

10/18/45 A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, October 18, 1945, at 10:00 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. McKee
Mr. Draper
Mr. Evans (latter part of meeting)

Mr. Carpenter, Secretary
Mr. Connell, General Assistant,
Office of the Secretary
Mr. Morrill, Special Adviser
Mr. Smead, Director of the Division
of Bank Operations
Mr. Parry, Director of the Division
of Security Loans
Mr. Leonard, Director of the Division
of Personnel Administration
Mr. Vest, General Attorney
Mr. Thomas, Director of the Division
of Research and Statistics

This meeting was called for the purpose of considering the topics which had been submitted by the Presidents of the Federal Reserve Banks following their meeting on October 15 and 16, 1945, for consideration at a joint meeting of the Board and the Presidents to be held at 11:00 a.m. today.

On the first item, relating to the renewal of the authority of the Federal Reserve Banks to purchase Government securities directly from the Treasury which would expire on December 31, 1945, it was stated that at the meeting of the Federal Open Market Committee yesterday the Presidents were advised that Mr. Snyder, Director of War Mobilization and Reconversion, would go before the Judiciary Committee of the House

10/18/45

-2-

of Representatives in the very near future and request a renewal of certain of the provisions of the Second War Powers Act, including the provision above referred to, and that, while it might not be possible to get the authority extended for an entire year, it was likely that something less than that would be acceptable. Chairman Eccles had also made the statement at the meeting of the Federal Open Market Committee that he would discuss the matter with Secretary of the Treasury Vinson.

At this meeting of the Board Chairman Eccles said that if the approval of the bill were delayed he would discuss with the Treasury the advisability of the introduction of a separate bill for the purpose of extending the authority. It was agreed that the Presidents should be so advised.

The Presidents' Conference also considered the desirability of restoring the franchise tax, preferably in the old or perhaps in some modified form, and on that point Chairman Eccles stated that he would be opposed to any such suggestion at this time. He felt that the surplus of the Federal Reserve Banks was not large in the circumstances, and that the uses to which the earnings of the Federal Reserve Banks could be put, such as paying off the stock of the Federal Reserve Banks, providing funds for the guarantee of loans under the Wagner-Spence bill if enacted, and providing for the operating expenses of the Federal Reserve Banks if they should find it necessary to sell

10/18/45

-3-

securities from the System account to offset the effects of gold imports, probably would be broad enough to take care of any surplus that might be accumulated. In any event, he said, the earnings of the Federal Reserve Banks would not be dissipated and would be available at any time should Congress decide that they should be taken for some specific purpose and that, therefore, he would not raise the question of a franchise tax for the reason that such action might involve a number of other questions affecting the position of the Federal Reserve System. He added that if at any time it were felt that the earnings of the System were too great arrangements might be made with the Treasury to have maturing Government securities held in the System account refunded into issues carrying a lower rate of interest. In view of all of the circumstances and possible future developments he felt that a difference of \$100 million or \$200 million in the surplus of the Federal Reserve Banks did not amount to a great deal and would be a useful thing not only for the System but for the Government as well.

Mr. McKee indicated that he would favor an amendment to the law which would not refer to a franchise tax but would provide that the Board, in its discretion, could direct the payment of excess amounts of earnings of the Federal Reserve Banks to the Treasury.

At this point Mr. Evans joined the meeting.

10/18/45

-4-

The Presidents' Conference also adopted the following recommendations with the understanding that they would be reviewed with the Board of Governors today:

1. Discontinue the payment of supplemental compensation.
2. Increase percentagewise the maximum annual salary of each position in the Form A Classification Plan in accordance with the present supplemental compensation formula authorized by the boards of directors of the respective Federal Reserve Banks.
3. Increase the basic annual salary of each employee by an amount equal to that presently received in the form of supplemental compensation.
4. Recognizing that the proposed changes will still leave unsolved certain problems of salary adjustment, the solution of which under present conditions should not be postponed until study and revision of the job classification is completed, the Conference agreed that authority be sought from the Board of Governors to exceed maximum annual salaries based on the revised Form A in individual cases as follows:

15% on the first \$3,000 of Form A maximum annual salary, provided that this amount added to the adjusted maximum annual salary shall not exceed a total of \$7,500.

During a discussion of the recommendations, it was pointed out that they were intended to apply only to employees' salaries and not to the salaries of officers of the Banks and that the proposed authority to increase salaries to 15 per cent on the first \$3,000 of maximum annual salary, provided that this amount added to the adjusted maximum annual salary would not exceed \$7,500, was designed only as a temporary measure to permit necessary adjustments pending the general

10/18/45

-5-

revision of the personnel classification plans at the Banks.

At the conclusion of the discussion, it was understood that Chairman Eccles would say during the joint meeting with the Presidents that the Board would have no objection at this time to increasing the maximum annual salary of each position in the classification plans of the Banks in accordance with the present supplemental compensation formula authorized by the boards of directors of the respective Banks, but that it would like to consider further the proposed further increase of 15 per cent on the first \$3,000 of maximum annual salary.

Reference was then made to the following recommendation of the Presidents' Conference:

Hospitalization plan including surgical benefits

The Conference reviewed and considered the report and recommendations prepared by the Committee of Personnel Directors of the Reserve Banks, dated September 14, 1945, in relation to services now rendered by the Reserve Banks, such as retirement, group insurance, vacation, sick leave.

After prolonged discussion the Conference adopted by a majority vote of 10 to 2, the following recommendation of the Committee on Personnel, based on the conclusion of its subcommittee consisting of Personnel Directors:

As a result of its further study of the benefit, the subcommittee believes that present benefits available to employees of Federal Reserve Banks should be complemented by the provision of broader facilities for meeting the hazards of illness. It is obvious that this cannot be brought about unless Reserve Banks assume an appreciable share in the cost of some suitable hospitalization and surgical program. In the opinion of the subcommittee the most suitable framework for such a plan already exists in the program sponsored by the Blue Cross Association. In these circumstances the subcommittee recommends

10/18/45

-6-

that each Federal Reserve Bank assume two-thirds of the cost of providing individual, husband and wife, or family membership, as the case may be, in the Blue Cross Association of its district for each of its employees who may wish to avail himself of the privilege. If this recommendation is approved, the subcommittee in cooperation with representatives of the National Enrollment Office of the Blue Cross, will be prepared to work out whatever details of operation may be necessary.

Chairman Eccles stated that a benefit such as that proposed in the above recommendation was not provided for Government employees under Civil Service and expressed the opinion that the Board should not go farther in that direction than was provided for Government employees generally. He said that this was a matter that was closely related to the whole question of annual and sick leave, retirement, and other benefits, and that the Board should generally follow the policy adopted by the Government.

There was a discussion of the extent to which hospitalization benefits were made available by corporations to their employees and of the question whether, if the benefit were provided, it should be paid entirely or only in part by the Federal Reserve Banks. Mr. Leonard stated that on the basis of preliminary estimates that had been made the recommendation of the Presidents' Conference would result in an annual cost to the Federal Reserve Banks of approximately \$450,000 with a cost to the employees of approximately \$225,000.

All of the members of the Board indicated that, while they were sympathetic to the procedure, it was one that required careful

10/18/45

-7-

consideration and that the System should reach a decision only after careful study.

It was understood that Chairman Eccles would say to the Presidents that the Board would take the matter under advisement.

With respect to the suggestion of the Presidents that there be a study of (1) the problem of bank reserves in view of present and future developments, (2) the type and frequency of statistical reports collected by the Federal Reserve Banks from commercial banks and business interests with a view to reducing the burden of such reports wherever possible, and (3) the possibility of improving statistical data on the velocity of circulation of demand deposits as well as of the total money supply, there was unanimous agreement on the part of the members of the Board that these studies should be made. In connection with the item of bank reserves it was understood that Mr. McKee would make to the Presidents the statement agreed upon at the meeting of the Board on Friday, October 12, 1945.

In response to the comment of the Presidents that it would be helpful to them in meeting various local inquiries with respect to the recent amendments to Regulations T and U to discuss the subject with the Board and obtain a broader background for the information and guidance of the Presidents, it was agreed that Chairman Eccles should say to the Presidents in the meeting with them that the Board had

10/18/45

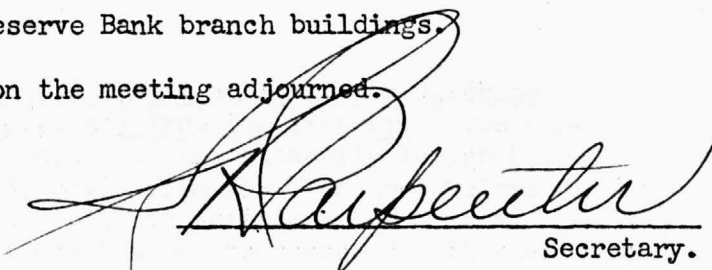
-8-

given careful and thorough consideration to the amendments before they were made, that the Board had listened to all of the complaints and arguments that had been advanced against the so-called "incidental squeeze" and still felt that the amendment was fully justified, and that the Board would prepare and send to the Presidents a memorandum covering the reasons underlying the Board's position.

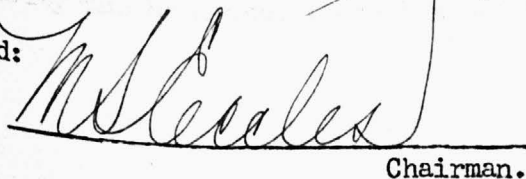
It was also understood that Mr. Ransom should review for the information of the Presidents, in response to their inquiry, (a) the possibility of continuing Regulation W through an act of Congress, and (b) the desirability of simplifying the Regulation by limiting its provision to durable consumer goods.

In response to the Board's wire of October 4, 1945, the Presidents' Conference had expressed a desire to review the subject of future policy with respect to building facilities and operations of the Federal Reserve Banks. It was understood that Chairman Eccles would inform the Presidents of the letter sent by the Board to the Chairmen of the Banking and Currency Committees of the Senate and House of Representatives recommending the repeal of paragraph 9 of Section 10 of the Federal Reserve Act which limits the amount that may be spent for Federal Reserve Bank branch buildings.

Thereupon the meeting adjourned.


Secretary.

Approved:


Chairman.