

Minutes for March 11, 1957.

To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, if you were present at the meeting, please initial in column A below to indicate that you approve the minutes. If you were not present, please initial in column B below to indicate that you have seen the minutes.

| | A | B |
|-----------------|---------------|-------|
| Chm. Martin | x <u>M</u> | _____ |
| Gov. Szymczak | x <u>MS</u> | _____ |
| Gov. Vardaman | x <u></u> | _____ |
| Gov. Mills | x <u></u> | _____ |
| Gov. Robertson | x <u>R</u> | _____ |
| Gov. Balderston | x <u>CCRB</u> | _____ |
| Gov. Shepardson | x <u>Shep</u> | _____ |

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, March 11, 1957. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
 Mr. Balderston, Vice Chairman
 Mr. Szymczak 1/
 Mr. Vardaman
 Mr. Mills
 Mr. Robertson
 Mr. Shepardson

Mr. Carpenter, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Fauver, Assistant Secretary
 Mr. Riefler, Assistant to the Chairman
 Mr. Thomas, Economic Adviser to the Board
 Mr. Vest, General Counsel
 Mr. Young, Director, Division of Research and Statistics
 Mr. Sloan, Director, Division of Examinations
 Mr. Cherry, Legislative Counsel
 Mr. Molony, Special Assistant to the Board
 Mr. Hackley, Associate General Counsel
 Mr. Noyes, Adviser, Division of Research and Statistics
 Mr. Masters, Associate Director, Division of Examinations
 Mr. Benner, Assistant Director, Division of Examinations

Release of consumer instalment credit study. The study of consumer instalment credit, requested by the Council of Economic Advisers on behalf of the President, had now been completed and sent to the Government Printing Office. It was scheduled for discussion at a press conference at the Board on Friday, March 15, and for general release on Wednesday, March 20.

1/ Withdrew from meeting at point indicated in minutes.

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Chairman Martin said that last Friday he had a discussion with Mr. Saulnier, Chairman of the Council of Economic Advisers, concerning the study and that, as a result of the conversation, he wished to take up with the Board certain problems incident to the release of the report. It was Mr. Saulnier's feeling, he said, that regardless of any understanding with Mr. Arthur Burns, who was Chairman of the Council of Economic Advisers when the study was begun, consideration must be given to the matter of expectations when the first five volumes were released. In the opinion of Mr. Saulnier, the Board should be prepared to say something along the lines that this study had been made by the Board's staff on an impartial and objective basis, that no conclusions were reached because the Board had not had an opportunity to review the material, but that in due course the Board would review it and make recommendations regarding the advisability of standby authority to regulate consumer credit. Chairman Martin went on to say that Mr. Saulnier was going to talk with the President within the next few days in view of questions which might be raised at the President's press conference next week. He then said that in the circumstances it was his view that perhaps the Board would have to indicate in transmitting the survey that it would study the material contained therein and at a stated time would make appropriate comments.

At the request of the Chairman, Mr. Young reviewed discussions with Mr. Burns when the study was initiated, stating that although, from the tenor of his remarks, Mr. Burns seemed to feel that standby authority

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to regulate consumer credit would be desirable, Mr. Burns felt that the study itself should not take a position on the issue. In other words, it appeared to be Mr. Burns' desire that conclusions be reached only after study by interested parties of the factual information that would be contained in the report.

In a further discussion of the matter, Governor Robertson raised a question whether it would be advisable for the Board to commit itself to express views on the subject at any specified time. He suggested, as an alternative approach, making it clear that the study had been prepared by the Board's staff, that the Board was not in a position to make any recommendations at this time, and that the purpose of releasing the study promptly upon its completion was to give interested parties a chance to review the material and formulate their views.

Governor Vardaman referred to the fact that the study had been made at the request of the President and asked whether it would not be proper procedure to transmit it to the President, and to the appropriate Congressional committees, with a statement that the Board was submitting the study for their attention and would be prepared to express its opinions when called upon for them. He suggested that in making this study the Board simply was acting as an instrumentality to gather information pursuant to proper request, and that this function had now been performed. He felt that after the report had been transmitted, it was quite likely that the President would ask the Board for an analysis and opinions, and that the President also would make a similar request of a number of agencies within the Administration. In the meantime, the staffs of the

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appropriate Congressional committees likewise would have the report available and could be reviewing it. It appeared to Governor Vardaman that for the present it would be sufficient to indicate that the Board was making the report available promptly upon its completion and that no expression of opinion regarding the report could be made pending further study.

The discussion then turned to the letter which would transmit the report and it was pointed out that a short letter of transmittal, dated March 15, 1957, was included when the report was sent to the printer. Accordingly, the suggestion was made that another letter of transmittal, for use in sending copies of the report to the Council of Economic Advisers and the Congressional committees, might be prepared which would incorporate statements along the lines of those which had been suggested at this meeting. Such a letter would also explain that the sixth and final volume of the study was not yet available for transmittal with the first five volumes.

Governor Szymczak expressed the thought that after receipt of the report, the Administration might wish to take steps to obtain the views of the several interested Government agencies, perhaps through the Bureau of the Budget, so as to arrive at a consensus. He also suggested that it might be desirable for Chairman Martin to talk with the Chairmen of the Joint Economic Committee and the Senate and House Banking and Currency Committees to review with them the background and nature of the study and indicate why the Board was not in a position to make recommendations until it had studied the report.

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Chairman Martin stated that he would be glad to discuss the matter along such lines. He went on to say, with regard to the letter transmitting the report, that it might be well to indicate therein a time when the Board would anticipate expressing opinions on the basis of the report so that the matter would not be the subject of recurring inquiry.

Governor Balderston then expressed views somewhat different from those stated previously during this meeting, pointing out the possibility that even after study of the report the Board might not reach unanimity of opinion. He therefore suggested that in transmitting the report the Board might say that, as requested, its staff had gathered factual evidence and views pertaining to the problem of consumer instalment credit, that the policy problems involved in implementing any recommendations reached from the report were of concern to a number of agencies within the Government, and that there were several important questions which would have to be decided in reaching a decision. Since these would be matters of concern to the Administration and to the Congress, the Board only wished to suggest the principal questions and not attempt to supply the answers. In such a way, he said, the Board would not be in a position of promising that it would have answers by any given date and, if the Congress should later call upon the Board for testimony, the Board would be in the same position as any other agency called upon to testify.

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Chairman Martin commented that, while such a letter of transmittal might be satisfactory from the Board's standpoint, he had some question whether it would be feasible to use an approach of that kind in the light of the problems mentioned by Mr. Saulnier. In such circumstances, he continued to feel that the Board was obliged to indicate that it would make an expression of opinion after studying the report. He suggested that the transmittal letter might refer to a minimum period of 90 days, which would not commit the Board to express its views on any specific date but would serve to forestall interim inquiries about the report.

Later in the course of the discussion, Governor Balderston made a further statement of his views in which he again expressed the opinion that something would be gained by suggesting that certain problems of implementing the report would require the consideration of the Congress as well as the Administration. In those circumstances, he felt that the Board might be in a better position if it had not stated opinions previously. He also expressed some concern that the distinctions between a study by the Board and a study by the Board's staff would not be readily apparent to others.

Governor Shepardson suggested that the letter of transmittal might to some extent combine the points of view expressed by Governor Balderston and by the other members of the Board. Like Governor Balderston, he was apprehensive that the public might not accept the distinction between a staff activity and a study by the Board. Therefore, he suggested that the letter might be so phrased as to indicate that the Board had

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been studying the general problem, but that the magnitude of the work produced by the staff would make it necessary for the Board to study the matter further before expressing any opinions.

Chairman Martin then suggested that a letter of transmittal be drafted in the light of this discussion which might be sent to the Council of Economic Advisers and the appropriate Congressional committees, and that the draft be presented for consideration by the Board at the meeting on Wednesday, March 13.

There was unanimous agreement with this suggestion.

Messrs. Riefler, Young, Cherry, Molony, and Noyes then withdrew from the meeting.

Report on H. R. 3378. There had been sent to the members of the Board copies of a letter proposed for transmittal to the Chairman of the House Committee on Government Operations in response to the Committee's request for a report on H. R. 3378, which would amend Section 15 of the Administrative Expense Act of 1946.

Following a brief discussion, unanimous approval was given to the letter attached to these minutes as Item No. 1.

Review of problem banks. Messrs. Masters and Benner presented a review of the situation with respect to "problem" State member banks as of December 31, 1956. Mr. Masters devoted his remarks principally to the over-all picture, including developments during 1956, while Mr. Benner explained the status of certain individual banks which had been in the problem bank category for an extended period or presented unusual supervisory questions.

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During Mr. Benner's presentation, the Board discussed the history of certain of the problem bank cases which he mentioned and the courses of supervisory action which might be followed. It was understood that the Division of Examinations would continue to follow two of the serious problem cases with particular diligence to ascertain what, if any, recommendations to the Board would be appropriate in the light of further developments.

During the foregoing discussion, Governor Szymczak withdrew from the meeting, and at its conclusion all of the members of the staff except Mr. Carpenter also withdrew.

Retirement of President Powell. Before this meeting there had been circulated among the members of the Board a draft of letter to Mr. McConnell, Secretary of the Board of Directors of the Federal Reserve Bank of Minneapolis, in the form attached to these minutes as Item No. 2. A question raised by Governor Vardaman as to the desirability of the salary payment proposed in the letter was discussed in the light of the actions previously taken by the Board on the matter.

At the conclusion of the discussion the letter was approved unanimously, Governor Vardaman stating that he approved not because he favored the arrangement but because of the fact that the substance of it had already been approved by the Board.

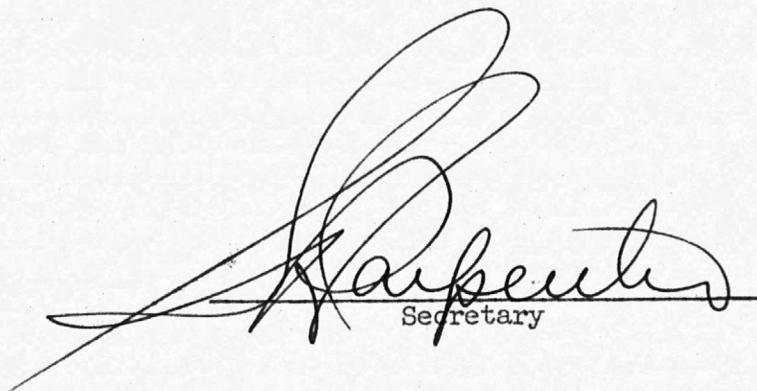
Luncheon for Mr. Powell. At the suggestion of Chairman Martin, unanimous approval was given to a luncheon on March 26 for Mr. Powell,

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whose resignation as President of the Federal Reserve Bank of Minneapolis will become effective on March 31. On March 26 the Presidents of the Federal Reserve Banks will be in Washington for meetings of the Federal Open Market Committee and the Presidents' Conference. It was understood that, in addition to the members of the Board, the Presidents of all of the Federal Reserve Banks, the official staff of the Board of Governors, and, to the extent space would permit, others attending the meeting of the Federal Open Market Committee would be invited to the luncheon.

The meeting then adjourned.



Secretary

Item No. 1
3/11/57

March 11, 1957

The Honorable William L. Dawson,
Chairman,
Committee on Government Operations,
House of Representatives,
Washington 25, D. C.

My dear Mr. Chairman:

This is in response to your request of January 25, 1957, for a report on H.R. 3378, which would amend section 15 of the Administrative Expense Act of 1946.

This bill would require that the activities of any group of experts or consultants procured under authority of this or any other law to serve as an advisory committee, panel, or group shall be subject to the following requirements:

1. Statutory authority for the employment of such committees or an administrative finding of necessity;
2. Agendas to be initiated and formulated by the Government;
3. Chairmen to be full-time Government officials who alone would be empowered to call meetings;
4. Complete minutes to be kept; and
5. Functions of committees to be purely advisory and determinations of actions to be made solely by Government representatives.

The Board is in agreement with the statement in the opening paragraphs of the bill that the activities of advisory groups consisting of experts and consultants procured to advise the Government should be safeguarded against the possibility of their use to influence public policy for the benefit of private interests. However, on the basis of its experience in working with experts and consultative groups, the Board questions whether it is necessary or desirable to formalize such relationships in the manner indicated by the requirements stated above. The problem, as we see it, is to determine whether it is possible to

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provide safeguards that can be uniformly applied to Government departments and agencies having widely different functions and responsibilities, or even to all advisory groups within the same agency, while at the same time avoiding unnecessary procedural restrictions which might create burdensome administrative detail and possibly diminish the contribution such advisory committees might otherwise make.

The scope and effect of this bill, however, as applied to the Board of Governors, are not altogether clear, since the agencies of the Government to which the bill would apply are not definitely delineated and the meaning of the terms "advisory committee" and "advisory panel or group" is not sharply defined. It is with this in mind that we would like to mention several groups or committees within the Federal Reserve System.

The Board of Governors has an advisory body known as the Federal Advisory Council, consisting of one member from each of the Federal Reserve districts, which was created by section 12 of the original Federal Reserve Act enacted in 1913. It is empowered by statute to confer with the Board, to make representations concerning matters within the Board's jurisdiction, to call for information and make recommendations regarding the affairs of the Federal Reserve System. The statute also provides that the Council may hold its meetings in Washington or elsewhere, may select its own officers and adopt its own methods of procedure. A requirement that the agenda for meetings of the Federal Advisory Council be initiated and formulated by the Government and that the Chairman of the Council be a full-time Government official would be inconsistent with the purposes of the Federal Advisory Council and would constitute a material change in its methods of procedure and perhaps in its ability to give independent advice to the Board. This it is believed would be undesirable and it is hoped that it will be made clear that the bill, H.R. 3378, is not intended to apply to the Federal Advisory Council.

As you will recall, in its letter to your Committee of January 4, 1956, the Board stated:

"From time to time the Board submits technical staff papers and memoranda for evaluation and comment regarding the objectives being sought to panels of business, finance, labor, and academic economists. For example, in the recent review of the methods of compiling the Board's index of industrial production, copies of the working papers were sent to a list of those who are its ultimate users. Similarly, the Board occasionally arranges meetings, somewhat comparable to academic seminars, with various groups of economists for the purpose of obtaining their comments on technical

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"papers prepared by the Board's staff. Such panelists do not comprise organized committees and are brought together for a single purpose and a single occasion."

It is presumed that such activities, essentially of a technical nature, are not intended to be covered by bill H.R. 3378.

Also, in connection with the work of the Board's Division of Research and Statistics, statistical and economic information is obtained from numerous private trade groups and organizations and this is essential to enable the Board to carry out its monetary and credit responsibilities. It includes data on every important segment of the economy, such as stock market credit, securities markets, consumer credit, industrial production, department store sales and stocks, and many more. The groups which supply this information are not "advisory" in the ordinary sense of that word but it should be recognized that the aggregate of all such information may have a bearing on important decisions of the Board. The Board's Division of Research and Statistics has developed highly satisfactory procedures for obtaining this data on a current basis and, if the bill should be construed to be applicable to such situations, the procedures outlined in the bill might seriously hamper the flow of information and data essential for the formulation of credit and monetary policies.

The twelve Federal Reserve Banks, which operate under general supervision of the Board of Governors, have a number of committees comprised of officers or employees of the Reserve Banks whose purpose is to advise the Banks with respect to various matters with which they are concerned. Frequently an employee of the Board serves as an associate member of one of these groups. A few of these committees, such as the group consisting of the Presidents of the twelve Banks and known as the Presidents' Conference, from time to time may make recommendations to the Board of Governors. Groups of this kind, consisting entirely of full-time personnel of the Federal Reserve Banks or of the Board and not being "procured" for advisory purposes, would not appear to come within the letter or intent of the bill.

In summary, it is the Board's view that if favorable consideration is to be given to H.R. 3378, its coverage should be more clearly defined and perhaps limited to areas where the possibility of serious abuses is more likely to be present. In any event, the Board recommends to your Committee that the language of the bill be appropriately changed so that it may be clear that the work of the Federal Advisory Council and of the Board's Division of Research and Statistics, as described above, would not be affected.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Item No. 2
3/11/57

March 11, 1957.

CONFIDENTIAL (FR)

Mr. H. G. McConnell, Vice President,
Federal Reserve Bank of Minneapolis,
Minneapolis 2, Minnesota.

Dear Mr. McConnell:

The Board of Governors approves the retention of Mr. Oliver S. Powell on the staff of the Federal Reserve Bank of Minneapolis as an Economic Adviser for the period April 1, 1957, through September 30, 1957, with payment of salary to him at the rate of \$1,250 a month, in accordance with the action taken by the Board of Directors as reported in your letter of March 4, 1957.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.