

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, June 11, 1946, at 10:10 a.m.

PRESENT: Mr. Eccles, Chairman  
Mr. Szymczak  
Mr. Draper  
Mr. Evans  
Mr. Vardaman

Mr. Carpenter, Secretary  
Mr. Morrill, Special Adviser  
Mr. Smead, Director of the Division  
of Bank Operations  
Mr. Paulger, Director of the Division  
of Examinations  
Mr. Vest, General Counsel  
Mr. Thomas, Director of the Division  
of Research and Statistics  
Mr. Leonard, Director of the Division  
of Personnel Administration  
Mr. Townsend, Assistant General Counsel

This meeting was called to consider a list of topics submitted by the Presidents' Conference for discussion at a joint meeting of the Board and the Presidents to be held this morning. The topics and the actions of the Board with respect to them are set forth below:

1. Reimbursable Expenses. The Conference of Presidents was informed of the work of the subcommittee of the Committee on Fiscal Agency Operations and Reimbursable Expenses regarding simplification of the procedure and increased uniformity in the practice followed by the Federal Reserve Banks in preparing claims for reimbursement of expenses incurred in carrying on fiscal agency operations for the Treasury. It was agreed that if these negotiations are not successful and if, alternatively, the Treasury seeks to examine any Federal Reserve Bank with respect to reimbursable expenses, such Federal Reserve Bank should confer with the Committee on Fiscal Agency Operations and Reimbursable Expenses and the Board of Governors before acceding to the request.

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Mr. Smead suggested that it be proposed to the Presidents that the last sentence of the above statement be changed to read as follows: "It was agreed that if these negotiations are not successful and if, alternatively, the General Accounting Office, the Treasury, or any other Government office seeks to examine any Federal Reserve Bank with respect to reimbursable expenses, such Federal Reserve Bank should confer with the Committee on Fiscal Agency Operations and Reimbursable Expenses and the Board of Governors before acceding to the request."

This suggestion was unanimously agreed to.

2. Job evaluation and classification. The report dated May 22, 1946, by the subcommittee of the Committee on Personnel was presented to the Conference with the favorable recommendation of the Committee on Personnel. The Conference approved the recommendation of the Committee that each Bank should make its job evaluation study as complete and as detailed as is administratively feasible, both because of the inherent advantages of such procedure and because it is basic to any classification system which may be adopted. It was understood that for later classification purposes at the Washington level it will be desirable to consolidate many of the details of the individual studies; and to further this objective it was decided that the subcommittee on job evaluation and personnel classification be enlarged to include representatives of all the Federal Reserve Banks.

Chairman Eccles stated that, in accordance with discussions at recent meetings of the Board, the Presidents were to be informed of the views of the Board with respect to a uniform personnel classification plan which would apply to all of the Federal Reserve Banks and with respect to the need for completing the plan as promptly as possible.

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Mr. Leonard presented a preliminary draft of suggestions with respect to the personnel classification plan for the Federal Reserve Banks which contemplated:

1. That a uniform personnel classification plan be established for all Banks with identical specifications in broad terms covering a series of grades, say, perhaps, approximately 15.

a. Uniform maximum salaries for all Banks could be established for these grades, or for the time being at least, each Bank might be offered the opportunity of filing with the Board a schedule of maximum salaries which would fall within the ranges established by the Board.

b. Minimum salaries could be established for each grade, but probably it would be better if at first, at least, a minimum salary for any full time position throughout the banks be established.

2. That each Bank then allocate its jobs to the various grades. In this allocation the job evaluation program contemplated by the Sub-Committee would be most helpful.

3. That positions or individual cases which do not fall within the general pattern outlined above be handled as "appraised positions" and individual cases with the specific approval of the Board. These should be very few indeed.

4. That the Board's control over salaries of Bank employees be exercised through: (1) reports of expenses, (2) examinations, (3) submission of annual list of employees showing classification and actual salary, (4) other periodic reports regarding salary matters. The Board would, of course, retain the right to disapprove any salary schedule or individual salary.

Chairman Eccles asked why the plan should not provide for maximum salaries for each classification as was at present the case with the civil service classifications, and Mr. Leonard expressed the opinion that a better job could be done in the time available if only a minimum salary were established for any position in the Banks. The reasons that might be advanced for and against minimum salaries were discussed and Mr. Leonard stated that it was felt that a plan such as he proposed could be established within four months after the job of evaluation

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work at the Banks had been completed and that minimums for each classification, if decided upon, could be established within a year.

At the conclusion of a discussion, it was agreed unanimously that the Presidents would be advised that the Board was dissatisfied with the present lack of uniformity in the personnel classification plans of the Banks, that it felt that provisions should be made for a plan with minimum and maximum salaries which would be uniform for all the Banks, that the Banks should expedite their job of evaluation work as much as possible, and that a committee of the Presidents working with Mr. Leonard should prepare a uniform classification for all of the Banks which would be completed within a reasonable time and if possible within six months.

In connection with the above matter reference was made to the statement with respect to the classification of the position of the chief examiner at the Federal Reserve Banks as an official position which was approved at the meeting of the Board on May 23, 1946, for discussion with the Presidents' Conference at the joint meeting.

It was decided that this matter should not be brought up at the joint meeting but that, if necessary, an appropriate letter should be addressed to the Federal Reserve Banks with respect to it.

3. Additional authority to exceed maximum salaries.

The Conference considered the Board's letter of May 24, 1946, regarding a proposal that the current authorization by the Board to the Reserve Banks to exceed maximum annual salaries under the personnel classification plan by as much as 15 per cent on the first \$3,000 provided this does not increase a salary beyond \$7,500 be increased to 30 per cent subject to the over-all limitation of \$7,500. The Conference felt that the Board should not be requested at this time to grant such a general authorization. The Conference,

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however, would like to be assured that if in the immediate future, and pending the development of a new job evaluation and personnel classification plan, any Federal Reserve Bank finds that it needs such authority because of local conditions, it may expect that the Board would give prompt and sympathetic consideration to the Bank's request for such authority.

It was agreed unanimously that during the interim period referred to, the Board would be willing to grant such authority, upon request of a Federal Reserve Bank, up to 30 per cent above the maximum salary provided under the existing personnel classification plan of the Bank.

4. Reports by weekly reporting member banks. The Conference considered a proposal that the weekly reporting member banks be requested to report their Government security holdings classified by maturities as well as by types. The desirability of having such additional information was appreciated, but it was also thought that such suggestion should be carefully weighed in the light of the additional work at the reporting member banks and the relations of these banks with the Federal Reserve Banks. The Conference decided to refer this matter to the System Research Advisory Committee, and for similar reasons expressed the hope that the proposed survey of industrial, commercial, and agricultural loans would also be referred to such Committee. The Conference suggested, in addition, that the System Research Advisory Committee review the list of reporting member banks to determine whether changes are not now necessary, despite the difficulty of preserving comparability when changes are made.

Mr. Thomas stated that information with respect to maturities as well as types of securities held by banks was desirable because the present reports did not give a true picture of the liquidity of banks but that the information might not be of sufficient importance at this time to justify the additional work involved.

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Chairman Eccles suggested that the reports of weekly reporting member banks be reviewed to see if the information being received was up to date or whether the reports should be changed in any way to meet changing conditions.

Unanimous approval was given to the decision to advise the Presidents that the Board was favorable to their suggestion and that it would be desirable to review the information obtained from weekly reporting member banks to see whether any changes should be made therein.

5. Change in reporting period for reserves. The Conference noted that under local legislation many banks in the First and Second Federal Reserve Districts will remain closed on Saturday during the summer months, and that since deficiencies in reserve balances of banks in central reserve cities and reserve cities are now computed on the basis of average daily net deposit balances covering weekly periods ending Friday, any abnormal adjustment made by such a member bank at the end of the weekly period to offset accumulated deficits or excesses in reserves would necessarily be reflected in reserve balances for three days. The Conference recommended that the Board prescribe Thursday instead of Friday as the last day of the weekly period for the computation of reserve balances by member banks located in central reserve cities and reserve cities.

Mr. Smead stated that some of the Presidents had discussed this matter with him and that he felt that the proposed change should be made.

It was agreed unanimously that the Presidents would be advised that the Board would approve the change.

6. Legislation. The Conference received a report from its Committee on Legislation, and discussed:

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(1) The modified bank holding company bill (H.R. 6225).

(2) The Board's letter of May 17, 1946, regarding a proposal to repeal altogether Section 13b of the Federal Reserve Act and to enlarge the lending authority of the Reserve Banks under the last paragraph of section 13.

(3) H.R. 5630 introduced by Representative Hays on February 28, 1946, to amend section 5155 of the revised statutes with respect to the establishment of branches by national banks.

(4) The Administrative Procedure Act of 1946.

(5) The extension of the Second War Powers Act in so far as it relates to purchases of Government securities by the Reserve Banks directly from the Treasury.

(6) The recent case in a lower State Court in Nebraska which held the Nebraska par-clearance law unconstitutional.

The Conference desires to discuss with the Board items (1), (2), and (3) with a view to a further consideration of these items by the Committee on Legislation in the light of such discussion, it being assumed that immediate action by the Congress is unlikely. At the same time the Conference expressed a sense of urgency with respect to items (2) and (3), the industrial loan amendment (sections 13 and 13b), and the amendment regarding minimum capital required for branches.

The Conference feels strongly that whatever need for business credit cannot be met through private credit channels should be promoted by the permanent agency having responsibility for general credit administration, that is, by the Federal Reserve System, and that the present active campaign of the Reconstruction Finance Corporation to promote its blanket loan agreement plan is endangering this principle as well as the borrowing morals of business and the lending morals of banks.

The Conference was informed of the losses of membership which are occurring now as a result of the present law with respect to capital requirements for membership and for the establishment of branches by member banks.

The Conference was of the opinion that more active steps than have been taken should be taken to secure remedial legislation.

In connection with the campaign of the Reconstruction Finance Corporation to promote its blanket loan agreement plan, it was stated

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that the plan was unsound in its effects on the credit policies of the banks and was resulting in the extension of inflationary credit with the Government guarantee, and that, therefore, the program should be discontinued.

The members of the Board unani-  
mously concurred in the suggestion that  
the Presidents be asked to submit a state-  
ment to the Board of the evidence that  
had come to their attention of the un-  
sound and inflationary aspects of the  
campaign with the understanding that when  
the statement was received Chairman  
Eccles would take the statement, with  
such endorsement or supplementary state-  
ment of the Board as it might make, to  
the Treasury and call attention to the  
unsound and inflationary aspects of the  
Corporation campaign.

With respect to the Hays bill and the withdrawal of banks from membership which was resulting from the present capital requirements of national banks, Mr. Vardaman favored a request by the Board for immediate remedial legislation.

All of the members present were of the opinion that membership in the System should not be denied to any bank that could qualify for deposit insurance and it was agreed that, while there was little likelihood of legislation at the present session of Congress, the matter should be discussed with the Presidents with a view to exploring what could be done.

7. Motion picture project. The Conference approved the recommendation of the special Committee on Bank and Public Relations (contained in its preliminary report of May 28, 1946) that (1) the Conference and the Board give general approval to the project as indicated in the preliminary outline presented by the Committee, subject to



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such modifications as the development of the project may require, and (2) the Committee be authorized to engage, at its discretion, competent consultants at appropriate compensation to be prorated among the Federal Reserve Banks, to advise the Committee in the development of the project, with the understanding that the Committee periodically report the progress of the project to the Conference and the Board.

Mr. Evans stated that the special committee which had been appointed by the Presidents' Conference to study this matter, and with which he had conferred in response to the request of the Board, had come to the conclusion that there was no one in the Federal Reserve System qualified to decide whether a worthwhile and useful moving picture could be made of the System's operations or policies, and that it would be desirable to engage the services of an expert to advise on that point and on the technical phases of the job, with the understanding that the committee would report to the Presidents' Conference and the Board the progress made.

The recommendation of the special committee was approved unanimously.

8. Fortnightly establishment of rates. The Conference considered the requirement of section 14(d) of the Federal Reserve Act that each Federal Reserve Bank establish rates every 14 days. Several Presidents reported that from time to time it was possible to satisfy this requirement only at considerable inconvenience to directors. The Conference recommends that at the first opportunity there be sought an amendment to the law to provide for the establishment of such rates once during any calendar month rather than every 14 days, and that there should be an alertness to seek such opportunity.

All of the members of the Board were of the opinion that nothing could be done to meet this problem at the present time.

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9. Reserve city designations. Pursuant to the Board's request, the Conference discussed the proposal to terminate the reserve city designation of the 24 reserve cities in which there are no Federal Reserve Banks or Branches. It was the view of the Conference that this matter is only a minor aspect of the whole subject of reserve requirements and that there should be no general change in reserve cities pending a study of the whole matter of reserve requirements.

Mr. Vardaman suggested that a definite statement be made to the Presidents that no action was to be taken on the proposal for a number of months during which the Board would make a thorough study of the whole matter, and that the Presidents should be asked to designate a committee of the Presidents' Conference with which Mr. Szymczak and he could confer with respect to it.

This suggestion was approved unanimously.

10. Conditions of membership. The Conference reviewed past and present practices regarding the imposition of special and standard conditions upon the admission of State banks into membership in the Federal Reserve System. It was pointed out that in the past some banks have been subjected to numerous conditions of membership many of which have little or no meaning at present. It was the view of the Conference that special conditions of membership of State member banks should be reviewed for the purpose of eliminating as many of them as possible, and that an endeavor should be made in this connection to obtain the agreement of the member bank to standard conditions of membership (where they have not been imposed) as an incident to the removal of these special conditions. It was recognized that special conditions are necessary and desirable in some cases but in general they are of a temporary character.

Mr. Vardaman stated that he had asked Messrs. Paulger and Vest to study the standard conditions of membership now being prescribed by the Board and the letter used in informing a bank of

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approval by the Board of its application for membership, with a view to seeing what changes should be made therein.

There was unanimous agreement with the suggestion that after the question of uniform standard conditions had been considered by the Board, it could then proceed, as suggested by the Presidents, to consider the elimination of the special conditions which had been prescribed in the past.

Mr. Leonard said that over the week end Mr. Gilbert, President of the Federal Reserve Bank of Dallas, received a letter from the Dallas office of the National Labor Relations Board advising that that office had received a request from an American Federation of Labor union for certification as the bargaining agent for the employees of the Federal Reserve Bank of Dallas, and that, in view of the Board's letter of May 17, 1946, Mr. Gilbert had asked what should be done in the matter. Mr. Leonard also said that yesterday he and Mr. Cherry, Assistant Counsel, called on one of the members of the National Labor Relations Board, who called into the conference the other two members of the Board. During the discussion, Mr. Leonard said, the three members said that their legal division was studying the question whether the National Labor Relations Act was applicable to the Federal Reserve Banks, that if they came to the conclusion that it was not applicable the Board of Governors would be so advised, but that if it appeared that an opposite decision was to be reached they would afford the Board an opportunity to submit a

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statement on the matter if it should so desire. With reference to the Dallas situation, Mr. Leonard added that the three members recommended that Mr. Gilbert write to the Dallas office to the effect that it was understood that the matter was being handled in Washington as a matter of national policy, and that the National Labor Relations Board would write to its Dallas office to that effect.

In a discussion of the matter there was unanimous agreement that the matter was one for consideration by the Board at this stage and that it should not be taken up at the joint meeting with the Presidents. All of the members of the Board present were of the opinion that in the event the National Labor Relations Board were inclined to the position that the law applied to the Federal Reserve Banks the Board should file a statement in which it would take the position that the Federal Reserve Banks were a part of the United States Government.

At this point Messrs. Smead, Paulger, Vest, Thomas, Leonard, and Townsend withdrew from the meeting, and the action stated with respect to each of the matters hereinafter referred to was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on June 10, 1946, were approved unanimously.

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Memorandum dated June 10, 1946, from Mr. Paulger, Director of the Division of Examinations, recommending, for the reasons stated therein, that the headquarters of Louis W. Zidek, Assistant Federal Reserve Examiner, be changed from Washington, D. C., to Denver, Colorado, effective June 23, 1946.

Approved unanimously.

Letter to Mr. Volberg, Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"Reference is made to the report of examination of The Bank of Spanish Fork, Spanish Fork, Utah, as of February 25, 1946. It is noted that in the examiner's comments on page 2 he directs attention to exceptions to Regulation W in connection with the 34 loans listed on page 11(c)-6. On Page C, he states that the numerous exceptions in compliance with requirements of Regulation W were discussed with the management and future compliance was promised.

"The October 1942 report of examination of this bank referred to the incomplete data with respect to regulated loans and stated that compliance was promised; the September 1943 report cited 'numerous cases' of violations; the June 1944 report indicated that the bank then held 17 nonconforming loans and that closer attention was promised; and the February 1945 report listed 6 loans not complying in all respects with the requirements of Regulation W.

"In previous reports the examiners indicated that the exceptions were discussed with the management and compliance was promised. The exceptions noted appear to have been easily susceptible of avoidance or correction. However, the current report reveals what appears to be a relatively large number of violations or exceptions, which the examiner states are not purported to be all, and the examiner again indicates that future compliance was promised.

"In view of the statement by the examiner that the list of exceptions referred to on page 11(c)-6 of his report as of February 25, 1946, does not purport to be all, it is assumed that the list was predicated upon test checks and that other exceptions might be expected upon complete review of all regulated loans handled by the bank.

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"In the circumstances, the Board desires that at his early convenience the examiner return to The Bank of Spanish Fork to make such a review of all regulated loans of the bank as will enable him to make a reasonably complete (1) list of all loans involving exceptions to Regulation W as of February 25, 1946, showing the name of the maker, the balance due, and the nature of the exception; (2) list of exceptions with respect to any loans put on the books subsequent to that date; and (3) schedule of corrections of the exceptions noted.

"If the examiner should find that satisfactory corrections of the exceptions listed in his report as of February 25, 1946, have not been attempted by the management, or if similar or other important exceptions are found in the notes handled by the bank subsequent to that date, it is suggested that the management of the member bank be called into a conference with the examiner and the appropriate officers of your bank for the purpose of more forcefully impressing upon the management of the bank the nature and purposes of the Regulation and the extent to which compliance is expected. It is hoped that the examiner's reinvestigation of the bank's loans subject to Regulation W will reveal satisfactory corrections of the reported exceptions and that no new violations have occurred, and that it will also sufficiently impress the management of the member bank as to compliance in the future.

"In addition to the foregoing it is requested that the examiner's next regular examination of The Bank of Spanish Fork include a sufficiently thorough review of the bank's loans subject to Regulation W as to satisfy the examiner that he has ascertained the extent of compliance with the Regulation. If he should then find a number of exceptions indicating a possible intent on the part of the management not to comply fully with the Regulation, he should develop all of the pertinent facts with respect to each exception on the basis of which appropriate steps could be taken."

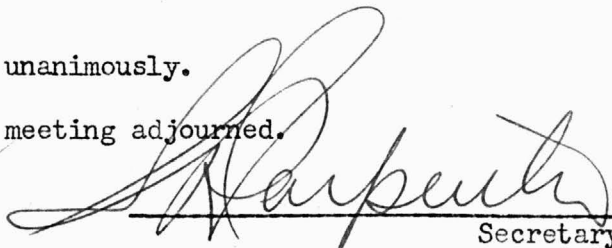
Approved unanimously.

Thereupon the meeting adjourned.

Approved:



Chairman.



Secretary.