

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, February 18, 1953. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary  
 Mr. Sherman, Assistant 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. Noyes, Assistant Director, Division of Research and Statistics  
 Mr. Solomon, Assistant General Counsel  
 Mr. Cherry, Legislative Counsel

There was presented a request that W. J. McClelland, Federal Reserve Examiner, Division of Examinations, be authorized to travel to Chicago, Illinois, during the period February 15-22, 1953, to make a survey of the Bank Examination Department of the Federal Reserve Bank of Chicago in connection with the current examination of the Reserve Bank by the Board's field examining staff.

Approved unanimously.

Chairman Martin stated that he had been asked to discuss selective credit controls at a meeting of the Defense Mobilization Board to

2/18/53

-2-

be held tomorrow at 11:00 a.m., and that he would like to have the views of the other members of the Board as to what comments he might make at that time. He also referred to receipt by the Board of a letter dated February 4, 1953, from Mr. Ira Dixon, Clerk of the Senate Banking and Currency Committee, requesting on behalf of the Committee a report on Bill S. 753, introduced by Senator Capehart, of Indiana, and cited as the "Emergency Stabilization Act of 1953", which would provide stand-by authority for certain of the controls now contained in the Defense Production Act, including consumer and real estate credit controls.

Mr. Cherry said, in response to an inquiry by Chairman Martin, that Mr. Dixon told him this morning that he did not know when hearings would be held on Bill S. 753, that the Committee had requested Mr. Charles H. Kendall, General Counsel of the Office of Defense Mobilization, to arrange for witnesses from the Government agencies concerned and to find out what line of testimony the Government agencies would present, and that Mr. Kendall this morning had asked Senator Capehart for additional time. Mr. Cherry said that, according to Mr. Dixon, the Committee was to receive a briefing from representatives of the defense agencies in executive session next week, but that that was not related to the consideration of any particular piece of legislation and beyond that the Committee's plans were indefinite. In the circumstances,

2/18/53

-3-

he said, it appeared that it would be at least ten days or two weeks before Chairman Martin would be asked to testify and Mr. Dixon had promised to give ample notice so that any statement which the Board wished to present might be prepared.

Chairman Martin then summarized a conversation that he had last week with Senator Capehart, stating that the Senator was strongly in favor of stand-by controls and wanted to know how the Board would testify. Chairman Martin said he responded by expressing the personal view that if the Congress should want to pass a bill providing for stand-by credit control powers, with complete flexibility of administration, he felt that the Board would be willing to accept the responsibility and would consider the stand-by powers as a form of insurance.

At Chairman Martin's request, Mr. Vest described the provisions of Bill S. 753 having particular interest for the Board. In general, he said, the bill followed very closely the provisions of the Defense Production Act of 1950, as amended, except that in most respects it was a stand-by authority to be invoked by the President of the United States only in the event of war or if the President deemed it necessary in the interest of national security or economic stability after consultation with a "National Advisory Council", which would be composed of an unspecified number of persons appointed by the President, with the advice

2/18/53

-4-

and consent of the Senate, representing business and industry, agriculture, labor, the military, and consumers. Under the bill, Mr. Vest stated, the authority for the V-loan program, which expires June 30, 1953, would be extended for one year from that date, while the Board's authority to regulate consumer credit would be reinstated on a stand-by basis in precisely the same form as enacted in the Defense Production Act of 1950, that is, without the restrictive provisions contained in the 1951 amendments to the Act. The bill likewise would reenact on a stand-by basis the authority of the President to regulate real estate construction credit in the identical form in which it was contained in the Defense Production Act of 1950, as amended, except for omission of the restrictive amendment in 1951 which limited the down payment required of veterans and the formula which was added in 1952 with respect to suspension and reinstatement of the regulation. In its present form, the bill would contain no authority for reinstating the voluntary credit restraint program.

Mr. Noyes added that in respect to the regulation of real estate credit, the authority, as in the original Defense Production Act, would provide for a veteran's preference and would be restricted to credit for new construction.

2/18/53

-5-

Chairman Martin then called upon Mr. Riefler, who made the suggestion that if the Board felt that the authority to regulate consumer credit should be exercised only in the event of war or other severe emergency, it might be possible to have included in the Federal Reserve Act language to the effect that under unusual and exigent circumstances the Board, by vote of at least five members, could exercise consumer credit controls in accordance with, and to carry out, the provisions of Executive Order No. 8843 (August 9, 1941). Such language, he pointed out, would be similar to that contained in the third paragraph of section 13 of the Federal Reserve Act with respect to discounts for individuals, partnerships, and corporations. It would, he thought, tend to provide assurance that the regulation would be invoked only under unusual circumstances while at the same time giving the Board independence of action.

During a discussion of Mr. Riefler's suggestion, other members of the staff pointed out that attempts to provide a safeguard by insertion of language conditioning action upon "exceptional circumstances" or upon the affirmative vote of a certain number of the members of the Board had not always proved to be realistic. It was also pointed out that in discussing possible legislation at the meeting on November 4, 1952, the Board looked with some favor on a proposal to eliminate from

2/18/53

-6-

the Federal Reserve Act all provisions which state that action shall be taken only upon the vote of a specified number of the members of the Board.

Chairman Martin, referring to the comments which he made concerning selective credit controls at the meeting with the Federal Advisory Council yesterday, said that in his opinion authority for such controls, if they were to be administered properly, must be given in a framework which would provide flexibility and permit independence of action on the part of the administering agency. He doubted whether it would be possible to get such authority at this time and said that, even if it were possible, there might be considerable political pressure with respect to the enforcement of the regulations because of the large number of persons affected by them.

Chairman Martin said that his views on selective credit controls had changed a great deal since he first came on the Board, that he now felt that permanent authority for such controls should be contained in the Federal Reserve Act, but that he did not think the atmosphere was conducive to such a request. He doubted that the Board could administer such controls properly under delegation of authority from the executive branch of the Government or on a similar basis because that involved the danger that limitations would be imposed that the Board did not

2/18/53

-7-

favor, as when the screening of municipal issues was removed from the voluntary credit restraint program. Chairman Martin said, however, that, as he told Senator Capehart, he felt that if a bill were passed giving the Board authority to administer such regulations flexibly, it would be difficult for the Board to say that it did not want the authority.

In further comments, Chairman Martin said that in his opinion a voluntary credit restraint program could be very useful and desirable under certain conditions for limited periods of time.

Governor Evans expressed the opinion that there had been too great an expansion of consumer credit and that efforts to reach consumer credit through general credit controls probably would not be successful since such credit would be extended in preference to other credit due to the higher rate of interest involved. He recalled that in the past the Board had taken the position that authority to regulate consumer credit was a valuable thing to have in any kit of tools dealing with credit, and he said he would like to see the Board take the same position at this time, with the understanding that if the Congress wanted to give that authority to the Board, it should do so with no conditions whatsoever upon the administration of the regulation.

Governor Evans also stated that in his opinion the reaction of the general public toward Regulation W was favorable, and he remarked

2/18/53

-8-

that the number of violators was relatively small. He noted that some of the members of the Federal Advisory Council, a body which in the past was strongly opposed to the regulation of consumer credit, now expressed themselves as concerned over the expansion of the volume of such credit.

It was Governor Robertson's view that the Board should take the position that it had confidence in general credit controls, that it favored a "free" economy, that while there were occasions when selective credit controls were essential, authority for them should not be placed in the statutes, that the decision as to when they should be imposed should rest with the Congress, that the Congress should strive to prepare a bill that could be passed, along with other legislation, in time of war or other emergency, but that in normal circumstances primary reliance should be placed on general credit controls. He made the further statement that he thought the Board should take the position that if Congress should grant any such authority, it should give the designated agency complete freedom of action in administering the controls without regard to political pressures.

Chairman Martin inquired what answer could be given if it should be stated that it would be difficult for the Congress to pass legislation quickly in the event of a major emergency even if it had



2/18/53

-9-

bills in readiness, and Governor Robertson replied that should a disaster of major proportions occur, he felt that steps would have to be taken under the emergency powers of the President, as in 1933. In such an event, he said, there would be a need for much more severe controls than those under consideration at this meeting.

Governor Mills stated that his views were similar to those of Governor Robertson. He felt the Board might take the position that selective credit controls have a definite usefulness under certain conditions, that in its judgment and experience the Board would be the logical body to administer such controls, that the actual imposition of the controls should reside with the Congress, and that any authority given by the Congress should be flexible in character. He also thought that the Board should not argue for stand-by controls and that the Board might state that although a case probably could be made for stand-by authority residing with a particular agency, it was not prepared to express judgment on that at the present time.

Governor Vardaman suggested that Chairman Martin might bring out at the meeting of the Defense Mobilization Board tomorrow or in testimony before the Senate Banking and Currency Committee that the effectiveness of the real estate credit regulation had been affected by activities of other Government agencies in the field of housing

2/18/53

-10-

credit. Chairman Martin agreed that there might be justification in pointing out any factors which militated against the effectiveness of selective credit controls but he doubted whether it would be wise to go so far as to suggest that other agencies should necessarily abide by regulations established by the Board.

Governor Szymczak suggested that the Board and the Presidents' Conference have a detailed discussion of consumer and real estate credit and that the Board ask the Presidents for their views on the matter of consumer credit from the standpoint of the safety of individual banks as well as asking whether the Presidents felt there was need for selective credit controls at the present time and whether authority for them should be in the statutes. He also suggested raising for discussion with the Presidents whether there should be a tightening of the provisions of Regulation A, Discounts for and Advances to Member Banks by the Federal Reserve Banks.

With regard to the meeting of the Defense Mobilization Board tomorrow, Governor Szymczak suggested that Chairman Martin might bring out that in the event of a major emergency, Regulation W could be reinstated without further legislation and that he might state that to the extent that Congress wanted to be prepared with stand-by authority, the Board, while it was not seeking the authority, would accept

2/18/53

-11-

it and administer the controls to the best of its ability. He thought it would also be well to point out the importance of fiscal and debt management policy, along with monetary and credit policy, in achieving a stable economy and that selective credit controls should not be imposed without other appropriate measures.

Mr. Thurston commented that although the groups which expressed opposition to the consumer and real estate credit regulations were active and vocal, he felt that the regulations had considerable popular support. He also said that, from the standpoint of tactics and public relations, any move to give stand-by authority to the Board should originate outside the Board rather than as the result of a suggestion by the Board itself.

Chairman Martin then inquired whether he was correct in judging it to be the consensus of the Board that if the Congress wanted to give stand-by authority to the Board with provision for flexibility of administration, the Board should not take the position that that would be a mistake. This appeared to be the consensus, although some feeling was expressed that the Congress itself should decide when selective credit controls should be imposed.

Chairman Martin stated that the agenda for the meeting of the Defense Mobilization Board tomorrow also called for discussion of rent

2/18/53

-12-

controls, priorities, and materials controls, and he inquired whether the members of the Board had any thoughts as to what he might say with respect to those matters.

During a discussion of rent controls, Mr. Noyes said that the question was not one of stand-by authority but that President Eisenhower in his State of the Union Message said that he recognized the probable necessity for continuing rent controls in some critical areas and the Administration must now spell out what controls of this nature should be maintained beyond April 30, 1953, when, in the absence of other action, all rent controls would expire.

Mr. Riefler's comments were to the effect that although rent controls may be justified for limited periods of time under certain circumstances, they should contain provisions for automatic upward adjustments of the ceilings when new building takes place. If left in effect indefinitely, he said, they contribute to a waste of space through "freezing" people in their existing quarters while people coming into the housing market are forced to buy at high prices.

Mr. Thomas said that the presumption now was in favor of removing all such controls and that the burden of proof, therefore, was on those who wanted to retain them. He agreed with Mr. Riefler that rent controls and other such controls tend to perpetuate themselves.

2/18/53

-13-

The Board then went into executive session, following which the Chairman informed the Secretary that prior to the meeting inquiry had been made whether the Board would be agreeable to the designation by the President of the United States of Governor Mills to serve as a member of the Loan Policy Board of the Reconstruction Finance Corporation which, pursuant to Reorganization Plan No. 1 of 1951, consists of the Administrator and Deputy Administrator of the Corporation, the Secretary of the Treasury, the Secretary of Commerce, and one other member who shall be designated from time to time by the President from among the officers of the United States who are required to be appointed by and with the advice and consent of the Senate.

The Chairman also said that the members of the Board were in unanimous agreement with the suggested designation.

Secretary's Note: Under date of February 21, 1953, the President of the United States addressed a letter to Governor Mills designating him a member of the Loan Policy Board.

The meeting then adjourned. During the day the following additional actions were taken by the Board, with all of the members present:

2/18/53

-14-

Minutes of the meeting of the Board of Governors of the Federal Reserve System with the Federal Advisory Council held on February 17, 1953, were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on February 17, 1953, were approved unanimously.

Letter to Mr. Woolley, Vice President, Federal Reserve Bank of Kansas City, reading as follows:

"In accordance with the request contained in your letter of February 13, 1953, the Board approves the designation of the following individuals as special assistant examiners for the Federal Reserve Bank of Kansas City for the specific purpose of rendering assistance in the examinations of the Commerce Trust Company, Kansas City, Missouri, and The International Trust Company, Denver, Colorado:

James A. Hutton  
John W. Snider  
Donald I. White

"Appropriate notations have been made in our records of the names to be deleted from the list of special assistant examiners."

Approved unanimously.

Letter to the Organization Committee of the Bank of Dearborn, Dearborn, Michigan, stating that, subject to conditions of membership numbered 1 and 2 contained in the Board's Regulation H, and the following special condition, the Board approves the application made on behalf of the bank for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Chicago, effective if and when the bank is authorized to commence business by the appropriate State authorities:

2/18/53

-15-

3. At the time of admission to membership such bank shall have a paid-in and unimpaired capital stock of not less than \$500,000 and other capital funds of not less than \$500,000.

The letter also contained the following paragraph:

"It appears that the bank will be authorized to exercise trust powers under its charter, subject to the limitations of the laws of the State of Michigan, but that it does not intend to qualify to exercise such powers at the time of admission to membership. Attention is invited to the fact that if the bank should desire to exercise any powers not actually exercised at the time of admission to membership, it will be necessary, under condition of membership numbered 1, to obtain the permission of the Board of Governors before exercising them."

Approved unanimously, together with the following letter to Mr. Young, President, Federal Reserve Bank of Chicago:

"The Board of Governors of the Federal Reserve System approves the application made on behalf of the Bank of Dearborn, Dearborn, Michigan, for membership in the Federal Reserve System, effective if and when the bank is authorized to commence business by the appropriate State authorities, subject to the conditions prescribed in the enclosed letter, which you are requested to forward to the Organization Committee of the institution. Two copies of such letter are also enclosed, one of which is for your files and the other of which you are requested to forward to the Commissioner, State Banking Department for the State of Michigan, for his information.

"Before issuing stock in the Federal Reserve Bank of Chicago to the new State institution, you are requested to satisfy yourself that its capital stock of \$500,000 has been paid in, that a Certificate of Authority to Commence Business has been issued, and not less than \$500,000

2/18/53

-16-

"of other capital funds provided as set forth in the plan submitted. At such time your Counsel should review all steps taken in the organization of the bank, and certified copies of all organization papers and resolutions adopted by the board of directors should be forwarded to the Board, together with a copy of Counsel's opinion."

Telegram to Mr. Stetzelberger, Vice President, Federal Reserve Bank of Cleveland, reading as follows:

"Your wire re Peoples Liberty Bank and Trust Company, Covington, Kentucky. In view of provisions of section 5155 U.S.R.S., proposed agency of Trust Company would constitute branch within meaning of Federal law, since it would receive deposits and cash checks. Also, since Kentucky statute silent on question of branches, it cannot be said that State statute specifically authorizes out-of-town branches, as required by section 5155. Accordingly, Board is without legal authority to approve out-of-town branch for State member bank in Kentucky. Informal check with Comptroller's Office indicates its staff takes view that national bank could not legally establish out-of-town branch in Kentucky."

Approved unanimously.

Telegram to Mr. Wilbur, Federal Reserve Agent, Federal Reserve Bank of San Francisco, authorizing him to issue a limited voting permit, under the provisions of Section 5144 of the Revised Statutes of the United States, to Transamerica Corporation, San Francisco, California, entitling such organization to vote the stock which it owns of The First National Bank of Bellflower, Bellflower, California, at any time prior to May 1, 1953, to act

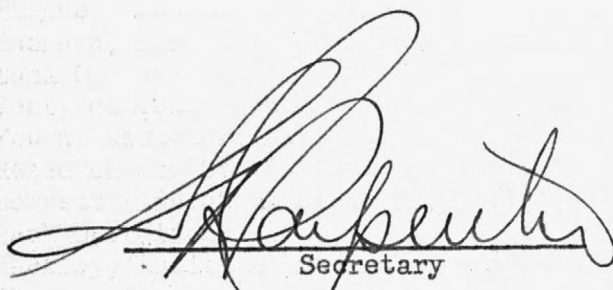


2/18/53

-17-

upon proposals (1) to increase the capital stock of such bank,  
and (2) to amend the articles of association of such bank to con-  
form to articles recommended by the Comptroller of the Currency,  
provided that all action taken shall be in accordance with plans  
satisfactory to the Comptroller of the Currency.

Approved unanimously.

  
Secretary