Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, May 16, 1949.

PRESENT: Mr. McCabe, Chairman
Mr. Eccles
Mr. Szymczak
Mr. Draper
Mr. Clayton
Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Board

Minutes of actions taken by the Board of Governors of the Federal Reserve System on May 12, 1949, were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on May 13, 1949, were approved and the actions recorded therein were ratified unanimously.

Memorandum dated May 12, 1949, from Mr. Young, Associate Director of the Division of Research and Statistics, recommending that the resignation of Mrs. Helen M. Thompson, a clerk in that Division, be accepted, to be effective, in accordance with her request, at the close of business May 13, 1949.

Approved unanimously.

Memorandum dated May 11, 1949, from Mr. Carpenter, Secretary of the Board, recommending the appointment of Mrs. Muriel S. Duncan as a clerk-stenographer in the Office of the Secretary, on a temporary basis for a period of six months, with basic salary at the rate of $2,724.00 per annum, effective as of the date upon which she enters
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upon the performance of her duties after having passed the usual physical examination.

Approved unanimously.

Memorandum dated May 16, 1949, from Mr. Nelson, Director of the Division of Personnel Administration, recommending an increase in the basic salary of Miss Anna J. Markevich, a clerk-stenographer in that Division, from $2,648.76 to $2,724.00 per annum, effective May 29, 1949.

Approved unanimously.

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

"In accordance with the request contained in your letter of May 12, 1949, the Board approves the designation of the following as special assistant examiners for the Federal Reserve Bank of New York:

Daniel J. Breighner
Edward C. Cohen, II
Joseph W. Drake, Jr.
Joseph J. Lefooaki
Charles J. Menge
Paul C. Zorn"

Approved unanimously.

Letter to Mr. George C. Brainard, Federal Reserve Agent at the Federal Reserve Bank of Cleveland, reading as follows:

"In accordance with the request contained in your letter of May 12, 1949, the Board of Governors approves the appointment of Mr. Lester J. Henk as Alternate Assistant Federal Reserve Agent at his present salary of $4,600 per year, to succeed Mr. Elmer F. Fricke.

This approval is given with the understanding that
"Mr. Henk will be placed upon the Federal Reserve Agent's payroll and will be solely responsible to him or, during a vacancy in the office of the Agent, to the Assistant Federal Reserve Agent, and to the Board of Governors, for the proper performance of his duties. When not engaged in the performance of his duties as Alternate Assistant Federal Reserve Agent he may, with the approval of the Federal Reserve Agent or, during a vacancy in the office of the Federal Reserve Agent, of the Assistant Federal Reserve Agent, and the President, perform such work for the Bank as will not be inconsistent with his duties as Alternate Assistant Federal Reserve Agent.

"Mr. Henk should execute the usual oath of office which should be forwarded to the Board of Governors. It is noted from your letter that the Board will be advised later of the effective date of Mr. Henk's appointment."

Approved unanimously.

Letter to Mr. Elmer B. Staats, Executive Assistant Director, Bureau of the Budget, reading as follows:

"This is in response to your letter of March 18, 1949, in regard to bills H.R.2613 and S.942, 'to establish principles and policies to govern generally the management of the executive branch of the Government."

"These bills would grant 'specific authority authorizing the President from time to time by executive orders, directives, and statements of policy, to organize, or to make suitable provision for the organization of, the management of the various functions of the executive branch of the Government.' It is explicitly stated in these bills that all functions are vested in executive agencies merely for convenience and should be treated as functions actually vested in the President. Accordingly, all functions of executive agencies (unless quasi-judicial in nature) would be subject to the direction and control of the President, including the time, manner and extent of the exercise of such functions.

"As stated in its letter of March 17, 1949, to the Bureau of the Budget in response to the President's letter of March 1, 1949, in regard to the Hoover Commission reports, the Board is in accord with the proposal that the President be given adequate authority to reorganize the
"Federal departments and agencies of the Government in order to accomplish the general objectives of the creation of the Hoover Commission. These bills, however, are materially at variance with the reorganization authority proposed to be conferred upon the President in other legislation introduced at this session which has already passed the House of Representatives and is pending in the Senate. Instead of lightening the load of the President, these bills would seem to go in the opposite direction, and would seem to make a drastic change in the manner in which the entire executive branch of the Government has been operated over the years. They would in theory at least and probably in practice attach to the President responsibility for every decision of every agency of Government except quasi-judicial functions. This would place an intolerable burden upon the President. The effect might well be a considerable impairment of the ability of the various agencies to meet their responsibilities.

"If the provisions of these bills as now drawn were made applicable to the Federal Reserve System they would completely transform the concept upon which the Federal Reserve System was established and the basis upon which it would exercise authority delegated to it by the Congress. In creating the Federal Reserve System in 1913 the Congress provided that the Federal Reserve Board should report directly to Congress, and the System was insulated as far as possible against extraneous pressures in order best to serve the public interest. This fundamental concept was emphatically expressed by the principal author of the Federal Reserve Act, the late Senator Glass of Virginia, who piloted the measure through Congress. In his subsequent book entitled 'An Adventure in Constructive Finance', referring (page 271) to questions which had been raised by two members of the original Federal Reserve Board as to the extent to which the Board should establish closer relationships with the Executive, Senator Glass wrote:

'Whether or not this suggestion to me was intended to reach the President I never knew. However, suspecting that such an idea was back of it, I did venture soon thereafter to mention the subject to Mr. Wilson, whose response was to the effect that he had purposely refrained from contact with the Federal Reserve Board
"because he wanted the Board to feel perfectly free to pursue its course within the law without a particle of constraint or restraint from the Executive. "The very moment that I should attempt to establish close relations with the Board," added the President, "that moment I would be accused of trying to bring political pressure to bear!"

"Senator Glass stated that President Wilson held to the proper view that monetary and credit policy should be as far removed as possible from outside influence. 'It was to insure just this thing that the federal reserve system was devised,' Senator Glass added.

"The Board is, of course, entirely sympathetic with the objective of improving the administrative structure and operations of the Federal Government. To the extent, however, that these bills would change the basis upon which monetary and credit responsibility is now delegated by Congress to the Board and to the System, they raise far reaching questions which can not be adequately dealt with in this response to your inquiry. We have said enough, however, to indicate our view that if general legislation of this kind is enacted an exception should be made in so far as its provisions would apply to monetary and credit responsibilities now delegated by Congress to the Federal Reserve System."

Approved unanimously.

Letter to Mr. Delos C. Johns, Vice President and General Counsel of the Federal Reserve Bank of Kansas City, reading as follows:

"This refers to your letter of May 2 with which you enclosed a letter dated April 29 from the Powell Hardware Company in regard to Regulation W.

"Mr. Powell's comments concerning credit problems which face small merchants and his statements regarding the regulation have been read with interest. The Board has had no correspondence with Mr. Powell and it appears that the letter he refers to is your circular of April 25 relating to Amendment No. 4. In view of this, we have not replied to Mr. Powell and his letter is enclosed
"for your handling.

"In response to your suggestion that we may wish to indicate the type of reply which should be sent to Mr. Powell, it may be well to review for him briefly the purposes of Regulation W. He seems to view the regulation as a means of assuring the soundness of each credit transaction. After all, the regulation establishes limits only and it is the creditor's obligation to see that the individual credits are properly adapted to the obligor's needs and ability to pay. This is a matter of judgment resting with the registrant that cannot be accomplished by a regulation of general application.

"Mass production of consumers' durable goods and maximum employment in that field depend upon mass distribution of such goods. Consumer instalment credit plays an essential part in making mass distribution of consumers' durable goods possible. However, as pointed out by Chairman McCabe in his statement on behalf of the Board before the Joint Committee on the Economic Report, February 14, 1949, the unregulated use of instalment credit tends to accentuate instability of demand for durable goods. Credit spending is stimulated during periods of business expansion when consumers are more inclined to make commitments for the future and lenders are more willing to extend credit. When economic recession sets in, the credit thus extended remains to be paid off in the period of contraction and the drain on consumer income for debt repayment reduces current purchasing of consumer goods and services generally. This makes for greater instability in the production and marketing of consumers' durable goods, employment and the entire economy.

"The purpose of Regulation W is to help prevent instability in the economy by helping to prevent excessive expansion or contraction in consumer instalment credit and to promote soundness of credit in that area.

"The recent modifications of the regulation's provisions were made by the Board in order to keep it adapted to current economic and credit conditions. In relaxing the regulation, the Board gave consideration to factors such as employment, business conditions, trends in the marketing and production of consumers' durable goods and credit conditions. The maximum terms permitted by the regulation are in no way recommended as standards for each creditor. Creditors will continue
"to grant credit within the maximums permitted appropriate to the circumstances involved in each transaction and the credit worthiness of each borrower or purchaser.

"It may be well also to describe the scope of Regulation W for Mr. Powell. Apparently he believes that instalment credit arising from the purchase of farm equipment and other articles not listed in the supplement of Regulation W are subject to the regulation's provisions."

Approved unanimously.

Secretary.

Approved:

Chairman.