WITHIN THE WALLS

An Address by Oliver S. Powell, Member,
Board of Governors of the Federal Reserve System,
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Within The Walls

In casting around for a topic which might be of interest to this educational meeting, it occurred to me that you might like to know some of my first impressions of the work of the Board of Governors of the Federal Reserve System. As you know, I am a freshman member, having been in office only since September 1, 1950. Quite obviously, it would be presumptuous for me, with such a short term of experience in this work, to come out here and make a policy address. At the same time, I believe that I am uniquely qualified to give you first impressions while they are still fresh in my mind.

The Board of Governors consists of seven men, each appointed by the President of the United States and confirmed by the Senate. In making the appointments the President is required to have due regard to a fair representation of the financial, agricultural, industrial and commercial interests and geographical divisions of the country. The President designates one of the members as Chairman of the Board, but in all other respects the seven members have equal standing.

It has always puzzled me as to how a seven-man Board, retaining their independence of thought and action, on a par with each other in authority and equally responsible to the public, can manage to function. This question was answered soon after I reached Washington. The Secretary of the Board handed me a thick loose-leaf book containing the self-imposed rules voted by the
Board of Governors for carrying out its work. For example, there is one rule regarding travel by the members of the Board. While the greatest freedom of action was reserved, rules were laid down for advising one another of prospective travel to avoid overlapping of trips and to be sure that a quorum would be in Washington at important times. In the matter of public addresses the Governors have agreed that they will submit the text of important statements to each other for criticism and suggestions.

The work of the Board of Governors is so complex that the Governors have agreed that each will be responsible for initial consideration of certain phases of the work. These assignments are made by the Chairman of the Board with the approval of the Board Members. For example, one member of the Board might have the research program and another have the accounting relationships with the Federal Reserve Banks. Of course in important policy matters the questions are referred to the entire Board for action.

Regular meetings of the Board of Governors are held on Tuesday and Friday mornings. However, in my short period in Washington, it has been a rare day when there was not a meeting of the Board. Coordinating the activities of the Board is an efficient Secretary's Office, which keeps a record of the whereabouts of the Board Members, sets up agenda for meetings, sees that matters are processed between meeting dates, keeps the minutes, writes official letters, and carries on myriad other activities.
The Federal Reserve Board building frequently seems to be the Grand Central Station of finance. All one needs to do is to stay in one place for a short time and his friends from all over the United States will be in to see him. In one hour recently I met bankers from California, Kansas, Minnesota, Pennsylvania and New York. Some of these people come to Washington on invitation to advise the Board and their technical staff on current problems. Others come in to discuss specific situations and still others are merely passing through and wish to trade ideas on current events. I can't overestimate the importance to the Board of Governors of such visitors for without their first-hand reports of conditions on the firing line of banking the Board Members would soon be hopelessly out of touch with realities.

The Board Members and staff apparently do a lot of traveling. One of the first days after I came to Washington I sat at lunch with Dr. Arthur Marget, the newly appointed chief of the Division of International Research. I suggested to him that we should have a visit during which he could tell me about the work of his Division, but he informed me that he was leaving the following morning by plane for Paris, where he would attend meetings of the International Bank and Fund. I find that his entire international research staff are great travelers and one is apt to find them anywhere on the globe, rendering assistance to central banks or acting as observers of E.C.A. and other activities. The Board Members and the domestic staff probably do not travel as far but their work takes them out of Washington a great deal.
A friend of mine who has been in another Government agency in Washington only slightly longer than I have been in that city phoned me a few days ago about a troublesome question. He said, "I thought when I came here that we had all of the tough problems in the field but since I came to Washington, I find that some of the toughest ones come to us here for solution." That isn't only true of his agency. It is also true of the Federal Reserve Board. Banking questions are continuously being presented to the Board of Governors for final decision and I can assure you that the problems are not always coal black or snow white. Many times the answers could be either "Yes" or "No" with good reasoning behind the answer, and yet the Board must make a decision. For example here are some of the types of questions:

Are new wrinkles in banking service ultra vires? If regulations of other agencies seem to curtail the operations of banks, should the Board of Governors intercede? Who is right in arguments between two banks over competitive practices? One of the most famous questions now pending is the hearing under the Clayton Act involving the Transamerica Corporation.

Ever since I arrived in Washington the uppermost question in the minds of the Board of Governors and its staff is what to do about inflation. There is no doubt about the inflation danger being present. Commodity prices have been rising sharply; bank credit to consumers and industry has grown tremendously during the past few months; and people are spending their liquid
assets at a faster rate.

I soon learned the stark facts of inflation. For every one per cent increase in commodity prices, the cost of living and doing business in the United States increases four and one half billion dollars. While precise estimates cannot be made of the size of the defense effort in coming months, it seems probable that by a year from now even though we have full employment, there will be one million fewer employees engaged in making civilian goods. Yet with an increase in over-all employment the national income might be up as much as twenty-five billion dollars over current levels even without any further price increases. Putting these two facts together it is pretty obvious that there will be less civilian goods and more money with which to buy them. Add to this the fact that many people seem anxious to spend accumulated savings for consumer goods and many other people are anxious to borrow against future income to buy merchandise today and we have a perfect set up for continued inflation.

The broad pattern of remedies for inflation is well known: taxation which actually removes the dollars from people's pockets, savings bond campaigns which divert dollars from current spending to savings, increasing the cost of borrowed money and restrictions on consumer buying. Shortly before I arrived in Washington, the Federal Open Market Committee, of which the members of the Board of Governors are all members, together with
five Presidents of Federal Reserve Banks, had taken certain steps to increase the cost of borrowing at banks. This was done by increasing discount rates and permitting the yield of short-term Government securities to rise moderately. Incidentally the latter of these moves had the added significance of making short-term Government securities more desirable investments for the short-term funds of corporations and institutional investors.

When I arrived in Washington, Congress was in the midst of work on the Defense Production Act of 1950 which was to give to the Board of Governors of the Federal Reserve System certain additional powers to combat inflation. I wonder if you were not amazed that within an hour after President Truman signed the Defense Act of 1950 the consumer credit regulation was announced to the public by the Board of Governors of the Federal Reserve System. That prodigious achievement did not just happen. I found it intensely interesting to see how a new regulation of that sort is launched.

In the first few days of my work in Washington it seemed that every vacant room in the Board building was occupied by a committee of some sort. I discovered that in anticipation of the enactment of the Defense Production Act of 1950 with its provision for consumer credit regulation, the Board of Governors had invited representatives of every important group interested in consumer credit to come to Washington for consultation regarding the proposed regulation.
Meanwhile there was intense activity in other areas. The Federal Reserve Banks had been asked for their opinions and advice. Congressmen were sending over drafts of sections of the bill and requesting workable language for others which our legal staff provided. The economists were bringing consumer credit data down to date and analyzing the differences in credit terms between regions. A staff of experienced men who had dealt with consumer credit regulation in past periods was reassembled; staff conferences were being held with other agencies, such as the Council of Economic Advisers to the President, the Bureau of the Budget and the White House staff.

Finally the bill was passed by both Houses of Congress. It went to conference regarding differences, which meant more running back and forth between staff members, more suggestions as to language, etc. Finally the conference bill was resubmitted to all interested agencies before the President signed it. When the President signed the bill, everything was in readiness, both in the Federal Reserve Board office and in the Federal Reserve Banks to place the consumer credit regulation in motion immediately.

A similar process has been under way with the new real estate credit regulation. This regulation has taken longer to mold since there was no record of previous experience with this type of credit control. There are also significant differences between real estate credit control and consumer credit control.
For one thing the Federal Housing Administrator must concur in the former and his agency and the Federal Reserve Board have been working very closely together in the drafting of the new regulation.

If time would permit, I would like to try to give you a word picture of what goes on at a typical meeting of the Board of Governors, at a Federal Open Market Committee meeting, and at a meeting with the Federal Advisory Council. However, perhaps I have said enough to take some of the mystery out of the Board of Governors of the Federal Reserve System. I have found the Board and its staff to be a hard working, devoted group, trying objectively to solve the knotty problems of the day, looking at the situation in national terms and conscious that much of our future welfare depends on the wisdom of its decisions.