

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, May 19, 1953. The Board met in the Special Library at 9:30 a.m.

PRESENT: Mr. Martin, Chairman

Mr. Szymczak

Mr. Evans

Mr. Vardaman

Mr. Robertson

Mr. Carpenter, Secretary

Mr. Sherman, Assistant Secretary

Mr. Kenyon, Assistant Secretary

Mr. Thurston, Assistant to the Board

Mr. Riefler, Assistant to the Chairman

Mr. Leonard, Director, Division of
Bank Operations

Mr. Vest, General Counsel

Mr. Young, Director, Division of
Research and Statistics

Mr. Hackley, Assistant General Counsel

Mr. Cherry, Legislative Counsel

Governor Vardaman said that word had been received from the Department of the Navy to the effect that one or two V-loans were being held up because of the existing maximum rate of interest of 5 per cent and that the incidents were to be explored by Mr. Boothe, Administrator, Office of Defense Loans, with the office of Mr. McNeil, Assistant Secretary of Defense. Governor Vardaman said that in the circumstances he would suggest that the Board give further consideration to the need for an increase in the maximum permissible interest rate on V-loans at an early meeting and decide whether or not it wished to increase that rate.

At this point Mr. Thomas, Economic Adviser to the Board, entered the room.

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Pursuant to the understanding at the meeting yesterday Mr. Thurston had sent to the members of the Board copies of a revised draft of statement which Chairman Martin might present at the hearing tomorrow before the Senate Banking and Currency Committee with regard to several bills pending before that Committee which would provide credit for business enterprises.

Mr. Cherry stated that in addition to the requests which had been received by the Board for reports on Bills S. 892, S. 1523, S. 1559, and S. 1771, the Board had now received requests for its views on Bill S. 1907, introduced by Senator Douglas on behalf of himself and Senator Flanders, and Bills S. 1912 and 1913, introduced by Senator Sparkman. He did not feel that the Board necessarily would have to submit any statements on the last three bills but thought that Chairman Martin should be prepared to answer questions on them from members of the Committee.

Chairman Martin requested that Mr. Vest prepare a digest of each of the above-mentioned bills as well as the bill introduced in the House by Representative Hill, Chairman of the Select Committee on Small Business, which would provide for the creation of a Small Business Administration.

There followed a general discussion of what views should be expressed by Chairman Martin on behalf of the Board at the hearing tomorrow, and it was the consensus that the Board would not favor legislation vesting in the Federal Reserve Banks additional authority to make direct loans to business enterprises or to guarantee loans made by private financing institutions.

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The majority of the members also indicated that they would not look with favor on a plan under which the Federal Reserve Banks would be required to act as agents for a Governmental agency which might be established to make or guarantee business loans, although there was some feeling that the Federal Reserve Banks could operate satisfactorily under such a plan provided their responsibilities were clearly defined and they were required only to act as fiscal agents.

At the request of Chairman Martin, Mr. Riefler outlined a possible plan, similar to a plan proposed and discussed in 1950, whereby investment corporations would be organized outside the Government to furnish long-term credit and equity capital to small businesses. The plan suggested by Mr. Riefler differed from the earlier plan, however, in that functions of chartering and examining the investment corporations would be placed in the Securities and Exchange Commission rather than the Board of Governors. Under the plan certain tax benefits would be given to the investment corporations to afford them an opportunity to demonstrate whether they could operate profitably, section 13b of the Federal Reserve Act might be repealed, and the current section 13b surplus of the Federal Reserve Banks might be returned to the Treasury to be used by a group of designated trustees to subscribe to stock in any investment corporations which were organized.

In a further discussion it was brought out that Secretary of the Treasury Humphrey, Mr. Burgess, Special Deputy to the Secretary of the

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Treasury, and Mr. Cravens, Administrator of the Reconstruction Finance Corporation, also were expected to testify at the hearing tomorrow, and it was suggested that in the circumstances Chairman Martin might go the hearing without a prepared statement, with the understanding that the testimony which he would give would be in the light of the discussions of the subject by the Board and that during his testimony he would submit to the Committee the study on the financing needs of small business which originally had been intended for use as an appendix to his prepared statement.

There was agreement with this suggested procedure.

The meeting then adjourned. During the day the following additional actions were taken by the Board with all of the members except Governor Mills Present:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on May 18, 1953, were approved unanimously.

Letter to the Board of Directors of the Northern Westchester Bank, Katonah, New York, reading as follows:

"The Board of Governors approves the establishment and operation of a branch by Northern Westchester Bank, on the east side of Saw Mill River Road at a point approximately 300 feet south of the old Croton Lake Road in the unincorporated village of Yorktown Heights, Town of Yorktown, County of Westchester, New York, provided the branch is established within six months from the date of this letter."

Approved unanimously, for transmittal through the Federal Reserve Bank of New York.

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Letter to Mr. Diercks, Vice President, Federal Reserve Bank of Chicago, reading as follows:

"Reference is made to your letter of April 7, 1953, submitting for consideration under the provisions of Section 24A a proposal under which the Irwin-Union Trust Company, Columbus, Indiana, and a newly organized, wholly owned subsidiary would finance the construction of new banking premises at a minimum aggregate cost of not less than \$790,000, exclusive of the land which is now owned by the bank and carried at a nominal value. It is understood the aggregate investment by the bank in assets indirectly representing bank premises will not be shown on its books at an amount in excess of approximately \$288,000, whereas its capital is at present \$400,000. However, since the \$512,000 to be borrowed by the subsidiary to complete the construction will be repayable as to interest and principal largely, if not solely, from the proceeds of rentals paid by the Irwin-Union Trust Company to such subsidiary, the Board has taken the position that approval of a minimum aggregate investment of approximately \$790,000 would be required under the provisions of Section 24A, as apparently contemplated in your letter.

"The Board of Governors has given careful consideration to the volume and character of the bank's assets and deposit liabilities, the capability and aggressiveness of its management, its future prospects and earning capacity, and the relationship of its capital structure to all of these factors, both before and after the proposed large investment in banking premises, and has reached the conclusion that its approval of that investment would not be justified until such time as the capital structure of the bank is substantially increased. Please advise the bank accordingly."

Approved unanimously.

Letter for the signature of the Chairman to the Honorable Clare E. Hoffman, Chairman, Committee on Government Operations, House of Representatives, Washington, D. C., reading as follows:

"This is in response to your letter of May 4, 1953, requesting the Board's views relative to the bill H. R. 451 which would

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"make certain changes in laws applicable to regulatory agencies of the Government so as to effectuate the recommendations regarding regulatory agencies made by the Commission on Organization of the Executive Branch of the Government.

"The Board, on April 30, 1951, submitted a report to the Committee on Expenditures in the Executive Departments on H. R. 3678 which contained provisions identical with those contained in H. R. 451 relating to the Board of Governors of the Federal Reserve System. The present Board, after reconsidering that report, is in agreement with the views expressed therein. Accordingly, for the convenience of your Committee, the substance of that report is quoted in full. It should be noted that that report in turn quoted from the report made by the Board on September 23, 1949 regarding identical provisions contained in S. 2340.

'The Federal Reserve System would be affected in two respects:

- '1. Future appointments to fill vacancies on the Board would be made so that as soon as possible not more than four members of the Board would be members of the same political party.
- '2. Internal management of the Board, its relations with Congress, and execution of its policies would be performed on behalf of the Board by the Chairman who would have exclusive and final authority with respect to these matters.

'The Commission made no separate report on the Federal Reserve System. The System was enumerated among the independent regulatory commissions which are the subject of one report which notes, however, with respect to the expenses of these agencies, that the costs of the Federal Reserve System are not a charge on the taxpayers. This report makes specific recommendations affecting certain regulatory agencies while the only recommendations applicable to the Federal Reserve System, as such, were general recommendations as to all regulatory agencies covered by the report. The only document dealing specifically with the Reserve System, which was made public by the Hoover Commission, is a task force report which comments favorably upon the "efficiency and dispatch" with which the System performs its functions and makes no recommendation that the non-partisan character of the Board be abandoned in favor of a bi-partisan Board, although it suggests other changes.

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"The Board strongly opposes the two provisions applicable to the System in S. 2340 and believes that any changes made in the structure, responsibilities and functioning of the System should derive from a comprehensive monetary and credit study under the direction of the Congress rather than from the necessarily cursory inquiry of the Hoover Commission in this field which did not lead to an examination into or a report on these special problems by the Commission itself.

'As to the first provision, this would be entirely contrary to the spirit and intent of the Federal Reserve Act which was carefully drawn to insure that the Federal Reserve System would be non-partisan. Throughout its history, the System has been at pains to abstain from partisanship of any character and the Board has enforced a rule that directors and officers of the 12 Federal Reserve Banks and their 24 branches must not be identified with partisan or political activities.

'As the principal proponent of the Federal Reserve Act, Senator Glass insisted that members of the Board should be appointed without regard for political affiliations and he recounted in his book, "An Adventure in Constructive Finance", that President Wilson, in whose first administration the Act became law, "purposefully 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".

'By its nature the Federal Reserve System, and indeed any central banking organization, should bring to bear on monetary and credit problems for which it is primarily responsible independent judgment and action free, so far as possible, from extraneous influence. It is explicit in the statements of the authors of the Federal Reserve Act and implicit in the Act itself as a basic principle that the Federal Reserve System as an agency of Congress should be on a non-partisan, non-political basis. The law provides that, in selecting the members of the Board who are appointed by the President with the advice and consent of the Senate, not more than one of them shall be selected from any one Federal Reserve District and that the President shall have due regard to a fair representation of the financial, agricultural, industrial and commercial interests and geographical divisions of the country. Their terms are fixed in such manner as to provide for the expiration of the term of not more than one member in any two-year period. They are required to devote their entire time to the business of the Board and to make annual reports to the Congress.

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"The responsibilities of the Board as the governing body of the Federal Reserve System are carried out in the light of economic considerations, as evidenced by various provisions of the Federal Reserve Act which require that actions of the System shall be taken with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country, or with a view to preventing injurious credit expansion or contraction, or for the maintenance of sound credit conditions.

S. 2340, however, would make the political history and affiliations of each future appointee to membership on the Board an essential factor in the consideration of his qualifications and might prevent the appointment of a person well qualified by training and experience to serve as a member. By this means there could be injected into the Federal Reserve System, at the top, political points of view which might take precedence over economic considerations. This provision, coupled with the provision that the Chairman of the Board shall have exclusive and final authority with respect to its internal management, its relations with Congress, and the execution of its policies, could result in a single political appointee controlling the policies of the Federal Reserve System. Under the existing plan the organization of the Board's staff and the formulation of the Board's policies have developed over the years on a strictly non-political basis, as a fundamental principle. Every important appointment and change in the Board's staff is approved by the Board; this is not the function of any single member. Specific rules of the Board require that every member of the Board's staff be appointed or promoted on the basis solely of his merits and qualifications and over the years the Board has built up a staff with intellectual integrity and backgrounds of experience and training in the subjects to which employees are respectively assigned.

This bill, however, would place in the hands of one Board member -- the one designated by the President as Chairman -- exclusive authority over the staff with the same result as if he were a single administrator. Thus the staff of the Board would be responsible only to the Chairman, and if a politically-minded Chairman were to be appointed the staff could be reorganized on a purely political basis and such considerations would no doubt enter into staff reports and recommendations.

The provisions of S. 2340 go beyond the recommendation as to administrative responsibility contained in the Hoover Commission

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"Report which states in this connection that "This recommendation does not derogate from the statutory responsibilities placed upon the other members of the Commission. They remain exactly as they are." However, under the bill the other six members of the Board would be deprived of the essential means for their independent appraisal of facts and policies without which their voting privileges would be rendered futile. The Chairman would be in a position to effectuate his will through the medium of his control of the staff organization. This would be unfair, not only to the other members of the Board, but to the staff as well, who now feel and are so instructed that their responsibility is to the Board as a whole and not solely to any individual member.

'Furthermore, there is a fundamental inconsistency in the suggestion that increased responsibility for administration be placed on the Chairman. He more than any other member has to carry the load of initiating and determining Board policy. Therefore, rather than placing greater responsibility on him for administrative detail, he and the other members should be relieved of that responsibility which should be carried by the staff. As a practical matter, should it be necessary or desirable for the purposes of more effective internal operation to assign to the staff more of the administrative work of the Board, that can be done without legislation.

'The proposals embraced in this bill become still more undesirable when considered in the light of the fact that the seven members of the Board of Governors are a majority of the 12 members of the Federal Open Market Committee, established by the Federal Reserve Act, which is charged with a major responsibility in the field of credit policy. The other five members of this Committee are Presidents of Federal Reserve Banks who are appointed as Presidents by the directors of their banks with the approval of the Board of Governors on a strictly non-partisan basis. The staff of the Board as well as the staffs of the Federal Reserve Banks serve this Committee and customarily the Chairman of the Board of Governors is elected as Chairman of the Open Market Committee while a President of a Federal Reserve Bank is customarily elected as Vice Chairman of the Committee. The effect on this Committee of the injection of political considerations into the membership of the Board of Governors and the personnel of its staff would be difficult to appraise but would undoubtedly be disadvantageous.'

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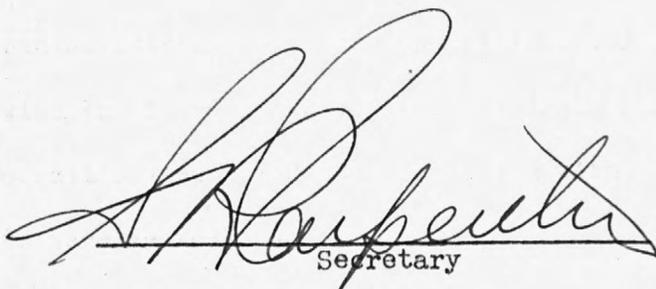
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"The Bureau of the Budget has advised that it has no objection to the submission of this report."

Approved unanimously, with the understanding that the letter would be sent upon receipt of advice from the Bureau of the Budget that it had no objection to the submission of the report.

Memorandum dated May 7, 1953, from Mr. Sloan, Director, Division of Examinations, recommending that, pursuant to the action taken by the Board on November 10, 1949, the Board pay for a dinner on May 25, 1953, for representatives attending the Auditors' Conference at a cost not to exceed \$8 per person. To the memorandum was attached a list of those who would be invited to attend the dinner.

Approved, Governor Vardaman
not voting.



Secretary