

A meeting of the Board of Governors of the Federal Reserve System with the Presidents of the Federal Reserve Banks was held in the offices of the Board of Governors in Washington on Thursday, October 18, 1945, at 11:15 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. McKee
Mr. Draper
Mr. Evans

Mr. Carpenter, Secretary

Messrs. Flanders, Sproul, Williams, Gidney, Leach, McLarin, Young, Peyton, Leedy, Gilbert, and Day (who entered the meeting during the discussion of Item 2), Presidents of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, Minneapolis, Kansas City, Dallas, and San Francisco, respectively

Mr. Sienkiewicz, Secretary of the Presidents' Conference

A meeting of the Conference of Presidents of the twelve Federal Reserve Banks was held in Washington on October 15-16, 1945, and yesterday there was furnished to the members of the Board of Governors copies of a list of the topics which the Presidents desired to consider at this joint meeting with the Board. The matters were taken up in the following order:

1. Renewal of Reserve System authority to purchase Government securities directly from the Treasury. The Conference considered the fact that the authority to purchase Government securities directly from the Treasury expires on December 31, 1945, and that the existence of this authority has been useful and has not been abused. In view

10/18/45

-2-

of situations that may arise in Government financing during the immediate postwar period, the Conference recommends that the authority of the Reserve System to purchase Government securities directly from the Treasury be renewed up to a limit of \$5 billion, it being clearly understood that this measure is for meeting temporary emergencies only, and does not constitute a precedent for establishing such authority for deficit financing. It submits this recommendation for consideration with the Board of Governors.

Chairman Eccles stated that the Board of Governors was in agreement that the authority for direct purchases from the Treasury should be continued, that the provision of law giving the authority was contained in the Second War Powers Act, that there were other sections of that act which various offices of the Government felt should be extended, and that steps were being taken to initiate the introduction of the necessary legislation. He did not think it would be advisable for the System to undertake to recommend the enactment of a separate bill but that if there were any substantial delay with respect to other provisions of the Second War Powers Act that were to be renewed, he felt that the Board should take the matter up with the Secretary of the Treasury with a view to action on a separate bill. He went on to say that the Treasury was working with the Office of War Mobilization and Reconversion on the matter and that the Board would follow it and, if necessary, would discuss it with Secretary of the Treasury Vinson.

2. Restoration of franchise tax. In view of increasing earnings of the Reserve Banks, the size of their

10/18/45

-3-

surplus accounts, and the importance of making it clear that their earnings do not revert to private stockholders, the Conference considered the desirability of restoring the franchise tax preferably in the old or perhaps in some modified form.

Mr. Sproul stated that the above matter had been considered by the Legislative Committee of the Presidents' Conference and that it had been decided to recommend to the Presidents' Conference that it would be desirable to take steps toward bringing about the restoration of the franchise tax, preferably in the form in which it was contained in the Federal Reserve Act prior to 1933. He also said there had not been time for the Presidents' Conference to consider the matter and it had been placed on the list of items to be discussed with the Board without recommendation by the Conference.

Chairman Eccles stated that the Board felt it would be a mistake at this time or, so far as he could see, at any time in the future to ask Congress to restore the franchise tax or otherwise to provide by continuing legislation in any other form for a payment to the Treasury from the earnings of the Federal Reserve Banks. It was felt, he said, that Congress would discuss the matter in due course, that for the System to present the matter at this time would raise a number of other questions which might well be avoided, and that when the question was raised the System should be prepared to oppose the amendment on the ground that the Congress has charged the Board with responsibility for

10/18/45

-4-

general supervision over the expenditures of the Federal Reserve Banks, that the surplus of the Federal Reserve Banks had not accumulated in excessive amounts, and that in any event the earnings of the Banks would not be dissipated and would be available if at any time Congress should decide that they should be used for some particular purpose. They might also be used, he said, as a fund to support the guarantee of loans under the Wagner-Spence Bill if it should be enacted and there was the possibility that the System might find it necessary to sell securities held in the System open market account to offset gold imports which would greatly reduce earnings or to use accumulated earnings for the purpose of paying interest on debentures issued as a means of absorbing excess reserves. He added that in view of the responsibilities that the System might face in the future he would argue strongly that the present or prospective level of the surplus funds in the hands of the Federal Reserve Banks was altogether inadequate, and he felt that the System should be prepared to make all of the arguments to which he had referred if and when the question was raised by members or committees of Congress.

Mr. McKee said that he would be inclined to explain to Congress that the operations of the Federal Reserve Banks were resulting in substantial earnings that might become large, and to suggest that consideration be given to authorizing the Board in its discretion to direct the payment to the Treasury of any earnings that might not be needed

10/18/45

-5-

by the System. He would avoid calling the payment a franchise tax but felt that it would be a better procedure for the System to present the matter to Congress at the proper time rather than to wait until the question was raised in Congress.

Chairman Eccles suggested that if it appeared that the earnings of the Federal Reserve Banks would increase to what might be regarded as an embarrassing amount, the System could always meet that situation by arranging with the Treasury for the replacement of maturing securities in the System account with special issues bearing interest of $1/8$ or $1/4$ per cent which would automatically reduce the income of the Federal Reserve Banks to whatever might be felt would be necessary.

Mr. Sproul said that some of the Presidents felt that the arguments offered by Chairman Eccles for not amending the law could be made at any time and that there probably was a psychological advantage in making the suggestion to Congress rather than to have the matter raised by someone in Congress. He was opposed to the suggestion last made by Chairman Eccles with respect to the issuance to the Federal Reserve Banks by the Treasury of special low-rate securities as he thought it would be objectionable for the Federal Reserve Banks to become pensioners of the Treasury so far as their earnings were concerned or to enable the Treasury to say what the earnings of the Reserve Banks should be.

10/18/45

-6-

The opinions as set forth above were discussed at some length, reference being made during the discussion to the public attitude toward the Federal Reserve Banks as privately-owned institutions because of the ownership of their stock by private banks, and the possible effects of the retirement of the stock from Federal Reserve Bank surplus or the transfer of the stock to the Treasury.

While the above matter was being considered President Day joined the meeting.

3. Compensation policy of Reserve Banks. The Conference considered changes in relative wages and cost of living of Reserve Bank employees, the change in their working hours, the decrease in the "take home" pay resulting from loss of overtime, the advisability of discontinuing supplemental compensation, the urgent need for payroll adjustment of salaries in numerous instances, and the necessity for raising the present maxima to allow further adjustments in salaries.

After discussion, it adopted the recommendations made by the Personnel Directors of the Reserve Banks at their meeting in Chicago, October 1-3, 1945, with the understanding that they be reviewed with the Board of Governors at the joint meeting on Thursday, October 18. These recommendations are as follows:

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.

10/18/46

-7-

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.

The Conference also reviewed and considered the growing discrepancies between the salaries of the officers of the Reserve Banks and those prevailing in the competitive markets of their communities. From the reports and discussion it appears that competitive difficulties are growing more acute, and that the problem of adjusting officers' salaries at the Reserve Banks should be reconsidered with the Board of Governors if the efficiency of the Reserve Banks is to be maintained and their relationships with banks, business, and the public are to be broadened during and after the transition period.

Chairman Eccles stated that the Board of Governors was favorable to the discontinuance of the payment of supplemental compensation and to increasing the maximum annual salary of each position in the classification plan of each Federal Reserve Bank in accordance with the present supplemental compensation formula authorized by the board of directors of the Bank, but that, before reaching a conclusion with respect to the authority to exceed maximum annual salaries up to 15 per cent of the first \$3,000, the Board would like to study the matter further.

10/18/45

-8-

Mr. Peyton stated that the Federal Reserve Banks were facing real difficulties in obtaining and retaining the necessary personnel and that it was desirable that the Board reach a conclusion on the matter as promptly as possible.

During a discussion, the point was stressed that the recommendation was made only as a temporary measure to enable the Banks to meet special situations until they could make a general revision of their personnel classification plans and that it was not expected that the authority, if granted, would be used to increase the salaries of all employees.

In response to a suggestion by Chairman Eccles that the revision of personnel classification plans of the Banks be expedited, all of the Presidents indicated that this was an operation that would take eight months or more to complete.

Mr. Williams pointed out that if the present supplemental compensation were added to the maximum annual salaries provided by the classification plans, the added salary payments would be subject to retirement deductions resulting in a smaller "take home" pay for the employees, and that the authorization of the additional 15 per cent would enable the Banks to make necessary individual adjustments until the personnel classification plans could be reviewed. He also said that the position of the Presidents was that before discrepancies were written into the revised personnel classification plans they

10/18/45

-9-

would like to make an analysis of the situation in individual cases and determine what the salary should be.

Chairman Eccles stated that in order to assist the Board to act on this matter it should have a statement of the reasons which would justify granting the additional discretionary authority over and above the adjusted maximums in the classification plans as recommended by the Presidents, and that it should be made clear that the authority would be only for an interim period while the personnel classification plans were being revised in order to enable the Banks to take care of individual cases in the difficult postwar situation.

Mr. McLarin suggested that the Presidents' Conference Committee on Personnel prepare a statement along lines indicated by Mr. Williams during the meeting and which would set forth the reasons for the recommendation of the Presidents' Conference, and that the statement be sent to the Presidents of all of the Federal Reserve Banks who would present the matter to the board of directors of the respective Federal Reserve Banks for action and submission to the Board of Governors.

There was unanimous agreement that this course should be followed with the understanding that each Bank would submit the matter to the Board of Governors for consideration in the light of the action taken by the board of directors of the Bank.

10/18/45

-10-

Mr. Sproul inquired whether the Board had discussed the comments of the Presidents with respect to discrepancies between the salaries of officers of the Federal Reserve Banks and salaries prevailing in the competitive markets in their communities.

Chairman Eccles stated that the Board had considered the matter only briefly but had recognized that it was one that should be given attention, particularly in connection with promising junior officers in the System who would have to be paid higher salaries if they were to be retained. He felt that salaries of officers between \$4,000 and \$10,000 per annum should be considered in this light and the necessary adjustments made.

4. 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

10/18/45

-11-

sponsored by the Blue Cross Association. In these circumstances the subcommittee recommends 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 said that the Board felt that, so far as the System was concerned, this recommendation involved an innovation, and that the Board should study it further before reaching a decision with respect to it as it involved several questions of policy and an annual expenditure by the Federal Reserve Banks of approximately \$500,000.

In response to an inquiry from Mr. McKee as to why the Presidents recommended the payment of two-thirds of the cost by the Federal Reserve Banks, it was brought out that a majority of the Presidents were of the opinion that the Banks should pay only a part of the cost so that the employees would have a financial interest in the arrangement, while a minority felt that the Banks should pay the entire expense.

Mr. McLarin stated that he had taken the position that the arrangement should be made through an insurance company as there were no organizations in his district affiliated with the Blue Cross Association.

10/18/45

-12-

During a discussion of the Presidents' reasons for the recommendation that the Federal Reserve Banks pay two-thirds of the cost,

Mr. Sproul read the following excerpt from the supplementary report of the subcommittee of the Committee on Personnel of the Presidents'

Conference:

"Finally, the committee considered the desirability of the banks' assuming the entire cost for employees and their dependents, and is of the opinion that such an arrangement would not be as desirable as one involving some degree of employee participation. Precedent for the latter now exists in our Retirement System and in those group insurance plans which are in effect at six of the banks. The subcommittee feels that assumption of the entire cost by the bank would diminish the interest and sense of responsibility which comes from participation in a joint cause. While today there is a popular tendency toward the employer's assuming ever greater responsibility for the interests of his employees, this situation is not general, and the subcommittee feels that Reserve Banks might well proceed with caution in this respect, particularly in those areas where local institutions have not already established precedent."

Mr. Sproul said that it would always be possible to take the further step of absorbing the entire cost, but that if all of the expense were borne by the Banks at the beginning it would not be possible to return to an arrangement under which the employees would pay part of the cost.

It was made clear in the discussion that it was proposed that the plan apply to both officers and employees of the Federal Reserve Banks and that it was expected that the cost to the employees would not exceed the amounts now being paid by them for group insurance and

10/18/45

-13-

the individual arrangements for group hospitalization.

At the conclusion of the discussion it was understood that the Board would study the matter and advise the Reserve Banks of its conclusion.

5. Research. The Conference reviewed the developments in the research program of the Reserve Banks and the System. It discussed the progress being made by the Committees on Business Finance and on Banking and Credit Policy in the various areas, including wartime changes in the financial position of industrial and trade organizations, bringing up to date studies already completed, analysis of call reports as of the end of 1945, and inquiry into the role of interest rates in the economy. It also thought that consideration might be given to the problem of bank reserves in view of present and future developments, inasmuch as this subject has not been reviewed since the report of the System Committee was presented almost a decade ago. The Conference believes it would be appropriate to take steps to explore this area because the problem of bank reserves is becoming even more crucial at this time than in the past, and that bank reserves are the source through which volume of credit is influenced by the Reserve System.

The Conference agreed that it would be appropriate to reexamine the reserves and reserve requirements for regions, areas, and individual banks, particularly in the light of numerous shifts of deposits that occurred during the war and that are likely to occur in the future. It suggests that the System Research Advisory Committee, together with the Committee on Banking and Credit Policy, give consideration to this subject.

It was also suggested that the System Research Advisory Committee (a) inquire into the type and frequency of statistical reports collected by Federal Reserve Banks from commercial banks and business interest with a view to reducing the burden of such reports wherever possible; and (b) further explore the possibility of improving statistical data on the velocity of circulation of demand deposits as well as of total money supply.

10/18/45

-14-

Chairman Eccles said that the Board had no objection to the above suggestion.

Mr. McKee stated that the Board had been giving consideration to the matter of member bank reserves and that, inasmuch as it involved a number of questions outside of the research field, he felt it should be studied by members of both the research and operating staffs. He gave reasons for the opinion that the present practice of basing required reserves on the location of banks in central reserve, reserve, and nonreserve cities was obsolete and stated that, in order to find a satisfactory solution, legislation would be necessary. He also said that the Board would send a letter to the Federal Reserve Banks in the near future in which some tentative suggestions would be made and that it was hoped that through a joint study by the Federal Reserve Banks and the Board a practical solution could be found.

Mr. Peyton inquired whether the study of the problem should be kept within the Federal Reserve System or whether it was expected that the Federal Reserve Banks would ask for the opinion of member banks in their respective districts. It was the general opinion of those present that there should be no discussion of the matter with member banks or other parties outside the Federal Reserve System at this time.

6. Margin requirements under Regulations T and U.
The Conference desires to bring to the attention of the Board of Governors numerous inquiries and complaints that are reaching several Presidents of the Reserve Banks from

10/18/45

-15-

those who are affected by the recent amendments to Regulations T and U, particularly with respect to rules concerning withdrawals and substitutions. In passing this information on to the Board, it would be helpful to the Presidents in meeting various local inquiries to discuss the subject with the Board and obtain broader background for their information and guidance.

Chairman Eccles said that, before amending 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) to increase margin requirements to 75 per cent and to make more restrictive the rules with respect to withdrawals and substitutions, the Board considered every aspect of the problem for a long time and was aware of all of the questions involved. Looking at the matter in retrospect, he said, the only regret the Board had was that the action was not taken sooner. Complaints regarding the action were expected because any regulation that affects individuals adversely would have that result, and no general public regulation could be issued that did not have inequitable results in some individual cases. He made the further statement that the Board had received numerous letters on the matter, and it was believed that there was no phase of the question that had not been brought to its attention. He said that the Board had replied to these letters but that it was not expected that they would change the views of the individuals who had complained.

10/18/45

-16-

He added that, in response to the request of the Presidents, the Board would be glad to prepare a statement of the background and reasons for its position so that the Presidents would have it available in answering inquiries in their respective districts. He also referred to the opinions held by some that the Board should have included in the regulation an amendment to require that undermargined accounts be margined up and by others that full 100 per cent margins should have been required. In view of this situation he thought there was some possibility that the Board might move in the direction of further tightening the regulation, but he did not think there was much likelihood of its being liberalized at least in the near future. While he did not think any action that the Board might take in further restricting credit for the purpose of purchasing or carrying securities would have much effect in dampening inflationary tendencies in the market, he did think that further restrictive action might be desirable so that if there were dangerous inflationary developments the System would be in a position to say that it had done everything it could to meet the situation.

There was a discussion of the reasons and background which prompted the Board to adopt the amendments to the two regulations, during which Mr. Leach stated that these were the only regulations of the Board regarding which he did not feel he had the necessary information to answer questions raised in his district and it would be very helpful if a statement of the Board's position were made available.

10/18/45

-17-

Chairman Eccles stated that that would be done.

7. Consumer Credit—Regulation W. The Conference reviewed recent developments affecting Regulation W as well as the prospects for its continuance. Included in the discussion were (a) possibility of continuing the regulation through an act of Congress; and (b) desirability of simplifying the present regulation by limiting its provisions to durable consumers goods.

For their information and guidance, the Presidents desire to review the subject with the Board of Governors at the joint meeting on Thursday, October 18.

Mr. Ransom stated that the Board had not discussed the question of extending the authority for the regulation of consumer credit as it was felt that to do so would be premature at this time, but that it had undertaken to simplify the regulation step by step as the process of removing wartime controls progressed. In his opinion the liberalization of the regulation was a question of timing in relation to the release of other controls. He said that he realized that there were many people who would continue the regulation for reasons other than the regulation of consumer credit but that he had made it plain at the first conference with representatives of the trades that the Board was interested in Regulation W only for the purpose of regulating consumer credit and not as a means of writing a code of fair practices or collecting bad debts.

Following the last amendment to Regulation W, Mr. Ransom said, it was found that registrants who made nonpurpose loans had numerous renewals and consolidations of such loans and felt that the maturity

10/18/45

-18-

of 18 months permitted by the amendment should apply to existing loans.

He added that, while he was agreeable to permitting such a maturity, there were difficulties in drafting the necessary amendment.

Mr. Ransom emphasized that the regulation would have to be amended frequently to keep it on a workable basis and stated that it was contemplated tentatively that the following steps might be taken in the direction of further liberalization:

- (1) Delist soft goods and minor items of hard goods, thus reducing the list of articles to 12 or 15 major durables, and give up control of charge accounts as such and substitute control of charge sales of major durables retained on short list.
- (2) Give up "nonpurpose" loans altogether and simultaneously relax down-payment and maturity requirements for major durables retained on short list. In the end, a "nonpurpose" loan would be any loan which is not for the purpose of financing or refinancing the purchase of any automobile or any other article on the short list of 12 or 15 major durables.

It was Mr. Ransom's view that if and when these steps had been taken--probably two or three years from now--a greatly simplified regulation would result, and that if at that time some of the registrant groups wished to propose legislation for the purpose of continuing the authority to regulate consumer credit there should be no objection.

At this point Mr. Szymczak left the meeting to keep another appointment.

8. Building facilities of Reserve Banks and branches.

10/18/45

-19-

In response to the telegram from the Secretary of the Board of Governors, dated October 4, 1945, the Conference of Presidents gave further consideration to policies with respect to future building facilities and operations of Reserve Banks and branches. Attention was given to the preparation of plans for space to accommodate volume of operations that the Reserve Banks may be called upon to perform, and also to provide space that might be made available to other Government agencies, particularly offices of the Comptroller of Currency, the Federal Deposit Insurance Corporation, and the Reconstruction Finance Corporation. The Conference wishes to review this subject with the Board of Governors at the joint meeting.

Chairman Eccles said that, in accordance with the last paragraph of the Board's letter of September 14, 1945, with respect to plans for additional Federal Reserve Bank branch buildings, drafts of letters had been prepared to the Chairmen of the Banking and Currency Committees of the Senate and House of Representatives recommending the repeal of the ninth paragraph of Section 10 of the Federal Reserve Act which limits the cost of Federal Reserve Bank branch buildings. He said that the proposed amendment had been cleared with the Treasury and the Bureau of the Budget and that since it appeared, for reasons which he outlined, that it would be desirable to send the proposed amendment to the committees as promptly as possible, the letters to the Committee Chairmen were going forward today.

With respect to the question of timing actual construction work to provide additional space at the Federal Reserve Banks, Chairman Eccles said that the shortage of building materials was one of the most critical of the postwar problems and that the Board would be very loath

10/18/45

-20-

to approve any actual construction work by any of the Federal Reserve Banks until that situation was clarified. He reviewed briefly the situation resulting from the removal by the Government of controls over building materials and to the probable inflationary conditions in the construction field and said that, in view of the situation that would exist, none of the Federal Reserve Banks should undertake actual construction work until there was a definite improvement in conditions and any building that might be undertaken would fit into the postwar economic picture.

In the discussion which ensued it was made clear that the Board's position as stated by Chairman Eccles would be the same regardless of action by Congress to repeal the existing limitation on the cost of Federal Reserve Bank branch buildings.

In response to an inquiry from Mr. Sproul as to what the Board had in mind with respect to the preparation of plans for space to accommodate the future volume of operations of the Reserve Banks and space that might be made available to other Government agencies, Chairman Eccles stated that it was the view of the Board that the Banks should not undertake to engage architects or to prepare detailed plans and specifications until the situation was clarified with respect to possible reorganization of the Federal bank supervisory agencies.

Mr. McKee inquired whether the Presidents had any comments to make with respect to Regulation Q, Payment of Interest on Deposits, and the Presidents indicated that they had none.

10/18/45

Thereupon the meeting adjourned.

[Handwritten Signature]
Secretary.

Approved:

[Handwritten Signature]
Chairman.