

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 Friday, May 18, 1951, at 10:35 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Eccles
Mr. Szymczak
Mr. Evans
Mr. Norton
Mr. Powell

Mr. Carpenter, Secretary

Messrs. Erickson, Sproul, Williams, Gidney, Leach, Bryan, Young, Johns, 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. Clement Van Nice, Secretary of the Conference of Presidents

1. Proposed legislation with regard to capital requirements for Federal Reserve membership. The Conference considered the draft of a proposed bill with respect to capital requirements and other matters which was sent by the Board of Governors to each of the Reserve Banks on April 24, 1951, along with an explanatory statement, a covering letter, and other material. Without attempting to pass on the merits of the other sections of the proposed bill, the Conference agreed that the sections covering capital requirements for Federal Reserve membership and capital requirements for the establishment of branches might have greater chance of favorable Congressional action if they were divorced from the other parts of the bill. It was felt by the Conference that the proposal for changes in reserve requirements for member banks in reserve cities and central reserve cities and the proposal for permitting the recirculation without penalty of Federal Reserve notes of other Reserve Banks were to a certain extent controversial and that, since these proposals might invite opposition to the entire bill, they might better be eliminated from this

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bill and perhaps made the subject of separate legislation. A question was also raised by some of the Presidents concerning that provision of the proposed bill which would require that in no event could a bank be admitted to Federal Reserve membership unless it had first received approval for deposit insurance by the Federal Deposit Insurance Corporation. It was suggested that a discussion of the reasons for including this provision in the proposed bill would be appreciated.

It was decided to list this topic for discussion at the joint meeting of the Board of Governors and the Presidents in order that there might be an exchange of views concerning both these suggestions.

In commenting on the Presidents' statement, Mr. Powell said that informal advice had been received from the Legal Division of the Office of the Comptroller of the Currency that that Office would support the bill in its present form. He also said that the Comptroller himself was not greatly concerned about the provisions of the bill relating to reserve requirements of member banks and the issuance of Federal Reserve notes but that he was very much in favor of the proposed amendment which would liberalize the capital requirements for the establishment of branches by national banks and would support the bill as presently written. Mr. Powell also said that no opinion had been expressed on the proposed legislation by the Chairman of the Federal Deposit Insurance Corporation and he did not know whether that organization would support the bill, but that the National Association of Supervisors of State Banks had passed a resolution endorsing the principle of liberalizing the capital requirements for the establishment of branches by State member banks and that he had received a letter from Mr. Lyon, President of the Association, stating that it favored the

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legislation proposed by the Board but suggested the addition of a provision which would make it clear that the requirements for the establishment of branches by national and State member banks would not be lower than established by State law for State nonmember banks. Mr. Powell also outlined the reasons for the inclusion in the bill of the provisions relating to reserve requirements and the issuance of Federal Reserve notes and stated that these provisions were of secondary importance and could be dropped from the bill if it was felt that they were of such a controversial character as to endanger favorable consideration of that part of the bill relating to capital requirements.

Mr. Peyton stated that, while the Presidents were entirely friendly to the bill in its present form, it was felt by some, but not all of the Presidents, that because of the opposition that might be raised to the provisions relating to reserve requirements and Federal Reserve notes it would be preferable if they were included in a separate bill.

Mr. Leedy suggested that before the provision with respect to Federal Reserve notes became effective a plan should be worked out for the allocation of Federal Reserve notes issued by the Federal Reserve Banks.

With respect to the requirement in the draft of bill that no State bank could become a member of the System until it was approved by the Federal Deposit Insurance Corporation for deposit insurance, Mr. Powell explained that it was felt this provision should remove at

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least some of the objection of the Federal Deposit Insurance Corporation to the bill because it would give the Corporation authority to pass on all State banks admitted to deposit insurance, which is a right that it should have both with respect to new banks and banks which have been in existence for some time but the deposits of which had not previously been insured. There should be no objection on the part of the Federal Deposit Insurance Corporation, Mr. Powell said, to the admission to membership in the System of State banks which have qualified for insurance.

In response to Mr. Powell's request for the views of the Presidents on this provision of the bill, Mr. Earhart referred to the fact that at the present time a nonmember noninsured bank may make application for admission to membership in the System and if it is admitted its deposits are automatically insured but that, under the procedure proposed in the bill, the bank would first have to make application to the Federal Deposit Insurance Corporation for insurance and when approved would have to file another application for membership in the System, and that this arrangement might result in the Federal Deposit Insurance Corporation prescribing conditions of insurance which the Federal Reserve System had attempted to get away from in connection with admission of State banks to membership. He made it clear that he was not suggesting that the Federal Reserve System would have lower standards for admission than the Federal Deposit Insurance Corporation but rather that some arrangement should be worked out so that it would

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not be necessary for the applying bank to file two separate applications.

Some of the Presidents concurred in Mr. Earhart's statement while others felt that the provision in the draft of bill was a proper one and that the proposed arrangement did not differ greatly in effect from the procedure now being followed by the Federal Reserve Banks in discussing with representatives of the Federal Deposit Insurance Corporation applications for membership in the System before action is taken by the Federal Reserve Banks.

2. Hearings by the Patman Subcommittee of the Joint Committee on the Economic Report. It is understood by the Conference that the Board of Governors has been asked to submit a large amount of historical and factual material to the Patman Subcommittee of the Joint Committee on the Economic Report for its information and that, although no date has as yet been set for the Subcommittee's hearings, there is a possibility that they may commence in June. In recognition of the possibility that the Subcommittee may also wish to obtain information on short notice from the various Reserve Banks in connection with its hearings, the Presidents would like to be informed of the Board's opinion concerning the course and direction of the Subcommittee's activities and of the possible character of the information which the Banks may be called upon to furnish.

Chairman Martin stated that while there had been some discussion of the plans of the subcommittee for its study and of the hearings to be held in connection with the study, no definite plans had been announced and the Board had no information as to when the hearings would be held or what additional information might be requested. He added that the Board's staff had had the assistance of the staff of two of the Federal Reserve Banks in preparing the information being

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submitted by the staff to the staff of the subcommittee and that if it should be desirable to do so the staffs of other Reserve Banks would be called on for assistance.

3. Adequacy of reserves for contingencies. The Conference considered the suggestion made by one of the Reserve Banks to the Board of Governors and placed on the Conference agenda by the Board that reserves for contingencies of the Reserve Banks be further increased in view of the recent change in open market policy and subsequent market developments. A memorandum, dated April 26, 1951, prepared by the Board's staff and covering background material on this question was noted. It was the general consensus of the Conference that, although the Banks would favor increasing the amount of the present deduction in their payments to the Treasury Department, such withheld funds should be transferred to the Banks' surplus accounts to become a fundamental part of the Banks' permanent capital reserves rather than being allocated to the reserves for contingencies account. The Presidents would appreciate an expression of opinion from the Board concerning this proposal.

Mr. Peyton stated that this suggestion was not prompted by a feeling that additional Federal Reserve Bank capital was essential but rather by a consensus on the part of the Presidents' Conference that the public associated the amount of a bank's capital with its liabilities and that the ratio of capital to liabilities had significance. Therefore, he said, the Presidents felt it would be desirable to build up the capital of the banks as a means of building confidence in the strength of the banking system and that the increase should be a permanent addition to surplus rather than to reserves for contingencies.

Chairman Martin stated that the Board had discussed the matter and questioned whether any action should be taken at this time to reopen the existing arrangement under which 90 per cent of the earnings

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of the Federal Reserve Banks are paid to the Treasury and that this was particularly true at the present time when the decline in the Government securities market and the depreciation in the System's holdings of Government securities were the result of the System's credit policies.

Mr. Peyton inquired whether the \$80 million of reserves for contingencies which had already been established could be transferred to surplus. It was suggested that such action could not be taken without departing from the existing arrangement but that losses could be charged against the reserves if that should be found desirable. Reference was also made to the fact that it was unlikely that losses in any one year would be so large that they could not be covered by earnings and it was suggested that the problem would be entirely different if the earnings of the System were at a substantially lower level.

Mr. Sproul suggested that because of the fact that losses in any one year probably would be covered by earnings there was little likelihood that the reserves for contingencies would be needed for that purpose and that any action taken should be in the form of a permanent addition to the capital funds of the banks.

Some of the members of the Board questioned whether any action of this kind should be taken at this time.

4. Promotion of increased savings bond sales. It was suggested that in view of the friendly relationship between the Treasury and the Federal Reserve System

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proposals suggesting changes in the Treasury's savings bond program might meet with favor at the present time. The Presidents have listed this topic for discussion in order that they may obtain the Board's views concerning the value of further exploration of the subject with the Treasury at this time.

Mr. Peyton stated that this suggestion of the Presidents was based on the feeling of a majority that the savings bond campaign would meet a very considerable amount of resistance unless the bonds could be made more attractive and that perhaps the System could be helpful to the Treasury in formulating plans which would increase sales.

During a discussion of ways in which savings bonds could be made more attractive, Chairman Martin expressed the view that it was too late, at least for this year, to reopen the question of the interest rate. He also questioned whether the Treasury would be willing to originate the idea of exemption of earnings from savings bonds from income taxes.

Question was also raised whether, in view of the position of the Government with respect to tax exemption of income from securities, it would be desirable to suggest an exemption for the income from savings bonds.

Mr. Norton suggested ways in which, by adopting sales techniques used by advertising concerns, the securities could be made more attractive and the appeal of savings bond campaigns could be made more effective.

Mr. Sproul referred to suggestions that had been made to the Treasury by the System with respect to steps that might be taken to

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increase the sales of savings bonds. He concurred in Chairman Martin's view that there was little likelihood that substantial changes could be brought about in the program at this time but suggested that the System should continue to study the matter, both from the standpoint of the terms of the securities and the methods and organization used in their sale, so that it would be prepared to make further suggestions at the appropriate time. There was general agreement with this view.

5. Various proposals concerning reserve requirements.

At the joint meeting of the Board and the Presidents on March 9, 1951, there was a discussion of possible legislation to provide increased authority over bank reserve requirements and particularly of the proposed loan expansion reserve plan. The Presidents agreed that they would appreciate being informed of any developments which may have taken place since the March meeting concerning proposals for changes in reserve requirements.

During the course of the meeting there were distributed among the Presidents confidential copies of the report of the four-man Wilson Committee appointed by the President of the United States on February 26, 1951, to study ways and means to provide the necessary restraint on private credit expansion and at the same time make it possible to maintain stability in the Government securities market. The report recommended among other things that as an emergency measure legislation be sought to empower Federal Reserve authorities for a limited period to impose additional reserve requirements, either by increasing the authorized percentages or in some other appropriate way that would have a minimum adverse effect on the Government securities market. There were also distributed copies of a memorandum dated May 11, 1951, from Mr.

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Vest, General Counsel, transmitting the latest draft of a bill on the loan expansion reserve plan.

Chairman Martin stated that inasmuch as the Board had a commitment to present shortly a draft of proposed legislation on additional authority over bank reserves, it would be very glad to have any comments that the Presidents might wish to make on the matter.

Mr. Bryan expressed the view that any bill which provided for a base period from which additional required reserves would be calculated would meet with such opposition from the banks that it would have no chance of approval. In response to Mr. Bryan's inquiry, Chairman Martin stated that the Board would welcome any written comments that the Presidents might wish to make after they had had an opportunity to study the draft of bill but that the Board was under obligation to submit a recommendation promptly and might not be able to wait for written comments from the Federal Reserve Banks.

There was a discussion, in the light of comments made by Mr. Szymczak, of the possibility of legislation in the present session of Congress and why, in the event of further pressure for expansion of bank credit, additional authority over bank reserves might be necessary. For that reason it was felt by the Board that legislation should be recommended to the Congress and the decision left to the Congress whether any legislation would be approved. The view was also expressed by some of the members of the Board that unless the need for legislation became clearer in the months ahead there was little likelihood that any bill would be approved.

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There was a discussion of the form legislation might take and it was made clear that the draft of bill attached to Mr. Vest's memorandum had not been passed on by the Board and that the Board had not reached a decision as to the form that its recommendation would take.

This concluded the matters submitted by the Presidents for consideration at this meeting.

Voluntary credit restraint program. Mr. Peyton stated that the Presidents would be glad to have any comments that Mr. Powell might like to make with respect to the voluntary credit restraint program and particularly the present thinking regarding the creation of additional subcommittees.

Mr. Powell responded that the voluntary credit restraint committee, which had been expanded to include representatives from savings and loan associations and mutual savings banks, felt that the program should not be over-organized but that there should be enough subcommittees so that the lenders could present their problems without difficulty and the committees could meet often enough to give prompt answers to questions presented to them. He referred to the organization of banking subcommittees in the five Federal Reserve Bank and branch cities in the Twelfth Federal Reserve District, to a request that a banking subcommittee be organized in Iowa which would not be in a Federal Reserve Bank or branch city and which under the requirements of the program would not have to have a representative of a Federal Reserve Bank as a member of the subcommittee, and to the probability that a

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banking subcommittee would be organized in Detroit to cover at least part of the State of Michigan. He added that if necessary similar committees could be organized in other areas.

He also referred to the letter recently sent out by the American Bankers Association over the signature of the President to all banks in the United States suggesting that they ask the Voluntary Credit Restraint Committee for sufficient copies of the program to send a copy to each of their commercial customers. In the first few days, he said, the responses to that letter had totaled 120 requests for 22,000 copies of the program, most of the requests being from banks in small communities which indicated that the small town banker was behind the program. He made the further statement that the American Bankers Association also had prepared a speech that might be used by bankers when speaking to civic clubs and on other occasions and that 62 requests for copies of the talk had been received largely from banks in small communities. While he did not know how effective these activities would be, he felt they would at least be educational and helpful in that way. He called attention to the comments in the four-man committee report referred to above and the support given by that report to the program and to the letter sent by Mr. Wilson, Director of the Office of Defense Mobilization, to governors of States and mayors of principal cities suggesting that municipal issues of \$1 million or more be screened by the local subcommittees. He also commented that the report took the position that Federal Government loan and loan guarantee

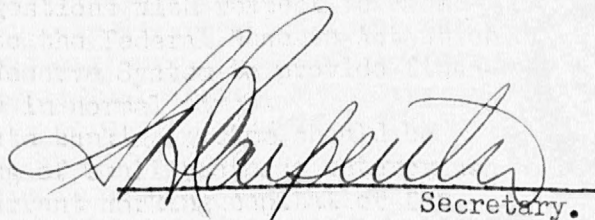
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agencies should follow policies consistent with those of comparable private lending institutions as set forth in the program so that the voluntary credit restraint program would not be undermined. In that connection, he stated that all letters that had been received regarding cases where loans had been made by Government agencies after they had been refused by financial institutions as not conforming to the principles of the voluntary credit restraint program, were being sent to the Council of Economic Advisers for consideration by the special committee appointed by the President to study and report on the policies of Government lending agencies. He also outlined the care with which the Voluntary Credit Restraint Committee issued its periodic bulletins and referred to the problem confronting the Committee at the present time with respect to the offering of Canadian municipal securities in this country.

Mr. Gidney inquired whether the representatives of the Federal Reserve Banks should be used for the purpose of explaining the program in their respective districts and Mr. Powell replied that there should be no objection to that if it were emphasized that the program was voluntary and was not a Federal Reserve program.

After some further discussion of the program, the meeting adjourned.


Secretary.