

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 on Friday, March 9, 1951, at 11:00 a.m.

PRESENT: Mr. Eccles, Chairman pro tem.  
Mr. Szymczak  
Mr. Evans  
Mr. Vardaman  
Mr. Norton  
Mr. Powell

Mr. Carpenter, Secretary

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

Mr. Clark, First Vice President of the Federal Reserve Bank of Atlanta

Mr. Clement Van Nice, Secretary of the Conference of Presidents

Before this meeting there were distributed among the members of the Board and the Presidents copies of a memorandum of topics which the Presidents wished to discuss with the Board at this meeting. The topics and discussion in connection with each were as follows:

1. Employment policies of Reserve Banks during the emergency period. The Conference considered a letter written by the Board of Governors on January 15, 1951, to the Chairman of the Presidents' Conference calling attention to the Executive Order issued on November 13, 1950, by the President of the United States relating to certain personnel actions in the executive branch of the Government to be effective on or after December 1, 1950. In brief, this Order stated that appointments, promotions, and reassignments of personnel should be on a non-permanent basis excepting that such actions might be taken

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on a permanent basis when clearly in the interests of the Government. The Board's letter, (an excerpt of which had been distributed to each of the Presidents by the Conference Chairman on January 17, 1951) suggested that a discussion of the Reserve Banks' employment policies at this meeting of the Conference would be of value and requested the topic to be placed on the agenda for this meeting.

At the invitation of the Conference, Mr. Hilbert, acting director of the Division of Personnel Administration, attended the meeting to discuss with the Presidents the general question of employment policies during the emergency period and the problems involved in expanding and contracting Bank staffs. It was agreed that the Committee on Personnel will see that this topic is placed on the agenda of the Personnel Conference next month at which all the Banks will be represented. This topic is listed on the agenda of the joint meeting so that the Board of Governors may be assured of the Presidents' interest in and appreciation of the problems involved and to allow the members of the Board opportunity to present any additional information in this regard which they think should be discussed.

Mr. Eccles stated that the Board had nothing further to add in connection with this topic and that the action of the Presidents was entirely acceptable.

2. Interlocking relationships between member banks and open-end investment companies. Pursuant to action at the Conference meeting of November 27-28, 1950, the Chairman of the Committee on Bank Supervision, after informal discussions with members of the Board's staff, on February 2, 1951, wrote to the Board of Governors concerning the possible lack of uniform application in all Federal Reserve Districts of the provisions of Section 32 of the Banking Act of 1933 as it applies to interlocking relationships between member banks and open-end investment trusts. In a letter, dated February 28, 1951, to the Chairman of the Committee on Bank Supervision the Board noted that in 1942 it had considered a suggested amendment

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to Regulation R which would have permitted officers, directors, and employees of open-end investment companies to serve as officers, directors, and employees of member banks. The Board pointed out that although it had been of the opinion that it would not be desirable to make the suggested amendment at that time, it would be glad to reconsider the matter in the light of any recommendation that the Presidents' Conference might wish to make.

During discussion of this matter by the Conference it was pointed out that in several Districts there are known violations of the Board's rulings of May 26, 1941, S-269, and September 22, 1942, S-556, with reference to this matter of which the Federal Reserve Banks are aware and that other violations may exist of which the Banks are not aware since such violations are not being reported by the National bank examiners. Since some banks might be prevented from becoming members of the System because of the existing Board rulings while others which are already members of the System are in violation of such rulings, it was the view of the Conference that either Regulation R should be amended or that the Board's rulings in this regard should be made more readily available to supervisory authorities and others with a view to more adequate enforcement. The Presidents felt that they would like to have opportunity to consider the subject before making a recommendation as to a possible change in Regulation R and it is the suggestion of the Conference that the Board obtain the views of each Bank with regard to the alternatives after the Banks have had time to consider them.

This topic was discussed in the light of comments by Presidents Erickson and Sproul to the effect that the rulings of the Board in some instances were preventing trustees of open-end investment trusts from serving as desirable directors of member banks, while in other cases the ruling was not being enforced by supervisory authorities.

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Mr. Eccles stated that the problem of finding a practical solution of the problem had presented some difficulty to the Board. He also said that the Board would like very much to have the views of the Federal Reserve Banks, that the Board concurred in the procedure outlined in the statement of the Presidents' Conference referred to above, and that a letter would be sent by the Board to the Federal Reserve Banks asking for their comments as promptly as possible.

3. Program for voluntary credit restraint. There was a general discussion of the role which the Reserve Banks might play in the proposed program for the voluntary restraint of credit which was authorized by the Defense Production Act of 1950 and which, after discussion between representatives of the Board and financing institutions during the past several months, was approved by the Board on February 5, 1951. The Presidents expressed themselves as being interested in any recent developments which the Board may be able to report along this line and have listed this topic on the agenda of the joint meeting for that purpose.

In response to the Presidents' request, Mr. Powell stated that presumably the Attorney General would not ask for further changes in the program, that the Federal Trade Commission had approved the program as submitted to it, that the approval of the Attorney General was expected today, and that, as soon as it was received, the program would be announced and put into operation.

With respect to the sub-committees of the Voluntary Credit Restraint Committee provided by the program, Mr. Powell said that the program now provided that a representative of a Federal Reserve Bank

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would be a member of each sub-committee and that representatives selected by the Federal Reserve Banks for that purpose would be a matter for the decision of the respective Banks. He did not know how many sub-committees there would be except that the insurance companies expected to have a sub-committee in New York and also in Chicago, that it was possible that a bankers' sub-committee would be provided in each of the Federal Reserve Bank and principal Federal Reserve Branch cities, and that the investment bankers might wish to have three or four sub-committees. He added that the Attorney General had suggested that the Federal Reserve Bank members of the sub-committees also serve as chairmen of the sub-committees, that the Board had resisted that strongly, that it was now understood that the representatives from the Federal Reserve Banks would only be members of the committees, and that it was expected that they would be largely observers representing the public interest and would not be expected to guide or dominate in any way the discussions or decisions of the sub-committees as to whether a particular loan would or would not be within the principles contained in the program.

There was a general discussion of the function which Federal Reserve representatives on the sub-committees would perform and the type of representatives who should be selected by the Federal Reserve Banks to serve as members. Mr. Powell stated that the Assistant Attorney General in charge of the Anti-Trust Division did not favor

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attorneys on the sub-committees, and had suggested that possibly the best members would be men who could "speak the credit man's language". He emphasized that the Board of Governors had no recommendations as to whom the Federal Reserve Banks might select for membership on the committees.

In the discussion, it was the consensus that it would be desirable for Federal Reserve Bank representatives on the sub-committees to be officers who were more or less versed in credit, but that the selections did not need to be senior officers. Mr. Powell made the further statement that it was planned that the Board would write a letter to the Federal Reserve Banks advising them in general terms as to the function which the Federal Reserve Bank representatives would perform as members of the sub-committees, that it should be borne in mind that the program was an entirely voluntary one, and that it was important that nothing should be done that would change its character in that respect.

There was a general discussion of the requirement of the program that minutes be kept of the meetings of the sub-committees and how that might best be done. An inquiry was made as to where the meetings of the sub-committees should be held, and Mr. Powell suggested that that should be a matter for decision by each sub-committee. In response to the question how often the sub-committees would meet, Mr. Powell stated that in the beginning there probably would be a large

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number of inquiries which might require frequent meetings of the sub-committees with perhaps some member of the committee acting as executive secretary to answer the inquiries in accordance with policies laid down by the sub-committee within the principles of the program. He also said the sub-committees were required to make reports to the Voluntary Credit Restraint Committee and that these reports would be reviewed by the latter Committee with a view to maintaining general uniformity of policy.

This completed consideration of the topics submitted by the Presidents for discussion at this meeting.

4. Legislation granting increased authority over bank reserve requirements.

Mr. Peyton referred to the comment in the statement issued following the meeting at the White House on February 26, 1951, with respect to additional authority over bank reserve requirements. He stated that the Presidents understood that the Board had been giving consideration to this matter and that they would appreciate being informed of what the Board was considering in this regard.

Mr. Powell reviewed the consideration given by the Board to the loan expansion reserve plan and how the plan would work.

Mr. Szymczak referred briefly to the discussions of this matter by the four-man committee appointed by the President to consider further steps to combat inflation, and to the considerations which the Board had in mind in its discussions of the proposed loan expansion reserve plan.

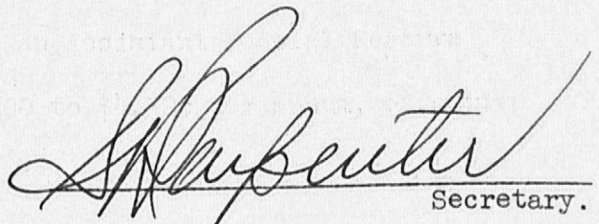
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There was a discussion of the application of the plan to non-member banks and the manner in which that might be done, how the plan might operate in a period of deficit financing, and the possible reaction of Congress to the proposed plan.

In response to an inquiry as to whether the Board had any documents with reference to the plan which might be given to the Presidents, it was stated that memoranda had been prepared by the staff as a basis for preliminary discussion by the Board, that these did not necessarily represent the views of the Board on the conclusions that should be reached, but that the memoranda would be sent to the Presidents for their information.

Thereupon the meeting adjourned.

  
Secretary.