Federal Reserve Board Oral History Project

Interview with

Frederic Solomon

Former Director, Division of Examinations
and Former Director, Office of Saver and Community Affairs

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Location: Washington, D.C.

Interviewers: David H. Small, Lynn Fox, Glenn E. Loney, and Ben C. Hardaway

Federal Reserve Board Oral History Project

In connection with the centennial anniversary of the Federal Reserve in 2013, the Board undertook an oral history project to collect personal recollections of a range of former Governors and senior staff members, including their background and education before working at the Board; important economic, monetary policy, and regulatory developments during their careers; and impressions of the institution's culture.

Following the interview, each participant was given the opportunity to edit and revise the transcript. In some cases, the Board staff also removed confidential FOMC and Board material in accordance with records retention and disposition schedules covering FOMC and Board records that were approved by the National Archives and Records Administration.

Note that the views of the participants and interviewers are their own and are not in any way approved or endorsed by the Board of Governors of the Federal Reserve System. Because the conversations are based on personal recollections, they may include misstatements and errors.

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MR. SMALL. Today is Thursday, December 7, 2006. This interview is part of the Oral History Project with the Board of Governors of the Federal Reserve System. We are interviewing Mr. Frederic Solomon, who served many years on the official staff of the Board of Governors. Mr. Solomon joined the Board in 1934 and left in 1976. I am David H. Small, and I'm joined by Lynn Fox, Glenn E. Loney, and Ben C. Hardaway of the Board staff. This interview is taking place at the Board of Governors in Washington, D.C. Mr. Solomon, thank you for participating in this interview.

Professional Background

MR. SMALL. Before getting into your career at the Federal Reserve, I thought we might discuss your educational path, how you developed your interest in the Federal Reserve, and what brought you here.

MR. SOLOMON. I grew up in Fort Valley, a small town near Macon, Georgia. We claimed to be the peach center of the world. That was just a claim, of course. I think South Carolina far out-distanced us, but we did grow a lot of peaches. My father was in the peach business. He was interested in politics and was a great supporter of Senator Richard B. Russell, Jr. I guess I got an interest in politics from him. Politics is one of the greatest of spectator sports. I enjoy following it.

I received both my undergraduate and law degrees at the University of Georgia. In 1933, I graduated at the top of the law class and was valedictorian of the academic class the same year. That was not a prosperous year, as a lot of people will remember.

I practiced law for a brief time in Atlanta. Somebody said that there was a new piece of legislation that had just been passed—the Securities Exchange Act of 1934—and in this legislation, the job of regulating margin requirements had been given to the Federal Reserve

Board. That was a new assignment that the Board didn't previously have. It had tried to regulate the economy in some fashion with the fairly usual open market operations, et cetera, but the Congress decided that this unruly stock market needed some direct control. The Congress put a provision in the Securities Exchange Act of 1934 that gave the Board the authority to regulate the amount of credit that could be extended to purchase securities to avoid the boom and bust that had occurred in 1929 into 1933, which was prominent in everybody's mind at that point.

Somebody said they heard that this new power and duty had been placed in the Federal Reserve Board and that the Fed would need at least one lawyer. I looked into it. Governor Eugene R. Black was at the Board at that point. He was not there for very long because the salary was not enough. He was president of the Federal Reserve Bank of Atlanta. He had another position that he could go back to and leave here.[1] I had a friend in Georgia who knew Black at that time. He put in a good word for me.

Early Years at the Board: Pre–World War II

MR. SOLOMON. The Board really needed somebody to take on this new job of regulating margin requirements. I stayed with that function for years in one form or another, either working as a lawyer or as the sole operator in that field. I was the authority on margin requirements. That specialty has come into much less favor and use recently. It could be argued that was not the best policy. Several former members of the Board have said they wished that, when they were on the Board, they had pressed to raise margin requirements during the recent boom of, I guess, maybe the 1990s. They said they regretted that had not been pressed because the original securities exchange legislation contemplated varying margin requirements up and

[1] Eugene R. Black was president of the Federal Reserve Bank of Atlanta from January 1928 to mid-May 1933 and again from mid-August 1934 to December 1934. He was a Federal Reserve Board Governor from mid-May 1933 to mid-August 1934.

down at that time, depending on the individual stock. That was considered burdensome to the stockholders and securities industry. So the Board—fairly quickly—changed it from the individual stock, but still was inclined to raise and lower in relation to the market generally. That continued right on up through Chairman William “Bill” McChesney Martin’s experience, former president of the New York Stock Exchange. Since 1976, I believe, the requirement was set at 50 percent and has not been changed despite the fact that several former Board members say they regret that they didn’t press harder to increase the margin requirements during the boom of, I guess, the 1990s.

MS. FOX. When you started working on the margin requirements, were you working for the general counsel?

MR. SOLOMON. Yes.

MS. FOX. Who was that person?

MR. SOLOMON. I believe it was Walter Wyatt. He was a good Georgian. He was a good man.

MS. FOX. What was it like being a junior attorney?

MR. SOLOMON. I was accepted right away. I came here in 1934. In my earliest days at the Board, we had a project that was the forerunner of a lot of others. Remember, we were heading into World War II. There was a big drive to shift over from civilian production to military production, and lots of things were done to bring that about. This was long before any margin requirements. There was the idea that the Federal Reserve Board is supposed to know something about credit. And, credit, as we know today, is the lifeblood of the production of cars. You can’t have cars without credit. So if we want to shift from civilian to military production, one way to do that would be to cut back on the credit that could be used to buy cars. Then there would be less demand for the cars, and the manufacturing equipment could more easily be shifted over to the military. Of course, direct control was unknown at that stage, but this was a war. Everything was different with war. So the idea was brought to the Board to limit credit going to consumer affairs so that production could be more easily shifted into the military. Who was pushing that proposal? Who do you think it was?

MR. LONEY. Franklin Delano Roosevelt?

MR. SOLOMON. Well, partly, but who else? Who else outside the government?

MS. FOX. The manufacturers wanted to move to military production. Is it because they saw a bigger profit there?

MR. SOLOMON. You're right, but for a different reason. This will give you some insight into the businessman's point of view. Surprisingly, they were pushing for this credit control. Why? They thought it would be better than a stricter control. They thought that it would head off direct orders to shift from civilian to military. "That will be much easier on us. We will do it at our own pace, more or less. We are all for that. We are for this credit control." It was seemingly very altruistic, very public minded, but it was not quite that way, really.

MS. FOX. How was the Federal Reserve Board being asked to intervene? This was not related to margin requirements, was it?

MR. SOLOMON. The margin requirements were a precedent for direct control, which was unknown to the Fed. The Fed had only these indirect controls of the open market—discount rate, that kind of stuff. I think generally it has been—and maybe still is—true that the pure economists around the Board find these other things somewhat obnoxious. I'm exaggerating tremendously, of course, but that was the situation. Throughout the history of the Board, you have the pure economist who says that the market will cure everything. Then you had the line of theory that, “No, that’s not enough,” there needs to be some direct assistance to the market, when the market does not fully perform all these corrections.

Impressions of Why the Congress Gave the Board Rulewriting Authority for the Truth in Lending Act

MR. LONEY. I think that had a direct parallel to how the Board got into the business of regulating consumer financial services laws with passage of the Truth in Lending Act in 1968—this belief that the Board should do it and had the experience to do it.

MR. SOLOMON. Exactly. You had this general idea in the Congress and elsewhere that the Federal Reserve had the people in government who knew credit. If there’s anything regarding credit, tell the Fed to do it. It even got to the point where somebody said, “Look, there’s too much confusion and misleading information about credit. We’ve got to have some truth in lending. Now, where do we put that function?” The natural place was the Federal Trade Commission [FTC]. However, there was one problem. Lenders were distrustful of the FTC, with some reason. No telling what the FTC might do if it had rulewriting control under the Truth in Lending Act. But where else would it go? What place could be a little easier on businesspeople that wouldn’t be as tough as the FTC was supposed to be? Obviously, the Federal Reserve Board. They’re the credit people. That’s how truth-in-lending was foisted—or, accepted by the Board. There was a push by the Congress to pass truth-in-lending legislation. I think the Congress, left to itself, would place rulewriting responsibility for the Truth in Lending Act right at the Federal Trade Commission, but the lenders thought the Fed was more reasonable.

Use of the Discount Window

MR. SMALL. Going back to the early years at the Fed, there was the “real bills” doctrine. That came to an end around the 1930s with the Federal Open Market Committee getting more power in the shift to open market operations. Was the sense of the Fed being involved in the credit flows a residual of the “real bills” type of idea—that, through the discount window, we directed credit?

MR. SOLOMON. So far as I can recall, the Board has always recoiled from using the discount window to control the use of credit. I think some foreign central banks use that extensively, but you’d know that much better than I do. That’s my impression. Foreign central banks would subsidize this industry or that industry, but the Board has always rejected that approach. The Board has preferred to operate through the indirect measures of the open market, particularly as it has developed.

Before I went over to the Division of Banking Supervision and Regulation, I was assistant general counsel to the Open Market Committee for a number of years. The Board periodically had, and probably still has, meetings with outside economists for suggestions and advice on what to do about monetary policy at a particular stage.

MR. SMALL. It puts on a variety of seminars on international capital flows or banking regulation. I think it keeps Board members on the cutting edge and up to date in the new thinking.

MR. SOLOMON. Yes, well, that was the interesting part of being assistant general counsel to the Board and to the Open Market Committee, although I had been working on the legal aspects of that operation. This was before I went into supervision and regulation.

Relationship between the Board and the Treasury Department in the 1930s

MR. LONEY. In the 1930s, there was a relationship between the Board and the Treasury Department. How did that work?

MR. SOLOMON. I believe it was the Banking Act of 1935 that set up the Board in its present state. Before that, the Comptroller of the Currency was a member of the Board, ex officio.[2] That did not work well at all. It did not make the Board people happy. This was what an outsider brought in. Theoretically, it was beautifully coordinated, but, in practice, it just didn't work. The Comptroller of the Currency was removed from the Board by the Banking Act of 1935, I believe. It made a much more harmonious relationship, although there's always been a certain tension between the Comptroller of the Currency and the Board being in the same, and yet different, field. Of course, this is not so much monetary policy. This is bank regulation.

MS. FOX. When you came in 1934, you mentioned earlier that you had worked at space in the Treasury Department. Did the Federal Reserve have a floor or two, or just some offices there?

MR. SOLOMON. I was so junior. I didn't know all the construction details. I think it was a floor or so. It was like you'd have a space in any other building.

Construction of the Federal Reserve Board Eccles Building

MS. FOX. Did you watch the Eccles Building being constructed? What was the reception to this building in Washington in those days?

MR. SOLOMON. Yes, I watched it being built. And, better than that, I watched it being prepared on paper. I don't know that there was any particular reception. It was just built, and there it was. The underpass connecting the two structures—the Eccles Building and what ultimately became the Martin Building—preserved the notion of having one building. But we had office space in the Treasury, just like you'd have office space in any commercial building.

[2] Editor's note: Before the Banking Act of 1935, the Secretary of the Treasury was also a member of the Federal Reserve Board.

MS. FOX. Was it the opening of this building that President Franklin Roosevelt attended in late October 1937?

MR. SOLOMON. Yes. I remember when he was here. He spoke and made a dedication. The President then, as now, has many ceremonial duties.

Chairmen Eccles and Martin

MS. FOX. How much involvement did you have with the Board members and the Board Chairman in the 1930s and 1940s?

MR. SOLOMON. Quite a bit for a youngster coming into the organization. It was a very small organization at that point. You didn't have hierarchies. I never prepared an evaluation for myself or for any of my subordinates. It was much looser, much less formal. Today you probably have that regularly—every six months or a year or something?

MR. LONEY. Do you know how big the organization was then?

MR. SOLOMON. I couldn't put a number on it. By government standards, it was a small organization. I guess even today it's not a big organization, according to government sizes.

I was lucky to have rather close working relationships with the different Chairmen. It was fascinating—the different personalities and their influence on the organization—because, after all, the organization is largely a reflection of the leadership.

I had a particularly close relationship with Marriner S. Eccles, whom I admired greatly. He came up as a businessman with this idea of a compensatory economy. He predated John Maynard Keynes, but he was not an economist. He also was not a lawyer. He argued for this compensatory economy where the government could help by spending in bad times and could then help by getting rid of the deficit built up during the bad times by running a surplus and paying off the debt. He called that the "compensatory economy." Very sensible. As I understand it, that pretty much was the later Keynes idea.

The politicians loved the first part of that compensatory economy—the spending part. That's just wonderful for the politicians. But when it came to balancing things out by paying off the debt you built up in the bad times, well, that's much harder. The politicians didn't go for it so much. Eccles, early on, had that down pat, because he was both a banker and a businessman. He had interest in banks—the Eccles chain out in Utah. He had this banking background, but he was also in a number of businesses, I think—maybe sugar or something like that.

MS. FOX. What were the things about him that you admired? Of these personal characteristics, what were the things that stood out?

MR. SOLOMON. Well, he was 1,000 percent public interest. Now, I don't say that by derogation of any of the other Chairmen. All have that attitude. I guess maybe he was just easy to work with. He came in about 1934 or 1935, and I came in about that time.

MS. FOX. He came in as Chairman then?

MR. SOLOMON. He came in before the 1935 act. He shepherded that through, as I recall. I drafted parts of the 1935 act. I drafted the framework of the present Board to go into the 1935 act. That wasn't my idea, particularly, I was just the draftsman.

MS. FOX. Your instructions for drafting were because the Board was presenting a proposal to the Congress, or was the Congress saying, specifically, "This is what we want to do. Will you draft it?" Do you remember how all of that worked at the time?

MR. SOLOMON. There was a lot going on behind the scenes that I didn't really know about. Basically, it was a negotiation between the American Bankers Association, the Board, and the Congress. It was the way those things necessarily went. A lot of it was to meet the hopes and expectations and pressure of the bankers. You had to have some kind of relative working relationship. That was the behind-the-scenes situation.

MS. FOX. Chairman Eccles would have been well placed?

MR. SOLOMON. Oh, yes. Chairman Eccles was very good. He was tremendously interested in the public interest, not to denigrate any of the other Chairmen either. They all were.

MR. SMALL. I think at least the macroeconomic policy people think of the Banking Act of 1935 as being important in two dimensions. One is the administrative: The Comptroller of the Currency was removed, so the Federal Reserve gained some independence relative to the Administration. Then there was a consolidation of power at the Federal Reserve Board, relative to the Federal Reserve Bank of New York. Were those the two front-burner issues that were in people's minds at the time?

MR. SOLOMON. As best I can recall, those were the principal issues. Of course, there was the issue of how much authority the Board should have and how much the Reserve Banks—particularly the New York Reserve Bank—should have. This was worked out. I did some of the drafting, but the policy was worked out by the background people.

MR. SMALL. Do you have a sense of Eccles's role in those negotiations?

MR. SOLOMON. The Banking Act of 1935, in effect, established the present Board, and Chairman Eccles was a new, influential member of this organization. Over time, I don't think his influence in the government generally was as great as it should have been. I think his ideas should have been used more widely than they were. Part of it may have been that he was a Republican. That did not bar him from being a Chairman of the Board, but it meant that, in the Democratic Administration, his views were not as widely accepted as if he had been a Democrat.

MR. SMALL. What would you say his legacy is at the Federal Reserve?

MR. SOLOMON. The Banking Act of 1935 was pretty much his baby, with some negotiation that maybe he liked or didn't like. I think his maintenance of the independence of the Board [is also part of his legacy], particularly when you get rid of the Comptroller of the Currency, which generally handicapped the Board. I think Eccles gave the new organization a form, a shape, and a character that carried forward.

MR. LONEY. You talked about Eccles's influence being limited because he was a Republican. Going back to Paul A. Volcker and Alan Greenspan, the Chairman of the Fed has a big impact in this city. People listen to them. Was that the same back then?

MR. SOLOMON. The Chairman was not as accepted or revered as today. Far from it. Eccles had none of that. That came after Eccles, and, I think, maybe the main development of that point was Martin. Martin was respected and looked up to almost as much as Greenspan. He had been chairman of the New York Stock Exchange. His experience was unparalleled. He was a great Chairman. It was collegial working at the Board. By the time I got to be director of Banking Supervision, you didn't expect any criticism or praise, anything like that. You just did your job. That was it. One of the few compliments I ever received at the Board was when Martin said, "Keep up the good work."

War Years and Postwar Years at the Board

MS. FOX. What are your recollections of the war years?

MR. SOLOMON. The war years at the Board were a blank, pretty much, because I left to go into the Marine Corps. Pearl Harbor was 1941. I went in the Marine Corps in early 1942, in April or something like that. I was in the South Pacific. I came back in 1945 at the end of the war.

MS. FOX. Did most of the young professionals here at the Board join the war?

MR. SOLOMON. I don’t know the answer to that one.

MR. SMALL. When you came back in 1945, you came back to what job in what division?

MR. SOLOMON. Legal. I was assistant general counsel to the Board and the Open Market Committee.

MR. LONEY. Eccles was still here when you got back?

MR. SOLOMON. Yes, I’m pretty sure that’s right.

MR. SMALL. And Martin was over at the Treasury?

MR. SOLOMON. Yes, I guess he was over there.

MR. SMALL. And he helped negotiate the accord?

MR. SOLOMON. That’s right. He did help negotiate the accord.

MR. SMALL. And Eccles was on the other side of it here at the Board, because Thomas B. McCabe was here for a short time.

MR. SOLOMON. Yes. Eccles’s term, I think, ran out, and McCabe was appointed. That was an interesting episode there. McCabe was a fine man, a good man, an excellent person. I enjoyed working with McCabe, but it illustrates to me a general principle that ought to be followed in more of the appointees of Chairmen. McCabe was an excellent businessman and an intelligent man, but he didn’t know economic policy. That wasn’t his field. That is not the kind of person you want at the head of the Federal Reserve Board. I think G. William Miller may have been more or less in the same tradition: an excellent man, a great businessman, but monetary policy, that’s a foreign country to most businessmen. It’s not their strong point.

MR. SMALL. During the transition from Eccles to McCabe, you were attending FOMC meetings? That's an unusual period in Fed history, where Eccles stayed on after McCabe became Chairman. Do you remember any of the dynamics between McCabe and Eccles?

MR. SOLOMON. That's right. Eccles stayed on as a former Chairman. I talked with him, of course, during that period. He debated whether he should stay on or not. I think he may have finally resigned, but I'm not sure what happened along that point. He recognized the somewhat awkward situation of a former Chairman. Both Eccles and McCabe said it would not contribute to any tension. They were both fine people, but there naturally was a certain tension there. I enjoyed working with McCabe, but he was not a monetary man. He was not even a banker. A banker would have some conception of tying into monetary policy. He was a Scott Paper man, as I recall, and probably an outstanding businessman. But, to me, it was another example that you do not want just a good businessman as the Chairman of the Federal Reserve Board.

MR. SMALL. Do you remember much about the accord?

MR. SOLOMON. I was not involved in negotiating anything like that. Martin more or less negotiated the accord. He was at the Treasury at that point. He negotiated it, I guess, with Win Reifler, who was his sort of running mate there.

MR. SMALL. Did that transform FOMC meetings dramatically, because now the Fed had all this new power?

MR. SOLOMON. I'm sure it must have, but I didn't have much knowledge of that. I was not an economist with the FOMC. I was a lawyer with the FOMC. And while I was present at the meetings, I didn't have too much to do with the accord and its consequences.

MS. FOX. Were the FOMC meetings quite formal?

MR. SOLOMON. The FOMC meetings, as I recall, were pretty much the same as I gather they are now from the press: collegial, but formal to a certain sense. They would go around—maybe this is still the practice—and get the views of each one of the presidents and Board members and see where they came out. I often joked that Martin was such a skilled manager and negotiator. They would go around the room and get the different views. They would be split 100 different ways. It's too tight now, it's too easy now, we should stay the same now—the usual sort of viewpoints. Then it would come back around to Martin to summarize the situation. Martin says, "Well, we are pretty much agreed on what we want to do. It looks as though what we want to do is to tighten just a little bit, or loosen just a little bit, or stay the same, but we are pretty much in agreement with this." He was a master at that sort of thing. He had to be, from his career—all the different things he'd done.

Bank Supervision and Regulation

MS. FOX. Moving to banking regulations and then on to some of the consumer affairs, you were working in the Legal Division before or during the development of the Bank Holding Company Act of 1956, in which the Federal Reserve became the regulator of multibank holding companies.

MR. SOLOMON. In 1956, I was working on that in the Legal Division as assistant general counsel.

MS. FOX. Did you transfer directly into the bank regulation function as a lawyer, and then you were promoted to director?

MR. SOLOMON. No, I went in as director.

MS. FOX. What prompted that whole move?

MR. SOLOMON. I had been doing legal work of that nature. It wasn't entirely my idea. It was the Board's idea. I didn't apply for this job and get it. It was the Board that said, "We think you might move in there."

MR. LONEY. Was it the Chairman at the time who thought that ought to happen?

MR. SOLOMON. That I couldn't know, because there was probably Board discussion in which I did not take part. The Chairman, guiding the Board, probably made the decision, but I don't know how that happened. It was handed down to me. I didn't participate in what I was going to do.

MS. FOX. So they just came and said, "Fred, you're going to go be head of supervision"?

MR. SOLOMON. That's right.

MS. FOX. Who did you replace? Was it Robert Masters?

MR. SOLOMON. Masters, yes.

MS. FOX. How large was that division? Was it a substantially larger group of people to be in charge of for you?

MR. SOLOMON. I wasn't in charge of any sizable number of people in the Legal Division. There were a few people that reported to me, but it was a very small operation at that time. Then I came over to what was then the examination division. The examination division dated back to the origin of the System. When they started out, they realized they had to have some divisions. One division was a Division of Examinations, a natural division of authority. That division carried on the various examination functions of the Board. They were of two kinds, as they still are. One is to examine the 12 Federal Reserve Banks. The other was to examine, through the Fed Banks, the state member banks. National banks were handled by the

Comptroller of the Currency. There were not a great number of state member banks—maybe 1,000. But that was the natural function of the examination. It was decided that examining the Federal Reserve Banks and examining state member banks were separate functions. And so that was split off from banking regulation and moved over into the Division of Reserve Bank Operations.

MR. LONEY. When you started, did you have the Reserve Bank oversight?

MR. SOLOMON. Definitely so. We had this team of examiners that went around to the Reserve Banks and examined them. I went into one Reserve Bank as an observer as they carried out one of these examinations. They had this team of examiners that had no home. They just traveled around the whole year. I don't know whether that's the same situation today or not. Since it's been moved over into [the Division of Reserve Bank Operations], I don't know what the situation has been.

MR. LONEY. I think if it's not still the same, it was, up until recently.

MR. SOLOMON. Fairly similar, yes, because it's such a natural thing to have this team moving around. And it is and was an interesting operation: a bunch of nomads wandering around doing these examinations. But that was split off and put into Federal Reserve Bank operations.

MS. FOX. In the Legal Division, currently there's an entire section devoted to Bank Holding Company Act applications. Was that established while you were still in the Legal Division? Under the Bank Holding Company Act, the application business certainly—

MR. SOLOMON. It flourished. Somebody had to control this wild animal that was running around, and so you have the Bank Holding Company Act. Martin, being the great negotiator and tactician that he was, always knew exactly what the feeling was in the business community, the banking community, and so forth. He was not one of those who said, "To hell with regulation. Get rid of regulation." Not at all. He knew what was going on in the business world and what the business world would like or dislike. And he was able to temper his policies to recognize that.

MS. FOX. Let's spend some time on your recollections of the period 1959 through the 1960s.

MR. SOLOMON. That's when I moved from Legal to Banking Supervision. It wasn't Banking Supervision at that point. As I remember, it involved bank examination of both state member banks and the Federal Reserve Banks. So, for many years, those two functions were combined into the Division of Examinations, going back, I guess, almost to the beginning of the Federal Reserve System. We had this group of nomads traveling around examining the Federal Reserve Banks, and we were examining the state members through the Fed Banks. Then the examinations of Federal Reserve Banks was split off and put into the Division of Federal Reserve Bank Operations. Then the commercial bank examinations went forward as [the Division of] Banking Supervision and Regulation, which included margin requirements, I guess, mostly because nobody knew where else to put it. That was an interesting change, because shortly after the adoption of margin requirements, there was a separate division for it. Dr. Parry, head of the division, was an economist assigned to work on margin regulations. Lewis Brandeis Dembitz was his assistant. He was nephew to Justice Brandeis. He worked on margin regulations from the nonlegal point of view. That special division is now long gone. I've forgotten exactly when that was discontinued. That's quite a change from the present treatment of margin regulations.

MS. FOX. By the late 1950s and early 1960s, the traveling band of margin regulators became part of the Banking Supervision Division. They're in the Legal Division now. So the travels did not stop.

MR. SOLOMON. That's right. The Board has found these nonmonetary activities somewhat extraneous and hard to fit together.

MS. FOX. In addition to the examination function and the margin function, were those the primary activities of Banking Supervision at that point?

MR. SOLOMON. There was a constant flow of new regulations and then pieces of legislation passed by the Congress that had to be implemented with regulations.

MS. FOX. Did you work with the Legal Division on these regulatory issues? That's how it works now. The Division of Banking Supervision and Regulation and the Legal Division work together writing the regulations.

MR. SOLOMON. I can't say for sure how that was divided up after I left Legal and came to Banking Supervision. Then we had a bunch of lawyers—and Banking Supervision still does—that work on regulations.

MR. LONEY. A lot of that writing now is done out of the Legal Division, but in the Division of Consumer and Community Affairs [DCCA], we have probably around 15 of our own lawyers. There are about 100 staffers in DCCA. When you were doing supervision, presumably you had some oversight responsibility or some relational responsibility with the Reserve Banks. Was that a big part of what you did?

MR. SOLOMON. Oh, yes.

MR. LONEY. Anything of particular interest you might remember about dealing with the Reserve Banks—how you did it, and what you did?

MR. SOLOMON. It was constant, ongoing interaction because the Reserve Banks were, in effect, agents for the Board and doing the examination function. The Division of Banking Supervision, or I, was the overseer of what the Reserve Banks were doing in this area. We were in constant touch about this bank situation with this bank: How is it doing? Is it in more trouble, and so forth? Some of the biggest banks got themselves into real trouble at one stage. You may remember when the biggest banks in the country were on the troubled list. I forgot whether this was just before or just after I left the Board.

MR. LONEY. Now we have email, cell phones, and all this other stuff. I would suspect that there were problems overseeing that whole operation due to the communications problems. How did you deal with that?

MR. SOLOMON. Of course, the telephone was tremendously important.

MR. LONEY. What about written communication?

MR. SOLOMON. There was a constant flow of regulatory suggestions, pretty much like today—guidelines and that sort of thing. Some were developed in cooperation with the FDIC [Federal Deposit Insurance Corporation] and the Comptroller through the examination council—the Federal Financial Institutions Examination Council. I remember when it was set up shortly before I left the Board.

MS. FOX. Tell us a little bit about the bank supervisors and how that culture worked. Did the Board members and the monetary policymakers view the Fed's involvement in the banking industry as a good thing or a bad thing, something to be tolerated, or something that they needed and gained information from?

MR. SOLOMON. I think they viewed it as trying to maintain the soundness of the system. That's the basic function of banking regulation and supervision. That was not as simple as it seemed, because these big outfits had a way of getting themselves into real trouble. They became highly competitive and overreached, contrary to what—the public posture they would present.

MS. FOX. Did you work at all with people who made monetary policy, in terms of assessing the banking industry?

MR. SOLOMON. After I was in banking supervision and regulation, I did not have much to do with monetary policy. It was separate, quite different from when I was in the Legal Division and attended Open Market Committee meetings. It was a much more hands-on, day-by-day thing. It had practically no relation to broad monetary policy except, of course, to maintain the stability of the system in general. I can't recall how much of this occurred before I left the Board or shortly after, with the enormous S&L debacle.

MS. FOX. That was after. The Regulation Q ceiling was lifted in 1980 or 1981.

MR. SOLOMON. Yes. Lack of regulation wrecked the S&Ls, aside from the fact that the S&Ls basically were unsound operations. They were not properly set up. They were set up to take short-term money and invest it in long-term assets—a sensible sounding idea. You're getting cheap money, helping housing—great idea, except you had to load it up with low-yielding mortgages. Then tighter money comes along, and you are paying more than you're taking in. The result: the S&L crisis. And it brewed over a period of time. Gradually, the S&L industry managed to get the Congress to take responsibility for the whole S&L crisis, far beyond the $100,000 limit on individual insurance that turned out to be highly necessary. There could have been enormous damage if there had not been something like that to stabilize the situation.

MR. LONEY. Are you saying that you saw that coming even before you left here?

MR. SOLOMON. Oh, yes, because it was so basically unsound, when you get right down to it: short-term liabilities, long-term assets. Don't match. You have trouble.

The Board's Responsibilities for Regulating Consumer Financial Services Laws: Late 1960s and 1970s

MS. FOX. Governor George W. Mitchell seemed to carry much of the responsibility at the Board-member level for dealing with the consumer revolution that was going on outside of the Federal Reserve System—the continuous efforts through the late 1960s and early 1970s to adopt legislation to protect the consumer against all sorts of procedures.

MR. SOLOMON. The question that would come up every time truth-in-lending legislation arose was, "Should this go in the FTC [Federal Trade Commission] or the Federal Reserve?" Of course, the banks and lenders would usually say, "Don't let the FTC get their hands on this." But where else do you put it? What do you do? "Let the Fed take care of it."

MS. FOX. The model for all of the legislation was the Truth in Lending Act of 1968?

MR. SOLOMON. Right. That was the beginning of the Board's injection into consumer affairs, if you disregard the fact that the margin regulations themselves were consumer protection to a considerable extent, too, because people were wiped out left and right when their margin calls went out. They couldn't meet them. They lost their whole investment. The margin regulations were intended, in part, to protect that as well as to protect the general market from violent fluctuations.

MS. FOX. Did you work on the truth-in-lending legislation that became law in 1968?

MR. SOLOMON. A little bit on the legislation, but, of course, we came in on the regulations.

MS. FOX. Do you recall what hard issues needed to be addressed or some interesting issues that you had to sort through?

MR. SOLOMON. As there always turns out to be with this type of regulation, there was a big problem of how you take on a subject that's basically complicated, because there are all kinds of lending, and each one has peculiarities that you need to address. And yet you can't have regulations that are hopelessly complex. In some way, you've got to mesh these two. That's what most of that regulation involved.

MS. FOX. In 1968 until the early 1970s, you were still in banking supervision?

MR. LONEY. At that time, truth-in-lending was in supervision.

MR. SOLOMON. Right. There was no other place to put it.

MS. FOX. Then it became clear that additional legislation was on its way. In 1974, a large bill with a lot of parts passed. It included the Equal Credit Opportunity and the Fair Credit Billing Acts. Also, the Federal Trade Commission Improvement Act became law in that year. The Board, your colleagues, and you saw this massive body of legislation heading your way.

MR. SOLOMON. The Equal Credit Opportunity Act was one of them. That's one of the things I'm rather proud of, because it really did quite a job. For one thing, it gave women standing as borrowers. It's easy to forget that before the Equal Credit Opportunity Act came along, it was very hard for a woman to get credit. It really was. In those days, women had no legal standing, basically, to become a debtor. How could you borrow money or obtain a credit card? Perish the thought. No woman could have a credit card.

MS. FOX. That even applied to women who were employed.

MR. SOLOMON. Oh, yes. It made no difference. Take an anecdotal example of a woman who was using her husband's credit card. That's the only way she could have a card. She was paying all the bills and he dies. She has to have the credit card transferred to her name, naturally. Oh, no, that couldn't be done. The card could be left in the husband's name—the dead man's name—and the wife could continue to pay the bills. That's okay. There's nothing wrong with that. But did they give the widow a credit card? No way.

MR. LONEY. Even if women could get credit, they would have to run the gauntlet of some pretty interesting questions from creditors about childbearing intentions and all of that type of thing.

MR. SOLOMON. Oh, yes. The Equal Credit Opportunity Act, I think, was one of the real achievements of that period.

MS. FOX. How did the Board members, and how did Governor George Mitchell, respond to what you said? In effect, were the bankers' pleas to have the Federal Reserve implement all these regulations?

MR. SOLOMON. I doubt if they embraced it. I didn't attend the deliberation on this kind of thing, but my guess is that they just accepted it. There were more of us to do this, so I guess we'd better do it. I'm sure that, except for George Mitchell, they didn't particularly welcome it. They weren't objecting to it, but "Okay, if it has to be, it has to be," I think.

MS. FOX. What was former Governor Mitchell's position on the legislation?

MR. SOLOMON. I think he felt, philosophically, that the Board as a central bank—sometimes accused of producing unemployment, depressions, and all those bad things—needed an anchor in public attention as well. These guys are not just fellows that caused unemployment. They have fellows that protected the consumer. And it's a good outfit—not as bad as you think they are.

MS. FOX. Was he an advocate? Was he the person on the Board that oversaw the consumer function in the development of all the regulations that went along with these laws?

MR. SOLOMON. No. Basically, that was Governor J.L. Robertson. He was sort of the Board contact.

MS. FOX. The Board responded to all of the legislation by creating another division for you.

MR. SOLOMON. I don't know if it was for me.

MS. FOX. Tell us about your new job—how you came to it, what you did, and the new position as director of the Office of Saver and Consumer Affairs. It was announced July 16, 1974, and all the legislation passed later that year, I think.

MR. SOLOMON. Yes. The Board saw it coming. I took it over largely with the help of Janet Sylvester Hart, my deputy. I relied on her very heavily. She helped organize the new operation.

MS. FOX. And had the distinction of becoming the first woman director?

MR. SOLOMON. Yes, and I felt she was thoroughly qualified and suggested her, not that my suggestion would necessarily carry any weight.

MS. FOX. Compared to others at the Board, would you have been considered a consumer advocate?

MR. SOLOMON. I doubt it. I was just doing a job that was handed to me. I was no "flaming torchbearer" for consumer legislation. Although, as I said, I'm very proud of the Equal Credit Opportunity Act, which I think was a great step forward in some of the truth-in-lending, equal credit, and fair billing legislation. They were improvements, but in fairness, I'd have to say, they did impose burdens on the business. I was not really thrilled to be applying these burdens to business, to tell you the truth, except for the Equal Credit Opportunity Act part of it.

And I was not one who felt, “To hell with these businessmen. They must be disciplined.” It never appealed to me that way.

MS. FOX. What about the challenge? You took on a responsibility that was maybe not particularly chosen, but an important one. The Federal Reserve Board was given authority to implement the laws, to write the regulations, but the enforcement of these laws was scattered.

MR. SOLOMON. Right.

MS. FOX. How did you accommodate that? Did it create a whole new kind of relationship with the other regulators?

MR. SOLOMON. Oh, yes, it did—with the FDIC, the Comptroller, and various enforcers.

MS. FOX. Were there people in the other agencies that you remember specifically having a lot of back and forth with over the years?

MR. SOLOMON. Yes, I had a lot of contact with the director of examinations or the equivalent of it over at FDIC because the examination of commercial banks was important to both agencies. Interestingly, the FDIC tried for a while, with some success—but, later, not so much—to equate the chairmanship of the FDIC to the chairmanship of the Federal Reserve Board. They should get equal recognition, equal pay, and equal respect and authority. The Board should not be elevated above the FDIC because it’s the same business. It’s just bank supervision. They got away with that for a while until the Board, in effect, broke loose with the Chairman’s respect and almost adoration—beginning, particularly, with Martin, but carrying forward. You know, the Chairman is almost revered up on the Hill. He appears frequently on the Hill. People don’t realize that a lot of that’s statutory. The Board has to report to the

Congress. What are all these Fed people doing up there on the Hill? Well, the Congress tells them to report.

MS. FOX. The Division of Consumer and Community Affairs' staff has grown quite a bit since 1974. There are 100 people now. How many staff people did you have to start that office?

MR. SOLOMON. It was a mere handful. I wouldn't know the exact number, probably around 10 people.

MS. FOX. For most of those new laws, you had about a year to write the implementing regulations?

MR. SOLOMON. Yes.

MS. FOX. So in 1974 and 1975, you must have lost sleep.

MR. SOLOMON. Yes—well, a good deal of it.

MR. LONEY. We had exactly one year to write them.

MR. SOLOMON. Yes, and it was never enough time to do a good job, but the Congress kept pushing. We had to get the regulations out. That was part of the tension of the job.

MS. FOX. Glenn, what year did you come?

MR. LONEY. February 1975.

MS. FOX. You were one of those new rule writers?

MR. SOLOMON. Yes, you were that close to my retirement. I retired in 1976.

MR. LONEY. Yes, you were here about a year after I arrived. I was working on credit billing. There were two groups—the credit practices section that Jerry [Gerald] Kluckman ran and the ECOA section that was doing the rulewriting for ECOA. Various people ran the sections. Janet had some pretty direct impact on that part, but they had Lou Goldfarb, I think, for a while. I forget who before him, maybe Ann Geary.

MS. FOX. Did you all report to the oversight committee or the Board regularly? Did it function the way it does now?

MR. LONEY. We had Governors who kept an eye on us. We went to the Board quite a bit when we were writing regulations.

MR. SOLOMON. Yes.

MS. FOX. Do you remember the most difficult issues to sort out?

MR. LONEY. I'll tell you one interesting one. On the fair credit billing regulation, there was a provision that said you may offer a discount for payment in cash, but you couldn't surcharge for using a credit card. This appealed in a sort of perverse way to the Board members, because as economists they would say, "Well, how do you tell one from the other? Is it a matter of where you start looking and when?" You start from the bottom and go up, or you start from the top and come down. How do you tell a discount from a surcharge? I can remember the Board members trying to get us to explain that to them. That about drove me out of my mind.

Bank Examinations

MR. SMALL. I'd like to loop back to bank examinations and the burdens or costs they impose on banks. That might have affected a bank's decision whether to stay in the Federal Reserve System or to leave it. I think people use the term "shopping for a regulator." Did that put pressure on the Board?

MR. SOLOMON. You would think that would put pressure on the Board, and you'd say, "Well, fellows, let's hold off a little bit. Let's relax a little bit. Don't lose members." We never approached it that way. We just did what seemed to be necessary. At least I never did. If they wanted to leave the System, well, it wasn't too bad. It would still be supervised by the Comptroller. It may have been different for some of the Reserve Banks, but I never felt that you had to ease up to keep up your membership.

The banks would so easily get themselves into trouble. A lot of people don't realize that, just before I left, or maybe it was shortly afterward, the biggest banks in the country were on the problem list. They were in terrible shape. The idea that these banks were solid rock—not so. They got themselves into plenty of trouble. It's hard enough to keep any kind of supervision over them because there was tremendous competition out there, which is good in a way, of course, but it can drive some of them to dangerous policies.

MR. SMALL. What were you doing about hiring new staff fresh out of school, getting them up to speed, and sending them in the front door of a sophisticated bank to conduct an examination?

MR. SOLOMON. That was not my direct responsibility. The Reserve Banks are agents for the Board to do the examining of the state member banks and the bank holding companies. The way it is set up is part of the unique operation of the Federal Reserve System—the Reserve Bank as sort of a field office yet independent, and with special benefits and, to some extent, disadvantages.

MR. SMALL. One can think now of new examiners going into a bank, and the large banks being so sophisticated, with the derivatives and the high-powered finance people they have, that the examiner has a hard time seeing what's going on.

MR. SOLOMON. Oh, good heavens, yes.

MR. SMALL. Back in your time, was the bank examiner confronted with sophisticated bank operations he was trying to manage or just very old-fashioned, simple ones? Was it a hostile environment?

MR. SOLOMON. Well, again, we were not the immediate contact.

MR. SMALL. Were you getting out the information you thought you needed to get out?

MR. SOLOMON. Yes, but I think it has become more difficult to examine banks, because the banks themselves often don't know what they are really doing, particularly with all these derivatives. You've got just a horrible conglomeration of uncertainties there. These derivatives can cover everything or nothing. The idea of "What is a bank worth today?" is an enormously difficult question with these derivatives. They could be high one day, lower the next day, and many of them you can't really evaluate at all. It's an extremely complicated situation, far more than when I was active in it.

MS. FOX. Looking back, how did you feel about the banking industry in the 1970s? Did you feel that things were going well? Did you feel that there were problems looming?

MR. SOLOMON. Well, of trouble or impending trouble, definitely. Just about all of the top banks were on the problem list at one point. That's confidential information, but so much was in the newspapers that this bank or the other was having trouble.

MS. FOX. What was the work environment like in those hard years? The economy's troubled. There's monetary policy challenges. There's all this new consumer legislation. Was the Board a safe haven, or was it a tense, difficult, challenging place to work in those late years, the end of the Burns era?

MR. SOLOMON. I'd say a challenging place to work, but still fascinating and an interesting place to work.

MS. FOX. Collegial still?

MR. SOLOMON. Oh, yes. Burns was less collegial than some of the other Chairmen.

MS. FOX. That's kind of a remarkable thing to say about an institution, that under all of that stress and strain, you still recall the work environment as being—

MR. SOLOMON. Relatively collegial, yes.

MS. FOX. To what do you attribute that?

MR. SOLOMON. Mores developed, and, I think, part of it is structural. Most government agencies say, "No, a five-man head of the organization. No more than three shall be of any one political party." That's supposed to make it nonpartisan. Well, in fact, it makes it bipartisan. The whole organization—"These are Democrats. These are Republicans. This fellow, he came in with Democrats. That fellow, he came in with Republicans." It is a political operation. Not so at the Board. The Board is nonpolitical, and that makes a big difference. Whether it was thought through at the time or not, I don't know. I doubt it. It may be pure happenstance. But, to me, that makes a tremendous difference in what you're dealing with, because I know from contact with other agencies, they were very much concerned about "Well, how will the Democratic or Republican members of our governing body react to that?" Not so here.

MR. LONEY. That's probably also a function, don't you think, of the 14-year term?

MR. SOLOMON. Of course.

MS. FOX. Were most of your colleagues here for a long time as well?

MR. SOLOMON. Definitely so. Howard Hackley came in at about the same time I did. Both of us were career people. A lot of it was the fact that people were here for a long period of time. The Legal Division, for example, has had career people as general counsel with the exception of Michael "Mike" Bradfield, who came in with Volcker, and John D. Hawke, Jr., who became Comptroller of the Currency. He was brought in as general counsel. But that was, I think, relatively an exception.

MS. FOX. Working for the Fed, did you have some bragging rights? Or, by the time you left, did you feel like you did when you arrived—that it was a little out-of-the-way organization?

MR. SOLOMON. I think the Fed has carried a very good reputation for a long time, based largely on this chairmanship. Eccles didn't have this congressional regulation telling him that he had to report regularly, whereas the more recent Chairmen—Martin and the others—have had to report to the Congress.

MS. FOX. The Humphrey-Hawkins Act.

MR. SOLOMON. Yes, which brings the Board before the Congress periodically and into the press. I think that has had a lot to do with the prestige of the Board, because every time the Chairman has to go up and report, it's big news. Of course, the newspaper doesn't stop to say, "Well, this is just a regular report." This is big news.

MR. LONEY. I think one of the hallmarks of the Fed over the years is its modesty about what it does. I don't think the Fed does much to tout what it does or to tout membership. Do you think that's been the right policy, or have we suffered some damage from having taken that tack?

MR. SOLOMON. I'm inclined to think it's probably the right way. I think the Fed's probably out there enough. You get too much in the headlines, it doesn't help—either good or bad. I think the Fed does not need a lot of publicity about what it does. I think people don't understand what it does. I think it's probably almost impossible to make them understand.

Cultural Changes at the Board: Racial and Social Integration

MS. FOX. I wanted to go back to the 1960s. During your time at the Board, cultural changes brought about integration and the government's commitment to hire more African Americans.

What do you recall about that era in changing work habits or administrative functions or adapting to that change in the government?

MR. SMALL. What was it like in 1934?

MR. SOLOMON. Like all the other institutions in the District of Columbia, the Board was a segregated operation. It had separate bathrooms. That was the most obvious thing. The Board was part of the District, and its history has been part of the District, basically. I've said many times that I think integration went better in the south than in the north.

MS. FOX. After World War II, it must have been different in Washington D.C., at least from the stories that I've heard—that there was a much more open society. People came back from the war, and then, of course, the legal barriers—

MR. SOLOMON. Began to crumble, yes.

MS. FOX. And, ultimately, in the government there were affirmative action efforts.

MR. SOLOMON. Oh, yes, absolutely. We had one person assigned to that in Banking Supervision and Regulation. I don't know whether or not that occurred in other divisions.

MS. FOX. And the responsibility was to recruit new employees?

MR. SOLOMON. Yes. I'm not sure exactly how successful that was, because I don't recall taking on a lot of blacks in the division, but that's what the purpose was. There weren't an awful lot of qualified candidates, if you want to know the truth about that, along that time. The blacks had so little opportunity that it was not easy to find good candidates. I remember the law firm that I was with after I left the Board and went into private practice. They hired one or two black lawyers and were very fair in their employment practices.

MS. FOX. In the 1970s, was there a dramatic change in the number of women that came to work at the Board?

MR. SOLOMON. I don't recall it as being spectacularly changed. It was slow.

MS. FOX. So, when you left in 1976, it was not a terribly different organization?

MR. SOLOMON. Probably not.

MR. LONEY. But in the Office of Saver and Consumer Affairs, there were quite a few women?

MR. SOLOMON. Yes, that was a new setup, and Janet Hart helped me set that up. I wouldn't say that Janet was a "women's libber." She was essentially an objective supervisor and an excellent lawyer.

MR. SMALL. You've certainly helped augment our oral history. Thank you very much.

MR. SOLOMON. Thank you.