Minutes for May 15, 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 proposed to place in the record of policy actions required to be kept under the provisions of Section 10 of the Federal Reserve Act an entry covering the items in this set of minutes commencing on the pages and dealing with the subjects referred to below.

Page 4 Amendment to the Board's 1947 rule relating to the classification of central reserve and reserve cities.

Page 7 Increase in the maximum permissible rate of interest on V-loans.

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	
Gov. Szymczak	X	
Gov. Vardaman	X	
Gov. Mills	X	
Gov. Robertson	X	
Gov. Balderston	X	
Gov. Shepardson	X	

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, May 15, 1957. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Fauver, Assistant Secretary
Mr. Leonard, Director, Division of Bank Operations
Mr. Young, Director, Division of Research and Statistics
Mr. Sloan, Director, Division of Examinations
Mr. Boothe, Administrator, Office of Defense Loans
Mr. Hackley, General Counsel
Mr. Horbett, Associate Director, Division of Bank Operations
Mr. Masters, Associate Director, Division of Examinations
Mr. Shay, Assistant General Counsel
Mr. Collier, Technical Assistant, Division of Bank Operations

Items circulated to the Board. The following items, which had been circulated to the members of the Board and copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

	Item No.
Letter to Northwestern Bank of Commerce, Duluth, Minnesota, approving its application for membership in the Federal Reserve System. (For transmittal through the Federal Reserve Bank of Minneapolis.)	1

Item No.

Letter to the Bureau of the Budget responding to a request for the Board's views on a draft bill "To authorize adjustments in accounts of outstanding old series currency, and for other purposes" submitted by the Treasury Department. 2

Eligibility of funds of Indian tribes as "savings deposits". In a letter of April 12, 1957, the Bureau of Indian Affairs, Department of the Interior, presented the question whether certain designated Indian tribes organized under Federal statute would be eligible under Regulation Q to have savings deposits in member banks. There had been circulated to the members of the Board a memorandum from Mr. Shay dated May 2, 1957, along with supplemental memoranda prepared by Mr. Shay, which discussed the questions involved in the light of legal considerations pertaining to the organization of the Indian tribes and discussions with representatives of the Bureau of Indian Affairs. On the basis of this study, there was submitted with the memorandum a draft of proposed reply which would express the opinion that in view of the Governmental character of the Indian tribes in question and their broad corporate authority to engage in business activities, such tribes are not organizations of the kind that may have "savings deposits", as defined in section 1(e) of Regulation Q. The letter would go on to state that a deposit of tribal funds could not be regarded as one in which "the entire beneficial interest is held by one or more individuals" within the meaning of that section, and that accordingly deposits of the tribes under consideration, or of any other tribes similarly organized, would not be eligible for classification by a member bank as "savings deposits". The letter would also point out,

however, that such funds would be eligible for classification as "time deposits" and that nothing in Regulation Q would prevent member banks from maintaining savings deposits for individual Indians or for Indian organizations operated primarily for charitable or similar purposes and not operated for profit.

A discussion of the matter touched upon such aspects as the organizational status of Indian tribes, the terms of Regulation Q relating to savings deposits, and the reasons for the restrictions contained in the Regulation with regard to eligibility to maintain savings deposits. Messrs. Hackley and Shay stated that the question relating to the Indian tribes had been studied exhaustively and that under the present provisions of Regulation Q the position taken in the proposed letter was the only answer that could be given. They made it clear, however, that the study was based on legal considerations and did not take into account factors which might be held to justify making some special provision to permit Indian tribes to have savings deposits at member banks.

The suggestion then was made that consideration be given to the possibility of an amendment to Regulation Q for this particular purpose. Question was raised, however, whether any such amendment would result in great benefit to the Indian tribes or whether the inquiry reflected mostly a desire on the part of some bank or banks to hold tribal funds as savings deposits. To clarify these questions, it was suggested that the Legal Division enter into further discussion with the Bureau of Indian Affairs and check with the Federal Reserve Bank of San Francisco, to which a similar inquiry previously had been directed.

There was unanimous agreement with the suggested procedure, with the understanding that the matter would be brought back to the Board for final decision after additional information had been obtained.

Classification of central reserve and reserve cities (Items 3, 4, 5, and 6). Pursuant to the conclusion reached by the Board on May 8, 1957, with regard to the designation of Miami, Florida, as a reserve city, documents had been distributed to the members of the Board which would have the effect of (1) amending the Board's 1947 rule relating to the classification of central reserve and reserve cities, effective March 1, 1957, to provide that the designation of any additional reserve city shall not become effective until after one year, or such longer period as the Board might determine, from the date as of which the designation would have become effective in the absence of the amendment, and (2) designating the city of Miami as a reserve city effective March 1, 1958, pursuant to the amended rule. In the light of a suggestion subsequently made by Governor Vardaman that it might be preferable to defer the effective date of the reserve city designation of Miami for 18 months instead of one year, there had also been sent to the members of the Board copies of a memorandum from Mr. Hackley dated May 13, 1957, submitting a draft of amendment to the 1947 rule drawn on that basis. The memorandum suggested that if the effective date under the amendment were deferred for 18 months, the Board might wish to eliminate from the amendment the provision making possible the deferment of a reserve city designation for such longer period as the Board might determine.

Governor Vardaman said that his suggestion had been offered in the thought that the designation of the city of Miami as a reserve city, effective March 1, 1958, pursuant to the amended rule might be inconsistent with the apparent objective of the amendment to afford the banks in the newly designated reserve city one year in which to make the adjustments required by the designation. In other words, since the rule was being amended retroactive to March 1, 1957, the banks in Miami would have notice of action by the Board on the reserve city designation for a period somewhat less than 10 months rather than a full year. In the future, however, the banks in any other city which might be designated as a reserve city for the first time presumably would have a full year in which to make the required adjustments.

With reference to Governor Vardaman's comment, it was noted by Governor Robertson that the Miami banks had been put on notice before March 1, 1957, that the city fell within the definition of a reserve city under the Board's 1947 rule; and the city would have been designated as a reserve city effective the first of March, except for the fact that the Board had already granted a deferment of the reserve city designation. On the other hand, the point was made that, according to the notice published in the Federal Register, the Board had deferred a decision until June 1, 1957, on the designation of Miami as a reserve city, so that the designation actually had not yet been made.

In the light of this discussion, Mr. Hackley suggested that if the Board so desired, it would be possible to use the amendment to the 1947 rule which was originally submitted and to take advantage of the

discretion given to the Board therein to defer the effective date of designation in the case of the city of Miami for such period as the Board deemed appropriate. In this way, the designation of the city of Miami could be made effective one full year from current date, and in future cases involving the designation of new reserve cities, the designation would automatically carry an effective date one year after the city qualified for reserve city status under the standard prescribed in the 1947 rule.

It being the consensus of the Board that there was something to be said for giving the member banks in Miami a full year from current date in which to make the adjustments required by designation of the city as a reserve city and that the exact timing of the effective designation in this instance was not an extremely important consideration, it was agreed unanimously to amend the Board's 1947 rule, effective March 1, 1957, to provide that the designation of any additional reserve city shall not become effective until after one year, or such longer period as the Board may determine, from the date as of which the designation would have become effective in the absence of the amendment; and pursuant to the amended rule, to designate the city of Miami as a reserve city effective May 15, 1958. To carry these actions into effect, approval was given to the publication in the Federal Register of notices in the form attached to these minutes as Items 3 and 4, respectively, and to letters to the Presidents of all Federal Reserve Banks and to the Comptroller of the Currency in the form attached hereto as Items 5 and 6, respectively. The letter to the Federal Reserve Banks was approved in a form reflecting

agreement by the Board with a suggestion for rewording of the last paragraph made at this meeting by Mr. Horbett.

Messrs. Shay and Collier then withdrew from the meeting and Messrs. Noyes and Robinson, Advisers, Division of Research and Statistics, entered the room.

Maximum permissible rate of interest on V-loans (Items 7, 8, and 9). At the meeting on May 3, 1957, the Board gave further consideration to a possible increase in the maximum permissible rate of interest on loans guaranteed pursuant to Regulation V, Loan Guarantees for Defense Production. From that discussion, which was based on questions raised informally by the Council of Economic Advisers, it developed that the Board would continue to prefer an increase in the maximum permissible rate from 5 per cent to 6 per cent, with no change in the schedule of guarantee fees, but that if the guaranteeing agencies were to make a proposal along lines that had been mentioned informally by the Defense Department, the Board would go along with such a proposal.

In a letter dated May 11, 1957, Assistant Secretary of Defense McNeil informed Chairman Martin that the Secretary of Defense now agreed with and concurred in the view that the maximum rate should be increased to 6 per cent, with no change in the guarantee fee schedule. Accordingly, there had been prepared and distributed to the Board copies of a press release, a telegram to the Federal Reserve Banks, and a letter to the guaranteeing agencies other than the Army, Navy, and Air Force that would appear to be appropriate if the Board wished to increase the maximum permissible rate to 6 per cent effective immediately.

With respect to the letters proposed to be sent to the guaranteeing agencies other than the Army, Navy, and Air Force, question was raised by Governor Mills whether, as required by statute, there had actually been consultation with those agencies or whether such consultation had been limited to the Department of Defense.

In response to this question, Mr. Boothe explained that there had been consultation by the Board's staff with those persons in the respective guaranteeing agencies who are normally consulted in connection with matters arising under the V-loan program. He considered that this was sufficient to comply with the requirements of the statute. With respect to the Defense Department, he said that the consultation had been with the Contract Finance Committee, which represents the Army, Navy, and Air Force, and that the concurrence by the Secretary of Defense was based upon a recommendation by that committee.

It was then noted that the proposed letters would state that the Chairman of the Council of Economic Advisers (Mr. Saulnier) had expressed his concurrence in the view of the Board of Governors that the maximum permissible interest rate should be increased immediately to 6 per cent. On this point, Mr. Boothe stated that advice received from the staff of the Council indicated this to be the position of Mr. Saulnier, but that he (Mr. Boothe) was awaiting word that the use of this language in the proposed letters had been cleared with Mr. Saulnier.

It was then brought out that the law requires only that the Board take action after consultation with the guaranteeing agencies and it was

suggested, therefore, that mention of concurrence by the Chairman of the Council of Economic Advisers was unnecessary. Accordingly, it was agreed that this portion of the proposed letters to the guaranteeing agencies should be omitted.

Discussion then turned to the form of the proposed telegram to the Federal Reserve Banks advising of the Board's action and the content of the press release which would be issued. It was the view of the Board that both the telegram and the press release should be in a form which would go no further than to state the essential facts of the action taken by the Board.

Thereupon, it was agreed unanimously to raise the maximum permissible rate of interest on loans guaranteed pursuant to Regulation V from 5 per cent to 6 per cent, effective immediately, with no change in the present maximum commitment fee of 1/2 of 1 per cent or in the schedule of guarantee fees now in effect. In this connection, approval was given to a press statement and to a telegram to the Presidents of all Federal Reserve Banks in the form attached to these minutes as Items 7 and 8, respectively. Approval also was given to a letter to the Secretary of Commerce in the form attached hereto as Item No. 9, with the understanding that similar letters would be sent to the Secretary of Agriculture, the Chairman of the Atomic Energy Commission, and the Administrator of General Services Administration.

Messrs. Boothe and Horbett then withdrew from the meeting and Messrs. Solomon and Hexter, Assistant General Counsel, entered the

room along with Mr. Molony, Special Assistant to the Board, and Mr. Jones, Chief, Consumer Credit and Finances Section, Division of Research and Statistics.

Request for information on distribution research (Item No. 10). In a letter dated April 24, 1957, information on distribution research within the Federal Reserve System was requested by the President's Conference on Technical and Distribution Research for the Benefit of Small Business. It was stated that this material was desired in connection with a meeting of the Conference to be held in Washington in September 1957.

A draft of suggested reply had been distributed to the members of the Board with a memorandum from Mr. Fauver dated May 10, 1957.

Following a brief discussion, the letter was approved unanimously. A copy is attached to these minutes as Item No. 10.

Study of consumer instalment credit. With reference to the consumer instalment credit study which was conducted by the Board at the request of the President and which was released in published form on March 15, 1957, Chairman Martin said that the matter had now reached the point where the Chairman of the Council of Economic Advisers would have to brief the President and the Cabinet within the next weeks and that it seemed appropriate to give the Council some indication of the Board's views so that the position of the Board would not be misrepresented. Also, by June 15 a period of three months would have elapsed from the date of release of the report and the Chairman suggested that the Board should be working toward some disposition of the study. He therefore felt that it would be appropriate to have a preliminary expression of views at this time.

At the request of the Board, the members of the staff commented on the report beginning with Mr. Young, who said that the documents had been prepared and set forth in such a way that the Board was entirely free to express whatever opinion it desired on the subject of consumer credit regulation. With respect to conclusions which might be reached from the study, Mr. Young said that personally his present disposition was against the regulation of consumer credit or authority to regulate such credit. On the other hand, experience in certain periods in the past - including 1954-55 - made it stand out clearly in retrospect that a dampening down of consumer credit would have been to the advantage of sustaining a high level of activity in the economy. The full price of the 1954-55 experience had not yet been paid, and he was inclined to think that it would still have to be paid. In favor of authority to regulate consumer instalment credit, it might be said that consumer credit is a business which has been extraordinarily profitable, at least up to this point, because of the expansion of consumer demand and the willingness of consumers to increase their debt. Also, the return on consumer credit is very high and lenders have a relatively small cost of getting money in relation to their total costs, so that changes in the cost of money are to them not an important restrictive influence. For this reason, it takes some time for general monetary controls to work through to the consumer credit area. As to the 1954-55 experience, a case could be made to the effect that it was a "one time" sort of thing and that it could not happen again, at least to the same extent. However, to say that

it could never happen would probably be going too far. The industry no doubt would be under pressure again at a later stage to relax terms even further and, while the margin of possible relaxation is now much narrower than it was previously, there is still some margin and also a way of cutting down gross charges. The main usefulness of a standby authority to control consumer credit would be as a "shotgun behind the door". As such, it might serve as a useful restraining influence on the competitive forces in the industry. However, there could be many differences of opinion on the subject - and in fact there were differences within the Board's staff - on the desirability of a statutory standby authority.

Mr. Noyes commented concerning the administrative difficulties that had confronted the Board and its staff during the periods when consumer credit controls were in effect. He also expressed concern about the confusion he had noted among observant persons as to exactly what use should be made of such an authority if it was available. In other words, should there be selective control among the various uses of consumer credit or should the authority be regarded more as a broad supplement to monetary policy related to the growth of consumer credit? Perhaps it would be possible to clarify these questions in the course of study by the Council of Economic Advisers, the Council's recommendations to the President, and Congressional hearings. But if they were not clarified, those entrusted with the administration of consumer credit controls would be in a very difficult position, and for the Board to accept responsibility

for administering such an authority without some mandate indicating the intention of Congress would be rather unfortunate. Mr. Noyes said he was unimpressed by the arguments summarized by Mr. Young in favor of standby regulatory authority. The existence on the statute books of such authority possibly would constitute a healthy restraint under certain circumstances, even if the authority was not actually used. However, if there should be occasion to use such authority, the problems to which he had referred would become very important.

Mr. Robinson said he did not think that any member of the research staff had changed his opinions significantly during the course of the consumer instalment credit study. As to the timing of the study he pointed out that the work was undertaken after a period of unusual consumer credit expansion had tapered off. Therefore, while the study might show a period of excessive use of credit, it might also suggest that the consumer credit industry had learned something of the value of restraint, and it might be said that in a sense the study had come too late. Turning to a point of economic philosophy, he said that consumer credit certainly is a factor that can contribute to instability in the economy, but that the real question was how much instability could be tolerated without the necessity for regulation. Variations within the industry must be expected over the course of time and it could be shown from one episode (1954-1955) that a large growth of consumer credit was tolerated by the rest of the economy. To put it another way, it did not create an instability that could not be tolerated. In summary, based on evidence to date he did not feel that the case for standby authority in an administrative agency had been proven but as a matter of principle he would not be

opposed to authority to regulate consumer credit to the extent that he would be unwilling to reconsider his position.

Mr. Jones said that the study had resulted in gathering some useful material about fluctuations of consumer instalment credit in the past, and in a sense the contribution of consumer credit fluctuations to instability. However, this is a relative matter and the study did not demonstrate that consumer credit had contributed more to instability than other factors in the economy. Along these lines, there might be room for further research and investigation into how consumer credit behaves as an unstabilizing factor relative to real estate or various categories of business credit. It should be thought of in a setting of credit in general, and in that sense it could not be said that a case of especially radical instability had been established. His general opinion on the matter ran in the direction that consumer credit regulation was the kind of thing that should be avoided if at all possible, for it would be the beginning of an attempt to allocate credit within the economic system. For this reason, among others, he felt that this was something one should not rush into rapidly without giving thought to the ultimate implications.

Mr. Young commented that Mr. Jones had touched upon a basic issue - the future role of Governmental and monetary authorities in the field of credit - and that the regulation of consumer credit might well be a step in a certain direction and not merely a supplement to existing controls.

Mr. Leonard supported Mr. Noyes' comments concerning the administrative difficulties involved in consumer credit regulation and went on to say that what had disturbed him most during the previous periods of regulation was that he could never determine exactly the objectives of administering the regulation or the measure of success. He pointed out that effective administration of a regulation is almost impossible unless the objectives are clear.

Mr. Solomon commented further concerning the administrative difficulties, but said he did not consider those difficulties to be quite as serious a matter as some other persons because they are related to the degree of restraint contained in the prevailing regulation. Regarding the choice between a very selective set of controls and a general supplement to monetary controls, he felt that it would be almost untenable to try to apply an extremely selective instrument except in times of emergency. In other words, he felt that if consumer credit regulation had any place at all in a peacetime economy, it would have to be in terms of a supplement to general credit controls that did not attempt to do too much. Even at best, he found it rather difficult to conclude that a case had been made at this stage for consumer credit regulation. The experience in 1954 and 1955 might have represented a stretching out of consumer instalment credit terms to the practical limit and it did not appear that anything approaching that experience would occur again soon, for when terms are stretched beyond a certain point there is no longer as much flexibility to go further.

The Chairman then requested the informal views of the members of the Board and Governor Vardaman began the discussion with a statement which he prefaced by complimenting the staff on its analysis of the subject. He said he had been quite impressed by the administrative difficulties which were cited in connection with a consumer credit regulation but that in his opinion they were the least of the reasons which could be advanced against the imposition of such a regulation. If a case could be made for its effectiveness and desirability, he would favor such a regulation despite the administrative difficulties, but he could not imagine non-emergency conditions under which he would favor the use of such a regulation by the Board or by any other permanently established part of the Government. It would be such a radical departure from the concept of free enterprise that, if adopted, the regulation should be passed by special act of Congress and its administration given to a special agency set up for the emergency which had warranted the action instituting the regulation. Enforcement of the regulation should be vested in an agency primarily engaged in enforcement of the laws and not in an agency primarily concerned with general credit control. He was not certain that if a standby authority had been available in the 1954-55 period it would have been used or that, if used, it would have acted effectively as a brake on consumer credit expansion.

In response to a question by Governor Vardaman regarding the indicated effectiveness of consumer credit regulation in a non-emergency period, Mr. Young said that this was indeed one of the problems since,

under peacetime conditions, it would be hard to visualize use of the regulation with the degree of restrictiveness that might be justified during an emergency situation. It seemed likely that in peacetime the regulation would have to be set up on the basis of terms prevailing in the trade when a credit expansion movement started with the objective limited to prevention of further expansion.

Governor Vardaman then stated that in essence the consumer instalment credit study had only tended to strengthen his view that he would not favor a standby authority. He did not like the idea of having dormant weapons in the hands of any nonelective body of the Federal Government, and he could not imagine any peacetime use for this type of regulation. In time of war or in some other emergency he might be persuaded to favor it along with a complete strait jacket of controls, all embraced in a body of laws passed by the Congress and with enforcement placed in a special board or group and not tied in with the regular pattern of Governmental regulations.

Governor Mills said that he believed any report by the Board on this subject should recommend against legislation that would establish standby authority, but that if the Congress should see fit to provide such authority, the power to put the controls into effect and the choice of the administering agency should be vested in the Executive Branch of the Government.

Governor Robertson then made a statement which he began by saying that, although the consumer credit study was an excellent piece of

research work, it added nothing of great significance to what the Board had already known. As to his own views, he would be opposed to any form of selective control on a standby basis. The study, he said, had heightened his conviction that it is not possible to have just a piecemeal selective control mechanism, for it would soon be found that selective controls had become substitutes for general credit controls. Under any conditions that he could foresee, general controls would work on the whole better than selective controls and he would be opposed on that basis to selective controls, whether on a standby basis or otherwise. However, there might be emergency situations when every possible type of control would be needed. At that time the Board would have sufficient information in this particular area to be able to go to the Congress and ask for authority if it wished. If, on the other hand, standby authority was on the statute books, the pressure would be great to put the controls into effect or to remove them at times that were inappropriate. He would not want to make a decision at this time whether, in an emergency, the selective controls should be administered by the Board or some other agency. This, he suggested, should be left for determination in the light of the kind of emergency that developed.

Governor Shepardson said that he had not yet had an opportunity to review the complete study thoroughly, but that he was very much in agreement with the views expressed thus far at this meeting. He expressed himself as concerned about any move that would bring more regulation into the economy, for he believed that the success and stability of the

American form of government must in the long run depend primarily on the discipline of the individual citizen. In case of dire emergency, to be sure, a lot of controls would be needed, and promptly, and it could be said that it was advisable to have weapons prepared beforehand rather than encounter delay when an emergency occurred. However, the danger of having "the gun behind the door" appeared to him to be greater than the possible loss of time in an emergency because of the risk that someone might be tempted to use the authority improperly. In the event of an emergency, his thoughts as to procedure would be similar to those of Governor Robertson. In principle, he would hope that the controls would not be placed with the Board, but circumstances at the time might change his opinion. The Board now had the benefit of experience with the administration of selective credit controls and of the recent study, and it could conduct further research into the formulation of preparedness plans so as to be ready to act promptly in an emergency.

Governor Szymczak said that at one time he had favored the availability of standby authority to regulate consumer credit as a supplement to general credit controls, though not with the thought of application on a very selective basis. At present, however, he did not think any recommendations should be made to the Congress on the basis of the recent study. If and when the subject should come up in the Congress and the Congress should feel inclined to take some action, he would prefer that some other agency have the authority because of the difficulty in distinguishing between control for credit purposes and the trade regulation aspects.

Governor Balderston characterized the staff study as an outstanding example of excellent research work, and then said that he thought the Board should reach conclusions from that study rather soon, so that if the Congress or the Chief Executive should ask for the Board's views, the Board would not have to ask for time in which to prepare them. He suggested that these views probably could be formulated just as well now as in another month or a year.

Governor Balderston said that the principal problem before the Board this morning seemed to be whether controls should be designed now for use in peacetime, the crux of the matter being whether it was worth while to interfere in the workings of the free markets in order to modify unstabilizing fluctuations in consumer credit that lead to a waste of resources. This issue led him to ask several subordinate questions, the first being whether there was evidence that consumer credit had actually been an unstabilizing force in the economy. On the basis of the 1954-55 experience, his answer would have to be in the affirmative. His second question was whether consumer instalment financing proved susceptible to the restraint of general controls, and here the answer would seem to be in the negative. Large credit corporations have ready access to the money market and consumer credit is favored because of its profitability. His third question was whether the 1955 experience was likely to be repeated. Since the incentive to liberalize terms further was much smaller than in 1955, the chance of repetition was therefore much less. For this reason, it was his conclusion that the adoption of standby controls would

not be worth while in peacetime. The likelihood of further liberalization of terms, except perhaps in automobile paper, would not seem to warrant the burden of administration.

If selective credit regulation should prove imperative because of war or other crisis, Governor Balderston felt that the Congress should adopt the necessary regulations itself and place the enforcement of the regulations in some agency of the Government other than the Federal Reserve System. In such a crisis, he would favor recourse first to excise taxes, but if selective credit regulations should be considered necessary by the Congress in addition to the excise taxes, they should be imposed only with means of effective enforcement provided. The enforcement of the regulation should be separated from the setting up of standards and their interpretation, the penalties for violation should be substantial, and the coverage of the types of consumer credit should be complete, but every effort consistent with effective administration should be made to limit the number of registrants and the volume of individual transactions subject to the regulations. In summary, he would be opposed to standby controls in peacetime but felt that some thought should be given to devising simple, yet effective, controls for use in time of crisis if necessary.

Chairman Martin noted that there appeared to be a considerable amount of agreement in the views expressed at this meeting. He then said that he had been impressed by the differences between credit controls and trade regulations, but that after reviewing the consumer instalment

credit study he found himself, rather surprisingly, less convinced than previously that this would be an entirely undesirable regulation. While he continued to feel that the Board shoud not seek standby authority, he was concerned about the matter in the context of the battle against inflation generally. He recognized the administrative difficulties that had been mentioned but considered them the weakest argument against selective credit regulations. He also appreciated the points raised by Mr. Jones as to the problems that would be created by having standby authority in the Federal Reserve Act. The next step could easily be the extension of controls into the field of real estate credit, then to inventories, and then to specific types of business credit. While he therefore was not prepared to say that the Federal Reserve ought to be given standby selective credit authority, the place of the System in the fight against inflation raised a question whether the Board should insist that such authority, if granted, should be placed elsewhere within the Government. In essence, his review of the study had not convinced him that consumer credit control as a supplement to general controls, whether exercised by the Board or by some other agency, would be completely undesirable. And there would appear to be certain dangers in taking the firm position that the administration of such an authority should be in some agency other than the Board.

In response to a question by Governor Vardaman, Chairman Martin said that in his remarks he was not referring just to consumer credit, and that at present his emphasis would be more on real estate credit. Governor

Vardaman commented that he would be inclined to agree and that he felt consumer credit should not be singled out particularly.

At the conclusion of the Board members' comments, Chairman Martin raised the question whether it would be appropriate to extend an invitation to the Council of Economic Advisers to meet with the Board for an informal discussion of tentative views based on the study. One of the purposes of such an invitation would be to avoid the possible criticism at a later date that the Board had crystallized its own thinking without consideration of the views of the Council.

This led to the question whether any expression of tentative positions should be made available to the Council for study prior to such a meeting, and it was decided that this would not be advisable. It was understood, however, that eventually the Board might be expected to offer formal recommendations regarding the problem of standby authority for consumer credit regulation.

There being unanimous agreement that the Chairman should extend an invitation to the Council to meet informally with the Board for an exchange of tentative views, the suggestion was made that, for use by the Board subsequent to this meeting, the staff be requested to begin preparing a document which would summarize the principal questions that the Board should have in mind in reaching its final conclusions from the study, along with the positions that might be developed on those points in the light of the discussion at this meeting. This, it was suggested, would be a helpful step in enabling the Board to move forward

promptly after the meeting with the Council. There was unanimous agreement with this suggestion and Governor Mills was designated as the member of the Board to supervise the staff work on such a document.

The meeting then adjourned.

Secretary's Note: Acting in the absence of Governor Shepardson, Governor Balderston approved on behalf of the Board on May 14, 1957, the following items, copies of which are attached to these minutes under the respective item numbers indicated:

	Item No.
Letter to the Federal Reserve Bank of Boston approving the designation of Lenora Dimitri, Harry R. Mitiguy, and Silvia E. Vitale as special assistant examiners.	11
Letter to the Federal Reserve Bank of San Francisco approving the appointment of Howard A. Jalving as an assistant examiner.	12

Governor Shepardson today approved on behalf of the Board the following items:

Memorandum dated May 14, 1957, from Mr. Bethea, Director, Division of Administrative Services, recommending the appointment of Charles P. Brown as Messenger in that Division, with basic annual salary at the rate of $2,690, effective the date he assumes his duties.

Telegram to Mr. Powell, Special Counsel for the Board, regarding stenographic reporting service in connection with the current proceeding against The Continental Bank and Trust Company. A copy of this telegram is attached to these minutes as Item No. 13.

Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 1
5/15/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 15, 1957

Board of Directors,
Northwestern Bank of Commerce,
Duluth, Minnesota.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the application of Northwestern Bank of Commerce, Duluth, Minnesota, for stock in the Federal Reserve Bank of Minneapolis, subject to the numbered conditions hereinafter set forth:

1. Such bank at all times shall conduct its business and exercise its powers with due regard to the safety of its depositors, and, except with the permission of the Board of Governors of the Federal Reserve System, such bank shall not cause or permit any change to be made in the general character of its business or in the scope of the corporate powers exercised by it at the time of admission to membership.

2. The net capital and surplus funds of such bank shall be adequate in relation to the character and condition of its assets and to its deposit liabilities and other corporate responsibilities.

In connection with the foregoing conditions of membership, particular attention is called to the provisions of the Board's Regulation H, as amended effective September 1, 1952, regarding membership of State banking institutions in the Federal Reserve System, with especial reference to Section 7 thereof. A copy of the regulation is enclosed.

If at any time a change in or amendment to the bank's charter is made, the bank should advise the Federal Reserve Bank, furnishing

copies of any documents involved, in order that it may be determined whether such change affects in any way the bank's status as a member of the Federal Reserve System.

Acceptance of the conditions of membership contained in this letter should be evidenced by a resolution adopted by the Board of Directors and spread upon its minutes, and a certified copy of such resolution should be filed with the Federal Reserve Bank. Arrangements will thereupon be made to accept payment for an appropriate amount of Federal Reserve Bank stock, to accept the deposit of the required reserve balance, and to issue the appropriate amount of Federal Bank stock to the bank.

The time within which admission to membership in the Federal Reserve System in the manner described may be accomplished is limited to 30 days from the date of this letter, unless the bank applies to the Board and obtains an extension of time. When the Board is advised that all of the requirements have been complied with and that the appropriate amount of Federal Reserve Bank stock has been issued to the bank, the Board will forward to the bank a formal certificate of membership in the Federal Reserve System.

The Board of Governors sincerely hopes that you will find membership in the System beneficial and your relations with the Reserve Bank pleasant. The officers of the Federal Reserve Bank will be glad to assist you in establishing your relationships with the Federal Reserve System and at any time to discuss with representatives of your bank means for making the services of the System most useful to you.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

Enclosure.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 2
5/15/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 15, 1957

Mr. Roger W. Jones,
Assistant Director for
Legislative Reference,
Bureau of the Budget,
Washington 25, D. C.

Dear Mr. Jones:

This is in response to your recent Legislative Referral Memorandum, requesting the views of the Board regarding a draft bill "To authorize adjustments in accounts of outstanding old series currency, and for other purposes", submitted by the Treasury Department.

The Board of Governors would interpose no objection to enactment of the proposed legislation, sections 4 and 8 of which would affect the operations of the Federal Reserve System in relatively minor respects. Pursuant to section 4, the Federal Reserve Banks would deposit in the Treasury gold certificates in an amount equal to the total amount of their outstanding "old series" Federal Reserve notes, which presently is about $38 million. Thereafter, when old series Federal Reserve notes (as defined in the bill) were presented they would be redeemed from the general cash in the Treasury and retired.

Section 8 of the bill would amend the fifth and seventh paragraphs of section 16 of the Federal Reserve Act (12 U.S.C. 415, 416). These proposed amendments are appropriate, in the opinion of the Board. However, it is pointed out that in S. 1451 (the proposed Financial Institutions Act of 1957), which passed the Senate March 21, 1957, the subject of Federal Reserve notes is covered in section 43 of Title II (a re-enactment of the Federal Reserve Act). Section 43 omits the language of the present fifth paragraph of section 16 of the Federal Reserve Act, so that, if S. 1451 were enacted before enactment of this draft bill, the first amendment in section 8 of the latter would be unnecessary. In the event of such prior enactment of S. 1451, the second amendment in section 8 would properly come after the fourth sentence of section 43(d) of the new Federal Reserve Act.

It appears that the letter "(a)" was inadvertently omitted after "Sec. 8" in the draft bill.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

Item No. 3
5/15/57

Amendment to Rule for

Classification of Central Reserve and Reserve Cities

The Board of Governors has amended its rule for the classification of central reserve and reserve cities (1948 Federal Reserve Bulletin, pp. 41 and 42). Under the amendment, the designation of any city as an additional reserve city because it qualifies for designation as such under the average-aggregate-deposit standard set forth in paragraph (2) of subsection (b) of the rule, shall not become effective until after one year, or such longer period as the Board may determine, from the date as of which such designation would be effective under paragraph (4) of subsection (b) of the rule in the absence of the amendment. The text of the amendment is as follows:

Effective as of March 1, 1957, paragraph (4) of subsection (b) of the rule of the Board of Governors of the Federal Reserve System entitled "Classification of Central Reserve and Reserve Cities" published at pages 41 and 42 of the 1948 Federal Reserve Bulletin, is hereby amended by changing the period at the end thereof to a colon and adding after the colon the following new language:

> Provided, that the designation of any city as an additional reserve city under this paragraph (4) because it meets the standard prescribed in paragraph (2) above, shall not become effective until after one year, or such longer period as the Board of Governors may determine, from the date as of which such designation would be effective in the absence of this proviso.

Item No. 4
5/15/57

Classification of an Additional Reserve City

Acting in accordance with the rule regarding classification of central reserve and reserve cities as adopted by the Board on December 19, 1947, effective March 1, 1948, and as amended effective March 1, 1957 (hereafter referred to as the Board's rule), and pursuant to authority conferred upon it by section 11(e) of the Federal Reserve Act and other provisions of that Act, the Board of Governors has taken the following action:

The city of Miami, Florida, falls within the scope of paragraph (2) of subsection (b) of the Board's rule based upon official call reports of condition in the two-year period ending June 30, 1956, and, therefore, such city is hereby designated and classified as a reserve city effective May 15, 1958.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 5
5/15/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

S-1628

May 15, 1957

Dear Sir:

This is to supplement the Board's letter of February 21, 1957 (S-1621), in which you were advised of the Board's action effective March 1, 1957, for the continuance of reserve city classifications of certain reserve cities and the termination of the reserve city classifications of two such cities. (1957 Federal Reserve Bulletin, p. 276)

The Board has amended its rule adopted on December 19, 1947, with respect to the classification of central reserve and reserve cities. A copy of the amendment, which will be published in early issues of the Federal Reserve Bulletin and the Federal Register, is enclosed. It will be appreciated if you will bring the amendment to the attention of member banks in your District.

Under the rule as amended, the Board has designated the city of Miami, Florida, as an additional reserve city effective May 15, 1958. The Federal Reserve Bank of Atlanta will so advise each member bank in Miami. You may give out the same information in response to inquiries from member banks or others. Enclosed is a copy of the Board's action with respect to Miami, Florida, which also will be published in early issues of the Federal Reserve Bulletin and the Federal Register.

The Board has decided to have a study made of the provisions of its 1947 rule and, in that connection, will of course consider such suggestions as have been made by the Federal Reserve Banks since the adoption of the original rule. It will be glad to consider any other changes that you may wish to offer.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

Enclosures 2

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 6
5/15/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 15, 1957

The Honorable Ray M. Gidney,
The Comptroller of the Currency,
Washington 25, D. C.

My dear Mr. Comptroller:

Supplementing the Board's letter of February 21, 1957, there is enclosed a copy of an amendment to the Board's rule for the classification of central reserve and reserve cities and also a copy of an action taken by the Board under the rule as so amended.

You will note that the effect of the amendment to the rule is to defer the effective date of the designation of any city as an additional reserve city (based on any triennial review) for one year, or for such longer period as the Board may determine, after the effective date which would be applicable in the absence of the amendment. From the copy of the Board's action pursuant to its amended rule, you will note that the Board has designated the city of Miami, Florida, as an additional reserve city, effective May 15, 1958.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

Enclosures 2

Item No. 7
5/15/57

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Statement for the Press

For immediate release May 15, 1957.

After consultation with the guaranteeing agencies, the Board has raised the maximum permissible rate of interest on V-loans from 5 to 6 per cent, effective immediately. No change has been made in the present maximum commitment fee of 1/2 of 1 per cent or the schedule of guarantee fees now in effect.

T E L E G R A M
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 8
5/15/57

May 15, 1957

Presidents, all Federal Reserve Banks

After consultation with the guaranteeing agencies, the Board has raised the maximum permissible rate of interest on V-loans from 5 to 6 per cent, effective immediately. No change was made in the present maximum commitment fee of 1/2 of 1 per cent or the schedule of guarantee fees now in effect. It is suggested that you advise the interested financing institutions in your district of the Board's action.

(SIGNED) S. R. CARPENTER
Carpenter

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 9
5/15/57

OFFICE OF THE CHAIRMAN

May 15, 1957

BY MESSENGER

The Honorable Sinclair Weeks, Secretary,
Department of Commerce,
14th and Constitution Avenue, N. W.,
Washington 25, D. C.

Dear Mr. Secretary:

The Board of Governors has had under consideration for some time the advisability of increasing the maximum permissible rate of interest that may be charged by commercial banks on V-loans.

In numerous conferences between members of the Board's staff and officials of the Defense Department and other guaranteeing agencies, it has been decided that in view of the difficulties some defense producers are facing in obtaining or continuing necessary V-loans that action should be taken to alleviate the financing problems of defense suppliers.

Assistant Secretary of Defense McNeil has written me regarding this matter and advises that Secretary Wilson agrees and concurs with the views of the Board that the maximum permissible rate of interest on V-loans should be increased to 6 per cent.

Accordingly, the Board of Governors has increased the maximum permissible rate to 6 per cent, effective immediately. No change has been made in the maximum permissible commitment fee of one-half of 1 per cent or in the guarantee fees now charged by the various guaranteeing agencies.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 10
5/15/57

OFFICE OF THE CHAIRMAN

May 15, 1957

Mr. C. Lincoln Jewett, Executive Director,
President's Conference on Technical and
Distribution Research for the Benefit
of Small Business,
Room 4805, Main Commerce Department Building,
Washington 25, D. C.

Dear Mr. Jewett:

This is in reply to Mr. Arthur Motley's letter of April 24 in which he requested that information be sent to you relating directly to distribution research within the Federal Reserve System. This material was requested in connection with the "President's Conference on Technical and Distribution Research for the Benefit of Small Business" to be held in Washington on September 24-26, 1957.

There are attached several exhibits presenting the information requested about certain specific research programs of the Federal Reserve System in this area. It should be noted that most of these are programs which are carried out on a nation-wide basis. In addition, each of the twelve Federal Reserve Banks has an excellent economic research division which often conducts programs of a regional or local nature. For example, the Federal Reserve Bank of Boston has for several years cooperated extensively with the New England Council in the development of data particularly applicable to that area. Also, the Federal Reserve Banks of Chicago and St. Louis have carried on community and regional analyses which have a definite relationship to market research.

The product of economic research carried on by the Federal Reserve System is generally of such character that it is useful to business groups of all sizes. Contrary to the general impression, the majority of commercial banks in the United States are classifiable as small business inasmuch as more than half the banks in the United States have resources of $3 million or less. Similarly, in the department store field, although the tendency is to think first of the largest retail outlets of this type, in 1954 nearly 2 in every 5 department stores had an annual sales volume of less than $1 million.

There are enclosed sample copies of a number of System publications containing examples of the kinds of research carried out both at the Federal Reserve Board and at the individual Federal Reserve Banks. It may be that after you have had an opportunity to review them and the other material provided with this reply, you will think of some other ways in which the System might be helpful in connection with the President's Conference. If there should be, please let us know.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosures

cc: Mr. Arthur H. Motley

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No.11
5/15/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 14, 1957

Mr. E. O. Latham, First Vice President,
Federal Reserve Bank of Boston,
Boston 6, Massachusetts.

Dear Mr. Latham:

In accordance with the request contained in Mr. Groot's letter of May 8, 1957, the Board approves the designation of Lenora Dimitri, Harry R. Mitiguy, and Silvia E. Vitale, as special assistant examiners for the Federal Reserve Bank of Boston for the purpose of participating in the examinations of Depositors Trust Company, Augusta, Maine, The Merrill Trust Company, Bangor, Maine, The Connecticut Bank and Trust Company, Hartford, Connecticut, and Rhode Island Hospital Trust Company, Providence, Rhode Island.

Appropriate notations have been made on our records of the names to be deleted from the list of special assistant examiners.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 12
5/15/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 15, 1957

Mr. Eliot J. Swan, First Vice President,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Swan:

In accordance with the request contained in your letter of May 9, 1957, the Board approves the appointment of Howard A. Jalving as an assistant examiner for the Federal Reserve Bank of San Francisco. Please advise as to the date upon which the appointment is made effective.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

T E L E G R A M
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 13
5/15/57

May 15, 1957

POWELL
c/o BARGLEBAUGH - SALT LAKE CITY

Retel May 13, 1957 re stenographic reporting service in Continental case. Board does not look favorably on request for payment of reporter's traveling expenses from Salt Lake City to Washington for further proceedings commencing May 22. In previous hearings held in Washington in this case, reporting has been done by Washington firm under instructions from Clair Johnson. Can see no reason for departure from this practice for May 22 or later hearings. If Johnson is not agreeable to continuing that arrangement, Board will arrange for reporting by Washington firm holding contract for its hearings. Please wire.

As to Johnson's services, it is entirely appropriate to submit bills periodically for stated number of pages of transcript and per diem. However, such bills can not be paid until transcript is available to Board's Fiscal Section for customary verification of charges.

(Signed) Carpenter

CARPENTER