible consistent with the court's wishes.

Mr. Townsend added that the rules of the court would ordinarily require Transamerica Corporation to file its brief within 30 days after the record was filed, and that after that counsel for the Board would have 20 days for a reply. Both of these periods would be inadequate, Mr. Townsend said, and he proposed, since the court was not in session during the summer months, to try to work out a stipulation with Transamerica attorneys under which they would take half the summer and the Board's Solicitor would take the other half with the view to having the case ready for hearing early in the fall session. He stated that there were some other matters of a technical nature concerning which he might also have to consult with the clerk of the court and Transamerica attorneys, and that if there were any major departure from the general arrangements indicated in the foregoing statement he would report the matter to the Board.

After a brief discussion, it was understood that Mr. Townsend would proceed in the manner outlined.

Just before this meeting the available members of the Board approved the following statement regarding the effects of the Defense Production Act Amendments of 1952 with the understanding that it would be delivered to the Office of Defense Mobilization for use in drafting a statement to be made by the President of the United States with respect to the amendments:

"The Board has administrative responsibilities with respect to four provisions of the Defense Production Act--(1) The V-loan Program; (2) the Control of Consumer Credit; (3) the Control of Real Estate Credit; and (4) the Voluntary Credit Restraint Program.

"The provisions of the Act with respect to the V-loan program do not appear to have been altered. Hence, there will be no change in this program as a result of the amendments.

"Authority to regulate consumer credit is eliminated from the bill entirely. Regulation W, which had operated to restrain instalment credit was suspended, effective May 7, 1952, so that this amendment will have no immediate effect on the status quo. However, the loss of this authority will prevent any selective restraint on this important element in the credit structure in the event inflationary pressures reassert themselves.

"The provisions of the Act with respect to real estate credit are complex and the full intent of the Congress can only be determined after reference to the Conference Committee Report and the discussion of the bill before the two houses, which information is not available at this writing.

"In substance, the amendments relate the authority to control real estate credit to the seasonally adjusted rate of housing starts, and provide that no down payment of more than 5 per cent shall be required when that rate is below 1,200,000 annually, for three consecutive months. Using preliminary seasonal factors it appears that the rate has not been above 1,200,000 since February 1951, with the possible exception of February 1952, when it was near that rate. Hence, so far as conventional loans on residential properties are concerned, it would appear that no effective regulation can be applied after the findings required. It is not clear at this time whether such findings should be made as soon as possible, on the basis of previous months, or after three months have elapsed following the amendments to the Act.

"The 5 per cent provision will permit some effective restraint on the G.I. program, beyond that which would be possible under the President's general authorities and this may be quite important in preventing a run-away situation in small home construction and pricing. It is assumed that restraints on Government-aided housing will be the responsibility of the Housing Administration, as they have in the past. The amendments do not appear to limit the Board's authority with respect to nonresidential construction--where fairly tight restrictions are still in effect. There is some question that it would be

"equitable to leave these restrictions in force after the removal of the residential controls, however.

"On balance, it appears that either immediately or in the very near future the selective regulation of real estate credit can no longer be relied upon to limit housing starts to a level consistent with the availability of materials or savings for home construction.

"The Voluntary Credit Restraint Program was suspended by an announcement on May 5, 1952. Therefore, as in the case of consumer credit controls, the loss of the authority to carry out such a program will not affect the status quo. The result is simply that this useful supplementary device to limit nonessential credit extensions will not be available should it be needed."

The statement and its transmission were approved unanimously.

At this meeting, at Governor Evans' request, Mr. Vest summarized the provisions contained in the Defense Production Act Amendments legislation, commenting particularly on those portions relating to authority for real estate credit regulations. Mr. Vest stated that these provisions apparently would result in an extension of the authority for the present regulation at least temporarily, that if the President found that the rate of housing starts for any consecutive three months' period after the bill became law fell below an annual rate of 1,200,000, he would then declare a "period of residential credit control relaxation", that the first such three-month period would be June-July-August, and that the first mandatory relaxation under the new legislation could become effective on October 1 (the first of the second calendar month following the close of the three-month period). Mr. Vest also stated that the President would find it necessary to designate an agency to carry out the new section 607 of the Defense Production Act which contains the foregoing provisions for

determining whether the rate of housing starts had been such as to make necessary the declaration of a period of relaxation.

Mr. Noyes then commented upon the procedure for computing the rate of housing starts each month, adding that during recent months the rate of housing starts as reported by the Bureau of Labor Statistics had fallen below an annual rate of 1,200,000. In his comments, Mr. Noyes stated that because of confusing reports in the press over the week end as to the current legislation, the substance of which indicated that if the bill were signed by the President the real estate credit regulation would cease to operate after midnight June 30, 1952, Mr. Foley, Housing and Home Finance Administrator, urged strongly that it would be desirable for his office and the Board to issue a joint statement indicating that the real estate credit regulations were continuing in effect for the time being.

In response to a question from Governor Szymczak, Mr. Noyes stated that the legislation now before the President made no change in provisions regarding nonresidential building credit and that the Board, therefore, was not called upon to make any changes in the regulation or to make any statement regarding the effects of the legislation on nonresidential building. Mr. Noyes also said, in response to a question, that Mr. Foley felt that the Bureau of Labor Statistics, which was the source of statistical information on the number of housing starts, was the logical agency to be designated

for determining whether the rate of housing starts in each three-month period was in excess of 1,200,000 per annum and that, if the Board concurred, he would like to indicate that it shared his view in this respect.

In the course of the ensuing discussion Governor Evans suggested that Mr. Foley be informed that the Board would concur in the designation of the Bureau of Labor Statistics as the agency to determine the number of housing starts and that Messrs. Noyes and Fauver be requested to work with representatives of Mr. Foley's office in preparing a press release along the lines suggested, for release as soon as word was received that the President had signed the Defense Production Act Amendments of 1952.

These suggestions were approved unanimously, with the understanding that a telegram reading as follows would be sent to the Federal Reserve Banks:

"Study of the Defense Production Act Amendments of 1952 and the report of the Conference Committee on this legislation indicates that authority to control real estate construction credit is continued at least temporarily. This is contrary to some news reports which were released over the week end. There is no change in the authority with respect to the V-loan Program, and authority for consumer credit control and the Voluntary Credit Restraint Program will terminate at midnight tonight. Present indications are that the President will sign the bill, and the Board proposes to issue the following press release, jointly with the Housing and Home Finance Administrator, as soon as the signing is announced. It should not be released prior to notice that the bill has been signed. In view of misleading reports in the press, you will probably wish to notify all Regulation X Registrants of the continuation of terms currently in effect by sending them copies of the release or otherwise. No change in your normal administrative and enforcement activities is indicated at this time."

Secretary's Note: The press release agreed upon pursuant to the above action read as follows:

"JOINT RELEASE
OF THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
AND
HOUSING AND HOME FINANCE AGENCY

June 30, 1952

The Board of Governors of the Federal Reserve System and the Administrator of the Housing and Home Finance Agency announced today that there is no present change in Regulation X and companion real estate credit regulations resulting from passage of the Defense Production Act Amendments of 1952.

The Board and the Administrator pointed out the statement of the conference managers on the bill that the amendments affecting Regulation X are prospective and that procedures looking to the possible subsequent relaxation of the regulations do not begin to operate until the effective date of the Act, July 1, 1952."

At this point Messrs. Townsend, Noyes, and Fauver withdrew from the room.

Mr. Vest said that he had received a telephone call from the Treasury Department to advise that the Bureau of the Budget wished to eliminate from the budget record of appropriated funds the sum of approximately $111 million which remained of the $139 million originally appropriated to the Treasury Department in 1934 to enable it to make payments to the Federal Reserve Banks (Section 13b surplus) in connection with industrial loans. Mr. Vest stated that $27 million had been advanced to the Reserve Banks in the first few months after the inauguration of the Section 13b loan program in 1934, that the activities of the Federal Reserve Banks have not grown

in recent years, and that there had been no occasion to have any further advances made by the Treasury Department in this connection for a period of approximately 16 years. He stated that if this item were eliminated from the budget record it would have no effect on current operations and that if subsequently the program should become active and an advance were needed by the Federal Reserve Banks the item could be restored since the appropriation previously had been made by Congress. He stated that it was his view, as well as that of Mr. Leonard, Director of the Division of Bank Operations, that there would be no objection to the procedure proposed by the Bureau of the Budget, and that the matter was being brought to the attention of the Board so that it could determine what response should be made to the Treasury Department as to the Board's attitude.

It was agreed unanimously that Mr. Vest should advise the Treasury Department informally that the Board would have no objection to the procedure suggested by the Bureau of the Budget.

Before this meeting there had been circulated among the members of the Board a memorandum from Mr. Vest dated June 9, 1952, regarding a letter from Mr. Elmore, Bank Commissioner of the State of Connecticut, dated June 2, 1952, which raised a question as to the provision of Federal law prohibiting State member banks from purchasing stock in other corporations in view of the fact that the Connecticut law permits savings banks and the savings

departments of State banks and trust companies to purchase certain bank stocks subject to specified limitations.

Governor Powell stated that Mr. Elmore felt the prohibition against such stock purchases by national and State member banks was keeping some banks from becoming members of the Federal Reserve System, and that he would be glad to have the Board seek a change in the law so that a Connecticut State bank or trust company would not have to forego the privilege of investing a portion of its savings deposits in bank stocks as authorized by the legislature of the State of Connecticut, if the bank wished to become a member of the Federal Reserve System. Governor Powell went on to say that he was not proposing that any action be taken in connection with Mr. Elmore's letter but that he had assured him the matter would be brought to the attention of the Board.

Governor Szymczak suggested that the matter be referred to Governor Robertson for consideration and report to the Board after his return from vacation.

This suggestion was approved unanimously.

Memoranda recommending that the basic annual salaries of the following employees be increased, in the amounts indicated, effective July 6, 1952:

Date of Memorandum	Name and Title	Salary Increase From	To
	Memorandum from Mr. Williams, Assistant Director, Division of Research and Statistics		
6/20/52	Elsie T. Nelson, Statistical Assistant	$4,705	$4,830
	Doris McTeer, Clerk-Stenographer	3,175	3,255
	Rose Cornish, Clerk	3,270	3,350
	Pauline J. Fletcher, Clerk	3,190	3,270
	Memorandum from Mr. Dembitz, Assistant Director, Division of International Finance		
6/20/52	John H. Power, Economist	5,435	5,560
	Margaret R. Garber, Statistical Assistant	4,580	4,705
	Memorandum from Mr. Boothe, Assistant Director, Division of Selective Credit Regulation		
6/19/52	Oliver H. Jones, Analyst	5,185	5,310

Approved unanimously.

Memorandum dated June 16, 1952, from Mr. Sloan, Director, Division of Examinations, recommending an increase in the basic salary of R. T. Pettijohn, Assistant Federal Reserve Examiner in that Division, from $4,170 to $4,295 per annum, effective July 20, 1952.

Approved unanimously.

At this point Mr. Vest withdrew from the meeting and the following additional actions were taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on June 27, 1952, were approved unanimously.

Letter to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, Washington, D. C., reading as follows:

"This refers to your telephone conversation with Mr. Vest, the Board's General Counsel, on June 30, 1952, requesting an expression of the Board's views with respect to enrolled bill S. 2594, the 'Defense Production Act Amendments of 1952.'

"As you know, the provisions of this bill relating to the control of consumer and real estate credit and the operation of voluntary programs with respect to financing are not in accordance with recommendations made by the Board. However, in all the circumstances the Board is not disposed to raise objection to approval of this bill by the President."

Approved unanimously.

Mr. Carpenter reported that the Comptroller of the Currency would issue a call on July 2, 1952, on all national banks for reports of condition as of the close of business on June 30, 1952, and that, in accordance with the usual practice and the Board's letter of June 12, 1952, a call would be made on July 2 on behalf of the Board of Governors of the Federal Reserve System on all State member banks for reports of condition as of June 30, 1952.

The call to be made on behalf of the Board on July 2, 1952, was approved unanimously.

S. R. Carpenter

Secretary.