

A meeting of the Board of Governors of the Federal Reserve System with the Presidents of the Federal Reserve Banks was held in the offices of the Board of Governors in Washington on Tuesday, May 3, 1949, at 3:30 p.m.

PRESENT: Mr. McCabe, Chairman
Mr. Eccles
Mr. Szymczak
Mr. Draper
Mr. Vardaman
Mr. Clayton

Mr. Carpenter, Secretary

Messrs. Erickson, Sproul, Williams, Gidney, Leach, McLarin, C. S. Young, Davis, Peyton, Leedy, Gilbert, and Earhart, Presidents of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco, respectively

Mr. C. G. Young, Secretary of the Presidents' Conference

The Presidents met in separate session on Monday, May 2, and prior to this joint meeting a memorandum relating to the topics which the Presidents wished to discuss with the Board was furnished to the members of the Board. The statement of the Presidents and the discussion with respect to each of the topics at this joint meeting were as follows:

1. Labor legislation. At the meeting on Monday, reference was made by the Conference to the Board's letter of April 22, 1949, to each of the Presidents, advising of recent developments regarding labor legislation affecting the Federal Reserve Banks. It was indicated in the Board's letter that both of the committees of Congress having jurisdiction of the subject have reported bills to repeal

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the so-called Taft-Hartley Act and that neither of the bills so reported contains an exemption for Federal Reserve Banks. The Presidents believe that the subject is of considerable importance to the Reserve Banks, and they expressed the desire to discuss the matter fully with the Board at the joint meeting today.

Mr. Clayton reviewed recent developments in connection with the legislation now pending before the Congress to amend or repeal the Taft-Hartley Act and the possible effects of the pending alternative bills on the present exemption of the Federal Reserve Banks from the provisions of the Wagner Labor Relations Act. There was also a discussion of the possibility of an amendment in the Senate to the bill repealing the Taft-Hartley Act if that bill should be approved by the House of Representatives.

Mr. Davis stated that the Presidents were interested in being brought up to date on the matter and that while the Federal Reserve Banks probably could operate under the law if the present exemption were removed, they would much prefer to have the exemption continued. He also commented that employee relationships were good at all of the Federal Reserve Banks at the present time.

2. Procedure followed in advising Branches of Important Information from the Board. In a wire to the Chairman of the Presidents' Conference, dated April 26, 1949, the Board advised that it would like to discuss with the Presidents, at the joint meeting today, the procedure followed by the Reserve Banks in informing branches promptly of advice received from the Board of Governors, regarding amendments to regulations and other important matters. The subject was discussed by the Conference on Monday, and it was agreed that the subject should be listed for discussion at the joint meeting today, in accordance with the Board's wishes.

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Chairman McCabe stated that this topic had been included on the agenda at his suggestion since he felt it was important that the Branches of the Federal Reserve Banks be advised promptly whenever regulations were adopted or amended or other important action of that kind was taken by the Board of Governors, and that the officer in charge of a Branch should not be in the position of learning of the action from the newspapers. In that connection, he inquired whether the Presidents would have any objection to the Board sending to the Branches for their information copies of wires to the Federal Reserve Banks advising them of important actions. He made it clear that this procedure would not apply when the matter involved a question of policy or procedure on which the views of the Presidents of the Federal Reserve Banks were desired but only when the Banks were being advised of actions taken by the Board.

In the ensuing discussion the Presidents indicated that such a procedure would be satisfactory to them and it was suggested that both the wire to the head office and to the Branches should state that copies of the wire were being sent to the Branches for their information.

Mr. Davis referred to the fact that advice of the Board's recent actions with respect to margin requirements and reduction in reserve requirements was received by his Bank after he had left for the day and that he did not learn of the actions until the next morning. He stated that it would be helpful if these advices could be sent to reach the Banks before the Presidents left or, if that were

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not possible, if a wire could be sent as early as possible in the day stating that advice of important action by the Board would be sent later in the day.

It was stated that when the recent actions were taken by the Board with respect to Regulation W, margin requirements, and reserve requirements, the Board was fully aware of the desire of the Presidents, as previously expressed to the Board, to be informed early in the day, and that wires were dispatched as soon as the Board was in a position to give the Banks definite information. It was also stated that this matter would be kept in mind in connection with any future actions and the Banks informed just as promptly as it would be possible to do so.

3. Policy re section 13b loans and commitments. The Conference gave consideration to the contents of the Board's wire of April 21, 1949, to the Chairman of the Presidents' Conference. In its wire, the Board advised that, in view of uncertainties as to the prospective business situation, a question had arisen as to what program the Federal Reserve System might follow to prepare for maximum helpfulness in business financing through section 13b, assuming no change in statutory authority, and suggested that the Presidents be prepared to discuss the subject at the joint meeting with the Board. The subject was discussed at some length, during which each of the Presidents was asked to present his views and the recent practices and experiences at his Bank. From the canvass of the Presidents, it appeared that, while the Reserve Banks have generally been following a restrictive policy with respect to making 13b loans and commitments, they anticipate some modification may soon become appropriate and necessary, and they are prepared to act accordingly.

There was a general discussion of the policies being followed at the Federal Reserve Banks at the present time with respect to 13b loans. It appeared that there was an increase in the number of

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applications being received by some of the Federal Reserve Banks and that all of the Banks were giving a great deal of attention and sympathetic consideration to the applications. It was also stated that some of the Banks were following a policy of trying to participate only in the form of commitments to financing institutions while others participate in the form of both commitments and direct loans.

Mr. Williams read recent statistics on the volume of loans made by the Reconstruction Finance Corporation and stated that the reasons for the greater number of loans by the Corporation included its broader authority, an extremely liberal credit policy, and the maintenance of a force of men in the field to actively solicit loans.

Mr. Davis stated that as long as the Corporation continued to be as active as it has been in the field and the authority of the Federal Reserve Banks was not liberalized, there would not be much opportunity for the Reserve Banks to do any substantial amount of business.

The opinion was expressed by one of the Presidents that loans should not be made to business concerns that were in fact insolvent and could not be expected to survive, while another felt that there were instances where existing management and equipment could be kept in operation on a sound basis and that the Federal Reserve Banks should try to distinguish between the two types of concerns.

Chairman McCabe asked what the policy of the System should be with respect to 13b loans in the period of readjustment immediately ahead. Mr. Sproul suggested that each case should be looked at on the

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basis of the facts involved, but that some attention must also be given to the general economic situation, and that this would involve the difficult task of trying to distinguish between concerns which could not be expected to survive because of their own shortcomings of management and performance and those concerns which were in difficulty because of major economic changes over which they had no control and to whom credit was unavailable in the ordinary way for that reason. The latter case, he said, was one in which the Federal Reserve Banks could do a helpful job under the provisions of section 13b. He also expressed the opinion, previously voiced by some of the Presidents, that there should be only one Federal agency with authority to make industrial loans and that if the authority of the Reconstruction Finance Corporation was to be continued the authority of the Federal Reserve Banks should be terminated particularly since the procedure and practices of the Corporation were so different from those of the Federal Reserve Banks that the latter could not be expected to compete. Some disagreed while others concurred in this view.

Chairman McCabe stated that as long as the law continued in its present form the Federal Reserve Banks had a responsibility, and the question was what the System should do to discharge that responsibility in the months lying immediately ahead.

In a discussion of this question and the circumstances under which the Federal Reserve Banks should assist a concern through a 13b loan or commitment, Chairman McCabe expressed the opinion that the policy of the Federal Reserve Banks should be that, whenever an

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application or inquiry is received, every reasonable effort should be made to determine whether assistance should be given and whether a sound loan could be made.

Some of the Presidents stated that prior to the postwar period that had been the policy of the Federal Reserve Banks and that if there were to be any criticism of the System it would be that the policy followed was too liberal in the light of the restrictions in the law. Mr. Davis stated that the credit department of the Federal Reserve Bank of St. Louis was very interested in actively getting back into the industrial loan guarantee field, that if there were return to conditions like those prevailing before the war the Federal Reserve Banks could be depended upon to function effectively, but that it would be a mistake in the present situation of high production and employment to adopt an aggressive policy. There was agreement that the 13b authority should not be used for the purpose of "bailing out" banks on loans that turned bad during a period of adjustment or recession, and Mr. Erickson suggested that the main point in determining whether a concern could survive a difficult period was the character of its management.

Chairman McCabe stated that he had had the impression that some of the Federal Reserve Banks were more active in this field than others and it was suggested that this probably was because of different conditions in the various districts and because in some districts commercial banks preferred to do business with the Federal Reserve Banks rather than elsewhere.

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In a discussion of the limitations in the law on the industrial loan authority of the Federal Reserve Banks, Chairman McCabe raised the question whether legislation to liberalize the existing authority should be proposed to the Congress. The comment in response to this question was generally to the effect that that should be done at the proper time but that there would be little opportunity for consideration of legislation at the present session of Congress. It was the consensus of the Presidents that the System should have continuing authority in this field in some form and that the System was the logical Federal agency to have such authority.

Mr. Szymczak suggested that the Federal Reserve Banks might review the situation with respect to their industrial advisory committees to assure that they are functioning effectively. He also inquired whether it would be desirable to have a conference of the officers of the Federal Reserve Banks having supervision of industrial loan activities for the purpose of reviewing the whole problem.

In the consideration of these suggestions, Chairman McCabe stated that the important point was that the System should be prepared adequately to meet any situation that might arise in the future and that he had asked for this discussion with that thought in mind. He also said that it was important in connection with any future request to the Congress for broader authority that the System be able to demonstrate that it had done a good job with the authority it had.

This concluded the discussion of the items contained in the

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memorandum submitted by the Presidents' Conference.

4. Retirement system investment policy. Chairman McCabe inquired as to the consideration given by the Presidents' Conference to the policy for investment of retirement system funds which was discussed preliminarily with Messrs. Davis, Leedy, Peyton, Young, Earhart, and Rounds on Friday, April 29, 1949.

Mr. Davis stated that the other Presidents had been informed fully of the discussion with the Board and that the memorandum presented by the Board would be discussed at the meeting of the board of trustees of the retirement system to be held tomorrow. He also said that it was understood that the suggestion that two representatives of the Board serve as associates of the investment committee could be put into effect without an amendment to the rules and regulations of the retirement system.

5. Attendance of officers in charge of branches at meetings of the Presidents' Conference. Chairman McCabe suggested that the Presidents give consideration to the desirability of inviting one or two of the officers in charge of branches of the Federal Reserve Banks to attend the meetings of the Presidents' Conference in order that over a period of time all such officers might attend the Presidents' Conferences and become better acquainted with the Presidents and more familiar with the major questions with which the System is concerned.

Mr. Davis stated that the Presidents would put this suggestion

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on the agenda for consideration in connection with the Federal Reserve Banks' program of executive development.

Thereupon the meeting adjourned.

[Handwritten Signature]
Secretary.

Approved:

[Handwritten Signature]
Chairman.