

A meeting of the Board of Governors of the Federal Reserve System with the Presidents of the Federal Reserve Banks was held in the Board Room of the Federal Reserve Building in Washington, D. C., on Tuesday, April 14, 1959, at 12:10 p.m.

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

Mr. Sherman, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Young, Director, Division of Research
 and Statistics
 Mr. Solomon, Assistant General Counsel

Messrs. Erickson, Hayes, Bopp, Fulton, Leach,
 Bryan, Deming, Leedy, Irons, and Mangels,
 Presidents of the Federal Reserve Banks
 of Boston, New York, Philadelphia, Cleveland,
 Richmond, Atlanta, Minneapolis, Kansas City,
 Dallas, and San Francisco, respectively

Mr. Freutel, First Vice President, Federal
 Reserve Bank of St. Louis

Proposed amendments to Regulations T and U. Governor Balderston

referred to the Board's concern, under its mandate from the Congress, with preventing the excessive use of credit for purchasing and carrying registered securities and to the proposed amendments to Regulations T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, and U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange, which were published in the Federal Register on March 18, 1959,

1/ Withdrew from meeting at point indicated in minutes.

4/14/59

-2-

for the purpose of obtaining comments from interested parties. He noted that the Board had announced in the Federal Register a deadline of April 6, 1959, for the receipt of comments and said that some 200 communications had now been received along with certain requests to be heard. The requests posed a difficult problem which fell perhaps more into the realm of public relations than into the area of technical consideration of the proposed amendments. In addition, the Board had been asked by the President of the Federal Advisory Council whether adoption of amendments to the regulations might be postponed until April 28, 1959, the date of the next scheduled meeting of the Board and the Council, in order that the Council might have an opportunity to express its views. After consideration of this request, the Board felt obliged to respond in terms that it could not promise to withhold action on the proposed amendments. However, it had now become apparent that the comments received in writing would require some little time for analysis and study, and the Board had come to the conclusion that it ought not act on any amendments to the regulations during the week just preceding the meeting of the Federal Advisory Council. On the other hand, the Board was reluctant to countenance undue delay. Particularly in view of the public relations aspect of the matter, the Board would appreciate any views that the Presidents might have with respect to procedure.

4/14/59

-3-

Governor Robertson noted that the Board had requested comments in writing, with no mention of the possibility of hearings, and that the Board therefore was confronted with the question whether it would be appropriate to grant a hearing to those relatively few parties who had made a request without extending the same opportunity to all those who had submitted comments. He also raised for consideration the question whether a desirable effect would be achieved from a public relations point of view if those who had requested hearings were invited to come to the Federal Reserve Bank of their district for discussion with the President of that Bank, who in turn would report to the Board.

Governor Mills referred to the possibility of criticism being directed toward the Board if it did not move positively and firmly at times when action was considered important in connection with its administration of statutory responsibilities vested in it by the Congress. He suggested that those who, in addition to filing written comments, had also requested a hearing were in a sense filing protests. If such protests were made at a hearing and the Board then proceeded to adopt amendments to the regulations, it seemed possible that public relations might be damaged rather than improved.

The views stated by the Presidents reflected appreciation of the difficult nature of the problem confronting the Board. Reference was made to the important departure from customary practices that would result from adoption of the proposed amendments, taken as a group, and

4/14/59

-4-

for this reason it was suggested that the matter of public relations should not be disregarded. Since some of the parties who would be affected by the proposed amendments were understood to feel quite strongly, the view was expressed that it would be desirable to give such parties a reasonable opportunity to state their case and that the amount of time required would not be crucial from the standpoint of defeating the purpose of the amendments. At the same time, there was a feeling that prolonged delay would be unfortunate and that it would be advisable for the Board to act rather promptly after analysis of the comments received permitted reaching a decision. There was some expression of opinion that it would be particularly desirable if the Board could arrange to hear the views of the Federal Advisory Council. As to the possibility of inviting those who had requested to be heard to present their views at the Federal Reserve Bank of the district, it was noted that this procedure would have the advantage of putting the matter on a somewhat more informal basis. On the other hand, an interview at a Reserve Bank might be thought to lack somewhat the flavor of a hearing before the Board and tend possibly to create the impression that the Board had already made up its mind.

One suggestion for dealing with the public relations problem while at the same time proceeding with reasonable expedition was that the Board might limit its opportunities for hearing to organizations representing groups of interested parties. At the same time, it was

4/14/59

-5-

recognized that any limitations on the right to hearing would admit the possibility of complaints being raised by those not granted the privilege.

Some of the Presidents reported that little interest had been displayed in their districts concerning the proposed amendments, that few, if any, comments had been received, and that there had been no requests for oral presentation. In some districts, it was indicated that the greatest interest on the part of banks had to do with the proposed amendment to Regulation U which would provide, in the case of a loan secured by registered stock, that an affirmative purpose statement must be filed by the borrower, signed by the borrower and a lending officer, and supported by a file memorandum from the lending officer. It was suggested, therefore, that the Board might want to give special consideration to this particular amendment.

The Presidents indicated that they would be glad to cooperate if the Board should decide that the most feasible procedure involved granting interviews at Reserve Banks to some of those who had expressed a desire to be heard, and the discussion concluded with an expression of appreciation on the part of the Board for the views of the Presidents.

The meeting then recessed and reconvened at 2:00 p.m., with the same attendance except that Mr. Solomon was not present and Mr. Noyes, Adviser, Division of Research and Statistics, was present.

4/14/59

-6-

Retail trade statistics. Governor Balderston referred to the discussion at the joint meeting of the Board and the Presidents on December 16, 1958, concerning the retail trade statistics program and to a memorandum from Mr. Young, dated April 1, 1959, which had been distributed to the Presidents just before this meeting reconvened. He explained that this memorandum and its attachments had formed the basis for a recent discussion of the subject by the Board, which resulted in a decision that it would be helpful to discuss again with the Presidents the various aspects of the problem.

Governor Balderston then turned to Mr. Young who commented that the System was perpetuating a department store series started in the early 1920's to obtain information on the flow of goods into the hands of consumers. For many years, he noted, these were the main statistics available in that area and represented an important part of the total stock of intelligence. With the passage of time, however, there had been major distributive changes and it seemed fair to say that at present department store sales were less representative of the flow of goods into consumers' hands. Therefore, continuation of the present statistical series must be with the realization that probably the net contribution was not particularly great, at least at the national level. In thinking of moving forward with a program of statistics that would be valuable in the consideration of System problems, one alternative would be for the System to divest itself of the responsibility for the

4/14/59

-7-

department store series and request the Bureau of the Census to assume the collection of data on retail trade by entering into a temporary arrangement whereby the System would underwrite the program until such time as the Bureau could obtain appropriations. Another alternative would be to take the attitude that the System had assumed this responsibility for many years and should elaborate its statistical work in this field.

As previously reported to the Board, Mr. Young said, the majority of the Presidents had taken the position that they would not be willing to move in the direction of underwriting a transfer of the program to the Census Bureau because this might involve a continuing contribution to the Bureau for the collection of this body of data. On the other hand, it appeared that the Presidents were not prepared to go very far in the direction of further development of the statistics if the program were retained by the System. What was proposed seemed to be a compromise that would involve getting as much as possible out of the recent reexamination of the program and moving somewhat in the direction of more elaborate statistics, but within limitations from the standpoint of funds that would be made available. It was hoped that out of an exchange of views between the Presidents and the Board might come some further clarification and a fairly definite line of policy approach toward the matter for the longer run. In exploratory discussions with the Census Bureau and the Bureau of the Budget, the possibility was

4/14/59

-8-

mentioned that the System might want to retain the responsibility for the department store data on a somewhat more elaborate basis and the Budget Bureau indicated that if such should be the decision it would like to consider the matter fairly carefully from the standpoint of the development of the whole Federal statistical program.

Mr. Noyes commented that the documents emanating from staff study perhaps had been deficient in not pointing out clearly the inadequacies of the present program from a statistical point of view. He then proceeded to describe the nature of the present sample and its unbalanced composition from the standpoint of the country as a whole. One serious problem related to the so-called departmental statistics being obtained from a sample of stores not including the larger chains, which meant that the System and others were basing their conclusions on an inadequate and biased kind of sample. Another problem at the local level related to differences in the extent of coverage of the newer suburban outlets. In summary, he felt that the System might be subject to justifiable criticism for maintaining a statistical series that contained such deficiencies. In response to a question regarding the possibility for improvement of the sample, Mr. Noyes stated a major obstacle in the past had been that the department store series was built up on the basis of local data combined into national totals. A shift to a national sampling basis would produce adequate data for monetary policy purposes but would not provide for continuance of satisfactory comparisons of the type now prepared locally.

4/14/59

-9-

Question was raised with regard to the degree of promptness with which figures might be expected to be available from the Census Bureau, and Mr. Noyes commented that the Bureau was now producing a preliminary estimate for all retail trade 10 days after the close of each month. One important problem would be how rapidly the Bureau could obtain responses from the stores included in the sample, and undoubtedly it would be more difficult to get reports from the GAAFF (general merchandise, apparel, appliance, furniture, and floor covering retailers) sample than from department stores only. His own guess was that it might take the Census Bureau about 10 days to process the monthly data, which would be somewhat behind the schedule of availability for the present department store statistics. However, the System data might take longer for collection and release if the program should be continued on the basis of an expanded sample and elimination of statistical inaccuracies.

Question then was raised whether there was any reason to feel that the program proposed by the Census Bureau at the national level could be accomplished more economically by the System itself, and Mr. Noyes replied in terms that this seemed unlikely in view of the Census Bureau's experience in the data collection field and the organization available to it. On the other hand, it was difficult to estimate what the cost might be of a comparable program under System auspices in the absence of some experience.

4/14/59

-10-

President Leach commented that the fundamental question appeared to be whether there was anything wrong in buying data from the Census Bureau if the System could thereby obtain the data more cheaply than it could produce the figures itself. As one of the minority within the Presidents' Conference, he was not convinced that there would be substantial dangers in the use of the Census Bureau, and he would be interested in knowing the views of the members of the Board.

Governor Mills observed that over the years a general philosophy had developed that fiscal agency services of the System should be rendered on a reimbursable basis, for otherwise the System might be exposed to a desire on the part of Government agencies to undertake various operations, shift the financial burden to the Federal Reserve Banks, and circumvent the appropriations procedures. As Mr. Young brought out to the Board on another occasion, the Bureau of the Budget recently had been informally allocating to Government agencies the focal responsibility for collection of various kinds of statistical material, but until now the department store material had been the product of the Federal Reserve Banks. This raised a question whether the program should be shifted to the Census Bureau and, if shifted, whether it should be on a basis that the Census Bureau was the vehicle for collecting information but the Federal Reserve System was the source of funds. His own reasoning was that if a shift were made to the Census Bureau, there should be a reasonable commitment that the Bureau was assured

4/14/59

-11-

of appropriations, or would be prepared to go to the Congress for appropriations, and thereby remove the expense from the System at some predetermined date. Otherwise, the System would be exposed to picking up the expenses for operations that should properly be financed through appropriated funds.

At this point Governors Szymczak and Robertson withdrew from the meeting along with Mr. Young.

Mr. Hayes commented that in maintaining the department store series the System was using personnel resources that might better be employed in work having a closer relationship to monetary policy. From the standpoint of looking ahead toward improving these statistics, it was rather frightening to see what would be involved for the Federal Reserve Banks in the use of manpower. At the same time another agency would be available which was more logically a collector of retail trade statistics, and in fact was already collecting monthly figures for retail trade. Therefore, he felt that it would be to the System's advantage to get the Census Bureau to take on the whole retail trade statistical program just as fast as possible, and if this meant making payment for direct expenses temporarily he would not be concerned. He felt, however, that the System should press for whatever assurances that Bureau could give, and he understood that the Bureau was prepared to agree that it would try to obtain appropriations. In his view, the proposal recommended by the Presidents at the last meeting of the Conference was not a

4/14/59

-12-

satisfactory solution, for the effort to improve the sample would run into the field that had been allotted to the Census Bureau. Furthermore, he doubted whether the System was well equipped to go out and obtain the outlets that were needed for a good sample and whether the respondents would be agreeable to furnishing some statistics to the Census Bureau and some to the Federal Reserve Banks. In summary, he would like to see the Census Bureau take over the job and he would like to facilitate the take-over in every way possible, for he felt that the System should get rid of the responsibility at both the national and regional levels.

Governor Balderston raised the question whether any difference would be seen in principle in paying the Census Bureau for the collection of retail trade statistics and paying the University of Michigan for conducting surveys of consumer finances. He also raised the question whether there was a feeling that the Board would be justified in buying only the statistics having a direct bearing on monetary policy, thus leaving untouched the wider area of regional statistics that the Reserve Banks had been taking care of because of their long-term relationships with the department stores. This would of course leave the Reserve Banks a public relations problem of some proportions.

Mr. Deming felt it was at least arguable that the regional data were useful for monetary policy formulation by way of providing a picture of the different regions. With respect to the responsibility of a

4/14/59

-13-

central bank for the collection of given bodies of statistics, he pointed out that throughout the world various central banks engage in different kinds of activities, a principal motivation appearing to be that of filling gaps in statistical availability. If one were writing on a clean piece of paper, it might be argued that the Census Bureau should collect all retail trade statistics, but the System had been engaged in the department store series for almost 40 years. In the circumstances, he felt that if the Census Bureau approached the Congress for appropriations on the basis that the Federal Reserve System wanted to get out of the field, the request might be viewed with some disfavor. The question might be asked why there should be an addition to appropriated expenditures simply to relieve the System of this responsibility. In short, he did not think there was a clear-cut answer to whether the System should be engaged in one particular statistical area and not in another. If the Census Bureau wished to undertake this responsibility and the transfer could be made easily, he would not resist in the slightest, but he was inclined to feel that payment to the Census Bureau of its expenses raised too many questions to warrant the risk.

Mr. Irons said that his views were similar to those expressed by Mr. Deming and that he would have doubt as to the appropriateness of financing the Census Bureau for even an interim period. He noted that the people working on the collection of department store data at the Reserve Banks were not monetary economists and were not likely to

4/14/59

-14-

be working on monetary problems if the responsibility were transferred to the Census Bureau. Therefore, a shift of the work was not going to cut the Reserve Bank budgets by an equal amount; there would not be a clear-cut saving of funds. Furthermore, if this were taken over by the Census Bureau on an interim basis and the Congress then denied a request for appropriations, the transfer would have to be terminated or payments made in violation of Congressional attitude. He also questioned whether the data in the department store series, if used for what they purported to be, were actually as deficient as made out, for they appeared to represent a fairly good reflection of department store trade. The recommendation of the Presidents' Conference was of an experimental nature but at the same time a useful one; it contemplated that the Committee on Research and Statistics would work with the staff to determine what improvements could be made that would not be prohibitive in cost.

In further discussion, Mr. Noyes commented on some of the types of work performed by the Census Bureau for other Government agencies and on the types of work that had been performed for the Board by the Bureau. In response to a question, he reported having heard informally from sources at the Chicago Reserve Bank that one large chain store organization would make some effort to cooperate with a program of data collection from the GAAFF component, which indicated that this organization might be willing to cooperate in a program such as envisaged by the Census Bureau.

4/14/59

-15-

President Mangels said that it was his feeling that it would be an undesirable precedent to initiate a program involving a payment to the Census Bureau of the kind proposed. If it were agreed that by a certain date, say 1960, the collection of the data and the reports by the System were going to stop, that would give the Census Bureau a chance to obtain appropriations. However, unless a clear statement was made that the System would stop collecting the data by a certain date, he did not feel there was likely to be much action in the direction of obtaining appropriations. He saw a great difference between employing the University of Michigan and making payments to the Census Bureau. While the arrangement with the Bureau might be called a purchase of statistics, it was in his opinion no more than a subsidy.

President Leedy likewise saw a distinction between making payments to the Census Bureau and to a private organization. He agreed with Governor Mills that the effect was to bypass the appropriations procedure when the System engaged in subsidizing another agency of the Government, for it would mean diverting funds that otherwise would flow into the Treasury and over which the appropriations committees would then have control. As Mr. Irons had pointed out, if the Census Bureau should undertake this function and the Congress then did not wish to appropriate money for the purpose, the System might be said to be flouting the will of the Congress in the use of funds outside of the purview of appropriations if it then continued to make payments to the Census Bureau.

4/14/59

-16-

However, he felt that the statistics presently being obtained were of doubtful value as indicators of total retail trade and should not be perpetuated for that purpose. If the kind of job needed was one that could be performed best by the Census Bureau, it seemed to him the System should be moving in that direction in order to obtain statistics in this area that were meaningful and of use not only to the System but to others.

Governor Shepardson stated that he had difficulty in following the argument that a subsidy of the Census Bureau would be involved. If the material obtained was something in which the System was interested, it could hardly be said that the System was taking over somebody else's financial burden. If it was deemed desirable to continue the collection of data in this field, the System would still have a job whether the work was done by the System itself or payments were made to another agency. If, in the course of time, the Budget Bureau should decide that this work should be done by the Census Bureau and arrange appropriations for it, that would be well and good. If he understood correctly, it was the feeling of a number of those present that information of this kind was valuable to the System, and the alternatives were for the System to do the work itself or pay to have it done. If the data were not considered necessary, it would seem appropriate to serve notice that as of a given date the series would be discontinued, and someone else then might pick up the job.

4/14/59

-17-

Governor Mills said that, as he understood it, the Census Bureau was the agency of the Government particularly fitted to collect statistics on such things as manufacturing, sales, and inventories. That Bureau was now publishing the statistics on total retail sales, so by the same token it seemed the appropriate agency of the Government to take over from the System a function that the System had performed over many years in collecting data on department store sales. Hence, it might be said that the function should be transferred and that the Census Bureau should finance it, in the same way that in recent years the System had agreed to take over from the Commerce Department and the Securities and Exchange Commission the collection of data on savings, on the basis that this was an area of importance to the System and one where the System could develop the facilities to carry the data program forward.

In response to a question by Mr. Leedy, Mr. Noyes clarified that the willingness of the Census Bureau and the Budget Bureau to seek appropriations extended solely to funds for the collection of data at the national level. They indicated no interest, even in the remote future, in financing metropolitan area or district data.

President Erickson said it was realized that the present series was not a good one and that it could be improved. The suggestion of the Presidents last December contemplated improving the series as much as possible and letting the Budget Bureau sell the project to the

4/14/59

-18-

Congress. Then, if the Census Bureau could do a superior job, that Bureau would have a case for taking over the collection of data.

President Fulton said that he would like to get rid of the function and hoped that the Census Bureau would be willing to take it over. However, the possibility was realized that payment to the Census Bureau might be misinterpreted by the Congress and that payment for regional data, particularly, might be inappropriate over a long period. On the other hand, he felt that the present series was not anything that the System would like to continue or for which it should spend much money to improve. Some of the statistics might appropriately be collected by a trade association rather than to spend time and money collecting such data at the Reserve Banks.

President Bopp said that he also would like to get rid of the function and that he had no particular interest in collecting regional data, national data being adequate as far as he was concerned. It was the matter of subsidization and possible questions regarding it that had led him to vote with the majority of the Presidents.

President Bryan indicated that he too would like to get rid of the function and that it seemed doubtful whether the System could justify the use of its resources on these particular statistics to any very large extent. The question in his mind was what was necessary for national monetary policy. As far as the regional figures were concerned, he had other ways of finding out what was happening in the district.

4/14/59

-19-

At the same time, he thought it dangerous to pay money to the Census Bureau with the idea of obtaining some figures that were not really needed in the formulation of monetary policy, and if the Congress failed to appropriate for such a purpose the System would be in a difficult position. If agreement could be reached on what figures were necessary from the standpoint of monetary policy and if the Census Bureau were willing to produce those figures, he felt that payment to the Bureau might be justified as a permanent and regular purchase, in the same manner as the System purchases such things as power from the utilities companies. However, the making of a payment to the Census Bureau would bother him if the System was not in a position to say that the purchasing of data could be justified as necessary to policy formulation in the monetary field.

Mr. Freutel said that the St. Louis Bank also would like to be rid of these statistics. To the extent that there was a use for such data in the determination of monetary policy, and if there was reasonable assurance that the national data would be collected by the Census Bureau through use of appropriated funds after an interim period, he believed that it might be possible to justify payment to the Census Bureau for the interim period. If the System wanted something for its use from the Census Bureau, he would agree with Governor Shepardson that payment for the data could hardly be construed as a subsidy. The decision whether the regional data were worth the price would continue

4/14/59

-20-

to be under the control of the System, but he questioned whether the payment involved in Census Bureau collection of the regional figures would be a worthwhile expenditure. That, however, could be the subject of a separate decision, made after the value of the regional data to the individual Reserve Banks had been more clearly determined.

Governor Balderston commented that he had come to feel rather strongly that it would be inappropriate to make a transfer of the function on the basis of an expectation that the Congress at some future date would provide appropriated funds. On the other hand, if the System felt that the data were needed from the standpoint of monetary policy formulation, a transfer of the function to the Census Bureau could be justified on that basis and not simply because of a hope which might prove to be a false one.

Governor King raised the question whether it would be possible to compute the relative cost of comparable programs conducted by the Census Bureau and by the System, and he also inquired whether the sampling deficiencies recognized in the present series were actually reflected seriously in the final results.

In response to the first question, Mr. Noyes indicated doubt whether respondents would be cooperative in supplying statistics to the Census Bureau on an experimental basis because of record-keeping changes and other operating problems that would be involved. Continuing, he said that the staff documents may have been deficient in seeming to

4/14/59

-21-

suggest that the present series could be improved substantially at relatively small cost. Basically, the present data were deficient because only department stores were included in the sample and because the sample of department stores did not include a number of large chain outlets, and neither of those defects could be corrected at small cost. They could only be corrected by a fairly widespread expansion of the whole sampling area to include a large number of retail outlets, particularly in the suburbs, and an appropriate sample of such outlets.

The meeting adjourned with the understanding that the Board would give further consideration to the matter on the basis of the views expressed by the Presidents.

Secretary